



BIANCHI, KASAVAN & POPE, LLP

Certified Public Accountants & Business Consultants

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November 12, 2014

To the Board of Directors
Monterey Regional Waste
Management District
Marina, California

We have audited the financial statements of the Monterey Regional Waste Management District (MRWMD) for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 19, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by MRWMD are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year then ended June 30, 2014. We noted no transactions entered into by the MRWMD during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the depreciation expense based on the estimated useful lives of the respective assets, management's estimate of the allowance for doubtful accounts based on an analysis of the collectibility of individual accounts, and management's estimate of closure and post closure costs. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no uncorrected misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 12, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the MRWMD's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as MRWMD's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Combining Statement of Net Position, Combining Statement of Revenues, Expenses, and Changes in Net Position, Combining Statement of Cash Flows, and the Statement of Revenues, Expenses and Changes in Net Position- Actual to Budget, which accompany the financial statements but are not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction of Use

This information is intended solely for the use of the Board of Directors and management of the Monterey Regional Waste Management District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Blanchi, Kasaveri & Rose, LLP

Salinas, California

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

ANNUAL REPORT

FOR THE YEARS ENDED

JUNE 30, 2014 AND 2013

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MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

BOARD OF DIRECTORS

FOR THE YEARS ENDED

JUNE 30, 2014 AND 2013

<u>Member</u>	<u>Office</u>	<u>Representing</u>	<u>Term Expires</u>
Dennis Allion	Chair	Del Rey Oaks	December 2016
Ian Oglesby	Vice-Chair	Seaside	December 2016
Gary Bales	Director	Pacific Grove	December 2014
Sue McCloud	Director	Carmel-By-The-Sea	December 2014
David Pendergrass	Director	Sand City	December 2016
Leo Laska	Director	Pebble Beach Community Services District	December 2015
Libby Downey	Director	Monterey	December 2014
Jane Parker	Director	Monterey County	December 2014
Bruce Delgado	Director	Marina	December 2016
William Merry	General Manager/ Secretary of the Board		



BIANCHI, KASAVAN & POPE, LLP

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INDEPENDENT AUDITORS' REPORT

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To the Board of Directors
Monterey Regional Waste Management District
Marina, California

We have audited the accompanying financial statements of Monterey Regional Waste Management District (the "District"), as of and for the years ended June 30, 2014 and 2013, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 – 13 and 48 – 49 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining financial statements on pages 42 – 47 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relate 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 combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Bianchi, Kasavan & Pope, LLP

Salinas, California
November 12, 2014

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

This section of Monterey Regional Waste Management District's (the "District") annual financial report presents a discussion and analysis of the District's performance during the fiscal year that ended June 30, 2014. Please read it in conjunction with the District's financial statements, which follow this section.

The District was formed in 1951 under the California Health and Safety Code. The primary purpose of the District is to dispose of solid waste in the Monterey Peninsula area. The District's role has expanded to include the recovery of recyclable materials in the waste stream (cardboard, newspaper, glass, wood waste, plastic, metals, concrete, asphalt, reusable building materials and resale items) and to receive non hazardous liquid wastes. In addition, the District operates a landfill gas to electrical energy system, with capacity to generate about 5,000 kilowatts of continuous power. The District also accepts household hazardous waste.

The Monterey Regional Waste Management Authority (the "Authority") was formed pursuant to the provisions of the Government Code of the State of California and a Joint Powers Agreement, dated April 1, 1993, by and between the cities of Carmel-by-the-Sea, Del Rey Oaks, Marina, Monterey, Pacific Grove, Sand City and Seaside. During the fiscal year ending June 30, 1996, the Pebble Beach Community Services District also became a member of the Authority. The Authority was formed to assist in the financing of public capital improvements, such as the design, acquisition and construction of additions, betterments and improvements to the District's facilities.

Accounting principles generally accepted in the United States require that these financial statements present the District (the primary government) and its component units. The Authority is included in the District's financial statements because of its significant financial relationship to the District.

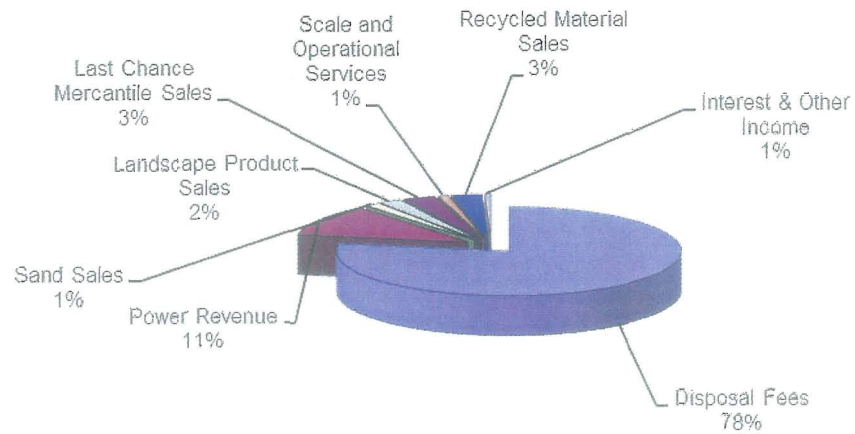
FINANCIAL HIGHLIGHTS

- Operating revenues increased by 6.3% to \$21.9 million and operating expenses increased by 0.8% to \$19.1 million.
- Capital expenditures for buildings, equipment, and infrastructure were \$2.3 million and lease principal payments were \$0.2 million.
- Operating revenues were above budgeted revenues by \$3.2 million. Operating expenses were above budgeted amounts by \$0.3 million. Capital outlay was below budgeted amounts by \$2.7 million. Non-operating revenues/expenses were at budgeted levels.

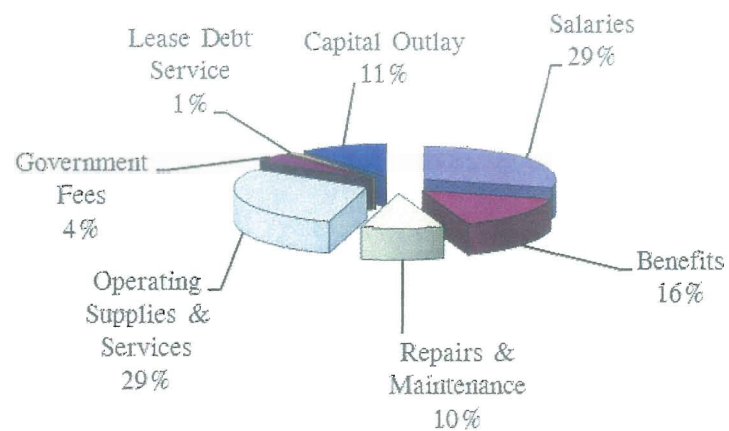
FINANCIAL HIGHLIGHTS (Continued)

The following figures show the District's sources of revenues and areas of expenditures for fiscal year 2014:

Sources of Revenue



Areas of Expenditures



OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and other supplementary information.

The financial statements provide both long-term and short-term information about the District's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

The District's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Position. All assets and liabilities associated with the operation of the District are included in the Statements of Net Position.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Net Position

This Statement of Net Position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position. Net position is reported in three categories: Invested in Capital Assets – Net of Debt, Restricted, and Unrestricted. Invested in Capital Assets – net of related debt is the cost of the District's buildings, equipment, and infrastructure after deducting accumulated depreciation and debt still owed on these assets. Restricted assets are the funds the District is required to set aside for landfill closing/cleanup reserves. Unrestricted assets are funds available for future operational and capital expenditures.

The District's total net position at June 30, 2014, was approximately \$34.70 million, a 9.4% increase over net position at June 30, 2013 (See Table A-1). Total assets increased by 7.1% to \$40.02 million and total liabilities decreased 5.8% to \$5.33 million.

