MONTEREY PENINSULA AIRPORT DISTRICT

Annual Financial and
Compliance Report

For the Years Ended
June 30, 2016 and 2015

MGO Certified Public Accountants

MONTEREY PENINSULA
AIRPORT DISTRICT

Board of Directors
at June 30, 2016

Name	Office	Term Expires
Mary Ann Leffel	Chair	December 2016
Matthew Nelson	Vice-Chair	December 2018
William J. Sabo	Director	December 2016
Carl M. Miller	Director	December 2018
Richard D. Searle	Director	December 2016

MONTEREY PENINSULA AIRPORT DISTRICT
For the Years Ended June 30, 2016 and 2015

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Certified
Public
Accountants

Century City
Los Angeles
Newport Beach
Oakland
Sacramento
San Diego
San Francisco
Walnut Creek
Woodland Hills

Independent Auditor's Report

Board of Directors
Monterey Peninsula Airport District
Monterey, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Monterey Peninsula Airport District (District), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 financial position of the District as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP
2121 N. California Boulevard, Suite 750
Walnut Creek, CA 94596

www.mgocpa.com

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the District's proportionate share of the net pension liability, the schedule of contributions – pension plans, and the schedule of funding progress – other postemployment benefits as listed in the table of contents 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 accompanying schedule of expenditures of federal awards as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of passenger facility charge revenues and expenditures is presented for purposes of additional analysis as required by the Federal Aviation Administration and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the schedule of passenger facility charge revenues and expenditures 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 schedule of expenditures of federal awards and the schedule of passenger facility charge revenues and expenditures are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Macias Gini É O'Connell LLP

Walnut Creek, California
November 1, 2016

The Management Discussion and Analysis (MD&A) is provided by the Monterey Peninsula Airport District (District) in compliance with requirements established by the Governmental Accounting Standards Board, Statement (GASB) No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34). It is intended to serve as an introduction to the financial statements for the years ended June 30, 2016 (FY16) and 2015 (FY15). The information presented is to be read in conjunction with the financial statements, footnotes and supplementary information found in this report.

Mission Statement

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

Overview of the Monterey Peninsula Airport District

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

The Monterey Regional Airport (Airport), 501 acres, has two parallel, east-west runways. The primary runway, 10R/28L, is 7,175 feet long and 150 feet wide. It is used by commercial and business aircraft and is equipped for instrument landings with a Category I instrument landing system on runway 10R. The secondary runway, 10L/28R, is 3,500 feet long and 65 feet wide, used solely by general aviation aircraft.

During FY16, four commercial airlines served the airport with scheduled flights. Alaska, American Airlines, American Eagle, and United Express provided non-stop service to four gateway hubs: Los Angeles, Phoenix, San Diego and San Francisco. In October 2015, American Airlines and US Airways merged reducing the commercial air carriers serving the Airport. Allegiant operated non-stop service, two days per week, to Las Vegas.

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

The District is structured as an enterprise fund. District financial statements are prepared using the accrual basis of accounting; revenues are recognized when earned, and expenses are recognized when incurred. Costs are recovered through airport rents from tenants, landing and fuel fees, and other charges. Capital improvements are funded from three sources: (1) Federal grants from the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP) derived from a 10% tax on the airline tickets, (2) Passenger Facility Charges (PFC) collected for each enplaned passenger at the point of origin and one intermediate-stop, and (3) District contributed funds. Capital assets are capitalized and depreciated, except land and construction in progress, over their useful lives. Please refer to the notes to the financial statements for a summary of the District's significant accounting policies.

Overview of the Financial Statements

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

The *Statements of Net Position* presents information on the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between these balances as *Net Position*. Over time, increases or decreases in total net position may serve as a useful indicator of the District's financial position.

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

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

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

Financial Highlights

✈ The assets and deferred outflows of resources of the District exceed liabilities and deferred inflows of resources by $73,349,648 and $59,834,837 at June 30, 2016 and 2015, respectively.

✈ In FY16, the District acquired the capital assets listed below:

- Replaced two (2) maintenance pick-up trucks ($66,594), and
- Acquired one (1) electric cart ($18,309).

✈ In FY15, the District acquired the capital assets listed below:

- Replaced one (1) police vehicle ($37,546),
- Replaced one (1) maintenance pick-up trucks ($39,143), and
- Acquired two (2) all electric sedans ($81,226).

✈ The District moved aggressively to complete its Runway Safety Area (RSA) project; a congressionally-mandated project that will be completed in the first quarter of FY17.

✈ The District met its obligations and reduced its taxable pension obligation bond principal to $2,005,000 (FY15 $2,291,000).

✈ In the airport industry, one standard measure of a commercial airport's size is the number of annual enplanements, i.e., passengers flying from the airport on commercial airlines. Enplaned passengers during the six-year period, FY11 through FY16, are presented below in Table I.

Financial Highlights (Continued)

Table I

TOTAL ENPLANEMENTS: FISCAL YEARS 2011 - 2016											
FY 2011		FY 2012		FY 2013		FY 2014		FY 2015		FY 2016	
7/10	18,732	7/11	16,912	7/12	18,364	7/13	18,756	7/14	15,980	7/15	16,239
8/10	17,582	8/11	16,204	8/12	18,501	8/13	17,680	8/14	16,622	8/15	16,248
9/10	16,657	9/11	16,765	9/12	17,462	9/13	17,798	9/14	15,280	9/15	14,682
10/10	16,542	10/11	17,247	10/12	18,778	10/13	18,307	10/14	17,102	10/15	15,507
11/10	15,192	11/11	15,213	11/12	17,675	11/13	16,235	11/14	15,168	11/15	15,762
12/10	14,512	12/11	14,678	12/12	16,962	12/13	16,362	12/14	13,882	12/15	15,348
1/11	12,153	1/12	12,403	1/13	14,516	1/14	14,157	1/15	12,728	1/16	13,046
2/11	12,839	2/12	13,585	2/13	14,747	2/14	14,191	2/15	13,010	2/16	13,562
3/11	14,419	3/12	14,445	3/13	18,015	3/14	16,886	3/15	15,823	3/16	16,040
4/11	14,509	4/12	15,262	4/13	17,563	4/14	16,278	4/15	15,926	4/16	15,844
5/11	16,821	5/12	16,529	5/13	17,619	5/14	17,932	5/15	16,336	5/16	17,813
6/11	16,409	6/12	18,207	6/13	18,588	6/14	16,302	6/15	15,110	6/16	17,872
	186,367		187,450		208,790		200,884		182,967		187,963

- FY16 enplanements increased 2.7% to 187,963 due to scheduling and equipment changes by the airlines. Commercial air carrier operations are summarized below:

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

  - American Eagle, wholly-owned by American Airlines, provides 4 daily non-stop flown by SkyWest Airlines or Mesa Airlines, to Phoenix (PHX) on 50-seat regional jets (CRJ-200) or 86-seat regional jets (CRJ-900).

  - United Express, also operated by SkyWest Airlines, provided daily non-stop flights to San Francisco (SFO) and to Los Angeles (LAX) on 50-seat Canadair regional jets (CRJ-200) or (CRJ-700).

  - VIA and Elite Airlines operated as a non-scheduled, charter airline flying "gambler specials" to Nevada gaming resorts on 99-seat ERJ-190 jets.

Financial Highlights (Continued)

- FY15 enplanements decreased 8.9% to 182,967 due to scheduling and equipment changes by the airlines. Commercial air carrier operations are summarized below:

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

  - American Eagle, wholly-owned by American Airlines, provided non-stop flights to Los Angeles (LAX) on 50-seat Canadair regional jets (CRJ-200). These flights were operated by SkyWest Airlines.

  - United Express, also operated by SkyWest Airlines, provided non-stop flights to San Francisco (SFO) and to Los Angeles (LAX) on 50-seat Canadair regional jets (CRJ-200).

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

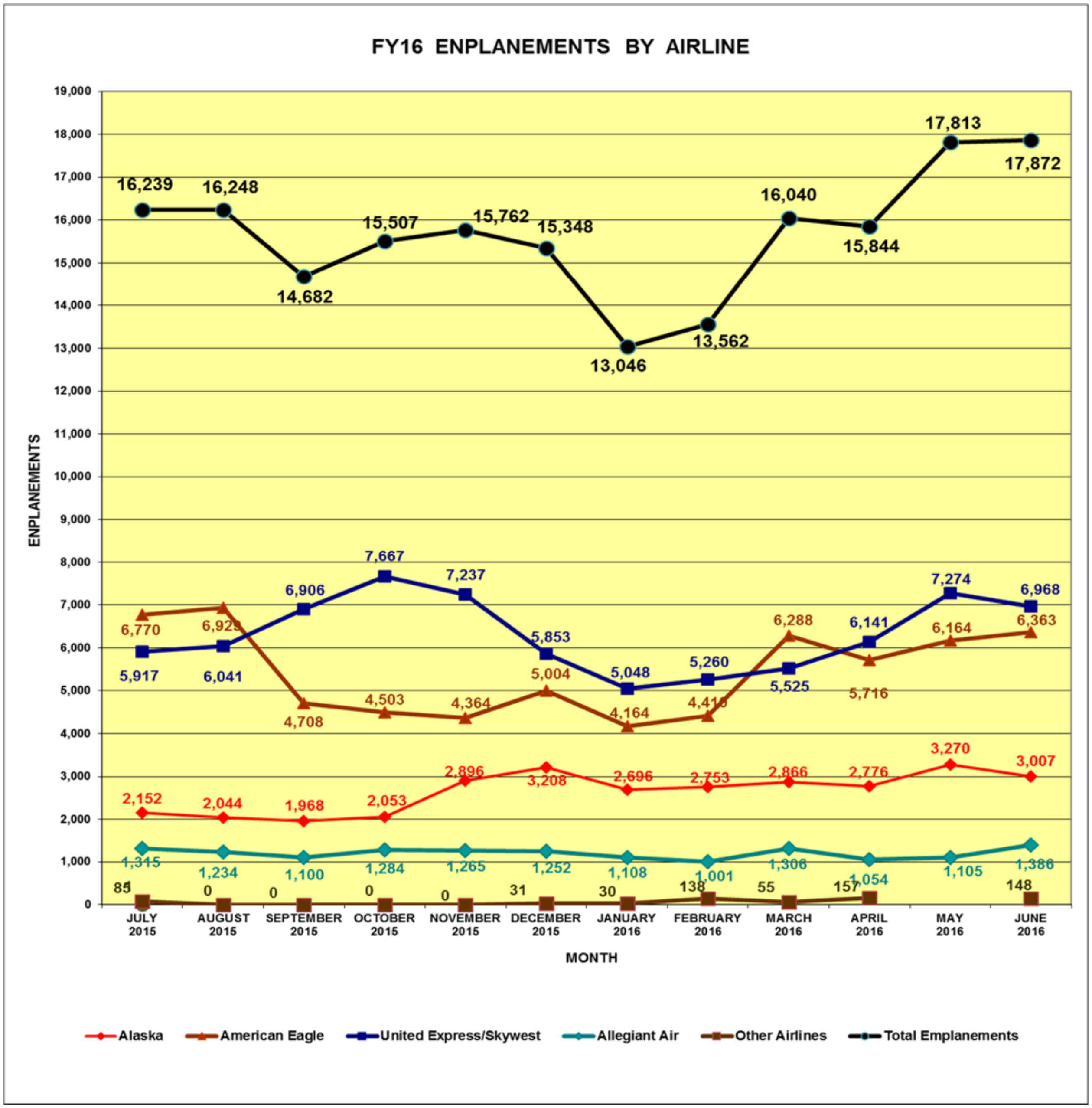
  - Allegiant Travel Company offered scheduled non-stop service two days per week (Thursday - Sunday or Friday - Monday) to Las Vegas (LAS) on 166-seat MD-83/88 jets. It increased its scheduled service to three and four days weekly during March and April 2015. Allegiant combines ultra-low airfares with lodging and entertainment packages.

