MONTEREY PENINSULA AIRPORT DISTRICT

Annual Financial and
Compliance Report

For the Years Ended
June 30, 2018 and 2017

MGO Certified Public Accountants

MONTEREY PENINSULA
AIRPORT DISTRICT

Board of Directors
at June 30, 2018

Name	Office	Term Expires
Carl M. Miller	Chair	December 2018
William J. Sabo	Vice-Chair	December 2020
Mary Ann Leffel	Director	December 2020
Matthew Nelson	Director	December 2018
Gary Cursio	Director	December 2018

MONTEREY PENINSULA AIRPORT DISTRICT
For the Years Ended June 30, 2018 and 2017

Table of Contents

This page left intentionally blank.

MGO Certified Public Accountants

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, 2018 and 2017, 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 audits 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, 2018 and 2017, 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

Emphasis of Matter
As discussed in Note 1(q) to the basic financial statements, effective July 1, 2017, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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 and related ratios – safety risk pool, the schedule of the District's proportionate share of the net pension liability and related ratios – miscellaneous risk pool, the schedule of employer contributions – miscellaneous risk pool, the schedule of employer contributions – safety risk pool, the schedule of changes in the total OPEB liability and related ratio, –, and the schedule of funding progress – OPEB under GASB Statement No. 45 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 GASB 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 audits 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 8, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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 & O'Connell LLP

Walnut Creek, California
November 8, 2018

This page left intentionally blank.

MONTEREY PENINSULA AIRPORT DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2018 and 2017

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, 2018 (FY18) and 2017 (FY17). 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 FY18 and FY17, four commercial airlines served the airport with scheduled flights. Alaska, American Airlines, and United Express provided non-stop service to four gateway hubs: Los Angeles, Phoenix, San Diego and San Francisco. Allegiant operated non-stop service, two days per week, to Las Vegas.

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

The District is structured as an enterprise fund. District financial statements are prepared using the accrual basis of accounting; revenues are recognized when earned, and expenses are recognized when incurred. Costs are recovered through airport rents from tenants, landing and fuel fees, and other charges. 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 basic 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* present 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 District implements changes adopted by Governmental Accounting Standards Board, which may require restatement of prior years reported net position. The following financial information includes a restatement of the FY17 net position for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The *Statements of Revenues, Expenses and Changes in Net Position* present 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* relate to the flows of cash and cash equivalents. Only transactions that affect the District's cash and cash equivalents 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 basic 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 $66,341,558 and $71,909,977 at June 30, 2018 and 2017, respectively.

- ✈ In FY18, the District acquired and placed into service primarily the capital assets listed below:
  - Installed Solar Panel Array ($2,977,734)
  - Installed Taxi Automated Beacon Monitoring System ($16,450)
  - Installed Terminal Air Conditioner ($76,722)
  - Installed additional Terminal Security Cameras ($34,857)
  - Completed RSA Mitigation Year 3 ($74,281)
  - Replaced Airport Signage ($32,772)
  - Acquired one (1) Maintenance Vehicle ($29,109),
  - Acquired Mobile Paint Removal System ($50,697)
  - Building 514 Roof Repair ($34,313)

- ✈ In FY17, the District acquired and placed into service primarily the capital assets listed below:
  - Completed Runway Safety Area (RSA) – Construction ($29,460,200)
  - Completed RSA – Construction Phase 2 – ($22,996,503)
  - Replaced one (1) Airport Runway Sweeper ($272,898)
  - Acquired one (1) Commercial Facilities Mower ($17,713)
  - Replaced Terminal Furniture and Refreshed Passenger Areas ($32,294)
  - Acquired one (1) Runway Paint Machine ($40,265)

- The District met its obligations and reduced its taxable pension obligation bonds principal to $1,394,000 (FY17 $1,706,000).

- 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-fiscal year period, FY13 through FY18, are presented below in Table I.

Table I

TOTAL ENPLANEMENTS: FISCAL YEARS 2013 - 2018											
FY 2013		FY 2014		FY 2015		FY 2016		FY 2017		FY 2018	
7/12	18,364	7/13	18,756	7/14	15,980	7/15	16,239	7/16	17,679	7/17	18,068
8/12	18,501	8/13	17,680	8/14	16,622	8/15	16,248	8/16	17,589	8/17	16,450
9/12	17,462	9/13	17,798	9/14	15,280	9/15	14,682	9/16	17,304	9/17	16,374
10/12	18,778	10/13	18,307	10/14	17,102	10/15	15,507	10/16	17,856	10/17	17,151
11/12	17,675	11/13	16,235	11/14	15,168	11/15	15,762	11/16	16,444	11/17	15,576
12/12	16,962	12/13	16,362	12/14	13,882	12/15	15,348	12/16	16,275	12/17	15,740
1/13	14,516	1/14	14,157	1/15	12,728	1/16	13,046	1/17	14,802	1/18	13,302
2/13	14,747	2/14	14,191	2/15	13,010	2/16	13,562	2/17	15,102	2/18	13,758
3/13	18,015	3/14	16,886	3/15	15,823	3/16	16,040	3/17	18,986	3/18	15,758
4/13	17,563	4/14	16,278	4/15	15,926	4/16	15,844	4/17	17,677	4/18	16,400
5/13	17,619	5/14	17,932	5/15	16,336	5/16	17,813	5/17	18,832	5/18	15,622
6/13	18,588	6/14	16,302	6/15	15,110	6/16	17,872	6/17	18,359	6/18	15,857
	208,790		200,884		182,967		187,963		206,905		190,056

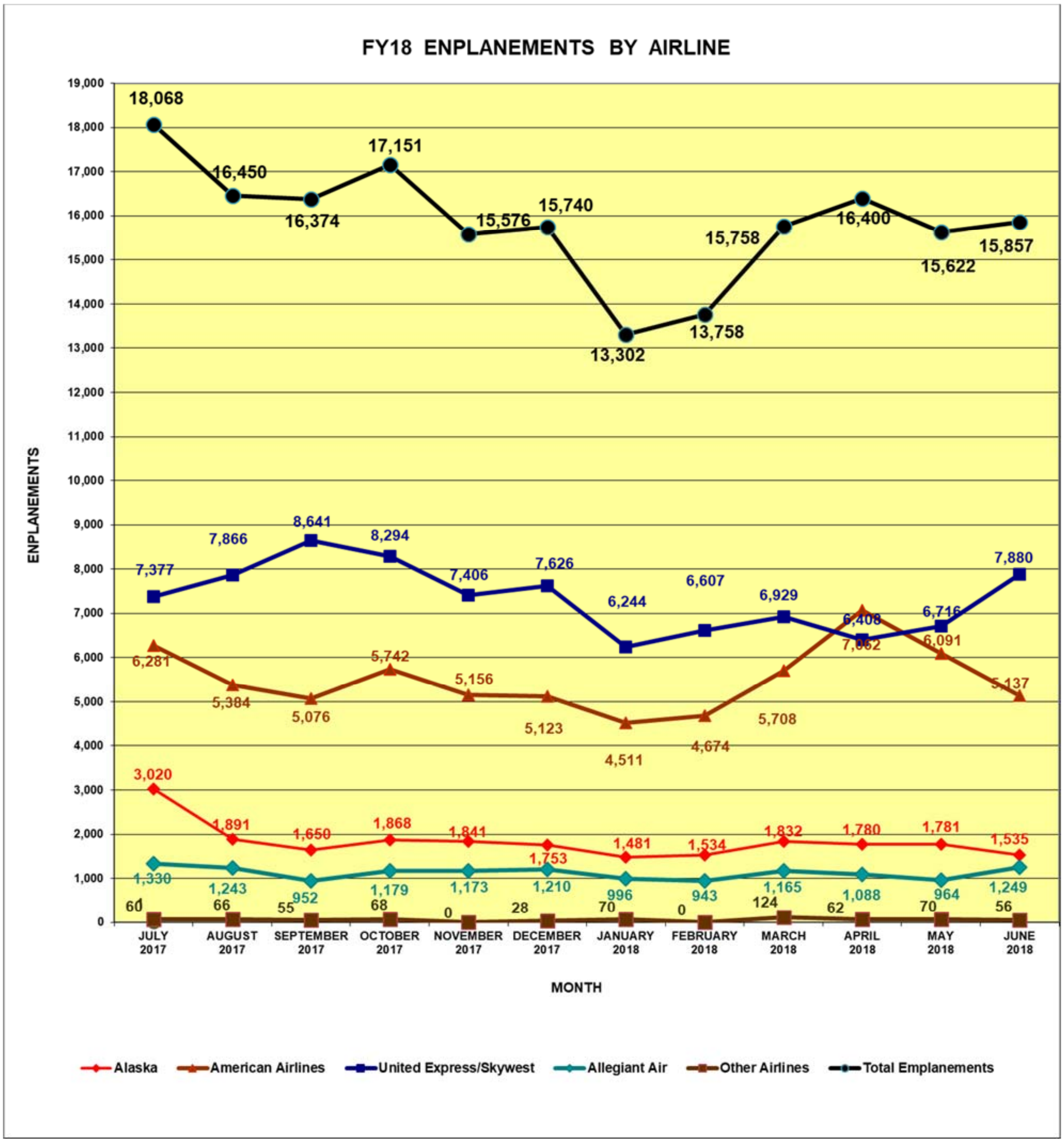
- FY18 enplanements decreased 8.1% compared to FY17 to 190,056 primarily due to decreases in scheduled flights. The decrease resulted from an airline's cancellation of its daily flights to Los Angeles International Airport.

- FY17 enplanements increased 10.1% compared to FY16 to 206,905 primarily due to increases in scheduled flights, which began in FY16. The increase resulted from an airline's introduction of daily flights to San Diego and Los Angeles International Airport.

