

**MONTEREY PENINSULA
AIRPORT DISTRICT**

Annual Financial and
Compliance Report

For the Years Ended
June 30, 2014 and 2013



Certified Public Accountants.

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**MONTEREY PENINSULA
AIRPORT DISTRICT**

**Board of Directors
at June 30, 2014**

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

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**MONTEREY PENINSULA
AIRPORT DISTRICT**
For the Years Ended June 30, 2014 and 2013

Table of Contents

	<i>Page</i>
FINANCIAL SECTION	
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis (Required Supplementary Information - Unaudited)	3
Basic Financial Statements:	
Statements of Net Position	17
Statements of Revenues, Expenses and Changes in Net Position	18
Statements of Cash Flows	19
Notes to Financial Statements.....	21
Required Supplementary Information (Unaudited):	
Schedule of Funding Progress – Other Postemployment Benefits.....	41
FEDERAL COMPLIANCE SECTION	
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 <i>Government Auditing Standards</i>	43
Independent Auditor’s Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133	45
Federal Awards:	
Schedule of Expenditures of Federal Awards	47
Notes to the Schedule of Expenditures of Federal Awards.....	49
Schedule of Findings and Questioned Costs – Federal Awards.....	51
Summary Schedule of Prior Audit Findings	53
Independent Auditor’s Report on Compliance with Applicable Requirements of the Passenger Facility Charge Program and Internal Control Over Compliance in Accordance with Passenger Facility Charge Audit Guide for Public Agencies.....	55
Passenger Facility Charge:	
Schedule of Passenger Facility Charge Revenues and Expenditures.....	57
Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures.....	59

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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 years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2014, 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.

Prior Period Financial Statements

The financial statements of the District as of June 30, 2013, were audited by other auditors whose report dated November 4, 2013, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress 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 13, 2014 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 13, 2014

MONTEREY PENINSULA AIRPORT DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended June 30, 2014 and 2013

The Management Discussion and Analysis (MD&A) is provided by the Monterey Peninsula Airport District (District) in compliance with requirements established by the Governmental Accounting Standards Board, Statement 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 years ended June 30, 2014 (FY14) and 2013 (FY13). The information presented is to be read in conjunction with the financial statements, footnotes and supplementary information found in this report.

Mission Statement

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

Overview of the Monterey Peninsula Airport District

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

The Monterey Regional Airport (Airport), 501 acres, has two parallel, east-west runways. The primary runway, 10R/28L, is 7,600 feet long and 150 feet wide. It is used by commercial and business aircraft and is equipped for instrument landings with a Category I instrument landing system on runway 10R. The secondary runway, 10L/28R, is 3,500 feet long and 65 feet wide, used solely by general aviation aircraft.

During this fiscal year, five commercial airlines served the airport with scheduled flights. Alaska, American Eagle, United Express and US Airways Express provided non-stop service to five gateway hubs: Denver, Los Angeles, Phoenix, San Diego and San Francisco. Allegiant operated non-stop service, two days per week to Las Vegas.

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

The District is structured as an enterprise fund. District financial statements are prepared using the accrual basis of accounting; revenues are recognized when earned, and expenses are recognized when incurred. 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 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.

MONTEREY PENINSULA AIRPORT DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended June 30, 2014 and 2013

Overview of the Financial Statements

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

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

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

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

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

Financial Highlights

- ➔ The assets of the District exceed liabilities by \$43,800,137 at June 30, 2014.
- ➔ In FY 14, the District acquired capital assets and completed and capitalized projects listed below:
 - Replaced Two (2) Police Vehicles (\$80,314),
 - ARFF Apron Expansion Joint Re-Seal (\$76,513),
 - Slurry Seal Skypark Drive (\$125,792),
 - Tarp's Roof & Structure (\$176,603), and
 - ARFF Station Alarm/Alerting System (\$43,256).
- ➔ The District met its debt obligation and reduced its taxable pension obligation bond principal to \$2,565,000.
- ➔ 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, FY09 through FY14, are presented below in Table I.