  - Republic operated as a non-scheduled, charter airline flying "gambler specials" to Nevada gaming resorts on 99-seat ERJ-190 jets.

Financial Highlights (Continued)

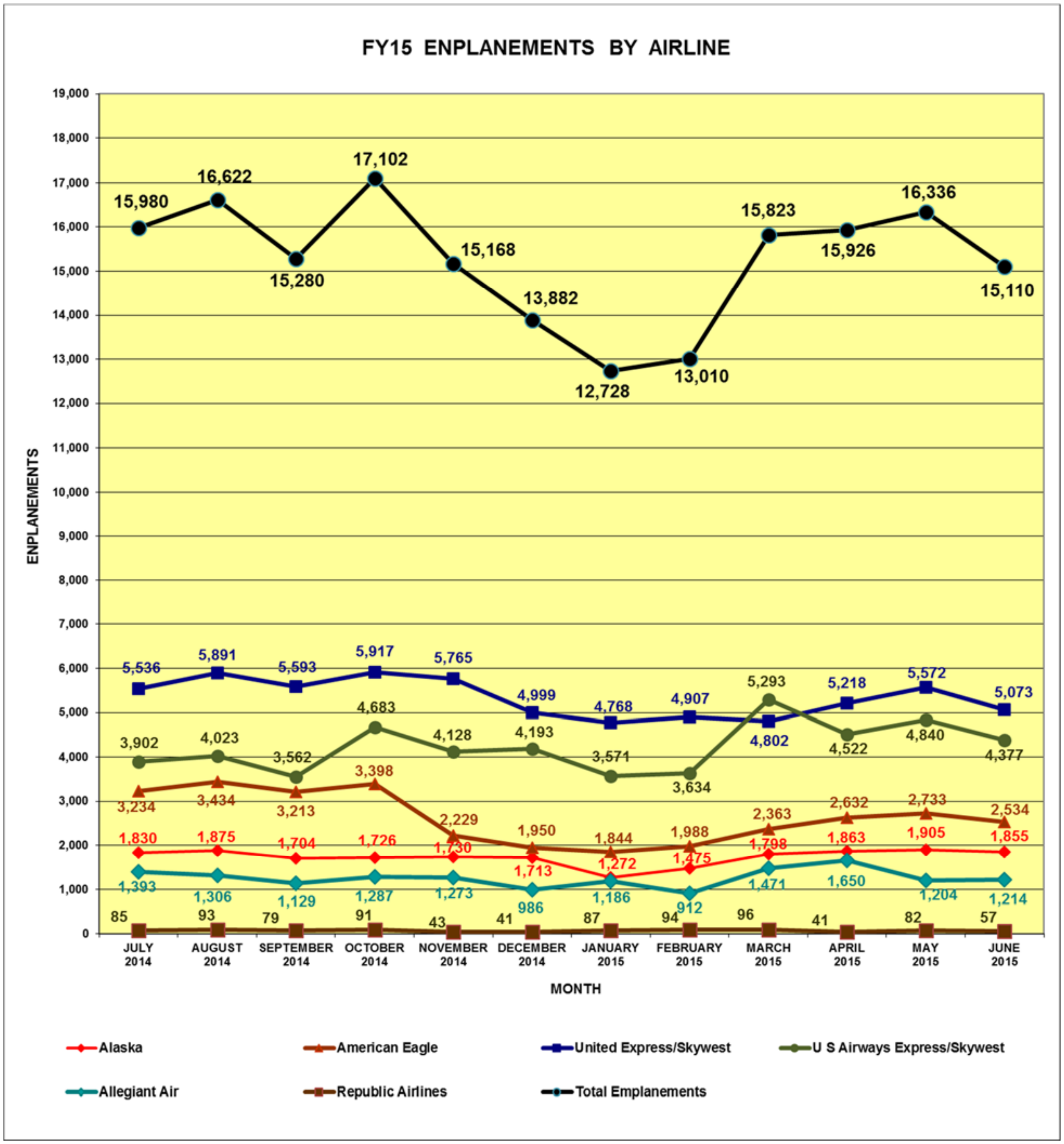
Charts A and B present the monthly enplanements for FY16 and FY15 respectively, in total and for the scheduled commercial airlines that serve the Airport.

Chart A



Financial Highlights (Continued)

Chart B



Summary of Net Position

Table II

A summarized comparison of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30 follows:

	2016	% Change	2015	% Change	2014*
Current and other assets	$ 7,401,843	-11.7%	$ 8,379,219	29.4%	$ 6,477,569
Capital assets, net	77,734,112	18.5%	65,590,110	52.4%	43,037,582
Total assets	85,135,955	15.1%	73,969,329	49.4%	49,515,151
Deferred outflow of resources	543,750	49.8%	362,999	n/a	-
Debt outstanding	2,005,000	-12.5%	2,291,000	-10.7%	2,565,000
Other liabilities	9,015,664	-13.8%	10,459,574	232.0%	3,150,014
Total liabilities	11,020,664	-13.6%	12,750,574	123.1%	5,715,014
Deferred inflow of resources	1,309,393	-25.0%	1,746,917	n/a	-
Net investment in capital assets	76,218,197	22.8%	62,064,776	49.0%	41,656,195
Restricted - unspent Passenger Facilities Charges	855,349	-25.0%	1,140,291	-37.5%	1,824,123
Unrestricted	(3,723,898)	10.5%	(3,370,230)	-1153.8%	319,819
Total net position	$ 73,349,648	22.6%	$ 59,834,837	36.6%	$ 43,800,137

* FY14 was not restated for GASB Statement No. 68

Changes in Net Position

Net Position increased $13,514,811 from FY15 to FY16 compared to a $22,481,052 increase from FY14 (without restating for GASB Statement No. 68) to FY15, primarily due to the District's investment in capital assets, specifically runway safety area improvements, which were grant funded. Conforming to requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* funds received from operating grants and PFCs are included in the financial statements, referred to as "Other Nonoperating Revenue" and grants restricted for capital purposes are reported as "Capital Contributions." In FY16, the District received $16,798,453 from FAA AIP grants and $756,913 from PFCs to fund architectural design, engineering design, and construction costs. The District received $26,334,749 from FAA AIP grants and $724,686 from PFCs to fund airport improvement projects during FY15.

Other Liabilities decreased $1,443,910 from FY15 to FY16 primarily due to a reduction in accrued capital project costs that were paid subsequent to FY16. Other Liabilities increased $7,309,560 from FY14 to FY15 primarily due to the implementation of new pension reporting requirements and the accrual of capital project costs that were paid subsequent to FY15.

Implementation of GASB Statements No. 68 and 71

In FY15, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.* The objective of the statements is to improve accounting and financial reporting by state and local government entities for pensions.

GASB Statement No. 68 establishes uniform standards for measuring and recognizing liabilities, deferred outflows/inflows of resources and expense/expenditures. For defined benefit pension plans, the statement identifies the methods and assumptions that should be used. Recognition and disclosure requirements for employers with liabilities to a defined benefit plan are detailed. Note disclosure and required supplementary information have been addressed.

The District is a "cost-sharing employer"; an employer whose employees are provided with defined benefit pensions through a cost-sharing multiple-employer (pooled) pension plan. Additional information is contained in the notes to these financial statements.

Operating Revenues

An airport functions as a landlord. District income is derived from fees and lease income. Total operating revenues for the year were $8,597,015, an increase of 2.9% from FY15 ($8,351,300) and an increase of 8.3% from FY14 ($7,937,711). The increase operating revenues are the result of increased commercial and general aviation air operations and rate increases.

Revenues derived from the activities of commercial airlines and from airline passengers using services offered by the Airport account for 54.3% of FY16, 55.2% of FY15 and 56.3% of FY14 total operating revenues. This was an increase of 1.2% compared to FY15 and a 4.4% increase over FY14 (see Table III, "Subtotal – Commercial Aviation"). Included in this category are revenues paid by commercial airlines for landing, apron and aircraft overnight parking fees and income received from tenants that rent space in the airport terminal.

The line item, "Terminal Concessions & Leases", includes lease income from many sources: concessions such as *The Golden Tee Restaurant* and the *Gifts and More* gift shop; commercial airlines that rent ticket counters, offices, baggage make-up, hold rooms and baggage claim areas; five rental car companies (*Avis, Budget, Enterprise, Hertz, and National*); long and short-term parking lots and in-terminal advertising. This category of revenue increased 1.0% when compared to FY15 and a 4.7% increase when compared to FY14.

General Aviation activities generated 21.3% of FY16, 20.7% of FY15 and 20.6% of FY14 total operating revenues. Corporate aviation and general aviation tenants remit landing fees, fuel fees, and rental income for leased land, hangars, tie-downs, aircraft parking aprons, and offices. These revenues increased 5.5% from FY15 and 11.9% from FY14 levels, respectively.

Non-aviation tenants produced 19.3% of FY16, 19.9% of FY15, and 19.2% of FY14 total operating revenues, an increase of 0.1% compared to FY15, and 8.9% compared to FY14.

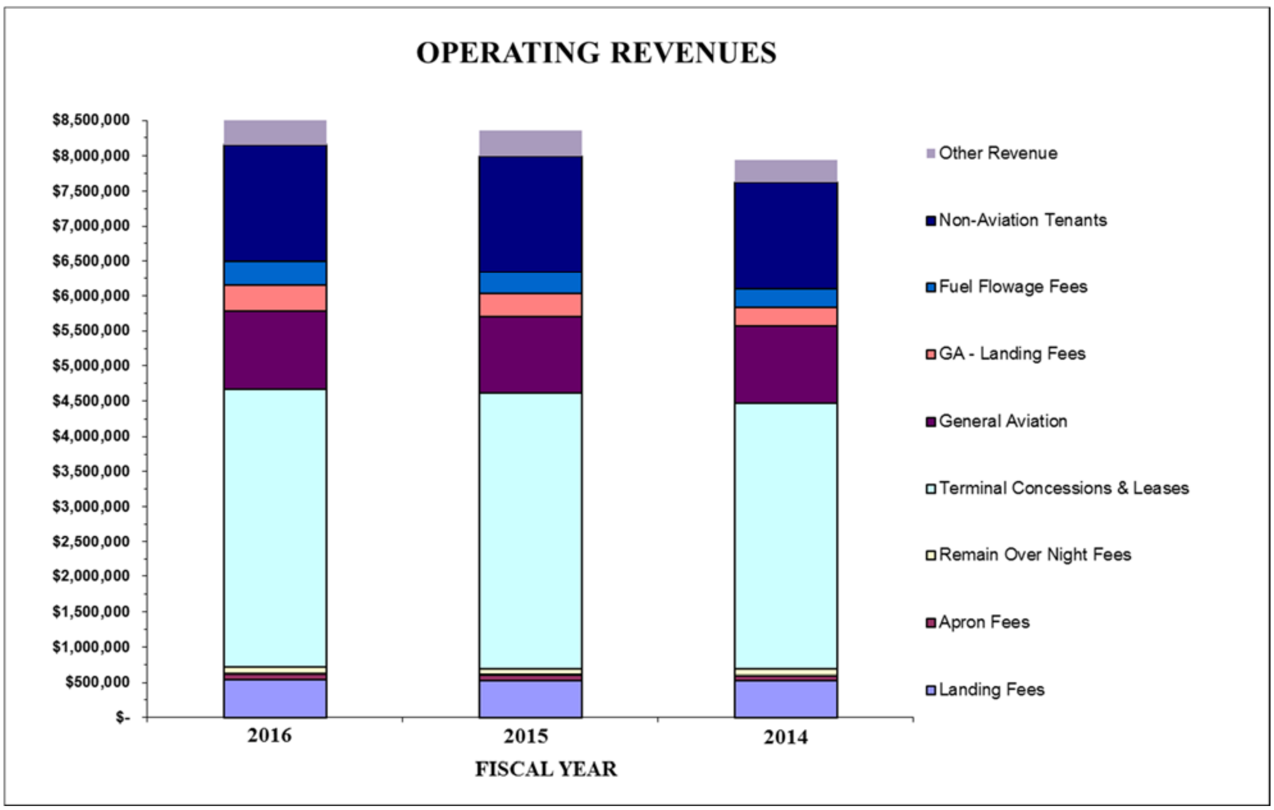
Operating Revenues (Continued)

Table III presents a comparison of operating revenues for Fiscal Years 2016, 2015 and 2014. Chart C provides a graphic representation of operating revenues.

