

**MONTEREY PENINSULA  
AIRPORT DISTRICT**

Annual Financial and  
Compliance Report

For the Year Ended  
June 30, 2015



Certified  
Public  
Accountants

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**MONTEREY PENINSULA  
AIRPORT DISTRICT**

**Board of Directors  
at June 30, 2015**

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

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**MONTEREY PENINSULA  
AIRPORT DISTRICT**  
For the Year Ended June 30, 2015

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## 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 year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Emphasis of Matter*

As discussed in Note 1 to the financial statements, effective July 1, 2014, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. 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, the schedule of contributions – pension plans, and the schedule of funding progress – other postemployment benefits as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* 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 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 9, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Walnut Creek, California  
November 9, 2015



## **MONTEREY PENINSULA AIRPORT DISTRICT**

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

The Management's 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 No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB 34). It is intended to serve as an introduction to the financial statements for the year ended June 30, 2015 (FY15). The information presented is to be read in conjunction with the financial statements, footnotes and supplementary information found in this report.

### **Mission Statement**

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

### **Overview of the Monterey Peninsula Airport District**

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

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

During this fiscal year, five commercial airlines served the airport with scheduled flights. Alaska, American Eagle, United Express and US Airways Express provided non-stop service to four gateway hubs: Los Angeles, Phoenix, San Diego and San Francisco. Allegiant operated non-stop service, two days per week to Las Vegas. Looking forward to FY16, the merger of American Airlines and US Airways will reduce the number of commercial air carriers serving the Airport.

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.

**MONTEREY PENINSULA AIRPORT DISTRICT**  
Management's Discussion and Analysis (Unaudited)  
For the Year Ended June 30, 2015

**Overview of the Monterey Peninsula Airport District (Continued)**

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, over their useful lives. Please refer to the notes to the financial statements for a summary of the District's significant accounting policies.

**Overview of the Financial Statements**

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

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

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the District's net position changed during the most recent fiscal 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 *Statement of Cash Flows* relates to the flows of cash and cash equivalents. Only transactions that affect the District's cash accounts are recorded in this statement. The reconciliation at the bottom of this statement indicates the difference between cash flows from operating activities and operating income.

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

**MONTEREY PENINSULA AIRPORT DISTRICT**  
Management's Discussion and Analysis (Unaudited)  
For the Year Ended June 30, 2015

**Financial Highlights**

- ➔ The assets and deferred outflows of resources of the District exceed liabilities and deferred inflows of resources by \$59,834,837 at June 30, 2015.
- ➔ In FY15, the District acquired the capital assets listed below:
  - Replaced one (1) police vehicle (\$37,546),
  - Replaced one (1) maintenance pick-up truck (\$39,143), and
  - Replaced two (2) sedans with all electric vehicles (\$81,226).
- ➔ The District moved aggressively to complete its Runway Safety Area (RSA) project; a congressionally-mandated project that will be completed in the second quarter of FY16.
- ➔ The District met its obligations and reduced its taxable pension obligation bond principal to \$2,291,000.
- ➔ In the airport industry, one standard measure of a commercial airport's size is the number of annual enplanements, i.e., passengers flying from the airport on commercial airlines. Enplaned passengers during the six-year period, FY10 through FY15, are presented below in Table I.

**Table I**

TOTAL ENPLANEMENTS: FISCAL YEARS 2010 - 2015											
FY 2010		FY 2011		FY 2012		FY 2013		FY 2014		FY 2015	
7/09	18,934	7/10	18,732	7/11	16,912	7/12	18,364	7/13	18,756	7/14	15,980
8/09	18,512	8/10	17,582	8/11	16,204	8/12	18,501	8/13	17,680	8/14	16,622
9/09	16,581	9/10	16,657	9/11	16,765	9/12	17,462	9/13	17,798	9/14	15,280
10/09	16,536	10/10	16,542	10/11	17,247	10/12	18,778	10/13	18,307	10/14	17,102
11/09	16,045	11/10	15,192	11/11	15,213	11/12	17,675	11/13	16,235	11/14	15,168
12/09	16,191	12/10	14,512	12/11	14,678	12/12	16,962	12/13	16,362	12/14	13,882
1/10	13,068	1/11	12,153	1/12	12,403	1/13	14,516	1/14	14,157	1/15	12,728
2/10	13,119	2/11	12,839	2/12	13,585	2/13	14,747	2/14	14,191	2/15	13,010
3/10	15,825	3/11	14,419	3/12	14,445	3/13	18,015	3/14	16,886	3/15	15,823
4/10	16,951	4/11	14,509	4/12	15,262	4/13	17,563	4/14	16,278	4/15	15,926
5/10	17,542	5/11	16,821	5/12	16,529	5/13	17,619	5/14	17,932	5/15	16,336
6/10	18,513	6/11	16,409	6/12	18,207	6/13	18,588	6/14	16,302	6/15	15,110
197,817		186,367		187,450		208,790		200,884		182,967	