Financial Highlights (Continued)

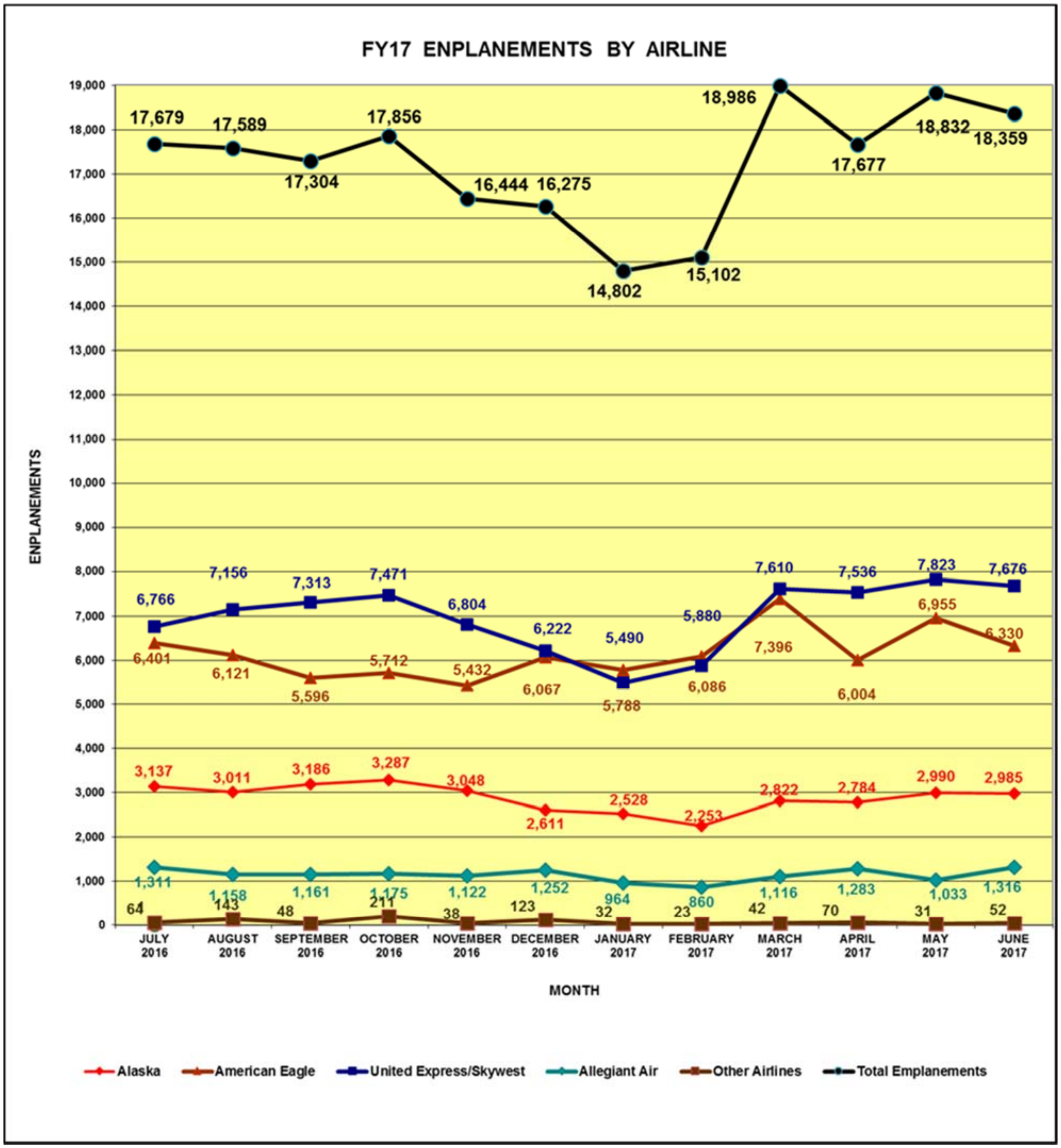
Charts A and B present the monthly enplanements for FY18 and FY17, respectively, in total and for the scheduled commercial airlines that serve the Airport.

Chart A



Financial Highlights (Continued)

Chart B



Summary of Net Position

Implementation of GASB Statement No. 75

In FY18, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* effective July 1, 2017. The objective of the statement is to make other postemployment benefits (OPEB) accounting and financial reporting consistent with the pension standards outlined in GASB Statement No. 68. Similar to the changes made to the pension standards, this new OPEB standard provides a more comprehensive picture of what the District has committed to their employees and the associated costs.

GASB 75 changes how the long-term obligation and the annual expense of OPEB are measured, recognizes the net OPEB liability on the face of the financial statements, and presents more extensive note disclosures and related supplemental schedules. Additional information is contained in the notes to these financial statements.

In the following table, the FY17 and FY16 information has not been restated for GASB 75.

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:

Net Position

	2018	% Change	2017	% Change	2016
Current and other assets	$ 8,875,651	6.0%	$ 8,370,945	13.1%	$ 7,401,843
Capital assets, net	73,168,404	-2.6%	75,107,812	-3.4%	77,734,112
Total assets	82,044,055	-1.7%	83,478,757	-1.9%	85,135,955
Deferred outflow of resources	2,649,824	68.9%	1,569,047	188.6%	543,750
Debt outstanding	4,325,320	153.5%	1,706,000	-14.9%	2,005,000
Other liabilities	12,817,535	23.5%	10,380,624	15.1%	9,015,664
Total liabilities	17,142,855	41.8%	12,086,624	9.7%	11,020,664
Deferred inflow of resources	1,209,466	15.1%	1,051,203	-19.7%	1,309,393
Net investment in capital assets	70,121,950	-5.4%	74,128,727	-2.7%	76,218,198
Restricted - unspent Passenger Facilities Charges	1,929,982	36.2%	1,416,809	71.7%	824,931
Unrestricted	(5,710,374)	57.1%	(3,635,559)	-1.6%	(3,693,481)
Total net position	$ 66,341,558	-7.7%	$ 71,909,977	-2.0%	$ 73,349,648

Total Net Position decreased $5,568,419 from FY17 to FY18 compared to a $1,439,671 decrease from FY16 to FY17. The FY18 decrease in Total Net Position as compared to FY17 primarily resulted from an increase in annual depreciation of capital assets that were placed in service throughout FY17 and implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2017. The increase in Net Investment in Capital Assets was primarily due to the District's capital assets financed by the District and a secured California Energy Commission loan. See discussion below of changes in revenues and expenses between FY18 and FY17.

Net Position (Continued)

The FY17 decrease in Total Net Position of $1,439,671 from FY16 as compared to an increase in net position during FY 16 of $13,514,811 primarily resulted from the increase in annual depreciation of capital assets that were placed in service throughout FY16 , specifically the Federal Aviation Administration (FAA)'s required Runway Safety Area improvements, that were grant funded in FY16 resulting in a decrease in capital contributions of $14,655,473 from FY16 to FY17. .

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 FY18, the District recognized $1,762,726 from FAA Airport Improvement Program (AIP) grants and $762,193 from PFCs receipts to fund architectural design, engineering design, and construction costs. The District received $2,133,438 from FAA AIP grants and $827,800 from PFCs to fund airport improvement projects during FY17.

Total Liabilities increased $5,056,231 from FY17 to FY18 primarily due to inclusion of a California Energy Commission loan of $2,931,320 for construction of the Solar Panel Array that was placed in service in November 2017. Other Liabilities increased $2,436,911 from FY17 to FY18 due to implementation of GASB Statement No. 75 for the total OPEB Liability and increases in the accrued GASB Statement No. 68 Net Pension Liability.

Operating Revenues

An airport functions as a landlord. District revenue is derived from fees and lease revenues. Total operating revenues for the year were $9,193,743, an increase of 2.3% when compared to FY17 ($8,984,949) and an increase of 4.5% when compared to FY16 ($8,597,015).

The primary increase in FY18 operating revenue is the result of changes in Other Operating Revenues. In FY18, the District signed a contract with the City of Del Rey Oaks to provide Police Chief services and received worker's compensation insurance reimbursements.

The FY17 increase in operating revenues is the result of increased commercial and general aviation air operations and District approved increases in rates and charges.

Revenues derived from the activities of commercial airlines and from airline passengers using services offered by the Airport account for 53.6% of FY18, 55.4% of FY17 and 54.4% of FY16 total operating revenues. This was a decrease of 1.1% compared to FY17 and a 6.7% increase from FY16 to FY17 (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 Leases & Concessions," 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 0.1% when compared to FY17 and a 5.2% increase from FY16 to FY17.

General Aviation activities generated 20.8% of FY18, 20.8% of FY17 and 21.2% of FY16 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 2.8% from FY17 and 2.1% from FY16 to FY17, respectively.

Operating Revenues (Continued)

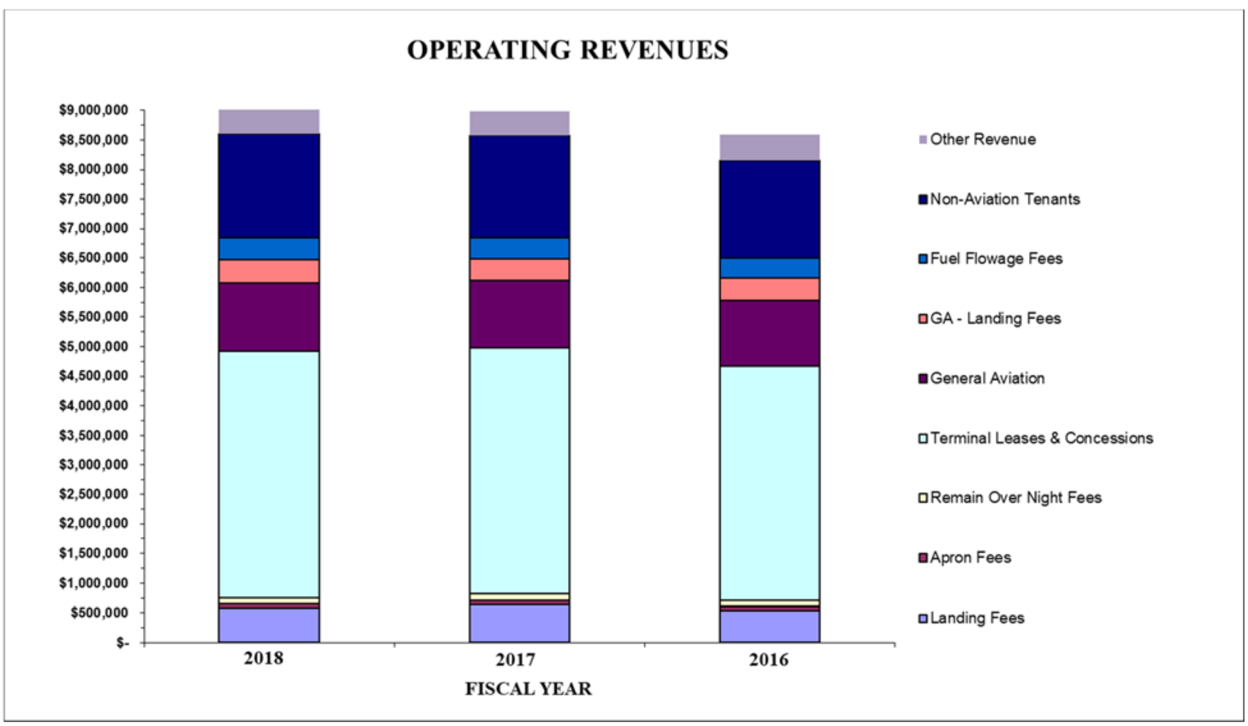
Non-aviation tenants and Other Revenues produced 25.6% of FY18, 23.8% of FY17, and 24.4% of FY16 total operating revenues, an increase of 9.9% compared to FY17 and 1.8% from FY16 to FY17.

Table III presents a comparison of operating revenues for Fiscal Years 2018, 2017 and 2016. Chart C provides a graphic representation of operating revenues.