Table A-1
Net Position
(in thousands of dollars)

	2014	2013	2012	Change 2014 to 2013	2013 to 2012
Current Assets	\$ 11,767	\$ 8,940	\$ 10,448	31.6%	(14.4%)
Restricted Assets	2,140	2,049	3,611	4.4%	(43.3%)
Deposit	49	25	25	96.0%	0.0%
Capital Assets–Net	25,863	26,106	24,112	(0.9%)	8.3%
Intangible Assets–Net	<u>205</u>	<u>258</u>	<u>334</u>	<u>(20.5%)</u>	<u>(22.6%)</u>
Total Assets	<u>\$ 40,024</u>	<u>\$ 37,378</u>	<u>\$ 38,530</u>	<u>7.1%</u>	<u>(3.0%)</u>
Current Liabilities	\$ 659	\$ 1,235	\$ 3,214	(46.6%)	(61.6%)
Non–Current Liabilities	1,095	1,035	1,178	5.8%	(12.1%)
Est. Closure/Post Closure Costs	<u>3,572</u>	<u>3,381</u>	<u>3,192</u>	<u>5.6%</u>	<u>5.9%</u>
Total Liabilities	<u>5,326</u>	<u>5,651</u>	<u>7,584</u>	<u>(5.8%)</u>	<u>(25.5%)</u>
Net Position					
Invested in Capital Assets–					
Net of Debt	26,068	26,136	22,511	(0.3%)	16.1%
Restricted	2,140	2,049	3,611	4.4%	(43.3%)
Unrestricted	<u>6,490</u>	<u>3,542</u>	<u>4,824</u>	<u>83.3%</u>	<u>(26.6%)</u>
Total Net Position	<u>34,698</u>	<u>31,727</u>	<u>30,946</u>	<u>9.4%</u>	<u>2.5%</u>
Total Liabilities and Net Position	<u>\$ 40,024</u>	<u>\$ 37,378</u>	<u>\$ 38,530</u>	<u>7.1%</u>	<u>(3.0%)</u>

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Revenues, Expenses and Changes in Net Position

Operating Revenues increased by 6.3% to \$21,928,000 (See Table A-2). Some of the major impacts on District revenues are from:

- Revenues from disposal fees increased by 6.3% due primarily to a 7.25% increase in District refuse tipping fees on January 1, 2014, and by a 6.4% increase in refuse tonnage subject to long term contract pricing.
- Power revenue increased by 5.4% due primarily to an increase in the market price for electricity partially offset by reduced production resulting from increased down time for maintenance.
- Recycled Material Sales increased by 3.8% due primarily to stable prices for commodities and increased material recovered from the waste stream.
- Landscape Product Sales increased by 31.4% due primarily to a 46% increase in sales price of chipped wood products on January 1, 2014.
- Increased tons sold of sand resulted primarily from the increase of construction activity and the redesign of local golf courses.
- Last Chance Mercantile sales decreased by 6.1% due to the reduction of days open to the public and reduced donations of higher valued items for resale.

Operating expenses increased by 0.8% to \$19,071,000. Salaries decreased by 5.2% or \$342,000, due to the full year impact of onetime implementation of a voluntary early retirement incentive program and partially offset by step increases for 70.0% of the staff. Benefits decreased by 4.9% as benefit premiums decrease as a percentage of wages such as pension plan contributions, life insurance and workers compensation. Health insurance rates remained stable during the year. Repairs and maintenance increased by 7.4% or \$150,000 due to increased repairs on mobile refuse handling equipment. Operating Supplies and Services increased by 14.7% or \$456,000 due primarily to the need for increased recycling services and professional services.

Non-Operating Revenues (Expenses) – Interest income decreased due to reduced funds invested. Other Revenues (Expenses) decreased due to the onetime voluntary early retirement incentive program in the prior year. Interest Expense decreased due to the reduction in outstanding debt.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Revenues, Expenses and Changes in Net Position (Continued)

Table A-2
Revenues, Expenses and Changes in Net Position
(in thousands of dollars)

	2014	2013	2012	Change 2014 to 2013	Change 2013 to 2012
Operating Revenues					
Disposal Fees	\$ 17,161	\$ 16,145	\$ 14,673	6.3%	10.0%
Power Sales	2,505	2,377	2,789	5.4%	(14.8%)
Last Chance Mercantile Sales	691	736	777	(6.1%)	(5.3%)
Recycled Material Sales	633	610	716	3.8%	(14.8%)
Landscape Product Sales	444	338	359	31.4%	(5.8%)
Sand Sales	291	222	153	31.5%	45.1%
Scale and Operational Services	203	206	229	(1.5%)	(10.0%)
Total Operating Revenues	21,928	20,634	19,696	6.3%	4.8%
Operating Expenses					
Salaries	6,248	6,590	7,009	(5.2%)	(6.0%)
Employee Benefits	3,347	3,519	3,676	(4.9%)	(4.3%)
Depreciation and Amortization	2,590	2,573	2,511	0.7%	2.5%
Repairs and Maintenance	2,188	2,038	2,195	7.4%	(7.2%)
Operating Supplies, Services and Other Expenses	3,557	3,101	3,029	14.7%	2.4%
Taxes, Licenses and Permits	950	913	797	4.0%	14.6%
Closure/Post Closure Costs	191	189	169	1.1%	11.8%
Total Operating Expenses	19,071	18,923	19,386	0.8%	(2.4%)
Operating Income	2,857	1,711	310	67.0%	451.9%
Non-Operating Revenues (Expenses)					
Interest Income	61	74	69	(17.6%)	7.2%
Other Revenue (Expenses)	59	(934)	64	(106.3%)	(1,559.4%)
Interest Expense-Revenue Bonds and Capital Leases	(6)	(70)	(154)	(91.4%)	(54.5%)
Total Non-Operating Revenues (Expenses)	114	(930)	(21)	(112.2%)	4,428.6%
Change in Net Position	2,971	781	289	280.4%	170.2%
Total Net Position-- Beginning of Year	31,727	30,946	30,657	2.5%	0.9%
Total Net Position-- End of Year	\$ 34,698	\$ 31,727	\$ 30,946	9.4%	2.5%

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Operating Expenses by Department

The increase in salary and benefits represents the majority of change for all the departments, except for the Landfill Gas Power’s decreased salaries and benefits and LFG gas purchases partially offset by increased repair and maintenance costs, the Material Recovery Facility’s reduction in staff and maintenance costs were partially offset by the cost of haul recycled materials and depreciation expense and the Site/Landfill’s decreases in cost of diesel fuel, equipment repairs and maintenance and government fees from decreased refuse. (Table A-3)

Table A-3
Operating Expenses by Department
(in thousands of dollars)

	Total Costs of Services			Change			Revenues			Change			Net Costs of Services			Change	
	2014	2013	2012	2014-2013	2013-2012		2014	2013	2012	2014-2013	2013-2012		2014	2013	2012	2014-2013	2013-2012
Admin/Organization	\$3,668	\$3,563	\$3,796	3.0%	(6.1%)		\$0	\$0	\$0	0.0%	0.0%		\$3,668	\$3,563	\$3,796	3.0%	(6.1%)
Public Awareness	413	358	417	15.4%	(14.1%)		0	0	0	0.0%	0.0%		413	358	417	15.4%	(14.1%)
Household Haz. Waste	557	562	592	(0.9%)	(5.0%)		28	28	15	0.0%	86.7%		529	534	577	(1.1%)	(7.3%)
Last Chance Mercantile	992	1,024	1,052	(3.1%)	(2.6%)		887	929	945	4.5%	(1.7%)		105	95	107	10.5%	(11.1%)
Landfill Gas Power	2,621	2,844	2,661	(7.8%)	6.9%		2,505	2,377	2,788	5.4%	(14.7%)		116	467	(127)	(75.2%)	(467.6%)
Shop	1,108	1,102	1,093	0.5%	0.8%		0	0	0	0.0%	0.0%		1,108	1,102	1,093	0.5%	0.8%
Material Recovery Fac.	4,614	4,522	4,668	2.0%	(3.1%)		3,926	3,654	3,891	7.4%	(6.1%)		688	868	777	(20.7%)	11.6%
Scales	628	516	508	21.8%	1.5%		16	15	17	6.7%	(11.8%)		612	501	491	22.2%	1.9%
Site/Landfill	4,470	4,432	4,599	0.9%	(3.6%)		14,566	13,631	12,040	6.9%	13.2%		(10,096)	(9,199)	(7,441)	9.7%	23.6%
	\$19,071	\$18,923	\$19,386	0.8%	(2.4%)		\$21,928	\$20,634	\$19,696	6.3%	4.8%		(\$2,857)	(\$1,711)	(\$310)	67.0%	452.0%

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Operating Expenses by Department (Continued)

- Administration/Organization includes senior management, administrative, accounting and engineering staff, along with organization wide supplies and services, such as the computer network and telephone systems.
- Household Hazardous Waste (“HHW”) income is from charges for small quantity generators.
- Last Chance Mercantile (“LCM”) income is from the sale of items received from the public and recovered from the Material Recovery Facility along with the reimbursement for recycled e-waste and can and bottle buyback operations. The costs to sell and handle these items are included in the LCM operations.
- In FY 13-14 the Landfill Gas Power operations continued to incur unusual expenses from increased air emission testing requirements and revenues increased as the long term power sales contract with Pacific Gas and Electric Company was replaced with a new contract. The negative net cost from the Landfill Gas Power in FY 11-12 represents a profit of 0.38 cents/Kwh for electricity sold and “free electricity” for District operations. The “free electricity” is an annual avoided cost savings of approximately \$350,000.
- The revenue for the Materials Recovery Facility (“MRF”) includes the disposal fees for refuse and greenwaste diverted at the facility, along with the revenues for sales of recycled materials, scrap metal and landscape materials. The District’s expenses related to these sales are included in MRF operations.
- Certified weights for the public make up the Scale’s revenue.
- Site/Landfill revenue reflects all the disposal fees not allocated to the MRF, along with sand sales and loading and push off service fees. The negative net cost shows that the fees for landfilling refuse are set at a level to support the other District programs.

