HAYASHI & WAYLAND
ACCOUNTING & CONSULTING, LLP

MONTEREY PENINSULA AIRPORT DISTRICT

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2013 AND 2012

AND INDEPENDENT AUDITORS' REPORT

MONTEREY PENINSULA AIRPORT DISTRICT

Table of Contents

MONTEREY PENINSULA AIRPORT DISTRICT

Board of Directors

June 30, 2013

Name	Office	Term Expires
Matthew Nelson	Chair	December 2014
Carl M. Miller	Vice Chair	December 2014
Mary Ann Leffel	Director	December 2016
William J. Sabo	Director	December 2016
Richard D. Searle	Director	December 2016

HAYASHI
& WAYLAND
ACCOUNTING & CONSULTING, LLP

INDEPENDENT AUDITORS' REPORT

Board of Directors
Monterey Peninsula Airport District
Monterey, California

Report on the Financial Statements

We have audited the accompanying financial statements of Net Position, Revenues, Expenses and Changes in Net Position and Cash Flows of the *Monterey Peninsula Airport District (the District)*, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the *Monterey Peninsula Airport District*, as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

1188 Padre Drive, Suite 101 | P.O. Box 1879 | Salinas, CA 93902 | Tel: (831) 759-6300 | Fax: (831) 759-6380
P.O. Box 22205 | Carmel, CA 93923 | Tel: (831) 624-5333 or (831) 625-3374 | Fax: (831) 626-9113
104 South Vanderhurst Avenue, Suite A | P.O. Box 927 | King City, CA 93930 | Tel: (831) 385-5426 | Fax: (831) 385-5156
660 Camino Aguajito, Ste. 300 | Monterey, CA 93940 | Tel: (831) 647-8055 | Fax: (831) 647-8465
1101 Riverside Avenue, Suite C | Paso Robles, CA 93446 | Tel: (805) 226-7375 | Fax: (805) 221-3131

Other Matters

Required Supplementary Information

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.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. 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 the Schedule of Passenger Facility Charges Collected and Expended required by the Federal Aviation Administration are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and Schedule of Passenger Facility Charges Collected and Expended is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and Schedule of Passenger Facility Charges Collected and Expended are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Construction in Progress and Schedule of Revenues and Expenses – Budget and Actual have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dates November 4, 2013 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Monterey Peninsula Airport District's internal control over financial reporting and compliance.

November 4, 2013

Hayashi & Wayland, LLP

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, 2013 (FY13). 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, sustainable and fiscally responsible manner, and develop the airport to meet future needs, opportunities and challenges*.

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, five commercial airlines served the airport with scheduled flights. Alaska, American Eagle, United Express and US Airways Express provided 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.

Overview of the Monterey Peninsula Airport District (Continued)

Costs are recovered through airport rents from tenants, landing and fuel fees, and other charges. 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 *Statements 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 *Statements 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 reported for certain items in this statement may result in cash flows in future fiscal periods.

The *Statements 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 $44,987,826 for FY13.

- In FY 13, the District completed and capitalized projects listed below:
  - Terminal Improvements ($112,268),
  - Exhibit Cases – Art in the Airport ($25,021),
  - Observation Deck – Roof Expansion Joint ($26,381),

Financial Highlights (Continued)

- AoA Perimeter Fence Security Cameras ($10,691), and
- Wildlife Hazard Assessment/Plan ($142,106).

→ The District met its debt obligation and reduced its taxable pension obligation bond principal to $2,827,000.

→ 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, FY08 through FY13, are presented below in Table I.

Table I

TOTAL ENPLANEMENTS: FISCAL YEARS 2008 - 2013											
FY2008		FY2009		FY2010		FY2011		FY2012		FY2013	
7/07	20,332	7/08	21,540	7/09	18,934	7/10	18,732	7/11	16,912	7/12	18,364
8/07	23,018	8/08	22,285	8/09	18,512	8/10	17,582	8/11	16,204	8/12	18,501
9/07	19,811	9/08	16,501	9/09	16,581	9/10	16,657	9/11	16,765	9/12	17,462
10/07	20,759	10/08	17,464	10/09	16,536	10/10	16,542	10/11	17,247	10/12	18,778
11/07	19,876	11/08	15,134	11/09	16,045	11/10	15,192	11/11	15,213	11/12	17,675
12/07	18,035	12/08	14,930	12/09	16,191	12/10	14,512	12/11	14,678	12/12	16,962
1/08	14,786	1/09	12,112	1/10	13,068	1/11	12,153	1/12	12,403	1/13	14,516
2/08	15,791	2/09	13,205	2/10	13,119	2/11	12,839	2/12	13,585	2/13	14,747
3/08	17,790	3/09	15,147	3/10	15,825	3/11	14,419	3/12	14,445	3/13	18,015
4/08	17,948	4/09	15,628	4/10	16,951	4/11	14,509	4/12	15,262	4/13	17,563
5/08	18,995	5/09	18,185	5/10	17,542	5/11	16,821	5/12	16,529	5/13	17,619
6/08	21,138	6/09	18,191	6/10	18,513	6/11	16,409	6/12	18,207	6/13	18,588
	228,279		200,322		197,817		186,367		187,450		208,790

→ FY13 enplanements increased 11.4% to 208,790 primarily due to the new non-stop daily air service to San Diego initiated by Alaska Airlines on June 4, 2012.

→ Alaska Airlines operated non-stop daily flights on 76-seat Bombardier turbo-props (Q-400) to San Diego (SAN).

→ American Eagle, wholly-owned by American Airlines, operated non-stop flights to Los Angeles (LAX) on 44-seat Embraer regional jets (EMB-145), July-December 2012. American contracted with Skywest Airlines to fly 50-seat Canadair regional jets (CRJ-200) during the latter half of FY13.

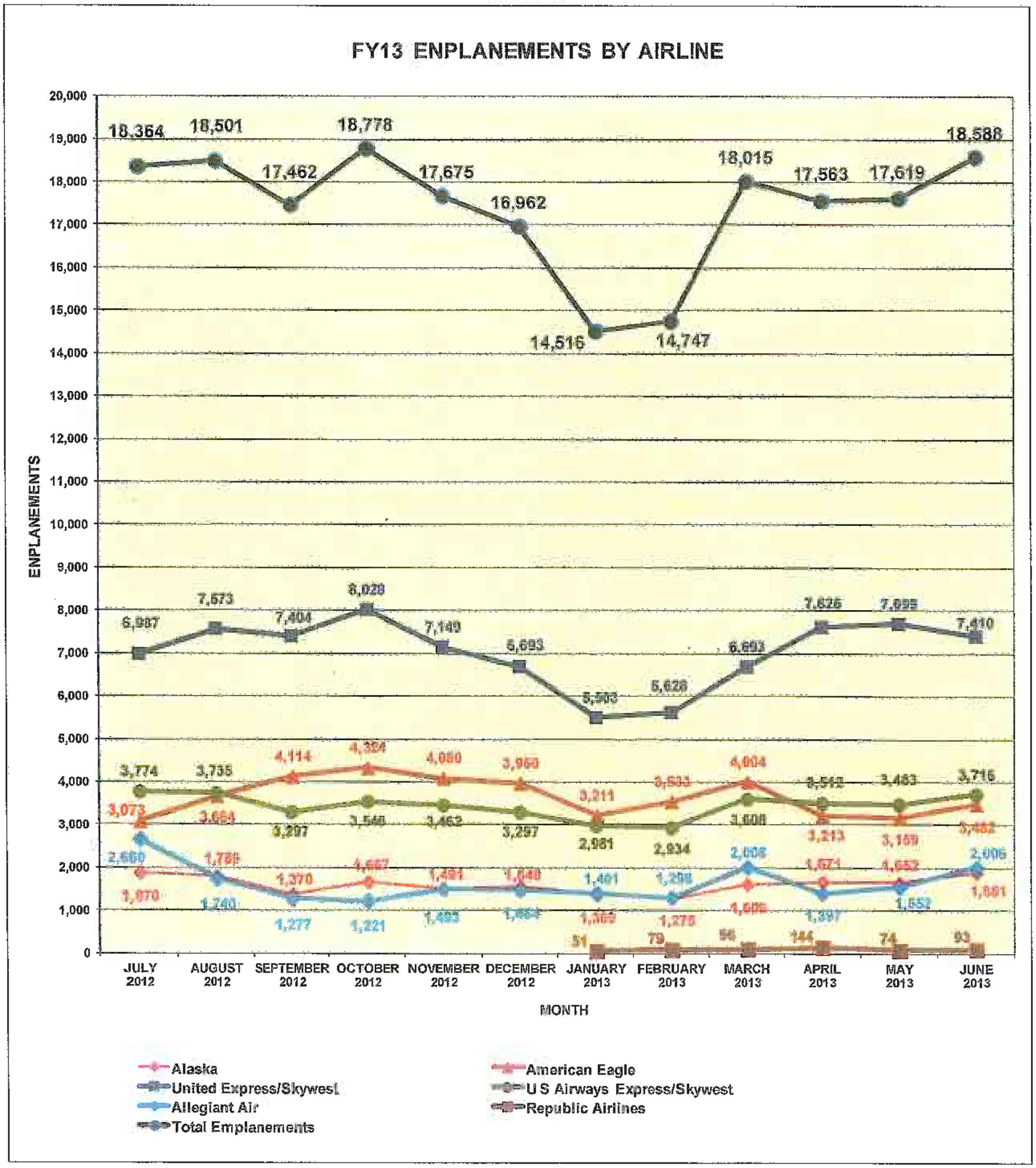
→ United Express, operated by SkyWest Airlines, provided non-stop flights on 30-seat Brasilia turbo-props (EMB-120) to San Francisco (SFO) and all jet, non-stop flights on 50-seat Canadair regional jets (CRJ-200) to Los Angeles (LAX) and to Denver (DEN).