Table III

FISCAL YEARS 2018, 2017 & 2016 OPERATING REVENUES								
	2018			2017			2016		
Landing Fees	$	576,305	6.3%	$	637,215	7.1%	$	542,574	6.3%
Apron Fees		83,673	0.9%		73,260	0.8%		75,242	0.9%
Remain Over Night Fees		94,627	1.0%		104,831	1.2%		91,116	1.1%
Terminal Leases & Concessions		4,171,551	45.4%		4,165,518	46.3%		3,959,174	46.1%
Subtotal - Commercial Aviation	$	4,926,156	53.6%	$	4,980,824	55.4%	$	4,668,106	54.4%
General Aviation	$	1,151,930	12.5%	$	1,141,074	12.7%	$	1,117,412	13.0%
Landing Fees		390,446	4.2%		366,773	4.1%		372,105	4.3%
Fuel Flowage Fees		375,571	4.1%		357,366	4.0%		337,634	3.9%
Subtotal - General Aviation	$	1,917,947	20.8%	$	1,865,213	20.8%	$	1,827,151	21.2%
Non-Aviation Tenants	$	1,759,318	19.1%	$	1,729,424	19.2%	$	1,659,911	19.3%
Other Revenues		590,322	6.5%		409,488	4.6%		441,847	5.1%
Subtotal - Non Aviaiton and Other	$	2,349,640	25.6%	$	2,138,912	23.8%	$	2,101,758	24.4%
Total	$	9,193,743	100.0%	$	8,984,949	100.0%	$	8,597,015	100.0%

Chart C



Operating Expenses Before Depreciation and Amortization

Operating expense before depreciation and amortization in FY18 ($8,307,876) increased 2.7% compared to FY17 ($8,086,505) and increased 6.5% when compared to FY16 ($7,802,142) (see Table V, "Fiscal Years 2018, 2017 and 2016 Operating Expenses Before Depreciation and Amortization"). As discussed below, most of the year over year expense increases are the result of increases in salaries due to cost of living increases and other compensation expenses.

Table IV presents salary and payroll expense by Airport department. The Airport provides a wide variety of services and staffs its own police department. Total salaries and payroll costs increased $238,253 (5.7%) compared to FY17 and increased $175,271 (4.4%) from FY16 to FY17. Salaries and payroll costs, measured as a percentage of total operating expenses before depreciation and amortization, were 52.9% in FY18, 51.4% in FY17 and 51.1% in FY16. A significant portion of the FY18 salaries and payroll increase compared to FY17 is due to cost of living adjustments. The increase in salaries and payroll costs in FY17 compared to FY16 is directly attributable to expense increases from recognizing required GASB 68 adjustments ($471,942). The District's receives "Law Enforcement Officer (LEO) Reimbursement Grant" from the U. S. Department of Homeland Security (DHS) that directly offsets Police Department labor expenses. The LEO grant reimbursements/offsets are not included in Table IV but are included in Other Revenues and Expenses (see Table VI.)

Table IV

FISCAL YEARS 2018, 2017 & 2016 SALARY & PAYROLL EXPENSES						
	2018		2017		2016	
Finance & Administration	**$ 1,019,767**	**23.2%**	**$ 886,819**	**21.3%**	**$ 858,343**	**21.5%**
Planning & Development	**337,693**	**7.7%**	**293,821**	**7.1%**	**414,317**	**10.4%**
Maintenance & Custodial Services	**1,085,270**	**24.7%**	**1,018,603**	**24.5%**	**906,349**	**22.7%**
Airport Operations	**356,847**	**8.1%**	**315,093**	**7.6%**	**285,097**	**7.2%**
Police Department	**1,340,201**	**30.5%**	**1,108,510**	**26.6%**	**1,441,586**	**36.2%**
ARFF / Fire Department	**258,818**	**5.9%**	**537,497**	**12.9%**	**79,380**	**2.0%**
Total	**$ 4,398,596**	**100%**	**$ 4,160,343**	**100%**	**$ 3,985,072**	**100%**

Table V compares operating expenses for Fiscal Years 2018, 2017 and 2016. Chart D provides a graphic representation of operating expenses. All department operating expenses were affected by increases in cost of living salary adjustments and offset by GASB 68 and GASB 75 OPEB non-cash adjustments. These expenses are recognized as components of the compensation and retirement related expenses.

Finance & Administration (F&A) operating expenses increased 3.2% or $65,788 compared to FY17 and increased 7.7% or $146,471 an increase from FY16 to FY17. The FY18 F&A expense increase came from increase in salaries expenses ($132,949) that were offset by lower utilities due to the new solar panels and other expense ($67,161). The FY17 F&A expense increase resulted from the Airport Community Day Event (marketing) and accounting policies consulting expenses.

Planning & Development (PD) operating expenses increased 23.5% or $91,047 compared to FY17 and a decrease of 22.0% or $109,277 from FY16 to FY17. The FY18 PD expense increase came from higher salaries related expenses ($43,872) and higher Architect & Engineer and Environmental expenses ($47,175). The FY17 PD expense decrease resulted from a reduction in headcount and lower Architect & Engineer and Environmental expenses.

Operating Expenses Before Depreciation and Amortization (Continued)

Maintenance & Custodial Services (MCS) operating expenses increased 12.1% of $166,407 from FY17 and a decrease of $15,513 or 1.1% from FY16 to FY17. The FY18 MCS expense increase from higher salaries related expenses ($66,667), higher Airfield Repairs for Airport Operating Area painting projects and consolidation of fuel expenses in MCS ($99,741). MCS' goal is to perform more projects internally and rely less on contractors. _The FY17 MCS expense decrease resulted from fewer contracted Airfield Repair and Terminal Repair/Maintenance projects.

Airport Operations (OPS) operating expenses decreased 7.5% or $40,507 compared to FY17 and an increase of 2.5% or $13,091 from FY16 to FY17. FY18 OPS expenses included higher salary related expenses ($41,754) that were offset by lower non-labor expenses ($82,261). In FY18 the District terminated its Taxi starter service contract, which resulted in approximately $107,735 in savings. In FY17, OPS expenses were controlled as the department balanced its workload and continued management of airport (airside and landside) operations.

Police Department operating expenses increased 5.4% or $73,295 compared to FY17 and a decrease of 15.7% or $254,844 from FY16 to FY17. The FY18 Police Department expense increased from higher salary related expenses ($231,691) and lower non-labor expenses of ($158,396). In FY18 the District move the Police Department vehicle maintenance, repairs and fuel expenses ($14,265) to the maintenance department and reduced a variety of operating expenses ($18,051). Police Department expenses in Table V excludes the LEO Grant reimbursement of $116,800, which is reported as operating grant revenue. In FY17, a significant portion of the decrease is directly attributed to reduced labor and related expenses, as the District budgeted for 7 full time officers but operated with 6,

ARFF / Fire operating expenses decreased 6.8% or $154,340 compared to FY17 and increased 29.1% or $508,175 from FY16 to FY17. The FY18 ARFF Department expense decreased from lower net pension expenses ($278,680) that were offset by a 3% increase in the City of Monterey ARFF service contract ($56,034.) and ARFF vehicle repairs and other expenses ($68,302). In FY15 District eliminated its fire department staff and contracted with the City of Monterey for fire department staffing services. The City of Monterey absorbed the District's fire department staff through a 5-year contract, which provides the airport with Aircraft Rescue and Fire Fighting (ARFF) services. The District is required to make annual required pension contribution payments for fire department staff who worked for the airport before contracting with City of Monterey. The District is negotiating with the City of Monterey to extend the contract beyond June 30, 2019.

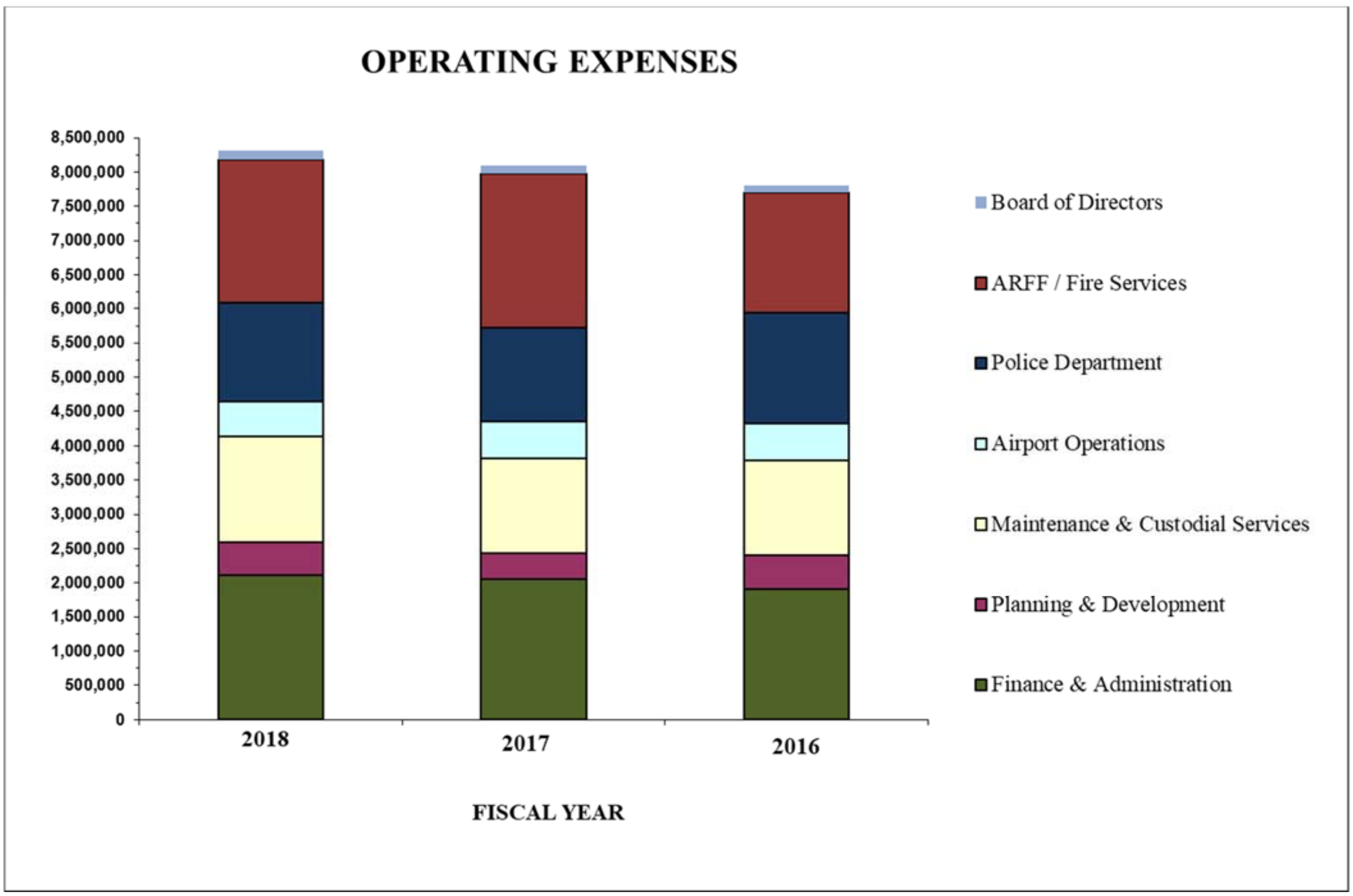
Operating Expenses Before Depreciation and Amortization (Continued)

Board of Directors (BOD) operating expenses increased 18.8% or $19,681 compared to FY17 and a decrease of 3.4% or $3,740 from FY16 to FY17. The increase in expenses relates to business travel and conference fees. FY18 was an off-election year therefore no BOD election expenses were incurred. In FY17, the District had no election expense since all Board of Directors ran uncontested.

