HAYASHI & WAYLAND
ACCOUNTING & CONSULTING, LLP

MONTEREY PENINSULA AIRPORT DISTRICT

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2012 AND 2011

AND INDEPENDENT AUDITORS' REPORT

MONTEREY PENINSULA AIRPORT DISTRICT

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MONTEREY PENINSULA AIRPORT DISTRICT

Board of Directors

June 30, 2012

Name	Office	Term Expires
Mary Ann Leffel	Chair	December 2012
Matthew Nelson	Vice Chair	December 2014
Carl M. Miller	Director	December 2014
William J. Sabo	Director	December 2012
Richard D. Searle	Director	December 2012

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Monterey Peninsula Airport District
Monterey, California

We have audited the accompanying financial statements of the *Monterey Peninsula Airport District (the District)* as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the *Monterey Peninsula Airport District* as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2012 on our consideration of the *District's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Passenger Facility Charges Collected and Expended is presented for purposes of additional analysis, as required by the Federal Aviation Administration, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

December 12, 2012

Hayashi & Wayland

MONTEREY PENINSULA AIRPORT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) is provided by the Monterey Peninsula Airport District (District) in compliance with requirements established by the Government Accounting Standards Board, Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34). It is intended to serve as an introduction to the financial statements for the fiscal year ended June 30, 2012 (FY12). The information presented is to be read in conjunction with the financial statements, footnotes and supplementary information found in this report.

Mission Statement

The mission of the Monterey Regional Airport is to "provide the region convenient commercial and general aviation access to the national air transportation system, operate the airport in a safe, efficient, and fiscally responsible manner, and develop the airport to meet future needs."

Overview of the Monterey Peninsula Airport District

The District was created on March 22, 1941, by the passage of State Senate Bill No. 1300 that authorized an independent public airport district which would qualify for federal funds. The District's enabling act was revised effective January 1, 2007. These changes eliminated the archaic language of the original enabling act and allow the District to function more efficiently. The District is governed by five directors elected by voters at large residing in Monterey, Pacific Grove, Del Monte Forest, Pebble Beach, Carmel-by-the-Sea, greater Carmel, the west end of Carmel Valley, Del Rey Oaks, Sand City, and Seaside.

The Monterey Regional Airport (Airport), 501 acres, has two parallel, east-west runways. The primary runway, 10R/28L, is 7,600 feet long and 150 feet wide. It is used by commercial and business aircraft and is equipped for instrument landings with a Category I instrument landing system on runway 10R. The secondary runway, 10L/28R, is 3,500 feet long and 65 feet wide, used solely by general aviation aircraft.

During this fiscal year, Alaska Airlines initiated daily non-stop flights to San Diego increasing to five the number of commercial airlines serving the airport. Alaska, American Eagle, United Express and US Airways Express provided daily non-stop service to five gateway hubs: Denver, Los Angeles, Phoenix, San Diego and San Francisco. Allegiant operated non-stop service, two days per week to Las Vegas.

There is a strong general aviation presence on the airfield. Two full-service fixed-based operators (Del Monte Aviation and Monterey Jet Center) and other aviation tenants provide aircraft line services, fuel, aircraft storage, maintenance, flight instruction, and aircraft rentals.

The District is structured as an enterprise fund. District financial statements are prepared using the accrual basis of accounting; revenues are recognized when earned, and expenses are recognized when incurred. Costs are recovered through airport rents from tenants, landing and fuel fees, and other charges.

Overview of the Monterey Peninsula Airport District (Continued)

Capital improvements are funded from three sources: (1) Federal grants from the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP) derived from a 10% tax on the airline tickets, (2) Passenger Facility Charges (PFC) collected for each enplaned passenger at the point of origin and one intermediate-stop, and (3) District contributed funds. Capital assets are capitalized and depreciated, except land, over their useful lives. Please refer to the notes to the financial statements for a summary of the District's significant accounting policies.

Overview of the Financial Statements

The District's financial statements and supplemental schedules are presented after the MD&A. This information, taken collectively, is designed to provide readers with an understanding of the District's financial position.

The *Statement of Net Position* presents information on the District's assets and liabilities, with the difference between the two reported as *Net Position*. Over time, increases or decreases in total net position may serve as a useful indicator of the District's financial position.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement and certain items may result in cash flows in future fiscal periods.

The *Statement of Cash Flows* relates to the flows of cash and cash equivalents. Only transactions that affect the District's cash accounts are recorded in this statement. The reconciliation at the bottom of this statement indicates the difference between cash flows from operating activities and operating income.

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the financial statements.

Financial Highlights

- The assets of the District exceed liabilities by $48,616,984 for FY12

- In FY 12, the District completed and capitalized projects listed below:

    1. Phase 2 – Environmental – Runway Safety Area (RSA) Project ($725,385),
    2. Phase 3 – Design – Runway Safety Area (RSA) Project ($2,565,335),
    3. Phase 4 – Design & Reimbursable Agreement ($1,844,786),
    4. Terminal Carpet Replacement Project ($264,857),

Financial Highlights (Continued)

5. Rental Car Ready Return Lot Overlay Project ($208,460),
6. Southside Hangar Apron Sealcoat Project ($49,005),
7. Airport Energy Efficient Projects – Phase 3 ($53,888),
8. Part 139 Compliance Project ($46,955), and
9. Terminal Wi-Fi Hardware & Installation Project ($4,976).

- The District acquired capital assets that will be used to enhance customer service and provide critical security and public safety support:

  1. Hand-Held AVI Scanners & Software ($57,600) and
  2. NGEN Radios ($41,246).

- The District also acquired a parcel of land (3.18 acres) ($101,169).

- On June 27, the District issued a $3,077,000 taxable pension obligation bond and used the proceeds to refinance the side-accounts related to retirement plans with CalPERs.

- In the airport industry, one standard measure of a commercial airport's size is the number of annual enplanements, i.e., passengers flying from the airport on commercial airlines. Enplaned passengers during the six-year period, FY07 through FY12, are presented below in Table I.

Table I

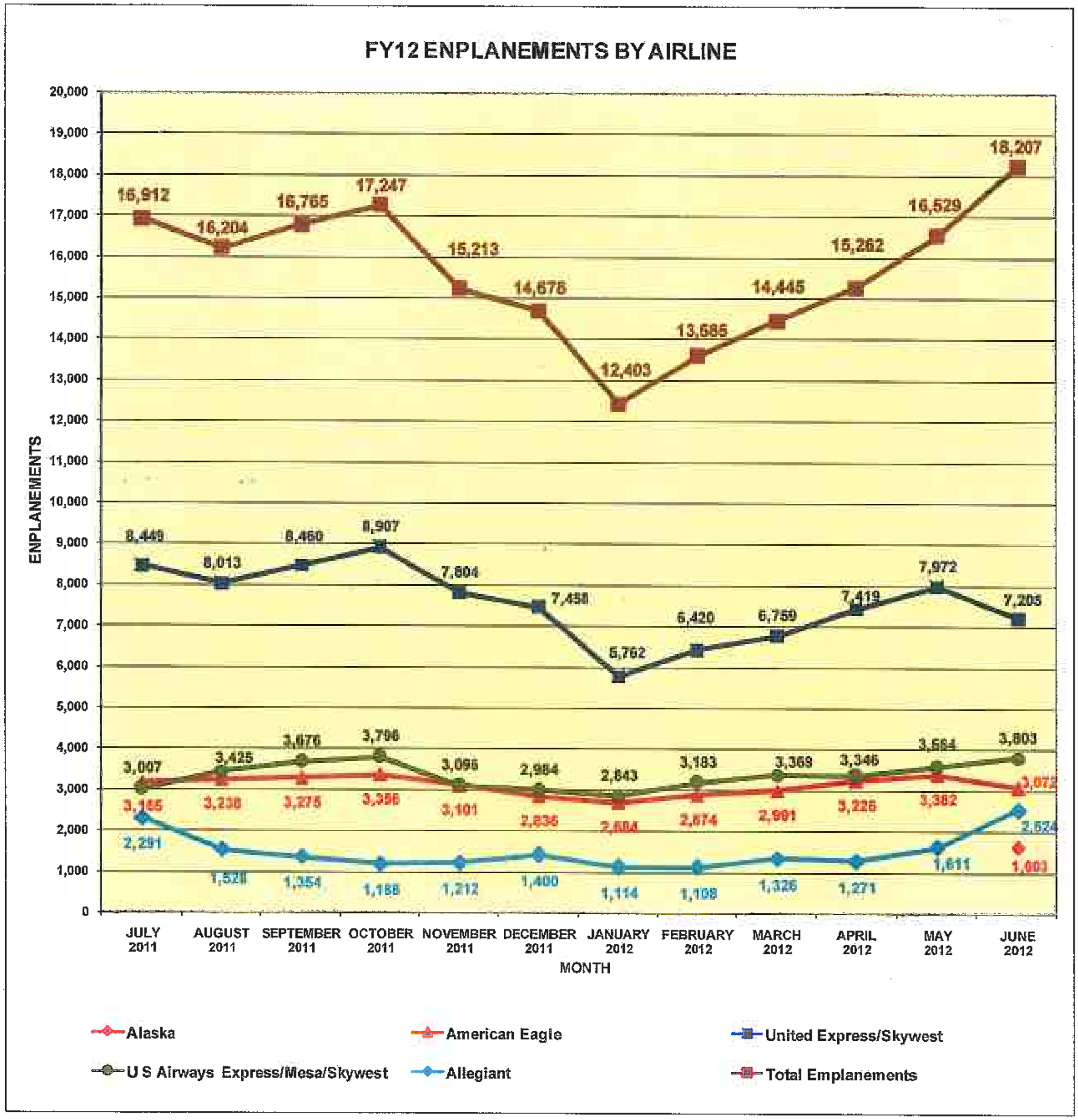
TOTAL ENPLANEMENTS: FISCAL YEARS 2007 - 2012											
FY2007		FY2008		FY2009		FY2010		FY2011		FY2012	
7/06	17,891	7/07	20,332	7/08	21,540	7/09	18,934	7/10	18,732	7/11	16,912
8/06	18,257	8/07	23,018	8/08	22,285	8/09	18,512	8/10	17,582	8/11	16,204
9/06	17,443	9/07	19,811	9/08	16,501	9/09	16,581	9/10	16,657	9/11	16,765
10/06	18,604	10/07	20,759	10/08	17,464	10/09	16,536	10/10	16,542	10/11	17,247
11/06	17,040	11/07	19,876	11/08	15,134	11/09	16,045	11/10	15,192	11/11	15,213
12/06	15,901	12/07	18,035	12/08	14,930	12/09	16,191	12/10	14,512	12/11	14,678
1/07	14,244	1/08	14,786	1/09	12,112	1/10	13,068	1/11	12,153	1/12	12,403
2/07	15,072	2/08	15,791	2/09	13,205	2/10	13,119	2/11	12,839	2/12	13,585
3/07	16,849	3/08	17,790	3/09	15,147	3/10	15,825	3/11	14,419	3/12	14,445
4/07	16,268	4/08	17,948	4/09	15,628	4/10	16,951	4/11	14,509	4/12	15,262
5/07	18,394	5/08	18,995	5/09	18,185	5/10	17,542	5/11	16,821	5/12	16,529
6/07	19,613	6/08	21,138	6/09	18,191	6/10	18,513	6/11	16,409	6/12	18,207
	205,576		228,279		200,322		197,817		186,367		187,450

- FY12 enplanements increased 0.6% to 187,450 due to the new non-stop daily air service to San Diego initiated in June by Alaska Airlines

Financial Highlights (Continued)

Chart A presents the monthly enplanements for FY12, in total and for the scheduled commercial airlines that serve the Airport. FY12 enplanements totaled 187,450.

Chart A



→ Alaska Airlines initiated non-stop daily flights on 76-seat Bombardier turbo-prop aircraft (Q-400) to San Diego (SAN) on June 4, 2012.

Financial Highlights (Continued)

- ✈ <u>American Eagle</u>, a wholly-owned subsidiary of American Airlines, operated non-stop flights on 44-seat Embraer regional jets (ERJ-140) to Los Angeles (LAX).

- ✈ <u>United Express</u>, operated by SkyWest Airlines, provided non-stop flights on 27-seat Brasilia turbo-props (EMB-120) to San Francisco (SFO) and all jet, non-stop flights on 50-seat Canadair regional jets (CRJ-200) to LAX.

- ✈ <u>US Airways Express</u>, flown by SkyWest Airlines and Mesa Airlines, provided non-stop service on 50-seat regional jets (CRJ-200) and 86-seat regional jets (CRJ-900) to Phoenix (PHX).