Financial Highlights (Continued)

- US Airways Express, flown by SkyWest Airlines, provided non-stop service on 50-seat regional jets (CRJ-200) to Phoenix (PHX).

Chart A presents the monthly enplanements for FY13, in total and for the scheduled commercial airlines that serve the Airport. FY13 enplanements totaled 208,790.

Chart A



Financial Highlights (Continued)

- ✈ Allegiant Travel Company 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. It increased its scheduled service to three and four days weekly during its peak seasons (March and late June – early August). Allegiant combines ultra-low airfares with lodging and entertainment packages.

- ✈ Republic operated as a non-scheduled, charter airline flying "gambler specials" to Nevada gaming resorts on 99-seat ERJ-190 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 $7,745,542, an increase of 6.1% from FY12 and an increase of 10.2% from FY11.

Revenues derived from the activities of commercial airlines and from airline passengers using services offered by the Airport account for 57.5% of FY13 Total Operating Revenue. There was an increase of 9.9% compared to FY12 and an increase of 15.1% over FY11 (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 8.7% from FY12 and increased 12.3% from FY11.

General Aviation activities generated 20.3% 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 1.4% from FY12 and 7.3% from FY11.

Non-aviation tenants produced 18.7% of Total Operating Revenues, a increase of 2.8% from FY12 and a decrease of 1.2% from FY11.

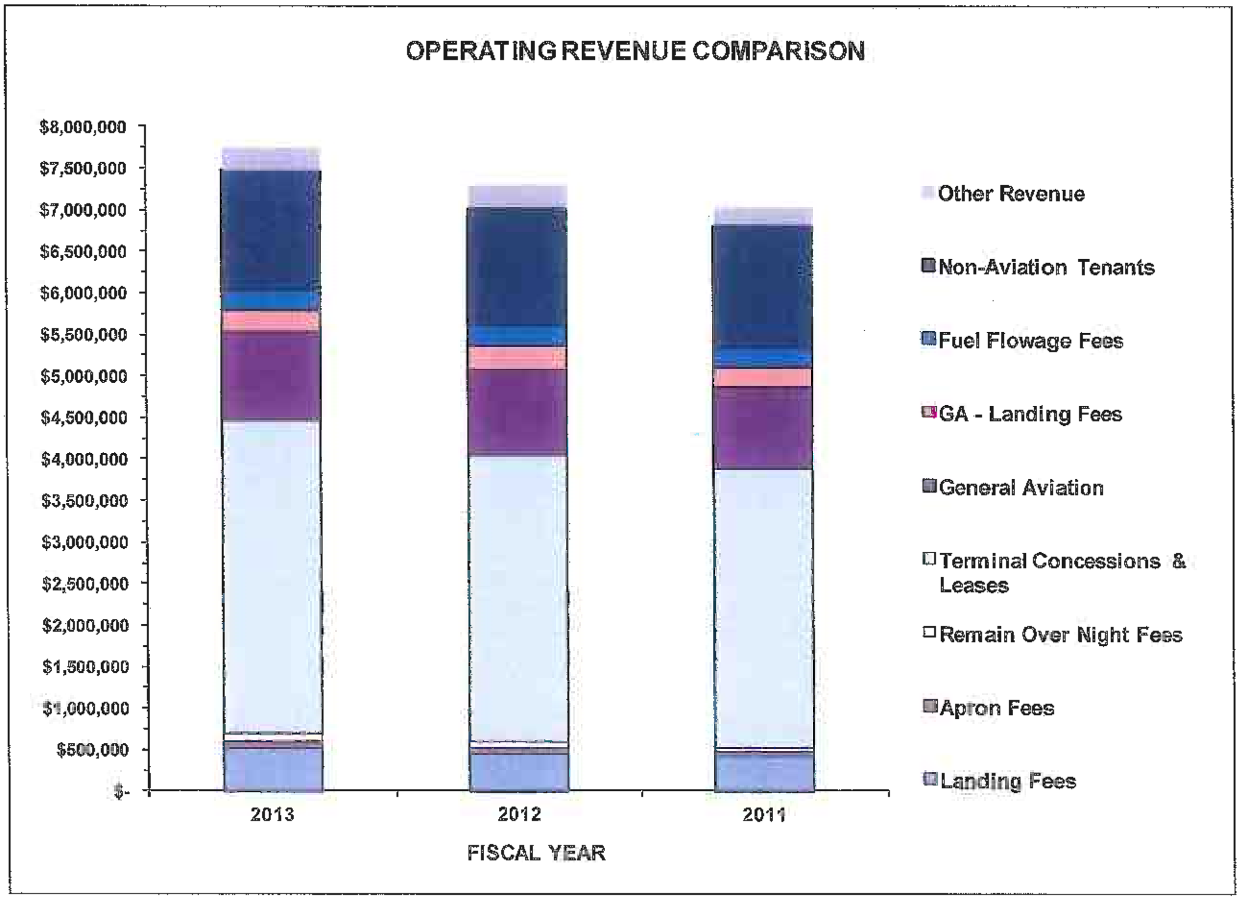
Table II presents a comparison of operating revenues in FY13, FY12 and FY11. Chart C provides a graphic representation of operating revenues.

Operating Revenues (Continued)

Table II

FISCAL YEAR 2013, 2012 & 2011 OPERATING REVENUE COMPARISON						
	2013		2012		2011	
Landing Fees	$ 514,350	6.6%	$ 461,030	6.3%	$ 411,265	5.9%
Apron Fees	80,280	1.0%	64,010	0.9%	57,620	0.8%
Remain Over Night Fees	97,923	1.3%	67,588	0.9%	52,218	0.7%
Terminal Concessions & Leases	3,763,362	48.6%	3,463,175	47.4%	3,351,252	47.7%
Subtotal - Commercial Aviation	$ 4,455,915	57.5%	$ 4,055,803	55.5%	$ 3,872,355	55.1%
General Aviation	$ 1,083,004	14.0%	$ 1,029,575	14.1%	$ 994,866	14.2%
Landing Fees	242,956	3.1%	263,770	3.6%	232,557	3.3%
Fuel Flowage Fees	247,955	3.2%	258,250	3.5%	239,602	3.4%
Subtotal - General Aviation	$ 1,573,915	20.3%	$ 1,551,595	21.3%	$ 1,467,025	20.9%
Non-Aviation Tenants	$ 1,447,303	18.7%	$ 1,407,516	19.3%	$ 1,464,876	20.8%
Other Revenue	268,410	3.5%	286,516	3.9%	225,745	3.2%
Total	$ 7,745,543	100%	$ 7,301,430	100%	$ 7,030,001	100%

Chart C



Operating Expenses

Operating Expenses in FY13 decreased 1.1% compared to FY12 and decreased 1.6% when compared to FY11. Salaries and payroll costs for all airport employees decreased $399,529 (6.9%) to just over $5.4 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 decreased $399,529 (6.9%) from FY12 and decreased $184,097 (3.3%) compared to FY11. Salaries and payroll costs, measured as a percentage of total operating expenses, were 75.1% in FY13, 79.7% in FY12 and 76.4% in FY11. A significant portion of this decrease in FY13 was directly attributable to a reduction in retirement (CalPERs) expense. By eliminating the CalPERs side accounts (Special Item in FY12), the District's employer rates were slashed. The District's employer retirement expense decreased 34.7% compared to FY12 and 25.0% compared to FY11.

Table III

FISCAL YEAR 2013, 2012 & 2011 SALARY & PAYROLL EXPENSE						
	2013		2012		2011	
Finance & Administration	$ 1,009,627	18.6%	$ 1,009,830	17.3%	$ 996,266	17.8%
Planning & Development	432,095	8.0%	407,755	7.0%	432,877	7.7%
Maintenance & Custodial Services	832,887	15.4%	900,346	15.5%	885,626	15.8%
Airport Operations	281,246	5.2%	510,891	8.8%	482,623	8.6%
Police Department	1,125,854	20.8%	1,101,771	18.9%	1,074,451	19.2%
Fire Department	1,742,282	32.1%	1,892,928	32.5%	1,736,246	31.0%
Total	$ 5,423,992	100%	$ 5,823,521	100%	$ 5,608,089	100%

Finance & Administration operating expenses (27.0% of total FY13 operating expenses) decreased 6.7% from FY12 and decreased 20.9% from FY11. In prior fiscal years, expenses related to the District's Board were recognized in this department, but in FY12 these expenses were segregated into a separate department, "Board of Directors".