MONTEREY PENINSULA AIRPORT DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2014 and 2013

Financial Highlights (Continued)

Table I

TOTAL ENPLANEMENTS: FISCAL YEARS 2009 - 2014											
FY2009		FY2010		FY2011		FY2012		FY2013		FY2014	
7/08	21,540	7/09	18,934	7/10	18,732	7/11	16,912	7/12	18,364	7/13	18,756
8/08	22,285	8/09	18,512	8/10	17,582	8/11	16,204	8/12	18,501	8/13	17,680
9/08	16,501	9/09	16,581	9/10	16,657	9/11	16,765	9/12	17,462	9/13	17,798
10/08	17,464	10/09	16,536	10/10	16,542	10/11	17,247	10/12	18,778	10/13	18,307
11/08	15,134	11/09	16,045	11/10	15,192	11/11	15,213	11/12	17,675	11/13	16,235
12/08	14,930	12/09	16,191	12/10	14,512	12/11	14,678	12/12	16,962	12/13	16,362
1/09	12,112	1/10	13,068	1/11	12,153	1/12	12,403	1/13	14,516	1/14	14,157
2/09	13,205	2/10	13,119	2/11	12,839	2/12	13,585	2/13	14,747	2/14	14,191
3/09	15,147	3/10	15,825	3/11	14,419	3/12	14,445	3/13	18,015	3/14	16,886
4/09	15,628	4/10	16,951	4/11	14,509	4/12	15,262	4/13	17,563	4/14	16,278
5/09	18,185	5/10	17,542	5/11	16,821	5/12	16,529	5/13	17,619	5/14	17,932
6/09	18,191	6/10	18,513	6/11	16,409	6/12	18,207	6/13	18,588	6/14	16,302
200,322		197,817		186,367		187,450		208,790		200,884	

- FY14 enplanements decreased 3.8% to 200,884 due to scheduling changes by the airlines and the elimination of non-stop daily air service to Denver by United Express on June 5, 2014.
- 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, operated by SkyWest Airlines, provided non-stop flights on 30-seat Brasilia turbo-props (EMB-120) to San Francisco (SFO) and all jet, non-stop flights on 50-seat Canadair regional jets (CRJ-200) to Los Angeles (LAX) and to Denver (DEN). United Express cancelled the direct service to Denver on June 5, 2014.
- US Airways Express, flown by SkyWest Airlines, provided non-stop service on 50-seat regional jets (CRJ-200) to Phoenix (PHX).

MONTEREY PENINSULA AIRPORT DISTRICT

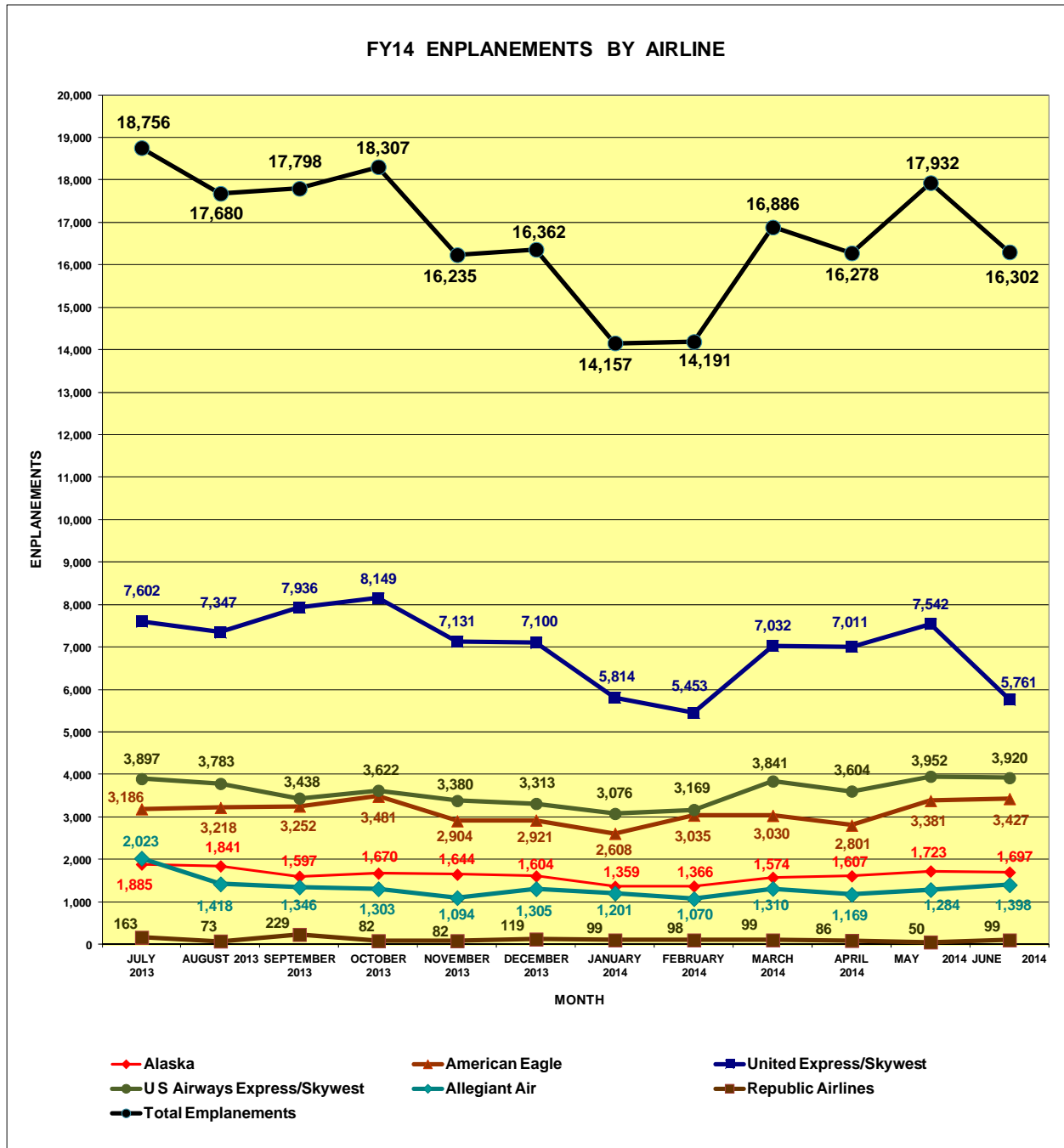
Management's Discussion and Analysis (Unaudited)