- ✈ <u>Allegiant</u> offered scheduled non-stop service two days per week (Thursday - Sunday or Friday - Monday) to Las Vegas (LAS) on 166-seat MD-83/88 jets. Allegiant doubles its scheduled service to four days per week during the summer (late June – early August). Allegiant combines ultra-low airfares with lodging and entertainment packages.

- ✈ <u>Allegiant</u> also operated as a non-scheduled, charter airline flying "gambler specials" to Nevada gaming resorts on 130-seat MD-82/87 jets.

Operating Revenues

An airport functions as a landlord. District income is derived from fees and lease income. Total operating revenues for the year were $7,301,430, an increase of 3.9% from FY11 and an increase of 2.7% from FY10.

Revenues derived from the activities of commercial airlines and from airline passengers using services offered by the Airport account for 55.5% of FY12 Total Operating Revenue. There was an increase of 4.7% compared to FY11 and an increase of 4.7% over FY10 (see Table II, "Subtotal – Commercial Aviation"). Included in this category are revenues paid by commercial airlines for landing, apron and aircraft overnight parking fees and income received from tenants that rent space in the airport terminal.

The line item, "Terminal Concessions & Leases", includes lease income from many sources: concessions such as *The Golden Tee Restaurant* and the *Gifts and More* gift shop; commercial airlines that rent ticket counters, offices, baggage make-up, hold rooms and baggage claim areas; five rental car companies (Avis, Budget, Enterprise, Hertz, and National); long and short-term parking lots and in-terminal advertising. This category of revenue increased 3.3% from FY11 and increased 4.3% from FY10.

General Aviation activities generated 21.3% of Total Operating Revenue. Corporate aviation and general aviation tenants remit landing fees, fuel fees, and rental income for leased land, hangars, tie-downs, aircraft parking aprons, and offices. These revenues increased 5.8% from FY11 and 6.2% from FY10.

Operating Revenues (Continued)

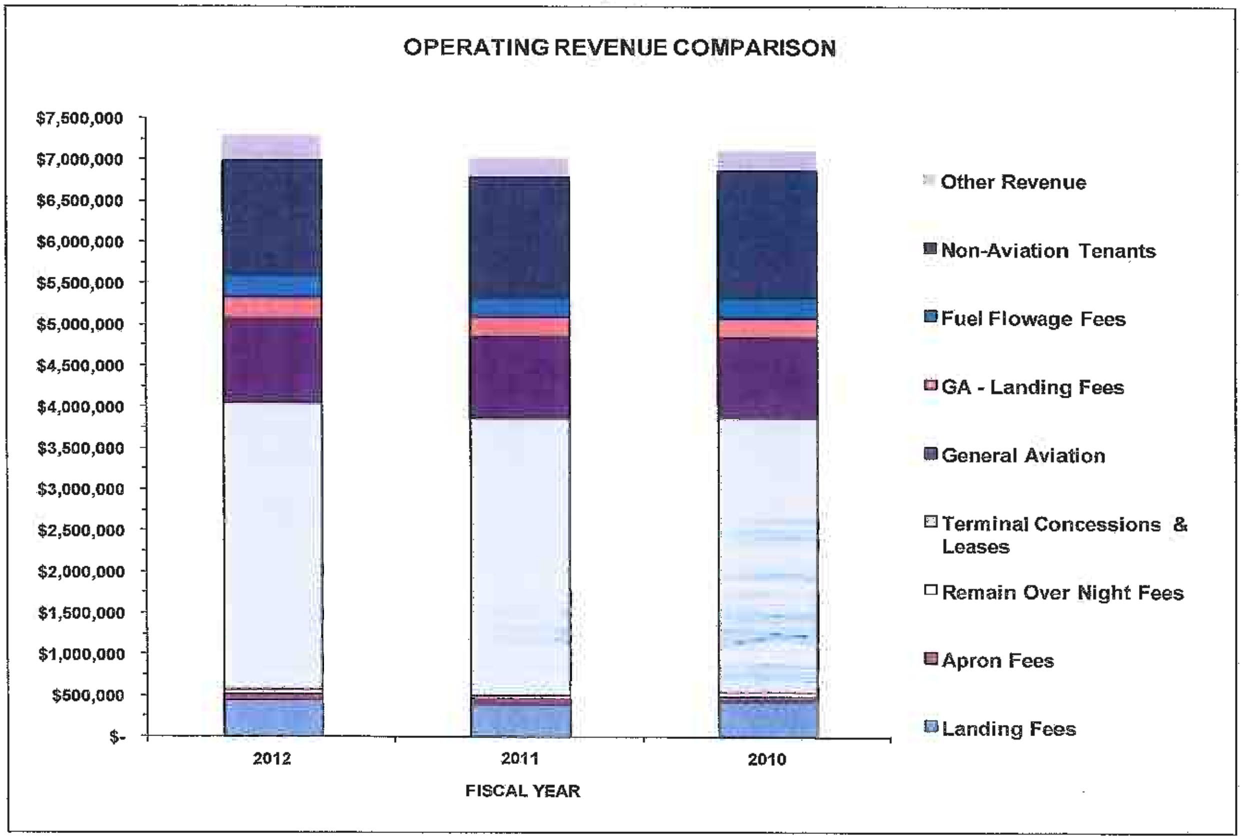
Non-aviation tenants produced 19.3% of Total Operating Revenues, a decrease of 3.9% from FY11 and a decrease of 8.6% from FY10.

Table II presents a comparison of operating revenues in FY12, FY11 and FY10. Chart C provides a graphic representation of operating revenues.

Table II

FISCAL YEAR 2012, 2011 & 2010 OPERATING REVENUE COMPARISON									
	2012			2011			2010		
Landing Fees	$	461,030	6.3%	$	411,265	5.9%	$	434,487	6.1%
Apron Fees	$	64,010	0.9%	$	57,620	0.8%	$	64,707	0.9%
Remain Over Night Fees		67,588	0.9%		52,218	0.7%		52,575	0.7%
Terminal Concessions & Leases		3,463,175	47.4%		3,351,252	47.7%		3,320,296	46.7%
Subtotal - Commercial Aviation	$	4,055,803	55.5%	$	3,872,355	55.1%	$	3,872,065	54.5%
General Aviation	$	1,029,575	14.1%	$	994,866	14.2%	$	973,279	13.7%
Landing Fees	$	263,770	3.6%	$	232,557	3.3%	$	246,363	3.5%
Fuel Flowage Fees		258,250	3.5%		239,602	3.4%		240,746	3.4%
Subtotal - General Aviation	$	1,551,595	21.3%	$	1,467,025	20.9%	$	1,460,388	20.5%
Non-Aviation Tenants	$	1,407,516	19.3%	$	1,464,876	20.8%	$	1,539,728	21.7%
Other Revenue		286,516	3.9%		225,745	3.2%		237,535	3.3%
Total	$	7,301,430	100%	$	7,030,001	100%	$	7,109,716	100%

Chart C



Operating Expenses

Operating Expenses (excluding the Special Item) in FY12 increased 0.5% over FY11 and 6.6% over FY10. Salaries and payroll costs for all airport employees increased $215,432 (3.8%) to just over $5.8 million.

Table III presents salary and payroll expenses by airport department. The airport provides a wide variety of services and staffs its own police and fire departments. Salaries and payroll costs increased $215,432 (3.8%) over FY11 and $453,146 (8.4%) compared to FY10. Salaries and payroll costs, measured as a percentage of total operating expenses, were 79.7% in FY12, 76.4% in FY11 and 78.4% in FY10. The increase in FY12 was driven by retirement (CalPERs) expense. FY12 employer retirement expense increased 14.3% compared to FY11 and 18.2% compared to FY10. The District will have a significant reduction in its employer retirement expense in FY13 due to the elimination of the CalPERs side accounts (Special Item).

Table III

FISCAL YEAR 2012, 2011 & 2010 SALARY & PAYROLL EXPENSE								
	2012			2011			2010	
Finance & Administration	$	1,009,830	17.3%	$	996,266	17.8%	$	916,240	17.1%
Planning & Development		407,755	7.0%		432,877	7.7%		413,217	7.7%
Maintenance & Custodial Services		900,346	15.5%		885,626	15.8%		835,342	15.6%
Airport Operations		510,891	8.8%		482,623	8.6%		462,895	8.6%
Police Department		1,101,771	18.9%		1,074,451	19.2%		1,069,353	19.9%
Fire Department		1,892,928	32.5%		1,736,246	31.0%		1,673,329	31.2%
Total	$	5,823,521	100%	$	5,608,089	100%	$	5,370,375	100%

Table IV compares operating expenses for FY12, FY11 and FY10. Chart D provides a graphic representation of operating expenses. Table IV and Chart D exclude the effects of the Special Item in the presentation of FY12 operating expenses. More information regarding the Special Item can be found in the notes to the financial statements.

Table IV

FISCAL YEAR 2012, 2011 & 2010 OPERATING EXPENSE COMPARISON									
	2012[1]			2011			2010		
Finance & Administration	$	2,093,868	28.7%	$	2,469,425	33.6%	$	2,096,624	30.6%
Planning & Development		454,337	6.2%		418,193	5.7%		429,737	6.3%
Maintenance & Custodial Services		1,270,047	17.4%		1,192,565	16.2%		1,149,020	16.8%
Airport Operations		599,033	8.2%		523,850	7.1%		458,712	6.7%
Police Department		1,047,707	14.3%		974,009	13.3%		961,248	14.0%
Fire Department		1,832,109	25.1%		1,763,613	24.0%		1,752,156	25.6%
Board of Directors		5,334	0.1%		-	0.0%		-	0.0%
Total[1]	$	7,302,435	100%	$	7,341,655	100%	$	6,847,497	100%

[1]Special Item is excluded

Finance & Administration operating expenses (28.7% of total FY12 operating expenses) decreased 15.2% from FY11 and decreased 0.1% from FY10. The decrease was attributable to no election expense in

Operating Expenses (Continued)

FY12. In prior fiscal years, expenses related to the District's Board were recognized in this department, but in FY12 a segregation into a separate department, "Board of Directors," was initiated.

Planning & Development operating expenses (6.2% of total FY12 operating expenses) increased 8.6% from FY11 and 5.7% from FY10. These increases are due to expanding workload, much of which is driven by the Runway Safety Area (RSA) project.

Maintenance & Custodial Services operating expenses (17.4% of total FY12 operating expenses) increased 6.5% from FY11 and 10.5% from FY10. Many of the District's facilities are old and require more intensive maintenance and more frequent repairs. Expenses have been controlled by emphasizing preventive maintenance.

Airport Operations operating expenses (8.2% of total FY12 operating expenses) increased 14.4% from FY11 and 30.6% from FY10. These increases are primarily due to: 1) increasing the level of vigilance in the Airport Operations Area (AOA), 2) raising the level of customer service, and 3) expanding responsibilities. Airport Operations has coordinated the implementation of an "open access" system for taxi operators licensed by the Regional Taxi Authority (RTA). The department is also responsible for the taxi curbside management contract.