Planning & Development operating expenses (6.6% of total FY13 operating expenses) increased 5.4% from FY12 and 14.5% from FY11. These increases are due to expanding workload, much of which is driven by the Runway Safety Area (RSA) project.

Maintenance & Custodial Services operating expenses (18.1% of total FY13 operating expenses) increased 2.8% from FY12 and 9.5% from FY11. Many of the District's facilities are old and require more intensive maintenance and more frequent repairs. Expenses have been effectively controlled by emphasizing preventive maintenance.

Airport Operations operating expenses (6.4% of total FY13 operating expenses) decreased 23.0% from FY12 and 12.0% from FY11. The decrease is primarily due to the restructure of the department and the elimination of one position.

Operating Expenses (Continued)

Police Department operating expenses (15.6% of FY13 total operating expenses) increased 7.4% from FY12 and 15.5% from FY11. The department has experienced escalating costs due in part to mandated security requirements and in part to a negotiated pay increase. These increases have been partially mitigated 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 (23.8% of total FY13 operating expenses) decreased 6.1% compared to FY12 and 2.5% compared to FY11. Expenses have been mitigated through cooperative agreements with the Cypress Fire Protection District.

Board of Directors operating expenses (2.5% of total FY13 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 was fully implemented in FY13.

Table IV compares operating expenses for FY13, FY12 and FY11. 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 2013, 2012 & 2011 OPERATING EXPENSE COMPARISON									
	2013			2012[1]			2011		
Finance & Administration	$	1,954,130	27.0%	$	2,093,868	28.7%	$	2,469,425	33.6%
Planning & Development		478,933	6.6%		454,337	6.2%		418,193	5.7%
Maintenance & Custodial Services		1,306,119	18.1%		1,270,047	17.4%		1,192,565	16.2%
Airport Operations		461,023	6.4%		599,033	8.2%		523,850	7.1%
Police Department		1,124,937	15.6%		1,047,707	14.3%		974,009	13.3%
Fire Department		1,719,797	23.8%		1,832,109	25.1%		1,763,613	24.0%
Board of Directors		180,505	2.5%		5,334	0.1%		-	0.0%
Total[1]	$	7,225,444	100%	$	7,302,435	100%	$	7,341,655	100%

[1]Special Item is excluded

Special Item

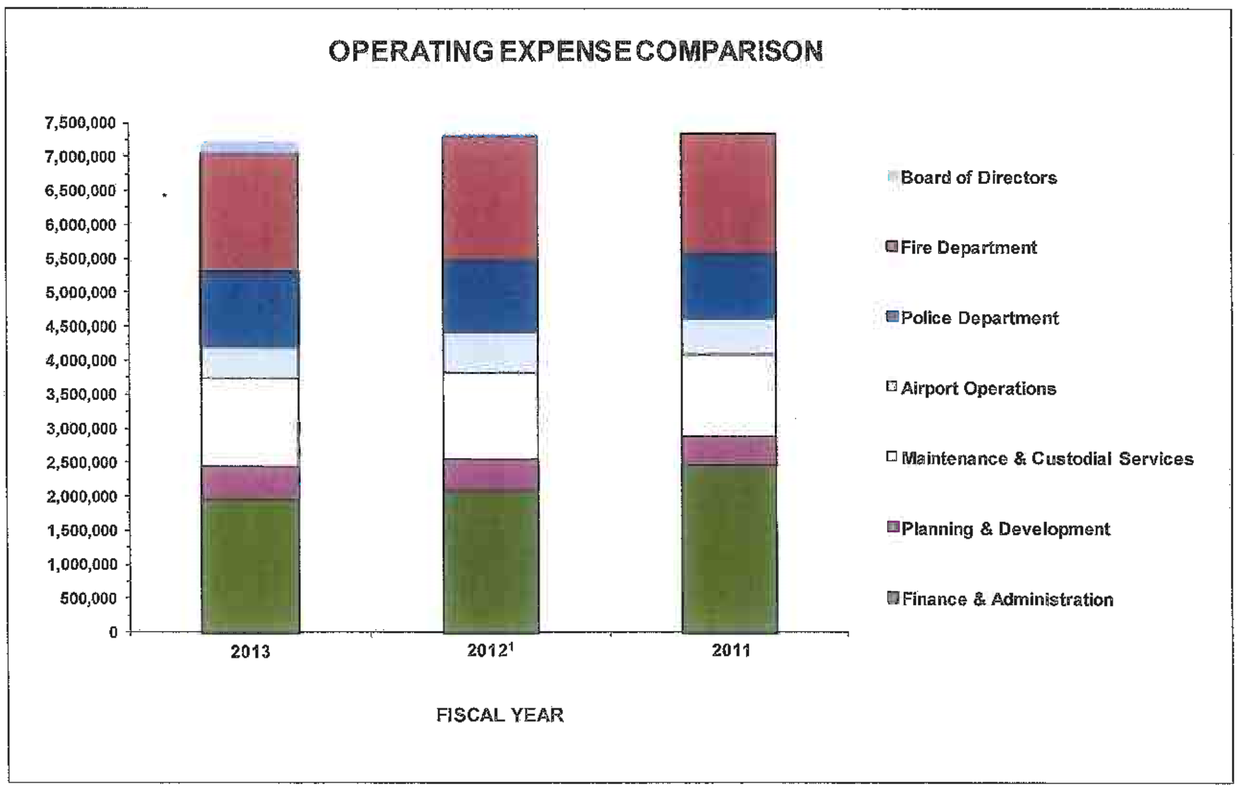
In FY12 the District incurred a one-time operating expense of $3,077,000, comprised of $66,817 of bond issuance expense and $3,010,183 of employee retirement expense, to eliminate "side accounts" that were established by the California Public Employee Retirement System (CalPERs) in 2003. "Side account"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

Special Item (Continued)

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 50.917% to 24.706%.

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.

Chart D



[1]Special Item is excluded

Actual versus Budget – FY13 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 2013.

Table V

Operating Revenues	Budget	Actual	Variance
Commercial Aviation - Fees	$ 686,680	$ 692,553	$ 5,873
General Aviation - Fees	272,481	242,956	(29,525)
Terminal Concessions and Leases	3,688,020	3,763,362	75,342
Heavy General Aviation	886,503	873,563	(12,940)
Light General & Other Aviation Tenants	443,958	457,396	13,438
Non-Aviation Tenants	1,394,122	1,447,303	53,181
Other Operating Revenue	279,360	268,410	(10,950)
Total Operating Revenue	$ 7,651,124	$ 7,745,543	$ 94,419
Operating Expenses	Budget	Actual	Variance
Finance & Administration	$ 1,942,778	$ 1,954,130	$ (11,352)
Planning & Development	476,938	478,933	(1,995)
Maintenance & Custodial Services	1,336,859	1,306,119	30,740
Airport Operations	519,616	461,023	58,593
Police Department	1,051,999	1,124,937	(72,938)
Fire Department	1,731,585	1,719,797	11,788
Board of Directors	307,402	180,505	126,897
Total Operating Expenses	$ 7,367,177	$ 7,225,444	$ 141,733
Operating Income / (Loss) before Depreciation	283,947	520,099	236,152
Depreciation & Amortization Expense	5,737,555	5,812,743	(75,188)
Net Operating Income / (Loss)	(5,453,608)	(5,292,644)	160,964
Other Revenues (Expenses)	$ 31,373,407	$ 1,663,486	$ (29,709,921)
Change in Net Position	$ 25,919,799	$ (3,629,158)	$ (29,548,957)

Actual Financial Results – FY13, FY12 & FY11 Revenues, Expenses and Change in Net Position

Table VI compares actual operating revenues, operating expenses, and the change in net position for Fiscal Years 2013, 2012 and 2011.