For the Years Ended June 30, 2014 and 2013

Financial Highlights (Continued)

Chart A presents the monthly enplanements for FY14, in total and for the scheduled commercial airlines that serve the Airport. FY14 enplanements totaled 200,884.

Chart A



MONTEREY PENINSULA AIRPORT DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended June 30, 2014 and 2013

Financial Highlights (Continued)

- Allegiant Travel Company offered scheduled non-stop service two days per week (Thursday - Sunday or Friday - Monday) to Las Vegas (LAS) on 166-seat MD-83/88 jets. It increased its scheduled service to three and four days weekly during its peak seasons (March and late June – early August). Allegiant combines ultra-low fares 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.

Summary of Net Position

Table II

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

	<u>2014</u>	<u>% Change</u>	<u>2013</u>	<u>% Change</u>	<u>2012</u>
Current and other assets	\$ 6,477,569	1.8%	\$ 6,365,767	-4.3%	\$ 6,649,862
Capital assets, net	43,037,582	-1.7%	43,759,688	-6.8%	46,959,772
Total assets	<u>49,515,151</u>	-1.2%	<u>50,125,455</u>	-6.5%	<u>53,609,634</u>
Debt outstanding	2,565,000	-9.3%	2,827,000	-8.1%	3,077,000
Other liabilities	3,150,014	36.3%	2,310,629	20.6%	1,915,650
Total liabilities	<u>5,715,014</u>	11.2%	<u>5,137,629</u>	2.9%	<u>4,992,650</u>
Net investment in capital assets	41,656,195	-3.6%	43,214,547	-8.0%	46,959,772
Restricted for construction	1,824,123	31.8%	1,383,565	19.5%	1,157,959
Unrestricted	319,819	-17.9%	389,714	-21.9%	499,253
Total net position	<u>\$ 43,800,137</u>	-2.6%	<u>\$ 44,987,826</u>	-7.5%	<u>\$ 48,616,984</u>

Changes in Net Position

Net Position decreased \$1,187,689 from FY13 to FY14. (Refer to Table VI, Actual versus Budget – FY14 Revenues, Expenses and Change in Net Position and discussions on Operating Revenues, Operating Expenses before Depreciation and Amortization.) Conforming to requirements of GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*, funds received from grants and PFCs are included in the financial statements, referred to as “Other Revenue”. In FY14, the District received \$3,270,612 from FAA AIP grants and \$771,372 from PFCs to fund architectural design, engineering design, and construction costs, which offsets our Net Operating Loss of \$5,136,759. Other Liabilities increased \$839,385 from FY13 to FY14 primarily due to the accrual of capital project costs that were paid subsequent to FY14.

From FY12 to FY13, Net Position decreased \$3,629,158. (Refer to Table VII, Actual Financial Results – FY14, FY13 & FY12 Revenues, Expenses and Change in Net Position and discussions on Operating Revenues, Operating Expenses before Depreciation and Amortization.) The District received \$916,219 from FAA AIP grants and \$816,019 from PFCs to fund airport improvement projects during FY13, which offsets our Net Operating Loss of \$5,292,644. Other Liabilities increased \$394,979 from FY12 to FY13 primarily due to the accrual of settlement of the litigation associated with the Highway 68 Coalition.