Table V

FISCAL YEARS 2018, 2017 & 2016 OPERATING EXPENSE BEFORE DEPRECIATION AND AMORTIZATION						
	2018		2017		2016	
Finance & Administration	$ 2,119,103	25.5%	$ 2,053,315	25.4%	$ 1,906,844	24.4%
Planning & Development	477,738	5.8%	386,691	4.8%	495,968	6.4%
Maintenance & Custodial Services	1,542,356	18.6%	1,375,949	17.0%	1,391,462	17.8%
Airport Operations	502,770	6.1%	543,277	6.7%	530,186	6.8%
Police Department	1,438,949	17.3%	1,365,654	16.9%	1,620,498	20.8%
ARFF / Fire Services	2,102,401	25.3%	2,256,741	27.9%	1,748,566	22.4%
Board of Directors	124,559	1.5%	104,878	1.3%	108,618	1.4%
Total	$ 8,307,876	100%	$ 8,086,505	100%	$ 7,802,142	100%

Chart D



Actual Financial Results – FY18, FY 17 & FY16 Revenue, Expenses and Change in Net Position

Table VII compares actual operating revenues, operating expenses, and the change in net position for Fiscal Years 2018, 2017 & 2016.

Table VI

	FY 2018 Actual	FY 2017 Actual	FY 2016 Actual
Operating Revenues			
Commercial Aviation - Fees	$ 754,605	$ 815,305	$ 708,933
General Aviation - Fees	390,446	366,773	372,105
Terminal Concessions and Leases	4,171,551	4,165,518	3,959,173
Heavy General Aviation	1,068,931	1,050,727	1,012,672
Light General & Other Aviation Tenants	458,570	447,714	442,373
Non-Aviation Tenants	1,759,318	1,729,424	1,659,911
Other Operating Revenues	590,322	409,488	441,848
Total Operating Revenues	9,193,743	8,984,949	8,597,015
Operating Expenses			
Finance & Administration	2,119,103	2,053,315	1,906,844
Planning & Development	477,738	386,691	495,968
Maintenance & Custodial Services	1,542,356	1,375,949	1,391,462
Airport Operations	502,770	543,277	530,186
Police Department	1,438,949	1,365,654	1,620,498
ARFF Services	2,102,401	2,256,741	1,748,566
Board of Directors	124,559	104,878	108,618
Total Operating Expenses	8,307,876	8,086,505	7,802,142
Operating Income before Depreciation	885,867	898,444	794,873
Depreciation & Amortization Expense	6,865,240	5,385,828	4,974,057
Net Operating Income / (Loss)	(5,979,373)	(4,487,384)	(4,179,184)
Other Revenue (Expense), net	2,578,263	3,047,713	17,693,995
Change in Net Position	(3,401,110)	(1,439,671)	13,514,811
Net Position Beginning of Year	71,909,977	73,349,648	59,834,837
Cumulative Effect of implemeting GASB 75	(2,167,309)	-	-
Net Position End of Year	$ 66,341,558	$ 71,909,977	$ 73,349,648

Capital and Debt Activity

FY18 total District assets are $82,044,055, deferred outflows of resources are $2,649,824, total liabilities are $17,142,855 and deferred inflows of resources are $1,209,466, the difference is the net position of $66,341,558. The debt-to-equity ratio (6.6%) is favorable because the Airport's long-term debt is small ($4,325,320). The current ratio for unrestricted current assets divided by current liabilities is 7.11. 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:

Table VII

	2018	2017	2016
Tangible assets, net			
Land	$ 1,784,717	$ 1,784,717	$ 1,784,717
Land improvements	55,902,726	60,632,292	11,522,354
Buildings	6,254,984	7,031,086	7,938,587
Furniture, equipment and vehicles	3,464,210	720,451	657,501
Construction in progress	5,037,833	3,438,984	53,531,160
Total	72,444,470	73,607,530	75,434,319
Intangible assets, net	723,934	1,500,282	2,299,793
Total capital assets - net	$ 73,168,404	$ 75,107,812	$ 77,734,112

Contractual Commitments

The District approved capital expenditures for fiscal years 2018 and 2017 and authorizes contracts for the construction of various capital assets. At June 30, 2018 and June 30, 2017, the District had approved construction in progress (CIP) projects totaling $8,194,310 and $6,467,094 respectively. As presented in the financial statements notes, worked completed on these approved CIP projects at June 30, 2018 totaled $5,037,831 and June 30, 2017 totaled $3,438,984. Remaining approved CIP expenditures and contracts for subsequent years beginning July 1, 2018 are $3,028,110 and July 1, 2019 are $3,156,477. Most of these commitments will be fund by AIP grants and PFCs when work is complete.

Debt

The Monterey Peninsula Airport District 2012 Taxable Pension Obligation Bonds were issued on June 27, 2012. The bonds' 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 CalPER's pension obligations and employer retirement expense rates. Additional information pertaining to the bonds can be found in the Note 5 of the financial statements.

On May 22, 2017, the Monterey Peninsula Airport District received approval for a $3,000,000, 1% and 16.1-year California Energy Commission (CEC) construction loan to finance development of a 1.51M kWh Solar Panel Array on airport property. The District made draws on the CEC loan totaling $2,931,320 through completion of the project in November 2017. The CEC loan will be repaid through the Airport's electricity savings from power generated by the Solar Panel Array. The Solar Panel Array power generation is expected to exceed the power requirements of the District.

Fiscal Year 2018 District Actions Impacting Future Operations

<u>District and Management Focus</u>

The District's FY18 operational and financial performance were a direct result of changes implemented by the District's Board of Directors and Executive Management of the Airport. Development of community awareness of the Airport's services, working with commercial air service providers to increase available flights, continued infrastructure development and refinement of the Master Plan (Plan) are the focus of the

District. The following are some of the events occurring during FY18, which are positioning the Airport for new services and growth.

<u>Commercial Air Service and Concessions</u>

During FY18, the airlines realigned some flights based on pilot and equipment resource pressures. All three airlines servicing the District upgraded equipment but one daily flight to Los Angeles was cancelled. The cancelled flight resulted in an 8.1% decrease in passenger enplanements, but the average number of seats filled per flight increased from 73.9% to 75.7% indicating continued passenger demand for flights.

Consistent flight schedules to San Francisco, Los Angeles, Phoenix and San Diego continue but customer interest in direct flights to the cities of Denver, Dallas and Salt Lake remain. During FY18, Executive Management and commercial air service providers continued discussions on adding flights/routes to those major hub airports. Two airlines indicated interest in adding new flights but delayed any decision until FY19.

The District's commercial airline service successes have been built on the local community's (travelers and businesses) demand for commercial air service. In FY18, 53.6% of the Airport's operating revenues are collected from the airlines that pay user fees and concessions that provide services to the passengers. In FY17, to further promote demand to commercial air service providers, locally based business associations, with support from the District, founded "Team Fly Monterey." In FY18, the District and Team Fly Monterey members worked collectively to raise $200,000 in local matching funds to support a $950,000 Department of Transportation (DOT) Grant application that provides funding to airlines that open new routes. Although the District did not receive the DOT grant the airlines used the grant information to reexamine their current service schedule, executive management continues to actively work with the airlines to improve service to the Airport.

The FY19 budget recognizes the airlines resource pressures and therefore doesn't include any major changes to commercial air services revenues. Commercial air service development is a continuing focus for the District and Executive Management.

<u>General Aviation</u>

Combined Heavy and Light general aviation revenues increased 2.8% from FY17 to FY18. Heavy general aviation operations and charters continued the upward trend in FY18 with a combined 5.9% increase in both landing and fuel fees. However, FY18, light general aviation space and hangar rentals remained flat compared to FY17 and this trend is expected to continue in FY19.

Fiscal Year 2018 District Actions Impacting Future Operations (Continued)

Non-Aviation and Other Operating Services

Non-Aviation and Other Operating Revenues (NAOO) increased 9.9% from FY17 to FY18. Most of this increase came from a contract with the City Del Rey Oaks (DRO) and worker's compensation insurance payments from Special District Risk Management Authority (SDRMA). On September 1, 2017, the District signed an agreement with DRO for police chief services. The one-year contract with three one-year automatic extensions include annual payments of $110,865 to the District. In FY18, the District incurred worker's compensation insurance claims and received worker's compensation insurance payments totaling

$42,998 from SDRMA. SDRMA worker's compensation insurance payments are expected to continue until November 2018 of FY19.

Given the historical performance data and current economic indicators, the current FY19 conservative forecast is for financial results very similar to FY18. Most Rates and Charges adopted for FY19 were left unchanged from FY18 except for the addition of a commercial airline fuel flowage fee. To be in line with most California commercial service airports, the District added a $0.05 per gallon commercial airline fuel flowage fee. The impact on revenues is expected to be modest.

Operating Expenses

FY19 operating expenses are budgeted to increase modestly over FY18. Included in the FY19 operating expenses are savings in utilities of $135,450 from implementation the Solar Panel Array and the addition of $105,000 a biannual expense for Board of Director election.

Service Contracts

Airport Rescue and Fire Fighting Services – In FY15, District eliminated its fire department staff and contracted with the City of Monterey for fire department staffing services. The City of Monterey absorbed the District's fire department staff through a 5-year contract, which provides the airport with Aircraft Rescue and Fire Fighting (ARFF) services. That contract expires on June 30, 2019. The District is currently negotiating a contract extension with the City of Monterey. If terms cannot be reached, the District will issue a Request for Proposal in FY19

Police Department Law Enforcement Service Agreement **–** In September 2017, the District signed a contract to provide Police Chief services to the DRO. In late FY18, the DRO offered to contract with the District to provide Police Department Law Enforcement services. The District has been actively analyzing the offer and is expected to make a decision in early FY19.

Airport Infrastructure

To improve the Airport Infrastructure, the District has authorized the Executive Director to pursue grants or financing and make capital investments in FY18 and FY19. The follow is a summary of two significant capital projects.

- In FY18, the District received an AIP 03-06-0159-066-2017 Airfield Electrical Vault Replacement and Runway Lighting Upgrades grant. The District's airfield electrical vault is past its useful life and runway lights and wiring are failing. Both systems need to be replaced and the District authorized the Executive Director to pursue a FAA grant and estimates for these projects. Airfield Electrical Vault Replacement and Runway Lighting Upgrades are expected to be completed in FY19.