Table VI

	FY 2013 Actual	FY 2012 Actual	FY 2011 Actual
Operating Revenues			
Commercial Aviation - Fees	$ 692,553	$ 592,628	$ 521,103
General Aviation - Fees	242,956	263,770	232,557
Terminal Concessions and Leases	3,763,362	3,463,175	3,351,252
Heavy General Aviation	873,563	870,898	835,450
Light General & Other Aviation Tenants	457,396	416,926	399,018
Non-Aviation Tenants	1,447,303	1,407,517	1,464,876
Other Operating Revenue	268,410	286,516	225,745
Total Operating Revenue	$ 7,745,543	$ 7,301,430	$ 7,030,001
Operating Expenses			
Finance & Administration	$ 1,954,130	$ 2,093,868	$ 2,469,425
Planning & Development	478,933	454,337	418,193
Maintenance & Custodial Services	1,306,119	1,270,047	1,192,565
Airport Operations	461,023	599,033	523,850
Police Department	1,124,937	1,047,707	974,009
Fire Department	1,719,797	1,832,109	1,763,613
Board of Directors	180,505	5,334	-
Total Operating Expenses	$ 7,225,444	$ 7,302,435	$ 7,341,655
Operating Income / (Loss) before Depreciation	520,099	(1,005)	(311,654)
Depreciation & Amortization Expense	5,812,743	5,323,496	5,090,025
Net Operating Income / (Loss)	(5,292,644)	(5,324,501)	(5,401,679)
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)	$ 1,663,486	$ 2,989,928	$ 5,365,319
Change in Net Position	$ (3,629,158)	$ (5,411,573)	$ (36,360)

Changes in Net Position

Net Position decreased $3,629,158 from FY12 to FY13. (Refer to Table V, Actual versus Budget – FY13 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 FY13, the District received $916,219 from FAA AIP grants and $816,019 from PFCs to fund architectural design, engineering design, and construction costs.

From FY11 to FY12, Net Position decreased $5,411,573. (Refer to Table VI, Actual Financial Results – FY13, FY12 & FY11 Revenues, Expenses and Change in Net Position.) The District received $2,138,966 from FAA AIP grants and $717,647 from PFCs to fund airport improvement projects during FY12.

Capital and Debt Activity

Total District assets are $50,125,455; total liabilities, $5,137,629. The difference is $45.0 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 3.92. 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:

	2013	2012	2011
Tangible assets			
Land	$ 1,784,717	$ 1,784,717	$ 1,683,547
Land Improvements	18,642,091	21,093,290	17,555,776
Buildings	11,267,792	12,347,396	13,264,308
Furniture, equipment and vehicles	1,150,357	1,394,450	1,561,959
Construction in progress	4,511,463	2,219,097	5,131,214
Total	37,356,420	38,838,950	39,196,804
Intangible assets	6,403,268	8,120,821	10,038,741
Total capital assets - net	$ 43,759,688	$ 46,959,771	$ 49,235,545

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 2013 was a very positive year for the District. Continuing the trend, operating revenues were 6.1% higher than in FY12 and 10.2% higher than in FY11.

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-seven and one half percent (57.5%) of the Airport's operating revenues are collected from the airlines that pay user fees to the airport (8.9%) and from concessions that provide services to the passengers (48.6%). In FY13, concession revenue generated by rental car operations and parking lots grew significantly. Rental car concession revenue increased 5.1% and parking concession revenue increased 13.4%.

Enplanements in FY13 totaled 208,790 (Chart A), a 11.4% increase over FY12. The increase primarily resulted from the daily non-stop service to San Diego by Alaska Airlines. 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.

The District continues its dialogue with the airlines now serving the Airport to expand service. The District 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. The District has requested a one year extension of the grant through December 31, 2014.

General aviation, which recorded dismal numbers in FY11, rebounded in FY12. In FY13, some aspects of general aviation did not fare as well. GA landing fees were 7.9% lower than FY12. Fuel flowage fees were 4.0% lower than FY12. However, light general aviation space and hangar rentals increased 9.7% compared to FY12.

Non-aviation rents increased 2.8% in FY13 and ended a two-year downward trend.

A settlement was reached with the Highway 68 Coalition (see Note 11. Commitments and Contingencies). The agreement will allow the District to move forward with mandated safety improvements in the airport's runway safety area. The District is required to pay Highway 68 Coalition's legal fees as a condition of the settlement. A portion of these legal fees were paid in October 2012; another portion was accrued at year-end and will be paid in Fiscal Year 2014.

Given the historical performance data and current economic indicators, the forecast for Fiscal Year 2014 is positive.

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, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 473,645	$ 692,884
Investments (Note 2)	3,695,338	4,021,132
Accounts receivable – net (Note 3)	401,889	373,188
Note receivable – current portion	9,604	8,947
Interest receivable	14,234	18,463
Prepaid and other current assets	76,680	64,191
Total current assets	4,661,786	5,178,805
CAPITAL ASSETS – net (Note 4)	37,356,420	38,838,951
NONCURRENT ASSETS:		
Cash and cash equivalents – restricted (Note 2)	1,060,814	750,364
Investments – restricted (Note 2)	630,995	708,520
Note receivable	2,568	12,173
Intangible assets – net (Note 6)	6,403,268	8,120,821
Total other assets	8,107,249	9,591,878
TOTAL ASSETS	$ 50,125,455	$ 53,609,634
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accrued liabilities (Note 7)	$ 699,006	$ 281,225
Accrued compensated absences (Note 8)	146,357	151,381
Grant received in advance	8,000	3,750
Rent received in advance from tenants	8,877	8,877
CEQA mitigation funds received in advance	38,048	88,894
Pension obligation bond payable – current portion (Note 8)	262,000	250,000
Funds held in trust (Note 5)	40,839	40,719
Total current liabilities	1,203,127	824,846
NONCURRENT LIABILITIES:		
Security deposits	320,401	314,984
Accrued compensated absences – noncurrent (Note 8)	401,468	395,791
Rent received in advance from tenants	309,936	318,813
OPEB liability (Note 8 and 14)	337,697	311,216
Pension Obligation Bond Payable (Note 8)	2,565,000	2,827,000
Total long-term liabilities	3,934,502	4,167,804
TOTAL LIABILITIES	5,137,629	4,992,650
NET POSITION		
Net investment in capital assets	43,214,547	46,959,772
Restricted (Note 9)	1,383,565	1,157,959
Unrestricted	389,714	499,253
TOTAL NET POSITION	44,987,826	48,616,984
TOTAL LIABILITIES AND NET POSITION	$ 50,125,455	$ 53,609,634

See Notes to Financial Statements.

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES:		
Commercial aviation	$ 692,553	$ 592,628
General aviation	242,956	263,770
Terminal leases and concessions	3,763,362	3,463,175
Heavy general aviation tenants	873,563	870,898
Light general aviation and other aviation tenants	457,396	416,926
Non-aviation tenants	1,447,303	1,407,517
Other operating revenue	268,410	286,516
Total operating revenues	7,745,543	7,301,430
OPERATING EXPENSES:		
Finance and administration	1,954,130	2,093,868
Planning and development	478,933	454,337
Maintenance and custodial services	1,306,119	1,270,047
Airport operations	461,023	599,033
Police department	1,124,937	1,047,707
Fire department	1,719,797	1,832,109
Board of Directors	180,505	5,334
Total operating expenses	7,225,444	7,302,435
OPERATING GAIN (LOSS) BEFORE DEPRECIATION AND AMORTIZATION	520,099	(1,005)
DEPRECIATION AND AMORTIZATION	5,812,743	5,323,496
OPERATING LOSS	(5,292,644)	(5,324,501)
NONOPERATING REVENUES AND (EXPENSES):		
Grants – FAA	916,219	2,138,966
Passenger Facility Charges	816,019	717,647
Interest income	97,360	110,541
Interest expense	(133,788)	–
Unrealized gain (loss) on investments	(32,324)	22,774
Total nonoperating revenues (expenses)	1,663,486	2,989,928
SPECIAL ITEM – Refinance of CalPERS side fund	–	(3,077,000)
CHANGE IN NET POSITION	(3,629,158)	(5,411,573)
NET POSITION, BEGINNING OF YEAR	48,616,984	54,028,557
NET POSITION, END OF YEAR	$ 44,987,826	$ 48,616,984

See Notes to Financial Statements.

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 7,398,376	$ 7,289,100
Other receipts	277,358	294,860
Payments to vendors	(3,414,708)	(3,681,680)
Payments to employees	(3,378,192)	(3,299,617)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	882,834	602,663
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from grants and PFC charges	1,732,238	2,856,613
Payments for purchases of fixed assets and construction of property – net of disposals	(2,612,658)	(3,047,722)
Interest paid on long-term debt	(133,788)	–
Principle payments on long-term debt	(250,000)	–
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(1,264,208)	(191,109)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income received	69,265	131,799
Investments purchased	403,320	(33,786)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	472,585	98,013
NET INCREASE IN CASH AND CASH EQUIVALENTS	91,211	509,567
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,443,248	933,681
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,534,459	$ 1,443,248
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, 2013 AND 2012
(Continued)

	2013	2012
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (5,292,644)	$ (5,324,501)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,812,743	5,323,496
(Increase) decrease in:		
Accounts receivable	(28,701)	87,182
Note receivable	8,948	8,344
Prepaid and other current assets	(12,489)	(5,702)
Increase (decrease) in:		
Accrued liabilities	418,433	92,326
OPEB liability – current portion	26,481	33,533
Rent received in advance from tenants	(8,877)	94,690
Grant received in advance	4,250	–
CEQA mitigation funds received in advance	(50,846)	88,894
Funds due to others	120	200,982
Security deposits	5,416	3,419
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 882,834	$ 602,663
STATEMENT OF FINANCIAL POSITION CLASSIFICATION OF CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS – Unrestricted	$ 473,645	$ 692,884
CASH AND CASH EQUIVALENTS – Restricted	1,060,814	750,364
TOTAL CASH AND CASH EQUIVALENTS	$ 1,534,459	$ 1,443,248

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, 2013, 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 is estimated using historical write-offs as well as management's judgment about collectability of individual receivables The allowance at June 30, 2013 and June 30, 2012 was $10,000.

