

Presidio Trust

2017 Performance and Accountability Report

Table of Contents

Agency Head Message	1
Management's Discussion & Analysis	2
Fiscal Year 2017 Performance	7
Independent Auditors' Report	17
Financial Statements:	
Balance Sheets	19
Statements of Net Cost	20
Statements of Change in Net Position	20
Statements of Budgetary Resources	21
Notes to Financial Statements	22
Required Supplementary Information	50
Other Accompanying Information	53
Independent Auditors' Report on Internal Control Over Financial Reporting	57
Independent Auditors' Report on Compliance and Other Matters	59

The Performance and Accountability Report can be found on the Presidio Trust Website under www.presidio.gov

PAR FISCAL YEAR 2017

Agency Head Letter

November 15, 2017

As Fiscal Year 2017 concludes, I am pleased to report that the financial position of our agency is strong and that the Presidio Trust is fulfilling its responsibility to keep the Presidio open to the public without taxpayer support.

As you will read in the pages that follow, the Trust is pursuing three strategic goals:

- The Presidio will be visited and loved by all.
- The Presidio Trust will be a model of environmental stewardship.
- The Presidio Trust will be a model of operational excellence and financial sustainability.

With these imperatives in mind, in 2017 we allocated our resources to projects that invite a broad cross section of our community to enjoy the natural and historic assets of this national park and National Historic Landmark; revitalize the Presidio's open spaces and reduce the impact of our operations on the environment; and generate a robust stream of income to operate the Presidio and maintain its assets.

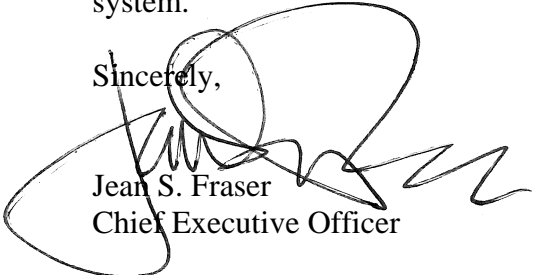
This year we marked the 20th anniversary of the swearing in of the Presidio Trust board, which took place on July 9, 1997. As the Trust assumed responsibility for the physical assets bequeathed to us by the US Army, we began an ambitious program to revitalize the park's buildings, landscapes, and infrastructure.

Over two decades, the Trust has revitalized 4.5 million square feet of the Presidio's buildings. We've restored 200 acres of open space and planted 4,000 trees.

While much has been done, we still have much to do to preserve the Presidio. We need to invest in our utility infrastructure to keep the public safe and utilities functioning. And we still need to pay down our debt to the Treasury.

Only through partnership with the National Park Service (NPS) and the Golden Gate National Parks Conservancy (GGNPC), are we able to bring alive the unique historic, natural, and recreational assets of the Presidio for the inspiration, education, health, and enjoyment of all people. We are appreciative of the enduring support of Congress and the American people, who have championed this special place for a generation, helping it evolve and thrive as an urban gateway to the spectacular national park system.

Sincerely,


Jean S. Fraser
Chief Executive Officer

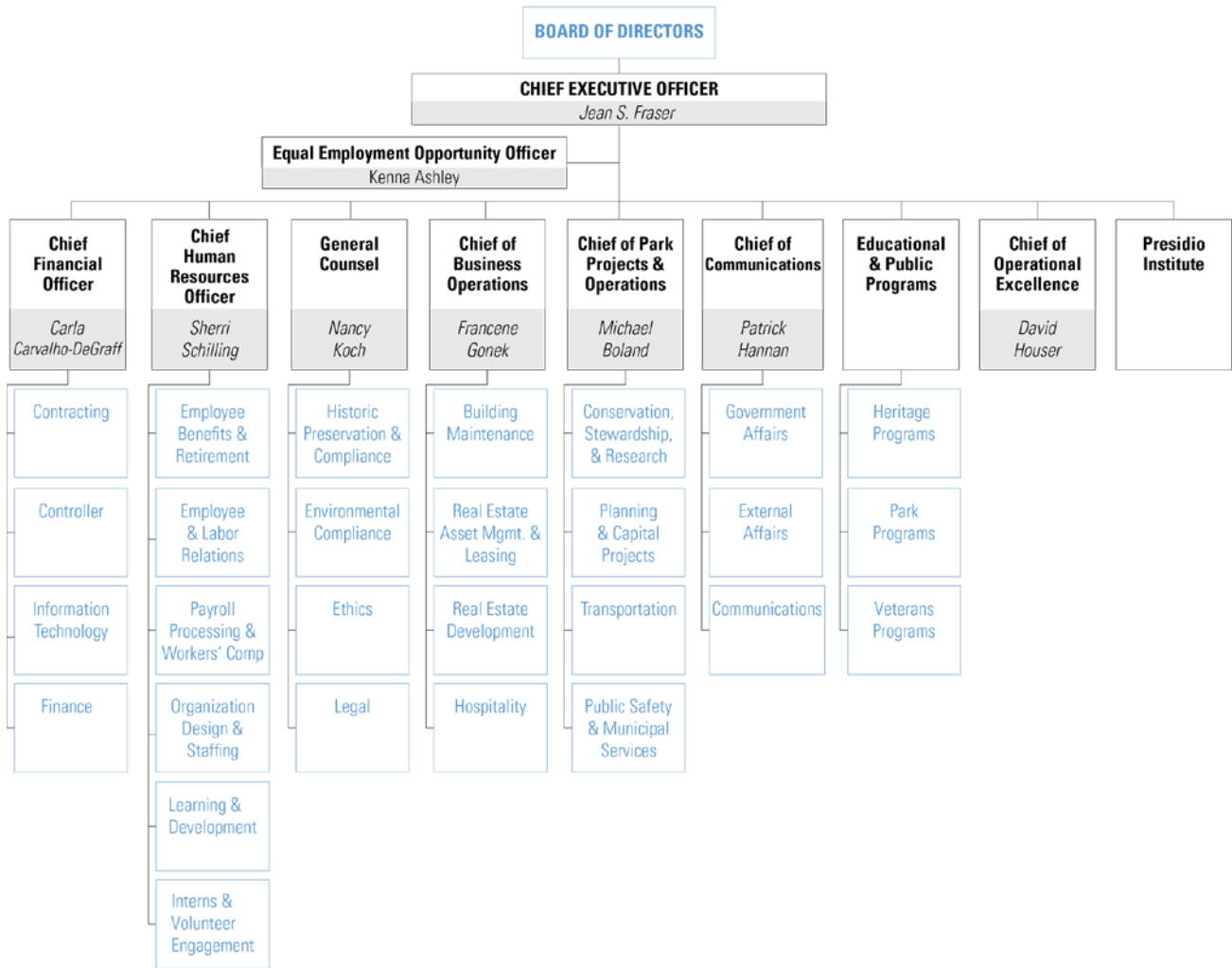
Mission and Organizational Structure

The Presidio Trust is an innovative federal agency created to save the Presidio forever as a public place. The agency's mission is to fulfill the promise of the Presidio by extending its legacy into a new era of service to our nation.

The Presidio Trust was established by Congress as a wholly owned corporation of the federal government. The Presidio 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 of whom is the Secretary of the Interior or the Secretary's designee. An Chief Executive Officer (CEO) oversees the organization, which includes a Chief of Business Operations, Chief of Park Development and Operations, Chief Financial Officer, General Counsel, Chief of Communications, Chief of Human Resources, Chief of Operational Excellence and other positions essential to operating this unique park.

The Trust has approximately 326 employees with a wide range of skills, including ecological restoration, historic preservation, real estate management, finance, communications, and operations.



Analysis of Financial Statements and Stewardship Information

Preparation of the financial statements, accompanying notes, and this discussion and analysis is the responsibility of Trust management. The financial statements have been audited by the independent accounting firm KPMG, LLP, and the Trust received an unmodified opinion on its financial statements.

Trust management is committed to sound financial management and 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 Fiscal Years 2017 and 2016.

Highlights of the financial information presented in the financial statements are shown below.

Balance Sheet

This statement shows the Trust's financial position as of September 30, 2017, and September 30, 2016.

Assets

The Trust's total assets increased by \$28.2 million for a total of \$552.4 million at the end of Fiscal Year 2017 compared to \$524.2 million at the end of Fiscal Year 2016. The net increase of \$28.2 million consists of various increases and decreases in assets.

The largest part of these increases is an increase in Trust Property Plant & Equipment (PP&E) of \$23.5 million net of depreciation. The increase in assets is largely due to \$13.5 million in assets transferred in from the State of California due to the reconstruction of the highway approach to the Golden Gate Bridge. See Note 22 of the accompanying financial statements for further explanation.

Additionally, \$2.5 million in utility assets were transferred in from NPS. These assets are the final components of the utility systems in Area A of the Presidio. By consolidating these assets under Trust ownership the Trust and the Golden Gate National Recreation Area (GGNRA) can operate more cost effectively.

Additionally, cash and investments increased \$3.8 million over the previous year due to increased revenue.

The accounts receivable balance decreased by \$1.0 million, due to receivables for significant grant funded projects such as the Presidio Tunnel Tops receivables being lower in this fiscal year.

The Trust is required to straight-line rent and record a deferred rent receivable for tenants that have rent increases (steps) in their leases as such an increase of \$1.2 million is reflected in the deferred rent receivable.

Liabilities

Our liabilities increased by \$5.7 million, ending at \$193.2 million in liabilities for Fiscal Year 2017 compared to \$187.5 million at the end of Fiscal Year 2016. The increase is made up of fluctuations in several liabilities.

Unearned revenue increased by \$10.7 million, largely due to the receipt of assets and deferral of revenue associated with the Doyle Drive project. See Note 22 of the accompanying financial statements for further explanation.

Accounts payable decreased by \$2.9 million. This is largely due to the timing and receipt of services and goods. Cost for services received before the end of the fiscal year but not paid are accrued.

The rent credit liability decreased by \$0.9 million. The decrease is a result of the amortization of the various rent credits.

Trust liabilities include \$43.0 million in debt to the U.S. Treasury. The required principal payment was paid on September 30, 2017, decreasing the liability by \$2.5 million. The debt will be repaid in full by Fiscal Year 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 \$33.2 million. See Note 4 for more information on investments and Note 10 for more information on debt.