## MONTEREY PENINSULA AIRPORT DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

### Financial Highlights (Continued)

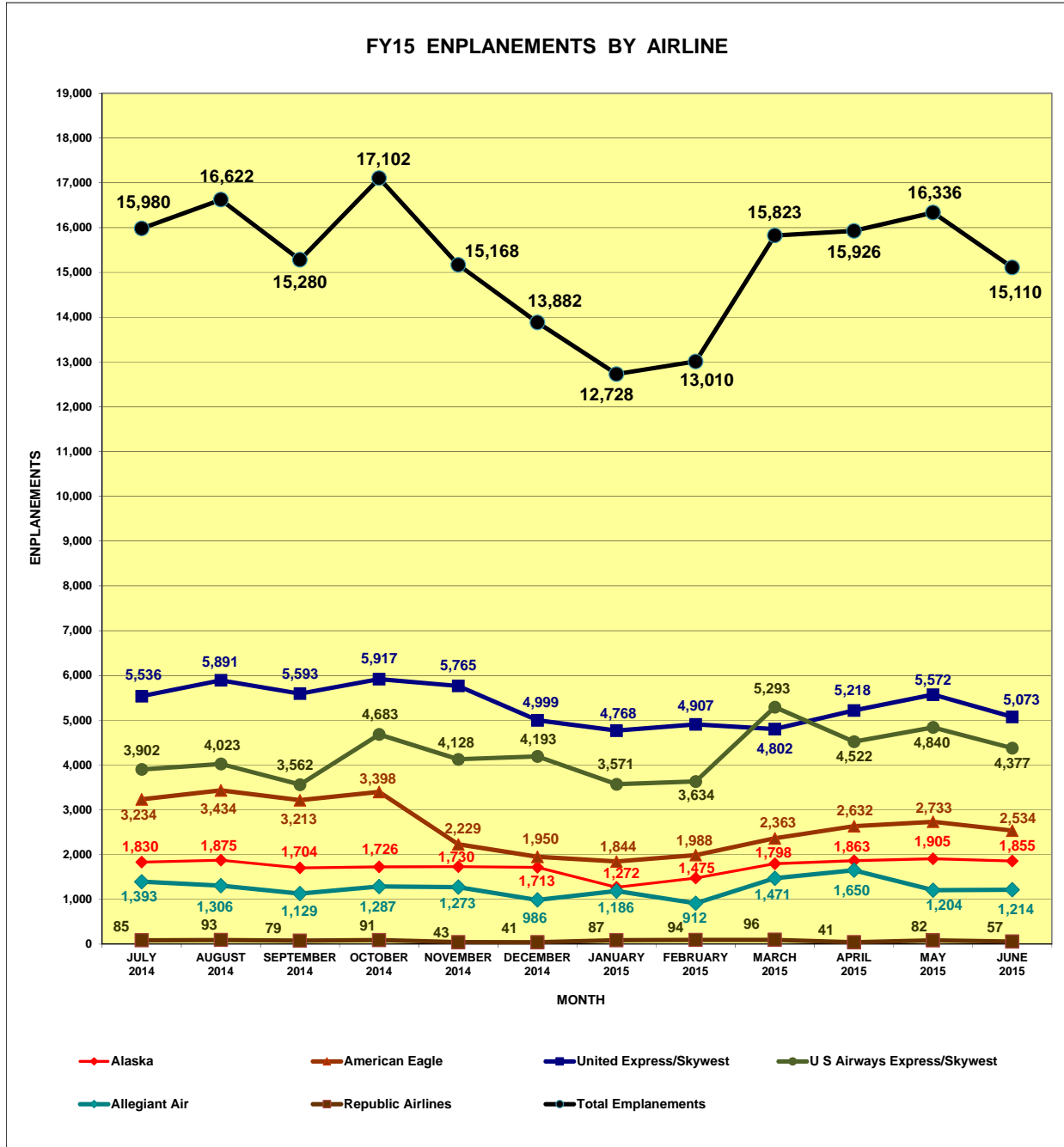
- FY15 enplanements decreased 8.9% to 182,967 due to scheduling and equipment changes by the airlines. Commercial air carrier operations are summarized below:
- Alaska Airlines operated non-stop daily flights on 76-seat Bombardier turbo-props (Q-400) to San Diego (SAN).
- American Eagle, wholly-owned by American Airlines, provided non-stop flights to Los Angeles (LAX) on 50-seat Canadair regional jets (CRJ-200). These flights were operated by SkyWest Airlines.
- United Express, also operated by SkyWest Airlines, provided non-stop flights to San Francisco (SFO) and to Los Angeles (LAX) on 50-seat Canadair regional jets (CRJ-200).
- US Airways Express, flown by SkyWest Airlines or Mesa Airlines, provided non-stop service to Phoenix (PHX) on 50-seat regional jets (CRJ-200) or 86-seat regional jets (CRJ-900).
- Allegiant Travel Company offered scheduled non-stop service two days per week (Thursday - Sunday or Friday - Monday) to Las Vegas (LAS) on 166-seat MD-83/88 jets. It increased its scheduled service to three and four days weekly during March and April 2015. Allegiant combines ultra-low airfares with lodging and entertainment packages.
- Republic operated as a non-scheduled, charter airline flying "gambler specials" to Nevada gaming resorts on 99-seat ERJ-190 jets.

**MONTEREY PENINSULA AIRPORT DISTRICT**  
 Management's Discussion and Analysis (Unaudited)  
 For the Year Ended June 30, 2015

**Financial Highlights (Continued)**

Chart A presents the monthly enplanements for FY15, in total and for the scheduled commercial airlines that serve the Airport.

**Chart A**



**MONTEREY PENINSULA AIRPORT DISTRICT**  
Management's Discussion and Analysis (Unaudited)  
For the Year Ended June 30, 2015

**Summary of Net Position**

**Table II**

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

	<u>2015</u>	<u>% Change</u>	<u>2014</u>
Current and other assets	\$ 8,379,219	29.4%	\$ 6,477,569
Capital assets, net	<u>65,590,110</u>	52.4%	<u>43,037,582</u>
Total assets	<u>73,969,329</u>	49.4%	<u>49,515,151</u>
Deferred outflow of resources	<u>362,999</u>	n/a	<u>-</u>
Debt outstanding	2,291,000	-10.7%	2,565,000
Other liabilities	<u>10,459,574</u>	232.0%	<u>3,150,014</u>
Total liabilities	<u>12,750,574</u>	123.1%	<u>5,715,014</u>
Deferred inflow of resources	<u>1,746,917</u>	n/a	<u>-</u>
Net investment in capital assets	62,064,776	49.0%	41,656,195
Restricted - unspent			
Passenger Facilities Charges	1,140,291	-37.5%	1,824,123
Unrestricted	<u>(3,370,230)</u>	-1153.8%	<u>319,819</u>
Total net position	<u>\$ 59,834,837</u>	36.6%	<u>\$ 43,800,137</u>

**Changes in Net Position**

Net Position increased \$16,034,700 from FY14 to FY15 primarily due to the District's investment in capital assets, specifically runway safety area improvements, which were grant funded. Conforming to requirements of GASB 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 FY15, the District received \$26,334,749 from FAA AIP grants and \$724,686 from PFCs to fund architectural design, engineering design, and construction costs. Other Liabilities increased \$7,309,560 from FY14 to FY15 primarily due to the implementation of a new accounting pronouncement for the accounting and reporting for pensions, see below, and the accrual of capital project costs that were paid subsequent to FY15.

**MONTEREY PENINSULA AIRPORT DISTRICT**  
Management's Discussion and Analysis (Unaudited)  
For the Year Ended June 30, 2015

**Implementation of GASB Statements No. 68 and 71**

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

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

The District is a “cost-sharing employer”; an employer whose employees are provided with defined benefit pensions through a cost-sharing multiple-employer (pooled) pension plan. Additional information is contained in the notes to these financial statements. Due to the limited available information, FY14 amounts have not been restated for GASB Statement No. 68.

**Operating Revenues**

An airport functions as a landlord. District income is derived from fees and lease income. Total operating revenues for the year were \$8,351,300, an increase of 5.2% from FY14, primarily due to rate increases.

The Airport's commercial success is dependent on the local community's demand for commercial air service and the airlines' ability, capacity, and willingness to meet those demands. Just over fifty-five percent (55.2%) of the Airport's operating revenues are collected from the airlines that pay user fees to the airport (8.2%) and from concessions that provide services to the passengers (47.0%). In FY15, concession revenue generated by rental car operations and parking operations grew. Rental car concession revenue increased 4.2% and parking concession revenue increased 9.0%.

Enplanements in FY15 totaled 182,967 (Table I), an 8.9% decrease when compared to the previous fiscal year (FY14). The decrease was a direct result of commercial air carrier schedule reduction. While the Airport has experienced an increase in the percentage of local passengers choosing to fly from MRY, the air carrier schedule changes reduced the number of available flights in our market.

The line item, “Terminal Concessions & Leases”, includes lease income from many sources: concessions such as *The Golden Tee Restaurant* and the *Gifts and More* gift shop; commercial airlines that rent ticket counters, offices, baggage make-up, hold rooms and baggage claim areas; five rental car companies (*Avis, Budget, Enterprise, Hertz, and National*); long and short-term parking lots and in-terminal advertising. This category of revenue increased 3.7% when compared to FY14.

**MONTEREY PENINSULA AIRPORT DISTRICT**

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

**Operating Revenues (Continued)**

General Aviation activities generated 20.7% of 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 6.1% from FY14 levels.

Non-aviation tenants produced 19.9% of Total Operating Revenues, an increase of 8.8% compared to FY14.

