



# Preservation & Progress

THE PRESIDIO TRUST 2002 YEAR-END REPORT



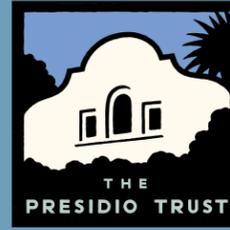
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The Presidio Trust's mission is to preserve and enhance the natural, cultural, scenic, and recreational resources of the Presidio for public use in perpetuity, and to achieve long-term financial sustainability. These efforts encompass the natural areas, wildlife, and native habitats of the park, as well as the historic structures and designed landscapes that make the park a National Historic Landmark District. The Presidio Trust is dedicated to ensuring that visitors to this spectacular place will have the opportunity to gain a broader understanding of the Presidio and its place in American history.

## Message from the Chairman



When the Presidio Trust Board of Directors first convened in July 1997, we identified three immediate goals that we would have to achieve quickly if we were to fulfill the mission for which Congress established the Trust – that is, to preserve the Presidio as a park and to use the Presidio’s leasable real estate to fund its preservation and operations in perpetuity. We knew that we had to rehabilitate buildings and establish a

strong, ongoing source of revenue. We knew that we had to upgrade the Presidio’s aging infrastructure, and undertake its environmental remediation. And, we knew that we had to build an entirely new kind of federal agency, one that had the flexibility to meet our revenue-generating needs, and the breadth of expertise to preserve and protect the Presidio’s natural and cultural resources.

The Presidio Trust has been overseeing the park for five years, and I am pleased to report that we are well on our way to securing the long-term preservation and integrity of the Presidio as a national treasure.

It was clear that our most reliable source of revenue would be leasing the Presidio’s housing. With funds borrowed from the U.S. Treasury, we undertook an aggressive housing renovation program, which we will complete by the end of 2005. To date, approximately 85 percent of the park’s housing is occupied and generating more than \$22 million in annual revenue for the park.

We also recognized that to a great degree, the Presidio would become identified with the organizations that located in the park. We decided, therefore, to seek an anchor tenant for an already developed 23-acre site at the park’s main gateway. At the end of this year, we completed the site preparation and the long-term lease with Letterman Digital Arts, Ltd., a subsidiary of Lucasfilm. New construction has begun on a state-of-the-art facility that restates the principles of the Army’s restrained architecture and incorporates the forward-thinking principles of sustainable design and construction – two hallmarks of the Trust’s restoration projects. This is a tremendous project for the Presidio. We anticipate that revenues from this project will provide nearly 15 percent of the cost of operating the park. The new campus will

beautify and revitalize a prominent corner of the park, and Lucasfilm will bring a creative and vital enterprise to the Presidio.

In addition to the Letterman project, 480,000 square feet of the Presidio’s non-residential buildings have been restored. Nearly three-quarters of this work was historic building rehabilitation. We hope to renovate and develop approximately 900,000 square feet of non-residential space over the next five years through a combination of Trust and tenant development. In 2002, non-residential leasing generated nearly \$10.6 million in revenue.

The Presidio is again home to a thriving community. Approximately 2,400 people live in Presidio housing, and more than 2,000 work in the 175 organizations that have located here. The Presidio’s diverse tenants, from cultural and educational institutions to major foundations, from small consulting firms and filmmakers to non-profits, are bringing a new dynamism to the park.

The former military post’s aging infrastructure was inadequate to support building preservation and reuse, to engage outside investors, or to encourage use of the Presidio as a park. The Trust has continued the infrastructure upgrades that the National Park Service initiated in 1994. Since 1998, we have invested \$16.3 million to improve our roads, sanitary and storm

4 sewers, electrical systems, telecommunications, and information technology. These improvements have adapted the park's buildings to modern use, improved public access and safety, and moved the Presidio toward the highest environmental standards.

In 1999, we entered into a first-of-its-kind agreement that transferred responsibility and funding for the environmental cleanup of the military post from the U.S. Army to the Trust. In 2002, we completed fieldwork that identifies park-wide cleanup actions, and we completed our first major land-fill remediation. Our environmental remediation program moves in tandem with the natural restoration of the park, and is fully integrated with our mission to protect and enhance the park's natural resources. The Presidio Native Plant Nursery propagates thousands of native plants each year to support the natural restoration of environmental remediation sites.

Most important, we first had to build an organization that had the breadth and depth of expertise to achieve all of our goals – that could undertake historic as well as natural restoration, that could rehabilitate the Presidio's grand houses and bring new life to the former post, and that could responsibly operate and manage this exceptional and complex place. The organization grew to approximately 500 employees by 2001. This past year, in response to the contracting economy and our own changing needs, we reduced our operating costs and reduced our staff, exercising the essential flexibility to respond to the market which distinguishes us among federal agencies. We will continue to control costs, which will increase the amount of capital that can be invested in the park.



In August 2002, after two years of extensive public input and review, the Presidio Trust adopted the Presidio Trust Management Plan. The Plan sets

out a general policy framework that successfully balances the multiple demands of the park's planning – preserving public open space in the midst of an urban area – and establishing guidelines for building use that are commensurate with both our financial needs and our mandate to serve the public.

Beautiful open spaces, exceptional vistas, stately historic structures, and urban wilds distinguish the Presidio of San Francisco. Ironically, these treasures are the accidental byproduct of the Presidio's military past. Both obscured and enriched by years of habitation and use, the Presidio has many of the traits of a park without having been conceived as one, an incipient park that is now ready to emerge. For more than a decade – first as a board member with the Golden Gate National Parks Conservancy, and now with the Trust – I have witnessed the Presidio's transformation from military post to national park and civilian community. Like most long and challenging endeavors, many milestones have marked this great undertaking. As we enter 2003 and consider our goals for the next five years, we are fortunate to have put in place many of the critical parts of our preservation and financial strategies. We can look forward with confidence.

Finally, I want to express our Board's appreciation and commendation for the Trust's employees. Our progress over these years at the Trust is very much the result of their expertise, dedication, and diligence. We also thank all the people who visit here, live and work here, and who care so much about this wonderful place. Their support is vital to reaching the goal of preserving and enhancing the Presidio as a national treasure.

A handwritten signature in black ink, appearing to read 'Toby Rosenblatt'.

**Toby Rosenblatt**  
*Chairman, Board of Directors*



## Message from the Executive Director



The Presidio of San Francisco has had an extraordinary history as the nation's longest operating military post. And we have an exciting future before us as an innovative historic preservation project, as a preserve for rare and endangered species, and most important as a place for people to enjoy – in other words, as a park like no other. The Presidio is one of the largest historic preservation projects in the country today, with 469 historic buildings on the National Register of Historic Places. In the past three years, we have rehabilitated more historic buildings than any other site in the nation. The Presidio also features some of the most spectacular open spaces in any urban area in the country, and the park is home to 280 native plant species, 16 of which are rare or endangered, and 220 species of birds.

Thirteen native plant communities still exist at the Presidio, ranging from foredune at Crissy Field and Baker Beach to Arroyo willow riparian woodland along Lobos Creek. It has the last free-flowing stream in San Francisco and the only natural lake in the greater Golden Gate National Recreation Area. The conflict and confluence between its natural and historical attributes is what makes the Presidio unique among national park sites and challenging to preserve.

The Presidio is largely a cultivated landscape. The juxtaposition of stately buildings against majestic trees and wild bluffs not only provides aesthetic intrigue, but also provokes questions about how we measure and accommodate competing values, reminding us that our most cherished ideas are subject to time. The Presidio's transformation from open land into a forested, designed landscape remains one of the Army's most impressive achievements in landscape architecture. Today, the Presidio's historic forest shelters an ecosystem that is completely different from that which once thrived when the Presidio was largely dunes. Years of human habitation and the introduction of exotic species threaten the fragile native habitats that once thrived at the Presidio, yet the beauty and character of the Presidio's designed landscapes are significant features of this historic landmark. We are preserving the Presidio's history, the structures, designs, and traces of the people who lived here and shaped this place, and we are also restoring many of its natural attributes, those plants and wildlife that have become rare but once flourished here, because the dynamic between the two is also part of the history of this place, as well as an important part of our larger history.

An extraordinary example of the successful confluence of historic and natural values is the restoration of the Inspiration Point viewshed, which the Trust completed this past year. The project restored a spectacular, historic view of San Francisco Bay, as



well as 2.5 acres of serpentine grassland, remnants of what was once an expansive prairie on the east side of the Presidio.

Projects to revitalize and protect the Presidio's grand historic forest are also illustrative of the extraordinary challenge and opportunity here at the Presidio to correlate historic and natural values. For example, more than 40 percent of the Presidio's forest is blue gum eucalyptus, a tree that is not native to California. We are testing ways to establish a diverse native understory in the eucalyptus forest. More than 8,000 native plants of 22 different species have been planted underneath the non-native trees that contribute so much to the Presidio's park-like character. This year, we are also initiating a pilot project that will test the suitability of native California live oak for reforestation.

Over time, we hope to increase the Presidio's natural areas from ten percent of the park to approximately 26 percent. Current natural restoration projects include renewing Mountain Lake, the Presidio's only lake and the site of Juan Bautista de Anza's 1776 encampment; enhancing and expanding dune habitats throughout the park; protecting the threatened California quail; revegetating the Presidio's serpentine bluffs; and initiating the restoration of Tennessee Hollow, a rare, 275-acre riparian watershed where the Tennessee Volunteers camped during the Spanish American War in 1898.

The Presidio is a singular place, not simply because of its long military history and its range of historic structures and landscapes, nor because of its spectacular diversity of natural landscapes and ecosystems. The Presidio is unique and important because its transformation from post to park can teach us lessons about reconciling the preservation of natural and cultural values with human use, one of the great planning challenges that we, as a society, face today.

**Craig Middleton**  
*Executive Director*

The Presidio is rich in both natural beauty and history. The magnificent lands at the Golden Gate first supported the Ohlone Indians, and later explorers, immigrants, and pioneers from around the world. Its strategic location overlooking bay and ocean attracted the military of three nations, beginning with the Spanish in 1776. Subsequently, Mexico and the United States had military posts at the Presidio, making it one of the oldest continuously operating military posts in the nation. From the Civil War through the Cold War, the Presidio was used as a training site and a point of debarkation to foreign theaters of combat. It was the site of Crissy Airfield, and the Letterman Army Medical Center and research complex.

When the Sixth U.S. Army departed in 1994, the Presidio became part of the 76,000-acre Golden Gate National Recreation Area. The Presidio was designated a National Historic Landmark in 1962. Today, the Presidio is considered the largest historic preservation project in the nation. The Presidio currently attracts more than four million visitors each year, and is home to 900 households and 175 organizations. Part of the International Network of Biosphere Reserves, the Presidio is also a refuge for many wildlife and plant species.

**c. 700**

The Ohlone Indians were the first known users of the lands at the Golden Gate.

**1776**

The Spanish established a military and civilian "presidio" (the Spanish word for "walled fortification") on the site.

**1821**

After the Mexican Revolution, Mexico takes possession of the Presidio.

**1846**

War erupts between Mexico and the United States. American forces seize control of the Presidio.

**1861**

The Civil War establishes the Presidio as a strategic U.S. military post.

**1941**

The Presidio serves as a major training center for U.S. troops headed for World War II's Pacific Theater.

**1962**

The Presidio is designated a National Historic Landmark District.

**1972**

Federal legislation determines that the Presidio will become part of the Golden Gate National Recreational Area should it become excess to the needs of the military.

**1989**

The Base Realignment and Closure Commission designates the Presidio for closure.

**1994**

The Sixth U.S. Army departs the Presidio. The National Park Service assumes management of the area.

**1996**

Federal legislation creates the Presidio Trust.

**1998**

The Presidio Trust assumes management of non-coastal areas of the Presidio (80% of the park).

**2002**

The Presidio Trust Management Plan is adopted by unanimous vote of the Trust Board of Directors.

The Trust completed deconstruction of the former Letterman Army Medical Hospital in preparation for construction of the new Letterman

Digital Arts Center. The historic view at Inspiration Point was restored, and thousands of native plants were planted at the site.

Remediation work on two landfills left by the U.S. Army was begun, and will be completed in early 2003.

**2013**

The Presidio must achieve financial self-sufficiency by this deadline, as mandated by Congress.