Table III

FISCAL YEARS 2016, 2015 & 2014 OPERATING REVENUES						
	2016		2015		2014	
Landing Fees	$ 542,574	6.3%	$ 526,088	6.3%	$ 522,746	6.6%
Apron Fees	75,242	0.9%	76,744	0.9%	73,135	0.9%
Remain Over Night Fees	91,116	1.1%	86,486	1.0%	96,057	1.2%
Terminal Concessions & Leases	3,959,173	46.1%	3,921,487	47.0%	3,780,275	47.6%
Subtotal - Commercial Aviation	$ 4,668,106	54.3%	$ 4,610,805	55.2%	$ 4,472,213	56.3%
General Aviation	$ 1,117,412	13.0%	$ 1,091,164	13.1%	$ 1,091,317	13.7%
Landing Fees	372,105	4.3%	327,355	3.9%	270,288	3.4%
Fuel Flowage Fees	337,634	3.9%	314,130	3.8%	271,116	3.4%
Subtotal - General Aviation	$ 1,827,151	21.3%	$ 1,732,649	20.7%	$ 1,632,721	20.6%
Non-Aviation Tenants	$ 1,659,911	19.3%	$ 1,658,366	19.9%	$ 1,524,922	19.2%
Other Revenue	441,847	5.1%	349,480	4.2%	307,855	3.9%
Total	$ 8,597,015	100%	$ 8,351,300	100%	$ 7,937,711	100%

Chart C



Operating Expense Before Depreciation and Amortization

Operating expense before depreciation and amortization in FY16 ($7,647,606) decreased 0.1% compared to FY15 ($7,652,017) and increased 0.04% when compared to FY 14 ($7,621,009) (see Table V, "Fiscal Years 2016, 2015 and 2014 Operating Expense Before Depreciation and Amortization"). Operating expenses from FY14 to FY15 were managed through the contracting of Fire Safety staffing services with the City of Monterey in FY15.

Table IV presents salary and payroll expense by airport department. The Airport provides a wide variety of services and staffs its own police department. Salaries and payroll costs increased $62,052 (1.6%) compared to FY15 and decreased $1,000,857 (20.1%) compared to FY14. Salaries and payroll costs, measured as a percentage of total operating expense before depreciation and amortization, were 52.1% in FY16, 51.3% in FY15 and 65.4% in FY14. A significant portion of this salaries and payroll decrease in FY16 compared to FY 14 is directly attributable to the contracting of Fire Safety with City of Monterey in FY 15 which is offset by increases in the recognition of deferred CalPERS pension expenses per GASB 68.

Table IV

FISCAL YEARS 2016, 2015 & 2014 SALARY & PAYROLL EXPENSE

	2016		2015		2014	
Finance & Administration	$ 858,343	21.5%	$ 985,162	25.1%	$ 1,021,475	20.5%
Planning & Development	414,317	10.4%	436,065	11.1%	424,153	8.5%
Maintenance & Custodial Services	906,349	22.7%	916,916	23.4%	902,299	18.1%
Airport Operations	285,097	7.2%	284,213	7.2%	275,730	5.5%
Police Department	1,441,586	36.2%	1,177,588	30.0%	1,184,250	23.8%
ARFF / Fire Department	79,380	2.0%	123,077	3.1%	1,178,023	23.6%
Total	$ 3,985,073	100%	$ 3,923,021	100%	$ 4,985,930	100%

Table V compares operating expense for FY16, FY15 & FY14. Chart D provides a graphic representation of operating expenses.

Finance & Administration operating expense decreased 8.2% from FY15 and decreased 9.2% when compared to FY14. This reduction was primarily due to not filling vacant positions after the departure of employees in each fiscal year.

Planning & Development operating expense increased 22.6% when compared to FY15 and increased 3.3% when compared to FY14. The increase was due to a decrease in labor capitalized to the Runway Safety Area (RSA) project as the project nears completion.

Maintenance & Custodial Services operating expense increased 4.8% from FY15 and increased 5.5% when compared to FY14. The majority of the District's facilities, structures and infrastructure are old and require more intensive maintenance and more frequent repairs. Expenses have been effectively controlled by emphasizing preventive maintenance.

Airport Operations operating expense increased 3.7% when compared to FY15 and increased 2.6% when compared to FY14. Expense were reasonably controlled as the department expanded its workload and accepted increased responsibility for airport (airside and landside) operations.

Operating Expense Before Depreciation and Amortization (Continued)

Police Department operating expense increased 22.8% over FY15 and increased 38.9% when compared to FY14. A significant portion of this increase in FY16 is directly attributable to the recognition of pension expenses per GASB 68 ($231K), and escalating costs due to mandated TSA security requirements. These increases have been partially mitigated by the use of part-time police officers. The District was awarded a "Law Enforcement Officer (LEO) Reimbursement Grant" from the U. S. Department of Homeland Security (DHS), reported as an operating grant, which offsets labor costs used to support TSA security.

ARFF / Fire operating expense decreased 3.9% compared to FY15 and decreased 9.0% when compared to FY14. The District eliminated its fire department staff in FY15 and District firefighters were absorbed by the City of Monterey. Effective January 1, 2014, (in FY14) the City of Monterey provides the airport with Aircraft Rescue and Fire Fighting (ARFF) services through contract.

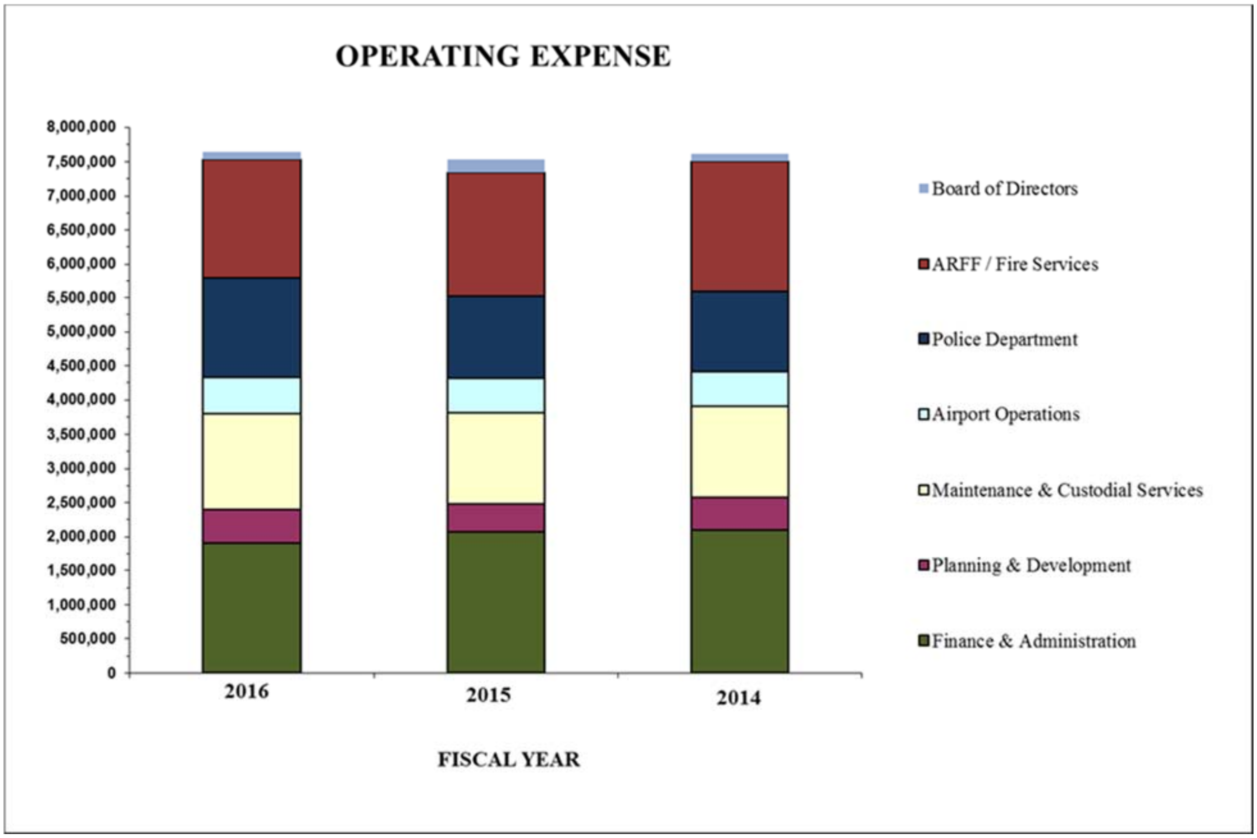
Board of Directors operating expense decreased 43.7% compared to FY15 and decreased 5.8% compared to FY14. The Board of Directors are elected (at large) during the November general election; thereby the District incurs elections expense every other year. The District had no election expense in FY16 since all Board of Directors were still within their terms. Three Board of Directors terms will end in FY17.

Table V

FISCAL YEARS 2016, 2015 & 2014 OPERATING EXPENSE BEFORE DEPRECIATION AND AMORTIZATION						
	2016		2015		2014	
Finance & Administration	$ 1,906,844	24.4%	$ 2,077,095	27.3%	$ 2,101,150	27.6%
Planning & Development	495,968	6.4%	404,446	5.3%	480,206	6.3%
Maintenance & Custodial Services	1,391,462	17.8%	1,327,588	17.4%	1,319,428	17.3%
Airport Operations	530,186	6.8%	511,290	6.7%	516,573	6.8%
Police Department	1,620,498	20.8%	1,320,157	17.3%	1,166,898	15.3%
ARFF / Fire Services	1,748,566	22.4%	1,818,645	23.9%	1,921,509	25.2%
Board of Directors	108,618	1.4%	192,796	2.5%	115,245	1.5%
Total	$ 7,802,142	100%	$ 7,652,017	100%	$ 7,621,009	100%

Operating Expense Before Depreciation and Amortization (Continued)

Chart D



Actual versus Budget – FY16 Revenues, Expenses and Change in Net Position

Table VI compares actual and budgeted operating revenues, operating expenses, and the change in net position for Fiscal Year 2016.