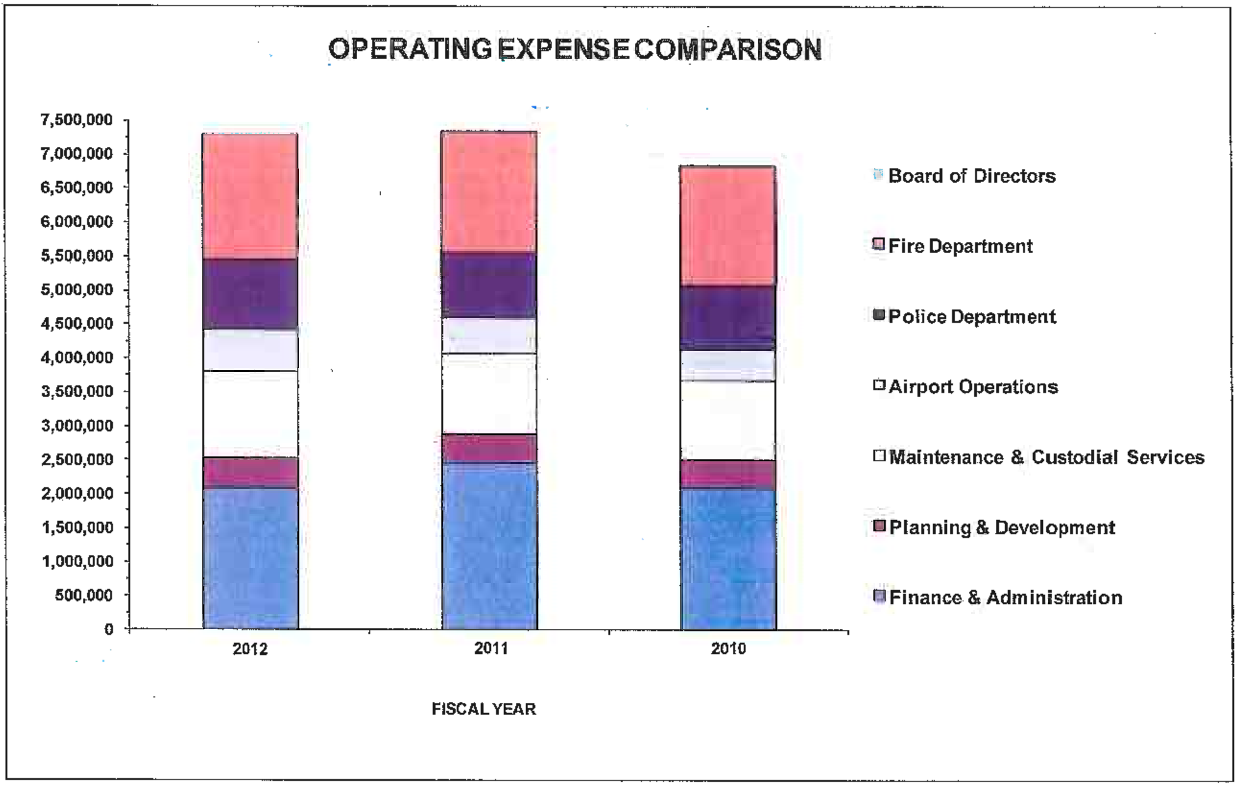
Police Department operating expenses (14.3% of FY12 total operating expenses) increased 7.6% from FY11 and 9.0% from FY10. The department has experienced escalating costs due in part to mandated security requirements. These increases have been managed by the use of part-time police officers. The District was awarded a "Law Enforcement Officer (LEO) Reimbursement Grant" from the U. S. Department of Homeland Security (DHS).

Fire Department operating expenses (25.1% of total FY12 operating expenses) increased 3.9% compared to FY11 and 4.6% compared to FY10. Expenses have been mitigated through cooperative agreements with the Cypress Fire Protection District.

Board of Directors operating expenses (0.1% of total FY12 operating expenses) are not compared to prior fiscal years. These expenses were previously included in Finance & Administration; the segregation of these expenses began on April 1, 2012. This methodology has been fully implemented in FY13.

Operating Expenses (Continued)

Chart D



[1] Special Item is excluded

Special Item

In FY12 the District incurred a one-time operating expense of $3,077,000, comprised of $66,817 of bond issuance expense and $3,010,183 of employee retirement expense, to eliminate "side accounts" that were established by the California Public Employee Retirement System (CalPERs) in 2003. "Side account" balances were included in the actuarially-computed employer rate and not on the District's balance sheet.

By eliminating all side accounts, the Airport reduced its FY13 employer retirement expense rate for miscellaneous employees from 11.566% to 10.238%, for public safety – police employees from 34.055% to 24.706% and for public safety – fire employees from 50.91% to 24.760%.

The Airport has classified this expense as a "Special Item", presented separately, to present the operating expenses for multiple fiscal years without distortion and to enhance comparability. Tables V and VI present the financial data consistent with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) statements. Additional information may be found in the "Debt" section of this MD&A and in the notes to the financial statements.

Actual versus Budget – FY12 Revenues, Expenses and Change in Net Position

Table V compares actual and budgeted operating revenues, operating expenses, and the change in net position for Fiscal Year 2012.

Table V

Operating Revenues		Budget		Actual		Variance
Commercial Aviation - Fees	$	586,470	$	592,628	$	6,158
General Aviation - Fees		243,424		263,770		20,346
Terminal Concessions and Leases		3,479,180		3,463,175		(16,005)
Heavy General Aviation		850,492		870,898		20,406
Light General & Other Aviation Tenants		415,282		416,926		1,644
Non-Aviation Tenants		1,473,038		1,407,517		(65,521)
Other Operating Revenue		160,000		286,516		126,516
Total Operating Revenue	$	7,207,886	$	7,301,430	$	93,544
Operating Expenses		Budget		Actual		Variance
Finance & Administration	$	2,059,951	$	2,093,868	$	(33,917)
Planning & Development		503,217		454,337		48,880
Maintenance & Custodial Services		1,365,332		1,270,047		95,285
Airport Operations		616,739		599,033		17,706
Police Department		1,049,813		1,047,707		2,106
Fire Department		1,800,169		1,832,109		(31,940)
Board of Directors		3,524		5,334		(1,810)
Total Operating Expenses	$	7,398,745	$	7,302,435	$	96,310
Operating Income / (Loss) before Depreciation		(190,859)		(1,005)		189,854
Depreciation & Amortization Expense		5,660,099		5,323,496		336,603
Net Operating Income / (Loss)		(5,850,958)		(5,324,501)		526,457
Special Item - CalPERs Side Account Elimination		Budget		Actual		Variance
Bond Issuance Expense	$	66,817	$	66,817	$	-
CalPERs Retirement Expense - Misc Plan		122,726		122,726		-
CalPERs Retirement Expense - Police Plan		456,062		456,062		-
CalPERs Retirement Expense - Fire Plan		2,431,395		2,431,395		-
Total Special Item	$	3,077,000	$	3,077,000	$	-
Other Revenues (Expenses)	$	17,653,289	$	2,989,928	$	(14,663,361)
Change in Net Position	$	8,725,331	$	(5,411,573)	$	(14,136,904)

Actual Financial Results – FY12, FY11 & FY10 Revenues, Expenses and Change in Net Position

Table VI compares actual operating revenues, operating expenses, and the change in net position for Fiscal Years 2012, 2011 and 2010.

Table VI

	FY 2012 Actual	FY 2011 Actual	FY 2010 Actual
Operating Revenues			
Commercial Aviation - Fees	$ 592,628	$ 521,103	$ 551,769
General Aviation - Fees	263,770	232,557	246,363
Terminal Concessions and Leases	3,463,175	3,351,252	3,320,296
Heavy General Aviation	870,898	835,450	817,334
Light General & Other Aviation Tenants	416,926	399,018	396,691
Non-Aviation Tenants	1,407,517	1,464,876	1,539,728
Other Operating Revenue	286,516	225,745	237,535
Total Operating Revenue	$ 7,301,430	$ 7,030,001	$ 7,109,716
Operating Expenses			
Finance & Administration	$ 2,093,868	$ 2,469,425	$ 2,096,624
Planning & Development	454,337	418,193	429,737
Maintenance & Custodial Services	1,270,047	1,192,565	1,149,020
Airport Operations	599,033	523,850	458,712
Police Department	1,047,707	974,009	961,248
Fire Department	1,832,109	1,763,613	1,752,156
Board of Directors	5,334	-	-
Total Operating Expenses	$ 7,302,435	$ 7,341,655	$ 6,847,497
Operating Income / (Loss) before Depreciation	(1,005)	(311,654)	262,219
Depreciation & Amortization Expense	5,323,496	5,090,025	3,740,931
Net Operating Income / (Loss)	(5,324,501)	(5,401,679)	(3,478,712)
Special Item - CalPERs Side Account Elimination			
Bond Issuance Expense	$ 66,817	$ -	$ -
CalPERs Retirement Expense - Misc Plan	122,726	-	-
CalPERs Retirement Expense - Police Plan	456,062	-	-
CalPERs Retirement Expense - Fire Plan	2,431,395	-	-
Total Special Item	$ 3,077,000	$ -	$ -
Other Revenues (Expenses)	$ 2,989,928	$ 5,365,319	$ 9,523,697
Change in Net Position	$ (5,411,573)	$ (36,360)	$ 6,044,985

Changes in Net Position

Net position decreased $5,411,573 from FY11 to FY12. (Refer to Table V, Actual versus Budget – FY12 Revenues, Expenses and Change in Net Position.) Conforming to requirements of GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions,* funds received from grants and PFCs are included in the financial statements, referred to as "Other Revenue". In FY12, the District received $2,138,966 from FAA AIP grants and $717,647 from PFCs to fund architectural design, engineering design, and construction costs.

From FY10 to FY11, Net Position decreased $36,360. (Refer to Table VI, Actual Financial Results – FY12, FY11 & FY10 Revenues, Expenses and Change in Net Position.) The District received $4,555,284 from FAA AIP grants and $693,752 from PFCs to fund airport improvement projects during FY11.

Capital and Debt Activity

Total District assets are $53,609,634; total liabilities, $4,992,650. The difference is $48.6 million. The debt-to-equity ratio (0.11 times or 11%) is extremely favorable because the Airport's long term debt is small. The current ratio is 5.55. The District has financed its airport capital improvements by aggressively pursuing FAA Airport Improvement Program (AIP) grants to fund its capital projects. Capital assets, net of depreciation, and Intangible assets, net of amortization, are presented below:

	2012	2011	2010
Tangible assets			
Land	$ 1,784,717	$ 1,683,547	$ 1,683,547
Land Improvements	21,093,290	17,555,776	16,160,748
Buildings	12,347,397	13,264,308	13,641,273
Furniture, equipment and vehicles	1,394,450	1,561,959	1,855,527
Construction in progress	2,219,097	5,131,214	3,268,432
Total	38,838,951	39,196,804	36,609,527
Intangible assets	8,120,821	10,038,741	11,957,232
Total capital assets - net	$ 46,959,771	$ 49,235,545	$ 48,566,759

Debt

The Monterey Peninsula Airport District 2012 Taxable Pension Obligation Bond was issued on June 27, 2012. The bond's par value, coupon rate, and term are $3,077,000, 4.40% and 10 years, respectively. Bond proceeds were used to eliminate the "side accounts" associated with the District's CalPERs pension obligations and employer retirement expense rates. Additional information pertaining to this bond can be found in the notes to the financial statements.

Future Impacts

Fiscal Year 2012 reversed a trend of declining operating revenues. Revenues from commercial airlines that had declined in FY10 and FY11 are improving.

The Airport's commercial success is dependent on the local community's demand for commercial air service and the airlines' ability, capacity, and willingness to meet these needs. Fifty-five percent (55.5%) of the Airport's revenues are collected from the airlines that pay user fees to the airport (8.1%) and from airport concessions that provide services to the passengers (47.4%). In FY11, the District experienced a significant reduction in concession revenues generated by rental car operations, parking lots, and advertising. With the exception of restaurant and advertising concession revenues, commercial airline passenger-driven revenues increased slightly in FY12. Rental car concession revenue increased 3.1% and parking concession revenue increased 2.8%.

Enplanements in FY12 totaled 187,450 (Chart A), a 0.6% increase over FY11. The Airport has experienced an increase in the percentage of local passengers choosing to fly from MRY. A Passenger Demand Analysis completed for the Airport in June 2011 revealed that the percentage of local passengers choosing to fly from MRY instead of Bay Area airports has increased from 27% in 2005 to 40% in 2011. On June 4, 2012, Alaska Airlines initiated non-stop daily service to San Diego. As a result, enplanements in FY13 are projected to increase and may exceed 205,000.

The District continues its dialogue with the airlines now serving the Airport to expand service and promotes the introduction of new service to cities in the Midwest, Northwest and Southern California. It offers incentives for new air service to the Pacific Northwest that include a $500,000 grant from the US Department of Transportation to fund an airline's start-up operating costs. The Airport and its community co-sponsor will fund $214,000 in initial marketing and advertising expenses.

General aviation, which recorded dismal numbers in FY11, rebounded in FY12. GA landing fees were 13.4% higher than FY11. Fuel flowage fees were 7.8% higher than FY11.

In summary, our forecast for Fiscal Year 2013 is optimistic.

Requests for Information

This financial report has been designed to provide a general overview of the District's accounting for anyone interested in its finances. Questions concerning any of the information should be addressed to the attention of the Senior Deputy General Manager, Monterey Peninsula Airport District, 200 Fred Kane Drive, Suite 200, Monterey, CA 93940.