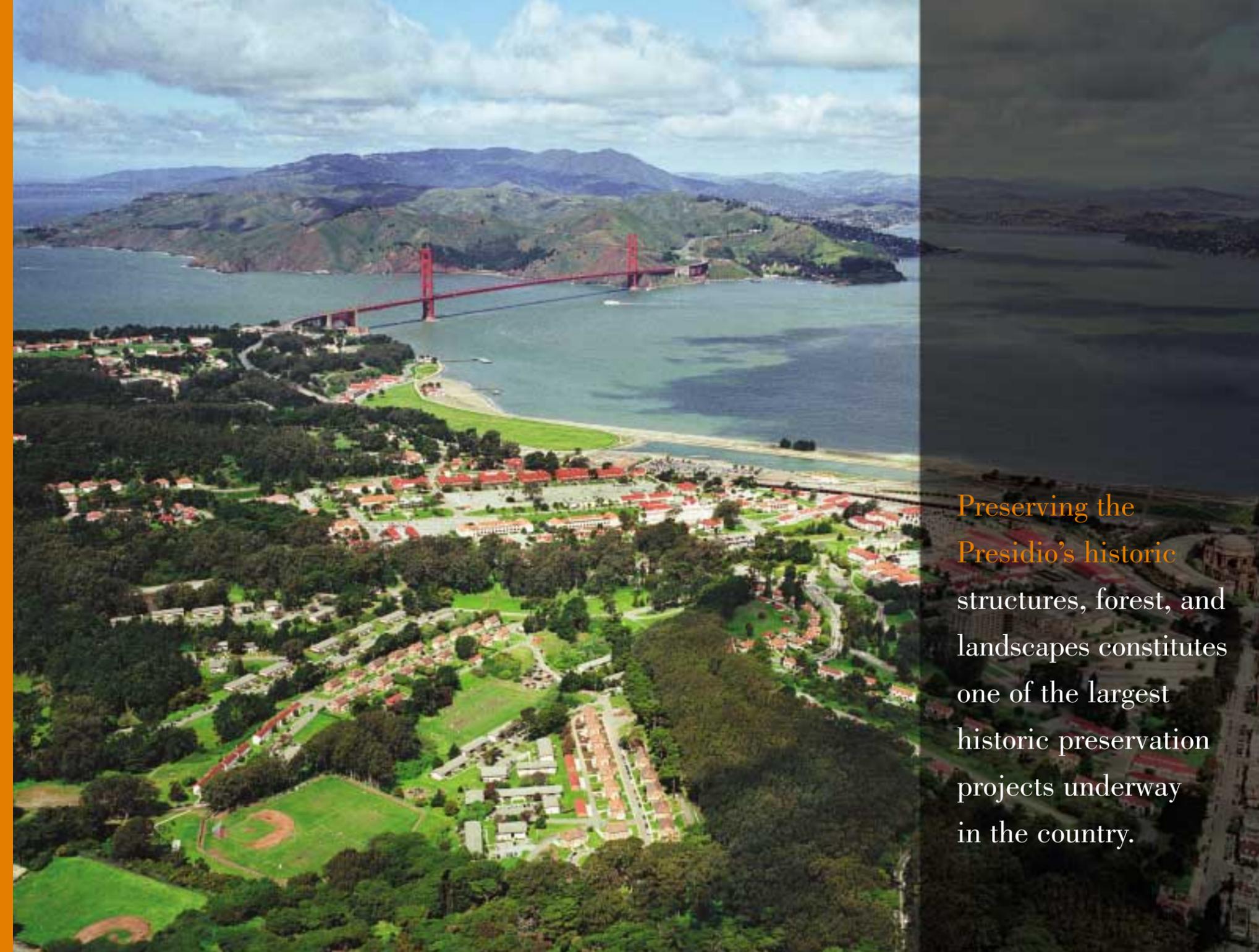
The Presidio Trust manages the interior 80 percent of the park lands (Area B), and the National Park Service maintains jurisdiction over the coastal areas of the park (Area A).



# The Presidio Trust

The Presidio Trust is a federal corporation and executive agency created by Congress in 1996. The Presidio Trust manages the interior 80 percent of the park lands (Area B), and the National Park Service maintains jurisdiction over the coastal areas of the park (Area A). The Trust must preserve and enhance the Presidio and also become financially self-sufficient by the year 2013.

Six presidential appointees and a designee of the Secretary of the Interior serve on the Presidio Trust's Board of Directors. An executive director reports to the board, and oversees a professional staff whose expertise includes environmental science and preservation, historic preservation and restoration, operations and maintenance, planning and resource management, real estate development and leasing, public affairs and programs, law, and finance.



Preserving the Presidio's historic structures, forest, and landscapes constitutes one of the largest historic preservation projects underway in the country.



For decades, Inspiration Point was a place for Presidio visitors and residents to enjoy private reflections or share a quiet moment in a setting of incredible natural beauty. The restoration of the historic vista has allowed a return to these traditions. At most hours of the day and into the evening, you will find people taking advantage of this truly inspiring location.

#### Restoring Natural Beauty

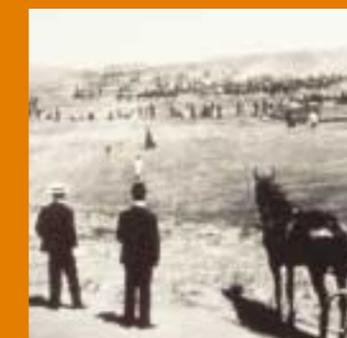
The Presidio's unique blend of history and nature adds complexity to restoration efforts throughout the park. Inspiration Point is an excellent example of this challenge. For decades, this vista point offered an expansive view across the Post to the Bay, the Marin Headlands, and Angel and Alcatraz Islands. During the more recent past, the view had been obscured by the ingrowth of trees from the surrounding forest.

In 2002, the effort to restore the historic view from Inspiration Point was completed. Approximately 17 trees were removed from below the point's terrace, and work began to revegetate the area with more than 10,000 native grasses and plants, including the endangered Presidio clarkia and the threatened Marin dwarf flax. The tiny plants, still being monitored and nurtured in their new setting, were grown at the Presidio Native Plant Nursery from seeds gathered in the park. Thanks to a partnership among the National Park Service, The Golden Gate National Parks Conservancy, and the Trust, Inspiration Point is one of the most spectacular overlooks in Northern California.

#### Open Space Enhancement: Three-Agency Agreement

In order to assure progress in natural restoration across the Presidio, a tri-party agreement has been shaped among the National Park Service, the Golden Gate National Parks Conservancy, and the Trust to work with the community to preserve and enhance the Presidio's natural heritage. This caretaking directive covers a broad range of undertakings from observing songbird species to testing water quality at Lobos Creek. These three agencies collaborate on year-round weekly volunteer stewardship programs with the Presidio Park Stewards, educational outreach to San Francisco schools, and planning projects such as the Crissy Marsh expansion study.

An extremely successful example of this collaboration, the Presidio Nursery, is managed through the Parks Conservancy's renowned native plant nursery program and substantially supported with funding from the Presidio Trust. The Presidio Nursery's popular volunteer programs invite the local community and school groups into the Presidio for a guided experience in natural restoration. Volunteers work with the Parks Conservancy to collect seeds throughout the Presidio and propagate the park's native plants. The Presidio's collaborative natural resources program is cultivating a spirit of partnership among agencies, non-profit organizations, academic and scientific institutions, and the public.





President Roosevelt reviews troops on the Presidio Golf Course in 1903.

**The Presidio Golf Course: Environmental Leadership**

The Presidio Golf Course, established in 1895, is a contributing factor to the Presidio's National Historic Landmark District, and comprises one of the park's great landscapes. It has also been the site of ongoing accomplishments in developing and promoting the use of sustainable practices. Trust sustainability and integrated pest management (IPM) experts worked in partnership with golf course management to drastically reduce use of chemical pesticides that wash from the soil into the park's creeks and storm drains, and into nearby Mountain Lake. This was done using painstaking daily monitoring and natural maintenance techniques, including use of compost and compost tea made of the Presidio's green waste. The Presidio Golf Course has been an industry leader in the use of compost tea as an alternative to fungicides.

The golf course received an Environmental Leader in Golf Award from the Golf Course Superintendents' Association. "Delicate greens and fairways can be devastated by pests, fungus, and other diseases that kill the turf and make the course less playable," said Christa Conforti, IPM manager for the Trust. "This course uses 95 percent less pesticide than other comparable courses in the Bay Area. In addition, we have completely eliminated the use of those pesticides that have a high potential impact on wildlife and water resources. The Presidio Golf Course has become a model for the golf industry."

Sustainable practices at the Presidio go beyond the Golf Course. Soils throughout the park, especially in areas being restored and replanted, often require improvement. The Presidio Trust produces its own high quality soil amendments from its composted waste. The compost, as well as compost tea used to reduce pest infestation naturally, are also used for ball fields, landscaping, the historic forest, natural areas, and the Presidio Nursery. The program produces thousands of cubic yards of compost, and makes about 13,000 gallons of compost tea each year.

At the Presidio Golf Course, Trust sustainability and integrated pest management (IPM) experts worked in partnership with golf course management to drastically reduce use of chemical pesticides that wash from the soil into the park's creeks and storm drains, and into nearby Mountain Lake.



**The Ruger Street Barracks**

In the 19th century, the area of the Presidio known as the East Cantonment was an encampment of tents located near what is today the Lombard Gate. The tent housing was temporary home to troops sent to the Presidio for training prior to being shipped out. At the turn of the century, the Army replaced the tents with more than 20 permanent and nearly identical barracks.

Over the decades, all but four of these barracks were destroyed due both to changes in Presidio land use over time and to the Army's policy that required the removal of one structure on the post before a new structure could be built. The remaining four historic Ruger Street barracks, Buildings 563, 567, 569, and 572, have been used for many purposes over the years, and their interior spaces were regularly modified.

Now these old barracks have been given new uses and a new life. All but one, building 563, have undergone substantial rehabilitation. Non-historic interior walls and counters were removed, and the original bead board walls and wooden double-hung sash windows were in many cases revealed and restored. Their original floor plans have been revealed in creative ways, such as the use of glass walls, in the process of updating the barracks for their new uses. Plants from the Golden Gate Park Plant Nursery (also the source for the plants originally put in place by Major Jones in the late 19th century) now embellish the sites.

The three restored buildings now house two businesses, a non-profit foundation, and a yoga and Pilates studio. Building 563 is scheduled for rehabilitation in 2003, and is expected to become a restaurant.

According to the Ruger Street project manager Cynthia East Skovlin; "These historic buildings are ready to begin their next century of service."

The former barracks building at 569 Ruger Street now houses "A Body of Work," a relaxation and exercise studio.



Building 569 circa 1930



Building 569 after its rehabilitation

Through a public-private partnership, this historic home (built in circa 1910), was rehabilitated to reflect both historic charm and modern comfort.



## PRESERVATION

### New Life for Historic Buildings

When the U.S. Army departed the Presidio in 1994, all buildings on the Post were closed, including its 469 historic structures that contribute to the Presidio's status as a National Historic Landmark District. Many of these buildings had been abandoned for as long as 20 years when the Trust assumed jurisdiction, and all were deteriorating as a result of climate and deferred maintenance.

Since that time, the Trust has been rehabilitating historic residential and non-residential structures throughout the park. In just four years, Trust employees have completed the rehabilitation of more than 140 historic buildings. According to the National Trust for Historic Preservation, preserving the Presidio's historic structures constitutes one of the largest historic preservation projects underway in the country. Informed and sensitive stewardship is a high priority of the Trust.

Restoring these buildings, some of which date from the Civil War period, poses substantial challenges. In addition to utility and seismic upgrades and code compliance, the rehabilitation work itself must adhere to the Secretary of the Interior's Standards for Rehabilitation of Historic Properties. "The work done to rehabilitate the

Presidio's historic buildings must not change their historic character," said Cherilyn Widell, preservation compliance officer. "We need to restore the functionality of these buildings, while assuring that original materials and designs are retained wherever possible."

The Trust is also committed to the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) Guidelines, and has developed its own Green Building Rehabilitation Guidelines for Historic Buildings. The Guidelines call for recycling large amounts of materials used in rehabilitation, and for using sustainably harvested and low-toxicity products when new materials are needed.

Such specific historic preservation work requires skilled craftspeople, since improper treatments can accelerate the decay of historic building components. Training construction and maintenance personnel in proper techniques and procedures became a critical issue for the Trust.

The Trust formed a partnership with the College of the Redwoods, located in Eureka, California, to establish on-site training in preservation construction technology at the Presidio. To date, 100 Trust and National Park Service employees have completed the training. The

course curriculum is based on compliance with the Secretary's Standards, and on the College of the Redwoods' Construction Technology Program in Historic Preservation, the only program of its kind west of the Mississippi. "As a result of the program, our staff complies with both the letter and the spirit of historic preservation law because they understand the importance of what they are doing," said Widell. "They take personal ownership of the preservation and stewardship of these structures."