Table VI

Operating Revenues	Actual	Budget	Var. Over/(Under)
Commercial Aviation - Fees	$ 708,933	$ 714,657	$ (5,724)
General Aviation - Fees	372,105	314,673	57,432
Terminal Concessions and Leases	3,959,103	3,921,279	37,824
Heavy General Aviation	1,012,672	1,017,804	(5,132)
Light General & Other Aviation Tenants	442,373	441,456	917
Non-Aviation Tenants	1,659,911	1,611,691	48,220
Other Operating Revenue	441,918	363,435	78,483
Total Operating Revenue	$ 8,597,015	$ 8,384,995	$ 212,020
Operating Expenses	Actual	Budget	Var. Over/(Under)
Finance & Administration	$ 1,906,844	$ 2,074,060	$ (167,216)
Planning & Development	495,968	535,002	(39,034)
Maintenance & Custodial Services	1,391,462	1,446,031	(54,569)
Airport Operations	530,186	563,871	(33,685)
Police Department	1,620,498	1,375,071	245,427
ARFF Services	1,748,566	1,773,395	(24,829)
Board of Directors	108,618	118,525	(9,907)
Total Operating Expenses	$ 7,802,142	$ 7,885,955	$ (83,813)
Operating Income / (Loss) before Depreciation	$ 794,873	$ 499,040	$ 295,833
Depreciation & Amortization Expense	$ 4,974,057	$ 7,874,456	$ (2,900,399)
Net Operating Income / (Loss)	$ (4,179,184)	$ (7,375,416)	$ 3,196,232
Other Revenues (Expenses)	$ 17,693,995	$ 21,876,239	$ (4,182,244)
Change in Net Position	$ 13,514,811	$ 14,500,823	$ (986,012)

Actual Financial Results – FY16 FY 15 & FY14 Revenue, Expense and Change in Net Position

Table VII compares actual operating revenue, operating expense, and the change in net position for Fiscal Years 2016, 2015 & 2014.

Table VII

	FY 2016 Actual	FY 2015 Actual	FY 2014 Actual
Operating Revenue			
Commercial Aviation - Fees	$ 708,933	$ 689,318	$ 691,938
General Aviation - Fees	372,105	327,355	270,288
Terminal Concessions and Leases	3,959,103	3,921,487	3,780,275
Heavy General Aviation	1,012,672	973,230	911,844
Light General & Other Aviation Tenants	442,373	432,064	450,589
Non-Aviation Tenants	1,659,911	1,658,366	1,524,922
Other Operating Revenue	441,918	349,480	307,855
Total Operating Revenue	$ 8,597,015	$ 8,351,300	$ 7,937,711
Operating Expense			
Finance & Administration	$ 1,906,844	$ 2,077,095	$ 2,101,150
Planning & Development	495,968	404,446	480,206
Maintenance & Custodial Services	1,391,462	1,327,588	1,319,428
Airport Operations	530,186	511,290	516,573
Police Department	1,620,498	1,320,157	1,166,898
ARFF Services	1,748,566	1,818,645	1,921,509
Board of Directors	108,618	192,796	115,245
Total Operating Expense	$ 7,802,142	$ 7,652,017	$ 7,621,009
Operating Income / (Loss) before Depreciation	$ 794,873	$ 699,283	$ 316,702
Depreciation & Amortization Expense	$ 4,974,057	$ 5,363,050	$ 5,453,461
Net Operating Income / (Loss)	$ (4,179,184)	$ (4,663,767)	$ (5,136,759)
Other Revenue (Expense)	$ 17,693,995	$ 27,144,819	$ 3,949,070
Change in Net Position	$ 13,514,811	$ 22,481,052	$ (1,187,689)

Capital and Debt Activity

Total District assets are $85,135,955, deferred outflows of resources are $477,840, total liabilities are $11,020,664, and deferred inflows of resources are $1,243,483, the difference is $73,349,648. The debt-to-equity ratio (2.7%) is favorable because the Airport's long term debt is small ($2,005,000). The current ratio is 3.48. The District has financed its airport capital improvements by aggressively pursuing FAA Airport Improvement Program (AIP) grants to fund its capital projects. Capital assets, net of depreciation, and intangible assets, net of amortization, are presented below:

	2016	2015	2014
Tangible assets, net			
Land	$ 1,784,717	$ 1,784,717	$ 1,784,717
Land Improvements	11,522,354	13,944,713	16,393,815
Buildings	7,938,587	9,104,541	10,301,888
Furniture, equipment and vehicles	657,501	847,012	952,608
Construction in progress	53,531,160	36,498,004	8,740,340
Total	75,434,319	62,178,987	38,173,368
Intangible assets, net	2,299,793	3,411,123	4,864,214
Total capital assets - net	$ 77,734,112	$ 65,590,110	$ 43,037,582

Debt

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

Future Impacts

FY16 was a multifaceted year for the District. During FY16 the airlines continued the shift from smaller 50+ seat aircraft to the larger 70 plus seat aircraft. Airlines continue to focus on managing excess capacity, which results in fewer flights for our market. However, airline load factors increased from FY15 to FY16, resulting in a 3% increase in passenger enplanements, landing weights and revenues during the period.

The District's commercial success is dependent on the local community's demand for commercial air service and the airlines' ability, capacity, and willingness to meet those demands. Just over 54.3% of the Airport's operating revenues are collected from the airlines and related services that pay user fees to the airport (8.2%) and from concessions that provide services to the passengers (46.1%). In FY16, concession revenue generated by rental car operations and parking operations grew modestly. Rental car concession revenue increased 2.0% and parking concession revenue increased 0.8%.

Future Impacts (Continued)

Enplanements in FY16 totaled 187,963 (Table I), a 2.7% increase when compared to the FY15. The enplanement increase (an average of 420 more enplanements per month) was a direct result of commercial air carriers change in aircraft size, reducing flights but increasing load factors. While the Airport has experienced an increase in the percentage of local passengers choosing to fly from MRY, the air carrier schedule changes reduced the number of available flights in our market.

Management continues to have dialogue with the airlines now serving the Airport to expand service. The District promotes the introduction of new service to cities in the Midwest, Northwest and Southern California. It offers incentives for new air service to the Pacific Northwest that include a $500,000 grant from the U.S. Department of Transportation to fund an airline's start-up operating costs. The Airport and its community co-sponsor will fund $214,000 in initial marketing and advertising expenses. A one-year extension of this grant was secured during the period. The grant is now set to expire in January 2017.

Heavy general aviation (GA), which started to rebound in FY14, continued the trend in FY16 and is expected to increase in FY17. However, FY16 light general aviation space and hangar rentals remained flat compared to FY15 and this trend is expected to continue in FY17. Non-aviation rents increased less than 1% in FY16 but the District expects to recognize a 3% plus increase in FY17 as new storage leases are expected.

Given the historical performance data and current economic indicators, the forecast for FY17 is for financial results very similar to FY16. Rates adopted for FY17 were left unchanged from FY16 with respect to airline activity. General aviation hangar rents were increased slightly to reflect market. A new rate schedule for Transportation Network Company operators including Uber was adopted.

Requests for Information

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

MONTEREY PENINSULA AIRPORT DISTRICT

Statements of Net Position

June 30, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Unrestricted:		
Cash and cash equivalents (Note 2)	$ 1,030,797	$ 979,217
Investments (Note 2)	2,945,078	1,674,062
Accounts receivable, net	1,970,315	4,010,084
Interest receivable	8,139	6,092
Prepaid and other assets	247,912	58,729
Total unrestricted current assets	6,202,241	6,728,184
Restricted:		
Cash and cash equivalents (Note 2)	866,239	1,418,188
Investments (Note 2)	333,363	232,847
Total current assets	7,401,843	8,379,219
Capital assets (Note 3):		
Nondepreciable	55,315,877	38,282,720
Depreciable, net	22,418,235	27,307,390
Total capital assets, net	77,734,112	65,590,110
Total assets	85,135,955	73,969,329
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension contributions (Note 7)	543,750	362,999
LIABILITIES		
Current liabilities:		
Accrued liabilities (Note 4)	1,716,584	3,831,075
Unearned revenues	71,540	73,840
Accrued compensated absences (Note 5)	22,474	65,110
Due to the City of Monterey (Notes 5 and 10)	19,966	19,966
Pension obligation bond payable, current portion (Note 5)	299,000	286,000
Funds held in trust	141	141
Total current liabilities	2,129,705	4,276,132
Noncurrent liabilities:		
Security deposits	338,136	316,711
Unearned revenues - rent received in advance from tenants	286,182	295,059
Accrued compensated absences, net of current portion (Note 5)	183,668	176,037
Due to the City of Monterey, net of current portion (Notes 5 and 10)	119,797	139,763
Net pension liability (Note 7)	5,890,721	5,177,620
OPEB liability (Note 8)	366,455	364,252
Pension obligation bonds payable, net of current portion (Note 5)	1,706,000	2,005,000
Total noncurrent liabilities	8,890,959	8,474,442
Total liabilities	11,020,664	12,750,574
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions (Note 7)	1,309,393	1,746,917
NET POSITION		
Net investment in capital assets	76,218,198	62,064,776
Restricted - unspent Passenger Facilities Charges	855,349	1,140,291
Unrestricted	(3,723,899)	(3,370,230)
Total net position	$ 73,349,648	$ 59,834,837

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

MONTEREY PENINSULA AIRPORT DISTRICT

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Commercial aviation	$ 708,933	$ 689,318
General aviation	372,105	327,355
Terminal leases and concessions	3,959,103	3,921,487
Heavy general aviation	1,012,672	973,230
Light general aviation and other aviation tenants	442,373	432,064
Non-aviation tenants	1,659,911	1,658,366
Other operating revenue	441,918	349,480
Total operating revenues	8,597,015	8,351,300
OPERATING EXPENSES		
Finance and administration	1,906,844	2,077,095
Planning and development	495,968	404,446
Maintenance and custodial services	1,391,462	1,327,588
Airport operations	530,186	511,290
Police department	1,620,498	1,320,157
Fire department	1,748,566	1,818,645
Board of Directors	108,618	192,796
Depreciation and amortization	4,974,057	5,363,050
Total operating expenses	12,776,199	13,015,067
Operating loss	(4,179,184)	(4,663,767)
NONOPERATING REVENUES AND (EXPENSES)		
Passenger Facility Charges	756,914	724,686
Operating grants	154,536	116,800
Investment income	66,178	19,452
Interest expense	(97,658)	(109,868)
Total nonoperating revenues (expenses)	879,970	751,070
CAPITAL CONTRIBUTIONS		
Grants from government agencies	16,814,025	26,393,749
Change in net position	13,514,811	22,481,052
NET POSITION		
Beginning of year	59,834,837	37,353,785
End of year	$ 73,349,648	$ 59,834,837

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

MONTEREY PENINSULA AIRPORT DISTRICT
Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 8,645,494	$ 8,118,479
Payments to vendors	(4,252,648)	(3,696,568)
Payments to employees, including pension benefits	(3,801,690)	(3,760,778)
Net cash provided by operating activities	591,156	661,133
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interest paid on long-term debt	(97,658)	(109,868)
Principal payments on long-term debt	(286,000)	(274,000)
Proceeds from operating grants	154,536	116,800
Net cash provided by noncapital financing activities	(229,122)	(267,068)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital grants and Passenger Facilities Charges	19,572,477	25,213,513
Acquisition of capital assets	(19,127,479)	(25,880,849)
Net cash used in capital and related financing activities	444,998	(667,336)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	64,131	19,955
Investments matured	(1,371,532)	644,239
Net cash provided by investing activities	(1,307,401)	664,194
Net change in cash and cash equivalents	(500,369)	390,923
Cash and cash equivalents, beginning of year	2,397,405	2,006,482
Cash and cash equivalents, end of year	$ 1,897,036	$ 2,397,405
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (4,179,184)	$ (4,663,767)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	4,974,057	5,363,050
(Increase) decrease in:		
Accounts receivable	38,231	(281,096)
Note receivable	-	2,569
Prepaid and other current assets	(189,183)	27,980
Increase (decrease) in:		
Accrued liabilities	(105,071)	139,600
Unearned revenues	(11,177)	51,705
Accrued compensated absences	(35,005)	(73,226)
Due to the City of Monterey	(19,966)	(19,966)
Security deposits	21,425	(5,999)
OPEB liability	2,203	5,097
Net pension liability and related pension deferred outflows and inflows of resources	94,826	115,186
Net cash provided by operating activities	$ 591,156	$ 661,133

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

MONTEREY PENINSULA AIRPORT DISTRICT

Statements of Cash Flows (Continued)

For the Years Ended June 30, 2016 and 2015

	2016	2015
Non-cash capital and related financing activities:		
Acquisition of capital assets in accrued liabilities	$ 1,515,914	$ 3,525,334
STATEMENT OF NET POSITION		
CLASSIFCATION OF CASH AND CASH EQUIVALENTS:		
Unrestricted	$ 1,030,797	$ 979,217
Restricted	866,239	1,418,188
Total cash and cash equivalents	$ 1,897,036	$ 2,397,405

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Monterey Peninsula Airport District (District) was established under the provisions of Article 133 of the General Law of the State of California on March 22, 1941, for the purpose of operating and maintaining a public airport. Originally, it consisted of 37 acres, which were contributed to the District by the City of Monterey. The District has acquired additional land through grants and purchases in subsequent years and now totals 501 acres. For financial reporting purposes, the District's basic financial statements include all financial activities that are controlled by or are dependent upon actions taken by the District's Board of Directors. There are no component units considered for inclusion in the District's financial reporting entity.