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

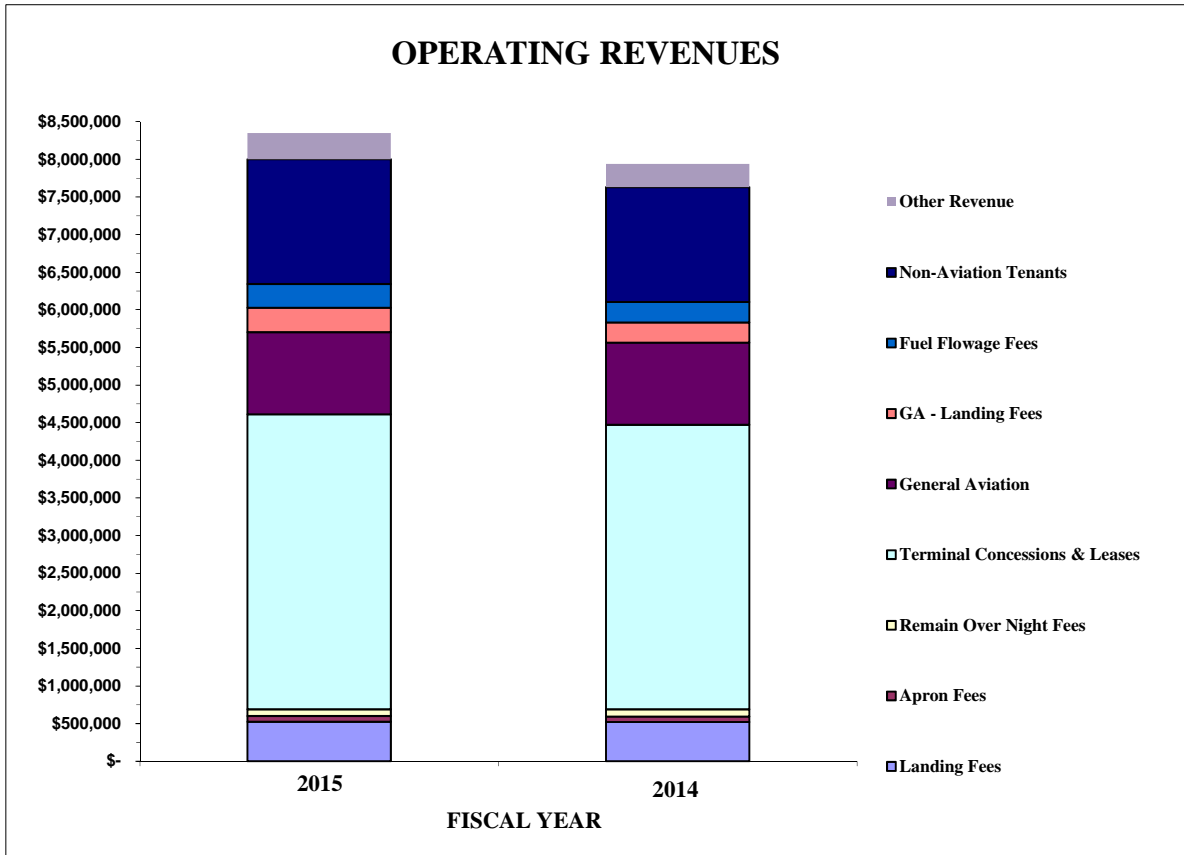
**Table III**

<b>FISCAL YEARS 2015 &amp; 2014 OPERATING REVENUES</b>				
	<b>2015</b>		<b>2014</b>	
<b>Landing Fees</b>	\$ 526,088	6.3%	\$ 522,746	6.6%
<b>Apron Fees</b>	76,744	0.9%	73,135	0.9%
<b>Remain Over Night Fees</b>	86,486	1.0%	96,057	1.2%
<b>Terminal Concessions &amp; Leases</b>	3,921,487	47.0%	3,780,275	47.6%
<b>Subtotal - Commercial Aviation</b>	<b>\$ 4,610,805</b>	<b>55.2%</b>	<b>\$ 4,472,214</b>	<b>56.3%</b>
<b>General Aviation</b>	\$ 1,091,164	13.1%	\$ 1,091,317	13.7%
<b>Landing Fees</b>	327,355	3.9%	270,288	3.4%
<b>Fuel Flowage Fees</b>	314,130	3.8%	271,116	3.4%
<b>Subtotal - General Aviation</b>	<b>\$ 1,732,649</b>	<b>20.7%</b>	<b>\$ 1,632,721</b>	<b>20.6%</b>
<b>Non-Aviation Tenants</b>	\$ 1,658,366	19.9%	\$ 1,524,922	19.2%
<b>Other Revenue</b>	349,480	4.2%	307,855	3.9%
<b>Total</b>	<b>\$ 8,351,300</b>	<b>100%</b>	<b>\$ 7,937,711</b>	<b>100%</b>



**MONTEREY PENINSULA AIRPORT DISTRICT**  
 Management's Discussion and Analysis (Unaudited)  
 For the Year Ended June 30, 2015

**Chart B**



**Operating Expense Before Depreciation and Amortization**

Operating expense before depreciation and amortization in FY15 decreased 1.1% compared to FY14.

Table IV presents salary and payroll expense by airport department. The airport provides a wide variety of services and staffs its own police department. Salaries and payroll costs decreased \$1,062,909 (21.3%) compared to FY14. Salaries and payroll costs, measured as a percentage of total operating expense before depreciation and amortization, were 51.3% in FY15 and 65.4% in FY14. A significant portion of this decrease in FY15 was directly attributable to the elimination of the District's fire department. Effective January 1, 2014, the District purchases Aircraft Rescue and Fire Fighting (ARFF) and other fire related services through a contract with the City of Monterey.

**MONTEREY PENINSULA AIRPORT DISTRICT**  
 Management's Discussion and Analysis (Unaudited)  
 For the Year Ended June 30, 2015

**Operating Expense Before Depreciation and Amortization (Continued)**

**Table IV**

<b>FISCAL YEARS 2015 &amp; 2014 SALARY &amp; PAYROLL EXPENSE</b>				
	<b>2015</b>		<b>2014</b>	
<b>Finance &amp; Administration</b>	\$ 985,162	25.1%	\$ 1,021,475	20.5%
<b>Planning &amp; Development</b>	436,065	11.1%	424,153	8.5%
<b>Maintenance &amp; Custodial Services</b>	916,916	23.4%	902,299	18.1%
<b>Airport Operations</b>	284,213	7.2%	275,730	5.5%
<b>Police Department</b>	1,177,588	30.0%	1,184,250	23.8%
<b>ARFF / Fire Department</b>	123,077	3.1%	1,178,023	23.6%
<b>Total</b>	\$ 3,923,021	100%	\$ 4,985,930	100%

Table V compares operating expense for FY15 and FY14. Chart C provides a graphic representation of operating expenses.

Finance & Administration operating expense (27.1% of total FY15 operating expense) decreased 1.1% from FY14. This reduction was primarily due to not filling a position after the departure of an employee.

Planning & Development operating expense (5.3% of total FY15 operating expense) decreased 15.8% when compared to FY14. The decrease was due to cost capitalized as part of the Runway Safety Area (RSA) project.

Maintenance & Custodial Services operating expense (17.3% of total FY15 operating expense) increased 0.6% from FY14. The majority of the District's facilities, structures and infrastructure are old and require more intensive maintenance and more frequent repairs. Expenses have been effectively controlled by emphasizing preventive maintenance.

Airport Operations operating expense (6.7% of total FY15 operating expense) decreased 1.0% when compared to FY14.