Prepaid Expenses – Prepaid amounts have been allocated to expense prorated 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 $5,000 for equipment and $25,000 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.

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

	2013	2012
ASSETS	Level 1	Level 1
Cash and cash equivalents	$ 1,534,459	$ 1,443,248
Investments	$ 4,326,333	$ 4,729,652

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2013 and 2012.

Net Position – Net position represents the difference between assets and liabilities and is 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 and related debt (or liability).

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."

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 4, 2013, which is the date the financial statements were available to be issued.

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, 2013, $1,133,639 of the District's bank balances of $1,806,145 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.

NOTE 2. CASH AND INVESTMENTS (Continued)

Investments at June 30, 2013 consisted of the following:

Unrestricted:	
Local Agency Investment Fund	$ 85,251
Certificates of Deposit	3,610,087
Total unrestricted investments	3,695,338
Restricted:	
Certificates of Deposit	630,995
Total restricted investments	630,995
Total investments	$ 4,326,333

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, 2013 and 2012:

	2013					
	Restricted					
	QTAC	Security Deposits	Passenger Facilities Charges	ASA/ EMS	Debt Service	Totals
Cash in bank	$ 40,839	$ 221,020	$ 793,114	$ 2,789	$ 3,052	$ 1,060,814
Investments	–	84,173	546,822	–	–	630,995
Total	$ 40,839	$ 305,193	$ 1,339,936	$ 2,789	$ 3,052	$ 1,691,809

	2012					
	Restricted					
	QTAC	Security Deposits	Passenger Facilities Charges	ASA/ EMS	Debt Service	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

NOTE 3. ACCOUNTS RECEIVABLE – NET

Accounts receivable at June 30 are as follows:

	2013	2012
Accounts receivable	$ 411,889	$ 383,188
Less allowance for doubtful accounts	10,000	10,000
Accounts receivable – net	$ 401,889	$ 373,188

NOTE 4. CAPITAL ASSETS – NET

	2013			
	Balance as of 6/30/2012	Additions Transfers	Disposals Transfers	Balance as of 6/30/2013
Capital assets not being depreciated:				
Land	$ 1,784,717	$ –	$ –	$ 1,784,717
Construction in progress	2,219,097	2,608,834	(316,468)	4,511,463
Total capital assets not being depreciated	4,003,814	2,608,834	(316,468)	6,296,180
Capital assets being depreciated:				
Land improvements	34,104,822	–	–	34,104,822
Buildings	20,855,345	138,650	–	20,993,995
Furniture, equipment and vehicles	3,569,189	39,536	–	3,608,725
Total capital assets being depreciated	58,529,356	178,186	–	58,707,542
Less accumulated depreciation for:				
Land improvements	13,011,532	2,451,199	–	15,462,731
Buildings	8,507,948	1,218,254	–	9,726,202
Furniture, equipment and vehicles	2,174,739	283,629	–	2,458,368
Total accumulated depreciation	23,694,219	3,953,082	–	27,647,301
Total capital assets being depreciated – net	34,835,136	(3,774,896)	–	31,060,240
Capital assets – net	$ 38,838,951	$ (1,166,062)	$ (316,468)	$ 37,356,420

	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

NOTE 5. 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, 2013, are the residual collections after building a $3.8 million facility.

The residual funds held in trust will be used to pay for final costs of the facility and any remaining amount will be remitted to the rental car companies. This trust will be eliminated during fiscal year 2014.

NOTE 6. INTANGIBLE ASSETS – NET

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

	2013	2012
Noise safety study and soundproofing	$ 21,549,356	$ 21,549,356
Master Plan	208,440	208,440
Logo	9,833	9,833
Wildlife hazard assessment plan	142,106	–
Total	21,909,735	21,767,629
Less accumulated amortization	15,506,467	13,646,808
Intangible assets – net	$ 6,403,268	$ 8,120,821

Total amortization expenses for the years ended June 30, 2013 and 2012 were $1,859,629 and $1,917,920, respectively.

NOTE 7. ACCRUED LIABILITIES

Accrued liabilities at June 30 consist of the following:

	2013	2012
Accrued settlement expense (see Note 11)	$ 545,138	$ –
Accrued employee benefits	70,679	98,719
Other accrued expenses	83,189	182,506
Total	$ 699,006	$ 281,225

NOTE 8. LONG-TERM DEBT

A summary of the changes in long-term debt for the year ending June 30, 2013, is as follows:

	Beginning Balance 6/30/2012	Additions	Payments	Ending Balance 6/30/2013	Due Within One Year
Accrued compensated absences	$ 547,172	$ 5,653	$ –	$ 552,825	$ 146,357
OPEB liability	311,216	26,481	–	337,697	–
Pension obligation bond	3,077,000	–	(250,000)	2,827,000	262,000
Total	$ 3,935,388	$ 32,134	$ (250,000)	$ 3,717,522	$ 408,357

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, 2013 are as follows:

	Principal	Interest	Total
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
2018	312,000	71,632	383,632
Due 2019 – 2022	1,394,000	141,306	1,535,306
Total	$ 2,827,000	$ 626,890	$ 3,453,890

NOTE 9. RESTRICTED NET POSITIONS

Restricted net positions at June 30 consist of the following:

	2013	2012
Unspent passenger facility charges	$ 1,339,937	$ 1,114,511
Funds held in trust	40,839	40,659
Emergency Medical Supplies	2,789	2,789
Total	$ 1,383,565	$ 1,157,959

NOTE 10. 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.

Future minimum rentals on noncancelable leases as of June 30, 2013 are as follows:

2014	$ 1,355,740
2015	1,356,004
2016	1,356,200
2017	1,353,840
2018	1,348,848
2019 and thereafter	35,095,189
Total	$ 41,865,821

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

NOTE 11. 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, the District 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 restraining 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. After a lengthy litigation process a settlement agreement was reached on August 14, 2013. The settlement requires the District to modify the runway safety improvements plan along with paying the Highway 68 Coalition's legal fees totaling $989,992. At June 30, 2013, the amount still owed in legal fees was $545,138. This amount is included in accrued expenses.

NOTE 12. 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. From July 1, 2012 through December 31, 2012, the employer contribution rates were 24.70% for safety fire personnel, 24.7% for safety police personnel and 10.24% for the miscellaneous personnel. From January 1, 2013 through June 30, 2013, the employer contribution rates were 11.5% for safety fire personnel, 11.5% for safety police personnel and 6.25% for the miscellaneous personnel. The District's contributions to CalPERS for the years ending June 30, 2013, 2012 and 2011 were $556,457, $851,950 and $742,405, respectively, equal to the required contributions for each year.

NOTE 13. 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, 2013, the cost of funding the Plan for the year was $18,048.

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 13. OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

	Police	Fire	Misc	Total
ARC	$ 15,963	$ 9,298	$ 22,477	$ 47,738
Interest on net OPEB obligation	1,089	473	1,900	3,462
Adjustment to ARC	(2,125)	(906)	(3,640)	(6,671)
Annual OPEB cost (expense)	14,927	8,865	20,737	44,529
Contributions made	11,208	5,472	1,368	18,048
Increase in net OPEB obligation	3,719	3,393	19,369	26,481
Net OPEB obligation–beginning of year	98,380	43,188	169,648	311,216
Net OPEB obligation-end of year	$ 102,099	$ 46,581	$ 189,017	$ 337,697

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
2011	$ 149,725	$ 10,885	7%	$ 277,683
2012	$ 45,165	$ 11,632	26%	$ 311,216
2013	$ 44,529	$ 18,048	41%	$ 337,697

Funding Status and Funding Progress – As of June 30, 2013, 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 13. 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 – 2013 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 June 30, 2013, was twenty-six 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 13. 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 14. 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, 2013

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%
2013	7/1/2011	$542,029	–	$542,029	0%	$3,723,772	14.56%