MONTEREY PENINSULA AIRPORT DISTRICT

Management’s Discussion and Analysis (Unaudited)

For the Years Ended June 30, 2014 and 2013

Operating Revenues

An airport functions as a landlord. District income is derived from fees and lease income. Total operating revenues for the year were \$7,937,711, an increase of 2.5% from FY13 and an increase of 8.7% from FY12.

Revenues derived from the activities of commercial airlines and from airline passengers using services offered by the Airport account for 56.3% of FY14 Total Operating Revenue. This was an increase of 0.4% compared to FY13 and an increase of 10.3% over FY12 (see Table III, “Subtotal – Commercial Aviation”). Included in this category are revenues paid by commercial airlines for landing, apron and aircraft overnight parking fees and income received from tenants that rent space in the airport terminal.

The line item, “Terminal Concessions & Leases”, includes lease income from many sources: concessions such as *The Golden Tee Restaurant* and the *Gifts and More* gift shop; commercial airlines that rent ticket counters, offices, baggage make-up, hold rooms and baggage claim areas; five rental car companies (*Avis, Budget, Enterprise, Hertz, and National*); long and short-term parking lots and in-terminal advertising. This category of revenue increased 0.4% from FY13 and increased 9.2% from FY12.

General Aviation activities generated 20.6% of Total Operating Revenue. Corporate aviation and general aviation tenants remit landing fees, fuel fees, and rental income for leased land, hangars, tie-downs, aircraft parking aprons, and offices. These revenues increased 3.7% from FY13 and 5.2% from FY12.

Non-aviation tenants produced 19.2% of Total Operating Revenues, an increase of 5.4% from FY13 and a decrease of 8.3% from FY12.

Table III presents a comparison of operating revenues in FY14, FY13 and FY12. Chart B provides a graphic representation of operating revenues.