FINANCIAL STATEMENTS

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 692,884	$ 604,449
Investments (Note 2)	4,021,132	3,986,628
Accounts receivable – net (Note 3)	373,188	460,371
Note receivable – current portion	8,947	8,344
Interest receivable	18,463	16,948
Prepaid and other current assets	64,191	58,489
Total current assets	5,178,805	5,135,229
CAPITAL ASSETS – net (Note 4)	38,838,951	39,196,804
NONCURRENT ASSETS:		
Cash and cash equivalents – restricted (Note 2)	750,364	329,232
Investments – restricted (Note 2)	708,520	709,237
Note receivable	12,173	21,120
Funds due from others (Note 5)	–	160,263
Intangible assets – net (Note 6)	8,120,821	10,038,741
Total other assets	9,591,878	11,258,593
TOTAL ASSETS	$ 53,609,634	$ 55,590,626
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accrued liabilities	$ 281,225	$ 228,181
Accrued compensated absences (Note 7)	151,381	140,437
Grant received in advance	3,750	3,750
Rent received in advance from tenants	8,877	6,000
CEQA mitigation funds received in advance	88,894	–
Pension obligation bond payable – current portion (Note 7)	250,000	–
Funds held in trust (Note 5)	40,719	–
Total current liabilities	824,846	378,368
NONCURRENT LIABILITIES:		
Security deposits	314,984	311,913
Accrued compensated absences – noncurrent (Note 7)	395,791	367,105
Rent received in advance from tenants	318,813	227,000
OPEB liability (Note 7 and 13)	311,216	277,683
Pension Obligation Bond Payable (Note 7)	2,827,000	–
Total long-term liabilities	4,167,804	1,183,701
TOTAL LIABILITIES	4,992,650	1,562,069
NET POSITION		
Net investment in capital assets	46,959,772	49,235,545
Restricted (Note 8)	1,157,959	705,288
Unrestricted	499,253	4,087,724
TOTAL NET POSITION	48,616,984	54,028,557
TOTAL LIABILITIES AND NET POSITION	$ 53,609,634	$ 55,590,626

See Notes to Financial Statements.

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES:		
Commercial aviation	$ 592,628	$ 521,103
General aviation	263,770	232,557
Terminal leases and concessions	3,463,175	3,351,252
Heavy general aviation tenants	870,898	835,450
Light general aviation and other aviation tenants	416,926	399,018
Non-aviation tenants	1,407,517	1,464,876
Other operating revenue	286,516	225,745
Total operating revenues	7,301,430	7,030,001
OPERATING EXPENSES:		
Finance and administration	2,093,868	2,469,425
Planning and development	454,337	418,193
Maintenance and custodial services	1,270,047	1,192,565
Airport operations	599,033	523,850
Police department	1,047,707	974,009
Fire department	1,832,109	1,763,613
Board of Directors	5,334	–
Total operating expenses	7,302,435	7,341,655
OPERATING LOSS BEFORE DEPRECIATION AND AMORTIZATION	(1,005)	(311,654)
DEPRECIATION AND AMORTIZATION	5,323,496	5,090,025
OPERATING LOSS	(5,324,501)	(5,401,679)
NONOPERATING REVENUES AND (EXPENSES):		
Grants – FAA	2,138,966	4,555,284
Passenger Facility Charges	717,647	693,752
Interest income	110,541	111,236
Unrealized gain (loss) on investments	22,774	2,547
Grants – EMS	–	2,500
Total nonoperating revenues (expenses)	2,989,928	5,365,319
SPECIAL ITEM – Refinance of CalPERS side fund	(3,077,000)	–
CHANGE IN NET POSITION	(5,411,573)	(36,360)
NET POSITION, BEGINNING OF YEAR	54,028,557	54,064,917
NET POSITION, END OF YEAR	$ 48,616,984	$ 54,028,557

See Notes to Financial Statements.

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 7,289,100	$ 7,233,399
Other receipts	294,860	233,527
Payments to vendors	(3,681,680)	(3,551,158)
Payments to employees	(3,299,617)	(3,159,846)
NET CASH PROVIDED BY OPERATING ACTIVITIES	602,663	755,922
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from grants and PFC charges	2,856,613	5,251,536
Payments for purchases of fixed assets and construction of property – net of disposals	(3,047,722)	(5,758,812)
NET CASH (USED) BY FINANCING ACTIVITIES	(191,109)	(507,276)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income received	131,799	118,571
Investments purchased	(33,786)	(109,833)
NET CASH PROVIDED BY INVESTING ACTIVITIES	98,013	8,738
NET INCREASE IN CASH AND CASH EQUIVALENTS	509,567	257,384
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	933,681	676,297
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,443,248	$ 933,681
SUPPLEMENTAL NON CASH FINANCING ACTIVITIES:		
Proceeds from issuance of pension obligation bonds	$ 3,077,000	$ –
Payments for refinance of CalPERS side fund	(3,077,000)	–
NET NON CASH FINANCING ACTIVITIES	$ –	$ –

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Continued)

	2012	2011
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (5,324,501)	$ (5,401,679)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,323,496	5,090,025
(Increase) decrease in:		
Accounts receivable	87,182	468,667
Note receivable	8,344	7,782
Prepaid and other current assets	(5,702)	7,367
Funds due from others	–	(160,263)
Increase (decrease) in:		
Accrued liabilities	92,326	50,724
OPEB liability – current portion	33,533	138,840
Rent received in advance from tenants	94,690	(6,000)
Grant received in advance	-	3,750
CEQA mitigation funds received in advance	88,894	-
Funds due to others	200,982	593,983
Security deposits	3,419	(37,274)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 602,663	$ 755,922
CASH AND CASH EQUIVALENTS – Unrestricted	$ 692,884	$ 604,449
CASH AND CASH EQUIVALENTS – Restricted	750,364	329,232
TOTAL	$ 1,443,248	$ 933,681

See Notes to Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Reporting Entity – The Monterey Peninsulas Airport District (the District) was established under the provisions of Article #133 of the General Law of the State of California on March 22, 1941 for the purpose of operating and maintaining a public airport. Originally, it consisted of 501 acres which were contributed to the District by the City of Monterey. Additional land has been acquired by grants and purchases in subsequent years. As of June 30, 2012, the District's total acreage amounted to approximately 501 acres.

Reporting Entity – The financial statements of the District, in accordance with governmental accounting and financial reporting standards, include funds and account groups that are controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, designation of management, and ability to significantly influence operations. All known activities of the District have been included in these financial statements. There are no known potential component units that have been excluded.

Basis of Accounting and Financial Statement Presentation – The District reports its activates as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred regardless of when the related cash flows take place.

Enterprise Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of operating the primary activities of the District, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents – The District considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Receivables – Receivables from tenants are recorded when the revenues are earned under the accrual method of accounting and accounted for using the allowance method. The allowance at June 30, 2012 and June 30, 2011 was $10,000.

Prepaid Expenses – Prepaid amounts have been allocated to expense prorate in the periods in which the benefit was received.

Investments – The District invests its surplus cash in certificates of deposits with original maturity dates of three months or longer and obligations of the State Treasurer's Local Agency Investment Fund.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets – Capital assets are stated at cost or estimated historical cost if original cost is not available. Gifts or contributions of such assets are stated at estimated fair market value at the date received. Capital assets are defined by the District as assets with an estimated useful life in excess of one year and an initial individual cost of more than $1,000 for equipment and $5,000 for land, facilities, and improvements.

Depreciation has been provided over the following estimated useful lives using the straight-line method:

Land improvements	10 – 40 Years
Buildings and improvements	10 – 40 Years
Furniture, equipment and vehicles	3 – 20 Years

Depreciation of assets is recorded as an expense in the statements of revenues, expenses and changes in net assets.

Intangible assets include the District's logo, noise study, master plan update and soundproofing of neighboring residences. These have been amortized on the straight-line basis over the estimated useful lives of the assets which are 10 – 40 years. No depreciation is provided on construction–in-progress until construction is complete and the asset is placed in service.

Fair Value Measurements – The District measures its assets and liabilities at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value.

Fair value measurements are determined based on the assumptions—referred to as inputs—that market participants would use in pricing the asset. This principle establishes a fair value hierarchy that distinguishes between market participant assumptions and the District's own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources, while unobservable inputs are the District's own assumptions about what market participants would assume based on the best information available in the circumstances.

The three levels of the fair value hierarchy are as follows:

Level 1 inputs – A quoted price in an active market for an identical asset or liability that the District has the ability to access at the measurement date is considered to be the most reliable evidence of fair value.

Level 2 inputs – These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Level 3 inputs – These inputs are unobservable and are used to measure fair value only when observable inputs are not available.

	2012	2011
ASSETS	Level 1	Level 1
Cash and cash equivalents	$ 1,443,248	$ 933,681
Investments	$ 4,729,652	$ 4,695,866

Fair value for Level 1 is based upon quoted market price. Inputs are obtained from various sources including market participants, dealers, brokers and financial institutions.

The methods described above may produce fair value calculation that many not be indicative of net realizable value or reflective of future fair values. Furthermore, while the District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Compensated Absences – The District's personnel policy provides full-time employees with vacation and sick leave in varying amounts, and at termination or retirement, employees are paid for accumulated (vested) vacation. Employees are paid for accumulated sick leave to a maximum of one month's salary. Accordingly, compensation for vacation and sick leave is charged to expense as earned by the employee, and accumulated, unpaid vacation and sick leave, which is payable upon an employee's termination or retirement, is recorded as a liability.

Deferred Revenue – Deferred revenue represents amounts collected before year-end which were not earned as of June 30, 2012 and 2011.

Net Position – Net position represents the difference between assets and liabilities and are classified into the following net asset categories:

Net Investment in Capital Assets – Net investments in capital assets consists of capital assets, net of accumulated depreciation.

Restricted – Restricted net positions are reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Unrestricted – Unrestricted net positions consists of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted." This includes certain amounts designated by the Board for operating and other purposes.

Use of Restricted Resources – When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources, as they are needed.

NOTE 1. <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</u>

Passenger Facility Charge (PFC) – In 1990, Congress approved the Aviation Safety and Capacity Expansion Act, which authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. In May 1991, the Federal Aviation Administration issued the regulations for the use and reporting of PFCs. PFCs may be used for airport projects which meet at least one of the following criteria: preserve or enhance safety, security or capacity of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnished opportunities for enhanced competition between or among carriers.

The District was granted permission to begin collection of a $3 PFC effective January 1, 1994. The charges, less an administrative fee charged by the airlines for processing, are collected by the airlines and remitted on a monthly basis to the District. Effective July 27, 2001 the District received approval from the FAA to increase the PFC charge to $4.50 per enplaned passenger.

In accordance with GASB Statements 33 and 34, the District records PFCs as nonoperating revenue. The fees are reserved for specific purposes as defined in the approval letter received from the Federal Aviation Administration's administrator.

The District's applications for PFCs were approved as impose and use. It is the position of the District that these receipts should be recognized immediately.

Reclassifications – Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

Estimates – The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.

Subsequent Events – Subsequent events have been evaluated through November 1, 2012, which is the date the financial statements were available to be issued.

Effects of New Pronouncements – In November 2010, GASB issued Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure, which do not conflict with or contradict GASB pronouncements. As a result, proprietary funds will no longer have to consider pre-1989 FASB or AICPA pronouncements nor will they be permitted to apply "new" FASB pronouncements issued after November 30, 1989. The District implemented this Statement in fiscal year 2012. There is no significant effect on the financial statements due to the implementation of this statement.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The District implemented this Statement in fiscal year 2012. There was no significant effect on the financial statements other than renaming net assets to net position.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or resources or inflows of resources, certain items were previously reported as assets and liabilities. The District implemented this Statement in fiscal year 2012. The Statement specifies that debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. The District has expensed debt issuance costs in the amount of $66,817 in the current period as a result of adopting this Statement.

NOTE 2. CASH AND INVESTMENTS

Custodial Credit Risk-Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it, The District has a deposit policy that complies with California Government Code Section commencing at 53630 (Public Deposits). As of June 30, 2012, $467,349 of the District's bank balances of $1,520,811 were exposed to custodial credit risk as uninsured and collateralized by the pledging bank's trust department not in the District's name.