Budget Highlights

The District’s operating revenues of \$21.9 million were \$3.2 million above budget. The increase resulted primarily from an increase in refuse tonnage subject to long term contract pricing. Last Chance Mercantile sales decreased due to the reduction in days open to the public. The increased demand for construction sand resulted in a 124.3% increase. Landscape product sales increased by 36.5% due to increased sales price for wood based products.

Operating expenses of \$19.1 million were \$0.3 million above budget and non-operating expenses were at budget amounts. Salary expenses were below budgeted amounts by \$0.1 million. Benefits were below budget by \$0.3 million due primarily to reductions in employee defined benefit pension expense and workers compensation costs. Repairs and maintenance were over budget by \$0.4 million primarily due to major repairs of the gas engine/generators. Other categories over budget were depreciation and amortization – \$40,000, professional services - \$57,000, landfill closure and post closure care costs – \$11,000, taxes, licenses and permits – \$105,000, operating supplies – \$16,000, education, meetings and travel - \$18,000, office – \$81,000, hazardous waste program - \$18,000, insurance - \$21,000 and bad debt expense – \$11,000. There were several items under budget; environmental services – \$20,000, fuel – \$69,000, safety equipment and supplies – \$60,000, public awareness – \$26,000 and contractual services – \$23,000. Other income was at budget levels.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Capital Assets and Debt Administration

Capital Assets

The District's capital assets, net of accumulated depreciation, at June 30, 2014, totaled \$25.9 million. (See Table A-4). The decrease of \$0.2 million from the prior year is due to the activity offsetting one another, as capital expenditures were \$2.3 million and depreciation expense of \$2.5 million.

Table A-4
Capital Assets
(net of depreciation, in thousands of dollars)

	2014	2013	2012	Change	
				2014-2013	2013-2012
Land	\$578	\$578	\$578	0.0%	0.0%
Facilities and Infrastructure	9,500	9,960	10,272	(4.6%)	(3.0%)
Equipment	4,338	4,564	5,341	(5.0%)	(14.5%)
Power Project	3,683	3,946	4,176	(6.7%)	(5.5%)
Module Development	7,136	2,741	2,810	260.5%	(2.5%)
Construction in Progress	628	4,317	935	(85.5%)	461.7%
	<u>\$25,863</u>	<u>\$26,106</u>	<u>\$24,112</u>	<u>(0.9%)</u>	<u>8.3%</u>

This year's major capital asset additions include:

- \$602,000 major mobile equipment overhauls
- \$494,000 upgrade landfill gas blower system and install enclosed ground flare facility
- \$478,000 landfill module construction
- \$245,000 for landfill gas engine/generator overhauls

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Capital Assets and Debt Administration (Continued)

Debt Administration

Through the bond trustee, the District made its regularly scheduled payments on the 1998 Series A Integrated Waste Management Revenue Bonds. During 2013, principal payments of \$1,405,000 were made, leaving the bond fully paid.

Bond Rating – In March 2010, Standard and Poor's raised the District's underlying rating (SPUR) to AA- from "A" and views the outlook as stable.

In January 2008, the District entered into a five year lease with an option to purchase a Caterpillar Model 836H Landfill Compactor in the amount of \$1,105,000. During 2013, principal payments of \$100,000 were made, leaving the lease fully paid.

In May 2009, the District entered into a five year lease with an option to purchase a Jenbacher 420 Landfill Gas Engine Generator (1.4 megawatt) in the amount of \$1,050,000. During 2014, principal payments of \$228,000 were made, leaving the lease fully paid.

On August 22, 2014, the District selected an underwriter and bond counsel for an anticipated bond financing for capital projects to improve the material recovery processing facility and to build a truck yard and maintenance facility for the local jurisdictions franchise hauler.

Economic Factors and Next Year's Budget and Rates

Operating expenses are projected to remain stable for the next year. There is no scheduled refuse rate increase for the next year. In September 2010, the District entered into an agreement to accept a guaranteed minimum of 75,000 tons of refuse subject to long term contract pricing. In October 2011, the District entered into an amendment to this agreement to increase the guaranteed minimum to 125,000 tons per year. In October 2012, the District entered into an amendment to reduce the guaranteed annual tons of refuse to 75,000 per year and increase the guaranteed annual tons of alternative daily cover to 10,000 per year. The District Board has approved the utilization of unrestricted cash reserves to cover purchases of capital assets and debt principal payments.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, customers, bondholders, and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Charles H. Rees, Finance Manager, at (831) 384-5313.

BASIC FINANCIAL STATEMENTS

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

STATEMENTS OF NET POSITION

JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents – Note 3	\$ 8,592,776	\$ 6,283,130
Accounts receivable – trade-net	1,424,191	1,188,160
Power sales receivable	1,289,006	1,060,690
Accrued interest receivable	5,645	4,901
Other receivables	169,395	160,830
Prepaid expenses	<u>286,051</u>	<u>242,196</u>
Total current assets	11,767,064	8,939,907
RESTRICTED CASH AND		
CASH EQUIVALENTS – Note 3	2,140,000	2,049,000
DEPOSIT	49,000	25,000
CAPITAL ASSETS – NET – Note 4	25,863,039	26,106,057
INTANGIBLE ASSETS – NET – Note 5	<u>204,460</u>	<u>258,163</u>
TOTAL ASSETS	<u>\$ 40,023,563</u>	<u>\$ 37,378,127</u>

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

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

STATEMENTS OF NET POSITION

**JUNE 30, 2014 AND 2013
(Continued)**

	<u>2014</u>	<u>2013</u>
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 166,126	\$ 267,680
Security deposits	2,610	2,475
Accrued liabilities:		
Compensated absences	212,410	203,058
State/County waste management fees	199,853	213,982
Payroll and payroll liabilities	77,896	320,055
Current portion of capital lease obligation – Note 9	<u>~</u>	<u>228,024</u>
Total current liabilities	658,895	1,235,274
ACCRUED LIABILITIES:		
Compensated absences	1,094,737	1,035,081
ESTIMATED LIABILITIES FOR LANDFILL CLOSURE AND POST CLOSURE CARE COSTS – Note 6	<u>3,572,000</u>	<u>3,381,000</u>
Total liabilities	<u>5,325,632</u>	<u>5,651,355</u>
NET POSITION:		
Invested in capital assets, net of related debt	26,067,499	26,136,197
Restricted	2,140,000	2,049,000
Unrestricted	<u>6,490,432</u>	<u>3,541,575</u>
Total net position	<u>34,697,931</u>	<u>31,726,772</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 40,023,563</u>	<u>\$ 37,378,127</u>

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

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Disposal fees	\$ 17,161,303	\$ 16,144,957
Power sales	2,504,555	2,376,691
Last Chance Mercantile sales	690,880	736,120
Recycled material sales	632,568	612,805
Landscape product sales	443,640	338,470
Sand sales	291,540	221,683
Scale and operational services	<u>203,257</u>	<u>203,551</u>
Total operating revenues	<u>21,927,743</u>	<u>20,634,277</u>
OPERATING EXPENSES:		
Salaries	6,248,187	6,590,355
Employee benefits	3,347,484	3,519,135
Depreciation and amortization	2,589,515	2,572,736
Gas project maintenance	1,391,398	1,358,510
Taxes, licenses and permits	949,517	913,041
Maintenance of structures and equipment	796,347	679,592
Professional services	741,953	574,431
Fuel	680,893	775,578
Recycling	590,687	359,747
Contractual services	433,129	453,504
Landfill closure and post closure care costs	191,000	189,000
Hazardous waste program	177,700	136,323
Office	165,619	106,319
Insurance	161,390	147,276
Operating supplies	131,632	147,605
Environmental services	129,815	100,864
Public awareness	124,152	89,335
Education, meetings and travel	67,620	67,197
Safety equipment and supplies	64,759	58,083
Utilities	50,284	45,011
Miscellaneous	18,275	20,340
Bad debt expense	10,755	10,555
Directors' fees	<u>8,350</u>	<u>8,400</u>
Total operating expenses	<u>19,070,461</u>	<u>18,922,937</u>
OPERATING INCOME	<u>2,857,282</u>	<u>1,711,340</u>

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

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(Continued)