Net Position

The Trust's net financial position increased by \$22.5 million, ending Fiscal Year 2017 at \$359.3 million compared to \$336.7 million at the end of Fiscal Year 2016.

Net Cost of Operations

These statements are intended to report net costs of the Trust as a unit of the federal government and the net cost to the public. Costs reported on these statements – including depreciation, expenses for future liabilities, adjustments to the worker's compensation actuarial estimate, and all remediation activities – are stated on a proprietary basis (those accounts that are used to track assets, liabilities, revenue, and expenses).

The Trust had net revenue of \$13.4 million during Fiscal Year 2017 compared to net revenue of \$14.3 million in Fiscal Year 2016. Net cost/income is not fully reflective of the 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 statements reflect all of the expenses incurred by Trust activities during Fiscal Year 2017, including the environmental remediation program and the depreciation of fixed assets. The increase in revenues is related to the continued increase in real estate portfolio revenue and the operation of the

golf program for a full year. Operating costs increased in proportion to the revenues earned from the program activities.

Budgetary Resources

The Statements of Budgetary Resources provide information on the budgetary resources available to the Trust for the year and the status of those resources at the end of the fiscal year. The Statements of Budgetary Resources are significant because they tie accounting for federal budget execution to audit standards. They include reconciliation of obligations incurred with cash outlays during the fiscal year, and agencies are required to reconcile the statements of net cost/income (proprietary) to the budget (see note 21). Further, they are prepared using budgetary accounting rules, which differ from financial accounting rules as transactions are recognized at different points in time. In Fiscal Year 2017, the Trust received the greatest portion of its funding from revenues earned, with the largest revenue streams being associated with residential and non-residential leasing.

Budgetary resources amounted to \$202.9 million for Fiscal Year 2017, compared to \$193.1 million in Fiscal Year 2016. Of this amount, the Trust obligated \$139.0 million in Fiscal Year 2017 and \$129.9 million in Fiscal Year 2016. Unobligated balances at the end of Fiscal Year 2017 and Fiscal Year 2016 were \$63.9 million and \$63.3 million, respectively. This unobligated balance is due primarily to the funds held for multi-year capital improvements, tenant security deposits, and the receipt of grants.

Risks and Uncertainties

Fiscal Year 2017 marks the fifth year the Trust has operated solely on revenues earned and grants and donations received. The Trust continues to maintain sound financial plans to ensure that Trust operations continue into the future and the park is preserved for the public. While Trust operations are sufficient to cover current operating expenses and generate some revenue for capital projects, Trust operations alone are not sufficient for all capital projects.

The Trust is 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 ongoing maintenance of assets prolongs their useful life and reduces the likelihood of unexpected failures. Maintenance of 100 percent of the assets is not feasible, so the Trust evaluates deferred maintenance on an annual cycle and identifies the most important preventive maintenance for completion. The Trust will be refining lifecycle maintenance/cost of ownership data over the next fiscal year to develop funding strategies for assets. Deferred maintenance data can be found in the required supplementary information accompanying the financial statements.

Stewardship Investments

Stewardship assets are detailed in Note 7 to the financial statements as required by Statement of Federal Financial Accounting Standards (SFFAS) 29, Heritage Assets and Stewardship Land. The Trust's reported values for PP&E exclude stewardship assets because they are considered "priceless" and therefore monetary amounts cannot be assigned.

Systems, Controls, and Legal Compliance

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

Trust management is responsible for managing risks and maintaining effective internal controls to support programmatic operations, financial reporting, and compliance with applicable laws and regulations. The Trust conducted its assessment of risk and internal controls in accordance with Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control.

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

The Trust assessed risk and is in the process of developing management action plans related to risk mitigation where necessary.

Statement of Assurance on Information Technology

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.

While the Trust's systems are secure, the Trust has not fully complied with the Federal Information Security Management Act (FISMA). In fiscal year 2017, the Trust started its work on reaching FISMA compliance conducting a FISMA assessment and developing a roadmap to ensure to take actions necessary to ensure the agency meets the FISMA requirements.

Statement of Assurance on Other Legal Matters

The Trust management is responsible for establishing and maintaining effective internal controls to assure compliance with provisions governing claims of the United States Government, including the Debt Collection Improvement Act of 1996. Management certifies that these controls are in place and effective.



Jean S. Fraser

November 15, 2017

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 OMB 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 understanding that the Trust is a federal corporation, a component of the United States Government, and therefore assets 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 rest with Trust management.

Strategic Goal: The Presidio will be visited and loved by all.

The Presidio welcomes people from across the region, nation, and world, serving as a gateway to the national park experience for all.

Free Public Programs and a New Visitor Center Welcome All

The Presidio Trust hosts free events for the public to share the park's history and beautiful natural setting with visitors, and to invite new audiences to discover the Presidio. The park's programs include guided nature walks, historical and cultural events, family activities, and fairs and festivals. Three sites are especially important programmatic gateways for visitors – the Presidio Officers' Club, the Main Parade Ground, and the newly opened William Penn Mott, Jr. Presidio Visitor Center.

In Fiscal Year 2017, the Presidio Officers' Club, the park's oldest most historically significant building, wrapped up its third season as a museum and cultural center and by drawing 115,000 visitors. In addition to its permanent installations, we opened a new special exhibition, *EXCLUSION*, which explores the Presidio's role in the incarceration of 120,000 Japanese-Americans during World War II. *EXCLUSION* is drawing a large and diverse audience and encourages visitors to share their perspective on the relevancy of this history to contemporary issues. Other free public programs at the Officers' Club, including panel discussions, films, and concerts, drew 22,000 visitors.

The Presidio's historic Main Parade Ground, a seven acre green gathering space, welcomes thousands of visitors for outdoor programs. Chief among these are the Presidio Twilight and Presidio Picnic series, which invite visitors to enjoy international food, music, games, campfires, and time with family and friends. Offered on Thursday evenings and Sunday afternoons from mid-March through the beginning of October, the two series attracted 185,000 people in Fiscal Year 2017. Other popular outdoor events included the Presidio Kite Festival, family movie nights, stargazing parties, bicycle training for youth, Free Shakespeare in the Park, and seasonal craft-making events. In response to public feedback, last year the Trust also introduced custom designed Presidio "Share Chairs," colorful, moveable social furniture that invites people to gather and enjoy the lawn and views.

In February 2017, the Presidio Trust, the National Park Service, and the Golden Gate National Park Conservancy opened the park's first jointly designed and operated visitor center – the William Penn Mott, Jr. Presidio Visitor Center. Located in the heart of the Presidio and open daily, the center is the new gateway to the Presidio experience. It offers state of the art multi-media and tactile exhibits along with knowledgeable staff and volunteers, multi-lingual visitor guides, guides for activities, and interpretative park-themed retail. All proceeds from the retail sales go back to support the Presidio. Free ranger-led walks and talks, guided bike family bike rides, and other programs leave regularly from the center. The 6,430 square foot facility welcomed nearly 100,000 guests in its first eight months.

The Presidio Visitor Center is located inside an historic building constructed circa 1900 by the US Army to serve as a guardhouse. The structure underwent a complete rehabilitation, earning honors from the California Heritage Council. The center was created due in large part to \$2 million in philanthropic support provided by the Golden Gate National Parks Conservancy. The Visitor Center received the 2017 National Park Service Director's Partnership Award for excellence for leveraging the talents and contributions of each agency to welcome and serve the public.

A New Public Landscape under Development

The Presidio Visitor Center is the first element of the Presidio Tunnel Tops project to be completed. The Tunnel Tops site is a 14-acre public landscape that will soon be created above the Presidio Parkway, a new roadway through the Presidio to the Golden Gate Bridge that replaced the seismically unsafe Doyle Drive.

The Tunnel Tops site, now in the design phase, will feature 360 degree views of the Golden Gate, Presidio, San Francisco skyline, and bay. It will serve as the welcome and primary "entrance" for visitors into the park. It will offer scenic overlooks, paths, gardens; a community plaza with food and amenities; a campfire circle and picnic grounds; and a youth campus and "learning landscape" that will triple the number of children served with educational activities to 100,000. The project is a collaboration of the Presidio Trust, the National Park Service, and the non-profit Golden Gate National Parks Conservancy, which to date has raised \$54 million dollars in philanthropic support, nearly 60 percent of the fundraising goal.

A Place of Learning for Youth

Presidio Trust Education Programs served 4,400 Bay Area youth in Fiscal Year 2017. Ten different school field trip programs explored topics from citizen science in the ecological restoration of the Presidio's Mountain Lake to creative writing about the lives of soldiers who died during World War II and now are at rest in the Presidio's San Francisco National Cemetery. A majority of registrations are reserved for Title 1 schools; ensuring youth of all economic backgrounds have access to learning opportunities in the Presidio. Additionally, in September 2017, the Trust and partners hosted the 16th annual Presidio Teachers' Night, which drew 550 educators representing 150 schools. Teachers learned about the resources offered by the Presidio and GGNRA for area youth.

The Park Youth Collaborative (PYC) continues to grow and improve the quality of youth programs offered by its core members: the National Park Service, the Golden Gate National Parks Conservancy, and the Presidio Trust. In Fiscal Year 2017, the PYC launched a comprehensive online portal that tracks and measures the reach and impact of our programs, allowing each member of the collaborative to have the best information to reach schools in our community and offer them high quality programs in our national park sites.

One of the park's most successful educational offerings is the Camping at the Presidio (CAP) program, which wrapped up its 11th season in 2017. A partnership of the Presidio Trust, the Parks Conservancy, the National Park Service, and Bay Area Wilderness Training, CAP trains adults from community

organizations and schools to bring their youth camping. In Fiscal Year 2017, 5,000 children, teens, and adults were welcomed to the Presidio's Rob Hill Campground with camping equipment and a staff-led educational program. For most, it is a profoundly memorable first-time national park camping experience. Since the program's inception, approximately 45,000 kids and adults have been served.

In summer 2017, the Presidio Trust partnered with the Golden Gate National Parks Conservancy and the San Francisco Public Library to connect kids to the park. Activities included a StoryWalk around the Presidio's Mountain Lake, allowing kids to view a children's book via colorful signs along a trail while also connecting with nature. One librarian commented that "libraries and parks are the two most valuable free experiences in the city."