Police Department operating expense (17.3% of FY15 total operating expense) increased 2.8% over FY14 levels. In part, the escalating costs were due to mandated security requirements. These increases have been partially mitigated by the use of part-time police officers. The District was awarded a "Law Enforcement Officer (LEO) Reimbursement Grant" from the U. S. Department of Homeland Security (DHS).

**MONTEREY PENINSULA AIRPORT DISTRICT**

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

**Operating Expense Before Depreciation and Amortization (Continued)**

ARFF / Fire operating expense (23.8% of total FY15 operating expense) decreased 5.4% compared to FY14. The District eliminated its fire department. District firefighters were absorbed by the City of Monterey. Effective January 1, 2014, (in FY14) the City of Monterey provides the airport with Aircraft Rescue and Fire Fighting (ARFF) services through contract.

Board of Directors operating expense (2.5% of total FY15 operating expense) increased 67.3% compared to FY14. The Board of Directors are elected (at large) during the November general election; thereby the District incurs elections expense every other year. The District had election expense in FY15.

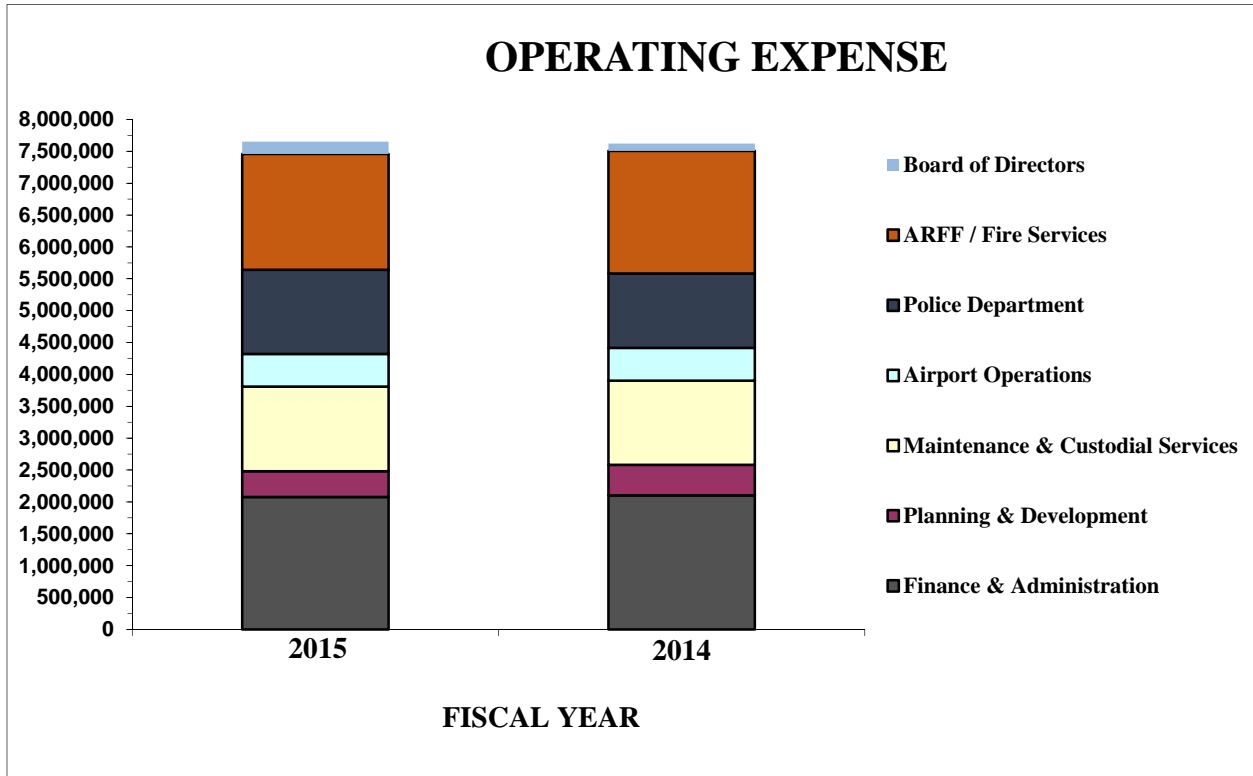
**Table V**

<b>FISCAL YEARS 2015 &amp; 2014 OPERATING EXPENSE BEFORE DEPRECIATION AND AMORTIZATION</b>				
	<b>2015</b>		<b>2014</b>	
<b>Finance &amp; Administration</b>	\$ 2,077,095	27.1%	\$ 2,101,150	27.2%
<b>Planning &amp; Development</b>	404,446	5.3%	480,206	6.2%
<b>Maintenance &amp; Custodial Services</b>	1,327,588	17.3%	1,319,428	17.1%
<b>Airport Operations</b>	511,290	6.7%	516,573	6.7%
<b>Police Department</b>	1,320,157	17.3%	1,283,698	16.6%
<b>ARFF / Fire Services</b>	1,818,645	23.8%	1,921,509	24.8%
<b>Board of Directors</b>	192,796	2.5%	115,245	1.5%
<b>Total</b>	\$ 7,652,017	100%	\$ 7,737,809	100%

**MONTEREY PENINSULA AIRPORT DISTRICT**  
 Management's Discussion and Analysis (Unaudited)  
 For the Year Ended June 30, 2015

**Operating Expense Before Depreciation and Amortization (Continued)**

**Chart C**



**MONTEREY PENINSULA AIRPORT DISTRICT**  
Management's Discussion and Analysis (Unaudited)  
For the Year Ended June 30, 2015

**Actual Financial Results – FY15 and FY14 Revenues, Expenses and Change in Net Position**

Table VI compares actual operating revenues, operating expenses, and the change in net position for FY15 and 14.

**Table VI**

	FY 2015	FY 2014
<b>Operating Revenues</b>		
Commercial Aviation - Fees	\$ 689,318	\$ 691,938
General Aviation - Fees	327,355	270,288
Terminal Concessions and Leases	3,921,487	3,780,275
Heavy General Aviation	973,230	911,844
Light General & Other Aviation Tenants	432,064	450,589
Non-Aviation Tenants	1,658,366	1,524,922
Other Operating Revenue	349,480	307,855
<b>Total Operating Revenues</b>	<b>8,351,300</b>	<b>7,937,711</b>
<b>Operating Expenses</b>		
Finance & Administration	2,077,095	2,101,150
Planning & Development	404,446	480,206
Maintenance & Custodial Services	1,327,588	1,319,428
Airport Operations	511,290	516,573
Police Department	1,320,157	1,283,698
ARFF Services	1,818,645	1,921,509
Board of Directors	192,796	115,245
<b>Total Operating Expenses</b>	<b>7,652,017</b>	<b>7,737,809</b>
<b>Operating Income before Depreciation</b>	<b>699,283</b>	<b>199,902</b>
<b>Depreciation &amp; Amortization Expense</b>	<b>5,363,050</b>	<b>5,453,461</b>
<b>Net Operating Loss</b>	<b>(4,663,767)</b>	<b>(5,253,559)</b>
<b>Other Revenue (Expense), net</b>	<b>27,144,819</b>	<b>4,065,870</b>
<b>Change in Net Position</b>	<b>22,481,052</b>	<b>(1,187,689)</b>
<b>Beginning Net Position, as Previously Reported</b>	<b>43,800,137</b>	<b>44,987,826</b>
<b>Restatement of Beginning Net Position</b>	<b>(6,446,352)</b>	
<b>Beginning Net Position, as Restated</b>	<b>37,353,785</b>	
<b>Ending Net Position</b>	<b>\$ 59,834,837</b>	<b>\$ 43,800,137</b>