Investments – The District's investments consist of obligations of the State Treasurer's Local Agency Investment Fund and certificates of deposit held with financial institutions. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal 110% of the total amount deposited by the public agencies. The investment of state pooled funds is governed by state law, by policies by the Pooled Money Investment Board (PMIB) and by accepted norms for prudent fiduciary management of investments. PMIB funds may be invested in a wide range of interest bearing securities, such as Treasury notes, prime commercial paper, certain California municipal and agency obligations, highly rated corporate bonds. Obligations of such agencies as Fannie Mae, and negotiable certificates of deposit. Also allowed are time deposits in California banks, savings and loans, and credit unions that have not less than a "satisfactory" CRA rating. The value of each participating dollar equals the fair value divided by the amortized cost. The District's fair value of the position in the pool is the same as the value of the pool shares. Investments at June 30, 2012 consisted of the following:

NOTE 2. CASH AND INVESTMENTS (Continued)

Local Agency Investment Fund	$	84,967
Certificates of Deposit		4,644,685
Total	$	4,729,652

Restricted Cash and Investments – Balances in restricted cash consist of security deposits from tenants held in certificates of deposit, demand deposits and investment restricted as Passenger Facility Charges as follows:

Cash and investments (at market value) consist of the following at June 30, 2012 and 2011:

	2012				
	Restricted				
	QTAC	Security Deposits	Passenger Facilities Charges	ASA/ EMS	Totals
Cash in bank	$ 40,659	$ 132,117	$ 574,799	$ 2,789	$ 750,364
Investments	–	168,808	539,712	–	708,520
Total	$ 40,659	$ 300,925	$ 1,114,511	$ 2,789	$ 1,458,884

	2011				
	Restricted				
	QTAC	Security Deposits	Passenger Facilities Charges	ASA/ EMS	Totals
Cash in bank	$ 41,510	$ 115,497	$ 166,369	$ 5,856	$ 329,232
Investments	–	176,174	533,063	–	709,237
Total	$ 41,510	$ 291,671	$ 699,432	$ 5,856	$ 1,038,469

NOTE 3. ACCOUNTS RECEIVABLE – NET

Accounts receivable at June 30 are as follows:

	2012	2011
Accounts receivable	$ 383,188	$ 470,371
Less allowance for doubtful accounts	10,000	10,000
Accounts receivable – net	$ 373,188	$ 460,371

NOTE 4. CAPITAL ASSETS – NET

	2012			
	Balance as of 6/30/2011	Additions Transfers	Disposals Transfers	Balance as of 6/30/2012
Capital assets not being depreciated:				
Land	$ 1,683,547	$ 101,170	$ –	$ 1,784,717
Construction in progress	5,131,214	3,047,722	(5,959,839)	2,219,097
Total capital assets not being depreciated	6,814,761	3,148,892	(5,959,839)	4,003,814
Capital assets being depreciated:				
Land improvements	28,611,008	5,493,814	–	34,104,822
Buildings	20,590,488	264,857	–	20,855,345
Furniture, equipment and vehicles	3,469,189	100,000	–	3,569,189
Total capital assets being depreciated	52,670,685	5,858,671	–	58,529,356
Less accumulated depreciation for:				
Land improvements	11,055,230	1,956,302	–	13,011,532
Buildings	7,326,179	1,181,769	–	8,507,948
Furniture, equipment and vehicles	1,907,233	267,506	–	2,174,739
Total accumulated depreciation	20,288,642	3,405,577	–	23,694,219
Total capital assets being depreciated – net	32,382,043	2,453,094	–	34,835,136
Capital assets – net	$ 39,196,804	$ 5,601,986	$ (5,959,839)	$ 38,838,951

	2011			
	Balance as of 6/30/2010	Additions Transfers	Disposals Transfers	Balance as of 6/30/2011
Capital assets not being depreciated:				
Land	$ 1,683,547	$ –	$ –	$ 1,683,547
Construction in progress	3,268,432	5,758,810	(3,896,028)	5,131,214
Total capital assets not being depreciated	4,951,979	5,758,810	(3,896,028)	6,814,761
Capital assets being depreciated:				
Land improvements	35,076,571	3,166,009	(9,631,572)	28,611,008
Buildings	21,925,026	683,062	(2,017,600)	20,590,488
Furniture, equipment and vehicles	4,592,540	–	(1,123,351)	3,469,189
Total capital assets being depreciated	61,594,137	3,849,071	(12,772,523)	52,670,685
Less accumulated depreciation for:				
Land improvements	18,915,822	1,774,461	(9,635,053)	11,055,230
Buildings	8,283,752	1,064,245	(2,021,818)	7,326,179
Furniture, equipment and vehicles	2,737,014	297,286	(1,127,067)	1,907,233
Total accumulated depreciation	29,936,588	3,135,992	(12,783,938)	20,288,642
Total capital assets being depreciated – net	31,657,549	713,079	11,415	32,382,043
Capital assets – net	$ 36,609,528	$ 6,471,889	$ (3,884,613)	$ 39,196,804

NOTE 5. FUNDS DUE FROM OTHERS / FUNDS HELD IN TRUST

Funds held in trust represents monies collected by various rental car companies and placed in the custody of the District. These monies were collected as a customer facility charge (CFC) in the amount of $10 per rental car contract. The funds were used to construct a quick-turn-around (QTA) facility on land leased to the rental car companies.

Construction costs outpaced CFC collections and the District advanced the project funds. Collections continued until the District was repaid the advance. The collection of customer facility charges was terminated on January 15, 2012. The funds held in trust by the District on June 30, 2012, are the residual collections after building a $3.8 million facility.

NOTE 6. INTANGIBLE ASSETS – NET

The District's intangible assets at June 30 are as follows:

	2012	2011
Noise safety study and soundproofing	$ 21,549,356	$ 21,549,356
Master Plan	208,440	208,440
Logo	9,833	9,833
Total	21,767,629	21,767,629
Less accumulated amortization	13,646,808	11,728,888
Intangible assets – net	$ 8,120,821	$ 10,038,741

Total amortization expenses for the years ended June 30, 2012 and 2011 were $1,917,920 and $1,965,610, respectively.

NOTE 7. LONG-TERM DEBT

A summary of the changes in long-term debt for the year ending June 30, 2012, is as follows:

	Beginning Balance 6/30/2011	Additions	Retirements	Ending Balance 6/30/2012	Due Within One Year
Accrued compensated absences	$ 507,542	$ 39,630	$ –	$ 547,172	$ 151,381
OPEB liability	277,683	33,533	–	311,216	–
Pension obligation bond	–	3,077,000	–	3,077,000	250,000
Total	$ 785,225	$ 3,150,163	$ –	$ 3,935,388	401,381

NOTE 7. LONG-TERM DEBT (Continued)

Pension Obligation Bond – On June 27, 2012, the District purchased Taxable Pension Obligation Bonds for the sole purpose of refinancing the outstanding "side fund" obligations in the amount of $3,077,000 with an interest rate of 4.40% per annum. The bonds are subject to mandatory redemption every 6 months as set forth in the "Indenture of Trust."

The refinancing was reported as a special item within the Statement of Revenues, Expenses and Changes in Net Position. This debt was incurred to retire a previously unrecorded liability between the District's funded status of the CALPERS plan versus the funded status of the entire risk pool.

Future mandatory redemptions of the pension obligation bonds principle at June 30, 2012 are as follows:

	Principal	Interest	Total
2013	$ 250,000	$ 133,788	$ 383,788
2014	262,000	121,506	383,506
2015	274,000	109,868	383,868
2016	286,000	97,658	383,658
2017	299,000	84,920	383,920
Due 2018 – 2022	1,706,000	212,938	1,918,938
Total	$ 3,077,000	$ 760,678	$ 3,837,678

NOTE 8. RESTRICTED NET POSITIONS

Restricted net positions at June 30 consist of the following:

	2012	2011
Unspent passenger facility charges	$ 1,114,511	$ 699,432
Funds held in trust	40,659	–
Emergency Medical Supplies	2,789	2,789
Asset Seizure Account	–	3,067
Total	$ 1,157,959	$ 705,288

NOTE 9. OPERATING LEASES

A significant portion of the District's revenue comes from operating leases of which the District is the lessor. The District leases parts of the terminal building, parking areas, north side buildings, land, hangars and ramps to various businesses and individuals. The cost of property held for leasing is not readily determinable.

NOTE 9. OPERATING LEASES (Continued)

Future minimum rentals on noncancelable leases as of June 30, 2012 are as follows:

2013	$ 1,384,456
2014	1,384,684
2015	1,349,104
2016	1,349,300
2017	1,346,940
2018 and thereafter	28,252,260
Total	$ 35,066,744

Maximum rentals which are adjusted periodically based on the Consumer Price Index have been shown at current payment amounts.

NOTE 10. COMMITMENTS AND CONTINGENCIES

The District is also, from time to time, involved in lawsuits arising in the ordinary course of District operations that, in the opinion of management, will not have a material effect on results of operations.

The District receives significant financial assistance from the U.S. government in the form of contracts and grants. Entitlement to these resources is generally contingent upon compliance with the terms and conditions of the contract or grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially, all federal grants and contracts are subject to a financial and compliance audit under federal regulations. Disallowed costs as a result of compliance audits become a liability to the District. Management believes that the potential for a material liability due to future audit disallowance is remote.

To meet congressional and FAA mandates, MPAD began the construction of runway safety improvements near Highway 68. The Highway 68 Coalition filed a petition for writ of mandate alleging CEQA violations along with a motion for preliminary injunction and request for a temporary retraining order to halt and prevent any construction activities. Multiple motions were filed by both parties resulting in the writ of mandate being issued. The court held that the District had violated CEQA and ordered the certificate of the EIR to be set aside. A new EIR has already been prepared and is ready for certification. The consequences to the District from this adverse ruling remain significant in that there is still a risk that the District will not be able to timely meet federal requirements concerning the runway safety area and the threat of possible rescission of federal grant money. The District feels it is reasonably possible that this litigation will result in a significant costs, but at this time any such costs are not measurable.

NOTE 11. PENSION PLAN

Plan Description – The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan. CalPERS provides retirement, disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute. CalPERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the District. That report may be obtained from their Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy – Participants are required to contribute salary percentage of their annual covered salary at a rate of 9% for safety fire personnel, 9% for safety police personnel and 7% for miscellaneous personnel. The District is required to contribute at an actuarial determined rate recommended by CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. For the fiscal year ended June 30, 2012, the employer contribution rates were 45.69% for the safety fire personnel, 33.26% for the safety police personnel and 11.35% for the miscellaneous personnel. The District's contributions to CalPERS for the years ending June 30, 2012, 2011 and 2010 were $851,950, $742,405 and $717,401, respectively, equal to the required contributions for each year.

NOTE 12. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description – The District provides a defined benefit healthcare plan (the "Retiree Health Plan"). The Retiree Health Plan provides healthcare insurance for eligible retirees that elect to keep healthcare insurance coverage through the CalPERS Health Benefit Program upon retirement. Benefit provisions are established by the Board of Directors.

Funding policy – The District's contribution for each miscellaneous and public safety fire retiree is the CalPERS mandatory employer portion of the health care premium. The District's contribution for each public safety police retiree is up to 90% of the health care premium (including the mandatory employer portion). The District currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. As of June 30, 2012 the cost of funding the Plan for the year was $11,632.

Annual OPEB Cost and Net OPEB Obligation – The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over the remaining period of 27 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in its net OPEB obligation to the Retiree Health Plan:

NOTE 12. OTHER POST EMPLOYMENT BENEFITS (OPEB)(Continued)

	Police	Fire	Misc	Total
ARC	$ 15,963	$ 9,298	$ 22,477	$ 47,738
Interest on net OPEB obligation	883	395	1,499	2,777
Adjustment to ARC	(1,722)	(757)	(2,871)	(5,350)
Annual OPEB cost (expense)	15,124	8,936	21,105	45,165
Contributions made	5,032	5,280	1,320	11,632
Increase in net OPEB obligation	10,092	3,656	19,785	33,533
Net OPEB obligation–beginning of year	88,287	39,531	149,865	277,683
Net OPEB obligation-end of year	$ 98,379	$ 43,187	$ 169,650	$ 311,216

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current fiscal year is as follows:

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	$ 149,725	$ 10,885	7%	$ 138,813
2011	$ 149,725	$ 10,885	7%	$ 277,683
2012	$ 45,165	$ 11,632	26%	$ 311,216

Funding Status and Funding Progress – As of June 30, 2012, the actuarial accrued liability (AAL) for benefits was $542,029, all of which is unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer as subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term prospective of the calculations.

NOTE 12. OTHER POST EMPLOYMENT BENEFITS (OPEB)(Continued)

The following simplifying assumptions were made:

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 60, or at the first subsequent year in which the member would qualify for benefits.

Marital status – Marital status of members does not apply as only the member is covered under the plan.

Mortality – Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website (www.cdc.gov). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

Turnover – The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in paragraph 35 of GASB Statement No. 45. In addition, the expected future working lifetimes of employees were determined using Table 2 in paragraph 35c of GASB Statement No. 45.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums is 3.5% based on the Average medical care component of the Consumer Price Index-Urban (CPI-U) for the past three years.