Welcoming Diverse Audiences

The Presidio Trust, the National Park Service, and the Golden Gate National Parks Conservancy are working to make the Presidio accessible and welcoming to all. As a former military post located at the northwestern edge of San Francisco, the Presidio has not been discovered as a national park by all communities. The Trust extends a broad invitation in a variety of ways including community outreach and engagement, by developing culturally relevant programming, and by offering the park as a platform for community-driven activities.

One example is the Presidio Community Shuttle program. Initiated as a one-month pilot program in 2013, the effort has organically grown in response to community request. The program uses the free PresidiGo Shuttle to overcome one of the most frequently expressed barriers to access – transportation. In 2017, the Community Shuttle welcomed 300 people to the park, bringing the total served over four years to more than 1,500 participants. The program has served as the basis for a much larger shuttle effort being launched throughout the Golden Gate National Recreation Area to bring underserved audiences to the park.

Honoring our Veterans

On Veterans Day 2016, the Presidio hosted a veteran-led "art and service" community project in partnership with the Haight Ashbury Food Program. Veterans prepared meals for San Francisco residents in need and created artworks that expressed their personal experiences in military service.

In May 2017, the Presidio welcomed more than 1,500 people for the 149th annual Memorial Day Commemoration, held at San Francisco National Cemetery in the Presidio. The event was attended by elected officials, civic leaders, Blue Star and Gold Star families, and members of the public. This year's event placed a special focus on veterans who have served in recent conflicts and the unique challenges they face. The keynote speaker was Army Major Joshua Mantz (retired), a West Point graduate who was wounded in Iraq and who now helps veterans dealing with trauma. The ceremony was followed by a community picnic.

Summit on Women and the Outdoors

In June 2017, the Presidio hosted the first ever Women's Outdoor Summit for Empowerment. Organized by Teresa Baker of African American Parks and Nature Experience, the two-day summit welcomed 130 leaders from the private, public, and non-profit sectors who discussed strategies for ensuring greater equality and inclusivity for women who work and play in the outdoors. The National Park Service and Presidio Trust were among the many organizations that participated in the convening.

Art in the Presidio

For nearly a decade, the Presidio Trust and its partners have used art to welcome new audiences to the park and to invite returning visitors to see the Presidio's natural, historic, and recreational assets in a new ways. In total, 12 exhibitions – from temporary shows to semi-permanent installations – have been offered, including four works by artist Andy Goldsworthy. In Fiscal Year 2017, the *Goldsworthy in the Presidio* collection drew more than 7,000 visitors for guided hikes and tours offered by volunteer Art Docents and Trail Ambassadors and tens of thousands more enjoyed self-guided exploration of the sculptures, two of which are located outdoors along trails.

Last year the Presidio's historic gun batteries were the backdrop for a special exhibition, *Home Land Security*. Organized by the FOR-SITE Foundation, a non-profit arts organization. The free exhibition invited eighteen artists from across the world to reflect on the human dimensions of security, including the physical and psychological borders we create, protect, and cross in its name. The exhibition welcomed more than 23,000 visitors during its four month run.

Revitalizing the Historic Presidio Theatre

In Fiscal Year 2017, the Presidio Trust signed an agreement with the Margaret E. Haas Fund for the rehabilitation of the historic Presidio Theatre a multi-purpose space for live theatre, film, dance, music, lectures, educational programs, and special events. Built by the Works Progress Administration in 1938-39 for the US Army, Presidio Theatre once screened films and hosted live entertainment for Presidio soldiers. Noteworthy guests included Bob Hope during World War II. The theatre has been closed since 1995. The tenant-funded rehabilitation will bring the 15,140 square foot building back into active use, and will add 9,000 square feet of new support spaces. The 650-seat theatre is expected to reopen in fall 2019.

Trails and Outdoor Recreation

The Presidio's trail network continues to entice visitors to explore the park and get healthy. In Fiscal Year 2017, more than five million people walked, ran, or biked on a park trail. An additional 150,000 people participated in organized sporting events, including runs, races, and other events held in the or through the Presidio. Rob Hill Campground, the only campground in San Francisco, provided 6,500 visitors a national park camping experience. This was in addition to the children and teens participating in the Camping at the Presidio program.

Volunteerism and Internships

Volunteers are critical to supporting habitat restoration, repairing trails, welcoming visitors, and much more. In Fiscal Year 2017, more than 5,500 volunteers contributed 26,000 hours of service by participating in weekly volunteer days, group service events, and major annual volunteer events such as the California Coastal Cleanup Day; supporting special events such as Bike to Work Day and Memorial Day; and greeting and guiding visitors at the Presidio Officers' Club, the Presidio Visitor Center, and out in the park.

Additionally, through an internship program the Trust provides young professionals with the opportunity to gain real-world work experience while living the park. Interns are trained in a variety of disciplines, from ecological stewardship to archaeology to communications. In Fiscal Year 2017, our 67 volunteer interns contributed more than 54,000 hours of service.

Researching the Presidio's Roots

Archaeologists of the Presidio Trust continue to excavate and transform the landscape in the Main Post to reveal the historic roots of the Presidio, founded as a Spanish military post in 1776. Currently the team is excavating the western façade of the original Spanish Colonial fortification. Visitors spent time at the site understanding this history while over 100 community volunteers worked alongside the archaeologists.

The Presidio will be a model of environmental stewardship.

The Presidio Trust works to revitalize the park's open spaces and maintain its biodiversity, while reducing the impact park operations have on the environment.

Another Major Step in Revitalizing the Presidio's Largest Watershed

In 2017, the Trust completed the latest major project in its nearly two decade effort to revitalize the park's largest watershed. Known as Tennessee Hollow, the watershed encompasses nearly 20 percent of the park, and features three creeks that ultimately merge and drain to San Francisco Bay. Over decades, portions of the creek system were moved underground so that the US Army could utilize the land above. In the national park era, the Trust, the National Park Service, and the Golden Gate National Parks Conservancy have worked to bring water back to the surface and restore adjoining plant and wildlife habitat.

In March 2017, the Trust finished restoration of a site known as MacArthur Meadow, named for Lieutenant General Arthur MacArthur. The four-acre site is unique within the watershed due to its shallow bedrock, which causes groundwater to rise close to the surface, creating a rare habitat known as a wet meadow. It is also the location where the three creek tributaries come together and flow as one creek out to San Francisco Bay. Over the course of several months, the channels were redesigned so that the water could once again flow freely on the surface. Through the restoration, 20,000 native plants representing 60 species native to San Francisco were planted. A newly elevated section of Lovers' Lane — the Presidio's oldest footpath — now crosses the meadow via a new boardwalk, allowing school groups and visitors to observe this natural site up close. Numerous volunteer hours

have been spent helping to restore the site, and many school and youth programs participate in hikes and hands-on stewardship.

Innovative Coyote Monitoring Program Continues

After a long absence, coyotes returned to the Presidio in 2002. As park managers do in urban areas. The Presidio Trust monitors coyote behavior and conducts extensive public outreach to reduce dog/coyote conflict. In 2016, the Presidio Trust began an innovative new monitoring program that uses temporary tracking collars to help us to understand coyote movements so that we can continuously improve our management techniques. This research has proven to be invaluable, and the program will continue into Fiscal Year 2018.

New Youth Athletic Field with Sustainable Turf

In August 2017, University High School and the Presidio Trust opened a new youth athletic complex in the Presidio built using sustainable turf. Paul Goode Field includes a playing field, a small practice field, restrooms, a picnic area, and connections to nearby trails. Both playing fields are comprised of a synthetic turf using an organic infill system that is expected to reduce water usage by one million gallons each year. The turf also increases play time due to reduced maintenance. The field will be accessible to other schools and youth-based community and non-profit sports organizations at no cost.

Reducing Carbon Emissions

In Fiscal Year 2017, the Presidio Trust took a major step to reduce carbon emissions by purchasing Renewable Energy Certificates (REC) from our primary power provider, the Western Area Power Administration (WAPA). A REC is a tradable commodity created when a renewable energy source (such as solar or wind) generates one megawatt-hour of electricity. The Trust contracted with WAPA to cover 100 percent of the Presidio's electric load. The Trust will continue to use RECs to offset emissions while we strive to reduce emissions and implement onsite renewables.

Conserving Energy

In Fiscal Year 2017, the Trust began using high efficiency LEDs (Light Emitting Diode) in our street lights. Retrofits were completed on approximately 120 streetlights; up to 300, more will be converted in Fiscal Year 2018.

Reducing Waste

The Presidio diverted 1,800 cubic yards of organic debris from the waste stream, and produced 830 yards of high quality compost used primarily in the park reforestation program. Additionally, 4,500 gallons of "compost tea" was produced using rainwater harvested from nursery greenhouse structures. This mixture is used as an organic fertilizer at the Presidio Golf Course and on landscapes. The Presidio was recognized with the 2017 Environmental Protection Agency *Wastewise* - Federal Government Partner of the Year award for our environmental practices.

Offering Sustainable Visitor Services

The Presidio is home to a historic 18-hole golf course that hosts 60,000 rounds of golf per year. For more than a decade, the course has pioneered practices to reduce water and pesticide use. Over time, ten acres of turf have been converted to a grass type that requires less water, fertilizer, and mowing. Since 2015, the course has saved five million gallons of water through stringent water management practices. In 2017, Presidio Golf Course's Brian Netz was named Superintendent of the Year by Touchstone Golf for his environmentally sustainable practices. The California Golf Course Owners Association named Presidio Golf Course the Top Public Course of the Year, and also honored it for having the General Manager of the Year, Don Chelemedos. Presidio Golf Course managers are frequently invited to share their lessons and practices with others in the industry.

In August 2017, the US Environmental Protection Agency honored the Presidio Trust and Off the Grid Markets with a 2017 Federal Green Challenge Award for green practices at Presidio Picnic. As a result of recycling and composting practices, more than 80% of the waste generated at this event was kept out of the landfill. On-site education, a ban on the sale of plastic water bottles, and a requirement that food utensils be made of compostable materials were among the measures taken. Other sustainability strategies such as offering free bike valet parking helped reduce the event's carbon footprint.