	<u>2014</u>	<u>2013</u>
OPERATING INCOME – Forward	\$ <u>2,857,282</u>	\$ <u>1,711,340</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	60,641	74,032
Rents and leases	52,971	50,088
Voluntary early retirement – Note 12	-	(1,063,108)
Interest expense – revenue bonds and capital leases	(6,078)	(69,582)
Other income (expense)	<u>6,343</u>	<u>77,805</u>
Total non-operating revenues (expenses)	<u>113,877</u>	<u>(930,765)</u>
INCREASE IN NET POSITION	2,971,159	780,575
NET POSITION, BEGINNING OF YEAR	<u>31,726,772</u>	<u>30,946,197</u>
NET POSITION, END OF YEAR	<u>\$ 34,697,931</u>	<u>\$ 31,726,772</u>

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

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 21,444,211	\$ 20,288,116
Cash paid to employees	(9,768,822)	(9,797,972)
Cash payments for goods and services	<u>(6,843,058)</u>	<u>(6,740,828)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>4,832,331</u>	<u>3,749,316</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Voluntary early retirement	-	(1,063,108)
Other non-operating revenues	<u>34,569</u>	<u>58,938</u>
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	<u>34,569</u>	<u>(1,004,170)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments for capital lease obligations	(228,024)	(318,931)
Payments for capital acquisitions	(2,292,793)	(4,479,994)
Principal paid on revenue bonds	-	(1,405,000)
Interest paid on revenue bonds and capital leases	<u>(6,078)</u>	<u>(69,582)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,526,895)</u>	<u>(6,273,507)</u>
CASH FLOWS FROM INVESTING ACTIVITIES –		
Investment income	<u>60,641</u>	<u>74,032</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,400,646	(3,454,329)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>8,332,130</u>	<u>11,786,459</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 10,732,776</u></u>	<u><u>\$ 8,332,130</u></u>

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

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(Continued)

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 2,857,282	\$ 1,711,340
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,589,515	2,572,736
Proceeds from the sale of assets	-	62,376
Estimated liability for landfill closure and post closure care costs	191,000	189,000
(Increase) decrease in:		
Accounts receivable – trade-net	(236,031)	(29,147)
Power sales receivable	(228,316)	(283,431)
Other receivables	(8,565)	(71,631)
Prepaid expenses	(43,855)	(5,060)
Increase (decrease) in:		
Accounts payable	(101,554)	(751,779)
Security deposits	135	155
Accrued compensated absences	69,008	52,639
Accrued State/County waste management fees	(14,129)	57,167
Accrued payroll and payroll liabilities	(242,159)	258,879
Deferred revenue	-	(13,928)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,832,331</u>	<u>\$ 3,749,316</u>
CASH AND CASH EQUIVALENTS AT JUNE 30:		
Unrestricted cash and cash equivalents	\$ 8,592,776	\$ 6,283,130
Restricted cash and cash equivalents held with:		
Bond Trustee for debt service	-	-
Bond Trustee for bond reserve fund	-	-
LAIF for landfill closure and post closure care costs	1,140,000	1,049,000
LAIF for environmental impairment fund	<u>1,000,000</u>	<u>1,000,000</u>
Total restricted cash and cash equivalents	<u>2,140,000</u>	<u>2,049,000</u>
TOTAL CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 10,732,776</u>	<u>\$ 8,332,130</u>

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

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 1. DESCRIPTION OF ENTITY

Reporting Entity – The Monterey Regional Waste Management District (the District), was formed in 1951 under the California Health and Safety Code. The primary purpose of the District is to dispose of solid waste in the Monterey Peninsula area. The District's role has expanded to include the recovery of recyclable materials in the waste stream (cardboard, newspaper, glass, wood waste, plastic, metals, concrete, asphalt, reusable building materials and resale items) and to receive nonhazardous liquid wastes. In addition, the District operates a landfill gas to electrical energy system which generates more than 5,000 kilowatts of continuous power. The accompanying financial statements conform to generally accepted accounting principles as applicable to governments.

The District is governed by a nine-member board made up of representatives from the following entities: City of Carmel-by-the-Sea, City of Del Rey Oaks, City of Marina, City of Monterey, City of Pacific Grove, City of Sand City, City of Seaside, Pebble Beach Community Services District and the unincorporated area representing the western portion of Monterey County.

Accounting principles generally accepted in the United States of America require that these financial statements present the District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of its significant financial relationship to the District.

Blended Component Unit – The Monterey Regional Waste Management Authority (the Authority) was formed pursuant to the provisions of the Government Code of the State of California and a Joint Exercise Powers Agreement, dated April 1, 1993, by and between the City of Carmel-by-the-Sea, City of Del Rey Oaks, City of Marina, City of Monterey, City of Pacific Grove, City of Sand City and City of Seaside. During the fiscal year ending June 30, 1996, the Pebble Beach Community Services District also became a member of the Authority. The Authority was formed to assist in the financing of public capital improvements, such as the design, acquisition and construction of additions, betterments and improvements to the District's facilities.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 1. DESCRIPTION OF ENTITY (Continued)

The Authority has issued revenue bonds to finance the capital improvements and will maintain the debt from the revenue bonds on its books. The District has received ownership of the constructed assets and will maintain these assets on its books. In consideration for these assets, the District has pledged its revenue to the Authority, in sufficient amounts to pay the principal and interest payments of the revenue bonds. The nature and conditions of the relationship between the Authority, the District and The Bank of New York Mellon Trust Company (the Trustee) is described in the Integrated Waste Management Improvement Agreement and the Trust Agreement by and between the Authority, the District and the Trustee.

The Authority functions as an independent entity and its policies are determined by an eight-member Board consisting of representatives of the eight entities mentioned previously. The composition of the membership of the Board of the Authority is essentially the same as that of the District, with the exception of the Authority's Board not including a representative from the unincorporated area.

Accounting principles generally accepted in the United States of America for governmental entities require the Authority to be accounted for as a component unit of the District which is considered the primary government. A component unit is defined as a legally separate organization for which the elected officials of the primary government are fully accountable.

In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Therefore, the financial statements of the Authority have been included in the District's financial statements as a blended component unit of the District. The detail of the enterprise fund and the blended component unit is presented in the combining financial statements on pages 42 to 47 of this report.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting – The District's financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that use Proprietary Fund Accounting, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered through fees and charges, rather than taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net position. Net position (i.e., total assets net of total liabilities) is segregated into invested in capital assets, net of related debt; restricted; and unrestricted components.

Net Position – The District's net position is required to be classified for accounting and reporting purposes into the following categories:

Invested in Capital Assets, Net of Related Debt – This component of net position, includes restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted – This component of net position consists of constraints placed on asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Cash and Cash Equivalents – The District has defined cash and cash equivalents as cash on hand, demand deposits, amounts in the California State Treasurer's Investment Fund, known as the Local Agency Investment Fund (LAIF), and United States treasury bills.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable – Accounts receivable are composed of amounts due from customers for tipping fees. At June 30, 2014 and 2013, the balances are shown net of the allowance for uncollectible accounts of \$165,000 and \$155,000, respectively. The District used the allowance method to account for uncollectible accounts receivable. The allowance is based on prior experience and management's analysis of bad debts.

Capital Assets – Purchased capital assets are accounted for at cost, or for contributed assets, their estimated fair value on the date received.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives used to depreciate assets, by asset class, are as follows:

Administrative and scale	5–40	Years
Disposal and recycling	3–60	Years
Power project	5–40	Years
Module development	5–80	Years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Compensated Absences – The District allows employees to accrue vacation and compensation time. The accrued liability is based on the employee's hourly rate at year end. All accumulated vacation and compensation time is recorded as an expense and a liability in the proprietary fund at the time the liability is incurred and depending on classification, as a current or long-term liability. Upon termination of an employee, the District is required to pay accrued vacation and compensation time. Sick leave is recorded as an expenditure when it is paid and it is not required to be paid upon termination of an employee.

Revenues and Expenses – Revenue is recognized when earned. Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions. When an expense is incurred for which there are both restricted and unrestricted assets available, it is the District's policy to apply these expenses to restricted assets to the extent that such are available and then to unrestricted assets.

Budget Policy – The District's Board of Directors annually adopts the budget for the District. Board of Directors' actions are required for the approval of budget revisions.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – Provisions for income taxes are not recorded since Monterey Regional Waste Management District is a special district in Monterey County and is not subject to income taxes.

Subsequent Events – Subsequent events have been evaluated through November 12, 2014, which is the date the financial statements were available to be issued.

Recently Issued and Adopted Accounting Pronouncements – In November 2010, GASB issued Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure, which do not conflict with or contradict GASB pronouncements. As a result, proprietary funds will no longer have to consider pre-1989 FASB or AICPA pronouncements nor will they be permitted to apply "new" FASB pronouncements issued after November 30, 1989. The District implemented this Statement in the fiscal year 2013. There is no significant effect on the financial statements due to the implementation of this statement.