Part of the rehabilitation process is the ongoing effort to locate, record, evaluate, and preserve archaeological resources that shed light on the Presidio's past. Before any ground is disturbed, the Trust's archaeologists determine each project's proximity to the significant archaeological deposits



More than 3,000 visitors attended the Main Post Open House.



Visitors explored the Presidio's natural environment at Open Park Day.



More than 1,500 enthusiasts enjoyed Film in the Fog. Photographers explore the Presidio on Open Park Day



identified at the Presidio, from the earliest Ohlone inhabitants through the post's 225-year military history. Projects are designed to avoid archaeological sites as much as possible. However, if significant archaeological deposits or features are discovered, they are carefully recorded and preserved at the Presidio Archaeology Lab.

The Presidio Archaeology Lab has an active volunteer program, and hosts many school groups. The Presidio Trust and the Golden Gate National Parks Conservancy earned the 2002 Governor's Historic Preservation Award for the Archaeological Education Outreach Program. The award recognized the "Garbology" program, an innovative way of studying waste patterns by integrating aspects of archaeology, history, and ecology.

**THE PUBLIC AND THE PARK  
Main Post Open House**

The Trust hosted several innovative events designed to raise public interest in and awareness of the Presidio. The first Main Post Open House was held February 23. The event, which attracted more than 3,000 attendees, featured walking and shuttle tours through the Main Post, a "Hard Hat" tour through historic barracks, archaeological talks, panel discussions about the future of the Main Post, and children's activities. The event was conducted in partnership with the National Park Service, the National Japanese American Historical Society, Fort Point and Presidio Historical Association, Mission Dolores, U.C. Berkeley, and Stanford University, as well as tenant and community volunteers.

**Open Park Day**

Open Park Day gave visitors a chance to explore the Presidio's wild areas, and learn about its living natural history and the work ongoing to preserve its natural resources. More than 1,000 people enjoyed nature talks, hands-on restoration programs, guided bike and shuttle tours, and a volunteer recruitment fair. Many took the opportunity to look for rare wildflowers, shoot nature

photography, and identify birds of prey. The event was co-sponsored by the Presidio Trust, National Park Service, and Golden Gate National Parks Conservancy, with participation from the Bay Area Ridge Trail Council, Golden Gate Biosphere Reserve, California Academy of Sciences, Cultural Conservancy, Friends of the Urban Forest, Golden Gate Audubon Society, Gulf of the Farallones National Marine Sanctuary, Point Reyes Bird Observatory, State of the World Forum, and Urban Watershed.

**Film in the Fog**

Billed as an evening of movies, music, and history, Film in the Fog was a community event designed to highlight the past and future of the historic Presidio Theatre. The theatre, first opened in 1939, was a center of entertainment for military personnel and their families stationed at the Presidio, and was the site of a war-time performance by Bob Hope in 1942. Attendees at the event had the opportunity to tour the theatre, and then to relax on the lawn near the theatre for a screening of "It Came from Beneath the Sea," a classic science fiction thriller filmed partially on the Presidio. The event was attended by more than 1,500 enthusiasts, all of whom got a preview

of the exciting potential of a revitalized Main Post complete with visitor amenities and community services. The event was presented by the Presidio Trust in partnership with the San Francisco Film Society.

**The Presidio Officers' Club: "Heart" of the Main Post**

The historic Presidio Officers' Club, once the social hub of the post, has resumed its status as one of the most popular event venues in the city of San Francisco. Never open to the public during the Presidio's years as a military post, the "O" Club is now regularly rented for weddings, meetings, and social gatherings. Many other buildings in the Presidio, including the Log Cabin and the Glass Palace (Building 924) are also popular sites for public gatherings, and serve to introduce a new audience to the facilities available at the Presidio.

The Officers' Club also features an exhibition hall. In 2002, several cultural exhibitions were held here, including a showing of wood block prints from the Meiji era of Japanese history, and an exhibit of Mexican art sponsored by the Consulate of Mexico.

**A LIVING CLASSROOM**

Educational outreach enables educators to use the Presidio's resources to teach lessons about history, nature, conservation, and sustainability.

**Smithsonian Teachers' Night at the Presidio**

On May 17, the Presidio Trust welcomed more than 150 Bay Area teachers to the Officers' Club for Smithsonian Teachers' Night, an event that showcases the valuable role that cultural institutions and parks can play in supporting teachers and enhancing learning. Participants visited sites including the Presidio Archaeology Lab, the Farallones Marine Sanctuary Association, and the Native Plant Nursery. Guest of honor Dr. Herma Hightower, director of national programs for the Smithsonian Institution, gave a brief address to the educators.

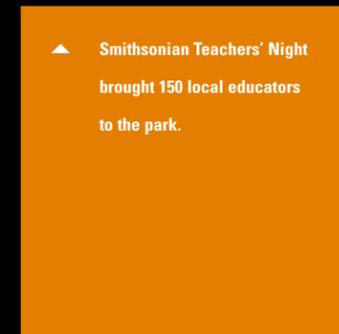
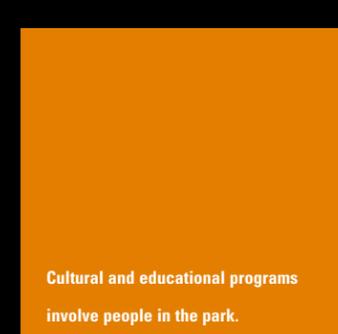
**Meridian Interns Work and Learn at the Presidio**

The Meridian Intern Program, sponsored by the non-profit Society for Art Publications of the Americas, offers a unique combination of artistic and professional training experiences to inner-city youngsters from across the Bay Area. In 2002, the 15 interns left the city and came to the Presidio three days each week to expand their

understanding of ecosystems, plant growth, and habitat restoration. They worked on natural restoration projects, drew artistic renderings of Presidio scenes, and learned about natural processes.

**Kids In Gardens**

A two-day workshop for K-12 teachers from the San Francisco Bay Area was held in fall 2002 at the Presidio. The workshop presented information about gardening practices that reduce pesticide use and conserve water. Participants learned about related activities that could be undertaken with their students. The workshop was presented by the Aquatic Outreach Institute and co-sponsored by the Presidio Trust, National Park Service, and the Golden Gate National Parks Conservancy.



**IMPROVING THE ENVIRONMENT**

**Presidio Environmental Cleanup Continues**

The Presidio Trust, which had assumed responsibility for the environmental remediation of the Presidio under a one-of-a-kind agreement with the U.S. Army and the National Park Service, continued its efforts to establish the high environmental standards appropriate to a national park setting. This past year, 700 tons of contaminated soil from the former Crissy Field Skeet Range were removed from the bay shore and 25 underground petroleum storage tanks were removed from the park.

A Lead-Based Paint Plan, which defines the remedy and technical components of this part of the park's overall remediation, was also completed. The remediation staff cleaned up the soil at 13 buildings where there was lead paint contamination, and sampled 189 other buildings to determine if lead paint levels in the surrounding soil exceeded allowable limits. In addition to these accomplishments, the remediation staff performed comprehensive quarterly monitoring of groundwater to check for changes in water quality, and prepared for remediation and revegetation of two large Army landfills.

The Trust has also maintained its aggressive transportation, recycling, water conservation, and sustainable technology programs. Notable accomplishments in 2002 include the addition of an electric vehicle carshare program, completion of planning and environmental review for an on-site water recycling plant, and the recycling of approximately 250 tons of bottles, cans, paper and cardboard. The Trust's Compost and Regeneration Program diverted 3,500 cubic yards of organic waste from landfills and transformed them into valuable compost.

**The Presidio Forest**

The Presidio's 300-acre forest, planted beginning in 1886 as part of an Army plan to shield the Presidio from the relentless wind and separate it from the surrounding city, is nearing the end of its natural lifespan. A major reforestation effort is now required to preserve this treasured resource. The phased replanting program will require approximately 50 to 60 years to complete.

Several small replanting projects have already begun, and with great success. For example, a storm-damaged historic stand of trees at the Presidio's Arguello Gate has been reforested with 73 Monterey cypress trees. The young trees are

being supported by nourishing compost, and a drip irrigation system that will remain in place until they are established.

The Trust has undertaken several studies to determine how best to optimize the forest's long-term health. The agency completed the majority of its Historic Forest Character Study in collaboration with a number of historic landscape preservation and forestry groups including the National Park Service Olmsted Center, Penn State's Center for Studies in Landscape History, U.C. Berkeley, and others. The study will determine the significance and evolution of the forest, clarify its historic boundaries, and determine its historically significant character-defining features. This study will guide all subsequent forest management projects at the Presidio. Additional studies are testing the suitability of different tree species to the soils and climate of the Presidio.

The long-term goal of the Presidio Reforestation Project is to create an uneven-aged forest that will maintain the historic character of the original forest, and be able to sustain itself in the Presidio's wet and windy environment long into the future.



The buildings of the Letterman Digital Arts Center will be built around a large public park area.

**Funding Park Preservation**

A ground lease was signed by Letterman Digital Arts Ltd. and the Presidio Trust for the 23-acre site of the former Letterman Hospital and Research Center. The lease has a term in excess of 50 years. The former hospital and adjacent research buildings were deconstructed by the Trust and much of the material has been recycled in the new building.

A groundbreaking ceremony held in February 2003 marked the official commencement of construction on the new digital arts center. Attending the ceremony were Congresswoman Nancy Pelosi, San Francisco Mayor Willie Brown, filmmaker George Lucas, and Toby Rosenblatt, chairman of the Presidio Trust Board of Directors.

The Letterman Digital Arts Center will be completed by 2005, and will revitalize the principal entry to the Presidio at the Lombard Gate. It will also bring in \$5.8 million in annual revenue to support the park. The new center has been designed to complement the character and architecture of this National Historic Landmark District.



Top: San Francisco Mayor Willie Brown, George Lucas, U.S. Representative Nancy Pelosi, and Trust Board Chairman Toby Rosenblatt participate in the ceremonial groundbreaking for the Letterman Digital Arts Center.

Above: George Lucas, Toby Rosenblatt, and Digital Arts Center architect Lawrence Halperin enjoy the festivities.

**AWARDS AND HONORS****2002 Federal Energy and Water Management Award**

The Trust received the 2002 Federal Energy Management Award from the Department of Energy for various projects that reduced energy demand at the Presidio by 20 percent during the past energy crisis. Some of the related projects include:

*The Summer Initiative Project* – The California Public Utilities Commission provided funding to assist with Presidio energy efficiency projects that were completed in 2002. Through the program, more than 7,750 compact fluorescent lights were installed in residential units, 150 exit signs were replaced with LED models, 3,500 T-12 ballasts were replaced with energy efficient T-8 ballasts, and more than 200 occupancy sensor lighting controls were installed.

*Conservation* – Widespread conservation campaigns have encouraged tenants and park visitors to reduce their electricity use at the Presidio.

*Pilot Photovoltaic Project* – A solar panel was mounted in a non-historic area of the park to help study the feasibility of utilizing solar power at the

Presidio. This renewable energy offsets the associated building electrical load by about 20 percent.

**U.S. Environmental Protection Agency (EPA) WasteWise Program Champion**

The Presidio Trust has also been honored by the U.S. Environmental Protection Agency with a 2002 WasteWise Program Champion Award. The award recognizes the Trust's comprehensive waste reduction and recycling program, which includes a unique youth training partnership for recycling, outreach and education, and in-house salvage, compost and regeneration programs.

According to the EPA, by reducing waste by 250 tons per year and by recycling over 2 million pounds of discards, the Trust saved almost 200 metric tons of carbon equivalent last year alone (the emission equivalent of driving 150 cars about 11,000 miles each per year).

**Special Designation**

The Presidio has been recognized by the National Park Service as one of 20 Centers of Environmental Innovation (CEIs) within the National Park System. These CEIs are parks that provide guidance to the federal government on environmental issues, and promote sustainability practice with the visitors who enjoy their parks.



Solar panels help power Presidio Building 1750.



# Financial Statements

Years Ended September 30, 2002 and 2001, with Report of Independent Auditors



# Financial Statements

*Years ended September 30, 2002 and 2001*

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## Management's Discussion and Analysis

### OVERVIEW

The Presidio Trust (the Trust) is the federal entity created by Congress to be the guardian of the natural, scenic, recreational, and cultural resources of the Presidio of San Francisco in partnership with the National Park Service (NPS). The Trust is managing the Presidio's transformation from a post of the U.S. Army to a first-of-its-kind sustainable national park serving both a vibrant internal community and millions of visitors.