(b) Measurement Focus and Basis of Accounting

The District's financial activities are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

The District distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues generally result from providing services and producing and delivering goods in connection with an organization's principal ongoing operations. The principal operating revenues of the District are charges to airlines, concessionaires, parking and property rental. Operating expenses of the District include personnel costs, administrative expenses and depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses, except for capital contributions, which are presented separately.

When restricted resources meet the criteria to be available for use and unrestricted resources are also available for use, it is the District's policy to use restricted resources first, and then unrestricted resources, as needed.

(c) Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

(d) Investments

The District reports its investments at fair value in the accompanying financial statements and the corresponding change in fair value of investments is reported in the year in which the change occurs. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District measures its investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Receivables

Receivables from tenants are recorded when the revenues are earned under the accrual method of accounting and accounted for using the allowance method. The allowance is estimated using historical collection experience as well as management's judgment about collectability of individual receivables. The allowance at both June 30, 2016 and 2015 was $10,000.

(f) Prepaid Expenses

Prepaid amounts are allocated to expense prorated in the periods in which the benefit is received.

(g) Capital Assets

Capital assets are stated at historical cost, or estimated historical cost if actual historical cost is not available. Gifts or contributions of such assets are stated at estimated fair value on the date received. The District's policy is to capitalize assets with a value in excess of $5,000 for furniture, equipment and vehicles and $25,000 for land, facilities and improvements.

Depreciation has been provided using the straight-line method over the estimated useful lives, which range as follows:

Land improvements	10 - 40 years
Facilities and improvements	10 - 40 years
Furniture, equipment and vehicles	3 - 20 years

Intangible assets include the District's logo, noise study, master plan update and easements related to soundproofing of neighboring residences. These have been amortized on the straight-line basis over the estimated useful lives of the assets which are 10 – 40 years. Depreciation is not provided on construction-in-progress until construction is complete and the asset is placed in service.

(h) Employee Benefits

Fringe benefits such as pension, health insurance, dental insurance, vision insurance, and paid-time-off, are provided to employees per the District's current human resources policies or as determined by respective agreements between the District and the respective employees' collective bargaining agreements.

(i) Accrued Compensated Absences

The District's personnel policy provides full-time employees with vacation and sick leave in varying amounts, and at termination or retirement, employees are paid for accumulated (vested) vacation. Employees are paid up to a maximum of one month's salary for accumulated sick leave upon retirement; employees separated under circumstances other than retirement are not paid for accumulated sick leave. Accordingly, compensation for vacation and sick leave is charged to expense as earned by the employee, and accumulated, unpaid vacation and sick leave, which is payable upon an employee's termination or retirement, is recorded as a liability.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Unearned Revenues

Unearned revenues represent amounts collected before year-end, which were not earned as of year-end.

(k) Deferred Outflows and Inflows of Resources

Deferred outflows and inflows resources related to pensions are certain changes in total pension liabilities and fiduciary net position that are to be recognized in future pension expense. Excluding deferred pension contributions, the remaining pension related deferred outflows and inflows of resources are amortized over the remaining expected average remaining service lifetime (approximately four years) or five years, depending on the nature of items.

(l) Net Position

Net position comprises the various accumulated net earnings from operating income or losses, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and 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 is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position as the unspent proceeds.

Restricted - This component of net position consists of 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. Restricted net position represents unspent Passenger Facility Charges (PFC), which are restricted by enabling legislation.

Unrestricted - This component represents net position that does not meet the definition of "restricted" or "net investment in capital assets."

(m) Passenger Facility Charges

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Passenger Facility Charge (continued)

Pursuant to governmental accounting standards, the District records PFCs as nonoperating revenue. The fees are reserved for specific purposes as defined in the approval letter received from the FAA's administrator. The District's applications for PFCs were approved as impose and use. It is the position of the District that these receipts should be recognized immediately.

(n) Operating Grants and Capital Contributions

Certain expenditures for airport capital improvements, airport safety and security operations, are significantly funded through the Airport Improvement Program (AIP) of the FAA and Transportation Security Administration (TSA), with certain matching funds provided by the District. Funding provided under government grants is considered earned as the related allowable expenditures are incurred.

Grants awarded by TSA to reimburse certain police department's costs are reported in the statement of revenues, expenses and changes in net position as nonoperating revenues. For the years ended June 30, 2016 and 2015, the District requested and received $154,536 and $116,800, respectively, as reimbursement of certain police department costs. Grants for capital asset acquisition, facility development and rehabilitation are reported as capital contributions, after nonoperating revenues and expenses. For the years ended June 30, 2016 and 2015, the District recognized $16,798,453 and 26,334,749, respectively, as capital contributions funded by AIP grants.

(o) Use of Estimates

Management of the District has made certain estimates and assumptions relating to the reporting of assets, deferred outflows of resources, liabilities, deferred inflows of resources and revenues and expenses to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Actual results may differ from those estimates.

(p) Reclassifications and Presentation

Certain reclassifications of prior year's balances have been made to conform with the current year presentation. The reclassifications have no effect on the financial position, results of operations or cash flows.

(q) New Accounting Standards Adopted

During the year ended June 30, 2016, the District adopted the following GASB Statements:

- Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application,* is intended to improve accounting and financial reporting for state and local governments' investments by enhancing the comparability of financial statements among governments by requiring measurements of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement requires additional disclosures and did not have a significant impact to the District's financial statements. Please refer to Note 2 for more information.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New Accounting Standards Adopted (Continued)

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statements 68 and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB Statement No. 73), establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, as well as for the assets accumulated for the purposes of providing those pensions. GASB Statement No. 73 amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes. GASB Statement No. 73 addresses the recognition of the total pension liability of such plans and the disclosures necessary for the plans that did not meet the definition of GASB Statement No. 68. This statement did not have a significant impact to the District's financial statements.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB Statement No. 76), which clarifies the hierarchy of GAAP and reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the scope of authoritative GAAP. This statement did not have a significant impact to the District's financial statements.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses accounting and financial reporting for certain external investment pools and pool participants. The statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. It also establishes additional note disclosure requirements to include information about any limitations or restrictions on participant withdrawals. This statement did not have a significant impact to the District's financial statements.

(r) New Accounting Standards To Be Implemented

The Distirct is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

- In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB Statement No. 74), which establishes new accounting and financial reporting requirements for OPEB plans, as well as for certain nonemployer governments that have a legal obligation to provide financial support to OPEB provided to the employees of other entities. GASB Statement No. 74 also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. GASB Statement No. 74 is effective for the District's fiscal year ending June 30, 2017.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New Accounting Standards To Be Implemented (Continued)

- In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75), which establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB plans improving the accounting and financial reporting by state and local governments for OPEB and provides information provided by state and local government employers about financial support for OPEB that is provided by other entities. The statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB Statement No. 75 is effective for the District's fiscal year ending June 30, 2018.

- In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local government employers and to employees of employers that are not state or local governmental employers, and (3) has no predominate state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). It also establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for those pensions. GASB Statement No. 78 is effective for the District's fiscal year ending June 30, 2017.

- In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments, which was established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*. GASB Statement No. 80 is effective for the District's fiscal year ending June 30, 2017.

- In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize revenues, assets, liabilities, and deferred inflows of resources. GASB Statement No. 81 is effective for the District's fiscal year ending June 30, 2018.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New Accounting Standards To Be Implemented (Continued)

- In March 2016, GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in Actuarial Standards of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 is effective for the District's fiscal year ending June 30, 2017.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2016 and 2015 comprised of the following:

	2016	2015
Unrestricted:		
Deposits with banks	$ 1,030,797	$ 979,217
Investments	2,945,078	1,674,062
Total unrestricted	3,975,875	2,653,279
Restricted:		
Deposits with banks	866,239	1,418,188
Investments	333,363	232,847
Total restricted	1,199,602	1,651,035
Total cash and investments	$ 5,175,477	$ 4,304,314

NOTE 2 – CASH AND INVESTMENTS (Continued)

(a) Custodial Credit Risk – Deposits and Investments

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy contains legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

(b) Investments Permitted

The table below identifies the investment types that are authorized for the District by the California Government Code 53601 or the District's Investment Policy, where the policy is more restrictive. The District's Investment Policy is more restrictive than the California Government Code in that the allowed investments are with the State of California's Local Agency Investment Fund and certificates of deposits, and may not exceed $250,000 per institution in order that the principal remain fully insured by the federal government. The table also identifies certain provisions of the California Government Code that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio*	Maximum Investment In One Issuer
FDIC Insured Negotiable and Nonnegotiable Certificates of Deposit	5 Year	None	$250,000 per institution
State of California Local Agency Investment Fund (LAIF)	N/A	None	None

* Excludes amounts held by fiscal agents that are not subject to California Government Code restrictions.

NOTE 2 – CASH AND INVESTMENTS (Continued)

(c) Investments

The following is a summary of the District's investments at June 30, 2016:

	Fair Value	(Maturities in Years) Less than 1	1 - 5	Credit Ratings (Standard & Poor's)
Negotiable certificates of deposits	$ 1,989,876	$ 322,478	$ 1,667,398	Not rated
Local Agency Investment Fund	1,288,565	1,288,565	-	Not rated
Total investments	$ 3,278,441	$ 1,611,043	$ 1,667,398	

The following is a summary of the District's investments at June 30, 2015:

	Fair Value	(Maturities in Years) Less than 1	1 - 5	Credit Ratings (Standard & Poor's)
Negotiable certificates of deposits	$ 1,821,239	$ 796,866	$ 1,024,373	Not rated
Local Agency Investment Fund	85,670	85,670	-	Not rated
Total investments	$ 1,906,909	$ 882,536	$ 1,024,373	

The District is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is governed by the California Government Code under the oversight of the Local Investment Advisory Board (Board). The Board consists of five members as designated by state statute. The fair value of the District's investment in the LAIF 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, which is different from the fair value of the District's position in the LAIF pool. LAIF is not rated by rating agencies. The weighted average maturity of LAIF at June 30, 2016 and 2015 was 167 and 239 days, respectively.