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

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements-and Management's Discussions and Analysis-for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The District implemented this Statement in fiscal year 2013. There was no significant effect on the financial statements other than renaming net assets to net position.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements – In March 2012, the GASB issued Statement 65, Items Previously Reported as Assets and Liabilities. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The District implemented this Statement in fiscal year 2014. Implementation of the Statement did not result in the District reporting any deferred inflows of resources or deferred outflows of resources on the statements of net position as of June 30, 2014 or June 30, 2013.

In June 2012, the GASB issued Statement 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statements 27. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this Statement on the District's financial statements.

NOTE 3. CASH AND CASH EQUIVALENTS

The District maintains its cash account in a commercial bank located in Monterey, California. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. In addition, a State regulation requires the Bank to place collateral on public funds deposits. The regulation stipulates that all deposits made by public entities made to accounts held at FDIC insured institutions (such as Santa Barbara Bank & Trust) must be collateralized at a rate of 110% by securities which are held for the benefit of the entity. Therefore, no balances as of June 30, 2014 and 2013 are uninsured.

The District's unrestricted cash and cash equivalents at year-end also consisted of unsecured and uncollateralized deposits in the California State Treasurer's Investment Pool, known as the Local Agency Investment Fund (LAIF). Money in the fund is invested by the State Treasurer to realize the maximum return consistent with prudent treasury management. All earnings of the fund, less a reimbursement of management costs incurred not to exceed one quarter of one percent of earnings, are distributed to the contributing agencies in their relative shares each quarter. The balances of funds in LAIF and in United States Treasury bills approximated fair market value as of June 30, 2014 and 2013, respectively.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

Cash and cash equivalents held by the District are summarized below:

Unrestricted Cash and Cash Equivalents	<u>2014</u>	<u>2013</u>
Cash on hand	\$ 5,940	\$ 5,440
Cash in bank	265,086	885,989
LAIF	10,461,750	7,440,701
Amounts held by LAIF for landfill closure and post closure care costs	(1,140,000)	(1,049,000)
Amounts held by LAIF for environmental impairment fund	<u>(1,000,000)</u>	<u>(1,000,000)</u>
Total unrestricted cash and cash equivalents	<u>\$ 8,592,776</u>	<u>\$ 6,283,130</u>
Restricted Cash and Cash Equivalents		
In LAIF — held for landfill closure and post closure care costs	\$ 1,140,000	\$ 1,049,000
In LAIF — held for environmental impairment fund	<u>1,000,000</u>	<u>1,000,000</u>
Total restricted cash and cash equivalents	<u>\$ 2,140,000</u>	<u>\$ 2,049,000</u>

Investments Authorized by the Entity's Investment Policy

The District's investment policy only authorizes investment in the local government investment pool administered by the State of California (LAIF) and United States Treasury securities. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The District did not directly enter into any derivative investments. The District's total investment in the LAIF managed by the Treasurer for the State of California at June 30, 2014 and 2013 was \$10,461,750 and \$7,440,701 respectively. The total fair value invested by all public agencies in LAIF at June 30, 2014 and 2013 was \$64,846,169,129 and \$58,803,312,428, respectively. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities at June 30, 2014 and 2013, totaling \$1,205,901,000 and \$753,400,000, approximately 1.09% and 1.88% of the total portfolio, and structured notes totaling \$0 and \$400,000,000, approximately 0.0% and 0.68% of the total portfolio, respectively. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 4. CAPITAL ASSETS

The following is a summary of changes in capital assets and depreciation for the year ended June 30, 2014:

	<u>CAPITAL ASSETS AT JUNE 30, 2013</u>	<u>ADDITIONS AND TRANSFERS</u>	<u>DISPOSITIONS AND TRANSFERS</u>	<u>CAPITAL ASSETS AT JUNE 30, 2014</u>
CAPITAL ASSETS BEING DEPRECIATED				
Administrative and scale:				
Equipment	\$ 664,033	\$ —	\$ —	\$ 664,033
Facilities	1,349,159	—	—	1,349,159
Disposal and recycling:				
Equipment	16,290,948	776,641	—	17,067,589
Facilities	17,371,471	221,763	—	17,593,234
Power project	9,744,708	495,804	—	10,240,512
Module development	<u>6,391,374</u>	<u>4,487,974</u>	<u>—</u>	<u>10,879,348</u>
Total capital assets being depreciated	51,811,693	5,982,182	—	58,372,085
Accumulated depreciation	<u>(30,601,329)</u>	<u>(2,535,812)</u>	<u>—</u>	<u>(33,137,141)</u>
Total capital assets being depreciated - Net	<u>21,210,364</u>	<u>3,446,370</u>	<u>—</u>	<u>24,656,734</u>
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	578,210	—	—	578,210
Construction in progress	<u>4,317,483</u>	<u>1,509,304</u>	<u>(5,198,692)</u>	<u>628,095</u>
Total capital assets not being depreciated	<u>4,895,693</u>	<u>1,509,304</u>	<u>(5,198,692)</u>	<u>1,206,305</u>
CAPITAL ASSETS – NET	<u>\$ 26,106,057</u>	<u>\$ 4,955,674</u>	<u>\$ (5,198,692)</u>	<u>\$ 25,863,039</u>

Depreciation expense amounted to \$2,535,812 for the year ended June 30, 2014.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 4. CAPITAL ASSETS (Continued)

The following is a summary of changes in capital assets and depreciation for the year ended June 30, 2013:

	<u>CAPITAL ASSETS AT JUNE 30, 2012</u>	<u>ADDITIONS AND TRANSFERS</u>	<u>DISPOSITIONS AND TRANSFERS</u>	<u>CAPITAL ASSETS AT JUNE 30, 2013</u>
CAPITAL ASSETS BEING DEPRECIATED				
Administrative and scale:				
Equipment	\$ 616,583	\$ 47,450	\$ —	\$ 664,033
Facilities	1,349,159	—	—	1,349,159
Disposal and recycling:				
Equipment	16,946,943	175,529	(831,524)	16,290,948
Facilities	17,028,384	343,087	—	17,371,471
Power project	9,213,539	531,169	—	9,774,708
Module development	<u>6,391,374</u>	<u>—</u>	<u>—</u>	<u>6,391,374</u>
Total capital assets being depreciated	51,545,982	1,097,235	(831,524)	51,811,693
Accumulated depreciation	<u>(28,946,782)</u>	<u>(2,475,167)</u>	<u>820,620</u>	<u>(30,601,329)</u>
Total capital assets being depreciated - Net	<u>22,599,200</u>	<u>(1,377,932)</u>	<u>(10,904)</u>	<u>21,210,364</u>
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	578,210	—	—	578,210
Construction in progress	<u>934,723</u>	<u>4,374,846</u>	<u>(992,086)</u>	<u>4,317,483</u>
Total capital assets not being depreciated	<u>1,512,933</u>	<u>4,374,846</u>	<u>(992,086)</u>	<u>4,985,693</u>
CAPITAL ASSETS – NET	<u>\$ 24,112,133</u>	<u>\$ 2,996,914</u>	<u>\$ 1,002,990</u>	<u>\$ 26,106,057</u>

Depreciation expense amounted to \$2,497,313 for the year ended June 30, 2013.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 5. INTANGIBLE ASSETS

Amortization of intangible assets is computed using the straight-line method over a period of five to thirty years. Intangible assets at June 30 are summarized as follows:

	<u>2014</u>	<u>2013</u>
PG&E power sales contract	\$ 1,055,000	\$ 1,055,000
Revised site master plan	<u>738,557</u>	<u>738,557</u>
Total	1,793,557	1,793,557
Accumulated amortization	<u>(1,589,097)</u>	<u>(1,535,394)</u>
Intangible assets - net	<u>\$ 204,460</u>	<u>\$ 258,163</u>

Amortization expense amounted to \$53,703 and \$75,423 for the years ended June 30, 2014 and 2013, respectively.

Estimated amortization of intangible assets for the five succeeding years:

<u>For the year ended June 30,</u>	<u>Estimated Amortization Expense</u>
2015	\$34,865
2016	\$16,025
2017	\$16,025
2018	\$16,025
2019	\$16,025

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 6. LANDFILL CLOSURE AND POST CLOSURE CARE COSTS

State and federal laws and regulations require that the Monterey Regional Waste Management District place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the estimated future closure and post closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The District's updated Site Master Plan and Closure and Post closure Plan were approved by state regulatory agencies during the fiscal year ended June 30, 2006. The District completed an Updated Preliminary Closure and Post closure Maintenance Plan and a Joint Technical Document for Landfill Development in April 2010. The liability recognized for the estimated landfill closure and post closure care cost is \$3,572,000 and \$3,381,000 as of June 30, 2014 and 2013, respectively, which was based on 16.5% and 15.8% usage (filled) of the landfill at that date. It is estimated that an additional \$18,096,000 will be recognized as landfill closure and post closure care expenses between June 30, 2014, and the date the landfill is expected to be filled to capacity (in the year 2176). The current estimated total cost of the landfill closure and post closure care of \$21,668,000 is based on the amount that would be paid if all equipment, facilities and services required to close, monitor and maintain the landfill were required as of June 30, 2014.