The Trust is rehabilitating the historic structures that distinguish the Presidio as a National Historic Landmark District, and enhancing the extraordinary natural environment that led Congress to include the Presidio in the Golden Gate National Recreation Area in 1972. As mandated by law, the Trust is on a path to achieve financial self-sufficiency by Fiscal Year 2013.

The Trust is directed by the Presidio Trust Act to operate in accordance with general objectives of the 1994 General Management Plan Amendment for the Presidio and the Government Corporation Control Act. As an independent federal entity, the Trust has a direct relationship with the Office of Management and Budget, and is required to submit annual reports to Congress.

In July 1998, the Trust submitted to Congress its Financial Management Program (the Program). The Program outlines how the Trust will reduce its reliance on appropriated funds and achieve financial self-sufficiency. The Program calls for declining appropriations levels each successive year, and no appropriations in Fiscal Year 2013 and beyond.

Presidio operations are currently financed through a direct appropriation, initiated in Fiscal Year 1999, which will decrease in each of the next 10 years; borrowings from the U.S. Treasury for the renovation of properties; reimbursable agreements with other government agencies; and rental leases for both residential and nonresidential property. Additionally, the Presidio Trust manages service-related entities, including water treatment, electrical distribution and telecommunications for the Presidio.

## MISSION, ORGANIZATIONAL STRUCTURE AND GOALS

### Mission

The mission of the Trust is to preserve and enhance the Presidio as a National Park and National Historic Landmark District in an urban area. In order to ensure its continued preservation as a National Park, Congress has mandated that the Trust achieve financial self-sufficiency by Fiscal Year 2013.

To achieve its mission, the Trust is creating at the Presidio a model of sustainability – an innovative approach to park management that ensures consideration of long-term environmental, community and economic effects in all Trust decision making.

In a step unusual for a government agency, the Trust developed in 1998 a 30-year financial model for the Presidio that provides a blueprint for achieving financial self-sufficiency by Fiscal Year 2013. The model formed the basis for the Program, which was presented to Congress on July 8, 1998. The Program provides for an annual decline in direct appropriations from Congress resulting in zero appropriations in Fiscal Year 2013, and details the level of capital investment needed prior to that break-even year in order to achieve sufficient annual cash flow to operate and maintain the park indefinitely.

Recognizing that many circumstances have changed since the National Park Service published its 1994 General Management Plan Amendment (GMPA) for the Presidio, the Trust has undertaken a plan update, called the *Presidio Trust Management Plan* which was completed in the spring of 2002. The updated plan sets a general framework for the future of the park, and will provide parameters for future actions. All planning efforts at the Presidio include a major outreach to the general public and incorporate thousands of public comments.

### Organizational Structure

The Presidio Trust was established as a wholly-owned government corporation of the federal government. Authority is vested in a seven-member board of directors. The President of the United States appoints six members of the board. The Secretary of the Interior or his designee also serves on the board. The Trust's staff is directed by an executive director, and is organized into six divisions, each managed by a deputy director, the chief financial officer, or the general counsel, who report to the executive director.

In establishing the Presidio Trust as a wholly-owned government corporation, Congress created an organization that could operate in the marketplace, make real-time decisions, and reinvest revenues into the park in order to generate sufficient cash flow to eventually operate the park without federal appropriations.

The Trust Act (Public Law 104-333) provided significant operational latitude in staffing, contracting, leasing, and the retention of revenues. The Trust manages park operations and leasing functions through a combination of direct staffing and contracting.

### Goals

#### *Preserving and Enhancing the Presidio as a National Park Site in an Urban Area*

The Trust was designed specifically to manage the Presidio, a unique national park site, in a manner that protects its scenic beauty, natural and historic resources, and recreational attributes for future generations. The Trust, a federal executive agency, must also become financially self-sustaining by Fiscal Year 2013. These goals reinforce each other. By creating a park that is sustainable – environmentally, culturally, and financially – the Trust will be better able to ensure the Presidio's long-term viability and protection as part of the national park system.

### *Achieving Financial Self-Sufficiency*

The Trust Act requires the Trust to reduce its reliance on federally appropriated dollars each year. Beginning in Fiscal Year 2013, the Trust will no longer be authorized to receive federal appropriations. In 1998, the Trust submitted a schedule of annually declining appropriations resulting ultimately in financial self-sufficiency.

Unlike most other federal agencies, the Presidio Trust is authorized to retain revenues that it receives and use them to defray costs associated with park operations, capital improvements and reserves for future capital needs.

In order to develop a sustained stream of revenue to support the park, the Trust is aggressively leasing the Presidio's historic and nonhistoric buildings. Essential capital improvements to these buildings are funded either directly by Trust funds and borrowing, or indirectly through the use of third-party capital investment secured by long-term leases.

In Fiscal Year 2002, the Trust generated \$30.7 million in leasing revenues. This represents an increase over Fiscal Year 2001 leasing revenues, despite a dramatic downturn in the local leasing market.

During Fiscal Year 2002, the Trust completed the deconstruction of the outdated 900,000 square-foot Letterman Hospital and research facility. With site preparation complete by the end of the fiscal year, the site was made available in early Fiscal Year 2003 to Letterman Digital Arts and construction of the privately-funded project has begun. Funded by Lucasfilm Ltd., the new facility will provide park visitors with a host of park improvements, including a new seven-acre park area, cafes, and walking paths. By Fiscal Year 2013, when the Trust is expected to achieve financial self-sufficiency, the Letterman project will provide the Trust with approximately 12%-14% of the annual revenue needed to sustain the Presidio.

In order to achieve financial self-sufficiency by Fiscal Year 2013, the Trust must invest heavily in building rehabilitation and

infrastructure improvements during the early years, when federal appropriations are available to support the park's operating costs. In Fiscal Year 2002, the Trust invested over \$17.8 million in capital projects, and plans an ambitious \$31 million capital program in Fiscal Year 2003. Congress has authorized a total of \$150 million in Treasury borrowing for capital investment but only \$50 million has been appropriated; however, this level of borrowing will fund only about 10% of the Presidio's ultimate capital need. It is therefore essential that Congress continue to fully fund the Trust's annual appropriations requests in order to allow earned income to be used for needed capital investment. Additional Treasury borrowing or other sources of credit would also enhance the Trust's ability to make the investments necessary for achieving sustained streams of revenue.

Recognizing its shortage of capital and its need to generate adequate future cash flow to fund both park operations and capital improvements, the Trust undertook a significant tightening of its operating budget in Fiscal Year 2002. In April 2002, the Trust reduced its work force by nearly 20% and took other measures that will result in a 15% reduction in operating expenditures during the coming fiscal year. The Trust is planning further reductions in its operating costs to take effect in Fiscal Year 2004. Approximately 85% of capital expenditures will be invested in projects necessary for revenue production in future years. In an effort to reflect the exigencies of the current marketplace, the Trust will invest primarily in residential rehabilitation and leasing projects.

## FINANCIAL RESOURCES AND RESULTS OF OPERATIONS

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 2002 and 2001. Highlights of the financial information presented in the financial statements are shown below:

#### Net Cost of Operations

The gross operating costs of \$65.74 million and \$62.75 million for Fiscal Years 2002 and 2001, respectively, are shown on the Statements of Net Cost. These costs were reduced by \$49.83 million and \$55.02 million of earned revenues to arrive at net cost of operations of \$15.91 million and \$7.73 million for Fiscal Years 2002 and 2001, respectively.

Intragovernmental revenues, however, were below those earned in Fiscal Year 2001 due to the loss of federal tenants and lower expenditures and corresponding reimbursements for environmental remediation.

Operating cost increases from Fiscal Year 2001 are attributable to higher insurance costs related to both increases in coverages, and increases in post-9/11 rates, and more depreciation expense.

#### Financial Position

The Trust's total assets were \$208.73 million and \$204.09 million at the end of Fiscal Years 2002 and 2001, respectively. Of the total assets, \$125.16 million and \$123.03 million consisted of investments in U.S. Treasury securities through the Bureau of Public Debt at the end of Fiscal Years 2002 and 2001, respectively. There was also \$148.83 million and \$153.17 million in liabilities at the end of Fiscal Years 2002 and 2001, respectively. Fiscal Years 2002 and 2001 liabilities include \$49.98 million in debt to the U.S. Treasury and advances of \$79.45 million and \$84.27 million, respectively, from the Army for environmental remediation. The Trust's net position was \$59.91 million and \$50.92 million at the end of Fiscal Years 2002 and 2001, respectively.

#### Budgetary Resources

The Trust's budgetary resources were \$187.56 million, which consisted of \$23.13 million in appropriations, \$119.35 million in unobligated funds from Fiscal Year 2001, and \$45.08 million in collections. Obligations incurred against these resources were \$77.66 million. Unobligated balances at the end of Fiscal Years 2002 and 2001 were \$109.90 million and \$95.40 million, respectively. This unobligated balance is due primarily to the advance from the Army of remediation funds and unused Treasury borrowing.

#### Financing Sources Other Than Earned Revenues

Financing sources other than earned revenues funded the Trust's net cost of operations. The Trust reported \$24.93 million of other financing sources on the Statement of Changes in Net Position. This consisted primarily of appropriations used.

#### LIMITATIONS OF THE FINANCIAL STATEMENTS

The Trust has prepared its financial statements to report its financial position and results of operations. These financial statements have been prepared from the Trust's general ledger and subsidiary reports in accordance with the formats prescribed by the Office of Management and Budget. These statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. These statements should be read with the realization that the Trust is a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without authorizing legislation.

The accuracy of the information contained in the principal financial statement and the quality of internal control rests with management.

## Report of Independent Auditors



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### Report of Independent Auditors

To the Board of Directors of  
The Presidio Trust

We have audited the accompanying balance sheets of the Presidio Trust (the Trust) as of September 30, 2002 and 2001, the related statements of net cost for the years then ended, and the related statements of changes in net position, budgetary resources and financing for the year ended September 30, 2002. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraphs, we conducted our audits in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. These standards and requirements require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

As discussed in Note 5 to the Financial Statements, because of the lack of available information from the National Park Service and the United States Army, the Trust valued buildings less than 40 years old by using appropriate construction industry indices, less an accumulated depreciation adjustment to ascertain net asset value at the date of the Trust's formation. However, improvements made to buildings over 40 years old and land



Ernst & Young LLP

improvements have been valued at zero net book value but may still have a net cost value. Under SFFAS No. 6, the Trust should have recorded these improvements at fair value. Estimating the values of these improvements would have been a process that the Trust considers to be lengthy, cost prohibitive, and which would have resulted in information that is meaningless to the users of the Trust's financial statements. In addition, The Letterman Hospital facility, which was constructed within the last 40 years, was also reflected at a net book value of zero due to limitations in valuing a hospital facility. Demolition of the Letterman Hospital facility was begun in 2001 and was completed in 2002. We were unable to satisfy ourselves as to the estimate of the carrying amount for these assets.