As of June 30, 2016 and 2015, the District had unrestricted cash and investment of $1,288,565 and $85,670, respectively invested in LAIF, which had invested 2.81% and 2.08% of the pooled investment funds in Structured Notes and Asset-Backed Securities. LAIF is part of the State's Pooled Money investment Account (PMIA). PMIA has a total of $75.4 billion and $69.6 billion in its investment portfolio as of June 30, 2016 and 2015, respectively. The District valued its investments in LAIF as of June 30, 2016 and 2015, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized costs resulting in a factor of 1.000621222 and 1.000375979 as of June 30, 2016 and 2015, respectively.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The District does not have any of its investments using level 1 and 3 inputs.

NOTE 2 – CASH AND INVESTMENTS (Continued)

(c) Investments (Continued)

The District's investments in negotiable certificates of deposits are classified in Level 2 of the fair value hierarchy and are valued using prices determined by the use of matrix pricing techniques maintained by the pricing vendors for these securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The District's investment in LAIF is exempt from the fair value hierarchy.

(d) Restricted Cash and Investments

At June 30, 2016 and 2015, cash were restricted for the following:

	June 30, 2016			June 30, 2015		
	Cash in Bank	**Investment**	**Total**	**Cash in Bank**	**Investment**	**Total**
Security deposits from tenants	$ 321,541	$ -	$ 321,541	314,064	-	314,064
Passenger facility charge program	517,345	333,363	850,708	1,101,055	232,847	1,333,902
Debt service	27,353	-	27,353	3,069	-	3,069
Total restricted cash and investments	$ 866,239	$ 333,363	$ 1,199,602	$ 1,418,188	$ 232,847	$ 1,651,035

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2016
Capital assets, not being depreciated:				
Land	$ 1,784,717	$ -	$ -	$ 1,784,717
Construction in progress	36,498,003	17,118,059	(84,902)	53,531,160
Total capital assets, not being depreciated	38,282,720	17,118,059	(84,902)	55,315,877
Capital assets, being depreciated/amortized:				
Intangible assets	21,909,735	-	-	21,909,735
Land improvements	31,715,657	-	-	31,715,657
Buildings and improvements	21,051,483	-	-	21,051,483
Furniture, equipment and vehicles	3,612,382	84,902	-	3,697,284
Total capital assets, being depreciated	78,289,257	84,902	-	78,374,159
Less accumulated depreciation/amortization				
Intangible assets	(18,498,612)	(1,111,330)	-	(19,609,942)
Land improvements	(17,770,943)	(2,422,360)	-	(20,193,303)
Buildings and improvements	(11,946,939)	(1,165,957)	-	(13,112,896)
Furniture, equipment and vehicles	(2,765,373)	(274,410)	-	(3,039,783)
Less accumulated depreciation	(50,981,867)	(4,974,057)	-	(55,955,924)
Total capital assets, being depreciated, net	27,307,390	(4,889,155)	-	22,418,235
Total capital assets, net	$ 65,590,110	$ 12,228,904	$ (84,902)	$ 77,734,112

Construction in progress activity for the year ended June 30, 2016 was as follows:

Projects	Balance July 1, 2015	Additions	Completed Transferred to Depreciable	Balance June 30, 2016
2012-01 Runway Safety Area - Construction	$ 29,750,165	$ 1,118,707	$ -	$ 30,868,872
2013-02 Airport Master Plan	920,917	245,541	-	1,166,458
2014-01 RSA - Construction Phase 2	5,820,978	15,485,704	-	21,306,682
2015-03 Infield Safety Area Rehabilitation - Phase 1	5,943	156,221	-	162,164
2016-01 NEPA/CEQA Safety Initiative	-	4,850	-	4,850
2016-02 Solar Panel Array Study	-	2,678	-	2,678
2016-03 2015 Chevrolet 3/4T 4WD Truck - Utility	-	38,196	(38,196)	-
2016-04 2015 Chevrolet 1/2T 4WD Truck	-	28,397	(28,397)	-
2016-05 2016 GEM eL XD Electric Cart	-	18,309	(18,309)	-
2017-01 Commercial Facilities Mower	-	17,713	-	17,713
2017-05 Airfield Runway Sweeper	-	1,743	-	1,743
Total	$ 36,498,003	$ 17,118,059	$ (84,902)	$ 53,531,160

NOTE 3 – CAPITAL ASSETS (Continued)

Capital assets activity for the year ended June 30, 2015 was as follows:

	Balance July 1, 2014	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2015
Capital assets, not being depreciated:				
Land	$ 1,784,717	$ -	$ -	$ 1,784,717
Construction in progress	8,740,340	27,915,578	(157,915)	36,498,003
Total capital assets, not being depreciated	10,525,057	27,915,578	(157,915)	38,282,720
Capital assets, being depreciated/amortized:				
Intangible assets	21,909,735	-	-	21,909,735
Land improvements	34,307,127	-	(2,591,470)	31,715,657
Buildings and improvements	21,213,854	-	(162,371)	21,051,483
Furniture, equipment and vehicles	3,658,156	157,915	(203,689)	3,612,382
Total capital assets, being depreciated	81,088,872	157,915	(2,957,530)	78,289,257
Less accumulated depreciation/amortization				
Intangible assets	(17,045,521)	(1,453,091)	-	(18,498,612)
Land improvements	(17,913,312)	(2,449,101)	2,591,470	(17,770,943)
Buildings and improvements	(10,911,966)	(1,197,344)	162,371	(11,946,939)
Furniture, equipment and vehicles	(2,705,548)	(263,514)	203,689	(2,765,373)
Less accumulated depreciation	(48,576,347)	(5,363,050)	2,957,530	(50,981,867)
Total capital assets, being depreciated, net	32,512,525	(5,205,135)	-	27,307,390
Total capital assets, net	$ 43,037,582	$ 22,710,443	$ (157,915)	$ 65,590,110

Construction in progress activity for the year ended June 30, 2015 was as follows:

Projects	Balance July 1, 2014	Additions	Completed Transferred to Depreciable	Balance June 30, 2015
2012-01 RSA - Construction	$ 8,310,231	$ 21,439,934	$ -	$ 29,750,165
2013-02 Airport Master Plan	430,109	490,808	-	920,917
2014-01 RSA - Construction Phase 2	-	5,820,978	-	5,820,978
2015-02 Police Vehicle - Sedan	-	37,546	(37,546)	-
2015-03 Infield Safety Area Rehabilitation - Phase 1	-	5,943	-	5,943
2015-04 Pick-Up Truck 3/4T 4WD	-	39,143	(39,143)	-
2015-05 Electric Vehicle 1 - Kia Soul EV	-	40,613	(40,613)	-
2015-06 Electric Vehicle 1 - Kia Soul EV	-	40,613	(40,613)	-
Total	$ 8,740,340	$ 27,915,578	$ (157,915)	$ 36,498,003

NOTE 3 – CAPITAL ASSETS (Continued)

At June 30, 2016 and 2015, intangible assets consist of the following:

	2016	2015
Noise safety study and sound proofing easements	$ 21,549,356	$ 21,549,356
Master plan	208,440	208,440
Wildlife hazard assessment plan	151,939	151,939
Total intangible assets, gross	21,909,735	21,909,735
Less accumulated amortization	(19,609,942)	(18,498,612)
Total intangible assets, net	$ 2,299,793	$ 3,411,123

NOTE 4 – ACCRUED LIABILITIES

At June 30, 2016 and 2015, accrued liabilities consist of the following:

	2016	2015
Accrued employee benefits	$ 34,606	$ 105,467
Other accrued expenses	1,681,978	3,725,608
Total accrued liabilities	$ 1,716,584	$ 3,831,075

NOTE 5 – LONG-TERM OBLIGATIONS

A summary of the changes in long-term obligations for the year ended June 30, 2016 is as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due in One Year
Accrued compensated absences	$ 241,147	$ 51,955	$ (86,960)	$ 206,142	$ 22,474
Due to the City of Monterey (Note 10)	159,729	-	(19,966)	139,763	19,966
Pension obligation bonds	2,291,000	-	(286,000)	2,005,000	299,000
Total	$ 2,691,876	$ 51,955	$ (392,926)	$ 2,350,905	$ 341,440

A summary of the changes in long-term obligations for the year ended June 30, 2015 is as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due in One Year
Accrued compensated absences	$ 314,373	$ 46,755	$ (119,981)	$ 241,147	$ 65,110
Due to the City of Monterey (Note 10)	179,695	-	(19,966)	159,729	19,966
Pension obligation bonds	2,565,000	-	(274,000)	2,291,000	286,000
Total	$ 3,059,068	$ 46,755	$ (413,947)	$ 2,691,876	$ 371,076

NOTE 5 – LONG-TERM OBLIGATIONS (Continued)

Pension Obligation Bonds – On June 27, 2012, the District issued Taxable Pension Obligation Bonds for the purpose of refinancing the outstanding "side fund" obligations in the amount of $3,077,000 with an interest rate of 4.40% per annum. The bonds are subject to mandatory redemption every six months as set forth in the Indenture of Trust. This obligation was incurred to retire a previously unrecorded liability between the District's funded status of the CalPERS plan versus the funded status of the entire risk pool.

The future debt service requirements for the pension obligation bonds at June 30, 2016 are as follows:

Year	Principal	Interest	Total Requirement
2017	$ 299,000	$ 84,920	$ 383,920
2018	312,000	71,632	383,632
2019	326,000	57,750	383,750
2020	341,000	43,230	384,230
2021	356,000	28,072	384,072
2022	371,000	12,254	383,254
Total	$ 2,005,000	$ 297,858	$ 2,302,858

Line of Credit – In July 2014, the District entered into a revolving line of credit note with a bank for short-term financing purposes. The line of credit provides a maximum amount of $500,000 and has a fluctuating interest rate equal to the greater of (a) the Prime Rate plus 0.500% per annum, adjusted daily, or (b) 4.000% per annum. The line of credit has an expiration date of June 30, 2017. There was no amount outstanding on the line of credit at either June 30, 2016 or 2015.

NOTE 6 – OPERATING LEASES

A significant portion of the District's revenue comes from operating leases of which the District is the lessor. The District leases parts of the terminal building, parking areas, north side buildings, land, hangars and ramps to various businesses and individuals under long-term leases with terms from 5 – 60 years. Rental revenues from these operating leases were $2,190,493 and $2,160,756 for the fiscal years ended June 30, 2016 and 2015, respectively. The cost of property held for leasing is not readily determinable.

Future minimum rentals on noncancelable leases as of June 30, 2016 are as follows:

2017	$ 2,234,305
2018	2,210,111
2019	2,254,315
2020	2,075,986
2021	2,035,234
2022 - 2026	10,482,111
2027 - 2031	11,137,033
2032 - 2036	12,280,439
2037 - 2041	13,181,687
2042 - 2046	12,396,009
2047 - 2051	3,401,839
2052 - 2056	333,617
Total	$ 74,022,686

NOTE 7 – PENSION PLAN

Plan Description - All full-time and certain other qualifying employees of the District are eligible to participate in the Public Employees' Retirement Fund of the State of California's Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer plan. CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. CalPERS provides retirement, disability and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service. Benefit provisions and other requirements are established by State statute and by District resolution.

The State of California passed the California Employee's Pension Reform Act (PEPRA) which became effective on January 1, 2013. PEPRA changes included the classification of active employees into two distinct classifications: classic members and new members. Classic members represent active members hired before January 1, 2013, and retain the pension plan benefits in effect. New members are active members hired on or after January 1, 2013, and are subject to PEPRA.