However, the actual cost of the landfill closure and post closure care may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

The Monterey Regional Waste Management District is required by state and federal laws and regulations to make annual contributions to finance closure and post closure care. The District is in compliance with these requirements. At June 30, 2014 and 2013, investments of \$1,140,000 and \$1,049,000 were held to meet the state requirements. These investments are presented on the District's statements of net position as restricted assets. It is anticipated that future inflation costs will be financed in part from earnings on investments. The District meets the financial assurance test for federal purposes. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in post closure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 7. PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Plan Description

The District contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all of their requirements are established by state statute. Copies of the PERS annual financial report may be obtained from their Executive Office, 400 Q Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 7% of their annual covered salary. The District made the contributions required of District employees on their behalf and for their account. The District is required to contribute at an actuarially determined rate, which for the fiscal years ended June 30, 2014 and 2013 was 12.495% and 11.890% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by PERS. The Public Employees' Pension Reform Act of 2013 (PEPRA) mandated new benefit formulas and new member contributions for new members (as defined by PEPRA) hired after January 1, 2013. These new members will first be reflected in the June 30, 2013 plan valuations. Different assumptions for these new PEPRA members will be disclosed in the 2013 valuation.

Annual Pension Cost

For the fiscal year 2013-2014, the District's annual pension cost of \$992,923 for PERS was equal to the District's required and actual contributions. The required contribution for the fiscal year 2013-2014 was determined as part of the June 30, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected annual salary increases of 3.30% to 14.20% that vary by age, type of employment and duration of service and (c) 3.00% payroll growth. Both (a) and (b) included an inflation component of 2.75. The actuarial value of PERS' assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value). PERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period of the unfunded actuarial accrued liability is 30 years as of June 30, 2012.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 7. PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (Continued)

The District contributes to the California Public Employees Retirement System (PERS), an agent multiple employer public employee defined benefit pension plan. The amounts reflected herein represent the District's portion as reported by PERS:

Actuarial Valuation Date	Accrued Liability A	Actuarial Value of Assets B	Unfunded Actuarial Accrued Liability/ (Excess Assets) [(A - B)] C	Funded Ratio [(B) / (A)] D	Annual Covered Payroll E	Unfunded Actuarial Liability Percentage Of Covered Payroll [(C) / (E)] F
06/30/08	\$15,766,557	\$ 13,602,793	\$ 2,163,764	86.3%	\$ 5,785,705	37.4%
06/30/09	\$18,009,350	\$ 14,879,685	\$ 3,129,665	82.6%	\$ 5,821,738	53.8%
06/30/10	\$19,735,616	\$ 16,342,017	\$ 3,393,599	82.8%	\$ 5,995,818	56.6%
06/30/11	\$22,088,256	\$ 18,124,643	\$ 3,963,613	82.1%	\$ 6,078,717	65.2%
06/30/12	\$23,581,071	\$ 19,939,168	\$ 3,641,903	84.6%	\$ 6,282,173	58.0%

Actuarial valuations for June 30, 2014 and 2013 are not available.

Trend Information

Three year historical trend information is presented as follows:

Fiscal Year	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
06/30/12	\$ 1,181,257	100%	\$ 0
06/30/13	\$ 1,080,989	100%	\$ 0
06/30/14	\$ 992,923	100%	\$ 0

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (OPEB)

Plan Description

The District maintains a single-employer, defined benefit healthcare plan (administered by the District). The District is obligated by a memorandum of understanding to contribute toward health insurance premiums for certain employees retired from the District at the age of 55 or older with at least five years of continuous employment with the District. Retirees are reimbursed at the rate of \$20 a month for each year of District service. Payments are made until the retiree reaches the age of 65. Beginning in 2006, the monthly rate is increased by 2% each calendar year.

Funding Policy

The contribution requirements of the District are based on a pay-as-you go basis. For the fiscal year ended June 30, 2014 and 2013, the District paid to retirees approximately \$10,000 and \$8,000, respectively.

As of June 30, 2014 and 2013, the District had 4 and 5 retirees, respectively, receiving benefits and 63 and 68 active employees eligible to receive benefits in the future, respectively.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefits (OPEB) expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excess) amortized over thirty years.

For the fiscal year 2014, the District's annual OPEB cost is expected to be \$66,000. The District's Annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2014, is as follows:

Annual required contribution	\$ 66,000
Interest on net OPEB obligation	—
Adjustment of annual required contribution	—
Annual OPEB cost	66,000
Less contributions made	<u>10,000</u>
Change in net OPEB obligation	56,000
Net OPEB obligation beginning of year	<u>262,000</u>
Net OPEB obligation end of year	<u>\$ 318,000</u>

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (OPEB) (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 65,000	12.3%	\$ 57,000
6/30/2012	\$ 67,000	11.9%	\$ 59,000
6/30/2013	\$ 67,000	14.9%	\$ 57,000
6/30/2014	\$ 66,000	15.2%	\$ 56,000

Funding Status and Funding Progress

The funded status of the plan based on an actuarial valuation was as follows:

	July 1, 2013	July 1, 2012	July 1, 2011	July 1, 2010
Actuarial accrued liability (AAL)	\$550,000	\$550,000	\$540,000	\$520,000
Actuarial value of plan assets	—	—	—	—
Unfunded actuarial accrued liability (UAAL)	<u>\$550,000</u>	<u>\$550,000</u>	<u>\$540,000</u>	<u>\$520,000</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%	0.00%	0.00%
Covered payroll	\$4,600,000	\$4,800,000	\$4,800,000	\$4,800,000
UAAL as percentage of covered payroll	11.96%	11.46%	11.25%	10.83%

Methods and Assumptions

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer (ARC) are 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, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 8. POSTEMPLOYMENT HEALTHCARE BENEFITS (OPEB) (Continued)

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 perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees—Active plan members were assumed to retire at age 62.

Mortality- Life expectancies were based on mortality tables from the National Center for Health Statistics. The 1999 United States Life Tables for Males and for Females were used.

Turnover- The District is not using historical age-based turnover experience of the covered group of employees. The District in accordance with GASB Statement 43, paragraph 40 has used Table 1 and Table 2 to determine the probability of remaining employed until assumed retirement age and the expected future working lifetime respectfully for purposes of allocating to periods the present value of total benefits to be paid.

Reimbursement cost trend rate- The expected rate of increase in reimbursement amounts was based on the plan at \$20 a month per year of service escalated at 2.0% per year beginning in 2006.

Inflation rate- This factor is not applicable to the plan.

Payroll growth rate- This factor is not applicable to the plan.

The discount rate used, 5.0%, is a blended rate reflecting the expected long-term investment returns on plan assets and the District's investments. The calculation of the blended rate was based on the historical and expected levels of employer contributions in relation to the ARC. In addition, the entry age actuarial cost method was used, and the actuarial value of plan assets is measured at fair value. 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, 2014, was 25 years.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 9. CAPITAL LEASE OBLIGATIONS

The District is the lessee of disposal and recycling equipment and a landfill gas to power engine/generator under capital leases expiring in 2014 and 2013. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments. The assets are depreciated over the shorter of their estimated productive lives or the lease life. However, if title transfers at the end of the lease, the assets are depreciated over their estimated useful life. Depreciation of assets under capital leases is included in depreciation expense.

Following is a summary of property held under capital leases at June 30:

	<u>2014</u>	<u>2013</u>
Power Project	\$ -	\$ 1,096,914
Less accumulated depreciation	<u>-</u>	<u>(438,776)</u>
	<u>\$ -</u>	<u>\$ 658,148</u>

During the year ended June 30, 2014, principal payments of \$228,024 were made, leaving the lease fully paid.

NOTE 10. REVENUE BONDS PAYABLE

The 1998 Series A Refunding Revenue Bonds were sold to refund prior bond issuances. The Revenue Bonds are dated and bear interest from May 1, 1998, at rates ranging from 4% to 5% payable semiannually on October 1 and April 1, commencing October 1, 1998. These bonds were paid in full on April 1, 2013, and there is no outstanding principal or interest as of June 30, 2013.

The Bank of New York Mellon Trust Company, San Francisco, California, acted as Trustee, Registrar and Paying Agent for the 1998 Series A Revenue Bonds under the Trust Agreement.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 11. JOINT POWERS AGREEMENT

The District participates in a joint powers agreement (JPA) with the Special District Risk Management Authority (SDRMA). The relationship between the District and the SDRMA is such that the JPA is not a component unit of the District for financial reporting purposes.