In our opinion, except for the effects of adjustments to the financial statements, if any, that might have been determined to be necessary had we been able to examine evidence supporting the recorded balances of certain improvements within the property, plant and equipment accounts, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of September 30, 2002 and 2001, and its net costs for the years then ended, and its changes in net position, budgetary resources, and for the year ended September 30, 2002, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of expressing an opinion on the financial statements referred to in the first paragraph. The information presented in the Overview of the Trust and the Supplemental Information of the Trust is not a required part of the Trust's financial statements, but is considered supplementary information, as applicable. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports as of or for the year ended September 30, 2002 dated January 2, 2003, on our consideration of the Trust's internal control over financial reporting and our tests of its compliance with applicable laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

January 2, 2003

## Financial Statements

### BALANCE SHEET

	SEPTEMBER 30	
	2002	2001
<b>ASSETS</b>		
Intragovernmental Assets		
Fund balance with Treasury	\$ 6,031,529	\$ 13,817,238
Trust fund investments [NOTE 2]	125,158,000	123,034,000
Interest receivable [NOTE 2]	4,851	1,872,289
Accounts receivable, net [NOTE 3]	261,270	2,338,671
Total Intragovernmental assets	131,455,650	141,062,198
Accounts receivable, net [NOTE 3]	1,738,879	2,427,229
Cash and other monetary assets [NOTE 4]	182,764	56,079
General property plant and equipment, net [NOTE 5]	74,073,562	59,081,624
Other assets	1,284,010	1,461,328
	77,279,215	63,026,260
<b>TOTAL ASSETS</b>	<b>208,734,865</b>	<b>204,088,458</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>Liabilities Covered by Budgetary Resources</b>		
Intragovernmental		
Accounts payable	4,370,541	1,442,726
Other liabilities [NOTE 6]	787,293	933,983
Advances for environmental cleanup costs [NOTE 7]	79,453,630	84,274,730
	84,611,464	86,651,439
Accounts payable and other accrued liabilities	5,201,350	7,976,281
Obligations under capital leases [NOTE 9]	2,756,653	3,294,288
Security deposits [NOTE 10]	2,581,789	2,164,029
Accrued payroll and benefits	1,499,066	1,629,401
Total liabilities covered by budgetary resources	96,650,322	101,715,438
<b>Liabilities Not Covered by Budgetary Resources</b>		
Debt [NOTE 8]	49,978,000	49,978,000
Accrued leave	1,333,367	1,404,061
Other unfunded liabilities	863,602	75,526
Commitments and Contingencies [NOTES 7 AND 15]	0	0
	52,174,969	51,457,587
<b>TOTAL LIABILITIES</b>	<b>148,825,291</b>	<b>153,173,025</b>
<b>NET POSITION</b>		
Unexpended appropriations [NOTE 12]	0	27,668
Cumulative results of operations	59,909,574	50,887,765
<b>TOTAL NET POSITION</b>	<b>59,909,574</b>	<b>50,915,433</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 208,734,865</b>	<b>\$ 204,088,458</b>

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

STATEMENT OF NET COST

	FOR THE YEAR ENDED SEPTEMBER 30	
	2002	2001
Program/Activity Costs [NOTE 13]	\$ 65,739,015	\$ 62,746,500
Less earned revenues		
Intragovernmental	13,342,285	21,107,662
With the public [NOTE 14]	36,486,754	33,912,868
	49,829,039	55,020,530
<b>NET COST OF OPERATIONS</b>	<b>\$ 15,909,976</b>	<b>\$ 7,725,970</b>

STATEMENT OF CHANGES  
IN NET POSITION

	FOR THE YEAR ENDED SEPTEMBER 30, 2002
Net cost of operations	\$ 15,909,976
Financing sources (other than exchange revenues)	
Appropriations used	23,152,668
Imputed financing	1,619,337
Financing transferred in	159,780
Total financing sources	24,931,785
Net change in cumulative results of operations	9,021,809
Decrease in unexpended appropriations	(27,668)
Change in net position	8,994,141
Net position, beginning of period	50,915,433
<b>NET POSITION, END OF PERIOD</b>	<b>\$ 59,909,574</b>

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

STATEMENT OF  
BUDGETARY RESOURCES

	FOR THE YEAR ENDED SEPTEMBER 30, 2002
<b>BUDGETARY RESOURCES</b>	
Budget authority	\$ 23,125,000
Unobligated balances – beginning of period	119,350,386
Spending authority from offsetting collections	45,079,785
<b>TOTAL BUDGETARY RESOURCES</b>	<b>187,555,171</b>
<b>STATUS OF BUDGETARY RESOURCES</b>	
Obligations incurred	77,659,235
Unobligated balances – available	109,895,936
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>187,555,171</b>
<b>OUTLAYS</b>	
Obligations incurred	77,659,235
Less: spending authority from offsetting collections and adjustments	(45,079,785)
Obligated balance, net – beginning of period	17,452,513
Less: obligated balance, net – end of period	(21,326,689)
<b>TOTAL OUTLAYS</b>	<b>\$ 28,705,274</b>

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

## STATEMENT OF FINANCING

FOR THE YEAR ENDED  
SEPTEMBER 30, 2002**RESOURCES USED TO FINANCE ACTIVITIES****Budgetary Resources**

Budgetary resources obligated for orders, delivery of goods and services to be received, or benefits to be provided to others	\$ 77,659,235
Less: offsetting collections and recoveries of prior year authority	(45,079,785)
<b>Net budgetary resources used to finance activities</b>	<b>32,579,450</b>

**Non-Budgetary Resources**

Property received from others without reimbursement	159,780
Funds received from others without reimbursement	17,644
Costs incurred by others for the entity without reimbursement	1,619,337
Net non-budgetary resources used to finance activities	1,796,761

<b>TOTAL RESOURCES USED TO FINANCE ACTIVITIES</b>	<b>34,376,211</b>
---	-------------------

**RELATIONSHIP OF TOTAL RESOURCES TO THE NET COST OF OPERATIONS**

Budgetary resources that fund expenses recognized in prior periods	4,217,797
Increase in budgetary resources obligated to order goods and services not yet received or benefits not yet provided	(777,436)
Adjustments other than collections made to compute net budgetary resources that do not affect net cost of operations	
Resources that do not affect net cost of operations	(4,718,349)
Resources that finance the acquisition of assets or liquidation of liabilities	(20,234,077)

<b>TOTAL RESOURCES PROVIDED TO FUND ITEMS NOT PART OF THE NET COST OF OPERATIONS</b>	<b>(21,512,065)</b>
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<b>RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS</b>	<b>12,864,146</b>
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**COMPONENTS NOT REQUIRING OR GENERATING RESOURCES**

Expenses or exchange revenue related to the disposition of assets or liabilities, or allocation of their costs over time	
Decrease in annual lease liabilities	32,443
Expenses related to use of assets	3,142,797
Decrease in exchange revenue receivable from the public	2,776,346
Decrease in cash held by others	126,685
Other	(292,498)
Expenses that will be financed with budgetary resources recognized in future periods	(2,739,943)

<b>TOTAL COMPONENTS NOT REQUIRING OR GENERATING RESOURCES</b>	<b>3,045,830</b>
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<b>NET COST OF OPERATIONS</b>	<b>\$ 15,909,976</b>
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The accompanying notes are an integral part of these financial statements.

## Notes to Financial Statements

September 30, 2002 and 2001

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****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 in San Francisco, California, as part of the national park system
- Achieve financial self-sufficiency by Fiscal Year 2013

From 1846 to 1994, the Presidio existed 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 1,100 acres of noncoastal areas.

The Trust is guided by the Presidio Trust Act to operate in accordance with general objectives of the 1994 General Management Plan Amendment for the Presidio and the Government Corporation Control Act. The Trust currently finances operations through appropriations, which will decrease over the next 10 years; borrowings from the U.S. Treasury for the renovation of properties; reimbursable agreements with other government agencies; and rental leases for both residential and nonresidential property. The Trust is overseen by a seven-member board of directors, including a designee from the Department of Interior (DOI) and six individuals from the private sector.

If the Trust fails to achieve self-sufficiency by Fiscal Year 2013, its net assets will be transferred to the General Services Administration for disposition.

**Basis of Presentation**

The accompanying financial statements have been prepared to report the financial position and results of operations of the Trust. The statements were prepared from the Trust's accounting records in accordance with accounting principles generally accepted in the United States (GAAP). GAAP for federal entities is the standard prescribed by the Federal Accounting Standards Advisory Board (FASAB), designated by the American Institute of Certified Public Accountants (AICPA) as the official accounting standards-setting body of the federal government.

**Basis of Accounting**

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 (SGL). Use of subaccounts allows transactions to be recorded at a more detailed level and provide relevant management information.

While the statements are on an accrual basis, transactions are recorded using both the accrual and cash basis of accounting, and a budgetary basis of accounting. Under the accrual method, expenses are recognized when resources are consumed, without regard to the payment of cash. Under the cash method and the budgetary method, expenses are recognized when cash is outlaid. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

**Balance Sheets**

The balance sheets present amounts of future economic benefits owned or managed by the Trust (assets), amounts owed (liabilities), and amounts that comprise the difference (net position). The major components are described below.

**ASSETS** include assets that the Trust holds and has the authority to use in its operations.

**LIABILITIES** represent amounts owed by the Trust as the result of transactions that have occurred. Liabilities funded by available budgetary resources include: (1) new budget authority, (2) spending authority from offsetting collections, (3) recoveries of unexpired budget authority, (4) unobligated balances of budgetary resources at the beginning of the year, and (5) permanent indefinite appropriation or borrowing authority.

Liabilities not covered by budgetary resources are incurred when funding has not yet been made available through Congressional appropriations or current earnings. The Trust recognizes such liabilities for employee annual leave earned but not yet taken.

**NET POSITION** contains the following components:

*Unexpended Appropriations* include the portion of the Trust's appropriations represented by undelivered orders and unobligated balances.

*Cumulative Results of Operations* represent the net results of operations since the inception of the Trust.

#### Statements of Net Cost

The Statements of Net Cost show the components of the net cost of the Trust's operations for the periods presented.

*Program/Activity Costs* represent the gross costs or expenses incurred by the Trust for all activities.

*Earned Revenues* or exchange revenues arise when a Government entity provides goods and services to the public or to another Government entity for a fee.

*Net Cost of Operations* is the difference between the Trust's gross costs and its related exchange revenues.

#### Statement of Changes in Net Position

The Statement of Changes in Net Position shows the net cost of operations less financing sources other than exchange revenues, and the net position at the end of each period. Major components are described below.

*Financing Sources* arise primarily from exercise of the Government's power to demand payments from the public (e.g., taxes, duties, fines and penalties). These nonexchange revenues include appropriations, transfers of assets from other Government entities, donations and imputed financing.

*Appropriations* for financial statement purposes are recognized as a financing source as expenses are incurred.

#### Statement of Budgetary Resources

The Statement of Budgetary Resources provides information about the availability of budgetary resources, as well as their status at the end of the year. Major components are described below.

*Budget Authority* represents the funds available through appropriations, direct spending authority, obligation limitations, unobligated balances at the beginning of the period or transferred in during the period, spending authority from offsetting collections, and any adjustments to budgetary authority.

*Obligations Incurred* consist of expended authority, recoveries of prior year obligations, and the change in undelivered orders.

#### Statement of Financing

The Statement of Financing is a reconciliation of the preceding statements. Accrual-based measures used in the Statements of Net Cost differ from the obligation-based measures used in the Statement of Budgetary Resources, especially in the treatment of liabilities. A liability not covered by budgetary resources may not be

recorded as a funded liability in the budgetary accounts of the Trust's general ledger, which supports the Report on Budget Execution (SF-133) and the Statement of Budgetary Resources.

Based on appropriation language, they are considered "funded" liabilities for purposes of the Balance Sheets, Statements of Net Cost and Statement of Changes in Net Position.

#### Use of Estimates in Preparing Financial Statements

Preparation of financial statements in accordance with accounting principles generally accepted in the United States and federal accounting standards 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 costs during the reporting period. Actual results may differ from those estimates.

#### Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

#### Revenue Recognition

Rental revenue is recognized using the straight-line method over the term of the lease. Any amounts deferred that are not payable until future years are included in deferred rent receivable. Deferred rent receivable totaled \$221,803 and \$113,943 in 2002 and 2001, respectively, and is included in other assets.

#### Intra-Governmental Relationships and Transactions

In the course of its operations, the Trust has relationships and enters into financial transactions with numerous federal agencies.

##### *Department of Interior (DOI)*

An interagency agreement exists between the Trust and the DOI for the DOI to provide payroll services. Additional interagency agreements between the Trust and the National Park Service cover the provision of fire and police services to the Trust.

##### *Department of the Treasury (Treasury)*

All banking activities are conducted in accordance with the directives issued by Treasury – Financial Management Service (FMS). Trust investments in non-marketable U.S. Treasury securities are traded through and held in book entry form at Treasury – Bureau of the Public Debt.

##### *Department of the Army*

The Department of the Army (Army) provided to the Trust, each year through Fiscal Year 2001, funds for the development and implementation of environmental remediation in accordance with a memorandum of agreement between the parties (see Note 7 for additional discussion).

##### *Federal Emergency Management Agency*

The Federal Emergency Management Agency (FEMA) previously leased two buildings on the Presidio. FEMA terminated its leases for two buildings on the Presidio as of June 2002, as anticipated.

**2. FUND INVESTMENTS**

The Trust is required by P.L. 104-333 to invest all excess cash in non-marketable Treasury securities issued by the Bureau of the Public Debt (BPD).

Investments as of September 30, 2002:

**INTRAGOVERNMENTAL SECURITIES**

	<i>Maturity Date</i>	<i>Interest Rate</i>	<i>Par Value</i>
Non-marketable/Market-Based	10/01/02	1.90%	\$ 91,914,000
Non-marketable/Market-Based	09/30/29	5.52%	2,978,000
Non-marketable/Market-Based	09/30/29	6.12%	30,266,000
			\$ 125,158,000

The investments with a September 30, 2029 maturity date are investments of the proceeds from Trust borrowings from the Treasury (see Note 8). The BPD invests these proceeds until the Trust needs access to the cash. The Trust was owed \$4,851 of interest on the investments as of September 30, 2002. This amount was paid in full to the Trust by the BPD on October 1, 2002.