The District participates in five separate cost-sharing multiple-employer plans with CalPERS: Safety Fire, Safety Police, Miscellaneous, PEPRA Miscellaneous and PEPRA Police, collectively the Plans.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees, and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specific by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2016 and 2015, are summarized as follows:

	Fire	Police	PEPRA Police	Misc	PEPRA Misc
Hire date	Prior to 1/1/2013	Prior to 1/1/2013	On/after 1/1/2013	Prior to 1/1/2013	On/after 1/1/2013
Benefit formula	3% @ 50	3% @ 50	2.7% @ 57	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50 & Up	50 & Up	57 & Up	50-63 & Up	62 & Up
Monthly benefits, as a percentage of eligible compensation	3%	3%	2.7%	1.426%-2.418%	2%
Required employee contribution rates	9%	9%	11.50%	7%	6.25%
Required employer contribution rates	27.849%	27.849%	11.50%	11.522%	6.25%

NOTE 7 – PENSION PLAN (Continued)

Contributions – The Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended June 30, 2016 and 2015, the employer contributions recognized as a deferred outflow of resources was $477,840 and $316,804, respectively.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016 and 2015, the District's reported total net pension liability of $5,890,721 and $5,177,620, respectively, for its proportionate shares of the net pension liability. The District's net pension liability is measured as the proportionate share of the net pension liability of the cost-sharing plans. The net pension liability at June 30, 2016 and 2015, of each of the Plans is measured as of June 30, 2015 and 2014 (measurement dates), and the total pension liability for each of the Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and 2013, respectively rolled forward to June 30, 2015 and 2014 using standard update procedures. The District's proportion of the net pension liability was actuarially determined at the valuation date.

For the years ended June 30, 2016 and 2015, the District recognized pension expense of $572,667 and $431,990, respectively. At June 30, 2016 and 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

June 30, 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 477,840	$ -
Differences between Expected and Actual Experiences	11,630	17,804
Change in assumptions	-	191,924
Net differences between projected and actual earnings on pension plan investments	-	96,664
Changes in employer's proportion	50,581	545,412
Difference between the employer's contributions and the employer's proporation share of contributions	3,699	457,589
Total	$ 543,750	$ 1,309,393

NOTE 7 – PENSION PLAN (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

June 30, 2015	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 316,804	$ -
Adjustment due to differences in proportions	46,195	-
Differences between the employer's contributions and the employer's proportionate share of contributions	-	137,812
Net differences between projected and actual earnings on pension plan investments	-	1,609,105
Total	$ 362,999	$ 1,746,917

At June 30, 2016 and 2015, the District reported $477,840 and $316,804, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized, as a reduction of the net pension liability in the year ended June 30, 2017 and 2016, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	$ (493,969)
2018	(487,426)
2019	(383,541)
2020	121,453
Total	$ (1,243,483)

Actuarial Assumptions - The total pension liabilities was determined using the following actuarial assumptions:

	2016	**2015**
Valuation Date	June 30, 2014	June 30, 2013
Measurement Date	June 30, 2015	June 30, 2014
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.65%	7.50%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	3.30% to 14.20% depending on Age, Service, and Type of Employment	3.30% to 14.20% depending on Age, Service, and Type of Employment
Investment Rate of Return	7.65% net of pension plan investment expenses, includes inflation	7.5% net of pension plan investment and administrative expenses, includes inflation
Mortality	Derived using CalPERS' Membership Data for all Funds	Derived using CalPERS' Membership Data for all Funds

NOTE 7 – PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period from 1997 to 2011. Further details of the experience study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability at June 30, 2016 and 2015 were 7.65 percent and 7.50 percent, respectively. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent and 7.50 percent is applied to all plans in the Public Employees Retirement Fund for the June 30, 2015 and 2014 measurement date, respectively. The stress test results are presented in a detailed report named "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB Statement No. 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. Administrative expenses are assumed to be 15 basis points. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference to the Plan.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require CalPERS Board action and proper stakeholder outreach. CalPERS will continue to check the materiality of the difference in calculation until such time as it changes its methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

NOTE 7 – PENSION PLAN (Continued)

Discount Rate (Continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

The target allocation for the June 30, 2015 measurement date was as follows:

Asset Class	New Strategic Allocation	Real Return Year 1-10 (a)	Real Return Year 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.50% used for this period
(b) An expected inflation of 3.00% used for this period

The target allocation for the June 30, 2014 measurement date was as follows:

Asset Class	New Strategic Allocation	Real Return Year 1-10 (a)	Real Return Year 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.50% used for this period
(b) An expected inflation of 3.00% used for this period

NOTE 7 – PENSION PLAN (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability of the Plans as of the June 30, 2015 measurement date, calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

Proportionate Share of Net Pension Liability	Decrease Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Decrease Rate + 1% (8.65%)
Total	$ 9,949,341	$ 5,890,721	$ 2,556,308

The following presents the District's proportionate share of the net pension liability of the Plans as of the June 30, 2014 measurement date, calculated using the discount rate of 7.50 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

Proportionate Share of Net Pension Liability	Decrease Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Decrease Rate + 1% (8.50%)
Total	$ 8,991,688	$ 5,177,620	$ 2,028,749

Pension Plan Fiduciary Net Position – CalPERS issues a separate comprehensive annual financial report, copies of which may be obtained from the CalPERS Executive Offices, Lincoln Plaza East, 400 Q Street, Sacramento, California 95814.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS

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

Funding Policy – The District's contribution for each miscellaneous and public safety fire retiree is the CalPERS mandatory employer portion of the health care premium. The District's contribution for each public safety police retiree is up to 90% of the health care premium (including the mandatory employer portion). The District currently contributes enough funds to the Retiree Health Plan to satisfy current obligations on a pay-as-you-go basis. The District does not have any assets segregated and restricted to provide funds towards the Retiree Health Plan. The contributions made to fund the Retiree Health Plan for the years ended June 30, 2016 and 2015 was $38,909 and $36,104, respectively.

Annual OPEB Cost and Net OPEB Obligation - The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over the remaining period of 28 years.

The District's annual OPEB cost for the years ended June 30, 2016 and 2015, respectively, and the related information for the Retiree Health Plan based on an actuarial valuation dated July 1, 2014, are as follows:

	2016	2015
Annual required contribution	$ 44,373	$ 44,373
Interest on net OPEB obligation	7,381	7,184
Adjustment to the annual required contribution	(10,642)	(10,356)
Annual OPEB cost (expense)	41,112	41,201
Contributions made	(38,909)	(36,104)
Change in net OPEB obligation	2,203	5,097
Net OPEB obligation, beginning of year	364,252	359,155
Net OPEB obligation, end of year	$ 366,455	$ 364,252

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and prior two years are as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	$ 41,112	87.8%	$ 366,455
6/30/2015	41,201	87.6%	364,252
6/30/2014	44,102	51.3%	359,155

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress - The table below indicates the funded status of the Retiree Health Plan as of July 1, 2014.

Actuarial accrued liability (AAL)	$ 797,740
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 797,740
Funded ratio (actuarial value of plan assets)/AAL	0.0%
Approximate annual covered payroll (active plan members)	$ 2,846,530
UAAL as a percentage of annual covered payroll	28%

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve 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 the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer 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, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following summarizes other significant methods and assumptions used in valuing the AAL and annual required contribution under the Retiree Health Plan.

- *Actuarial valuation date* – the actuarial valuation date was as of July 1, 2014.
- *Actuarial cost method* – the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2014, was twenty-seven years.
- *Percentage of retirees electing coverage* – Historically, only about 28% of the District's total retirees elect medical coverage. This is factored into the calculations to arrive at the Annual Required Contributions and the Actuarial Accrued Liability.
- *Retirement age for active employees* – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 60, or at the first subsequent year in which the member would qualify for benefits.
- *Marital Status* – Marital status of members does not apply as only the member is covered under the plan.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

- *Morality – Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website (www.cdc.gov). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.*
- *Turnover* – The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in paragraph 35 of GASB Statement No. 45. In addition, the expected future working lifetimes of employees were determined using Table 2 in paragraph 35c of GASB Statement No. 45.
- *Payroll increase* – Changes in the payroll for current employees are expected to increase at a rate of approximately 1.0% annually.
- *Discount rate* – The calculation uses an annual discount rate of 2.0%. This is based on the assumed long-termed return on plan assets or employer assets.
- *Healthcare cost trend rate* – The expected rate of increase in healthcare insurance premium is 3.5% based on the average medical care component of the Consumer Price Index-Urban (CPI-U) for the past three years.
- *Health insurance premiums* – 2014 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid.
- *Medicare coordination* – Medicare was assumed as the primary payer for current and future retirees at age 65.

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

- Medical benefits for police retirees is $634 per month for those under age 65 and $397 for those age 65 and over. Retirees with 10 years of service with the District after attaining age 50 receive 3% per year of service up to 90% of the premium annually over the $119 per month minimum required District contribution. The District does not contribute toward the retiree's spouse/partner or dependent(s) medical premium.
- Medical benefits paid by the District for fire and miscellaneous retirees is the minimum required contribution of $119 per month.

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

- Current retirees drawing benefits, plus potential retirees (assuming a retirement age of 60 and 28% of retirees electing coverage under the Retiree Health Plan).
- Capped at life expectancy based on mortality tables published by the National Center for Health Statistics.

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

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There have been no significant reductions in insurance coverage from the previous year. The District has not settled claims in excess of the District's insurance coverage in any of the past three years.

The District purchased coverage through an insurance broker for property and commercial liabilities and losses incurred above its deductible limits. Different insurance carriers cover various categories of coverage and are listed separately. Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, newly discovered information and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends (including frequency and amount of pay-outs), economic and social factors, newly discovered information and changes in the law.

The District's deductibles and maximum coverage follows:

Coverage	Deductible		Coverage (aggregate)
Buildings & Business Personal Property			
Except Tools & Maintenance Equipment	$ 10,000		$ 47,655,391
Tools & Maintenance Equipment	1,000		
Boiler & Machinery	10,000		29,280,413
Automobile	500		1,000,000
Fire Truck Physical Damage			10,000,000
Airport Liability			50,000,000
Bodily Injury & Property	5,000	per occurrence	
	10,000	per aggregate	
Personal Injury	5,000	per occurrence	
	10,000	per aggregate	
Combined	10,000	per occurrence	
Public Officials Liability	100,000		5,000,000
Fiduciary Liability	5,000		1,000,000
Crime	5,000		500,000

Workers' Compensation Insurance

The District purchases workers' compensation insurance through Special District Risk Management Authority (SDRMA) with the following coverage level:

Coverage	Coverage	
Workers' Compensation	Statutory	
Employers' Liability	$ 5,000,000	(per occurrence)

NOTE 10 – COMMITMENTS AND CONTINGENCIES

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

Grants and Contracts - The District participates in various federally assisted grant programs that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal and other regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the District; however, as of the date of this report, no such reviews exist, and accordingly, no liabilities are reflected in the accompanying basic financial statements.

Fire Services – On October 31, 2013, the District and the City of Monterey (City) entered into an agreement to share resources to provide fire and emergency services to the area of Monterey along the Highway 68 corridor. The City agreed to assume the difference between the actual cost of providing fire and emergency services, which amount will fluctuate over the term of the agreement and the Fire Service Fee charged by the City to the District. The initial term of the agreement is from January 1, 2014, through July 1, 2019, with an automatic extension in five-year terms unless either party gives written notice of its intent to allow the agreement to lapse. The District will provide access to the property and equipment to enable the City to provide services to the District as well as to provide local mutual aid and assistance and the City will provide fire department administration, fire prevention, incident response within the geographic boundaries of the District, and Statewide mutual aid and assistance services.

In consideration for these services, the District agreed to compensate the City with an initial fee for the period from January 1, 2014 through June 30, 2016 in the amount of $1,650,000 per fiscal year (Fire Service Fee), payable monthly, and ongoing fees with increases based on the consumer price index and transferred its unused and unpaid compensated absence balance (including sick leave) in the amount of $226,233 of which $139,762 and $159,729 remains outstanding at June 30, 2016 and 2015, respectively. The District will pay off the balance due to the City at a rate of 10% per year for a period of ten years until the City is 100% compensated for the initial value of the sick leave balance.