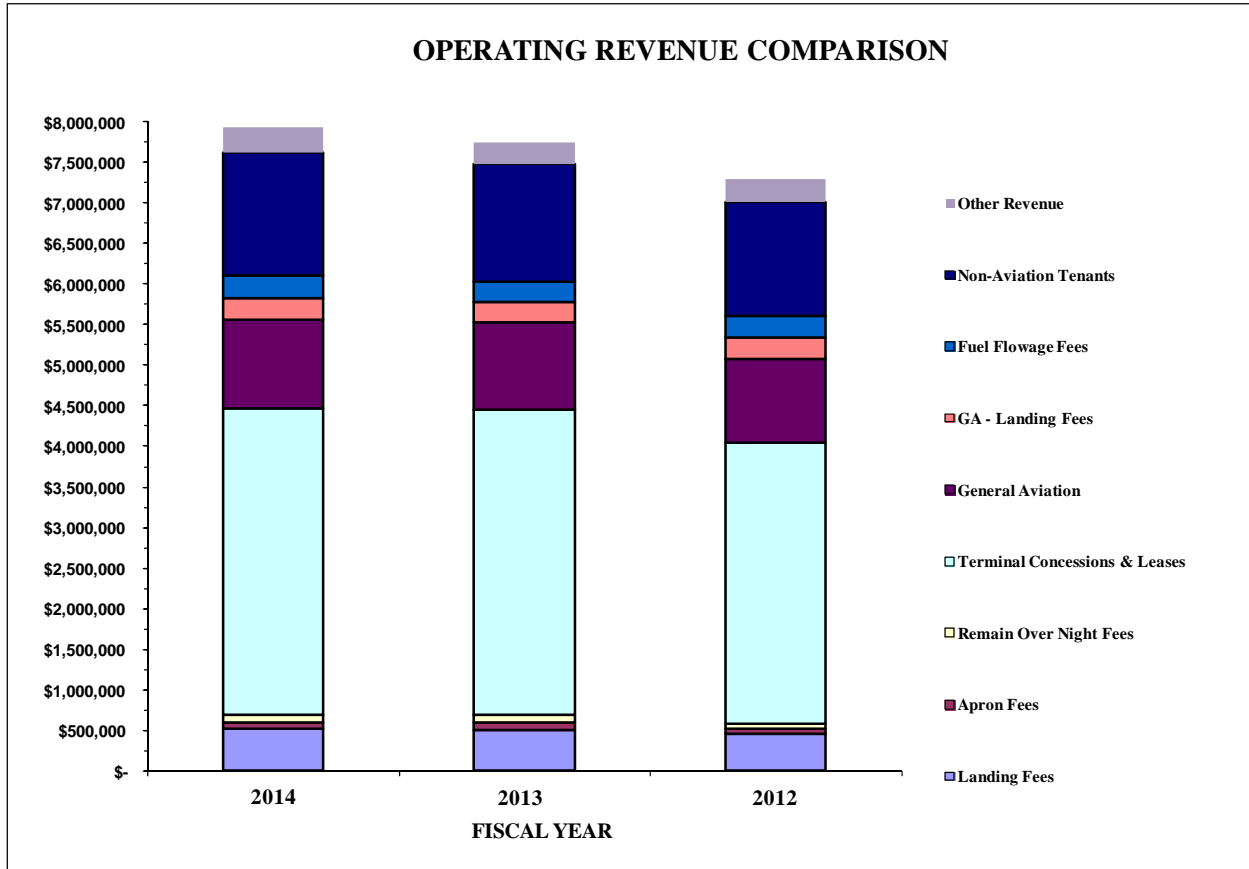
Table III

FISCAL YEAR 2014, 2013 & 2012 OPERATING REVENUE COMPARISON						
	2014		2013		2012	
Landing Fees	\$ 522,746	6.6%	\$ 514,350	6.6%	\$ 461,030	6.3%
Apron Fees	73,135	0.9%	80,280	1.0%	64,010	0.9%
Remain Over Night Fees	96,057	1.2%	97,923	1.3%	67,588	0.9%
Terminal Concessions & Leases	3,780,275	47.6%	3,763,362	48.6%	3,463,175	47.4%
Subtotal - Commercial Aviation	\$ 4,472,214	56.3%	\$ 4,455,915	57.5%	\$ 4,055,803	55.5%
General Aviation	\$ 1,091,317	13.7%	\$ 1,083,004	14.0%	\$ 1,029,575	14.1%
Landing Fees	270,288	3.4%	242,956	3.1%	263,770	3.6%
Fuel Flowage Fees	271,116	3.4%	247,955	3.2%	258,250	3.5%
Subtotal - General Aviation	\$ 1,632,721	20.6%	\$ 1,573,915	20.3%	\$ 1,551,595	21.3%
Non-Aviation Tenants	\$ 1,524,922	19.2%	\$ 1,447,303	18.7%	\$ 1,407,516	19.3%
Other Revenue	307,855	3.9%	268,410	3.5%	286,516	3.9%
Total	\$ 7,937,711	100%	\$ 7,745,543	100%	\$ 7,301,430	100%

MONTEREY PENINSULA AIRPORT DISTRICT
 Management's Discussion and Analysis (Unaudited)
 For the Years Ended June 30, 2014 and 2013

Operating Revenues (Continued)

Chart B



Operating Expenses Before Depreciation and Amortization

Operating Expenses before depreciation and amortization in FY14 increased 5.5% compared to FY13 and increased 4.4% when compared to FY12. Much of the increase in FY14 was attributable to one-time fire contract costs. Salaries and payroll costs for all airport employees decreased \$438,062 (8.1%) to just under \$5.0 million.

Table IV presents salary and payroll expenses by airport department. The Airport provides a wide variety of services and staffs its own police and fire departments. Salaries and payroll costs decreased \$438,062 (8.1%) from FY13 and decreased \$837,591 (14.4%) compared to FY12. Salaries and payroll costs, measured as a percentage of total operating expenses, were 65.4% in FY14, 75.1% in FY13 and 79.7% in FY12. A significant portion of this decrease in FY14 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 Years Ended June 30, 2014 and 2013

Operating Expenses Before Depreciation and Amortization (continued)

Table IV

FISCAL YEAR 2014, 2013 & 2012 SALARY & PAYROLL EXPENSE						
	2014		2013		2012	
Finance & Administration	\$ 1,021,475	20.5%	\$ 1,009,627	18.6%	\$ 1,009,830	17.3%
Planning & Development	424,153	8.5%	432,095	8.0%	407,755	7.0%
Maintenance & Custodial Services	902,299	18.1%	832,887	15.4%	900,346	15.5%
Airport Operations	275,730	5.5%	281,246	5.2%	510,891	8.8%
Police Department	1,184,250	23.8%	1,125,854	20.8%	1,101,771	18.9%
Fire Department	1,178,023	23.6%	1,742,282	32.1%	1,892,928	32.5%
Total	\$ 4,985,930	100%	\$ 5,423,992	100%	\$ 5,823,521	100%

Table V compares operating expenses, before depreciation and amortization, for FY14, FY13 and FY12. Chart C provides a graphic representation of operating expenses. Table V and Chart C exclude the effects of the Special Item in the presentation of FY12 operating expenses. More information regarding the Special Item can be found in the notes to the financial statements.