The Inn at the Presidio, a hotel created by the Presidio Trust in 2012, was honored with the 2017 Award of Excellence in the category of "Sustainability Champion" from the Historic Hotels of America.

A Sustainable Transportation Option

Since 2003, the Presidio Trust has operated the PresidiGo shuttle, to provide free service to visitors, residents, and employees. The shuttle offers three routes: one to the park from regional transit hubs in downtown San Francisco, and two within the park serving more than 40 visitor destinations. In Fiscal Year 2017, the PresidiGo Shuttle provided 544,421 rides. With the opening of the Presidio Visitor Center in February 2017, park shuttles have become more popular. The route serving the park's northern waterfront (the Golden Gate Bridge and Crissy Field) alone carried 24 percent more riders in 2017.

The Presidio Trust will be a model of operational excellence and financial sustainability.

The Presidio Trust rehabilitates historic buildings and landscapes, improves the park's infrastructure, and is committed to continuous improvement of its operating practices.

Operating the Presidio without Taxpayer Support

Fiscal Year 2017 was the fifth year the Presidio Trust operated the park without taxpayer support. The Trust earns revenue to care for and improve the park primarily through leasing the Presidio's buildings as homes, workplaces, and visitor destinations, and through its programs offering hospitality services and amenities to the public.

In Fiscal Year 2017, the Presidio's overall occupancy rate for commercial space was 99.1 percent.

Occupancy remained high in our residential portfolio, with an annualized rate of 97.6 percent.

The Trust's Hospitality program, which includes a golf course, a hotel, event venues, and a food program generated \$22.3 million with a net operating income of \$1.2 million in Fiscal Year 2017.

Opening another Hotel

In 2012, the Presidio Trust opened its first hotel, *Inn at the Presidio*, a 26-room facility that has welcomed 74,000 guests and earned numerous honors and awards. The inn occupancy rate is 92 percent, indicating the strong interest visitors have in an overnight stay in the park. Given this demand, in Fiscal Year 2017 the Presidio Trust began rehabilitation of a barracks building (c. 1896) on the park's Main Post to serve as the Presidio's second hotel. Located near the Presidio Visitor Center, *Lodge at the Presidio* will offer 42 rooms. It is expected to open in summer 2018.

Maintaining the Presidio's Infrastructure

In Fiscal Year 2017, the Presidio Trust began a major effort to upgrade the electrical equipment serving the Presidio's two most visited districts, the Main Post and Crissy Field. The current infrastructure was created by the US Army in 1960 and is at the end of its useful life. In order to provide efficient and reliable power service to Presidio residents, commercial tenants, and visitors in coming years, the Trust is replacing an electrical substation with modern equipment and ensuring redundancy of service to avoid outages. The work will be completed in Fiscal Year 2018.

Upholding Ethics

In Fiscal Year 2017, the U.S. Office of Government Ethics (OGE) conducted an inspection of the Trust's ethics program. The comprehensive review included an audit of the Trust's financial disclosures and reviews, ethics agreements, initial ethics orientations, employee ethics trainings, and ethics advice and counseling to employees. OGE's Final Inspection Report found that all elements of the Trust's Ethics Program are consistent with applicable laws and regulations.



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

Independent Auditors' Report

Board of Directors of
The Presidio Trust:

Report on the Financial Statements

We have audited the accompanying financial statements of the Presidio Trust (the Trust), which comprise the balance sheets as of September 30, 2017 and 2016, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express 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, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

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, 2017 and 2016, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Performance and Accountability Report to provide additional information for the users of its financial statements. Such information is not a required part of the basic financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Agency Head Message, information in the Fiscal Year 2017 Performance section, and Other Accompanying Information are presented for purposes of additional analysis and is 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2017 on our consideration of the Trust's internal control over financial reporting and our report dated November 15, 2017 on 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 result 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* in considering the Trust's internal control over financial reporting and compliance.

KPMG LLP

Washington, DC
November 15, 2017

THE PRESIDIO TRUST
BALANCE SHEETS

AS OF SEPTEMBER 30,

	2017	2016
ASSETS		
Intragovernmental		
Fund Balance with Treasury [NOTE 2]	\$5,001,730	\$5,008,886
Investments [NOTE 4]	87,501,121	83,694,000
Accounts Receivable [NOTE 5]	413,303	497,105
TOTAL INTRAGOVERNMENTAL	92,916,154	89,199,991
Cash and Other Monetary Assets	435,278	382,748
Accounts Receivable, Net [NOTE 5]	5,027,668	6,058,409
General Property, Plant, and Equipment (PP&E), Net [NOTE 6]	424,097,918	400,574,581
Stewardship PP&E [NOTE 7]	0	0
Other Assets		
Prepayments [NOTE 8]	2,916,052	2,162,734
Deferred Rent Receivable [NOTE 8]	26,719,205	25,497,353
Other Deferred Real Estate Costs [NOTE 8]	332,029	368,424
	459,528,150	435,044,249
TOTAL ASSETS	552,444,304	524,244,240

LIABILITIES

Intragovernmental		
Accounts Payable	5,151,771	6,905,687
Debt [NOTE 10]	43,017,629	45,468,083
Other Liabilities		
Employer Contributions Payable [NOTE 13]	270,015	257,745
Other Employment Benefits Payable [NOTE 13]	588,837	676,485
Unearned Revenue [NOTE 13]	49,182	15,720
TOTAL INTRAGOVERNMENTAL	49,077,434	53,323,720
Accounts Payable	11,017,536	12,194,262
Other Liabilities		
Environmental Remediation Liability [NOTE 9, 11, 13]	3,659,856	3,481,628
Non-friable Asbestos Cleanup Liability [NOTE 9, 12, 13]	42,322,345	41,512,985
Contingent Liabilities [NOTE 9, 13, 15]	0	393,825
Security Deposits [NOTE 13]	7,005,944	6,472,273
Unearned Revenue [NOTE 13, 22]	55,038,675	44,326,162
Payroll Payable [NOTE 13]	1,216,061	1,383,374
Annual Leave Liability [NOTE 9, 13]	2,538,297	2,513,817
Rent Credit Liability [NOTE 9, 13]	7,942,862	8,849,704
Prepaid Rents & Services [NOTE 13]	2,353,102	1,643,410
FECA Actuarial Liability [NOTE 9, 13]	6,456,079	6,656,317
Food Program Liability [NOTE 9, 13]	4,148,989	4,399,038
Other Liabilities [NOTE 13]	405,995	354,539
	144,105,741	134,181,334
TOTAL LIABILITIES	193,183,175	187,505,054

NET POSITION

Unexpended Appropriation - Funds from Dedicated Collections	0	0
Cumulative Results of Operations - Funds from Dedicated Collections	359,261,129	336,739,186
TOTAL NET POSITION	359,261,129	336,739,186
TOTAL LIABILITIES & NET POSITION	\$552,444,304	\$524,244,240

The accompanying footnotes are an integral part of these financial statements.

THE PRESIDIO TRUST
STATEMENTS OF NET COST

FOR THE YEARS ENDED SEPTEMBER 30,

	2017	2016
PROGRAM COSTS		
Operating Cost	\$132,169,235	\$130,955,594
Less: Earned Revenues	145,590,809	145,250,974
Net Costs	(13,421,574)	(14,295,379)
Total Net Cost	(13,421,574)	(14,295,379)
(NET REVENUE) OR NET COST OF OPERATIONS	(\$13,421,574)	(\$14,295,379)

The accompanying footnotes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30,

	2017	2016
	Cumulative Results of Operations	Unexpended Appropriations
	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balance	\$336,739,186	\$0
Beginning Balance as adjusted	336,739,186	0
Budgetary Financing Sources		
Nonexchange revenue:		
Donations and forfeitures of cash and cash equivalents	5,482,056	3,968,719
Other Financing Sources		
Donations	221,734	299,734
Transfers-in/out Without Reimbursement (+/-)	2,478,884	0
Imputed Financing Sources - Funds from Dedicated Collection	917,695	775,283
Other		
Total Financing Sources	9,100,369	0
Net Cost of Operations	(13,421,574)	(14,295,379)
ENDING BALANCES	\$359,261,129	\$0

The accompanying footnotes are an integral part of these financial statements.

THE PRESIDIO TRUST
STATEMENTS OF BUDGETARY RESOURCES

FOR THE YEARS ENDED SEPTEMBER 30,

	2017	2016
<u>BUDGETARY RESOURCES</u>		
Unobligated Balance - Brought Forward, October 1	\$63,254,749	\$51,998,311
Authority Used to Repay Debt	(2,450,454)	(2,317,726)
Spending Authority from Offsetting Collections (discretionary and mandatory)	142,172,122	143,462,587
TOTAL BUDGETARY RESOURCES	202,976,417	193,143,171
<u>STATUS OF BUDGETARY RESOURCES</u>		
New obligations	139,015,346	129,888,422
Unobligated Balance - End of Year		
Apportioned, unexpired account	63,961,071	63,254,749
Total unobligated balance, end of year	63,961,071	63,254,749
TOTAL BUDGETARY RESOURCES	202,976,417	193,143,171
<u>CHANGE IN OBLIGATED BALANCE</u>		
Unpaid Obligations:		
Unpaid Obligations, brought forward October 1 (gross)	41,130,605	32,979,337
New obligations	139,015,346	129,888,422
Outlays Gross	(141,323,895)	(121,737,153)
Unpaid Obligations, end of year	38,822,056	41,130,605
Uncollected payments:		
Uncollected Customer Payments from Federal Sources, brought forward, October 1	(15,682,469)	(9,069,168)
Change in Uncollected Customer Payments from Federal Sources	3,385,071	(6,613,301)
Uncollected Customer Payments from Federal sources, end of year	(12,297,398)	(15,682,469)
Obligated Balances start of the year (net) before adjustments	25,448,136	23,910,169
Obligation Balance, Start of Year, net	25,448,136	23,910,169
Obligated Balance End of Year, net	26,524,658	25,448,136
<u>BUDGET AUTHORITY AND OUTLAYS, NET</u>		
Budget Authority, gross (discretionary and mandatory)	142,172,122	143,462,587
Actual Offsetting Collections (discretionary and mandatory)	(145,557,193)	(136,849,286)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	3,385,071	(6,613,301)
Budget Authority, net	0	0
Outlays, Gross	141,323,895	121,737,153
Actual Offsetting Collections	(145,557,193)	(136,849,286)
NET OUTLAYS	(\$4,233,298)	(\$15,112,133)

The accompanying footnotes are an integral part of these financial statements.

**THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016**

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. The Presidio Trust is a component unit of the United States Government.

The United States acquired the Presidio by virtue of the Treaty of Guadalupe Hidalgo between the United States and Mexico that ended the Mexican-American War of 1846-1848. From 1846 to 1994, the Presidio was used as a U.S. military installation. In 1994, the National Park Service (NPS) assumed full control of the Presidio until 1998 when the Trust assumed responsibility for approximately 1,104 acres of non-coastal areas.

The Trust is guided by the Presidio Trust Act to operate in accordance with the purposes set forth in the Golden Gate National Recreation Area Act and the general objectives of the General Management Plan Amendment, as well as to be governed by the Government Corporation Control Act, among other legal requirements. The Trust primarily finances operations through rental leases for both residential and non-residential property as well as utility billing, hospitality income from hotel, golf course, and food program management, venue rentals, and other miscellaneous items and reimbursable agreements.

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/her designee. The head of agency for the Trust is a Chief Executive Officer 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, communications and programs, law, operational excellence, and finance.

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

1. THE PRESIDIO TRUST AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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 15, 2017. GAAP for Federal entities are the standards designated by the Federal Accounting Standards Advisory Board (FASAB), the official standards setting body for the Federal Government.

The Trust's funds are considered Dedicated Collections. Funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the government's general revenues.

The Trust presents comparative year end 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 provides relevant management information.

Although the Balance Sheet, Statements of Net Cost, and Statements 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 Statements of Budgetary Resources are 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 occurrence 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.

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

1. THE PRESIDIO TRUST AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D. Fund Balance with Treasury and Cash

The Trust maintains all cash accounts with the U.S. Department of Treasury except for petty cash accounts maintained at the Trust, the Residential Property Management Company, and the Inn at the Presidio. All banking activities are conducted in accordance with the directives issued by the Department of the Treasury – Bureau of the Fiscal Service (BFS). 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 dedicated collection funds with the Treasury.

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 BFS. The Trust is required by Public Law 104-333 to invest excess cash only in non-marketable, market-based Treasury securities issued by the BFS. 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 all or a portion of an account is deemed to be uncollectable, the Trust records a bad debt expense and establishes an allowance. If a debt is less than 90 days of age but deemed to be uncollectable a bad debt expense is recorded and an allowance established. For the remaining receivables over 90 days old, for which we do not have clarity as to collectability the Trust reserves 75% of the balance as an allowance for uncollectable accounts. The reserve is not established at 100% because there is some likelihood of collection based on contractual arrangements and the collection tools the Trust has at its disposal. 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 uncollectable, 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 unless DMS deems the debt as uncollectable

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

1. THE PRESIDIO TRUST AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

or the debt is over two years old. Debts reside in the Treasury Offset Program (TOP) after the two year period.

G. Direct Loans

The Trust is empowered to provide direct loans to non-Federal borrowers although the Trust has not exercised this authority.

H. General Property, Plant, and Equipment, Net

General Property, Plant, & Equipment (PP&E)

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 each asset using straight-line amortization over the assigned useful life of the property. All assets are assigned a useful life between two 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, and the SFFAS No. 6, Accounting for Property, Plant, and Equipment. Indirect costs are comprised of those 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.

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

1. THE PRESIDIO TRUST AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Land is considered to be general PP&E and, in accordance with SFFAS No. 6, is to be recorded at cost. The Trust has not purchased any land; the only amounts recorded within the land category are the roadbeds which are considered a nondepreciable asset.

Assets received from the Doyle Drive project (Note 22) are subject to the Trust's asset capitalization criteria but may be constructively accepted if a formal acceptance has not occurred upon completion of construction and when the asset has been placed in use.

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 into the appropriate asset category when the project is substantially completed.

Stewardship & Heritage 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 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.

See Required Supplementary Information for deferred maintenance and repairs information on stewardship and heritage 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 they are recognized as expenses when the related goods and services are received.

J. Other Assets

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 term of the lease.

**THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016**

1. THE PRESIDIO TRUST AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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 not covered by budgetary resources or unfunded. 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 for which we have not yet paid.

Environmental Remediation Liabilities

The Army closed its base at the Presidio in September 1994 and transferred administrative jurisdiction of the Presidio to the NPS through the Department of the Interior (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.

The Army provided \$99 million to the Trust for the environmental cleanup in exchange for the Trust's assumption of such responsibilities. All of the Army funds have been spent and any remaining liability is unfunded. The liability remaining on the Trust's balance sheet is related to operations and maintenance required by state regulatory agencies for the closed enumerated sites and is estimated at \$3.7 million as of September 30, 2017.

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

1. THE PRESIDIO TRUST AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

The Trust has a Pollution Legal Liability policy (PLL) that provides coverage for pre-existing pollution conditions discovered during the policy period and conditions that reopen at closed enumerated sites as well as coverage for new pollution conditions caused by the Trust. The deductible under this policy is based on a sliding scale for pre-existing conditions (Army liability) with a \$250,000 deductible for other coverages.

Non-friable Asbestos Cleanup Liability

Technical Bulletin 2006-1 – Recognition and Measurement of Asbestos Clean-up cost requires that federal entities recognize a liability for friable and nonfriable asbestos that are probable and reasonably estimable. Changes in the remaining clean-up cost estimates are calculated in current year dollars as prescribed by the accounting standards.

Almost all asbestos in the Presidio identified in this liability is considered non-friable, meaning material that contains asbestos fibers which are bonded by cement, vinyl, resin or other similar material and which cannot be crumbled, pulverized, or reduced to powder by hand pressure.

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 and residential tenants. Such monies would generally be refundable to the tenants and are therefore shown as a liability. 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.

**THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016**

1. THE PRESIDIO TRUST AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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. 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. Previously, Congress provided the Trust's appropriation from the general receipts of the Treasury. Fiscal year 2012 was the last fiscal year the Trust received appropriated funds. The Statements of Budgetary Resources present information about the 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, lodging, food purchases, and reimbursement for services performed for other federal agencies and the public, etc. These revenues are presented on the Trust's Statements of Net Cost as earned revenues and serve to offset the costs of the goods and services received by the Trust.

In fiscal years 2017 and 2016, the Trust earned more revenue than it spent, resulting in a negative net cost. In non-Federal accounting, this would be considered a surplus. Non-exchange revenues result from donations to the government. These revenues are not considered to reduce the cost of the operations of the Trust and are reported on the Statements of Changes in Net Position.

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.

Prices set for the various revenue activities are designed to recover full costs or the market value of those activities and maintain operations of the park as a self-sufficient entity to include providing funds for capital asset replacement and capital renovations.

**THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016**

1. THE PRESIDIO TRUST AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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 the Trust's retirement programs. The Trust recognizes these costs as an operating expense and also recognizes an imputed financing source on the Statements of Changes in Net Position.

Other Financing Sources

From time to time the Trust works on projects in partnership with the NPS and the GGNPC or other partners on Trust owned assets. These asset amounts are recorded as transfers in without reimbursement or donations.

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 have no right to be paid for unused sick leave.

Federal Employees Workers' Compensation Act (FECA) Program

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 to beneficiaries of employees whose deaths are attributable to work-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (DOL) which pays valid claims and subsequently is reimbursed 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. The Trust recognizes a liability for the actual claims paid by DOL that are to be reimbursed by the Trust which is recorded in the liability account entitled "other employment benefits payable" (Note 13). The second component is the estimated liability for future benefit payments as a result of past events.

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

1. THE PRESIDIO TRUST AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

This liability includes the cost of claims due to 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 (FEGLI) Program

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 must 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 fiscal year, 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 pre-retirement 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); 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. One percent of employees participate in CSRS and ninety-nine percent 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. In addition, the Trust matches any employee contribution up to five percent of pay, dollar-for-dollar on the first three percent and fifty cents per dollar thereafter. The Trust contributes a maximum of 13.9% for employees hired after 1984, 12.2% for employees hired after 2013, and 11% for employees hired after 2014.

For FERS employees the Trust also contributes the employer’s share of Social Security. The Trust does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if

**THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016**

1.1. THE PRESIDIO TRUST AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

any, applicable to its employees. Reporting such amounts is the responsibility of the OPM. The Trust does report the difference between its contributions to federal employee pension and other retirement benefits and the estimated actuarial costs as computed by the OPM as an imputed financing source and a program expense. The amounts reported as of September 30, 2017 and 2016 are \$917,695 and \$775,283, respectively.

N. Federal Government Transactions

The Trust obtains certain services from 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 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, non-friable asbestos cleanup liabilities, allowance for doubtful accounts, the historical cost of assets acquired from NPS, Doyle Drive assets, and the useful lives of general PP&E. Actual results may differ from those estimates.

**THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016**

2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury, which consists entirely of enterprise funds, was \$5,001,730 and \$5,008,886 as of September 30, 2017 and 2016, respectively.