Investments as of September 30, 2001:

**INTRAGOVERNMENTAL SECURITIES**

	<i>Maturity Date</i>	<i>Interest Rate</i>	<i>Par Value</i>
Non-marketable/Market-Based	10/01/01	3.18%	\$ 92,768,000
Non-marketable/Market-Based	09/30/29	6.12%	30,266,000
			\$ 123,034,000

The Trust was owed \$1,872,289 of interest on these investments as of September 30, 2001. The Trust received this amount on October 1, 2001.

**3. ACCOUNTS RECEIVABLE, NET**

Accounts receivable as of September 30, 2002, consist of the following:

	<i>Government</i>	<i>Non-Government</i>	<i>Total</i>
Gross accounts receivable	\$ 261,270	\$ 1,996,644	\$ 2,257,914
Less allowance for losses	–	(257,765)	(257,765)
Net accounts receivable at September 30, 2002	\$ 261,270	\$ 1,738,879	\$ 2,000,149

Receivables consist of amounts owed from rental properties, security deposits, and service district charges. The Trust implemented the following allowance for loss policy:

As a federal agency, the Trust has the full force of the United States Government to facilitate collecting past due amounts. In addition, the Trust reviews accounts over 90 days past due; the Trust identifies collectable accounts and does not record any bad debt reserve for these accounts. For the remaining receivables over 90 days old, the Trust reserves 75% of the balance.

Accounts receivable as of September 30, 2001, consisted of the following:

	<i>Government</i>	<i>Non-Government</i>	<i>Total</i>
Gross accounts receivable	\$ 2,338,671	\$ 2,639,228	\$ 4,977,899
Less allowance for losses	–	(211,999)	(211,999)
Net accounts receivable at September 30, 2001	\$ 2,338,671	\$ 2,427,229	\$ 4,765,900

**4. CASH AND OTHER MONETARY ASSETS**

The Trust does not maintain a petty cash fund or any bank accounts. The residential property management firm under contract with the Trust maintains four bank accounts at West America Bank for the purpose of depositing rental revenues and security deposits, and paying all related expenses of the property management company. Any excess revenues over \$10,000 are transferred monthly to the Trust. The combined balance in these accounts as of September 30, 2002 and 2001 was \$182,764 and \$56,079, respectively.

## 5. GENERAL PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PPE) includes fixed assets owned by the Trust as the result of purchases by the Trust and/or transfers from other governmental entities, primarily the NPS. In general, the Trust capitalizes fixed assets valued in excess of \$25,000 and with a useful life of two or more years. These assets are depreciated over their useful lives in accordance with Trust guidelines.

Specific Trust capitalization and depreciation guidelines are as follows:

<i>Classification</i>	<i>Estimated Useful Life</i>	<i>Straight Line Depreciation</i>	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Net Balance at 9/30/02</i>	<i>Net Balance at 9/30/01</i>
Land and Land Rights	N/A	\$ —	\$ —	\$ —	\$ —	\$ —
Improvements to Land	N/A	—	—	—	—	—
Construction-in-Progress	N/A	—	1,991,576	—	1,991,576	14,742,253
Buildings, Improvements and Related Renovations and Rehabilitations prior to takeover by the Trust	40 years ①					
• Over 40 years old		—	—	—	—	—
• Under 40 years old		714,095	28,563,792	15,235,937	13,327,855	14,041,950
Buildings, Improvements and Related Renovations and Rehabilitations since takeover by the Trust	40 years ①					
		633,885	48,514,778	1,333,022	47,181,756	20,028,259
Assets Under Capital Lease	②	432,004	4,036,534	509,838	3,526,696	3,792,571
Other Property, Plant and Equipment (including furnishings and equipment)	②	1,362,813	15,300,845	7,255,166	8,045,679	6,476,591
<b>TOTAL</b>		\$ 3,142,797	\$ 98,407,525	\$ 24,333,963	\$ 74,073,562	\$ 59,081,624

① Buildings, Improvements and Related Renovations and Rehabilitations: useful life of 40 years or less for improvements and renovations depending on remaining building life.

② Assets under Capital Lease, which consist primarily of telecommunication and other equipment, are amortized based on the Trust's depreciation policy. Other Property, Plant and Equipment's estimated useful life is also based on the Trust's capitalization and depreciation policy.

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

- Costs exceed \$25,000
- Not considered to be repairs and maintenance
- Extend the useful life of the building for at least 20 years

Furnishings and equipment purchased for a unit cost in excess of \$25,000 are also capitalized. Construction-in-progress may include not only direct costs, but also an assigned indirect cost component, including architectural fees and legal expenses.

Land is considered to be general PPE and, in accordance with SFFAS No. 6, is to be recorded at cost. The land comprising the Presidio was acquired as an outcome of the resolution of hostilities between the United States and the government of Mexico in the mid-19th century. As such, no cost can be affixed to the land and land rights.

At September 30, 1999, most of the Trust's PPE was transferred to the Trust from the NPS. After extensive investigation, the Trust determined that historical cost information for buildings, building improvements and land and infrastructure improvements was not available from the NPS and/or the Army. Therefore:

- Any building over 40 years old, and the cost of related renovations or rehabilitations prior to the Trust's formation, is considered fully depreciated and is reflected at a book value of zero.
- Any structure less than 40 years old (built in 1959 or later) is carried at estimated replacement cost reduced for the effects of inflation by using appropriate construction industry indices, less an accumulated depreciation adjustment, to ascertain net asset value at the date of the Trust's formation. The Letterman Hospital facility, which was constructed within the last 40 years, was reflected at a net book value of zero at the date of the Trust's formation due to the inherent limitations in the use of a replacement cost analysis for a hospital facility. The Letterman

Hospital facility was deconstructed in Fiscal Year 2002, and the site is being prepared for new construction.

- Other PPE transferred to the Trust from the NPS is capitalized at historical cost less depreciation that would have been taken over its useful life, based on the Trust's depreciation guidelines.
- Land and infrastructure improvements are reflected at a net book value of zero.

The Trust determines depreciation and amortization using straight-line methodology. For financial statement purposes, a prorated share of depreciation expense for the asset is recorded in the year of acquisition or project completion, depending on the month of acquisition.

## 6. OTHER LIABILITIES

As of September 30, 2002, other liabilities consist of accrued benefits payable in the amount of \$219,099, and FECA Liability of \$568,194. As of September 30, 2001, other liabilities consisted of accrued benefits payable in the amount of \$247,532 and FECA liability of \$686,451.

## 7. ADVANCES FOR ENVIRONMENTAL CLEANUP COSTS

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

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

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

Under a Memorandum of Agreement (Presidio MOA) among the Trust, DOI, and the Army, the Trust assumed the Army's responsibilities as lead agency for the environmental cleanup in both Area A and Area B. The Army agreed to provide \$100 million to the Trust in equal installments of \$25 million over a four-year period commencing during Fiscal Year 1999 in exchange for the Trust's assumption of such responsibilities. The Trust agreed to accept the amount of \$100 million based upon a feasibility study (Study), and estimated cost of environmental remediation prepared by its environmental consultant, including an as yet undetermined amount related specifically to the property transferred to the Trust. The Trust received \$25 million in Fiscal Year 1999 and \$25 million in Fiscal Year 2000 from the Army under the Presidio MOA. In Fiscal Year 2001, the Trust agreed to accept \$24 million as the final payment in exchange for receiving the fourth payment one year early. The third payment of \$25 million was received by December 31, 2000, and the final payment of \$24 million was received in March 2001, resulting in cumulative payments received of \$99 million. These funds, net of amounts expended for environmental remediation of \$4.821 million and \$7.104 million for the years ended September 30, 2002 and 2001, respectively, and \$7.621 million prior to Fiscal Year 2001, are recorded as Advances for Environmental Cleanup Costs on the Trust's financial statements.

Under a separate memorandum of agreement between the Trust and DOI (Area A MOA), the Trust confirmed its agreement to take over lead agency responsibility for the cleanup of Area A of the Presidio. The Area A MOA also set out specific time periods, priorities and processes for remedy selection for environmental cleanup of Area A. Cleanup includes enumerated sites where a

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

The Trust assumed the Army's responsibility as the lead cleanup agency, performs all cleanup work at enumerated sites using the Army's funds, and is the point of contact for all regulatory agencies and for the public. The Army retained responsibility to fund and to perform all environmental cleanup work of any contaminants not identified in a listing of identified sites, as well as sole responsibility for the cleanup of radioactive materials, chemical and biological warfare agents, and unexploded ordnance, if discovered at the Presidio.

The Trust must use the funds transferred from the Army to address environmental cleanup of enumerated sites. If any funds are left after cleanup of the enumerated sites, the Trust can use the excess to address other environmental conditions at or emanating from the Presidio. If cleanup costs for the enumerated sites exceed \$100 million plus any insurance proceeds (see discussion of the Trust's environmental insurance policies below) by \$10 million, the Army must seek additional appropriated funds for the enumerated sites. As of September 30, 2002, the Trust does not believe environmental remediation costs will exceed \$100 million plus insurance proceeds. The Army is excused from this requirement if the Trust's mismanagement or inefficient use of funds cause the cost overrun.

The Presidio MOA may be terminated if the Army fails to provide the agreed funds to the Trust to perform the environmental cleanup of the Presidio. If the Presidio MOA is terminated, the status of the parties reverts back to the legal rights and obligations as they existed before the Presidio MOA.

The Trust obtained two environmental insurance policies: a remediation stop loss (RSL) policy and a real estate environmental liability (REEL) policy. The RSL policy provides the Trust with insurance against cost overruns in implementing environmental remedies that have been approved by the appropriate regulatory agencies. The RSL policy has a liability limit of \$100 million. The Army and DOI are each named as additional insureds on the policy. The REEL policy provides the Trust with insurance associated with the discovery of unknown contamination. The REEL policy has a limit of \$10 million per claim and \$50 million in the aggregate. DOI is a named insured under the REEL policy.

## 8. DEBT

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 \$50 million. These borrowings are intended to finance building and infrastructure rehabilitation by the Trust. Borrowing is contingent on the Secretary of the Treasury determining that the projects to be funded from the proceeds are 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 any requested amount to evidence the obligation of the Trust to repay the Treasury the sum advanced, together with any late charges that might be incurred.

In Fiscal Year 2002, no additional debt obligations were issued. An advance request for \$9,978,000 was made at the end of Fiscal Year 2001 to the Treasury for capital improvement projects. The request form was dated September 29, 2001, and the \$9,978,000 advance was transferred to the Trust's Treasury account on September 30, 2001. In exchange, the Trust provided a promissory note for \$9,978,000 to the BPD.

As of September 30, 2002 and 2001, the principal amount of the Trust's debt is \$49,978,000. The amount of the borrowing is intended for the capital improvement project activities in, on, or in support of any Trust assets. The note includes a pledge by the Trust to the Treasury of all rents, revenues, income and proceeds arising out of the Trust's administration, operation and leasing of the Baker Beach Apartments, Building 220 and Building 36. The note requires payment of interest only, carries an interest rate of 6.122% on \$40,000,000 and 5.515% on \$9,978,000, and matures on September 30, 2029.

The BPD invested the unused portion of the account in government securities through its investment department. The interest earned was recorded in a governmental interest receipt account and was used to pay the interest owed to the Treasury.

The Trust incurred \$2,999,682 and \$2,450,308 in interest costs in Fiscal Years 2002 and 2001, respectively, all of which was included in program costs.

## 9. OBLIGATIONS UNDER CAPITAL LEASE

Future minimum payments under the Trust's capital leases are as follows:

<i>Fiscal Year</i>	
2003	\$ 1,077,385
2004	1,064,766
2005	1,011,253
2006	107,228
Total minimum lease payments	3,260,632
Less: amounts representing interest	(503,979)
Present value of minimum lease payments	\$ 2,756,653

**10. SECURITY DEPOSITS**

The residential lease management company, John Stewart Company, and the non-residential lease management company, Woodmont, collect security deposits from the residential tenants and transfer the deposits to the Trust.

**11. DIRECT LOANS AND LOAN GUARANTEE, NON-FEDERAL BORROWERS**

The Trust has authority to operate the following direct loan and/or loan guarantee programs:

- The Trust is empowered to provide direct loans to nonfederal borrowers. As of September 30, 2002, the Trust had not exercised this authority.
- The Trust is empowered to guarantee loans of nonfederal borrowers for construction and renovation. As of September 30, 2002, the Trust had not exercised this authority.

**12. UNEXPENDED APPROPRIATIONS**

	<i>September 30</i>	
	2002	2001
Appropriations	\$ —	\$ —
Undelivered orders	—	27,668
<b>TOTAL UNEXPENDED APPROPRIATIONS</b>	<b>\$ —</b>	<b>\$ 27,668</b>

There is an additional \$12,330,380 of undelivered orders related to budgetary resources other than appropriated funds.