Finance & Administration operating expenses (27.6% of total FY14 operating expenses) increased 7.5% from FY13 and increased 0.3% from FY12. The increase was due to increased marketing expenses and increased utilities expense (specifically water rate increases).

Planning & Development operating expenses (6.3% of total FY14 operating expenses) increased 0.3% from FY13 and 5.7% from FY12. These increases are minimal, considering the expanding workload, much of which is driven by the Runway Safety Area (RSA) project.

Maintenance & Custodial Services operating expenses (17.3% of total FY14 operating expenses) increased 1.0% from FY13 and 3.9% from FY12. 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 expenses (6.8% of total FY14 operating expenses) increased 12.0% from FY13 and decreased 13.8% from FY12. The increase is due to an expanding workload and increasing responsibilities for airport (airside and landside) operations. The decrease was due to a restructure of the department and the elimination of one position.

Police Department operating expenses (15.3% of FY14 total operating expenses) increased 3.7% from FY13 and 11.4% from FY12. The department has experienced escalating costs due in part to mandated security requirements. These increases have been partially mitigated by the use of part-time police officers. The District successfully recruited and hired a new police chief in June 2014. The District was awarded a "Law Enforcement Officer (LEO) Reimbursement Grant" from the U. S. Department of Homeland Security (DHS).

Fire Department operating expenses (25.2% of total FY14 operating expenses) increased 11.7% compared to FY13 and 4.9% compared to FY12. The District eliminated its fire department. District firefighters were absorbed by the City of Monterey. Effective January 1, 2014, the City of Monterey provides the Airport with ARFF services through contract. To facilitate the change to contract services, the District absorbed several one-time costs in FY14.

MONTEREY PENINSULA AIRPORT DISTRICT
 Management's Discussion and Analysis (Unaudited)
 For the Years Ended June 30, 2014 and 2013

Operating Expenses Before Depreciation and Amortization (continued)

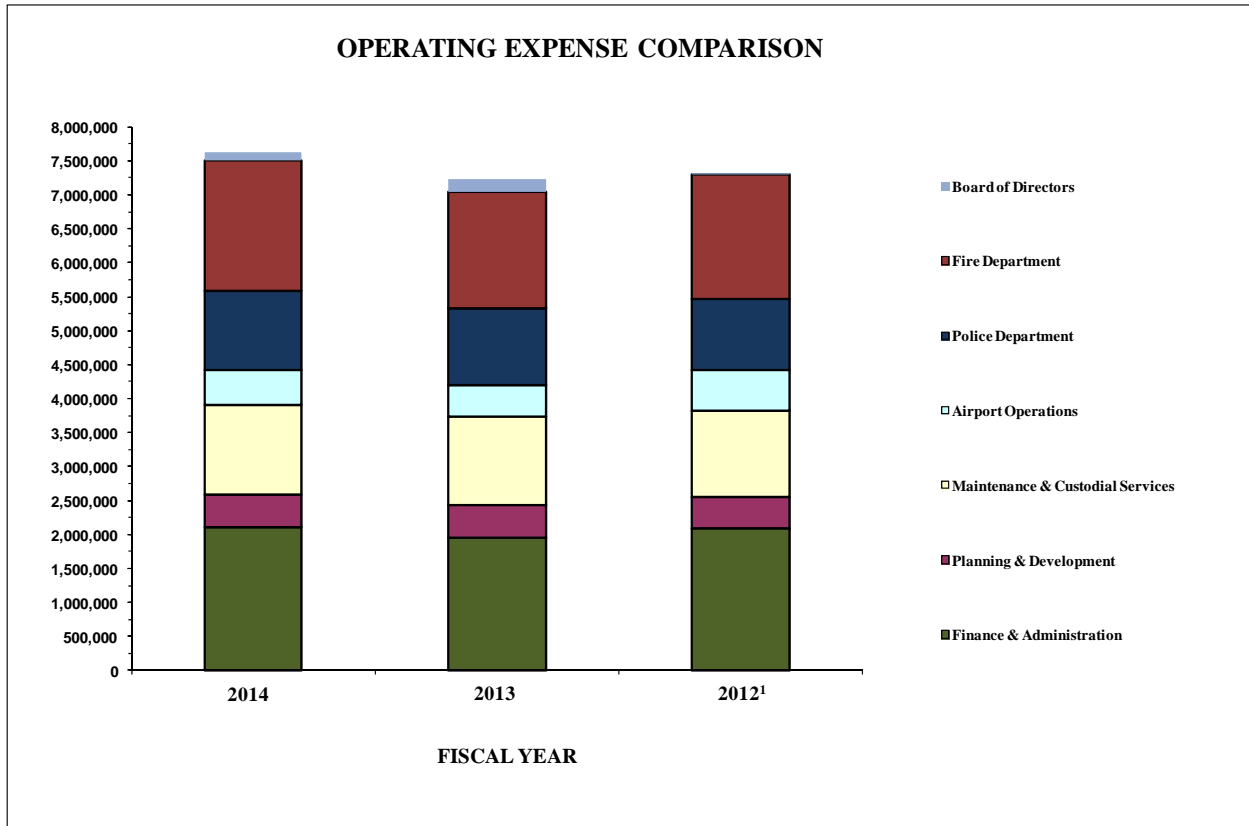
Board of Directors operating expenses (1.5% of total FY14 operating expenses) can only be compared to FY13. Expenses decreased 36.2% compared to FY13. These expenses were previously included in Finance & Administration; the segregation of these expenses began on April 1, 2012. This methodology was fully implemented in FY13.