SUPPLEMENTARY INFORMATION

MONTEREY PENINSULA AIRPORT DISTRICT
SCHEDULE OF CONSTRUCTION–IN–PROGRESS
FOR THE YEAR ENDED JUNE 30, 2013

Projects No.	Projects Title	Balance at June 30, 2012	Additions	Completed/ Transferred to Capital Assets	Balance at June 30, 2013
2010–01	Wildlife Hazard Assessment/Mitigation	$ 126,041	$ 16,065	$ (142,106)	$ –
2012-01	RSA – Construction	2,075,221	2,334,943	–	4,410,164
2012-02	Terminal Improvements & Entryway Awnings	17,835	94,433	(112,268)	–
2013-02	Airport Master Plan	–	86,044	–	86,044
2013-03	ARFF Apron Expansion Joints	–	10,715	–	10,715
2013-04	AQA Perimeter Fence Security	–	10,691	(10,691)	–
2013-06	Observation Deck – Roof Expansion Joint	–	26,382	(26,382)	–
2013-07	Slurry Seal – Skypark Drive	–	4,540	–	4,540
2013-08	Exhibit Case – Art in Airport	–	25,021	(25,021)	–
	TOTAL	$ 2,219,097	$ 2,608,834	$ (316,468)	$ 4,511,463

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 REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES:			
Commercial aviation:			
Landing fees	$ 507,245	$ 514,350	$ 7,105
RON fees	99,477	97,923	(1,554)
Apron fees	79,958	80,280	322
Total commercial aviation	686,680	692,553	5,873
General aviation –			
Landing fees	272,481	242,956	(29,525)
Total general aviation	272,481	242,956	(29,525)
Terminal leases and concessions:			
Gate usage fees	8,448	7,212	(1,236)
Terminal space rent	1,636,361	1,637,662	1,301
Terminal concessions	150,329	152,340	2,011
TCP Operators Permits	7,400	8,330	930
Taxi Operators Permits & Trip Fees	162,350	182,209	19,859
Rental car concessions	1,019,764	1,024,401	4,637
Parking concession	700,218	748,058	47,840
Tower lease	3,150	3,150	--
Total terminal leases and concessions	3,688,020	3,763,362	75,342
Heavy general aviation tenants:			
FBO rents	625,596	625,608	12
Fuel flowage fees	260,907	247,955	(12,952)
Total heavy general aviation tenants	886,503	873,563	(12,940)
Light general and other aviation tenants:			
Facility/space rents	221,652	221,844	192
Hangar rents	214,354	227,408	13,054
Tiedown fees	7,952	8,144	192
Total light general and other aviation tenants	443,958	457,396	13,438
Non–aviation tenants:			
Facility/space rents	965,957	983,290	17,333
Outside storage	134,328	128,216	(6,112)
RV storage	104,808	110,922	6,114
Monterey Highway Self–Storage	183,029	217,997	34,968
Miscellaneous non–aviation revenue	6,000	6,878	878
Total non–aviation tenants	$ 1,394,122	$ 1,447,303	$ 53,181

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES (Continued):			
Other operating revenue:			
Property taxes	$ 129,956	$ 132,555	$ 2,599
Utility charges	89,000	100,279	11,279
Late fees and interest	3,000	4,320	1,320
Bail and traffic fines	800	2,610	1,810
Decals and badges	25,000	27,757	2,757
Tenant plan reviews, checks and inspections	–	444	444
Miscellaneous other operating revenue	31,604	445	(31,159)
Total other operating revenue	279,360	268,410	(10,950)
TOTAL OPERATING REVENUES	7,651,124	7,745,543	94,419
OPERATING EXPENSES:			
Finance and administration:			
Salaries and wages	767,392	763,847	3,545
Salary and wage reimbursement – AIR and billing	–	(2,207)	2,207
Employer SSI	42,581	40,299	2,282
Employer MC	11,128	10,715	413
Workers' compensation insurance	7,637	7,308	329
ADP processing	2,112	1,978	134
CalPERS retirement	78,036	74,714	3,322
CalPERS health insurance	79,290	84,197	(4,907)
Flexible spending account	10,314	10,250	64
Dental insurance	11,678	10,839	839
Vision insurance	1,088	1,068	20
Retiree health insurance	1,368	1,362	6
Life insurance	699	699	–
GASB 45/OPEB Expense	840	4,559	(3,719)
Temporary personnel	–	8,045	(8,045)
Dues and subscriptions	23,000	30,286	(7,286)
Seminars and conferences	5,750	7,285	(1,535)
Professional development and education	6,000	1,167	4,833
Travel and business entertainment	10,500	13,113	(2,613)
Subtotal – forward	$ 1,059,413	$ 1,069,524	$ (10,111)

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
Subtotal – forward	$ 1,059,413	$ 1,069,524	$ (10,111)
OPERATING EXPENSES (Continued):			
Finance and administration:			
Public notices	1,200	2,076	(876)
LAFCO expense	12,950	12,948	2
Umbrella liability insurance expense	185,000	178,503	6,497
Administrative meetings/employee relations	9,000	12,572	(3,572)
Telephone	24,000	15,630	8,370
Postage and courier services	4,500	4,690	(190)
Bank fees and finance charges	7,800	7,250	550
Telecommunications	4,600	3,912	688
General supplies and materials	2,500	3,569	(1,069)
Office supplies and materials	16,000	11,036	4,964
District vehicle supplies and materials	25	211	(186)
District vehicle fuel	2,750	2,119	631
Office equipment repair and maintenance	8,225	8,216	9
General repairs and maintenance	250	–	250
District vehicle repair and maintenance	4,000	2,144	1,856
Other services	1,500	1,370	130
Tenant services	2,500	887	1,613
Art program	15,000	16,413	(1,413)
Annual audit/accounting	44,025	44,025	–
District legal counsel	6,000	11,193	(5,193)
Administration and finance	9,000	8,778	222
Human resources	1,200	–	1,200
Other legal services	4,000	1,051	2,949
Computer / LAN & IT	2,580	2,552	28
Marketing	70,000	86,217	(16,217)
Public relations	12,000	13,852	(1,852)
Air service development	30,000	13,935	16,065
Other Professional Services	–	4,112	(4,112)
Utilities – miscellaneous	3,000	2,696	304
Utilities – electricity	232,000	223,238	8,762
Utilities – natural gas	67,000	64,731	2,269
Utilities – water	58,400	87,690	(29,290)
Utilities – sewage/waste water	19,360	17,300	2,060
Utilities – solid waste disposal	18,000	18,254	(254)
Bad debt expense	5,000	–	5,000
Property tax and assessments	–	1,436	(1,436)
Total finance and administration	$ 1,942,778	$ 1,954,130	$ (11,352)

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued):			
Planning and development:			
Salaries and wages	$ 320,280	$ 319,621	$ 659
Salary and wage reimbursement – AIP and billing	(65,000)	(41,290)	(23,710)
Holiday pay	–	151	(151)
Employer SSI	18,732	17,491	1,241
Employer MC	4,648	4,450	198
Workers' compensation insurance	6,860	6,894	(34)
ADP processing	1,056	980	76
CalPERS retirement	32,787	31,488	1,299
CalPERS health insurance	40,560	40,524	36
Flexible spending account	3,870	3,844	26
Dental insurance	3,642	3,624	18
Vision insurance	408	401	7
Life insurance	350	349	1
GASB 45/OPEB Expense	420	2,279	(1,859)
Personnel recruitment and pre-employment expense	1,785	–	1,785
Dues and subscriptions	1,125	650	475
Seminars and conferences	4,455	1,210	3,245
Professional development and education	4,000	919	3,081
Travel and business entertainment	3,000	4,818	(1,818)
Public notices	2,000	507	1,493
Administrative meetings/employee relations	650	–	650
Telephone	540	624	(84)
Telecommunications	3,780	3,898	(118)
Postage and courier services	480	661	(181)
General supplies and materials	–	52	(52)
Office supplies and materials	3,300	4,088	(788)
District vehicle supplies and materials	50	–	50
District vehicle fuel	2,400	1,798	602
Office equipment repair and maintenance	3,000	4,074	(1,074)
District vehicle repair and maintenance	1,600	2,999	(1,399)
Other services	1,000	1,883	(883)
Architect and engineer	25,000	20,754	4,246
District legal counsel	2,400	–	2,400
Public relations	1,000	260	740
Computer/LAN and IT	40,760	38,932	1,828
Environmental	5,000	–	5,000
Other professional services	1,000	–	1,000
Total planning and development	$ 476,938	$ 478,933	$ (1,995)