**MONTEREY PENINSULA AIRPORT DISTRICT**  
Management's Discussion and Analysis (Unaudited)  
For the Year Ended June 30, 2015

**Capital Asset and Debt Activity**

Total District assets are \$73,969,329; deferred outflows of resources are \$362,999, total liabilities are \$12,750,574, and deferred inflows of resources are \$1,746,917, the difference is \$59,834,837. The current ratio is 1.57. 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:

	<u>2015</u>	<u>2014</u>
Tangible assets, net		
Land	\$ 1,784,717	\$ 1,784,717
Land improvements	13,944,714	16,393,815
Buildings	9,104,544	10,301,888
Furniture, equipment and vehicles	847,009	952,608
Construction in progress	36,498,003	8,740,340
Total	<u>62,178,987</u>	<u>38,173,368</u>
Intangible assets, net	<u>3,411,123</u>	<u>4,864,214</u>
Total capital assets - net	<u>\$ 65,590,110</u>	<u>\$ 43,037,582</u>

**Debt**

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

**MONTEREY PENINSULA AIRPORT DISTRICT**  
Management's Discussion and Analysis (Unaudited)  
For the Year Ended June 30, 2015

**Future Impacts**

FY 2015 was a complex year for the District. Airlines continue to reduce excess capacity, which results in fewer flights and fewer available seats for our market. Fewer flights results in fewer passengers. This results in fewer parked cars, fewer car rentals and fewer meals consumed in the restaurant. Due to several one-time revenues and by increasing rates, operating revenues were 5.2% higher than in FY14.

The District continues its dialogue with the airlines now serving the Airport to expand service. The District promotes the introduction of new service to cities in the Midwest, Northwest and Southern California. Through the Department of Transportation Small Community Air Service Development Program (SCASDP) a commercial air carrier that introduces new air service to the Pacific Northwest may receive up to \$500,000 in revenue guarantees. The Airport and its community partners may also provide up to \$214,000 in marking and advertising. This opportunity expires on January 15, 2016.

Heavy general aviation (GA), which rebounded in FY14, continued the trend in FY15. GA landing fee revenue was 21.1% higher than FY14. Fuel flowage fees were 15.9% higher than FY14. However, light general aviation space and hangar rentals decreased 4.1% compared to FY14. These trends are expected to continue.

Non-aviation rents increased 8.8% in FY15 and continued a three-year upward trend. This is an area that the Airport can grow.

Given the historical performance data and current economic indicators, the forecast for FY 2016 is for financial results very similar to FY15. Rates adopted for FY16 were increased to ensure sufficient operating revenue.

**Requests for Information**

This financial report has been designed to provide a general overview of the District's operations and financial position 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**

## Statement of Net Position

June 30, 2015

**ASSETS**

## Current assets:

## Unrestricted:

Cash and cash equivalents (Note 2)	\$ 979,217
Investments (Note 2)	1,674,062
Accounts receivable, net	4,010,084
Interest receivable	6,092
Prepaid and other assets	58,729
Total unrestricted current assets	<u>6,728,184</u>

## Restricted:

Cash and cash equivalents (Note 2)	1,418,188
Investments (Note 2)	232,847
Total current assets	<u>8,379,219</u>

## Capital assets (Note 3)

Nondepreciable	38,282,720
Depreciable, net	27,307,390
Total capital assets, net	<u>65,590,110</u>
Total assets	<u>73,969,329</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred pension contributions (Note 7)	<u>362,999</u>
---	----------------

**LIABILITIES**

## Current liabilities:

Accrued liabilities (Note 4)	3,831,075
Unearned revenues	73,840
Accrued compensated absences (Note 5)	65,110
Due to the City of Monterey (Notes 5 and 10)	19,966
Pension obligation bond payable, current portion (Note 5)	286,000
Funds held in trust	141
Total current liabilities	<u>4,276,132</u>

## Noncurrent liabilities:

Security deposits	316,711
Unearned revenues - rent received in advance from tenants	295,059
Accrued compensated absences, net of current portion (Note 5)	176,037
Due to the City of Monterey, net of current portion (Notes 5 and 10)	139,763
Net pension liability (Note 7)	5,177,620
OPEB liability (Note 8)	364,252
Pension obligation bonds payable, net of current portion (Note 5)	2,005,000
Total noncurrent liabilities	<u>8,474,442</u>
Total liabilities	<u>12,750,574</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources related to pensions (Note 7)	<u>1,746,917</u>
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**NET POSITION**

Net investment in capital assets	62,064,776
Restricted - unspent Passenger Facilities Charges	1,140,291
Unrestricted	<u>(3,370,230)</u>
Total net position	<u>\$ 59,834,837</u>

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



**MONTEREY PENINSULA AIRPORT DISTRICT**  
Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended June 30, 2015

<b>OPERATING REVENUES</b>	
Commercial aviation	\$ 689,318
General aviation	327,355
Terminal leases and concessions	3,921,487
Heavy general aviation	973,230
Light general aviation and other aviation tenants	432,064
Non-aviation tenants	1,658,366
Other operating revenue	349,480
Total operating revenues	<u>8,351,300</u>
<b>OPERATING EXPENSES</b>	
Finance and administration	2,077,095
Planning and development	404,446
Maintenance and custodial services	1,327,588
Airport operations	511,290
Police department	1,320,157
Fire department	1,818,645
Board of Directors	192,796
Depreciation and amortization	5,363,050
Total operating expenses	<u>13,015,067</u>
Operating loss	<u>(4,663,767)</u>
<b>NONOPERATING REVENUES AND (EXPENSES)</b>	
Passenger Facility Charges	724,686
Operating grants	116,800
Investment income	19,452
Interest expense	(109,868)
Total nonoperating revenues (expenses)	<u>751,070</u>
<b>CAPITAL CONTRIBUTIONS</b>	
Grants from government agencies	<u>26,393,749</u>
Change in net position	22,481,052
<b>NET POSITION</b>	
Beginning of year, as previously reported	43,800,137
Restatement of beginning net position (Notes 2 and 10)	<u>(6,446,352)</u>
Beginning of year, as restated	<u>37,353,785</u>
End of year	<u>\$ 59,834,837</u>

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

**MONTEREY PENINSULA AIRPORT DISTRICT**

Statement of Cash Flows

For the Year Ended June 30, 2015

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 8,118,479
Payments to vendors	(3,696,568)
Payments for employees pension benefits	(316,804)
Payments to employees	(3,443,974)
Net cash provided by operating activities	<u>661,133</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Proceeds from operating grants	<u>116,800</u>
Net cash provided by noncapital financing activities	<u>116,800</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Proceeds from capital grants and Passenger Facilities Charges	25,213,513
Acquisition of capital assets	(25,880,849)
Interest paid on long-term debt	(109,868)
Principal payments on long-term debt	(274,000)
Net cash used in capital and related financing activities	<u>(1,051,204)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment income received	19,955
Investments matured	<u>644,239</u>
Net cash provided by investing activities	<u>664,194</u>
Net change in cash and cash equivalents	390,923
Cash and cash equivalents, beginning of year	<u>2,006,482</u>
Cash and cash equivalents, end of year	<u>\$ 2,397,405</u>

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	\$ (4,663,767)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	5,363,050
(Increase) decrease in:	
Accounts receivable	(281,096)
Note receivable	2,569
Prepaid and other current assets	27,980
Increase (decrease) in:	
Accrued liabilities	139,600
Unearned revenues	51,705
Accrued compensated absences	(73,226)
Due to the City of Monterey	(19,966)
Security deposits	(5,999)
OPEB liability	5,097
Net pension liability and related pension deferred outflows and inflows of resources	<u>115,186</u>
Net cash provided by operating activities	<u>\$ 661,133</u>

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

**MONTEREY PENINSULA AIRPORT DISTRICT**

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2015

Non-cash capital and related financing activities:

Acquisition of capital assets in accrued liabilities \$ 3,525,334

**STATEMENT OF NET POSITION**

**CLASSIFICATION OF CASH AND CASH EQUIVALENTS:**

Unrestricted \$ 979,217

Restricted 1,418,188

Total cash and cash equivalents \$ 2,397,405

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

# MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2015

## 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 on 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. 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).