Table V

FISCAL YEAR 2014, 2013 & 2012 OPERATING EXPENSES BEFORE DEPRECIATION AND AMORTIZATION						
	2014		2013		2012 ¹	
Finance & Administration	\$ 2,101,150	27.6%	\$ 1,954,130	27.0%	\$ 2,093,868	28.7%
Planning & Development	480,206	6.3%	478,933	6.6%	454,337	6.2%
Maintenance & Custodial Services	1,319,428	17.3%	1,306,119	18.1%	1,270,047	17.4%
Airport Operations	516,573	6.8%	461,023	6.4%	599,033	8.2%
Police Department	1,166,898	15.3%	1,124,937	15.6%	1,047,707	14.3%
Fire Department	1,921,509	25.2%	1,719,797	23.8%	1,832,109	25.1%
Board of Directors	115,245	1.5%	180,505	2.5%	5,334	0.1%
Total¹	\$ 7,621,009	100%	\$ 7,225,444	100%	\$ 7,302,435	100%

¹Special Item is excluded

Chart C



¹Special Item is excluded

MONTEREY PENINSULA AIRPORT DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2014 and 2013

Operating Expenses Before Depreciation and Amortization (continued)

Special Item

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

By eliminating all side accounts, the Airport reduced its FY13 employer retirement expense rate for miscellaneous employees from 11.566% to 10.238%, for public safety – police employees from 34.055% to 24.706% and for public safety – fire employees from 50.917% to 24.706%.

The Airport has classified this expense as a "Special Item", presented separately, to present the operating expenses for multiple fiscal years without distortion and to enhance comparability. Tables VI and VII present the financial data consistent with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) statements. Additional information may be found in the "Debt" section of this MD&A and in the notes to the financial statements.

MONTEREY PENINSULA AIRPORT DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended June 30, 2014 and 2013

Actual versus Budget – FY14 Revenues, Expenses and Change in Net Position

Table VI compares actual and budgeted operating revenues, operating expenses, and the change in net position for Fiscal Year 2014.

Table VI

Operating Revenues	Budget	Actual	Variance
Commercial Aviation - Fees	\$ 784,302	\$ 691,938	\$ (92,364)
General Aviation - Fees	252,365	270,288	17,923
Terminal Concessions and Leases	3,797,009	3,780,275	(16,734)
Heavy General Aviation	913,789	911,844	(1,945)
Light General & Other Aviation Tenants	480,273	450,589	(29,684)
Non-Aviation Tenants	1,459,295	1,524,922	65,627
Other Operating Revenue	284,508	307,855	23,347
Total Operating Revenue	\$ 7,971,541	\$ 7,937,711	\$ (33,830)
Operating Expenses	Budget	Actual	Variance
Finance & Administration	\$ 2,069,236	\$ 2,101,150	\$ (31,914)
Planning & Development	503,483	480,206	23,277
Maintenance & Custodial Services	1,358,913	1,319,428	39,485
Airport Operations	533,117	516,573	16,544
Police Department	1,166,371	1,166,898	(527)
Fire Department	1,869,636	1,921,509	(51,873)
Board of Directors	123,755	115,245	8,510
Total Operating Expenses	\$ 7,624,511	\$ 7,621,009	\$ 3,502
Operating Income / (Loss) before Depreciation	\$ 347,030	\$ 316,702	\$ (30,328)
Depreciation & Amortization Expense	\$ 5,445,672	\$ 5,453,461	\$ (7,789)
Net Operating Income / (Loss)	\$ (5,098,642)	\$ (5,136,759)	\$ (38,117)
Other Revenues (Expenses)	\$ 15,513,678	\$ 3,949,071	\$ (11,564,608)
Change in Net Position	\$ 10,415,036	\$ (1,187,689)	\$ (11,602,725)

Actual Financial Results – FY14, FY13 & FY12 Revenues, Expenses and Change in Net Position

Table VII compares actual operating revenues, operating expenses, and the change in net position for Fiscal Years 2014, 2013 and 2012.