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued):			
Maintenance and custodial services:			
Salaries and wages	$ 546,764	$ 502,856	$ 43,908
Salary and wage reimbursement – AIP and billing	–	(5,212)	5,212
Pager pay	10,980	10,350	630
Overtime pay	3,785	5,204	(1,419)
Holiday pay	3,075	3,194	(119)
Employer SSI	35,006	32,426	2,580
Employer MC	8,187	7,583	604
Employer SDI	18,850	17,639	1,211
Workers' compensation insurance	2,904	2,591	313
ADP processing	57,095	51,727	5,368
CalPERS retirement	159,852	164,153	(4,301)
CalPERS health insurance	14,184	13,078	1,106
Flexible spending account	21,030	17,720	3,310
Dental insurance	1,500	1,368	132
Vision insurance	964	910	54
Life insurance	1,032	1,026	6
GASB 45/OPEB Expense	1,164	6,276	(5,112)
Personnel recruitment and pre-employment expense	1,785	374	1,411
Dues and subscriptions	300	–	300
Seminars and conferences	1,500	–	1,500
Professional development and education	1,200	–	1,200
Travel and business entertainment	1,500	13	1,487
Administrative meetings/employee relations	250	–	250
Telephone	300	1,031	(731)
Telecommunications	19,992	17,656	2,336
Postage and courier services	360	13	347
Custodial supplies and materials	80,724	78,008	2,716
General supplies and materials	2,000	4,886	(2,886)
Maintenance supplies and materials	10,000	5,775	4,225
Office supplies and materials	1,000	2,488	(1,488)
District vehicle supplies and materials	500	44	456
District vehicle fuel	15,000	10,799	4,201
District vehicle repair and maintenance	13,500	11,867	1,633
Airfield repair and maintenance	83,000	78,847	4,153
Terminal repair and maintenance	90,376	73,445	16,931
Rental space repair and maintenance	30,100	97,724	(67,624)
Landscape and grounds repair and maintenance	24,550	19,886	4,664
Office equipment repair and maintenance	450	–	450
General repairs and maintenance	5,000	5,398	(398)
Other services	67,100	64,976	2,124
Total maintenance and custodial services	$ 1,336,859	$ 1,306,119	$ (30,740)

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued):			
Airport operations:			
Salaries and wages	$ 198,150	$ 188,029	$ 10,121
Overtime pay	720	359	361
Employer SSI	12,328	11,783	545
Employer MC	2,883	2,756	127
Workers' compensation insurance	4,913	4,514	399
ADP processing	792	701	91
CalPERS retirement	20,289	19,099	1,190
CalPERS health insurance	42,639	43,976	(1,337)
Flexible spending account	3,864	3,630	234
Life insurance	265	255	10
GASB 45/OPEB Expense	312	1,715	(1,403)
Vision insurance	408	378	30
Dental insurance	5,068	4,051	1,017
Personnel recruitment and pre-employment expense	–	465	(465)
Dues and subscriptions	795	571	224
Seminars and conferences	2,700	1,285	1,415
Travel and business entertainment	5,050	3,645	1,405
Telephone	300	182	118
Telecommunications	5,400	5,892	(492)
Postage and courier services	180	110	70
General supplies and materials	4,100	2,817	1,283
Office supplies and materials	7,500	2,528	4,972
District vehicle supplies and materials	300	–	300
District vehicle fuel	3,000	1,119	1,881
District vehicle repair and maintenance	1,170	235	935
General repairs and maintenance	11,300	3,627	7,673
Other services	136,200	128,608	7,592
Office equipment repair and maintenance	240	653	(413)
Architect and engineer	7,000	3,357	3,643
Computer/LAN IT	35,100	17,470	17,630
Environmental	6,650	7,213	(563)
Total airport operations	$ 519,616	$ 461,023	$ 58,593

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued):			
Police department:			
Salaries and wages	$ 693,832	$ 708,868	$ (15,036)
Salary and wage reimbursement – AIP and billing	(141,920)	(112,361)	(29,559)
Overtime pay	43,688	48,085	(4,397)
Holiday pay	16,478	13,142	3,336
Training pay	900	900	–
Uniform allowance	6,240	6,120	120
Employer SSI	47,191	46,481	710
Employer MC	11,038	10,899	139
Workers' compensation insurance	25,411	24,337	1,074
ADP processing	2,904	2,620	284
CalPERS retirement	140,819	144,175	(3,356)
CalPERS health insurance	78,828	80,855	(2,027)
Flexible spending account	7,734	7,688	46
Dental insurance	11,556	11,009	547
Vision insurance	822	778	44
Life insurance	1,050	961	89
Retiree health insurance	12,468	10,934	1,534
GASB 45/OPEB Expense	1,380	8,004	(6,624)
Personnel recruitment and pre-employment expense	500	3,102	(2,602)
Dues and subscriptions	1,200	2,935	(1,735)
Seminars and conferences	500	–	500
Professional development and education	2,500	655	1,845
Travel and business entertainment	3,500	4,281	(781)
Telephone	3,300	2,406	894
Telecommunications	32,580	35,324	(2,744)
Postage and courier services	500	104	396
General supplies and materials	10,000	8,490	1,510
Office supplies and materials	2,500	2,665	(165)
District vehicle supplies and materials	300	–	300
District vehicle fuel	12,000	10,686	1,314
Office equipment repair and maintenance	1,000	241	759
General repairs and maintenance	2,000	1,010	990
District vehicle repair and maintenance	10,000	11,482	(1,482)
Other services	5,000	11,311	(6,311)
Other legal services	–	9,233	(9,233)
Computer / LAN & IT	4,200	7,517	(3,317)
Total police department	$ 1,051,999	$ 1,124,937	$ (72,938)

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
Fire department:			
Salaries and wages	$ 941,436	$ 941,368	$ 68
Salary and wage reimbursement – AIP and billing	(119,643)	(128,145)	8,502
LC 4850 wages	–	4,073	(4,073)
Overtime pay	105,350	173,472	(68,122)
Holiday pay	31,349	25,404	5,945
Uniform allowance	8,880	8,880	–
Employer SSI	67,394	69,633	(2,239)
Employer MC	15,761	16,370	(609)
Workers' compensation insurance	36,293	35,470	823
ADP processing	3,432	3,215	217
CalPERS retirement	237,104	235,254	1,850
CalPERS health insurance	192,216	181,930	10,286
Flexible spending account	15,474	15,212	262
Dental insurance	21,838	20,185	1,653
Vision insurance	1,644	1,585	59
Life insurance	1,149	1,136	13
Retiree health insurance	6,840	5,448	1,392
GASB 45/OPEB Expense	528	3,648	(3,120)
Personnel recruitment and pre-employment expense	2,000	1,000	1,000
Dues and subscriptions	2,000	2,320	(320)
Seminars and conferences	5,500	1,359	4,141
Professional development and education	14,750	12,419	2,331
Travel and business entertainment	16,500	10,538	5,962
Telephone	3,000	5,080	(2,080)
Telecommunications	5,300	5,983	(683)
Postage and courier services	240	6	234
Custodial supplies and materials	300	–	300
General supplies and materials	18,000	14,043	3,957
Maintenance supplies and materials	600	–	600
Office supplies and materials	4,000	3,886	114
District vehicle supplies and materials	3,400	746	2,654
District vehicle fuel	12,000	11,763	237
Office equipment repair and maintenance	3,600	3,711	(111)
General repairs and maintenance	19,500	13,248	6,252
District vehicle repair and maintenance	15,000	17,928	(2,928)
Fire services	36,000	–	36,000
Other services	2,850	1,629	1,221
Total fire department	$ 1,731,585	$ 1,719,797	$ 11,788

MONTEREY PENINSULA AIRPORT DISTRICT
STATEMENT OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
Board of Directors:			
Board member compensation	$ 13,400	$ 16,200	$ (2,800)
Employer SSI	834	1,004	(170)
Employer MC	201	235	(34)
Workers' compensation insurance	96	88	8
ADP processing	1,056	645	411
Dues and subscriptions	1,100	875	225
Seminars and conferences	7,175	5,525	1,650
Other meetings/workshops	5,000	1,544	3,456
Business travel and entertainment	10,500	13,173	(2,673)
Board member election	130,000	–	130,000
Postage and courier services	900	780	120
Other services	180	320	(140)
District legal counsel	74,000	72,050	1,950
Other professional services	62,960	68,066	(5,106)
Total board of directors	307,402	180,505	126,897
TOTAL OPERATING EXPENSES	7,367,177	7,225,444	141,733
OPERATING INCOME (LOSS) BEFORE DEPRECIATION AND AMORTIZATION	283,947	520,099	236,152
DEPRECIATION AND AMORTIZATION	5,737,555	5,812,743	(75,188)
OPERATING INCOME (LOSS)	(5,453,608)	(5,292,644)	(160,964)
NONOPERATING REVENUES (EXPENSES):			
Grants – FAA	30,581,791	916,219	(29,665,572)
Passenger Facility Charges	807,064	816,019	8,955
Passenger Facility Charges – interest income	5,300	6,311	1,011
PFC – unrealized gain/(loss) on investments	150	843	693
Interest income – banks	3,100	2,732	(368)
Interest income – L.A.I.F.	600	256	(344)
Interest income – notes receivable	1,192	1,193	1
Interest income – MPAD investments	92,000	86,868	(5,132)
MPAD – unrealized gain/(loss) on investments	16,000	(33,167)	(49,167)
Interest expense – pension obligation bond	(133,790)	(133,788)	2
TOTAL NONOPERATING REVENUE	31,373,407	1,663,486	(29,709,921)
CHANGE IN NET ASSETS	$ 25,919,799	$ (3,629,158)	$ (29,548,957)

REPORTS REQUIRED BY

GOVERNMENT AUDITING STANDARDS

HAYASHI
&WAYLAND
ACCOUNTING & CONSULTING, LLP

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

Board of Directors
Monterey Peninsula Airport District
Monterey, CA

We have audited, in accordance with the 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, the financial statements of the ***Monterey Peninsula Airport District***, which comprise the statement of financial position as of June 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 4, 2013.