### (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 June 30, 2015 was \$10,000.

**MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(f) *Prepaid Expenses***

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

**(g) *Capital Assets***

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

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

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

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

**(h) *Employee Benefits***

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

**(i) *Accrued Compensated Absences***

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

**(j) *Unearned Revenues***

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

**MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(k) *Deferred Outflows and Inflows of Resources***

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

**(l) *Net Position***

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

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

*Restricted* - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Restricted net position represents unspent Passenger Facility Charges (PFC), which are restricted by enabling legislation.

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

**(m) *Passenger Facility Charge***

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

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

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.

## MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *(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 year ended June 30, 2015, the District requested and received \$116,800 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.

#### *(o) Use of Estimates*

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

#### *(p) New Accounting Standards Adopted*

During the year ended June 30, 2015, the District adopted the following GASB Statements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB Statement No. 68), addresses the accounting and financial reporting requirements for pensions. The provisions of GASB Statement No. 68 separate accounting and financial reporting from how pensions are funded and require changes in the notes to the financial statements and required supplementary information. Significant changes include an actuarial calculation of the total pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and pension expense and related deferred outflows/inflows of resources disclosures (see Note 8). When the District implemented this statement in fiscal year 2015, the District also implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (GASB Statement No. 71), which resolves transition issues in GASB Statement No. 68. As of July 1, 2014, the District restated the beginning net position in the amount of \$6,446,352 to record the beginning deferred pension contributions and net pension liability.

**MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(p) *New Accounting Standards Adopted (Continued)***

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, is intended to improve accounting and financial reporting for state and local governments' combinations and disposals of government operations. This statement provides guidance determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations; using carrying values (generally, the amounts recognized in the pre-combination financial statements of the combining governments or operations) to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operations; measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based upon their acquisition values in a government acquisition; and reporting the disposal of government operations that have been transferred or sold. This statement did not have an impact on the District's financial statements.

**(q) *New Accounting Standards To Be Implemented***

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

- In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which is intended to improve accounting and financial reporting for state and local governments' investments by enhancing the comparability of financial statements among governments by requiring measurements of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The statement also requires that donated capital assets, works of art and similar assets and capital assets received in service concession agreements be reported at acquisition value rather than fair value. This statement also requires that donated capital assets, works of art and similar assets, and capital assets received in service concession agreements be reported at acquisition value rather than fair value. The requirements of this statement are effective for the District's fiscal year ending June 30, 2016.
- In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statements 68 and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB Statement No. 73), which establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, as well as for the assets accumulated for the purposes of providing those pensions. GASB Statement No. 73 amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes. GASB Statement No. 73 addresses the recognition of the total pension liability of such plans and the disclosures necessary for the plans that did not meet the definition of GASB Statement No. 68. GASB Statement No. 73 is effective for the District's fiscal year ending June 30, 2016.



**MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(q) New Accounting Standards To Be Implemented (Continued)**

- In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB Statement No. 74), which establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support to OPEB provided to the employees of other entities. GASB Statement No. 74 also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. GASB Statement No. 74 is effective for the District's fiscal year ending June 30, 2017.
- In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75), which establishes new accounting and financial reporting requirements for OPEB plans improving the accounting and financial reporting by state and local governments for OPEB and provides information provided by state and local government employers about financial support for OPEB that is provided by other entities. The statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB Statement No. 75 is effective for the District's fiscal year ending June 30, 2018.
- In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB Statement No. 76), which clarifies the hierarchy of GAAP and reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the scope of authoritative GAAP. GASB Statement No. 76 is effective for the District's fiscal year ending June 30, 2016.

**NOTE 2 – CASH AND INVESTMENTS**

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

Unrestricted:	
Deposits with banks	\$ 979,217
Investments	<u>1,674,062</u>
Total unrestricted	<u>2,653,279</u>
Restricted:	
Deposits with banks	1,418,188
Investments	<u>232,847</u>
Total restricted	<u>1,651,035</u>
Total cash and investments	<u><u>\$ 4,304,314</u></u>

**MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**(a) Custodial Credit Risk – Deposits and Investments**

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

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

**(b) Investments Permitted**

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

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

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

**MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**(c) Investments**

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

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

The District is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is governed by the California Government Code under the oversight of the Local Investment Advisory Board (Board). The Board consists of five members as designated by state statute. The fair value of the District’s investment in the LAIF pool is reported in the accompanying financial statements at amounts based upon the District’s pro rata share of the fair value provided by LAIF, for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis, which is different from the fair value of the District’s position in the LAIF pool. LAIF is part of the State’s Pooled Money investment Account (PMIA). LAIF is not rated by rating agencies.

The weighted average maturity of LAIF at June 30, 2015 was 239 days. The total amount recorded by all public agencies in PMIA at June 30, 2015, was approximately \$69.6 billion. Of that amount at June 30, 2015, 97.92% was invested in non-derivative financial products and 2.08% in structured notes and asset backed securities.

**(d) Restricted Cash**

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

	<u>Cash in Bank</u>	<u>Investment</u>	<u>Total</u>
Security deposits from tenants	\$ 314,064	\$ -	\$ 314,064
Passenger facility charge program	1,101,055	232,847	1,333,902
Debt service	3,069	-	3,069
Total restricted cash and investments	<u>\$ 1,418,188</u>	<u>\$ 232,847</u>	<u>\$ 1,651,035</u>

**MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

**NOTE 3 – CAPITAL ASSETS**

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

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

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

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

**MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

**NOTE 3 – CAPITAL ASSETS (Continued)**

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

Noise safety study and sound proofing easements	\$ 21,549,356
Master plan	208,440
Wildlife hazard assessment plan	<u>151,939</u>
Total intangible assets, gross	21,909,735
Less accumulated amortization	<u>(18,498,612)</u>
Total intangible assets, net	<u><u>\$ 3,411,123</u></u>

**NOTE 4 – ACCRUED LIABILITIES**

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

Accrued employee benefits	\$ 105,467
Other accrued expenses	<u>3,725,608</u>
Total accrued liabilities	<u><u>\$ 3,831,075</u></u>

**NOTE 5 – LONG-TERM OBLIGATIONS**

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

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

**MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

**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 are as follows:

Year	Principal	Interest	Total Requirement
2016	\$ 286,000	\$ 97,658	\$ 383,658
2017	299,000	84,920	383,920
2018	312,000	71,632	383,632
2019	326,000	57,750	383,750
2020	341,000	43,230	384,230
2021-2022	727,000	40,326	767,326
Total	<u>\$ 2,291,000</u>	<u>\$ 395,516</u>	<u>\$ 2,686,516</u>

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

**NOTE 6 – OPERATING LEASES**

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

Future minimum rentals on noncancelable leases as of June 30, 2015 are as follows:

2016	\$ 2,190,493
2017	2,234,305
2018	2,210,111
2019	2,254,315
2020	2,075,986
2021 - 2025	10,414,998
2026 - 2030	10,925,860
2031 - 2035	12,039,646
2036 - 2040	13,043,968
2041 - 2045	13,333,570
2046 - 2050	5,049,436
2051 - 2054	440,491
Total	<u>\$ 76,213,179</u>

**MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

**NOTE 7 – PENSION PLAN**

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

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

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

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

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

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

**MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

**NOTE 7 – PENSION PLAN (Continued)**

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

For the year ended June 30, 2015, the employer contributions recognized as part of pension expense for the Plans was \$466,335.