Health insurance premiums – 2012 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid.

Medicare coordination – Medicare was assumed as the primary payer for current and future retirees at age 65.

Payroll increase – Changes in the payroll for current employees are expected to increase at a rate of approximately 1.0% annually.

Discount rate – The calculation uses an annual discount rate of 2.0%. This is based on the assumed long-term return on plan assets or employer assets.

Actuarial cost method – The entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2009, was thirty years.

Percentage of retirees electing coverage – Historically, only about 28% of the District's total retirees elect medical coverage. This is factored into our calculations to arrive at the Annual Required Contributions and the Actuarial Accrued Liability.

NOTE 12. OTHER POST EMPLOYMENT BENEFITS (OPEB)(Continued)

The calculation of the District's other postemployment benefits cost is calculated as follows:

- Currently the district contributes $112.00 per month towards the medical premium for eligible Police retirees who have less than 10 years of service. For Police retirees who have more than 10 years of service, the district contributes 3% of the "retiree only" premium for every year of service, not to exceed 90% of the premium. The district does not contribute toward the retiree's spouse or dependant(s) medical premium.

- Currently the district contributes $112.00 per month toward eligible Fire & Miscellaneous retirees medical premium.

The number of retirees annually drawing these benefits is determined as follows:

- Current retirees drawing benefits, plus potential retirees (assuming a retirement age of 60 and 28% of retirees electing coverage under the Plan).

- Capped at life expectancy based on mortality tables published by the National Center for Health Statistics.

Plan for Funding – On an ongoing basis, the District will be reviewing its assumptions, comparing them against actual experience, and recalculating the needed funding with the goal of paying for postemployment benefits out of interest earned on designated funds.

NOTE 13. AUTHORITATIVE PRONOUNCEMENT ISSUED BUT NOT YET ADOPTED

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. Note disclosures and required supplementary information requirements about pensions are also addressed.

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The District has no plan for early implementation of this Statement. At this time the District is not certain of the effect the adoption of Statement 68 will have on the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MONTEREY PENINSULA AIRPORT DISTRICT
SCHEDULE OF FUNDING PROGRESS OF OTHER POST EMPLOYMENT BENEFITS
FOR THE YEAR ENDED JUNE 30, 2012

Fiscal Year	Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value *of* Assets	Unfunded Liability (UAAL)	Funded Status	Annual Covered Payroll	UAAL as a % of payroll
2010	7/1/2009	$1,135,375	–	$1,135,375	0%	$3,108,482	36.5%
2011	7/1/2009	1,135,375	–	1,135,375	0%	3,611,427	31.4%
2012	7/1/2011	542,029	–	542,029	0%	3,772,911	14.37%

SUPPLEMENTARY INFORMATION

MONTEREY PENINSULA AIRPORT DISTRICT
SCHEDULE OF CONSTRUCTION–IN–PROGRESS
FOR THE YEAR ENDED JUNE 30, 2012

Projects					
No.	Title	Balance at June 30, 2011	Additions	Completed/ Transferred to Capital Assets	Balance at June 30, 2012
2009–09	RSA Environmental – Phase 2	$ 930,442	$ (205,057)	$ (725,385)	$ –
2010–01	Wildlife Hazard Assessment/Mitigation	84,889	41,152	–	126,041
2011–01	RSA Design – Phase 3	2,376,711	188,625	(2,565,336)	–
2011–08	RSA Design & Reimbursement Agreement – Phase 4	1,739,172	105,614	(1,844,786)	–
2012-01	RSA – Construction	–	2,075,221	–	2,075,221
2012-02	Terminal Improvements & Entryway Awnings	–	17,835	–	17,835
2012-03	Part 139 Compliance	–	46,955	(46,955)	–
2012-04	Ready Return Lot Overlay	–	208,460	(208,460)	–
2012-05	Southside Hanger Apron Sealcoat	–	49,005	(49,005)	–
2012-06	Terminal Carpet Replacement	–	264,857	(264,857)	–
2012-07	Airport Energy Efficiency Projects – Phase 3	–	53,888	(53,888)	–
2012-08	NGEN Radio Acquisition	–	37,422	(37,422)	–
2012-09	Hand-Held AVI Scanners & Software	–	57,600	(57,600)	–
2012-10	Wi-Fi Hardware & Installation	–	4,976	(4,976)	–
2012-11	Mitigation Land Acquisition	–	101,169	(101,169)	–
	TOTAL	$ 5,131,214	$ 3,047,722	$ (5,959,839)	$ 2,219,097

MONTEREY PENINSULA AIRPORT DISTRICT
SCHEDULE OF CONSTRUCTION–IN–PROGRESS
FOR THE YEAR ENDED JUNE 30, 2011

Projects No.	Projects Title	Balance at June 30, 2010	Additions	Completed/ Transferred to Capital Assets	Balance at June 30, 2011
2008–07	Airport Terminal Signage Rehabilitation	$ 24,017	$ 23,307	$ (47,324)	$ –
2009–03	RSA Environmental – Phase 1	660,291	45,399	(705,690)	–
2009–04	Airfield Pavement – Phase 3A	649,972	–	(649,972)	–
2009–05	Airfield Pavement – Phase 3B	832,052	503,911	(1,335,963)	–
2009–06	Airport Land Use Study	–	46,956	(46,956)	–
2009–07	Airport Energy Efficiency Project – Lighting	27,866	2,968	(30,834)	–
2009–09	RSA Environmental – Phase 2	600,891	329,551	–	930,442
2010–01	Wildlife Hazard Assessment/Mitigation	38,673	46,216	–	84,889
2010–03	F.I.D.S. Flight Information Display System	385,218	192,511	(577,729)	–
2010–04	Airport Access Improvements – Phase 1	49,452	32,197	(81,649)	–
2011–01	RSA Design – Phase 3	–	2,376,711	–	2,376,711
2011–02	Airport Energy Efficient Project – Phase 2	–	133,735	(133,735)	–
2011–03	Airport-Wide Utility Mapping	–	12,987	(12,987)	–
2011–04	Parking Lot Seal & Stripe	–	121,563	(121,563)	–
2011–05	HVAC Unit (2 ea) Replacement	–	27,176	(27,176)	–
2011–06	Airfield Pavement – Phase 3C	–	15,536	(15,536)	–
2011–07	North Side Sewer Line Replacement	–	108,914	(108,914)	–
2011–08	RSA Design & Reimbursement Agreement – Phase 4	–	1,739,172	–	1,739,172
	TOTAL	$ 3,268,432	$ 5,758,810	$ (3,896,028)	$ 5,131,214

MONTEREY PENINSULA AIRPORT DISTRICT
SCHEDULE OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES:			
Commercial aviation:			
Landing fees	$ 459,706	$ 461,030	$ 1,324
RON fees	62,924	67,588	4,664
Apron fees	63,840	64,010	170
Total commercial aviation	586,470	592,628	6,158
General aviation –			
Landing fees	243,424	263,770	20,346
Total general aviation	243,424	263,770	20,346
Terminal leases and concessions:			
Gate usage fees	7,360	6,714	(646)
Terminal space rent	1,543,254	1,586,555	43,301
Terminal concessions	186,110	169,455	(16,655)
TCP Operators Permits	6,000	7,710	1,710
Taxi Operators Permits & Trip Fees	72,921	54,910	(18,011)
Rental car concessions	985,911	974,747	(11,164)
Parking concession	677,624	659,934	(17,690)
Tower lease	3,150	3,150	–
Total terminal leases and concessions	3,482,330	3,463,175	(19,155)
Heavy general aviation tenants:			
FBO rents	612,648	612,648	–
Fuel flowage fees	237,844	258,250	20,406
Total heavy general aviation tenants	850,492	870,898	20,406
Light general and other aviation tenants:			
Facility/space rents	188,544	195,702	7,158
Hangar rents	216,564	213,924	(2,640)
Tiedown fees	7,024	7,300	276
Total light general and other aviation tenants	412,132	416,926	4,794
Non–aviation tenants:			
Facility/space rents	999,752	972,189	(27,563)
Outside storage	186,168	147,528	(38,640)
RV storage	102,408	102,268	(140)
Monterey Highway Self–Storage	178,710	178,176	(534)
Miscellaneous non–aviation revenue	6,000	7,356	1,356
Total non–aviation tenants	$ 1,473,038	$ 1,407,517	$ (65,521)

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES (Continued):			
Other operating revenue:			
Property taxes	$ –	$ 129,956	$ 129,956
Utility charges	92,000	89,083	(2,917)
Late fees and interest	2,500	4,263	1,763
Bail and traffic fines	1,000	1,437	437
Decals and badges	24,500	26,037	1,537
Tenant plan reviews, checks and inspections	–	12,030	12,030
Miscellaneous other operating revenue	40,000	23,710	(16,290)
Total other operating revenue	160,000	286,516	126,516
TOTAL OPERATING REVENUES	7,207,886	7,301,430	93,544
OPERATING EXPENSES:			
Finance and administration:			
Salaries and wages	738,584	750,247	(11,663)
Salary and wage reimbursement – AIR and billing	–	(3,347)	3,347
Employer SSI	40,900	39,240	1,660
Employer MC	10,711	10,573	138
Workers' compensation insurance	12,711	12,879	(168)
ADP processing	2,112	1,950	162
CalPERS retirement	83,801	83,837	(36)
CalPERS health insurance	89,076	86,259	2,817
Flexible spending account	10,176	9,364	812
Dental insurance	10,964	10,187	777
Vision insurance	2,030	1,233	797
Retiree health insurance	1,320	1,320	–
Life insurance	698	699	(1)
GASB 45/OPEB Expense	23,052	5,389	17,663
Temporary personnel	–	9,987	(9,987)
Dues and subscriptions	22,500	29,973	(7,473)
Seminars and conferences	4,000	7,363	(3,363)
Professional development and education	4,000	1,564	2,436
Travel and business entertainment	10,000	21,486	(11,486)
Board of Directors – stipends	9,700	9,200	500
Board of Directors – seminars and conferences	3,000	6,465	(3,465)
Board of Directors – travel and business entertainment	3,500	6,184	(2,684)
Board of Directors – miscellaneous	10,476	10,044	432
Subtotal – forward	$ 1,193,311	$ 1,112,096	$ (18,785)

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
Subtotal – forward	$ 1,096,311	$ 1,112,096	$ (18,785)
OPERATING EXPENSES (Continued):			
Finance and administration:			
Public notices	1,200	1,306	(106)
LAFCO expense	13,130	13,126	4
Umbrella liability insurance expense	185,000	175,646	9,354
Administrative meetings/employee relations	7,000	7,610	(610)
Telephone	28,000	29,274	(1,274)
Postage and courier services	4,500	3,429	1,071
Bank fees and finance charges	5,500	7,125	(1,625)
Telecommunications	4,600	4,399	201
General supplies and materials	1,300	3,854	(2,554)
Office supplies and materials	18,000	14,908	3,092
District vehicle supplies and materials	25	25	–
District vehicle fuel	2,700	2,871	(171)
Office equipment repair and maintenance	7,700	7,909	(209)
General repairs and maintenance	250	–	250
District vehicle repair and maintenance	3,000	5,950	(2,950)
Other services	2,000	975	1,025
Tenant services	13,500	–	13,500
Art program	15,000	10,692	4,308
Annual audit/accounting	42,745	42,745	–
District legal counsel	74,000	108,834	(34,834)
Administration and finance	9,000	10,197	(1,197)
Human resources	1,500	900	600
Other legal services	9,500	5,392	4,108
Computer / LAN & IT	–	2,084	(2,084)
Marketing	70,000	84,945	(14,945)
Public relations	12,000	13,539	(1,539)
Air service development	30,000	12,068	17,932
Utilities – miscellaneous	3,120	2,688	432
Utilities – electricity	243,000	225,099	17,901
Utilities – natural gas	61,000	64,540	(3,540)
Utilities – water	55,500	58,014	(2,514)
Utilities – sewage/waste water	17,850	18,619	(769)
Utilities – solid waste disposal	17,520	17,747	(227)
Bad debt expense	7,500	25,262	(17,762)
Total finance and administration	$ 2,059,951	$ 2,093,868	$ (33,917)