Fiscal Year 2018 District Actions Impacting Future Operations (Continued)

- In FY18, the District submitted AIP 3-06-0159-067-2018 Grant Application to Rehabilitate Runway 10L-28R and install precision approach path indicators (PAPI) and runway end lights (REIL). The project includes: design, project management services, asphalt concrete overlay and repairs, raising of lighting and drainage facilities and installation of PAPI and REILs. In June of FY18, the District received notice for the Federal Aviation Administration that the grant funding would be issued. The funding is expected in early FY19.
- Monterey County is facing mandatory water usage reductions from the Carmel Ground Water Basin. Without additional water sources, the Monterey areas would be forced into mandatory water rationing or incur higher prices from the use of water from proposed desalinization systems. The District is investigating the feasibility of accessing and transporting non-potable water from the northside of the Airport to the rental car Quick-Turn-Around (QTA) facility on the southside of the Airport. This new non-potable water source will help ensure water is available for the QTA facility in the future. The District would need to incur new debt to finance the installation of systems for accessing and transporting non-potable water. The financing would be repaid by implementing a rental car contract fee or customer facilities charge (CFC). The District is currently investigating this capital project.

Requests for Information

This financial report has been designed to provide a general overview of the District's financial information 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, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Unrestricted:		
Cash (Note 2)	$ 1,252,411	$ 1,470,022
Investments (Note 2)	4,463,157	4,278,211
Accounts receivable, net	543,906	653,733
Interest receivable	13,065	11,548
Prepaid and other assets	234,421	99,681
Total unrestricted current assets	6,506,960	6,513,195
Restricted:		
Cash (Note 2)	1,201,039	1,320,103
Investments (Note 2)	1,167,652	537,647
Total current assets	8,875,651	8,370,945
Capital assets (Note 3)		
Nondepreciable	6,822,548	5,223,701
Depreciable, net	66,345,856	69,884,111
Total capital assets, net	73,168,404	75,107,812
Total assets	82,044,055	83,478,757
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resourses related to pensions (Note 7)	2,580,126	1,569,047
Deferred outflows of resources related to OPEB (Note 8)	69,698	-
Total deferred outflows of resources	2,649,824	1,569,047
LIABILITIES		
Current liabilities:		
Accrued liabilities (Note 4)	358,010	1,284,976
Unearned revenues	53,054	21,471
Accrued compensated absences (Note 5)	29,942	21,756
Due to the City of Monterey (Notes 5 and 10)	19,966	19,966
Pension obligation bonds payable, current portion (Note 5)	326,000	312,000
CEC secured loan payable, current portion (Note 5)	128,559	-
Funds held in trust	141	141
Total current liabilities	915,672	1,660,310
Noncurrent liabilities:		
Security deposits	429,279	411,835
Unearned revenues - rent received in advance from tenants	268,429	277,305
Accrued compensated absences, net of current portion (Note 5)	204,976	215,740
Due to the City of Monterey, net of current portion (Notes 5 and 10)	79,865	99,831
Net pension liability (Note 7)	8,866,133	7,660,368
Total OPEB liability (Note 8)	2,507,740	367,235
Pension obligation bonds payable, net of current portion (Note 5)	1,068,000	1,394,000
CEC secured loan payable, net of current portion (Note 5)	2,802,761	-
Total noncurrent liabilities	16,227,183	10,426,314
Total liabilities	17,142,855	12,086,624
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions (Note 7)	1,048,265	1,051,203
Deferred inflows of resources related to OPEB (Note 8)	161,201	-
Total deferred inflows of resources	1,209,466	1,051,203
NET POSITION		
Net investment in capital assets	70,121,950	74,128,727
Restricted - unspent Passenger Facilities Charges	1,929,982	1,416,809
Unrestricted	(5,710,374)	(3,635,559)
Total net position	$ 66,341,558	$ 71,909,977

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

This page left intentionally blank.

MONTEREY PENINSULA AIRPORT DISTRICT
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Commercial aviation	$ 754,605	$ 815,305
General aviation	390,446	366,773
Terminal leases and concessions	4,171,551	4,165,518
Heavy general aviation	1,068,931	1,050,727
Light general aviation and other aviation tenants	458,570	447,714
Non-aviation tenants	1,759,318	1,729,424
Other operating revenue	590,322	409,488
Total operating revenues	9,193,743	8,984,949
OPERATING EXPENSES		
Finance and administration	2,119,103	2,053,315
Planning and development	477,738	386,691
Maintenance and custodial services	1,542,356	1,375,949
Airport operations	502,770	543,277
Police department	1,438,949	1,365,654
Fire department	2,102,401	2,256,741
Board of Directors	124,559	104,878
Depreciation and amortization	6,865,240	5,385,828
Total operating expenses	15,173,116	13,472,333
Operating loss	(5,979,373)	(4,487,384)
NONOPERATING REVENUES AND (EXPENSES)		
Passenger Facility Charges	762,193	827,800
Operating grants	116,800	126,080
Investment income	30,914	20,203
Interest expense	(94,370)	(84,922)
Total nonoperating revenues (expenses)	815,537	889,161
CAPITAL CONTRIBUTIONS		
Grants from government agencies	1,762,726	2,158,552
Change in net position	(3,401,110)	(1,439,671)
NET POSITION		
Beginning of year, as previously reported	$ 71,909,977	-
Cumulative effect of adopting the provisions of new standard (GASB 75) for employer reporting of other postemployement benefits obligations.	(2,167,309)	-
Beginning of year, as restated	69,742,668	73,349,648
End of year	$ 66,341,558	$ 71,909,977

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

MONTEREY PENINSULA AIRPORT DISTRICT
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

		2018		2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$	9,252,727	$	9,022,057
Payments to vendors		(3,725,477)		(3,692,676)
Payments for employees pension and OPEB benefits		(703,767)		(598,719)
Payments to employees		(3,865,242)		(3,043,330)
Net cash provided by operating activities		958,241		1,687,332
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interest paid on pension obligation bond		(71,612)		(84,922)
Principal payments on long-term debt		(312,000)		(299,000)
Proceeds from operating grants		116,800		126,080
Net cash provided by noncapital financing activities		(266,812)		(257,842)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital grants and Passenger Facilities Charges		2,615,913		4,280,579
Proceeds from CEC loan		2,931,320		-
Acquisition of capital assets		(5,789,783)		(3,296,357)
Net cash used in capital and related financing activities		(242,550)		984,222
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income received		29,397		16,794
Investments purchased		(814,951)		(1,537,417)
Net cash provided by investing activities		(785,554)		(1,520,623)
Net change in cash and cash equivalents		(336,675)		893,089
Cash beginning of year		2,790,125		1,897,036
Cash end of year	$	2,453,450	$	2,790,125
Reconciliation of operating loss to net cash provided by operating activities:				
Operating loss	$	(5,979,373)	$	(4,487,384)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation and amortization		6,865,240		5,385,828
(Increase) decrease in:				
Accounts receivable		18,833		34,899
Note receivable		-		-
Prepaid and other current assets		(134,740)		148,231
Increase (decrease) in:				
Accrued liabilities		(85,773)		105,221
Unearned revenues		22,707		(71,490)
Accrued compensated absences		(2,578)		31,354
Due to the City of Monterey		(19,966)		(19,966)
Security deposits		17,444		73,699
OPEB liability		64,699		780
Net pension liability and related pension deferred outflows and inflows of resources		191,748		486,160
Net cash provided by operating activities	$	958,241	$	1,687,332

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

MONTEREY PENINSULA AIRPORT DISTRICT
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2018 and 2017

	2018	2017
Non-cash capital and related financing activities:		
Acquisition of capital assets in accrued liabilities	$ 115,134	$ 979,085
Accrued interest on CEC loan	22,758	
STATEMENT OF NET POSITION		
CLASSIFCATION OF CASH AND CASH EQUIVALENTS:		
Unrestricted	$ 1,252,411	$ 1,470,022
Restricted	1,201,039	1,320,103
Total cash and cash equivalents	$ 2,453,450	$ 2,790,125

The accompanying notes are an integral part to 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 GAAP.

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, 2018 and 2017 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 acquisition 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
Buildings 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 of 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.

Deferred outflows and inflows of resources related to OPEB are certain changes to the total OPEB liability that are to be recognized in future OPEB expense. The OPEB related deferred outflows and inflows of resources are amortized: (1) over the expected average remaining service lifetime (5.86 years) for changes between expected and actual experience, changes in assumptions and changes in proportion; and (2) over five years for the net differences between projected and actual earnings on pension plan investments.

(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 amortization 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.”

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

The District was granted permission to begin collection of a $3.00 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.

(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 in the period earned or collected by the airline and reported.

(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, 2018 and 2017, the District requested and received $116,800 and $126,080, 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, 2018 and 2017, the District recognized $1,726,726 and $2,133,438, 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 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. During the year ended June 30, 2018, District implemented GASB 75, which resulted in a restatement of beginning net position of $2,167,309 to record the total OPEB liability and related deferred outflows and inflows of resources and remove the prior year OPEB obligation. The 2017 financial statements were not restated because information was not available to record the OPEB balances as of July 1, 2016.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New Accounting Standards Adopted

During the year ended June 30, 2018, the District adopted the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is intended to make OPEB accounting and financial reporting consistent with the pension standards outlined in GASB Statement No. 68. This includes recognizing a net OPEB liability in accrual-basis financial statements. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement No. 68 and replaces GASB Statement No. 45. As of July 1, 2017, the District implemented this statement, which resulted in a restatement of beginning net position by $2,167,309, recognition of $40,270 of net deferred outflows of resources, establishment of a total OPEB liability of $2,574,814 and removal of the 2017 OPEB obligation of $367,235.

GASB Statement No. 81, *Irrevocable Split Interest Agreements*, improves 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. It also enhances the decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission. The adoption of this statement during the year ended June 30, 2018 did not have a material effect on the District's basic financial statements.

GASB Statement No. 85, *Omnibus 2017*, addresses practical issues that have been identified during implementation and application of certain GASB Statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, pensions and other postemployment benefits. The adoption of this statement during the year ended June 30, 2018 did not have a material effect on the District's basic financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The adoption of this statement during the year ended June 30, 2018 did not have a material effect on the District's basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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:

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. This statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This statement requires similar disclosures for a government's minority shares of AROs. The statement is effective for fiscal years beginning after June 15, 2018.

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

GASB Statement No. 84, *Fiduciary Activities*, improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The statement is effective for fiscal years beginning after December 15, 2018.

GASB Statement No. 87, *Leases*, increases the usefulness of government financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The statement is effective for fiscal years beginning after December 15, 2019.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, requires that interest cost incurred before the end of a construction period be recognized as an expenditure/expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset.

The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statement No. 14 and No. 61*, improves the consistency and comparability of reporting a government's majority equity interests in a legally separate organization and improves the relevance of financial statement information for certain component units. This statement requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2018 and 2017 comprised of the following:

	2018	2017
Unrestricted:		
Deposits with banks	$ 1,252,411	$ 1,470,022
Investments	4,463,157	4,278,211
Total unrestricted	5,715,568	5,748,233
Restricted:		
Deposits with banks	1,201,039	1,320,103
Investments	1,167,652	537,647
Total restricted	2,368,691	1,857,750
Total cash and investments	$ 8,084,259	$ 7,605,983

(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 District follows the California Government Code, which 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.

NOTE 2 – CASH AND INVESTMENTS (Continued)

(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 limited to the State of California's Local Agency Investment Fund and certificates of deposits, which 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.