**13. PROGRAM COSTS BY OBJECT CLASS**

	<i>September 30</i>	
	2002	2001
Personnel Services and Benefits	\$ 30,777,649	\$ 29,753,273
Contractual Services	11,745,222	13,621,353
Travel and Transportation	1,012,512	456,574
Rental, Communication, and Utilities	6,628,795	6,826,557
Printing and Reproduction	896,144	990,464
Supplies and Materials	2,537,264	2,148,887
Equipment and Fixed Assets	10,307,723	8,225,005
Finance and Insurance	1,592,909	562,329
Other	240,797	162,058
<b>TOTAL PROGRAM COSTS</b>	<b>\$ 65,739,015</b>	<b>\$ 62,746,500</b>

Certain residential lease operating expenses, aggregating approximately \$1,555,468 and \$1,340,397 in Fiscal Years 2002 and 2001, respectively, have been deducted from residential lease operating income in the Statement of Net Cost.

**14. LEASES**

**Trust as Lessor**  
*Operating Leases*

The Trust's properties are being leased under operating leases with terms ranging from month-to-month to 50 years. Rental income for the year ended September 30, 2002 was \$30.7 million. The Trust

earned \$2.2 million of service district charges (SDC) in Fiscal Year 2002. SDC includes public safety services such as police and fire, and common area maintenance. The Trust expects that these leases will be renewed or replaced by other leases in the normal course of business. In addition, the lease of the golf course is operated under a contingent rental agreement wherein the monthly rental revenue is a percent of the lessee's monthly revenue; the Trust recognizes this revenue when payment is received.

Additionally, the Trust has two other lessees that operate under contingent rental agreements wherein the monthly rent is a percent of the lessee's monthly revenue; however, the lessees remit their monthly rental payments to a separate government improvement account at a commercial bank. The rental payments are accumulated and can be used for improvements to the leased building. The Trust does not have signatory authority over the bank accounts and receives no rental payments related to these leases. All improvements funded from these accounts must be mutually approved by both the lessee and the Trust. The Trust recognizes the payments made to the government improvement account as rental revenues, and recognizes improvements as capital expenditures. The balance of the commercial accounts totals \$937,039 and \$1,214,454 in 2002 and 2001, respectively and is included in other assets. At the conclusion of the leases, the balances (if any) in the accounts will revert to the Trust. The lease terms expire in 2002 and 2006.

The Trust also provides housing free of charge or at reduced rental rates to certain employees of the Trust and other governmental agencies.

Minimum future lease payments to be received under non-cancelable operating leases with terms in excess of one year are as follows:

<i>Fiscal Year</i>	
2003	\$ 4,377,253
2004	3,328,731
2005	2,488,138
2006	2,180,105
2007	1,588,740
Thereafter	17,847,032
<b>TOTAL</b>	<b>\$ 31,809,999</b>

**15. COMMITMENTS AND CONTINGENCIES**

From time to time, the Trust is involved in legal matters, including employment-related claims. During Fiscal Year 2002, 12 former employees of the Trust filed individual claims with the Trust alleging EEO violations. Ten of these claims arose as a result of the Trust eliminating their positions in an April 2002 downsizing. In addition, one individual has filed a class EEO complaint on behalf of former African American employees. The demands in these cases include reinstatement of employment, back pay and compensatory damages ranging from \$300,000 to \$33,000,000. The claims are being administered through the Trust's EEO office. Management believes it is too early to provide an accurate assessment as to the likelihood of an unfavorable outcome.

Trust management does not expect other pending legal matters to have a material impact on its financial condition or net costs.

Supplemental Information

September 30, 2002

**INTRAGOVERNMENTAL ASSETS AND LIABILITIES**

**ASSETS**

<i>Agency</i>	<i>Investments</i>	<i>Accounts Receivable</i>	<i>Fund Balance with Treasury</i>
Department of the Treasury	\$ 125,158,000	\$ –	\$ 6,031,529
National Park Service	–	102,997	–
Other Federal agencies	–	158,273	–
<b>TOTAL</b>	<b>\$ 125,158,000</b>	<b>\$ 261,270</b>	<b>\$ 6,031,529</b>

**LIABILITIES**

<i>Agency</i>	<i>Accounts Payable</i>	<i>Other Liabilities</i>	<i>Advances for Environmental Cleanup</i>	<i>Debt</i>
Department of the Treasury	\$ –	\$ –	\$ –	\$ 49,978,000
Department of the Interior	4,186,390	–	–	–
Other	184,151	787,293	79,453,630	–
<b>TOTAL</b>	<b>\$ 4,370,541</b>	<b>\$ 787,293</b>	<b>\$ 79,453,630</b>	<b>\$ 49,978,000</b>

**DEFERRED MAINTENANCE**

The Trust determined that NPS and the Army had deferred maintenance to many of the buildings that were transferred to the Trust. Using an Inventory Condition Assessment Program document from the NPS upon receipt of the property and an assessment survey by Trust personnel, the Trust determined that there is \$1 million of deferred maintenance to buildings at the Presidio. There is no deferred maintenance identified for any other major class of asset.

Report of Independent Auditors on Internal Control



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Report of Independent Auditors on Internal Control

To the Board of Directors of  
The Presidio Trust

We have audited the financial statements of the Presidio Trust (the Trust) as of September 30, 2002 and for the year then ended, and have issued our report thereon dated January 2, 2003, which was qualified due to the Trust's valuation methodology for certain property, plant and equipment transferred to the Trust at its inception.

Except for the matter discussed in the third, fourth and fifth paragraphs of our report on the financial statements, we conducted our audits in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audits, we considered the Trust's internal control over financial reporting by obtaining an understanding of the Trust's internal control, determined whether internal control had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audits was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Trust's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to relatively low levels the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above.



Ernst & Young LLP

In reports issued by Ernst & Young LLP, one issue was raised relating to the internal control of the Trust that was classified as a material weakness in Fiscal Year 2001, and two issues relating to (1) the carrying value of certain building and land improvements and, (2) the then current EDP environment, which were classified as reportable conditions in Fiscal Year 2001. The following discusses the current status of resolutions for those matters raised. In Fiscal Year 2001, we recommended that Trust management implement an integrated software solution that would assist it to effectively identify, track and record transactions to increase the efficiency of its processes, and reduce duplicative work steps. The Trust's management purchased and installed a software solution that addresses the material weakness identified previously. In Fiscal Year 2001, we also recommended that the Trust explore alternative approaches to valuing certain building and land improvements which currently have a net book value of zero but may still have a net cost basis. Estimating the values of these improvements would be a process that Trust management and the Board of Directors consider to be lengthy, cost prohibitive, and which would result in information that is meaningless to the users of the Trust's financial statements.

Additionally, we recommended that the Trust evaluate the need for developing a formal business continuity plan detailing the necessary procedures to ensure a timely recovery of computer and general business process to minimize potential losses, as well as develop a disaster plan and begin a formal process of storing backup tapes off-site. The Trust's management developed and implemented such a formal business continuity plan that addresses the reportable condition identified previously.

\* \* \* \* \*

In addition, we considered the Trust's internal control over Required Supplementary Information by obtaining an understanding of the Trust's internal control, determined whether this internal control had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02 and not to provide assurance on internal controls or related controls, if any. Accordingly, we do not provide an opinion on such controls or related controls, if any.

A separate letter, dated January 2, 2003, was provided to the Board of Directors and management of the Trust which further discusses matters related to electronic data processing, internal control over financial reporting and other matters that came to our attention as a result of our audit.

This letter is intended solely for the information and use of the management of the Trust, its Board of Directors, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

January 2, 2003

Report of Independent Auditors on Compliance with Laws and Regulations



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Report of Independent Auditors on Compliance with Laws and Regulations

To the Board of Directors of  
The Presidio Trust

We have audited the financial statements of the Presidio Trust (the Trust) as of September 30, 2002 and for the year then ended, and have issued our report thereon dated January 2, 2003, which was qualified due to the Trust's valuation methodology for certain property, plant and equipment transferred to the Trust at its inception.

Except for the matter discussed in the third, fourth and fifth paragraphs of our report on the financial statements, we conducted our audits in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the Trust is responsible for complying with laws and regulations applicable to the Trust. As part of obtaining reasonable assurance about whether the Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. Under FFMIA, we are required to report whether the Trust's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Trust. We caution that noncompliance may occur and not be detected by the tests performed, and that such testing may not be sufficient for other purposes.

The results of our tests disclosed no instances of noncompliance with the laws and regulations discussed in the preceding paragraph that are required to be reported under *Government Auditing Standards* or OMB Bulletin 01-02.



Ernst & Young LLP

In Fiscal Year 2001, the results of our tests disclosed that the Trust's Financial Accounting System (GLOWS) failed to provide adequate reporting of financial data from each of the various activity sectors within the Trust. Therefore, the Trust did not have an integrated computerized financial accounting system. The Trust's management purchased and installed a software solution that addresses the material weakness identified previously.

\* \* \* \* \*

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audits and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of the Trust, its Board of Directors, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

January 2, 2003



**Toby Rosenblatt, Chair**

the Presidio Trust's first board chair, is president of Founders Investments, Ltd., a private investment firm. He is also director of several other business and investment companies. From 1991 to 2000, Mr. Rosenblatt served as chair of the board of trustees of the Golden Gate National Parks Conservancy, a non-profit member-supported organization which provides financial and volunteer support to the Golden Gate National Recreation Area.

From 1977 to 1988, Mr. Rosenblatt was president of the San Francisco City Planning Commission. He has also served on the boards of several civic organizations devoted to healthcare, the arts, education, and philanthropy. Mr. Rosenblatt holds a bachelor of arts degree from Yale University and an M.B.A. from Stanford University.



**Donald G. Fisher**

is chair of Gap Inc., a global retail corporation which he founded in 1969. Mr. Fisher is a member of the California State Board of Education and is a governor of the Boys & Girls Clubs of America. He serves as a member of the advisory committee of the University of California Haas School of Business, and on the board of the California Business Roundtable.

He is on the executive committees of the Boys & Girls Clubs of San Francisco, the Bay Area Council, the National Retail Federation, and the San Francisco Museum of Modern Art. Mr. Fisher is also on the board of Gap Inc., and The Charles Schwab Corporation.

Mr. Fisher holds a Bachelor of Sciences degree from the University of California at Berkeley.



**Jennifer Hernandez**

is a partner in the law firm of Beveridge & Diamond. She has taught environmental and land use law at Stanford Law School, the University of California, the California Environmental Law Institute, and numerous other institutions. She has written two books and more than 30 articles on environmental, redevelopment, and land use law issues.

Ms. Hernandez serves on the board of directors of the California League of Conservation Voters, the California Center for Land Recycling, and Sustainable Conservation. She is on the executive committee of the California Environmental Redevelopment Fund. Her pro bono activities include advocating for the restoration and redevelopment of impoverished and urban lands throughout California, and she presently serves as co-counsel with the Mexican American Legal Defense Fund in connection with these activities.



**I. Michael Heyman**

has had a distinguished four-decade career at the University of California at Berkeley. He joined the Boalt School of Law faculty in 1959, and the Department of City and Regional Planning faculty in 1966. He was the campus's chancellor from 1980 to 1990.

From 1993 to 1994, Mr. Heyman was counselor to the secretary and deputy assistant secretary for policy of the U.S. Department of the Interior. From 1994 to 1999, he served as secretary of the Smithsonian Institution. Mr. Heyman is a past or present member of various governing or advisory boards, including the Lawyers' Committee for Civil Rights Under Law and the San Francisco Museum and Historical Society.

Mr. Heyman earned a Bachelor of Arts degree from Dartmouth College and a J.D. from Yale University. He has been the Secretary of the Interior's designee on the Trust board since 2000.



**Amy Meyer**

has served as co-chair of People for a Golden Gate National Recreation Area (GGNRA) since 1971, and as vice-chair of the GGNRA Advisory Commission since the Secretary of the Interior appointed her to the post in 1974. She also served on the San Francisco Recreation and Park Commission from 1976 to 1988, and as chair of People for the Presidio from 1993 to 1997.

Ms. Meyer has been honored by numerous local and national organizations, including the Sierra Club, the San Francisco Planning and Urban Research Association (SPUR), and the National Parks Conservation Association, for her conservation activities. In 1999, San Francisco Beautiful honored her with its Lifetime Achievement Award. Ms. Meyer is a graduate of Oberlin College and holds an M.F.A. from the California College of Arts and Crafts.