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued):			
Planning and development:			
Salaries and wages	$ 329,622	$ 292,526	$ 37,096
Salary and wage reimbursement – AIP and billing	(65,000)	(57,545)	(7,455)
Holiday pay	–	246	(246)
Employer SSI	19,306	16,139	3,167
Employer MC	4,779	4,119	660
Workers' compensation insurance	12,653	10,379	2,274
ADP processing	1,056	866	190
CalPERS retirement	37,400	31,955	5,445
CalPERS health insurance	47,736	42,332	5,404
Flexible spending account	3,816	2,515	1,301
Dental insurance	4,360	2,938	1,422
Vision insurance	762	214	548
Life insurance	349	298	51
GASB 45/OPEB Expense	11,532	11,532	–
Personnel recruitment and pre-employment expense	1,783	1,441	342
Temporary personnel	–	11,202	(11,202)
Dues and subscriptions	1,125	1,095	30
Seminars and conferences	4,055	3,160	895
Professional development and education	4,000	–	4,000
Travel and business entertainment	3,000	5,359	(2,359)
Public notices	2,000	181	1,819
Administrative meetings/employee relations	650	167	483
Telephone	540	521	19
Telecommunications	2,720	5,057	(2,337)
Postage and courier services	468	328	140
General supplies and materials	–	18	(18)
Office supplies and materials	2,400	4,547	(2,147)
District vehicle supplies and materials	50	–	50
District vehicle fuel	2,400	2,415	(15)
Office equipment repair and maintenance	2,700	2,738	(38)
District vehicle repair and maintenance	1,620	1,212	408
Other services	1,200	199	1,001
Architect and engineer	20,000	30,410	(10,410)
District legal counsel	2,475	1,265	1,210
Public relations	1,000	75	925
Computer/LAN and IT	37,160	32,228	4,932
Environmental	2,500	8	2,492
Overtime pay	–	528	(528)
Other professional services	1,000	500	500
Total planning and development	$ 503,217	$ 454,337	$ 48,880

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued):			
Maintenance and custodial services:			
Salaries and wages	$ 538,372	$ 543,480	$ (5,108)
Salary and wage reimbursement – AIP and billing	–	(7,056)	7,056
Pager pay	10,980	10,600	380
Overtime pay	3,700	5,412	(1,712)
Holiday pay	2,997	2,214	783
Employer SSI	34,474	33,780	694
Employer MC	8,062	7,900	162
Employer SDI	–	–	–
Workers' compensation insurance	33,360	33,559	(199)
ADP processing	2,904	2,681	223
CalPERS retirement	62,228	62,103	125
CalPERS health insurance	156,840	156,215	625
Flexible spending account	13,992	12,735	1,257
Dental insurance	20,986	18,731	2,255
Vision insurance	2,796	2,556	240
Life insurance	963	961	2
GASB 45/OPEB Expense	31,704	7,418	24,286
Personnel recruitment and pre-employment expense	1,785	–	1,785
Dues and subscriptions	100	–	100
Seminars and conferences	500	–	500
Professional development and education	500	382	118
Travel and business entertainment	750	64	686
Administrative meetings/employee relations	242	–	242
Telephone	300	774	(474)
Telecommunications	767	293	474
Postage and courier services	360	11	349
Custodial supplies and materials	78,780	72,407	6,373
General supplies and materials	2,000	1,120	880
Maintenance supplies and materials	10,000	4,723	5,277
Office supplies and materials	1,000	152	848
District vehicle supplies and materials	500	1,438	(938)
District vehicle fuel	14,000	12,501	1,499
District vehicle repair and maintenance	13,000	13,934	(934)
Airfield repair and maintenance	112,000	42,213	69,787
Terminal repair and maintenance	78,440	68,849	9,591
Rental space repair and maintenance	30,100	41,085	(10,985)
Landscape and grounds repair and maintenance	23,300	30,679	(7,379)
Office equipment repair and maintenance	450	–	450
General repairs and maintenance	5,000	22,678	(17,678)
Other services	67,100	63,455	3,645
Total maintenance and custodial services	1,365,332	1,270,047	100,393

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued):			
Airport operations:			
Salaries and wages	322,179	330,550	(8,371)
Overtime pay	720	–	720
Employer SSI	19,551	20,233	(682)
Employer MC	4,681	5,029	(348)
Workers' compensation insurance	16,233	18,211	(1,978)
ADP processing	1,056	975	81
CalPERS retirement	64,362	65,896	(1,534)
CalPERS health insurance	53,814	54,262	(448)
Flexible spending account	5,088	4,701	387
GASB 45/OPEB Expense	14,952	3,573	11,379
Life insurance	349	349	–
Vision insurance	1,014	690	324
Dental insurance	7,210	6,423	787
Dues and subscriptions	805	825	(20)
Seminars and conferences	1,650	750	900
Professional development and education	2,100	2,025	75
Travel and business entertainment	4,350	3,546	804
Public notice	–	446	(446)
Telephone	120	1,563	(1,443)
Telecommunications	1,740	1,811	(71)
Postage and courier services	100	248	(148)
General supplies and materials	5,000	3,608	1,392
Office supplies and materials	680	1,639	(959)
District vehicle supplies and materials	200	–	200
District vehicle fuel	2,400	3,111	(711)
District vehicle repair and maintenance	1,100	463	637
General repairs and maintenance	14,400	7,883	6,517
Other services	–	45,984	(45,984)
Office equipment repair and maintenance	200	426	(226)
Architect and engineer	5,000	148	4,852
Administrative meetings/employee relations	–	46	(46)
Computer/LAN IT	9,000	–	9,000
Environmental	5,430	13,619	(8,189)
Total airport operations	616,739	599,033	(17,706)

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued):			
Police department:			
Salaries and wages	641,608	664,156	(22,548)
Salary and wage reimbursement – AIP and billing	(155,927)	(149,509)	(6,418)
Overtime pay	39,152	44,791	(5,639)
Holiday pay	14,210	10,345	3,865
Training pay	900	900	–
Uniform allowance	6,000	5,910	90
Employer SSI	43,517	42,183	1,334
Employer MC	10,176	9,889	287
Workers' compensation insurance	42,107	40,184	1,923
ADP processing	2,640	2,353	287
CalPERS retirement	187,297	191,384	(4,087)
CalPERS health insurance	74,736	75,775	(1,039)
Flexible spending account	7,632	7,572	60
Dental insurance	11,532	10,772	760
Vision insurance	1,524	1,238	286
Life insurance	963	874	89
Retiree health insurance	5,910	5,032	878
GASB 45/OPEB Expense	37,836	9,302	28,534
Personnel recruitment and pre-employment expense	1,500	–	1,500
Dues and subscriptions	1,200	5,745	(4,545)
Seminars and conferences	500	–	500
Professional development and education	3,000	729	2,271
Travel and business entertainment	2,500	2,717	(217)
Telephone	3,300	2,499	801
Telecommunications	12,000	14,468	(2,468)
Postage and courier services	500	114	386
General supplies and materials	15,000	8,984	6,016
Office supplies and materials	2,500	1,767	733
District vehicle supplies and materials	300	23	277
District vehicle fuel	12,000	10,153	1,847
Office equipment repair and maintenance	1,200	554	646
General repairs and maintenance	4,000	2,172	1,828
District vehicle repair and maintenance	10,000	17,096	(7,096)
Other services	8,500	4,940	3,560
Computer / LAN & IT	–	2,595	(2,595)
Total police department	1,049,813	1,047,707	2,106

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
Fire department:			
Salaries and wages	930,527	914,387	16,140
Salary and wage reimbursement – AIP and billing	(192,954)	(156,546)	(36,408)
Overtime pay	80,660	162,127	(81,467)
Holiday pay	28,563	26,158	2,405
Uniform allowance	8,880	8,580	300
Employer SSI	65,015	66,000	(985)
Employer MC	15,207	15,677	(470)
Workers' compensation insurance	62,914	62,090	824
ADP processing	3,432	3,073	359
CalPERS retirement	432,106	416,775	15,331
CalPERS health insurance	171,534	177,805	(6,271)
Flexible spending account	15,264	12,957	2,307
Dental insurance	21,766	18,869	2,897
Vision insurance	3,048	1,387	1,661
Life insurance	1,143	1,092	51
Retiree health insurance	6,600	5,280	1,320
GASB 45/OPEB Expense	19,764	5,150	14,614
Personnel recruitment and pre-employment expense	2,000	4,219	(2,219)
Dues and subscriptions	2,000	3,029	(1,029)
Seminars and conferences	3,000	295	2,705
Professional development and education	14,150	14,852	(702)
Travel and business entertainment	11,700	8,943	2,757
Telephone	2,580	4,194	(1,614)
Telecommunications	3,300	8,918	(5,618)
Postage and courier services	240	50	190
Custodial supplies and materials	300	–	300
General supplies and materials	14,700	11,312	3,388
Maintenance supplies and materials	600	–	600
Office supplies and materials	4,000	2,149	1,851
District vehicle supplies and materials	2,400	2,578	(178)
District vehicle fuel	9,000	11,553	(2,553)
Office equipment repair and maintenance	3,600	4,214	(614)
General repairs and maintenance	19,500	14,689	4,811
District vehicle repair and maintenance	12,000	(1,870)	13,870
Administrative Meetings / Employee Relations	–	53	(53)
Fire services	18,780	–	18,780
Other services	2,850	2,070	780
Total fire department	1,800,169	1,832,109	(31,940)

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
Board of Directors:			
Board member compensation	–	4,800	(4,800)
Employer SSI	–	298	(298)
Employer MC	–	70	(70)
Workers' compensation insurance	–	22	(22)
ADP processing	–	144	(144)
Total board of directors	–	5,334	(5,334)
TOTAL OPERATING EXPENSES	7,398,745	7,302,435	103,228
OPERATING INCOME (LOSS) BEFORE DEPRECIATION AND AMORTIZATION	(190,859)	(1,005)	189,854
DEPRECIATION AND AMORTIZATION	5,660,099	5,323,496	336,603)
OPERATING INCOME (LOSS)	(5,850,958)	(5,324,501)	526,457
NONOPERATING REVENUES (EXPENSES):			
Grants – FAA	16,843,767	2,138,966	(14,704,801)
Passenger Facility Charges	699,000	717,647	18,647
Passenger Facility Charges – interest income	4,700	6,694	1,994
NONOPERATING REVENUES (EXPENSES) (Continued):			
PFC – unrealized gain/(loss) on investments	350	1,215	865
Interest income – banks	2,775	4,300	1,525
Interest income – L.A.I.F.	2,450	1,151	(1,299)
Interest income – notes receivable	1,797	1,796	(1)
Interest income – MPAD investments	96,000	96,600	600
MPAD – unrealized gain/(loss) on investments	2,450	21,559	19,109
TOTAL NONOPERATING REVENUE	17,653,289	2,989,928	(14,730,178)
SPECIAL EVENT – Refinance of CalPERS side fund	(3,077,000)	(3,077,000)	–
CHANGE IN NET ASSETS	$ 8,725,331	$ (5,411,573)	$(14,136,904)

REPORTS REQUIRED BY

GOVERNMENT AUDITING STANDARDS

HAYASHI & WAYLAND
ACCOUNTING & CONSULTING, LLP

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Monterey Peninsula Airport District
Monterey, California

We have audited the financial statements of *Monterey Peninsula Airport District* as of and for the year ended June 30, 2012, and have issued our report thereon dated November 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the *District* is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the *District's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *District's* internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *District's* internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *District's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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This report is intended solely for the information and use of management, the Board of Directors, the Controller's Office of the State of California, the Department of Transportation and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than those specified parties.

December 12, 2012

Hayashi & Wayland

REPORTS REQUIRED BY

OMB CIRCULAR A-133 AND THE FAA

HAYASHI & WAYLAND
ACCOUNTING & CONSULTING, LLP

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Monterey Peninsula Airport District
Monterey, California

Compliance

We have audited the compliance of *Monterey Peninsula Airport District* (the *District*) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The *District's* major federal program is identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the *District's* management. Our responsibility is to express an opinion on the *District's* compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *District's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the *District's* compliance with those requirements.

In our opinion, the *District* complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the *District* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the *District's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the *District's* internal control over compliance.

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A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, the Controller's Office of the State of California, the Department of Transportation and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than those specified parties.

December 12, 2012

Hayashi & Wayland

MONTEREY PENINSULA AIRPORT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR/PASS–THROUGH GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
Federal Aviation Administration – Airport Improvement Program	20.106	Various	$ 2,138,966
Transportation Security Administration – Law Enforcement Officer Reimbursement Program	97.090	HSTS0208–HSLR329	187,467
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 2,326,433

See Notes to Schedule of Expenditures of Federal Awards.

MONTEREY PENINSULA AIRPORT DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organization." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. There were no noncash awards or loans outstanding.