Status of the Fund Balance with Treasury on September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Fund Balance with Treasury and Overnight Investments	\$57,241,730	\$55,458,886
Less Invested Unobligated Balance	(13,417,944)	(9,319,394)
Less Invested Unpaid Obligated Balance	<u>(38,822,056)</u>	<u>(41,130,606)</u>
Fund Balance	<u>\$5,001,730</u>	<u>\$5,008,886</u>

3. CASH AND OTHER MONETARY ASSETS

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

	<u>2017</u>	<u>2016</u>
Trust Petty Cash	\$1,000	\$1,000
Property Management Petty Cash	750	750
Inn at the Presidio Petty Cash	1,500	1,500
Deposits in Transit	<u>432,028</u>	<u>379,498</u>
Total Cash	<u>\$435,278</u>	<u>\$382,748</u>

**THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016**

4. INVESTMENTS

**INVESTMENTS AS OF SEPTEMBER 30, 2017
INTRAGOVERNMENTAL SECURITIES**

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Cost/ Par Value</u>	<u>Unamortized Discount</u>	<u>Net Value</u>
Non-marketable/Market Based	10/02/17	0.96%	\$52,240,000	\$ 0	\$52,240,000
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%	<u>30,266,000</u>	<u>0</u>	<u>30,266,000</u>
			\$85,484,000		\$85,484,000
Interest Receivable			\$2,017,121		\$2,017,121
TOTAL INVESTMENTS			<u>\$87,501,121</u>	<u>\$ 0</u>	<u>\$87,501,121</u>

**INVESTMENTS AS OF SEPTEMBER 30, 2016
INTRAGOVERNMENTAL SECURITIES**

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Cost/ Par Value</u>	<u>Unamortized Discount</u>	<u>Net Value</u>
Non-marketable/Market Based	10/01/16	0.11%	\$50,450,000	\$ 0	\$50,450,000
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%	<u>30,266,000</u>	<u>0</u>	<u>30,266,000</u>
			<u>\$83,694,000</u>		<u>\$83,694,000</u>
Interest Receivable			\$0		\$0
TOTAL INVESTMENTS			<u>\$83,694,000</u>	<u>\$ 0</u>	<u>\$83,694,000</u>

In fiscal years 2017 and 2016, 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 BFS invests these proceeds with the agreement that the borrowing and investment net to zero unless the Trust needs access to the cash. The Trust was owed \$2,017,121 in interest as of September 30, 2017 and the amount was paid on October 2, 2017.

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

4. INVESTMENTS (CONTINUED)

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds of the Trust. The dedicated cash receipts collected from the public into the Trust are deposited in the U.S. Treasury, which uses the cash for general Government purposes.

Treasury securities are issued to the Trust as evidence of its receipts. Treasury securities are an asset to the Trust and a liability to the U.S. Treasury. Because the Trust and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements. Treasury securities provide the Trust with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Trust requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

5. ACCOUNTS RECEIVABLE, NET

Accounts receivable as of September 30, 2017, is comprised of the following:

	<u>Intra-Government</u>	<u>Non-Government</u>	<u>Total</u>
Gross Accounts Receivable	\$413,303	\$5,653,237	\$6,066,540
Accrued Interest Receivable on Accounts Receivable	0	31,504	31,504
Less Allowance for Uncollectible Accounts	<u>0</u>	<u>(657,073)</u>	<u>(657,073)</u>
Net accounts receivable at September 30, 2017	<u>\$413,303</u>	<u>\$5,027,668</u>	<u>\$5,440,971</u>

Accounts receivable as of September 30, 2016 is comprised of the following:

	<u>Intra-Government</u>	<u>Non-Government</u>	<u>Total</u>
Gross Accounts Receivable	\$497,105	\$6,603,515	\$7,100,620
Accrued Interest Receivable on Accounts Receivable	0	66,019	66,019
Less Allowance for Uncollectible Accounts	<u>0</u>	<u>(611,125)</u>	<u>(611,125)</u>
Net accounts receivable at September 30, 2016	<u>\$497,105</u>	<u>\$6,058,409</u>	<u>\$6,555,514</u>

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

6. GENERAL PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment (PP&E) as of September 30, 2017 consists of property used in operations:

<u>Classification</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Balance</u>
Land and Land Rights	\$3,701,000	N/A	\$3,701,000
Improvements to Land	68,232,560	35,811,678	32,420,882
Construction-in-Progress	29,581,284	N/A	29,581,284
Buildings, Improvements, Renovations & Rehabilitations	410,578,709	113,975,364	296,603,345
Other Property, Plant and Equipment (including furnishings, equipment, and software)	<u>125,147,165</u>	<u>63,355,758</u>	<u>61,791,407</u>
Total	<u>\$637,240,718</u>	<u>\$213,142,800</u>	<u>\$424,097,918</u>

Property, Plant and Equipment (PP&E) as of September 30, 2016 consists of property used in operations:

<u>Classification</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Balance</u>
Land and Land Rights	\$3,701,000	N/A	\$3,701,000
Improvements to Land	56,183,813	30,677,579	25,506,234
Construction-in-Progress	19,448,698	N/A	19,448,698
Buildings, Improvements, Renovations & Rehabilitations	397,298,674	102,328,338	294,970,336
Other Property, Plant and Equipment (including furnishings, equipment, and software)	<u>113,749,977</u>	<u>56,801,664</u>	<u>56,948,313</u>
	<u>\$590,382,162</u>	<u>\$189,807,581</u>	<u>\$400,574,581</u>

Depreciation expense was \$23,851,884 and \$22,534,241 in fiscal years 2017 and 2016, respectively. Land and land rights consists of the cost of the road beds. 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. Other property, plant and equipment and land improvements are depreciated over their estimated useful lives ranging from two to ninety years.

**THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016**

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 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). 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. A building can only be added to the heritage category if it is deemed that the building will not ever be occupied. Multi-use heritage assets, while historical in nature, are buildings that are leased to tenants.

Stewardship assets consist primarily of historic forest and restoration of lands within the boundaries of the park. Land stewardship consists of forestry acreage added and withdrawn; the net reforestation activities equates to approximately two acres of forest each year.

The following table depicts the number of physical units at the end of fiscal year 2016, additions and projected withdrawals during fiscal year 2017, and the ending number of units at the end of fiscal year 2017.

	Beginning Balance			Ending Balance
Classification	Number of Buildings	Additions	Withdrawals	Number of Buildings
Heritage	9	0	0	9
Multi-use Heritage	411	0	0	411
			Acres	Number
	Number of Acres	Acres Added	Withdrawn	of Acres
Land Stewardship	860.32	2.5	6.03	856.79

**THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016**

7. STEWARDSHIP PROPERTY PLANT & EQUIPMENT (CONTINUED)

The following table depicts the number of physical units at the end of fiscal year 2015, additions and withdrawals during fiscal year 2016, and number of units at the end of fiscal year 2016.

Classification	Beginning Balance			Ending Balance
	Number of Buildings	Additions	Withdrawals	Number of Buildings
Heritage	9	0	0	9
Multi-use Heritage	412	0	1	411
			Acres	Number
	Number of Acres	Acres Added	Withdrawn	of Acres
Land Stewardship	860.10	4.47	4.25	860.32

The FY16 subtraction of building 643 resulted from its transfer to the NPS.

8. OTHER ASSETS

Other assets as of September 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Prepayments	\$2,916,052	\$2,162,734
Deferred Rent Receivable	26,719,205	25,497,353
Other Deferred Real Estate Assets, Net	<u>332,029</u>	<u>368,424</u>
Total Other Assets	<u>\$29,967,286</u>	<u>\$28,028,511</u>

**THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016**

9. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources are those commitments that do not have specific budget attached to the obligation and may be funded from future resources when identified. As of September 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
FECA Actuarial	\$6,456,079	\$6,656,317
Contingent Liabilities (Note 15)	0	393,825
Environmental Remediation Liability (Note 11)	3,659,856	3,481,628
Non-friable Asbestos Liability (Note 12)	42,322,345	41,512,985
Annual Leave Liability	2,538,297	2,513,817
Rent Credit Liability	7,942,862	8,849,704
Liabilities Not Covered By Budgetary Resources	<u>62,919,439</u>	<u>63,408,276</u>
Liabilities Covered by Budgetary Resources	<u>130,263,737</u>	<u>124,096,778</u>
TOTAL LIABILITIES	<u>\$193,183,176</u>	<u>\$187,505,054</u>

10. DEBT

The Trust has the following debt to Treasury as of September 30, 2017 and 2016:

Debt to the Treasury	Maturity Date	<u>2017</u>	<u>2016</u>
Note C (dated 09/29/00)	09/30/2029	\$17,202,192	\$18,186,585
Note C (dated 09/28/00)	09/30/2029	17,202,192	18,186,585
Note C (dated 9/29/01)	09/30/2029	<u>8,613,245</u>	<u>9,094,913</u>
Total Principal		<u>\$43,017,629</u>	<u>\$45,468,083</u>

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 are described below.

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

10. DEBT (CONTINUED)

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

1) Note C (dated 9/29/00)

The current principal amount is \$17,202,192 as of September 30, 2017. 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 if the note is not repaid by the Trust. The note carries an interest rate of 6.122%, and requires principal payments starting in 2015 and ending on September 30, 2029. Principal repayments of \$984,393 and \$931,661 were made as of September 30, 2017 and 2016, respectively.

2) Note C (dated 9/28/00)

The current principal amount is \$17,202,192 as of September 30, 2017. 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 if the note is not repaid by the Trust. The note carries an interest rate of 6.122%, and requires principal payments starting in 2015 and ending on September 30, 2029. Principal repayments of \$984,393 and \$931,661 were made as of September 30, 2017 and 2016, respectively.

3) Note C (dated 9/29/01)

The current principal amount is \$8,613,245 as of September 30, 2017. 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 if the note is not repaid by the Trust. The note carries an interest rate of 5.515%, and requires principal payments starting in 2015 and ending on September 30, 2029. Principal repayments of \$481,668 and \$454,404 were made as of September 30, 2017 and 2016, respectively.

The Trust incurred \$2,728,350 and \$2,867,483 of interest cost for the fiscal years ended September 30, 2017 and 2016, respectively, which was included in program costs.

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

10. DEBT (CONTINUED)

In fiscal year 2017, no additional debt obligations were issued and there was no borrowing authority available as of September 30, 2017 or September 30, 2016. Repayments of \$2,450,454 and \$2,317,726 were made on September 30, 2017 and 2016, respectively. Additional yearly payments on the principal are scheduled at \$2,590,788 in fiscal year 2018; \$2,739,162 in fiscal year 2019, \$2,896,038 in fiscal year 2020; \$3,061,905 in fiscal year 2021 with the remainder in years thereafter.

11. OTHER LIABILITIES – ENVIRONMENTAL REMEDIATION

Agency Responsibilities for Environmental Cleanup

As discussed in Note 1, Significant Accounting Policies, the Trust assumed responsibility for the environmental cleanup of “known” or enumerated sites at the Presidio.

All enumerated sites have been remediated to applicable standards protective of human health and the environment in accordance with future reuse plans for the Presidio and associated cleanup orders/agreements have been rescinded by the regulatory agencies. All enumerated sites were closed with no further action required or are governed by land use controls with regulatory oversight as appropriate.