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

As of June 30, 2015, the District’s reported total net pension liability of \$5,177,620 for its proportionate shares of the net pension liability. The District’s net pension liability is measured as the proportionate share of the net pension liability of the cost-sharing plans. The net pension liability of each of the Plans is measured as of June 30, 2014, 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, 2013 rolled forward to June 30, 2014 using standard update procedures. The District’s proportion of the net pension liability was actuarially determined at the valuation date. The District’s proportionate share of the net pension liability for the Plans were \$5,177,620 as of June 30, 2014, a decrease of \$1,735,067 from \$6,912,687 as of June 30, 2013.

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

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



**MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

**NOTE 7 – PENSION PLAN (Continued)**

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2016	\$ (425,181)
2017	(425,181)
2018	(425,180)
2019	(425,180)
Total	<u>\$ (1,700,722)</u>

**Actuarial Assumptions** - The total pension liabilities in the June 30, 2013 actuarial valuations, which were rolled forward to June 30, 2014, for four plans, PEPRAs Police is a new plan, were determined using the following actuarial assumptions:

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

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

## MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

### NOTE 7 – PENSION PLAN (Continued)

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

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. The difference in calculation between a 7.5 percent rate and a 7.65 percent rate was not material to the District’s financial statements.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statement Nos. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as it changes its methodology.

The long-term expected rate of return on pension plan investments of 7.50% was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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

**MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

**NOTE 7 – PENSION PLAN (Continued)**

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

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

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

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

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

Proportionate Share of Net Pension Liability	Decrease Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Decrease Rate + 1% (8.50%)
Safety Fire Plan	\$ 4,537,484	\$ 2,636,738	\$ 1,070,605
Safety Police Plan	2,061,609	1,198,003	486,430
Miscellaneous Plan	2,391,509	1,342,269	471,500
PEPRA Miscellaneous	1,086	610	214
PEPRA Police	-	-	-
Total	\$ 8,991,688	\$ 5,177,620	\$ 2,028,749

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

**MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

**NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS**

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

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

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

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

	<u>Police</u>	<u>Fire</u>	<u>Miscellaneous</u>	<u>Total</u>
Annual required contribution	\$ 18,490	\$ 4,707	\$ 21,176	\$ 44,373
Interest on net OPEB obligation	2,065	983	4,136	7,184
Adjustment to the annual required contribution	<u>(2,977)</u>	<u>(1,417)</u>	<u>(5,962)</u>	<u>(10,356)</u>
Annual OPEB cost (expense)	17,578	4,273	19,350	41,201
Contributions made	<u>(16,695)</u>	<u>(7,465)</u>	<u>(11,944)</u>	<u>(36,104)</u>
Change in net OPEB obligation	883	(3,192)	7,406	5,097
Net OPEB obligation, beginning of year	105,146	48,369	205,640	359,155
Net OPEB obligation, end of year	<u>\$ 106,029</u>	<u>\$ 45,177</u>	<u>\$ 213,046</u>	<u>\$ 364,252</u>

**MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

**NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)**

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

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2015	\$ 41,201	87.6%	\$ 364,252
6/30/2014	44,102	51.3%	359,155
6/30/2013	44,529	40.5%	337,697

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

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

## MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

### NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

- *Actuarial valuation date* – the actuarial valuation date was as of July 1, 2014.
- *Actuarial cost method* – the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2014, was twenty-seven years.
- *Percentage of retirees electing coverage* – Historically, only about 28% of the District’s total retirees elect medical coverage. This is factored into our 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.
- *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](http://www.cdc.gov)). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.*
- *Turnover* – The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in paragraph 35 of GASB Statement No. 45. In addition, the expected future working lifetimes of employees were determined using Table 2 in paragraph 35c of GASB Statement No. 45.
- *Payroll increase* – Changes in the payroll for current employees are expected to increase at a rate of approximately 1.0% annually.
- *Discount rate* – The calculation uses an annual discount rate of 2.0%. This is based on the assumed long-termed return on plan assets or employer assets.
- *Healthcare cost trend rate* – The expected rate of increase in healthcare insurance premium is 3.5% based on the average medical care component of the Consumer Price Index-Urban (CPI-U) for the past three years.
- *Health insurance premiums* – 2014 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid.
- *Medicare coordination* – Medicare was assumed as the primary payer for current and future retirees at age 65.

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

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

## **MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

### **NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (Continued)**

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

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

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

### **NOTE 9 – RISK MANAGEMENT**

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

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

**MONTEREY PENINSULA AIRPORT DISTRICT**

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

**NOTE 9 – RISK MANAGEMENT (Continued)**

The District’s deductibles and maximum coverage follows:

<u>Coverage</u>	<u>Deductible</u>	<u>Coverage (aggregate)</u>
Buildings & Business Personal Property Except Tools & Maintenance Equipment	\$ 10,000	\$ 39,958,570
Tools & Maintenance Equipment	1,000	
Boiler & Machinery	10,000	27,588,661
Automobile	500	1,000,000
Fire Truck Physical Damage		10,000,000
Airport Liability		50,000,000
Bodily Injury & Property	5,000 per occurrence 10,000 per aggregate	
Personal Injury	5,000 per occurrence 10,000 per aggregate	
Combined	10,000 per occurrence	
Public Officials Liability	100,000	5,000,000
Fiduciary Liability	5,000	1,000,000
Crime	5,000	500,000

***Workers’ Compensation Insurance***

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

<u>Coverage</u>	<u>Coverage</u>
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.



## MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2015

### NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

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

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

**MONTEREY PENINSULA AIRPORT DISTRICT**

Required Supplementary Information (Unaudited)

For the Year Ended June 30, 2015

*Schedule of the District's Proportionate Share of the Net Pension Liability*  
As of June 30, 2015

	<u>Fire</u>	<u>Police</u>	<u>Misc</u>	<u>PEPRA Misc</u>
Proportion of net pension liability	0.04237%	0.01925%	0.02157%	0.0001%
Proportionate share of the net pension liability	\$ 2,636,738	\$ 1,198,003	\$ 1,342,269	\$ 610
Covered-employee payroll	\$ 980,690	\$ 608,199	\$ 1,726,492	\$ 40,566
Proportionate share of the net pension liability as a percentage of covered-employee payroll	268.87%	196.98%	77.75%	1.50%
Plan fiduciary net position as a percentage of total pension liability	78.83%	78.83%	81.15%	81.15%

**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 June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

Changes in assumptions - There were no change in benefits.

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

\*\* Information related to the PEPRA Police plan were not available.