(c) Investments

The following is a summary of the District's investments at June 30, 2018:

	Fair Value	(Maturities in Years) Less than 1	1 - 5	Credit Ratings (Standard & Poor's)
Negotiable certificates of deposits	$ 3,127,783	$ 756,537	$ 2,371,246	Not rated
Local Agency Investment Fund	2,503,026	2,503,026	-	Not rated
Total investments	$ 5,630,809	$ 3,259,563	$ 2,371,246	

The following is a summary of the District's investments at June 30, 2017:

	Fair Value	(Maturities in Years) Less than 1	1 - 5	Credit Ratings (Standard & Poor's)
Negotiable certificates of deposits	$ 2,510,616	$ 198,105	$ 2,312,511	Not rated
Local Agency Investment Fund	2,305,242	2,305,242	-	Not rated
Total investments	$ 4,815,858	$ 2,503,347	$ 2,312,511	

NOTE 2 – CASH AND INVESTMENTS (Continued)

(c) Investments (Continued)

The District is a voluntary participant in the 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, 2018 and 2017 was 193 and 194 days, respectively.

As of June 30, 2018 and 2017, the District had unrestricted investments of $2,503,026 and $2,305,242, respectively invested in LAIF, which had invested 2.67% and 2.89% 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 $88.8 billion and $75.9 billion in its investment portfolio as of June 30, 2018 and 2017, respectively. The District valued its investments in LAIF as of June 30, 2018 and 2017, 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 0.983528789 and 0.998940671 as of June 30, 2018 and 2017, 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.

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, 2018 and 2017, cash and investments were restricted for the following:

	June 30, 2018			June 30, 2017		
	Cash in Bank	**Investments**	**Total**	**Cash in Bank**	**Investments**	**Total**
Security deposits from tenants	$ 428,971	$ -	$ 428,971	$ 406,247	$ -	$ 406,247
Passenger facility charge program	757,127	1,167,652	1,924,779	875,303	537,647	1,412,950
Debt service	14,941	-	14,941	38,553	-	38,553
Total restricted cash and investments	$ 1,201,039	$ 1,167,652	$ 2,368,691	$ 1,320,103	$ 537,647	$ 1,857,750

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	$ 1,784,717	$ -	$ -	$ 1,784,717
Construction in progress	3,438,984	4,925,832	(3,326,985)	5,037,831
Total capital assets, not being depreciated	5,223,701	4,925,832	(3,326,985)	6,822,548
Capital assets, being depreciated/amortized:				
Intangible assets	21,909,735	-	-	21,909,735
Land improvements	84,188,203	74,281	-	84,262,484
Buildings and improvements	21,099,767	178,714	-	21,278,481
Furniture, equipment and vehicles	4,028,158	3,073,990	-	7,102,148
Total capital assets, being depreciated	131,225,863	3,326,985	-	134,552,848
Less accumulated depreciation/amortization				
Intangible assets	(20,409,453)	(776,348)	-	(21,185,801)
Land improvements	(23,555,911)	(4,803,843)	-	(28,359,754)
Buildings and improvements	(14,068,681)	(954,816)	-	(15,023,497)
Furniture, equipment and vehicles	(3,307,707)	(330,233)	-	(3,637,940)
Less accumulated depreciation	(61,341,752)	(6,865,240)	-	(68,206,992)
Total capital assets, being depreciated, net	69,884,111	(3,538,255)	-	66,345,856
Total capital assets, net	$ 75,107,812	$ 1,387,577	$ (3,326,985)	$ 73,168,404

Construction in progress activity for the year ended June 30, 2018 was as follows:

Projects		Balance July 1, 2017	Additions/ Transfers	Completed Transferred to Depreciable	Balance June 30, 2018
2013-02	Airport Master Plan	$ 1,177,274	$ -	$ -	$ 1,177,274
2015-03	Infield Safety Area Rehabilitation - Phase 1	235,009	78,138	-	313,147
2016-01	NEPA/CEQA Safety Initiative	1,053,806	699,960	-	1,753,766
2016-02	Solar Panel Array Study	688,793	2,288,941	(2,977,734)	-
2017-06	Airfield Electrical Vault Upgrade	244,733	1,353,654	-	1,598,387
2017-07	FAA Disparity Study	706	6,284	-	6,990
2017-09	Terminal Security Cameras	-	34,857	(34,857)	-
2017-10	Building 514 Roof Repair	34,313	-	(34,313)	-
2017-12	DB500 Mobile Paint Removal System	4,350	46,347	(50,697)	-
2018-01	RSA Mitigation Year 3	-	74,281	(74,281)	-
2018-03	Automated Beacon Technology	-	16,450	(16,450)	-
2018-04	10R-28L Procedure Development	-	21,080	-	21,080
2018-05	Terminal Air Conditioner	-	76,772	(76,772)	-
2018-06	Airport Signage Improvement	-	32,772	(32,772)	-
2018-09	Runway 10L-28R Overlay & Papi	-	167,187	-	167,187
2018-10	2018 Chevrolet 1/2T 4WD Pickup	-	29,109	(29,109)	-
	Total	$ 3,438,984	$ 4,925,832	$ (3,326,985)	$ 5,037,831

NOTE 3 – CAPITAL ASSETS (Continued)

Capital assets activity for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	$ 1,784,717	$ -	$ -	$ 1,784,717
Construction in progress	53,531,160	2,759,528	(52,851,704)	3,438,984
Total capital assets, not being depreciated	55,315,877	2,759,528	(52,851,704)	5,223,701
Capital assets, being depreciated/amortized:				
Intangible assets	21,909,735	-	-	21,909,735
Land improvements	31,715,657	52,472,546	-	84,188,203
Buildings and improvements	21,051,483	48,284	-	21,099,767
Furniture, equipment and vehicles	3,697,284	330,874	-	4,028,158
Total capital assets, being depreciated	78,374,159	52,851,704	-	131,225,863
Less accumulated depreciation/amortization				
Intangible assets	(19,609,942)	(799,511)	-	(20,409,453)
Land improvements	(20,193,303)	(3,362,608)	-	(23,555,911)
Buildings and improvements	(13,112,896)	(955,785)	-	(14,068,681)
Furniture, equipment and vehicles	(3,039,783)	(267,924)	-	(3,307,707)
Less accumulated depreciation	(55,955,924)	(5,385,828)	-	(61,341,752)
Total capital assets, being depreciated, net	22,418,235	47,465,876	-	69,884,111
Total capital assets, net	$ 77,734,112	$ 50,225,404	$ (52,851,704)	$ 75,107,812

Construction in progress activity for the year ended June 30, 2017 was as follows:

Projects		Balance July 1, 2016	Additions/ Transfers	Completed Transferred to Depreciable	Balance June 30, 2017
2012-01	Runway Safety Area - Construction	$ 30,868,872	$ (1,408,672)	$ (29,460,200)	$ -
2013-02	Airport Master Plan	1,166,458	10,816	-	1,177,274
2014-01	RSA - Construction Phase 2	21,306,682	1,689,821	(22,996,503)	-
2015-03	Infield Safety Area Rehabilitation - Phase 1	162,164	72,845	-	235,009
2016-01	NEPA/CEQA Safety Initiative	4,850	1,048,956	-	1,053,806
2016-02	Solar Panel Array Study	2,678	686,115	-	688,793
2017-01	Commercial Facilities Mower	17,713	-	(17,713)	-
2017-02	Runway Paint Machine	-	40,265	(40,265)	-
2017-03	Inside Terminal Refresh/Furniture	-	32,294	(32,294)	-
2017-05	Airfield Runway Sweeper	1,743	271,155	(272,898)	-
2017-06	Airfield Electrical Vault Upgrade	-	244,733	-	244,733
2017-07	FAA Disparity Study	-	706	-	706
2017-10	Building 514 Roof Repair	-	34,313	-	34,313
2017-11	Fred Kane Drive Road Repair	-	31,831	(31,831)	-
2017-12	DB500 Mobile Paint Removal System	-	4,350	-	4,350
	Total	$ 53,531,160	$ 2,759,528	$ (52,851,704)	$ 3,438,984

NOTE 3 – CAPITAL ASSETS (Continued)

At June 30, 2018 and 2017, intangible assets consist of the following:

	2018	2017
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	(21,185,801)	(20,409,453)
Total intangible assets, net	$ 723,934	$ 1,500,282

NOTE 4 – ACCRUED LIABILITIES

At June 30, 2018 and 2017, accrued liabilities consist of the following:

	2018	2017
Accrued employee benefits	$ 44,290	$ 36,235
Accounts payable	247,606	1,185,011
Other accrued expenses	66,114	63,730
Total accrued liabilities	$ 358,010	$ 1,284,976

NOTE 5 – LONG-TERM OBLIGATIONS

A summary of the changes in long-term obligations for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due in One Year
Accrued compensated absences	$ 237,496	$ 283,869	$ (286,447)	$ 234,918	$ 29,942
Due to the City of Monterey (Note 10)	119,797	-	(19,966)	99,831	19,966
Pension obligation bonds	1,706,000	-	(312,000)	1,394,000	326,000
CEC secured loan	-	2,931,320	-	2,931,320	128,559
Total	$ 2,063,293	$ 3,215,189	$ (618,413)	$ 4,660,069	$ 504,467

A summary of the changes in long-term obligations for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due in One Year
Accrued compensated absences	$ 206,142	$ 231,418	$ (200,064)	$ 237,496	$ 21,756
Due to the City of Monterey (Note 10)	139,763	-	(19,966)	119,797	19,966
Pension obligation bonds	2,005,000	-	(299,000)	1,706,000	312,000
Total	$ 2,350,905	$ 231,418	$ (519,030)	$ 2,063,293	$ 353,722

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, 2018 are as follows:

Year	Principal	Interest	Total Requirement
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	$ 1,394,000	$ 141,306	$ 1,535,306

California Energy Commission (CEC) Solar Array Loan - In May 2017, the Monterey Peninsula Airport District entered into a construction loan from the CEC to assist in the development of a 3-acre solar farm to power the District's operations. The CEC construction loan provided a maximum amount of $3,000,000 at 1.00% per annum for a period of 16.1 years. The District requested and received reimbursements from the CEC loan totaling $2,931,320. The 2019 payment includes the principal reduction and accrued interest during construction and the first year of operation. The CEC loan will be repaid through the Airport's electricity savings earned from the solar farm. The solar farm was operational in November of FY18.

The future debt service requirements for the California Energy Commission (CEC) Loan at June 30, 2018 are as follows:

Year	Principal	Interest	Total Requirement
2019	$ 128,559	$ 51,145	$ 179,704
2020	151,979	27,724	179,703
2021	153,577	26,126	179,703
2022	155,117	24,586	179,703
2023	156,672	23,031	179,703
2024-2028	807,135	91,380	898,515
2029-2033	848,489	50,025	898,514
2034-2036	529,792	8,869	538,661
Total	$ 2,931,320	$ 302,886	$ 3,234,206

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 $2,306,564 and $2,248,513, included in terminal leases and concessions, for the years ended June 30, 2018 and 2017, respectively. The cost of property held for leasing is not readily determinable.