Costs for enumerated sites were funded through an advance from the Army, Trust funding, and reimbursement from insurance policies. The remaining liability on the balance sheet is for operations and maintenance as required by regulatory agencies and is \$3,659,856 as of September 30, 2017. Operations and maintenance are estimated to extend from the point of discovery and identification for at least thirty years or a shorter period if regulatory land use controls allow for it.

Future cleanup also includes unknown contamination which is any environmental threat at or migrating from the Presidio that is not an enumerated site and is attributable to the Army. The Army retained sole responsibility to fund and/or to perform all environmental cleanup work of unknown contamination as well as for the cleanup of radioactive materials, chemical and biological warfare agents, and unexploded ordnance if discovered at the Presidio.

From May 1999 to May 2014, there was a Real Estate Environmental Liability (“REEL”) policy that also provided coverage for unknown contamination. The REEL policy had a limit of \$10 million per claim (with a \$25,000 self-insured retention) and a \$50 million aggregate for all claims.

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

11. OTHER LIABILITIES – ENVIRONMENTAL REMEDIATION (CONTINUED)

The Trust’s financial statements reflect a liability for environmental remediation cleanup costs of \$3,659,856 and \$3,481,628 which is unfunded as of September 30, 2017 and 2016, respectively. 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 change in liability as of September 30, 2017 and 2016 is as follows:

<u>Liability per Balance Sheet</u>	<u>2017</u>	<u>2016</u>
Beginning Balance	\$3,481,628	\$3,690,103
Costs applied	(178,880)	(223,376)
Change in estimate to complete	<u>357,108</u>	<u>14,901</u>
Total Liability	<u>\$3,659,856</u>	<u>\$3,481,628</u>

The total estimated cost at completion is reflective of the final expenses to be incurred on the major portion of the program and regulatory operations and maintenance. 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 - NON-FRIABLE ASBESTOS CLEANUP

The Trust’s financial statements reflect an asbestos cleanup liability of \$42,322,345 as of September 30, 2017 and \$41,512,985 as of September 30, 2016. It is increased for Consumer Price Index (CPI) or Engineering New Record Rates (ENR) related to changes in the cost of living and reduced by work done or demolition of buildings. This liability was recorded in 2013 as required by Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs, and will be adjusted annually to reflect asbestos cleanup performed and revised estimated liability amounts.

Almost all of the liability reflects non-friable asbestos, which is material that contains asbestos fibers which are bonded by cement, vinyl, resin or other similar material and cannot be crumbled, pulverized, or reduced to powder by hand pressure. As such, the Trust anticipates the removal of this asbestos will occur over time as individual facilities are renovated.

The Trust recognized clean-up cost associated with non-friable asbestos of \$172,848 and \$413,921 as of September 30, 2017 and 2016, respectively.

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

13. OTHER LIABILITIES

Other liabilities projected as of September 30, 2017 and September 30, 2016 are comprised of the following:

	<u>2017</u>		<u>2016</u>	
	<u>Non-Current</u>	<u>Current</u>	<u>Non-Current</u>	<u>Current</u>
Intragovernmental				
Employer Contributions Payable	\$ 0	\$270,015	\$ 0	\$257,745
Other Employment Benefits	0	588,837	0	676,485
Unearned Revenue	<u>0</u>	<u>49,182</u>	<u>0</u>	<u>15,720</u>
Total Intragovernmental	0	908,034	0	949,950
Environmental Remediation Liability (Note 11)	3,331,343	328,512	3,258,251	223,377
Non-friable asbestos cleanup cost (Note 12)	42,122,335	200,000	41,083,055	429,930
FECA Actuarial (Note 9)	5,919,544	536,535	6,083,277	573,040
Contingent Liabilities (Note 15)	0	0	0	393,825
Security Deposits	7,005,944	0	6,472,273	0
Unearned Revenue	42,957,410	12,081,265	28,982,225	15,343,937
Payroll Payable	0	1,216,061	0	1,383,374
Annual Leave Liability (Note 9)	0	2,538,297	0	2,513,817
Rent Credit Liability (Note 9)	6,922,196	1,020,666	7,846,351	1,003,353
Prepaid Rents & Services	0	2,353,102	0	1,643,410
Food Program Liability	3,898,989	250,000	4,153,706	245,332
Other Liabilities	<u>0</u>	<u>405,995</u>	<u>0</u>	<u>354,539</u>
Total Other Liabilities	<u>\$112,157,761</u>	<u>\$21,838,467</u>	<u>\$97,879,138</u>	<u>\$25,057,884</u>

14. LEASES

Trust as Lessee

Operating Leases

Operating leases are used 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 are for a year or less.

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

14. LEASES (CONTINUED)

Trust as Lessor

Description of Lease Arrangements:

The Trust's properties are leased under terms from one month up to 67 years. The Trust expects that these leases will be renewed or replaced by other leases in the normal course of business. In addition, fifteen 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 required housing or reduced commercial and residential 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 (projected through year 2021):

<u>Fiscal Year</u>	<u>Total</u>
2018	26,309,036
2019	22,700,040
2020	19,834,683
2021	16,311,160
2022	12,981,357
Thereafter	<u>398,361,802</u>
Total	<u>\$496,498,078</u>

15. COMMITMENTS AND CONTINGENCIES

From time to time, the Trust is involved in legal matters, including tort and employment-related claims. Currently the Trust has no workplace discrimination claims and no tort claims pending.

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

16. INTRAGOVERNMENTAL COSTS & EXCHANGE REVENUES

Exchange Revenue

The Trust provides services to the public and other government entities. Revenue earned from the U.S. Treasury is from earnings on investments. Revenue earned from the Department of the Interior is for utility services that the Trust provides. Revenue earned for the years ended September 30, 2017 and 2016 are as follows:

<u>Agency</u>	<u>2017</u>	<u>2016</u>
US Treasury	\$2,418,218	\$2,121,153
Department of the Army	63,385	129,201
Department of Interior	534,469	369,782
Other	<u>249,785</u>	<u>561,701</u>
Total	<u>\$3,265,857</u>	<u>\$3,181,837</u>

16. INTRAGOVERNMENTAL COSTS & EXCHANGE REVENUES (CONTINUED)

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 U.S. Treasury are for interest on loans. Costs incurred for the years ended September 30, 2017 to September 30, 2016 is as follows:

<u>Agency</u>	<u>2017</u>	<u>2016</u>
OPM	\$8,342,372	\$7,544,019
Department of Interior	5,409,555	6,486,856
US Treasury	2,731,451	2,867,483
Department of Energy	1,083,347	1,234,000
Department of Labor	420,838	468,157
GSA	515,555	607,871
Other	<u>72,616</u>	<u>82,253</u>
Total	<u>\$18,575,734</u>	<u>\$19,290,639</u>

**THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016**

17. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED: DIRECT VS. REIMBURSABLE OBLIGATIONS

All obligations are under reimbursable authority. The amount of obligations incurred as of September 30, 2017 and 2016 was \$139,015,346 and \$129,888,422 respectively.

18. PERMANENT INDEFINITE APPROPRIATIONS

The Trust has a permanent indefinite appropriation that 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 accordance with the Trust Act, the Trust is able to retain revenues it earns to fund operations.

19. 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 yet been received. The balance of undelivered orders as of September 30, 2017 and 2016 were \$22,971,797 and \$19,731,659, respectively.

20. CONTRIBUTED CAPITAL

The Trust is granted the authority to accept donations in the Trust Act. The Trust received direct donations of \$221,734 and \$299,734 in fiscal years 2017 and 2016, respectively. The Trust also receives grants and other funding for various projects within the park. In fiscal year 2017 through September 30 2017, the Trust received \$5,482,056 in grants related to land improvements, historical renovations, and programs, and in fiscal year 2016, the Trust received \$3,968,719.

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

21. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET

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. 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 Statements 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 Statements 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 accounts 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.

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

	FOR THE YEAR END ENDED SEPTEMBER	
	2017	2016
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	\$139,015,346	\$129,888,422
Less: Spending Authority from Offsetting Collections and Recoveries	142,172,122	143,462,587
Obligations net of offsetting collections and recoveries	(3,156,776)	(13,574,165)
Less: Offsetting Receipts		
Net Obligations	(3,156,776)	(13,574,165)
Other Resources		
Donations Non-Financial Resources	221,734	299,729
Transfers in/out without reimbursement	2,478,884	0
Imputed Financing from Costs Absorbed by Others	917,695	775,283
Net Other Resources Used to Finance Activities	3,618,313	1,075,012
Total Resources Used to Finance Activities	461,537	(12,499,153)
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	(9,077,508)	(7,312,378)
Resources that fund expenses recognized in prior periods	201,032	(4,704,418)
Other	4,305,251	2,826,604
Resources that finance the acquisition of assets	(24,708,794)	(19,794,955)
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	(29,280,019)	(28,985,147)
Total Resources Used to Finance the Net Cost of Operations	(28,818,482)	(41,484,301)
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	24,480	(63,831)
Increase / Decrease in Environmental Remediation Cleanup Cost Liability	178,228	(208,476)
Increase in Asbestos Liability	809,360	863,978
Resources that funded from (prior periods) / current periods	0	(360,186)
Other	(1,935,378)	(84,544)
Total components of Net Cost of Operations that will require or generate resources in future periods	(923,310)	146,940
Components not requiring or generating resources		
Gain/Loss on Disposition of Assets	12,289	1,079,078
Depreciation and amortization	23,851,884	22,534,241
Other	(7,543,955)	3,428,662
Total Components Not Requiring or Generating Resources	16,320,218	27,041,980
NET COST OF OPERATIONS	(\$13,421,574)	(\$14,295,379)

THE PRESIDIO TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

22. 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). Construction began at that time and remains ongoing through fiscal year 2017, though the major highway work is complete.

The Trust has received cash compensation under the Right of Entry agreement because the project must relocate, rebuild, and restore Trust assets in order to build the parkway.

The cash compensation and fair market value of assets are recognized as unearned revenue as they are received, and the revenue is 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 compensation in the amount of \$66,702,825 in cash and \$41,230,093 in fixed assets through fiscal 2017. The Trust recognized earned revenue in the amount of \$3,174,712 in fiscal year 2017 and \$8,809,636 in fiscal year 2016, leaving a balance of \$29,093,415 in unearned revenue at September 30, 2017.