**MONTEREY PENINSULA AIRPORT DISTRICT**

Required Supplementary Information (Unaudited)

For the Year Ended June 30, 2015

***Schedule of Contributions – Pension Plan***

For the Year Ended June 30, 2015

	<u>Fire**</u>	<u>Police</u>	<u>PEPRA Police</u>	<u>Misc</u>	<u>PEPRA Misc</u>
Contractually required contribution (actuarially determined)	\$ -	\$ 122,881	\$ 12,462	\$ 161,160	\$ 20,301
Contractually in relation to the actuarially determined contributions	-	(122,881)	(12,462)	(161,160)	(20,301)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	-	441,240	108,363	1,398,722	324,809
Contributions as a percentage of covered-employee payroll	0.00%	27.85%	11.50%	11.52%	6.25%

\*\* As discussed in Note 10 to the financial statements, the fire services agreement between the City and District, the District did not incur payroll expenses for fire personnel during FY15. The District is awaiting an update of the annual required contribution from CalPERS before making further contributions.

**Notes to Schedule:**

Valuation date: 6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Nc Entry Age Normal Cost Method
Amortization Method	Level percent Level percent of payroll, closed
Remaining Amortization Period	19 years as of the valuation date
Asset Valuation Method	15 year smooth market
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.30% to 14.20% depending on Age, Service, and Type of Employment
Investment Rate of Return	7.5% net of pension plan investment and administrative expenses, includes inflation
Mortality	Derived using CalPERS' Membership Data for all Funds

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

**MONTEREY PENINSULA AIRPORT DISTRICT**

Required Supplementary Information (Unaudited)

For the Year Ended June 30, 2015

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

***Schedule of Funding Progress – Other Postemployment Benefits***

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

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



**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, 2015, 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 9, 2015.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

Macias Gini & O'Connell LLP

Walnut Creek, California  
November 9, 2015



**Independent Auditor’s Report on Compliance for the  
Major Federal Program and Report on Internal Control Over  
Compliance Required by OMB Circular A-133**

Board of Directors  
Monterey Peninsula Airport District  
Monterey, California

**Report on Compliance for Each Major Federal Program**

We have audited the Monterey Peninsula Airport District’s (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the District’s major federal program for the year ended June 30, 2015. The District’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

***Management’s Responsibility***

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

***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for the District’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for 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, 2015.

## 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

### Purpose of this Report

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

Macias Gini & O'Connell LLP

Walnut Creek, California  
November 9, 2015



**MONTEREY PENINSULA AIRPORT DISTRICT**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
U.S. Department of Transportation Federal Aviation Administration Airport Improvement Program	20.106	AIP 58, 59, 61	<u>\$ 26,334,749</u>
Total expenditures of federal awards			<u><u>\$ 26,334,749</u></u>

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

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**MONTEREY PENINSULA AIRPORT DISTRICT**  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2015

**NOTE 1 – GENERAL**

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

**NOTE 2 – BASIS OF PRESENTATION**

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

**NOTE 3 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

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

**NOTE 4 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

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

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**MONTEREY PENINSULA AIRPORT DISTRICT**  
 Schedule of Findings and Questioned Costs – Federal Awards  
 For the Year Ended June 30, 2015

**Section I – Summary of Auditor’s Results**

***Financial Statements***

Type of auditor’s report issued :	Unmodified
Internal control over financial reporting:	
◆ Material weakness(es) identified?	No
◆ Significant deficiency(ies) identified ?	None reported
Noncompliance material to the financial statements noted?	No

***Federal Awards***

Internal control over major programs:	
◆ Material weakness(es) identified?	No
◆ Significant deficiency(ies) identified?	None reported
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	
U.S. Department of Transportation, Airport Improvement Program (CFDA Number 20.106)	
Dollar threshold used to distinguish between type A and type B programs:	\$790,043
Auditee qualified as a low-risk auditee?	Yes

**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings**

None

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**MONTEREY PENINSULA AIRPORT DISTRICT**

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2015

**Prior Audit Findings**

There are no prior year findings and questioned costs.

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**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, 2015.

***Management’s Responsibility***

Compliance with the requirements referred to above is the responsibility of the District’s management.

***Auditor’s Responsibility***

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

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

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

***Opinion***

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2015.

**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. 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 9, 2015

**MONTEREY PENINSULA AIRPORT DISTRICT**  
Schedule of Passenger Facility Charge Revenues and Expenditures  
For the Year Ended June 30, 2015

	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, 2014	\$ 14,299,714	\$ 273,917	\$ 14,573,631	\$ 12,749,508	\$ 1,824,123
Fiscal year 2014-2015 transactions:					
Quarter ended September 30, 2014	189,876	2,329	192,205	142,087	
Quarter ended December 31, 2014	154,725	2,285	157,010	450,276	
Quarter ended March 31, 2015	194,901	2,025	196,926	434,443	
Quarter ended June 30, 2015	185,184	1,814	186,998	390,165	
Total fiscal year 2014-2015 transactions	724,686	8,453	733,139	1,416,971	(683,832)
Balance to date as of June 30, 2015	<u>\$ 15,024,400</u>	<u>\$ 282,370</u>	<u>\$ 15,306,770</u>	<u>\$ 14,166,479</u>	<u>\$ 1,140,291</u>

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

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**MONTEREY PENINSULA AIRPORT DISTRICT**  
Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures  
For the Year Ended June 30, 2015

**NOTE 1 – GENERAL**

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

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

**NOTE 2 – BASIS OF PRESENTATION**

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

**NOTE 3 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

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

**NOTE 4 – PFC APPROVED PROJECTS AND EXPENDITURES**

The general description of the approved projects and the expenditures for the year ended June 30, 2015 are as follows:

Passenger Facility Charge Project Number/Description	Identifying Number	Passenger Facility Charge Approved Amount	Expenditures
Airport Access Improvements - Phase II	10-15-C-00-MRY	\$ 300,000	\$ -
Runway Safety Area Design - Phase I	10-15-C-00-MRY	75,000	-
Runway Safety Area Construction - Phase I	10-15-C-00-MRY	515,000	47,973
Flight Information Display System and Access Information Equipment - Phase II	10-15-C-00-MRY	75,000	-
Wildlife Hazard Assessment	10-15-C-00-MRY	10,000	-
Runway 10R/28L Safety Area Construction, Phase 2	11-17-C-00-MRY	650,000	359,719
Terminal Improvements - Weather Protection Canopies	11-17-C-00-MRY	125,000	-
Update Airport Master Plan Study	13-18-C-00-MRY	145,000	56,636
Improve Runway 10R/28L Safety Area - Phase III	13-18-C-00-MRY	820,000	860,015
Install Perimeter Fence Alarm	13-18-C-00-MRY	30,000	-
Apron Rehabilitation-Aircraft Rescue Fire Fighting Ramp	13-18-C-00-MRY	125,000	-
Acquire One Standard Police Vehicle - Security Improvement	14-19-C-00-MRY	50,000	-
Improve Runway Safety Area Runway 10R/28L - Phase 4	14-19-C-00-MRY	1,936,000	92,628
Total Passenger Facility Charge Projects		<u>\$ 4,856,000</u>	<u>\$ 1,416,971</u>

The expenditures of the Improve Runway 10R/28L Safety Area – Phase III project are in excess of the authorized amount. However, in accordance with FAA guidelines, if actual allowable project costs exceed the estimate contained in the PFCs application in which the authority was approved, the public agency may elect to increase the total approved PFCs revenue in that application by 15%.

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