Internal Control over Financial Reporting

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

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

1188 Padre Drive, Suite 101 | P.O. Box 1879 | Salinas, CA 93902 | Tel: (831) 759-6300 | Fax: (831) 759-6380
P.O. Box 22205 | Carmel, CA 93923 | Tel: (831) 624-5333 or (831) 625-3374 | Fax: (831) 626-9113
104 South Vanderhurst Avenue, Suite A | P.O. Box 927 | King City, CA 93930 | Tel: (831) 385-5426 | Fax: (831) 385-5156
660 Camino Aguajito, Ste. 300 | Monterey, CA 93940 | Tel: (831) 647-8055 | Fax: (831) 647-8465
1101 Riverside Avenue, Suite C | Paso Robles, CA 93446 | Tel: (805) 226-7375 | Fax: (805) 221-3131

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

November 4, 2013

Hayashi & Wayland, LLP

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 ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Monterey Peninsula Airport District

Report on Compliance for Each Major Federal Program

We have audited the ***Monterey Peninsula Airport District's*** (the *District*) compliance 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 the *District's* major federal programs for the year ended June 30, 2013. The *District's* major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the *District's* major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the *District's* compliance.

Opinion on Each Major Federal Program

In our opinion, the *District* complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of the *District* is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning

1188 Padre Drive, Suite 101 | P.O. Box 1879 | Salinas, CA 93902 | Tel: (831) 759-6300 | Fax: (831) 759-6380
P.O. Box 22205 | Carmel, CA 93923 | Tel: (831) 624-5333 or (831) 625-3374 | Fax: (831) 626-9113
104 South Vanderhurst Avenue, Suite A | P.O. Box 927 | King City, CA 93930 | Tel: (831) 385-5426 | Fax: (831) 385-5156
660 Camino Aguajito, Ste. 300 | Monterey, CA 93940 | Tel: (831) 647-8055 | Fax: (831) 647-8465
1101 Riverside Avenue, Suite C | Paso Robles, CA 93446 | Tel: (805) 226-7375 | Fax: (805) 221-3131

and performing our audit of compliance, we considered the *District's* internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the *District* as of and for the year ended June 30, 2013, and have issued our report thereon dated November 4, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 audit of the 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

November 4, 2013

Hayashi & Wayland, LLP

MONTEREY PENINSULA AIRPORT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/PASS–THROUGH GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
Federal Aviation Administration –			
Airport Improvement Program	20.106	Various	$ 916,219
Transportation Security Administration –			
Law Enforcement Officer Reimbursement Program	97.090	HSTS0213–HSLR111	112,631
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,028,850

See Notes to Schedule of Expenditures of Federal Awards.

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District 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, 2013

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: Unmodified

- 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 are no findings and questioned costs.

MONTEREY PENINSULA AIRPORT DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

I. FINANCIAL STATEMENT FINDINGS

A. Reportable Conditions in Internal Control

There are no reportable conditions findings.

B. Compliance Findings

There were no compliance findings.

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There are no findings and questioned costs.

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

Compliance

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, 2013. 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, 2013. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is described in the accompanying schedule of passenger facility charge program findings and questioned costs as item 2013-001.

Internal Control Over Compliance

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.

1188 Padre Drive, Suite 101 | P.O. Box 1879 | Salinas, CA 93902 | Tel: (831) 759-6300 | Fax: (831) 759-6380
P.O. Box 22205 | Carmel, CA 93923 | Tel: (831) 624-5333 or (831) 625-3374 | Fax: (831) 626-9113
104 South Vanderhurst Avenue, Suite A | P.O. Box 927 | King City, CA 93930 | Tel: (831) 385-5426 | Fax: (831) 385-5156
660 Camino Aguajito, Ste. 300 | Monterey, CA 93940 | Tel: (831) 647-8055 | Fax: (831) 647-8465
1101 Riverside Avenue, Suite C | Paso Robles, CA 93446 | Tel: (805) 226-7375 | Fax: (805) 221-3131

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.

November 4, 2013

Hayashi & Wayland, LLP

MONTEREY PENINSULA AIRPORT DISTRICT
SCHEDULE OF PASSENGER FACILITY CHARGE REVENUES AND EXPENDITURES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	Passenger Facility Charge Revenue	Interest Earned	Total Revenues	Expenditures on approved projects	Over (under) expenditures on approved projects
Balance to date as of June 30, 2011	$ 11,994,677	$ 251,927	$ 12,246,604	$ 11,562,455	$ 684,149
Fiscal year 2011-2012 transactions:					
Quarter ended September 30, 2011	188,190	1,705	189,895	23,622	166,273
Quarter ended December 31, 2011	147,872	1,714	149,586	36,172	113,414
Quarter ended March 31, 2012	186,791	1,705	188,496	100,265	88,231
Quarter ended June 30, 2012	194,794	1,570	196,364	122,304	74,060
Total fiscal year 2011-2012 transactions	717,647	6,694	724,341	282,363	441,978
Balance to date as of June 30, 2012	12,712,324	258,621	12,970,945	11,844,818	1,126,127
Fiscal year 2012-2013 transactions:					
Quarter ended September 30, 2012	214,718	1,587	216,305	99,136	117,169
Quarter ended December 31, 2012	179,974	1,587	181,561	217,186	(35,625)
Quarter ended March 31, 2013	213,315	1,555	214,870	159,084	55,786
Quarter ended June 30, 2013	208,011	1,581	209,592	123,419	86,173
Total fiscal year 2012-2013 transactions	816,018	6,310	822,328	598,825	223,503
Balance to date as of June 30, 2013	$ 13,528,342	$ 264,931	$ 13,793,273	$ 12,443,643	$ 1,349,630

See accompanying independent auditors' report and notes to schedule of passenger facility charge revenues and expenditures.

MONTEREY PENINSULA AIRPORT DISTRICT
NOTES TO THE SCHEDULE OF PASSENGER FACILITY CHARGE
REVENUES AND EXPENDITURES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 1. GENERAL

The Aviation Safety and Capacity Expansion Act of 1990 (Public Law 101-508, Title II, Subtitle B) authorized the imposition of Passenger Facility Charges (PFCs) and use of the resulting revenue on Federal Aviation Administration (FAA) approved projects.

The accompanying schedule of passenger facility charge revenues and expenditures includes activities related to applications 11-17-C-00-MRY and 13-18-C-00-MRY of the passenger facility charge (PFC) program of the Monterey Peninsula Airport District (the District). The level of PFCs authorized, charge effective dates, and approved collection amounts of the District's PFC program are as follows:

Application number	Level of PFCs authorized	Charge effective date for collection	Amounts approved for collection
11-17-C-00-MRY	$ 4.50	December 1, 2011	$ 775,000
13-18-C-00-MRY	4.50	February 1, 2013	1,120,000
Total			$ 1,895,000

NOTE 2. BASIS OF ACCOUNTING – SCHEDULE OF PASSENGER FACILITY CHARGE REVENUES AND EXPENDITURES

The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures (the Schedule) has been prepared on the accrual basis of accounting which is described in Note 1 of the District's basic financial statements.

MONTEREY PENINSULA AIRPORT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
PASSENGER FACILITY CHARGE PROGRAM
FOR THE YEAR ENDED JUNE 30, 2013

I. FINANCIAL STATEMENT FINDINGS

A. Reportable Conditions in Internal Control

There are no reportable conditions findings.

B. Compliance Findings

There were no compliance findings.

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FEDERAL AVIATION ADMINISTRATION

Passenger Facility Charges

2013-001 PFC Number: 13-18-C-00-MRY

Criteria: All PFC funds should be kept in an interest bearing checking account.

Condition: Not all of the PFC funds are kept in an interest bearing account.

Context: We noted that one out of the three accounts PFC funds are kept in is not interest bearing.

Cause: Keeping PFC funds in an account that does not accrue interest.

Effect: The FAA regulations require all PFC funds to be kept in interest bearing accounts. The result of noncompliance is less interest income realized.

Recommendation: We recommend that the District move all PFC funds into interest bearing accounts.

Management's Response: As of September 18, 2013, the non interest bearing checking account was changed to a money market account. All PFC funds are now earning interest.

MONTEREY PENINSULA AIRPORT DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS -
PASSENGER FACILITY CHARGE PROGRAM
FOR THE YEAR ENDED JUNE 30, 2013

I. FINANCIAL STATEMENT FINDINGS

A. Reportable Conditions in Internal Control

There were no reportable conditions findings.

B. Compliance Findings

There were no compliance findings.

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no findings and questioned costs.

HW-CPA.COM

Salinas

[illegible]

Monterey Peninsula

[illegible]

South Monterey County

[illegible]

An Independently Owned Member of the McGladrey
Network Worldwide Services Through RSM International.