Future minimum rentals on noncancelable leases as of June 30, 2018 are as follows:

2019	$ 2,352,698
2020	2,104,673
2021	2,131,388
2022	2,174,015
2023	2,217,495
2024-2028	10,811,483
2029-2033	10,919,262
2034-2038	11,026,656
2039-2043	11,533,389
2044-2048	7,803,669
2049-2053	534,578
2054-2058	113,415
Total	$ 63,722,721

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 rate plans within the cost-sharing multiple-employer plan with CalPERS: Safety Fire, Safety Police, Miscellaneous, PEPRA Miscellaneous and PEPRA Police, collectively the Plans. The District no longer employs Safety Fire employees but maintains benefits for Safety Fire retirees

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 specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2018 and 2017, 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	55 & 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%	12.00%	7%	6.25%
Required employer contribution rates	27.85%	19.73%	12.00%	8.90%	6.60%

NOTE 7 – PENSION PLAN (Continued)

Contributions – 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, 2018 and 2017, the employer contributions recognized as deferred outflows of resources were $634,069 and $558,449, respectively.

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

As of June 30, 2018 and 2017, the District's reported total net pension liability of $8,866,133 and $7,660,368, 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 plan. The net pension liability at June 30, 2018 and 2017, of each of the Plans is measured as of June 30, 2017 and 2016 (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, 2016 and 2015, respectively, rolled forward to June 30, 2017 and 2016 using standard update procedures. The District's proportion of the net pension liability was based on the District's total pension liability based on the District's share of the actuarial accrued liability of the cost-sharing plan less the District's share of the fiduciary net position based on the District's share of the market value of assets in the cost-sharing plan.

For the years ended June 30, 2018 and 2017, the District recognized pension expense of $825,817 and $1,044,609, respectively. At June 30, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

June 30, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 634,069	$ -
Differences between expected and actual experiences	72,297	66,250
Change in assumptions	1,417,722	108,574
Net differences between projected and actual earnings on pension plan investments	312,513	-
Changes in employer's proportion	143,525	380,284
Difference between the employer's contributions and the employer's proportion share of contributions	-	493,157
Total	$ 2,580,126	$ 1,048,265

NOTE 7 – PENSION PLAN (Continued)

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

June 30, 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 558,449	$ -
Differences between expected and actual experiences	6,552	24,708
Change in assumptions	-	163,169
Net differences between projected and actual earnings on pension plan investments	819,724	-
Changes in employer's proportion	182,678	346,478
Difference between the employer's contributions and the employer's proportion share of contributions	1,644	516,848
Total	$ 1,569,047	$ 1,051,203

At June 30, 2018 and 2017, the District reported $634,069 and $558,449, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the years ended June 30, 2019 and 2018, 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 Ending June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ (54,834)
2020	712,671
2021	423,630
2022	(183,675)
Total	$ 897,792

NOTE 7 – PENSION PLAN (Continued)

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

	2018	2017
Valuation Date	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2017	June 30, 2016
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15%	7.65%
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	7.15% net of pension plan investment expenses, includes inflation	7.65% net of pension plan investment expenses, includes inflation
Mortality	Derived using CalPERS' Membership Data for all Funds	Derived using CalPERS' Membership Data for all Funds

The mortality table used in the June 30, 2016 and 2015 valuations was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

All other actuarial assumptions used in the June 30, 2016 and 2015 valuations were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the experience study can be found on the CalPERS website under Forms and Publications.

***Discount Rate* –** The discount rates used to measure the total pension liability at June 30, 2018 and 2017 were 7.15% and 7.65%, respectively. In 2017, CalPERS announced that the discount rate of 7.65% was no longer appropriate for projecting the future liability for Public Employee Retirement Fund.

To determine whether the municipal bond rate should be used in the calculation of the 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. The tests revealed the assets would not run out. Therefore, the 7.15 percent and 7.65 discount rates are appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rates of 7.15 percent and 7.65 percent were applied to all plans in the Public Employees' Retirement Fund (PERF) for the respective years. The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS website under the GASB 68 section.

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

NOTE 7 – PENSION PLAN (Continued)

Discount Rate (Continued)

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 (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) 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 PERF 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 equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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, 2017 measurement date was as follows:

Asset Class	Current Target Allocation	Real Return Year 1-10 (a)	Real Return Year 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
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, 2016 measurement date was as follows:

Asset Class	Current Target Allocation	Real Return Year 1-10 (a)	Real Return Year 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	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	1.00%	-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, 2018 measurement date, calculated using the discount rate of 7.15 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 (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

Proportionate Share of Net Pension Liability	Decrease Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Decrease Rate + 1% (8.15%)
Total	$ 13,546,644	$ 8,866,133	$ 5,025,208

The following presents the District's proportionate share of the net pension liability of the Plans as of the June 30, 2017 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	$ 11,581,928	$ 7,660,368	$ 4,435,347

Pension Plan Fiduciary Net Position – CalPERS issues a separate comprehensive annual financial report, copies of which may be obtained from the CalPERS website at https://www.calpers.ca.gov/page/forms-publications.

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.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS

The note and schedule below, for FY 2017, are presented per GASB 45 reporting and comparative financial statement presentation purposes.

Annual OPEB Cost and Net OPEB Obligation – The District's annual other postemployment benefits (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 year ended June 30, 2017, and the related information for the Retiree Health Plan based on the alternative method valuation dated July 1, 2014, are as follows:

	2017
Annual required contribution	$ 44,373
Interest on net OPEB obligation	7,518
Adjustment to the annual required contribution	(10,841)
Annual OPEB cost (expense)	41,050
Contributions made	(40,270)
Change in net OPEB obligation	780
Net OPEB obligation, beginning of year	366,455
Net OPEB obligation, end of year	$ 367,235

New Standard – GASB 75

Effective July 1, 2017, the District adopted GASB 75 where the District recognizes a liability as the employees earn benefits by providing services. Changes to OPEB liability are recognized immediately as OPEB expenses or deferred outflows/inflows of resources.

The net OPEB liability is measured as the difference between the District's total OPEB liability and the plan's fiduciary net position, as of the measurement date. However, since the District has not established a trust or equivalent arrangement to set aside assets for OPEB, the District reports the total OPEB liability in its financial statements.

Employer's Total OPEB Liability

The total OPEB liability as of June 30, 2018 and 2017 are presented below:

For Reporting at Fiscal Year End	**June 30, 2018**	**June 30, 2017**
Measurement Date	*6/30/2017*	*6/30/2016*
Total OPEB Liability	$ 2,507,740	$ 2,574,814

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Significant Actuarial Assumptions Used in Calculating the Total OPEB Liability

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017 using the following actuarial assumptions:

Valuation date	June 30, 2017
Funding Method	Entry Age Normal Cost, level percent of pay
Asset Valuation Method	Market value of assets ($0; plan is not yet funded)
Discount Rate	3.13% as of June 30, 2017
Participants Valued	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation
Salary Increase	3.25% per year; since benefits do not depend on pay, this is used only to allocate the costs of benefits between service years
Assumed Wage inflation	3.0% per year; a component of assumed salary increases
General Inflation Rate	2.75% per year

Discount Rate – When an agency finances retiree benefits on a pay-as-you-go basis, GASB Statement No. 75 requires the use of a discount rate equal to a 20-year high grade municipal bond rate. The District intends to continue financing its OPEB liability on a pay-as-you-go basis. Therefore, the District's discount rate used in this valuation is based on the S&P Municipal Bond 20 Year High Grade Index. As of the beginning and end of the Measurement Period this index requires use of discount rates of 2.68% as of June 30, 2016 and 3.13% as of June 30, 2017.

The District's contribution for each miscellaneous and public safety 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, 2018 and 2017 were $69,698 and $40,270, respectively.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sensitivity of Liabilities to Changes in the Discount Rate and Medical Cost Inflation

The following presents the total OPEB liability as of the June 30, 2017 measurement date calculated using the discount rate of 3.13%, and medical costs inflation rate of 8% and decreasing to 5%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

Sensitivity of Liabilities to Change in:

	Discount Rate			Medical Cost Inflation		
	1% Decrease (2.13%)	Current (3.13%)	1% Increase (4.13%)	1% Decrease (7% decreasing to 4%)	Current (8% decreasing to 5%)	1% Increase (9% decreasing to 6%)
Net OPEB Liability	$2,973,378	$2,507,740	$2,147,544	$2,175,919	$2,507,740	$3,065,508

OPEB Expense for Fiscal Year

For the year ended June 30, 2018, the District recognized OPEB expense of $134,397.

Number of Covered Employees

At June 30, 2018 reporting date, the following numbers of employees were covered

Measurement Date	6/30/2017
Actives	28
Retirees	15
Total	43

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Deferred Outflows and Inflows of Resources as of Fiscal Year-End and Expected Future Expense Recognition

At June 30, 2018, the District reported deferred outflows of resources and inflows of resources related to OPEB from the following sources .

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	$ -	$161,201
Differences Between Expected and Actual Experience	-	-
Net Difference Between Projected and Actual Earnings on Investments	-	-
Contributions Made Subsequent to the Measurement Date	69,698	-
Total	$ 69,698	$ 161,201

The District will recognize the contributions made subsequent to the measurement date in the next fiscal year. In addition, future recognition of the deferred inflows of resources, which will be recognized as OPEB expense, is shown below.

For the Fiscal Year Ending June 30	Recognized Deferred Outflows (Inflows) of Resources
2019	$ (33,169)
2020	(33,169)
2021	(33,169)
2022	(33,169)
2023	(28,525)
Total	$ (161,201)

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Total OPEB Liability

The following table shows the changes in the total OPEB liability for the year ended June 30, 2018:

	Total OPEB Liability
Balance at June 30, 2017	$ 2,574,814
Changes for the year	
Service cost	96,514
Interest	71,052
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	(194,370)
Contributions - employer	
Benefit payments	(40,270)
Net Changes	(67,074)
Balance at June 30, 2018	$ 2,507,740

Presented below is GASB Statement No. 45 disclosure for comparative financial reporting purposes. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the prior three years are as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	$ 41,050	98%	$ 367,235
6/30/2016	41,112	95%	366,455
6/30/2015	41,201	88%	364,252

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 - The District applied the alternative measurement method for employers with fewer than one hundred plan members in determining the valuation of the OPEB ARC and funded status of the OPEB plan. Valuation 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 alternative measurement method for 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-eight 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)

- *Mortality* – Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website (www.cdc.gov). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.
- *Turnover* – The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in paragraph 35 of GASB Statement No. 45. In addition, the expected future working lifetimes of employees were determined using Table 2 in paragraph 35c of GASB Statement No. 45.
- *Payroll increase* – Changes in the payroll for current employees are expected to increase at a rate of approximately 1.0% annually.
- *Discount rate* – The calculation uses an annual discount rate of 2.0%. This is based on the assumed long-term return on 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 $131 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 $131 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.