The Trust has also recognized earned revenue of \$1,343,362 and \$1,589,489 related to reimbursable project support through September 30, 2017 and 2016, respectively.

23. PRESIDIO TUNNEL TOPS

The Presidio Tunnel Tops Project (Tunnel Tops), an anticipated \$100 million project, will add 14 acres of parklands to the Presidio. The Tunnel Tops is wholly within Area B of the Presidio. The Trust is responsible for the project, which includes the planning, design, and construction efforts. GGNPC, a non-profit organization that raises funds to support projects in the Golden Gate National Parks, is responsible for the philanthropic campaign. NPS manages the adjacent parklands at Crissy Field, Area A of the Presidio. All three agencies participate in decision-making about the project.

As part of the project, a 3-acre, the Youth Campus is projected to be approximately 30 percent of the entire Tunnel Tops project. The GGNPC will occupy the youth campus for a period of 30 years at no rent. The occupancy is considered an implicit lease agreement, and as such, the fair value amount attributed to the lease will be deferred rent and recognized into income over the term of the 30 year tenancy. As of September 30, 2017 the amount deferred is \$1,512,472.

THE PRESIDIO TRUST
DRAFT REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)
SEPTEMBER, 2016 AND 2017

1. DEFERRED MAINTENANCE & REPAIRS

The Trust manages property, plant and equipment that requires maintenance. These assets are included in two broad categories: infrastructure and grounds, and buildings. Infrastructure consists of high voltage electrical systems, water treatment facilities and wastewater systems. Grounds include stewardship and landscape assets, consisting of roads, trails and forested lands, as well as the golf course. Buildings include heritage assets, which are those that have not been renovated and are maintained to a level to ensure that they are preserved until such time as they can be rehabilitated, and historic and non-historic buildings that are renovated and maintained to ensure that the renovated condition is maintained.

Defining and Implementing Maintenance and Repair Policies

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 they continue to provide acceptable service and achieve their expected life. Deferred maintenance is upkeep or repairs not performed when scheduled, essentially maintenance delayed until a future time.

Trust deferred maintenance is determined through a total life-cycle cost method for all deferred maintenance categories of major assets. This effort was performed on activities scheduled throughout the year and all assets are assessed each year.

Deferred maintenance estimates apply to both capitalized general and stewardship property, plant and equipment as well as non-capitalized or fully depreciated general property, plant and equipment. As Trust policy and its accounting system differentiate maintenance and repairs between capitalized (i.e., items whose cost exceeds the capitalization threshold) and expensed items, deferred maintenance estimates reported herein include only those maintenance activities that have not been capitalized (i.e., expensed items).

Ranking and Prioritizing Maintenance and Repair Activities

Maintenance and repair activities are first prioritized by regulatory, health and safety considerations. Items governed by regulation include, but are not necessarily limited to, building life safety, elevators, emergency generation, specialized electrical-system vehicle maintenance, and water treatment backflow and general plant operation. Tasks prioritized by health and safety involve electrical substations, overhead electrical equipment and transformers, tree and shrub pruning, and road, trail and masonry repairs.

Other maintenance and repair activities are prioritized based on the results of periodic inspection or as a response to functionality failures. Prioritization is generally adjusted to take into account capital improvement efforts underway, future capital improvement plans, asset disposal plans and budgetary funding outlook.

THE PRESIDIO TRUST
DRAFT REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)
SEPTEMBER, 2016 AND 2017

Factors Considered in Setting Acceptable Conditions

Acceptable conditions are defined in accordance with regulatory or industry standard requirements for building life safety, elevators, emergency generation, specialized electrical-system vehicle maintenance, and water treatment backflow and general plant operation. Specific regulatory testing, inspection and documentation are performed for these items; for example, building life safety inspections are performed by the fire department, elevator testing is completed and certified according to mandatory requirements by an expert third-party, and water treatment operation standards are those set forth in the California State Water Resources Control Board regulations.

Standards for property, plant and equipment not governed by specific regulation vary significantly depending on their type and function. Acceptable building conditions include roofing and plumbing with no leaks or cracks, exterior paint with no bubbling or peeling, and functional thermostats and HVAC equipment. Factors evaluated for high voltage systems include cleanliness, signs of arching or burning, oil leaks in transformers, voltage levels and power flow. Elements considered for wastewater systems include flow, lack of cracks or damage and cleanliness. Factors evaluated for roads and trails take account of surface integrity, evenness and possible obstruction. Considerations for grounds include condition and growth rates of plantings, and incidence of pests or invasive species. Heritage and stewardship assets are managed by conservation standards in a manner that fulfills the Trust's obligation to stabilize, protect and preserve them.

Significant Changes from Prior Year

There was an overall net increase in deferred maintenance of \$191,787 from 2016 to 2017. This is due to an increase in multi-use heritage and non-historic buildings maintenance, marginally offset by the combined decrease in infrastructure and grounds categories.

The year-over-year decrease in the infrastructure balance is due to increases in waste water pipe and lift station maintenance, partially offset by lower water distribution upkeep. Stewardship and landscape balances decreased from lower irrigation maintenance activities. The increase in the golf course balance is due to roof replacement deferral to 2018. The difference in the buildings categories is due to an increase in scheduled maintenance, which is from the addition of tasks and refinement of scheduling.

THE PRESIDIO TRUST
DRAFT REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)
SEPTEMBER, 2016 AND 2017

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

Category	2016 Ending Balance	2017 Beginning Balance	2017 Ending Balance
Infrastructure & Grounds:			
Infrastructure	\$1,179,076	\$2,086,169	\$949,569
Stewardship & Landscape	1,026,434	1,928,749	945,949
Golf Course	43,587	285,890	112,415
Total Infrastructure & Grounds	2,249,097	4,300,807	2,007,932
Buildings:			
Heritage	36,947	36,947	36,947
Multi-Use Heritage	3,292,446	4,467,625	3,573,991
Non-Historic	935,199	1,800,324	1,086,606
Total Buildings	4,264,592	6,304,896	4,697,544
Grand Total	\$6,513,689	\$10,605,703	\$6,705,476

Other Accompanying Information:

Inspector General Summary

The Trust does not have an Inspector General (IG); therefore, this section of the Performance and Accountability Report (PAR) does not contain an IG narrative.

Improper Payments

As required under the Improper Payments Elimination and Recovery Act (IPERIA), the Trust is subject to reporting to the U.S. Treasury on payments that the Treasury suspects are improper. The Trust has had no improper payments to report and does not operate any programs that are susceptible to improper payments.

Summary of Financial Statement Audit and Management Assurances

Audit Opinion		Unmodified				
Restatement		No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance	
None	0	0	0	0	0	
Effectiveness of Internal Control over Financial Reporting						
Statement of Assurance		Unqualified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0
Effectiveness of Internal Control over Operations						
Statement of Assurance		See Below				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0
Conformance with Financial Management System Requirements						
Statement of Assurance		See Below				
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	N/A	N/A	N/A	N/A	N/A	N/A
Conformance with Federal Financial Management Improvement Act						
Statement of Assurance		Agency		Auditor		
Overall Substantial Compliance		Yes or No		N/A		
System Requirements		Yes		N/A		
Accounting Standards		Yes		N/A		
USSGL - Transaction Level		Yes		N/A		

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

Grants Oversight and New Efficiency (GONE) Act

The Presidio Trust does issue grants though we do issue cooperative agreements. Trust agreements are not subject to the GONE Act as our agreements are not for the principal purpose of support or stimulation.

Fraud Reduction Report

In fiscal year 2017, the Trust took several additional actions to reduce the risk of fraudulent activity.

The Trust completed a revised travel policy, and trained staff and supervisors. The training contained a section on improper use of travel cards. We also established quarterly a quarterly schedule for training to ensure that we capture new supervisors and staff members.

The Trust implemented Enterprise Risk Management (ERM). To date we have performed our initial risk assessment, identified potential mitigations to those risks, and are working on management action plans. These plans will enable us to finalize the ERM report and ensure that we incorporate actions that come out of this are part of the organizational priorities.

The Trust has finalized the selection of an outside audit firm to perform audits of our three hospitality third party managers. The audit will commence during FY18 and give the Trust visibility into the controls over financial reporting as well as the operations of each company.

Glossary

BFS – Bureau of the Fiscal Service

CAP – Camping at the Presidio

Caltrans – California State Department of Transportation

CIP – Construction in Progress

CPI – Consumer Price Index

CSRS – Civil Service Retirement System

DMS – Debt Management Services

DOI – Department of the Interior

DOL – Department of Labor

ERM – Enterprise Risk Management

ENR - Engineering New Record Rates

FASAB – Federal Accounting Standards Advisory Board

FECA – Federal Employee Compensation Act (Worker’s Compensation)

FEGLI – Federal Employees Group Life Insurance

FERS – Federal Employees Retirement System

FMFIA – Federal Managers’ Financial Integrity Act

GAAP – Generally Accepted Accounting Principles

GGNPC – Golden Gate National Parks Conservancy

GONE Act – Grants Oversight and New Efficiency Act

GSA – General Service Administration

MOA – Memorandum of Agreement

NPS – National Park Service

OMB – Office of Management and Budget

OPM – Office of Personnel Management

PP&E – Property, Plant, and Equipment

PTMP – Presidio Trust Management Plan

REEL – Real Estate Environmental Liability Insurance Policy

RSL – Remediation Stop Loss Insurance Policy

SFFAS – Statements of Federal Financial Accounting Standards

SFCTA – San Francisco County Transportation Authority

USSGL – United States Standard General Ledger

VMP – Vegetation Management Plan



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

Independent Auditors' Report on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Directors of
The Presidio Trust:

We have audited, in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*, the financial statements of the Presidio Trust (the Trust), which comprise the balance sheets as of September 30, 2017 and 2016, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2017, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control. 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the Trust's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 15, 2017



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

Independent Auditors' Report on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Directors of
The Presidio Trust:

We have audited, in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*, the financial statements of the Presidio Trust (the Trust), which comprise the balance sheets as of September 30, 2017 and 2016, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2017.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed that management, as disclosed in their assurance statements, has not fully complied with the Federal Information Security Management Act (FISMA). The Results of our tests disclosed no other instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 17-03.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on the Trust's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 15, 2017