SDRMA was formed under a joint powers agreement pursuant to California Government Code Section 6500 et seq. effective August 1, 1986, to provide general liability, comprehensive/collision liability, property damage and errors and omissions risk financing for the member districts. SDRMA merged with Special District Workers' Compensation Authority (SWCA) on July 1, 2003, and now provides its members with workers' compensation coverage. SDRMA is administered by a board of directors, consisting of one member appointed by the California Special Districts Association and five members elected by the participating districts. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA. The District's share of year-end assets, liabilities and risk margin has not been calculated by the SDRMA.

NOTE 12. VOLUNTARY EARLY RETIREMENT INCENTIVE PROGRAM

In November 2012, the District adopted a one-time voluntary early retirement incentive (VERI) program. The purpose was to reduce the employee headcount to match the reduction in revenues resulting from decreased waste being received. Eleven employees accepted the separation incentives that included payments based on number of years employed for wages and for health insurance reimbursement payments until age 65. The cost of the incentives has been recorded in the year ended June 30, 2013, as Non-Operating Expenses. The wages were paid to the employees in the year ended June 30, 2014, and the reimbursement of health insurance payments will be completed within eight years based on the age of the individual retiree.

NOTE 13. COMMITMENTS

In July 1983, the District entered into a thirty-year contract with Pacific Gas and Electric (PG&E) to sell a portion of their electricity generated at the landfill.

In April 2009, the District entered into a fourth amendment to its thirty-year power sales agreement with PG&E. The District sold the power from units two and three to PG&E under the original contract terms and the power from units one and four to PG&E under a separate price schedule. This amendment was an interim agreement that expired on December 30, 2011. In March 2012, the District entered into a power purchase agreement with 3 Phases Renewables, LLC to sell the electricity produced from District's generating engines one and four through February 2015 and the electricity produced from the District's generating engines two and three starting with the conclusion of the thirty-year contract with PG&E.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 14. CONCENTRATION IN SALES TO CUSTOMERS

In 2014, the District's two largest customers accounted for approximately 21% and 20% of sales. In 2013, the largest customers accounted for 21% and 20% of sales.

NOTE 15. CONTINGENCIES

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

OTHER SUPPLEMENTARY INFORMATION

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>DISTRICT</u>	<u>AUTHORITY</u>	<u>TOTALS</u>	<u>ELIMIN- ATING ENTRIES</u>	<u>TOTALS</u>
CURRENT ASSETS:					
Cash and cash equivalents	\$ 8,592,776	\$ —	\$ 8,592,776	\$ —	\$ 8,592,776
Accounts receivable – trade-net	1,424,191	—	1,424,191	—	1,424,191
Power sales receivable	1,289,006	—	1,289,006	—	1,289,006
Accrued interest receivable	5,645	—	5,645	—	5,645
Other receivables	169,395	—	169,395	—	169,395
Prepaid expenses	<u>286,051</u>	<u>—</u>	<u>286,051</u>	<u>—</u>	<u>286,051</u>
Total current assets	<u>11,767,064</u>	<u>—</u>	<u>11,767,064</u>	<u>—</u>	<u>11,767,064</u>
RESTRICTED CASH AND CASH EQUIVALENTS					
Cash and cash equivalents held with LAIF – reserved for landfill closure and post closure care costs	1,140,000	—	1,140,000	—	1,140,000
Cash and cash equivalents held with LAIF – reserved for environmental impairment fund	<u>1,000,000</u>	<u>—</u>	<u>1,000,000</u>	<u>—</u>	<u>1,000,000</u>
Total restricted cash and cash equivalents	<u>2,140,000</u>	<u>—</u>	<u>2,140,000</u>	<u>—</u>	<u>2,140,000</u>
DEPOSIT	<u>49,000</u>	<u>—</u>	<u>49,000</u>	<u>—</u>	<u>49,000</u>
CAPITAL ASSETS – NET	<u>25,863,039</u>	<u>—</u>	<u>25,863,039</u>	<u>—</u>	<u>25,863,039</u>
INTANGIBLE ASSETS – NET	<u>204,460</u>	<u>—</u>	<u>204,460</u>	<u>—</u>	<u>204,460</u>
TOTAL ASSETS	<u>\$ 40,023,563</u>	<u>\$ —</u>	<u>\$ 40,023,563</u>	<u>\$ —</u>	<u>\$ 40,023,563</u>

See Independent Auditors' Report.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

COMBINING STATEMENT OF NET POSITION

**JUNE 30, 2014
(Continued)**

	<u>DISTRICT</u>	<u>AUTHORITY</u>	<u>TOTALS</u>	<u>ELIMIN- ATING ENTRIES</u>	<u>TOTALS</u>
CURRENT LIABILITIES:					
Accounts payable	\$ 166,126	\$ —	\$ 166,126	\$ —	\$ 166,126
Security deposits	2,610	—	2,610	—	2,610
Accrued liabilities:					
Compensated absences	212,410	—	212,410	—	212,410
State/County waste management fees	199,853	—	199,853	—	199,853
Payroll and payroll liabilities	<u>77,896</u>	<u>—</u>	<u>77,896</u>	<u>—</u>	<u>77,896</u>
Total current liabilities	658,895	—	658,895	—	658,895
ACCRUED LIABILITIES:					
Compensated absences	1,094,737	—	1,094,737	—	1,094,737
ESTIMATED LIABILITY FOR LANDFILL CLOSURE AND POST CLOSURE CARE COSTS	<u>3,572,000</u>	<u>—</u>	<u>3,572,000</u>	<u>—</u>	<u>3,572,000</u>
Total liabilities	<u>5,325,632</u>	<u>—</u>	<u>5,325,632</u>	<u>—</u>	<u>5,325,632</u>
NET POSITION:					
Invested in capital assets, net of related debt	26,067,499	—	26,067,499	—	26,067,499
Restricted	2,140,000	—	2,140,000	—	2,140,000
Unrestricted	<u>6,490,432</u>	<u>—</u>	<u>6,490,432</u>	<u>—</u>	<u>6,490,432</u>
Total net position	<u>34,697,931</u>	<u>—</u>	<u>34,697,931</u>	<u>—</u>	<u>34,697,931</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 40,023,563</u>	<u>\$ —</u>	<u>\$ 40,023,563</u>	<u>\$ —</u>	<u>\$ 40,023,563</u>

See Independent Auditors' Report.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	<u>DISTRICT</u>	<u>AUTHORITY</u>	<u>TOTALS</u>	<u>ELIMIN- ATING ENTRIES</u>	<u>TOTALS</u>
OPERATING REVENUES:					
Disposal fees	\$ 17,161,303	\$ —	\$ 17,161,303	\$ —	\$ 17,161,303
Power sales	2,504,555	—	2,504,555	—	2,504,555
Last Chance Mercantile sales	690,880	—	690,880	—	690,880
Recycled material sales	632,568	—	632,568	—	632,568
Landscape product sales	443,640	—	443,640	—	443,640
Sand sales	291,540	—	291,540	—	291,540
Scale and operational services	<u>203,257</u>	<u>—</u>	<u>203,257</u>	<u>—</u>	<u>203,257</u>
Total operating revenues	<u>21,927,743</u>	<u>—</u>	<u>21,927,743</u>	<u>—</u>	<u>21,927,743</u>
OPERATING EXPENSES:					
Salaries	6,248,187	—	6,248,187	—	6,248,187
Employee benefits	3,347,484	—	3,347,484	—	3,347,484
Depreciation and amortization	2,589,515	—	2,589,515	—	2,589,515
Gas project maintenance	1,391,398	—	1,391,398	—	1,391,398
Taxes, licenses and permits	949,517	—	949,517	—	949,517
Maintenance of structures and equipment	796,347	—	796,347	—	796,347
Professional services	741,953	—	741,953	—	741,953
Fuel	680,893	—	680,893	—	680,893
Recycling	590,687	—	590,687	—	590,687
Contractual services	433,129	—	433,129	—	433,129
Landfill closure and post closure care costs	191,000	—	191,000	—	191,000
Hazardous waste program	177,700	—	177,700	—	177,700
Office	165,619	—	165,619	—	165,619
Insurance	161,390	—	161,390	—	161,390
Operating supplies	131,632	—	131,632	—	131,632
Environmental services	129,815	—	129,815	—	129,815
Public Awareness	124,152	—	124,152	—	124,152
Education, meetings and travel	67,620	—	67,620	—	67,620
Safety equipment and supplies	64,759	—	64,759	—	64,759
Utilities	50,284	—	50,284	—	50,284
Miscellaneous	18,275	—	18,275	—	18,275
Bad debt expense	10,755	—	10,755	—	10,755
Directors' fees	<u>8,350</u>	<u>—</u>	<u>8,350</u>	<u>—</u>	<u>8,350</u>
Total operating expenses	<u>19,070,461</u>	<u>—</u>	<u>19,070,461</u>	<u>—</u>	<u>19,070,461</u>
OPERATING INCOME	<u>2,857,282</u>	<u>—</u>	<u>2,857,282</u>	<u>—</u>	<u>2,857,282</u>