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		$ 45,434,349
Tools & Maintenance Equipment	1,000		
Boiler & Machinery	50,000		31,180,175
Automobile	2,500		1,000,000
Fire Truck Physical Damage			1,000,000
Airport Liability			50,000,000
Bodily Injury & Property	10,000	per occurrence	
Personal Injury	10,000	per occurrence	
Combined	10,000	per occurrence	
Public Officials Liability	100,000		5,000,000
Fiduciary Liability	5,000		1,000,000
Crime	5,000		1,000,000

Workers' Compensation Insurance

The District purchases workers' compensation insurance through the 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. During FY18, the District paid the City $1,753,932 pursuant to increases based on the consumer price index. The District transferred to the City its unused and unpaid compensated absence balances excluding sick leave in the amount of $199,661 of which $119,797 and $139,763 remains outstanding at June 30, 2018 and 2017, 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 unpaid compensated absence balance.

NOTE 11 – SUBSEQUENT EVENT

In August 2018, United Airlines notified the District that there were plans to start two daily flights from Monterey to Denver with returning flights. United officially notified the District in FY19 (August 2018) that the Monterey to Denver flights would begin on October 4, 2018. There is no direct financial benefit from the Denver flights as the District provides a one-year exemption of aircraft landing, apron and remain overnight fees. With these two additional flights, the District should receive some benefits in rental car, parking, taxi, Uber, restaurant and other concession revenues.

On September 12, 2018, the District's Board of Directors and the City of Del Rey Oaks approved the Police Department Law Enforcement Service agreement with an effective date of October 1, 2018. The District's small police force has had scheduling limitations and lacked economies of scale for various overhead costs. By contracting with the City of Del Rey Oaks, the District plans to reduce scheduling limitations and reduce overhead costs. The Fiscal Year 2019 annual budget will be amended to reflect the financial changes from this agreement.

MONTEREY PENINSULA AIRPORT DISTRICT
Required Supplementary Information - Unaudited
For the Years Ended June 30, 2018 and 2017

Schedule of the District's Proportionate Share of the Net Pension Liability – Safety Risk Pool
Last 10 Years *

	2015	2016	2017	2018
Measurement period	2014	2015	2016	2017
Proportion of net pension liability	0.06162%	0.06574%	0.06681%	0.06670%
Proportionate share of the net pension liability	$ 3,834,741	$ 4,512,232	$ 5,781,218	$ 6,614,914
Covered payroll	$ 1,330,599	$ 549,603	$ 601,667	$ 547,264
Proportionate share of the net pension liability as a percentage of covered payroll	288.20%	821.00%	960.87%	1208.72%
Plan fiduciary net position as a percentage of total pension liability	80.43%	78.40%	74.06%	73.31%

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 rates were 7.50%, 7.65%, 7.65% and 7.15% (net of administrative expense) in 2015, 2016, 2017 and 2018, respectively.

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

MONTEREY PENINSULA AIRPORT DISTRICT
Required Supplementary Information - Unaudited
For the Years Ended June 30, 2018 and 2017

Schedule of the District's Proportionate Share of the Net Pension Liability – Miscellaneous Risk Pool
Last 10 Years *

	2015	2016	2017	2018
Measurement period	2014	2015	2016	2017
Proportion of net pension liability	0.02167%	0.02008%	0.02172%	0.02270%
Proportionate share of the net pension liability	$ 1,342,879	$ 1,378,489	$ 1,879,150	$ 2,251,219
Covered payroll	$ 1,921,962	$ 1,723,531	$ 1,677,728	$ 1,577,199
Proportionate share of the net pension liability as a percentage of covered payroll	69.87%	79.98%	112.01%	142.74%
Plan fiduciary net position as a percentage of total pension liability	80.43%	78.40%	74.06%	73.31%

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 rates were 7.50%, 7.65%, 7.65% and 7.15% (net of administrative expense) in 2015, 2016, 2017 and 2018, respectively.

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

MONTEREY PENINSULA AIRPORT DISTRICT
Required Supplementary Information - Unaudited
For the Years Ended June 30, 2018 and 2017

Schedule of Employer Contributions –Safety Risk Pool
Last 10 Years*

	2014	2015	2016	2017	2018
Contractually required contribution (actuarially determined)	$ 281,222	$ 135,343	$ 294,509	$ 371,546	$ 429,673
Contractually in relation to the actuarially determined contributions	(281,222)	(135,343)	(294,509)	(371,546)	(429,673)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 1,330,599	$ 549,603	$ 601,681	$ 547,264	$ 643,653
Contributions as a percentage of covered payroll	21.13%	24.63%	48.95%	67.89%	66.76%

Notes to Schedule:
The actuarial methods and assumptions used to determine the fiscal year 2017-18 contribution rates are as follows:

Valuation date:	6/30/2015
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	7.50% net of pension plan investment and administrative expenses, includes inflation
Retirement Age	All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report may be accessed on the CalPERS website at www.calpers.ca.gov under Forms and Publications.
Mortality	The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

* Fiscal year 2015, using the fiscal year 2014 measurement period, was the first year of implementation of GASB Statement No. 68, therefore only five years of information is shown.

MONTEREY PENINSULA AIRPORT DISTRICT
Required Supplementary Information - Unaudited
For the Years Ended June 30, 2018 and 2017

Schedule of Employer Contributions – Miscellaneous Risk Pool
Last 10 Years*

	2014	2015	2016	2017	2018
Contractually required contribution (actuarially determined)	$ 185,113	$ 181,461	$ 183,331	$ 186,903	$ 204,396
Contractually in relation to the actuarially determined contributions	(185,113)	(181,461)	(183,331)	(186,903)	(204,396)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 1,921,962	$ 1,723,531	$ 1,677,728	$ 1,577,199	$ 1,671,567
Contributions as a percentage of covered payroll	9.63%	10.53%	10.93%	11.85%	12.23%

Notes to Schedule:
The actuarial methods and assumptions used to determine the fiscal year 2017-18 contribution rates are as follows:

Valuation date:	6/30/2015
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	7.50% net of pension plan investment and administrative expenses, includes inflation
Retirement Age	All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report may be accessed on the CalPERS website at www.calpers.ca.gov under Forms and Publications.
Mortality	The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

* Fiscal year 2015, using the fiscal year 2014 measurement period, was the first year of implementation of GASB Statement No. 68, therefore only five years of information is shown.

MONTEREY PENINSULA AIRPORT DISTRICT
Required Supplementary Information - Unaudited
For the Years Ended June 30, 2018 and 2017

Schedule of Changes in Total OPEB Liability and Related Ratio

Total OPEB Liability		**2018**
Service Cost	$	96,514
Interest		71,052
Changes of benefit terms		-
Differences between expected and actual experience		-
Changes of assumptions		(194,370)
Benefit payments		(40,270)
Net changes in total OPEB liability		(67,074)
Total OPEB Liability - June 30, 2017		2,574,814
Total OPEB Liability - June 30, 2018	$	2,507,740
Covered payroll	$	2,115,913
Net OPEB Liability as a percentage of covered payroll		118.52%

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 benefits plan assets under GASB Statement No. 45.

Schedule of Funding Progress – OPEB Under GASB Statement No. 45

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 alternative method valuation was primarily due to refinements in actuarial assumptions used by the District.

This page left intentionally blank.

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, 2018, 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 8, 2018.

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*.

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

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 8, 2018

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 the 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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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, 2018.

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

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 8, 2018

MONTEREY PENINSULA AIRPORT DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

	CFDA Number	Grant Number	Expenditures
U.S. Department of Transportation			
Federal Aviation Administration			
Airport Improvement Program	20.106	AIP 59, 61, 62, 63, 64 and 66	$ 1,762,727
Total expenditures of federal awards			$ 1,762,727

See accompanying notes to the schedule of expenditures of federal awards

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.

NOTE 5 – INDIRECT COSTS

The District did not elect to use the 10% de minimis cost rate as covered in 2 CFR section 200.414 – Indirect (F&A) costs.

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP :	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 2 CFR 200.516(a)?	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

MONTEREY PENINSULA AIRPORT DISTRICT
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2018

Prior Audit Findings

There are no prior year findings and questioned costs.

MGO Certified Public Accountants

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, 2018.

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. 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, 2018.

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.

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 in internal control over compliance. 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 8, 2018

MONTEREY PENINSULA AIRPORT DISTRICT
Schedule of Passenger Facility Charge Revenues and Expenditures
For the Year Ended June 30, 2018

	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, 2017	$ 16,604,193	$ 296,412	$ 16,900,605	$ 15,464,129	$ 1,436,476
Fiscal year 2017-2018 transactions:					
Quarter ended September 30, 2017	213,230	3,058	216,288	9,877	
Quarter ended December 31, 2017	167,551	3,552	171,103	23,632	
Quarter ended March 31, 2018	200,450	4,091	204,541	168,290	
Quarter ended June 30, 2018	190,410	5,225	195,635	64,917	
Total fiscal year 2017-2018 transactions	771,641	15,926	787,567	266,716	520,851
Balance to date as of June 30, 2018	$ 17,375,834	$ 312,338	$ 17,688,172	$ 15,730,845	$ 1,957,327

See Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures

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 cumulative expenditures to date as of June 30, 2018 are as follows:

Passenger Facility Charge Project Number/Description	Identifying Number	Passenger Facility Charge Approved Amount	Expenditures
Update Airport Master Plan Study	13-18-C-00-MRY	$ 145,000	$ 142,776
Improve Runway 10R/28L Safety Area - Phase III	13-18-C-00-MRY	820,000	887,796
Install Perimeter Fence Alarm	13-18-C-00-MRY	30,000	10,691
Apron Rehabilitation-Aircraft Rescue Fire Fighting Ramp	13-18-C-00-MRY	125,000	76,513
Acquire One Standard Police Vehicle - Security Improvement	14-19-C-00-MRY	50,000	40,117
Improve Runway Safety Area Runway 10R/28L - Phase 4	14-19-C-00-MRY	1,936,000	1,351,066
Environmental Assessment Infield Rehabilitation Project	16-21-C-00-MRY	35,000	27,239
Acquire Airport Sweeper	16-21-C-00-MRY	26,000	374
EA proposed Safety Enhancement Project	16-21-C-00-MRY	251,000	116,247
Infield Rehabilitation-Design & Constructon	16-21-C-00-MRY	650,000	-
Runway 10R/28L Airfield Lighting Replacement	18-22-U-00-MRY	160,000	149,288
Conduct DBE Disparity Report	18-22-U-00-MRY	5,000	584
Runway 10L/28R Overlay and PAPI	18-22-U-00-MRY	185,000	-
Land Acquisition Part A	18-22-U-00-MRY	310,000	-
Safety Enhance Project Phase 1	18-22-U-00-MRY	5,775,000	-
Total Passenger Facility Charge Projects		$ 10,503,000	$ 2,802,692

NOTE 5 – EXCESS PROJECT EXPENDITURES

The expenditures of the Improve Runway 10R/28L Safety Area – Phase III was in excess of the authorized PFC application line item amount. However, in accordance with FAA guidelines, if the approved PFC application total is not exceeded the public agency application and revenue collections are considered in compliance with §158.37 (a) of Title 14 Code of Federal Regulations (CFR) 158.