**Mary G. Murphy**

vice-chair of the Presidio Trust Board of Directors, is a partner at Farella Braun + Martel. Her practice is primarily devoted to acquisition, financing, land use, and leasing. From 1993 to 1996, Ms. Murphy was vice-president of the San Francisco Board of Appeals.

Ms. Murphy is a member of the board of directors of the International Foundation for St. Catherine's College, Oxford, and a member-elect of the board of directors of the Foundation for San Francisco's Architectural Heritage.

She earned a Bachelor of Arts degree from Yale University in 1981 and an Honours Bachelor of Arts degree from Oxford University in 1983, where she was a Rhodes Scholar. She received her J.D. from Harvard University in 1986.



**William K. Reilly**

is the president and chief executive officer of Aqua International Partners. He is also chair of the World Wildlife Fund. From 1970 to 1973, Mr. Reilly served as a senior staff member of the President's Council on Environmental Quality. He later became president of The Conservation Foundation, which merged with the World Wildlife Fund in 1985.

From 1989 through 1992, Mr. Reilly was administrator of the Environmental Protection Agency.

Mr. Reilly serves on the board of directors of DuPont Corporation, Conoco-Phillips Corporation, Evergreen Holdings and Ionics Inc. He is a director of the David and Lucile Packard Foundation, the National Geographic Society, and the American Academy in Rome. He earned a Bachelor of Arts degree in history from Yale University, a J.D. from Harvard University, and a M.A. in urban planning from Columbia University.

39th Exposure  
 Access Abilities  
 ACCION International  
 Acre Café  
 Adopt-A-Watershed  
 Alexa Internet  
 All Species Foundation  
 Aloha Networks, Inc.  
 Angel Island Immigration Station Foundation  
 ARCS Foundation  
 Arion Press  
 Army and Air Force Post Exchange  
 Arnold Palmer Golf Mgmt. Co. (National Office)  
 Arnold Palmer Golf Mgmt. Co. (Golf Course)  
 Aspen Group  
 Association for Transpersonal Psychology  
 B.A.Y. Youth Fund for Education  
 Banjo and Blazing Paradigm  
 Bay Area Ridge Trail Council  
 Bay Kids  
 Richard Beggs  
 Bellingham Investment Management  
 Biodynamic Farming & Gardening Association  
 Body of Work / Hopola, Inc.  
 Kirk Boyd  
 Brannan Street Editorial  
 Brave Kids  
 Peter Callendar  
 Carlyn Hunter  
 Center for Citizen Initiatives  
 Center for Community Environmental Justice Innovation

Center for Leadership Renewal  
 Center for Real Estate Enterprise Management  
 Center for Resource Solutions (CRS)  
 Children's Partnership  
 Christopher LaFranchi and Belinda Morris  
 Commonweal  
 Concert Capital Partners  
 Concord Group  
 Constellation Fund  
 Consultative Group on Biological Diversity  
 Crissy Field Center  
 Cultural Conservancy  
 Dada  
 Defense Commissary  
 Dept. of Veterans Affairs Medical Center (S.F. National Cemetery)  
 Desiree Café  
 Destination Conservation  
 Dewey Square Group  
 Disaster Planning Committee, GGNRA  
 Discovery Mining, Inc.  
 Douglas Wright Consulting  
 Ecotrust  
 EcoWorks  
 eGrants.org  
 Energy Foundation  
 Environmental Media Services  
 Equal Access of State of the World Forum  
 Equity Community Builders  
 Erler & Kalinowski  
 Eucalyptus Associates, Inc.  
 Exploratorium

Fauna & Flora International  
 Soundwood  
 Federal Emergency Management Administration  
 Fiber Futures  
 First Home, Inc.  
 First Republic Bank  
 Fleishhacker Foundation  
 Foghorn Creative  
 Fort Mason Foundation  
 Fort Point & Presidio Historical Association  
 Fort Point National Historic Site  
 Forward Progress Consulting  
 Friends of the Urban Forest  
 Full Circle Fund  
 Golden Gate Club  
 The Grove Consultants International  
 The Guardsmen  
 Guild for Psychological Studies  
 Gulf of Farallones National Marine Sanctuary  
 Haight Ashbury Free Clinics, Inc.  
 Higher Markets, Inc.  
 Hub Strategy and Communications, Inc.  
 Husdawg  
 Infiniteinfo, Inc.  
 Institute for Study and Development of Legal Systems  
 Interfaith Center  
 International AIDS Society-USA  
 International Forum on Globalization  
 Internet Archive  
 J. M. Huber Corporation

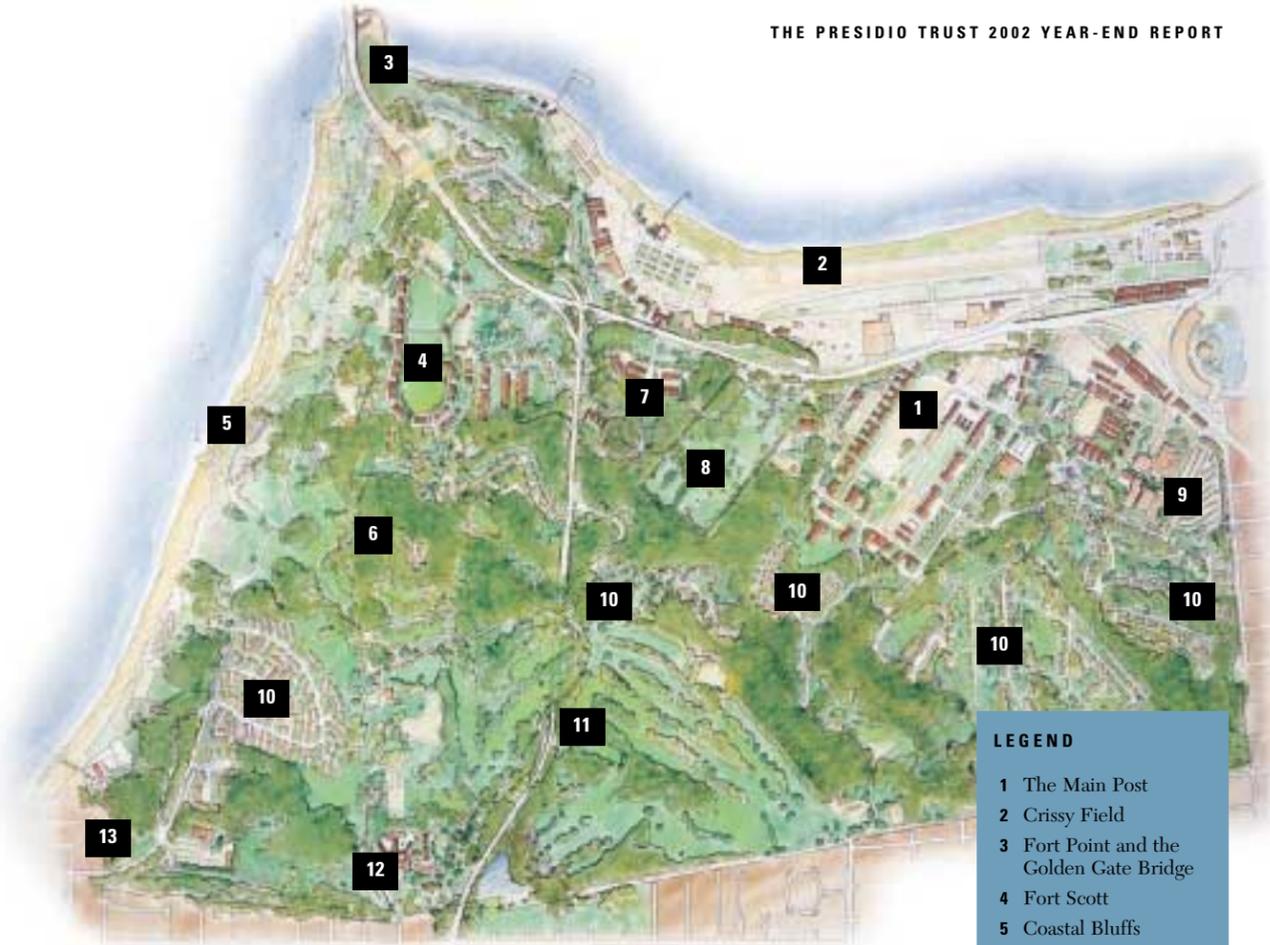
Jenifer Altman Foundation  
 Jewish Community Center  
 John Kao (aka: Ealing Studios)  
 The John Stewart Company  
 Just Think Foundation  
 Kinetico, Inc.  
 King Oscar, Inc.  
 Mark Kitchell  
 Komen Breast Cancer Foundation  
 L.S.B. Leakey Foundation  
 Lexnet  
 LoBue and Majdalany Management Group  
 Lone Mountain Children's Center  
 Long Now Foundation  
 The Lost Ladle  
 Materials for the Future  
 The McMahan Group  
 Miller Video and Film, Inc.  
 Modern Cleaners  
 Moore Foundation  
 National Conference for Community and Justice  
 National Park Service  
 National Park Service / GGNRA Headquarters  
 National Park Service Archives and Records  
 National Park Service Presidio Visitor Center  
 Neato Kino, Inc.  
 Niantic Corporation  
 Northern California Independent Booksellers Association  
 The Orphanage  
 The Pachamama Alliance

Pacific Foundation Services  
 Pacific Union Co.  
 Pedal Power  
 Playsongs, Inc.  
 Pohaku Fund  
 Presidio Bowling Center  
 Presidio Café  
 Presidio Community YMCA of San Francisco  
 Presidio Fire Department  
 Presidio Hill School  
 Presidio Internet Center Partners  
 Presidio Native Plant Nursery  
 Presidio Natural Resources Program  
 Presidio Performing Arts Foundation  
 Presidio Recycling Center  
 Presidio World College  
 Public Interest Lawyers' Group  
 Regeneration Project  
 Resource Center for the UN  
 Resourceful Women  
 Roberts Enterprise Development Fund  
 Rough House Editorial  
 Routson Films  
 San Francisco Science  
 San Francisco Conservation Corps.  
 San Francisco Film Centre  
 San Francisco Film Society  
 San Francisco Fire Dept.  
 San Francisco Maritime National Historical Park  
 San Francisco Psychotherapy Research Group  
 San Francisco Unified School

District Child Care Center  
 Shaler Adams Foundation / Caritas Fund  
 Silver Giving Foundation  
 Social Venture Network  
 St. Francis Yacht Club  
 State of the World Forum  
 Stillwater Sound  
 Swords to Plowshares  
 Thoreau Center for Sustainability  
 Threshold Foundation  
 Tides Center  
 Tides Foundation  
 Town School for Boys  
 Transnational Resource & Action Center  
 Trash Talk  
 Tweak Films  
 U.S. Park Police  
 U.S. Park Police Stable  
 U.S. Postal Service  
 United Religions Initiative  
 Urban Pioneer Experiential Academy  
 W&JP Fund  
 W. Clement and Jessie V. Stone Foundation  
 The Warming Hut  
 WaterKeepers Northern California  
 WDF Foundation  
 The Wilderness Society  
 Winton duPont Films  
 Woodmont Real Estate Services  
 Your Health / Olympic Rehabilitation, Inc.

“The Presidio Trust’s success will be measured largely by the timely rehabilitation and reuse of the Presidio’s historic buildings and landscapes, the quality and quantity of open spaces that are created or enhanced, and the extent to which the park is enjoyed by the public. Unlike parks characterized by tracts of wilderness, much of the Presidio is built and landscaped; preservation of its resources requires immediate intervention and ongoing maintenance. This intervention includes replacing trees in the aging Presidio forest, maintaining Presidio-wide utility systems, and restoring natural areas, as well as rehabilitating and maintaining the Presidio’s buildings.”

— Presidio Trust Management Plan



DESIGN: L STUDIO, SAUSALITO  
 PRINCIPAL PHOTOGRAPHY: LORENZ + AVELAR, SAN FRANCISCO  
 ADDITIONAL PHOTOGRAPHY:  
 BRENDA THARP, VINCENT VERSACE, CORBIN PAGTER,  
 ROBERT CAMPBELL, PRESIDIO TRUST

- LEGEND**
- 1 The Main Post
  - 2 Crissy Field
  - 3 Fort Point and the Golden Gate Bridge
  - 4 Fort Scott
  - 5 Coastal Bluffs
  - 6 Presidio Forest
  - 7 Cavalry Stables
  - 8 San Francisco National Military Cemetery
  - 9 Letterman Complex
  - 10 Housing Areas
  - 11 Presidio Golf Course
  - 12 Public Health Service Hospital Complex
  - 13 Lobos Creek Valley



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