MONTEREY PENINSULA AIRPORT DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

A. Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ___ Yes _X_ No
- Significant deficiency(ies) identified that are not considered material weakness(es)? ___ Yes _X_ None reported

Noncompliance material to financial statements noted? ___ Yes _X_ No

B. Federal Awards

Internal control over the program:

- Material weakness(es) identified? ___ Yes _X_ No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ___ Yes _X_ None reported

Type of auditors' report issued on compliance for the program: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A–133? ___ Yes _X_ No

C. Identification of Major Programs

CFDA Number(s)	Name of Federal Program or Cluster
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs: $ 300,000

Auditee qualified as low–risk auditee? _X_ Yes ___ No

II. FINANCIAL STATEMENT FINDINGS

A. Internal Control Deficiencies

There are no reportable conditions in internal control.

B. Compliance Findings

There are no compliance findings.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no findings and/or questioned costs for the year ending June 30, 2012.

MONTEREY PENINSULA AIRPORT DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

There were no findings and/or questioned costs for the year ending June 30, 2011.

HAYASHI
& WAYLAND
ACCOUNTING & CONSULTING, LLP

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
Monterey Peninsula Airport District
Monterey, California

<u>Compliance</u>

We have audited the compliance of *Monterey Peninsula Airport District* (the *District*) with the types of compliance requirements described in the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration (the Guide), for its passenger facility charge program for the year ended June 30, 2012. Compliance with the requirements of laws and regulations applicable to its passenger facility charges is the responsibility of the *District's* management. Our responsibility is to express an opinion on the *District's* compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *District's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the *District's* compliance with those requirements.

In our opinion, the *District* complied, in all material respects, with the compliance requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2012.

<u>Internal Control Over Compliance</u>

Management of the *District* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the *District's* internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the *District's* internal control over compliance.

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A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than those specified parties.

December 12, 2012

Hayashi & Wayland

MONTEREY PENINSULA AIRPORT DISTRICT
SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED
FOR THE YEAR ENDED JUNE 30, 2012

COLLECTIONS

Cumulative charges collected, June 30, 2011	$11,994,677
Charges collected for the quarter ended:	
September 30, 2011	188,190
December 31, 2011	147,872
March 31, 2012	186,791
June 30, 2012	194,794
Total charges collected for the fiscal year ended June 30, 2012	717,647
Cumulative charges collected, June 30, 2012	$12,712,324

DISBURSEMENTS

Projects		Cumulative Expenditures June 30, 2011	Expenditures for the Year Ended June 30, 2012	Adjustments for the Year Ended June 30, 2012	Cumulative Expenditures June 30, 2012
No.	Title				
AIP 12	Security Access System	$ 44,315	$ -	$ -	$ 44,315
AIP 13	E/A–W/S Access Garden Road	8,088	-	-	8,088
AIP 14	Storm Drain Rehabilitation	27,291	-	-	27,291
AIP 14	Taxiway/Apron Rehabilitation	45,617	-	-	45,617
AIP 14	Airport Signage System	37,121	-	-	37,121
AIP 14	Slurry Seal at S/E Hangars	4,293	-	-	4,293
AIP 14	Extend Water Main Northside	6,327	-	-	6,327
AIP 15 & 18	Residential Soundproofing Phase 2 & 3	425,327	-	-	425,327
AIP 16A	Extend Storm Drain to Pond	15,244	-	-	15,244
AIP 16B	Airfield Lighting Improvements	27,748	-	-	27,748
AIP 16C	Concrete Repair at SS Ramp	8,730	-	-	8,730
AIP 16E	Install Halotron in ARFF Vehicle	1,000	-	-	1,000
AIP 17	Holding Apron for Taxiway	52,518	-	-	52,518
AIP 19	E/A New Northside	24,691	-	-	24,691
AIP 20	Skypark Drive	87,728	-	-	87,728
AIP 21A	Extend Water Main Northside	83,211	-	-	83,211
AIP 21A	Old Northside Road Relocation	48,646	-	-	48,646
AIP 21A	Realign Portion of Skypark Drive	3,082	-	-	3,082
AIP 21A	Reconstruct S/E Entrance	13,216	-	-	13,216
AIP 21B	Slurry Seal Runway	5,934	-	-	5,934
AIP 21B	Slurry Seal Taxiway	6,555	-	-	6,555
AIP 22A	Blast Pad at Holding Area	10,615	-	-	10,615
AIP 22B	Terminal Area Security Fencing	2,388	-	-	2,388
AIP 22C	Acquire ARFF Equipment	1,375	-	-	1,375
AIP 22D	Modify ARFF Vehicle Cooling	1,335	-	-	1,335
AIP 22E	Lower Obstruction to Runway 10R	1,257	-	-	1,257
AIP 22F	Reconstruct Portion of Entrance Road to Northside	658	-	-	658
AIP 23	Residential Soundproofing Phase 4	137,560	-	-	137,560
AIP 24A	New Northside Road Relocation	163,576	-	-	163,576
AIP 24B	Terminal Fire Protection	17,500	-	-	17,500
AIP 24C	PCC Joint Sealant Replacement	15,087	-	-	15,087
AIP 24D	Terminal Storm Drain Rehab	10,000	-	-	10,000
AIP 24E	Pavement Maintenance Management Program	1,000	-	-	1,000
	Subtotal - forward	$ 1,339,033	$ -	$ -	$ 1,339,033

MONTEREY PENINSULA AIRPORT DISTRICT
SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)

Projects No.	Projects Title	Cumulative Expenditures June 30, 2011	Expenditures for the Year Ended June 30, 2012	Adjustments for the Year Ended June 30, 2012	Cumulative Expenditures June 30, 2012
	Subtotal - forward	$ 1,339,033	$ -	$ -	$ 1,339,033
AIP 24F	Reconstruct S/E Hangar Area Pavement, Phase 3	3,060	-	-	3,060
AIP 24G	Road and Storm Drain Improvement	5,088	-	-	5,088
AIP 26C	Purchase Runway Sweeper	84,708	-	-	84,708
AIP 26D	Reconstruct S/E Hangar Pavement, Phase 2	8,371	-	-	8,371
AIP 27	Residential Soundproofing, Phase 5	261,434	-	-	261,434
AIP 28A	Southeast Water Main Extension	1,601	-	-	1,601
AIP 28B	South Ramp Storm Drain Extension	3,422	-	-	3,422
AIP 28C	Taxiway D Reconstruction	33,750	-	-	33,750
AIP 28D	Northside Perimeter Fence Extension	10,958	-	-	10,958
AIP 28E	Upgrade Airfield Lighting Systems	29,925	-	-	29,925
AIP 29	Residential Soundproofing, Phase 6	100,493	-	-	100,493
AIP 30A	EIR 28L/Service Road	24,959	-	-	24,959
AIP 30B	EIR Airport Road Extension, Phase 2 & 3	29,375	-	-	29,375
AIP 31A	Skypark Drive Storm Drain Detention Facility, Phase 1	19,800	-	-	19,800
AIP 31B	Terminal Fire Door Replacement	4,000	-	-	4,000
AIP 31C	Generator Power to Del Monte East (DME) Security Gates	900	-	-	900
AIP 32	Soundproofing, Phase 7	222,222	-	-	222,222
AIP 33	EIR/EA for Skypark Extension to Northside	754	-	-	754
AIP 35A	Generator Power to DME Security Gate, Phase 2	1,788	-	-	1,788
AIP 35B	Terminal Door Replacement	4,700	-	-	4,700
AIP 35C	Extension of Fire Alarm System to Safety Building	1,148	-	-	1,148
AIP 35D	Acquisition of Eden Property/Airport Property Map	101,629	-	-	101,629
AIP 35E	Access Security Control	48,880	-	-	48,880
AIP 35F	Passback Security System	14,793	-	-	14,793
AIP 35G	Terminal Improvements and Modifications	129,999	-	-	129,999
AIP 36A	Airfield Markings	57,662	-	-	57,662
AIP 36B	Security Access Control, Phase 2	62,288	-	-	62,288
AIP 36C	Terminal Modernization Improvements	219,927	-	-	219,927
AIP 37	Residential Soundproofing, Phase 8	210,563	-	-	210,563
AIP 38A	Residential Soundproofing, Phase 9	85,734	-	-	85,734
AIP 38B	Residential Soundproofing, Phase 10 Design	17,384	-	-	17,384
AIP 39A	Purchase of ARFF Equipment – Index B	30,726	-	-	30,726
AIP 39B	Terminal Passenger Circulation and Auto Bag System	775,065	-	-	775,065
AIP 40	Residential Soundproofing Phase 10 Construction	97,680	-	-	97,680
AIP 41	Terminal Infrastructure Upgrade	1,709,214	-	-	1,709,214
AIP 42	Residential Soundproofing, Phase 11	99,467	-	-	99,467
AIP 43	Noise Exposure Map Update	15,000	-	-	15,000
AIP 44	Runway Safety	9,950	-	-	9,950
PFC BB	EIR Roadway Circulation Projects	104,000	-	-	104,000
PFC EE	Airport Biological Assessment	98,144	-	-	98,144
PFC H 1, 2, 5–8, 10–13	Terminal Renovation Improvement	2,683,579	-	-	2,683,579
PFC H–3	Terminal Door Replacement	91,873	-	-	91,873
PFC H–4	Terminal Roof Replacement	159,030	-	-	159,030
PFC H–14	Update Noise Exposure Map	150,130	-	-	150,130
PFC T	Electrical Service to North Ramp area	6,087	-	-	6,087
	Subtotal - forward	$ 9,170,293	$ -	$ -	$ 9,170,293

MONTEREY PENINSULA AIRPORT DISTRICT
SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)

Projects No.	Projects Title	Cumulative Expenditures June 30, 2011	Expenditures for the Year Ended June 30, 2012	Adjustments for the Year Ended June 30, 2012	Cumulative Expenditures June 30, 2012
	Subtotal - forward	$ 9,170,293	$ -	$ -	$ 9,170,293
PFC Y	Terminal Elevator	327,625	-	-	327,625
PFC Z	Fire Apparatus Pump Upgrade	15,540	-	-	15,540
MPAD	MPAD Projects -- Terminal Expansion	272,596	-	-	272,596
MPAD 114	Quick Turn Around (QTA) Area	18,001	-	-	18,001
2008-01	Residential Soundproofing Insulation Program (RSIP) Phase 12	96,540	-	-	96,540
2008-02	Fire Rescue / Command Vehicle	92,952	-	-	92,952
2008-03	ARFF Support / Structural Vehicle	29,047	-	-	29,047
2008-04	Airfield Pavement Rehabilitation & Improvements Phase 1	115,496	-	-	115,496
2008-05	Airfield Lighting & Signage Rehabilitation	114,620	-	-	114,620
2008-10	Airfield Pavement Rehabilitation & Improvements Phase 2	98,104	-	-	98,104
2009-01	Residential Soundproofing Insulation Program (RSIP) Phase 13	69,599	-	-	69,599
2009-03	RSA Environmental - Phase 1	35,286		-	35,286
2009-04	Airfield Pavement - Phase 3A	32,497		-	32,497
2009-05	Airfield Pavement - Phase 3B	112,722		-	112,722
2009-09	RSA Prelim Design & Environmental - Phase 2	47,558		-	47,558
2010-01	Wildlife Hazard Assessment / Mitigation	4,245	2,058	-	6,303
2010-03	Flight Information Display System	563,511		-	563,511
2010-04	Airport Access Improvements - Phase 1	81,649		-	81,649
2011-01	RSA Design - Phase 3	162,079	13,144	-	175,223
2011-06	Airfield Pavement - Phase 3C	15,536		-	15,536
2011-08	RSA Design & Reimbursable Agreement - Phase 4	86,959	5,280	-	92,239
2012-01	RSA - Construction	-	244,046	-	244,046
2012-02	Terminal Improvemenets & Entryway Awnings	-	17,835	-	17,835
	TOTAL	$11,562,455	$ 282,363	$ -	$11,844,818

See Notes to Financial Statements.

MONTEREY PENINSULA AIRPORT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
PASSENGER FACILITY CHARGE PROGRAM
FOR THE YEAR ENDED JUNE 30, 2012

There were no findings and/or questioned costs for the year ended June 30, 2012.

MONTEREY PENINSULA AIRPORT DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS -
PASSENGER FACILITY CHARGE PROGRAM
FOR THE YEAR ENDED JUNE 30, 2012

There were no findings and/or questioned costs for the year ended June 30, 2011.

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