See Independent Auditors' Report.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)

	<u>DISTRICT</u>	<u>AUTHORITY</u>	<u>TOTALS</u>	<u>ELIMIN- ATING ENTRIES</u>	<u>TOTALS</u>
OPERATING INCOME – Forward	\$ 2,857,282	\$ –	\$ 2,857,282	\$ –	\$ 2,857,282
NON-OPERATING REVENUES (EXPENSES):					
Interest income	60,641	–	60,641	–	60,641
Rents and leases	52,971	–	52,971	–	52,971
Interest expense – Capital leases	(6,078)	–	(6,078)	–	(6,078)
Other income (expense)	<u>6,343</u>	<u>–</u>	<u>6,343</u>	<u>–</u>	<u>6,343</u>
Total non-operating revenues (expenses)	<u>113,877</u>	<u>–</u>	<u>113,877</u>	<u>–</u>	<u>113,877</u>
INCREASE IN NET POSITION	2,971,159	–	2,971,159	–	2,971,159
NET POSITION, BEGINNING OF YEAR	<u>31,726,772</u>	<u>–</u>	<u>31,726,772</u>	<u>–</u>	<u>31,726,772</u>
NET POSITION, END OF YEAR	<u>\$ 34,697,931</u>	<u>\$ –</u>	<u>\$ 34,697,931</u>	<u>\$ –</u>	<u>\$ 34,697,931</u>

See Independent Auditors' Report.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>DISTRICT</u>	<u>AUTHORITY</u>	<u>TOTALS</u>	<u>ELIMIN- ATING ENTRIES</u>	<u>TOTALS</u>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 21,444,211	\$ —	\$ 21,444,211	\$ —	\$ 21,444,211
Cash paid to employees	(9,768,822)	—	(9,768,822)	—	(9,768,822)
Cash payments for goods and services	<u>(6,843,058)</u>	<u>—</u>	<u>(6,843,058)</u>	<u>—</u>	<u>(6,843,058)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>4,832,331</u>	<u>—</u>	<u>4,832,331</u>	<u>—</u>	<u>4,832,331</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES –					
Other non-operating revenues	<u>34,569</u>	<u>—</u>	<u>34,569</u>	<u>—</u>	<u>34,569</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>34,569</u>	<u>—</u>	<u>34,569</u>	<u>—</u>	<u>34,569</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Payments for capital lease obligations	(228,024)	—	(228,024)	—	(228,024)
Payments for capital acquisitions	(2,292,793)	—	(2,292,793)	—	(2,292,793)
Interest paid on capital leases	<u>(6,078)</u>	<u>—</u>	<u>(6,078)</u>	<u>—</u>	<u>(6,078)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,526,895)</u>	<u>—</u>	<u>(2,526,895)</u>	<u>—</u>	<u>(2,526,895)</u>
CASH FLOWS FROM INVESTING ACTIVITIES –					
Investment income	<u>60,641</u>	<u>—</u>	<u>60,641</u>	<u>—</u>	<u>60,641</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	2,400,646	—	2,400,646	—	2,400,646
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>8,332,130</u>	<u>—</u>	<u>8,332,130</u>	<u>—</u>	<u>8,332,130</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 10,732,776</u>	<u>\$ —</u>	<u>\$ 10,732,776</u>	<u>\$ —</u>	<u>\$ 10,732,776</u>

See Independent Auditors' Report.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

COMBINING STATEMENT OF CASH FLOWS

**FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

	<u>DISTRICT</u>	<u>AUTHORITY</u>	<u>TOTALS</u>	<u>ELIMIN- ATING ENTRIES</u>	<u>TOTALS</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating income	\$ 2,857,282	\$ —	\$ 2,857,282	\$ —	\$ 2,857,282
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	2,589,515	—	2,589,515	—	2,589,515
Estimated liability for landfill closure and post closure care costs	191,000	—	191,000	—	191,000
(Increase) decrease in:					
Accounts receivable – trade-net	(236,031)	—	(236,031)	—	(236,031)
Power sales receivable	(228,316)	—	(228,316)	—	(228,316)
Other receivables	(8,565)	—	(8,565)	—	(8,565)
Prepaid expenses	(43,855)	—	(43,855)	—	(43,855)
Increase (decrease) in:					
Accounts payable	(101,554)	—	(101,554)	—	(101,554)
Security deposits	135	—	135	—	135
Accrued compensated absences	69,008	—	69,008	—	69,008
Accrued State/County waste management fees	(14,129)	—	(14,129)	—	(14,129)
Accrued payroll and payroll liabilities	(242,159)	—	(242,159)	—	(242,159)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,832,331</u>	<u>\$ —</u>	<u>\$ 4,832,331</u>	<u>\$ —</u>	<u>\$ 4,832,331</u>
CASH AND CASH EQUIVALENTS AT JUNE 30:					
Unrestricted cash and cash equivalents	\$ 8,592,776	\$ —	\$ 8,592,776	\$ —	\$ 8,592,776
Restricted cash and cash equivalents held with:					
LAIF for landfill closure and post closure care costs	1,140,000	—	1,140,000	—	1,140,000
LAIF for environmental impairment fund	1,000,000	—	1,000,000	—	1,000,000
Total restricted cash and cash equivalents	<u>2,140,000</u>	<u>—</u>	<u>2,140,000</u>	<u>—</u>	<u>2,140,000</u>
TOTAL CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 10,732,776</u>	<u>\$ —</u>	<u>\$ 10,732,776</u>	<u>\$ —</u>	<u>\$ 10,732,776</u>

See Independent Auditors' Report

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
ACTUAL TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2014

	<u>ACTUAL</u>	<u>DISTRICT BUDGET</u>	<u>VARIANCE</u>
OPERATING REVENUES:			
Disposal fees	\$ 17,161,303	\$ 14,255,000	\$ 2,906,303
Power sales	2,504,555	2,500,000	4,555
Last Chance Mercantile sales	690,880	740,000	(49,120)
Recycled material sales	632,568	605,000	27,568
Landscape product sales	443,640	325,000	118,640
Sand sales	291,540	130,000	161,540
Scale and operational services	<u>203,257</u>	<u>190,000</u>	<u>13,257</u>
Total operating revenues	<u>21,927,743</u>	<u>18,745,000</u>	<u>3,182,743</u>
OPERATING EXPENSES:			
Salaries	6,248,187	6,396,000	(147,813)
Employee benefits	3,347,484	3,612,000	(264,516)
Depreciation and amortization	2,589,515	2,550,000	39,515
Gas project maintenance	1,391,398	1,100,000	291,398
Taxes, licenses and permits	949,517	845,000	104,517
Maintenance of structures and equipment	796,347	660,000	136,347
Professional services	741,953	685,000	56,953
Fuel	680,893	750,000	(69,107)
Recycling	590,687	530,000	60,687
Contractual services	433,129	456,000	(22,871)
Landfill closure and post closure care costs	191,000	180,000	11,000
Hazardous waste program	177,700	160,000	17,700
Office	165,619	85,000	80,619
Insurance	161,390	140,000	21,390
Operating supplies	131,632	115,000	16,632
Environmental services	129,815	150,000	(20,185)
Public awareness	124,152	150,000	(25,848)
Education, meetings and travel	67,620	50,000	17,620
Safety equipment and supplies	64,759	125,000	(60,241)
Utilities	50,284	50,000	284
Miscellaneous	18,275	20,000	(1,725)
Bad debt expense	10,755	—	10,755
Directors' fees	<u>8,350</u>	<u>9,000</u>	<u>(650)</u>
Total operating expenses	<u>19,070,461</u>	<u>18,818,000</u>	<u>252,461</u>
INCOME FROM OPERATIONS	<u>\$ 2,857,282</u>	<u>\$ (73,000)</u>	<u>\$ 2,930,282</u>

See Independent Auditors' Report.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
ACTUAL TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)

	<u>ACTUAL</u>	<u>DISTRICT BUDGET</u>	<u>VARIANCE</u>
INCOME FROM OPERATIONS	\$ 2,857,282	\$ (73,000)	\$ 2,930,282
NON-OPERATING REVENUES (EXPENSES)			
Interest income	60,641	55,000	5,641
Rent and leases	52,971	45,000	7,971
Interest expense	(6,078)	(10,000)	3,922
Other income (expense)	<u>6,343</u>	<u>5,000</u>	<u>1,343</u>
Total non-operating revenues (expenses)	<u>113,877</u>	<u>95,000</u>	<u>18,877</u>
INCREASE IN NET POSITION	<u>\$ 2,971,159</u>	<u>\$ 22,000</u>	<u>\$ 2,949,159</u>

See Independent Auditors' Report.