MONTEREY PENINSULA AIRPORT DISTRICT
Required Supplementary Information (Unaudited)
For the Years Ended June 30, 2016 and 2015

Schedule of the District's Proportionate Share of the Net Pension Liability – Safety Risk Pool
As of June 30, 2016 and 2015
Last 10 Years *

	2015	2016
Measurement period	2014	2015
Proportion of net pension liability	0.06162%	0.06574%
Proportionate share of the net pension liability	$ 3,834,741	$ 4,512,232
Covered-employee payroll	$ 1,588,889	$ 578,045
Proportionate share of the net pension liability as a percentage of covered-employee payroll	241.35%	780.60%
Plan fiduciary net position as a percentage of total pension liability	81.15%	78.40%

Notes to Schedule:

Change in benefit terms - The figures above do not include any liability impact that may have resulted from plan changes which occurred after the measuremnt dates. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.
Changes in assumptions - The discount rate was changed from 7.50 percent (net of administrative expense) in 2015 to 7.65 percent in 2016.

* Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only two years of information is shown.

MONTEREY PENINSULA AIRPORT DISTRICT
Required Supplementary Information (Unaudited)
For the Years Ended June 30, 2016 and 2015

Schedule of the District's Proportionate Share of the Net Pension Liability – Miscellaneous Risk Pool
As of June 30, 2016 and 2015
Last 10 Years *

	2015	2016
Measurement period	2014	2015
Proportion of net pension liability	0.21670%	0.02008%
Proportionate share of the net pension liability	$ 1,342,879	$ 1,378,489
Covered-employee payroll	$ 1,767,058	$ 1,731,555
Proportionate share of the net pension liability as a percentage of covered-employee payroll	76.00%	79.61%
Plan fiduciary net position as a percentage of total pension liability	81.15%	78.40%

Notes to Schedule:

Change in benefit terms - The figures above do not include any liability impact that may have resulted from plan changes which occurred after the measuremnt dates. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.
Changes in assumptions - The discount rate was changed from 7.50 percent (net of administrative expense) in 2015 to 7.65 percent in 2016.

* Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only two years of information is shown.

MONTEREY PENINSULA AIRPORT DISTRICT
Required Supplementary Information (Unaudited)
For the Years Ended June 30, 2016 and 2015

Schedule of Contributions – Miscellaneous and Safety Risk Pools Combined
For the Years Ended June 30, 2016 and 2015
Last 10 Years*

	2014	2015	2016
Contractually required contribution (actuarially determined)	$ 466,335	$ 316,804	$ 477,840
Contractually in relation to the actuarially determined contributions	(466,335)	(316,804)	(477,840)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	3,218,816	2,273,134	2,309,600
Contributions as a percentage of covered-employee payroll	14.49%	13.94%	20.69%

Notes to Schedule:
The actuarial methods and assumptions used to determine the fiscal year 2015-16 contribution rates are as follows:

Valuation date:	6/30/2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll, closed
Asset Valuation Method	15 year smooth market
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.5% net of pension plan investment and administrative expenses, includes inflation
Retirement Age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improment using Scale AA published by the Society of Actuaries.

* Fiscal year 2015 was the first year of implementation of GASB Statement No. 68, therefore only three years of information is shown.

The schedule of funding progress presented below provides a consolidated snapshot of the District's ability to meet current and future liabilities with the other postemployment benefit plan assets.

Schedule of Funding Progress – Other Postemployment Benefits

Actuarial Valuation Date	(A) Actuarial Value of Assets	(B) Actuarial Accrued Liability (AAL) - Entry Age	(C) Unfunded AAL (UAAL) [(B) - (A)]	(D) Funded Ratio [(A) / (B)]	(E) Annual Covered Payroll	(F) UAAL as a Percentage of Covered Payroll [(C) / (E)]
7/1/2014	$ -	$ 797,740	$ 797,740	0.0%	$ 2,846,530	28.0%
7/1/2011	-	542,029	542,029	0.0%	3,772,911	14.4%
7/1/2009	-	1,135,375	1,135,375	0.0%	3,108,482	36.5%

The decrease in AAL between the FY 2009 and FY 2011 actuarial valuation reports was primarily due to refinements in actuarial assumptions used by the District

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MGO Certified Public Accountants

Century City
Los Angeles
Newport Beach
Oakland
Sacramento
San Diego
San Francisco
Walnut Creek
Woodland Hills

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
Monterey Peninsula Airport District
Monterey, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Monterey Peninsula Airport District (District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 1, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the District's internal control. Accordingly we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Macias Gini & O'Connell LLP

Walnut Creek, California
November 1, 2016

Independent Auditor's Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
Monterey Peninsula Airport District
Monterey, California

Report on Compliance for Each Major Federal Program

We have audited the Monterey Peninsula Airport District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2016. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

Macias Gini & O'Connell LLP

Walnut Creek, California
November 1, 2016

MONTEREY PENINSULA AIRPORT DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

	CFDA Number	Grant Number	Expenditures
U.S. Department of Transportation			
Federal Aviation Administration			
Airport Improvement Program	20.106	AIP 58, 59, 61	$ 16,798,453
Total expenditures of federal awards			$ 16,798,453

See accompanying notes to the schedule of expenditures of federal awards.

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NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the Monterey Peninsula Airport District (District).

NOTE 2 – BASIS OF PRESENTATION

The accompanying schedule is presented using the accrual basis of accounting as described in Note 1 to the District's basic financial statements.

NOTE 3 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the SEFA agree to or can be reconciled with the amounts reported in the related federal financial reports.

NOTE 4 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The SEFA agrees to or can be reconciled with the amounts reported in the District's basic financial statements.

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MONTEREY PENINSULA AIRPORT DISTRICT
Schedule of Findings and Questioned Costs – Federal Awards
For the Year Ended June 30, 2016

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued :	Unmodified
Internal control over financial reporting:	
♦ Material weakness(es) identified?	No
♦ Significant deficiency(ies) identified ?	None reported
Noncompliance material to the financial statements noted?	No
Federal Awards	
Internal control over major programs:	
♦ Material weakness(es) identified?	No
♦ Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	
U.S. Department of Transportation, Airport Improvement Program (CFDA Number 20.106)	
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as a low-risk auditee?	Yes

Section II – Financial Statement Findings

None

Section III – Federal Award Findings

None

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MONTEREY PENINSULA AIRPORT DISTRICT
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2016

Prior Audit Findings

There are no prior year findings and questioned costs.

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MGO Certified Public Accountants

Century City
Los Angeles
Newport Beach
Oakland
Sacramento
San Diego
San Francisco
Walnut Creek
Woodland Hills

Independent Auditor's Report on Compliance With Applicable Requirements of the Passenger Facility Charge Program and on Internal Control Over Compliance in Accordance With the Passenger Facility Charge Audit Guide for Public Agencies

Board of Directors
Monterey Peninsula Airport District
Monterey, California

Compliance

We have audited Monterey Peninsula Airport District's (District) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, applicable to its passenger facility charge program for the year ended June 30, 2016.

Management's Responsibility
Compliance with the requirements referred to above is the responsibility of the District's management.

Auditor's Responsibility
Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance. Our audit does not provide a legal determination of the District's compliance with those requirements.

Opinion
In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2016.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the District's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Macias Gini & O'Connell LLP
2121 N. California Boulevard, Suite 750
Walnut Creek, CA 94596

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

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

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

Macias Gini & O'Connell LLP

Walnut Creek, California
November 1, 2016

MONTEREY PENINSULA AIRPORT DISTRICT

Schedule of Passenger Facility Charge Revenues and Expenditures

For the Year Ended June 30, 2016

	Passenger Facility Charge Revenue	Interest Earned	Total Revenues	Expenditures on approved projects	Under (over) expenditures on approved projects
Balance to date as of June 30, 2015	$ 15,024,400	$ 282,370	$ 15,306,770	$ 14,166,479	$ 1,140,291
Fiscal year 2015-2016 transactions:					
Quarter ended September 30, 2015	191,620	1,430	193,050	432,901	
Quarter ended December 31, 2015	160,260	1,456	161,716	474,928	
Quarter ended March 31, 2016	193,657	1,278	194,936	89,429	
Quarter ended June 30, 2016	211,377	1,355	212,732	80,535	
Total fiscal year 2015-2016 transactions	756,914	5,519	762,433	1,077,794	(284,942)
Balance to date as of June 30, 2015	$ 15,781,314	$ 287,889	$ 16,069,203	$ 15,244,272	$ 855,349

See accompanying notes to the schedule of passenger facility charge revenues and expenditures.

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MONTEREY PENINSULA AIRPORT DISTRICT
Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures
For the Year Ended June 30, 2016

NOTE 1 – GENERAL

The Schedule of Passenger Facility Charge Revenues and Expenditures presents only the activity of the Passenger Facility Charge (PFC) program of the Monterey Peninsula Airport District (District).

The Aviation Safety and Capacity Expansion Act of 1990 (Public Law 101-508, Title II, Subtitle B) authorized the imposition of PFCs and use of the resulting revenue on Federal Aviation Administration (FAA) approved projects. PFCs are fees imposed on enplaned passengers by the District for the purpose of generating revenue for District projects that increase capacity, increase safety, mitigate noise impact and enhance competition between and among air carriers in accordance with FAA approvals.

NOTE 2 – BASIS OF PRESENTATION

The accompanying schedule is presented using the accrual basis of accounting as described in Note 1 to the District's basic financial statements.

NOTE 3 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the Schedule of Passenger Facility Charge Revenues and Expenditures agree to or can be reconciled with the amounts reported to the FAA on the Passenger Facility Charge Quarterly Status Reports.

NOTE 4 – PFC APPROVED PROJECTS AND EXPENDITURES

The general description of the approved projects and the expenditures for the year ended June 30, 2016 are as follows:

Passenger Facility Charge Project Number/Description	Identifying Number	Passenger Facility Charge Approved Amount	Expenditures
Airport Access Improvements - Phase II	10-15-C-00-MRY	$ 300,000	$ -
Runway Safety Area Design - Phase I	10-15-C-00-MRY	75,000	-
Runway Safety Area Construction - Phase I	10-15-C-00-MRY	515,000	-
Flight Information Display System and Access Information Equipment - Phase II	10-15-C-00-MRY	75,000	-
Wildlife Hazard Assessment	10-15-C-00-MRY	10,000	-
Runway 10R/28L Safety Area Construction, Phase 2	11-17-C-00-MRY	650,000	-
Terminal Improvements - Weather Protection Canopies	11-17-C-00-MRY	125,000	-
Update Airport Master Plan Study	13-18-C-00-MRY	145,000	44,859
Improve Runway 10R/28L Safety Area - Phase III	13-18-C-00-MRY	820,000	-
Install Perimeter Fence Alarm	13-18-C-00-MRY	30,000	-
Apron Rehabilitation-Aircraft Rescue Fire Fighting Ramp	13-18-C-00-MRY	125,000	-
Acquire One Standard Police Vehicle - Security Improvement	14-19-C-00-MRY	50,000	-
Improve Runway Safety Area Runway 10R/28L - Phase 4	14-19-C-00-MRY	1,936,000	1,032,935
Environmental Assessment Infield Rehabilitation Project	16-21-C-00-MRY	35,000	-
Acquire Airport Sweeper	16-21-C-00-MRY	26,000	-
Environmental Assessment - Proposed Safety Enhancement Projects	16-21-C-00-MRY	251,000	-
Total Passenger Facility Charge Projects		$ 5,168,000	$ 1,077,794

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