MONTEREY PENINSULA AIRPORT DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended June 30, 2014 and 2013

**Actual Financial Results – FY14, FY13 & FY12 Revenues, Expenses and Change in Net Position
(continued)**

Table VII

	FY 2014	FY 2013	FY 2012
	Actual	Actual	Actual
Operating Revenues			
Commercial Aviation - Fees	\$ 691,938	\$ 692,553	\$ 592,628
General Aviation - Fees	270,288	242,956	263,770
Terminal Concessions and Leases	3,780,275	3,763,362	3,463,175
Heavy General Aviation	911,844	873,563	870,898
Light General & Other Aviation Tenants	450,589	457,396	416,926
Non-Aviation Tenants	1,524,922	1,447,303	1,407,517
Other Operating Revenue	307,855	268,410	286,516
Total Operating Revenue	\$ 7,937,711	\$ 7,745,543	\$ 7,301,430
Operating Expenses			
Finance & Administration	\$ 2,101,150	\$ 1,954,130	\$ 2,093,868
Planning & Development	480,206	478,933	454,337
Maintenance & Custodial Services	1,319,428	1,306,119	1,270,047
Airport Operations	516,573	461,023	599,033
Police Department	1,166,898	1,124,937	1,047,707
Fire Department	1,921,509	1,719,797	1,832,109
Board of Directors	115,245	180,505	5,334
Total Operating Expenses	\$ 7,621,009	\$ 7,225,444	\$ 7,302,435
Operating Income / (Loss) before Depreciation	\$ 316,702	\$ 520,099	\$ (1,005)
Depreciation & Amortization Expense	\$ 5,453,461	\$ 5,812,743	\$ 5,323,496
Net Operating Income / (Loss)	\$ (5,136,759)	\$ (5,292,644)	\$ (5,324,501)
Special Item - CalPERs Side Account Elimination			
Bond Issuance Expense	\$ -	\$ -	\$ 66,817
CalPERs Retirement Expense - Misc Plan	-	-	122,726
CalPERs Retirement Expense - Police Plan	-	-	456,062
CalPERs Retirement Expense - Fire Plan	-	-	2,431,395
Total Special Item	\$ -	\$ -	\$ 3,077,000
Other Revenues (Expenses)	\$ 3,949,071	\$ 1,663,486	\$ 2,989,928
Change in Net Position	\$ (1,187,689)	\$ (3,629,158)	\$ (5,411,573)

MONTEREY PENINSULA AIRPORT DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2014 and 2013

Capital and Debt Activity

Total District assets are \$49,515,151; total liabilities, \$5,715,014. The difference is \$43.8 million. The debt-to-equity ratio (0.10 times or 10%) is extremely favorable because the Airport's long term debt is small. The current ratio is 3.16. 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:

	2014	2013	2012
Tangible assets, net			
Land	\$ 1,784,717	\$ 1,784,717	\$ 1,784,717
Land improvements	16,393,815	18,642,091	21,093,290
Buildings	10,301,888	11,267,793	12,347,397
Furniture, equipment and vehicles	952,608	1,150,356	1,394,450
Construction in progress	8,740,340	4,511,463	2,219,097
Total	<u>38,173,368</u>	<u>37,356,420</u>	<u>38,838,951</u>
Intangible Assets	<u>4,864,214</u>	<u>6,403,268</u>	<u>8,120,821</u>
Total capital assets - net	<u>\$ 43,037,582</u>	<u>\$ 43,759,688</u>	<u>\$ 46,959,772</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.

Future Impacts

Fiscal Year 2014 was a year of contrast for the District. Airlines continue to reduce excess capacity, which results in fewer flights 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. By increasing rates, operating revenues were 2.5% higher than in FY13 and 8.7% higher than in FY12.

The Airport's commercial success is dependent on the local community's demand for commercial air service and the airlines' ability, capacity, and willingness to meet these needs. Fifty-six and one third percent (56.3%) of the Airport's operating revenues are collected from the airlines that pay user fees to the airport (8.7%) and from concessions that provide services to the passengers (47.6%). In FY14, concession revenue generated by rental car operations grew slightly while parking concession revenue dropped. Rental car concession revenue increased 2.0% and parking concession revenue decreased 1.6%.

MONTEREY PENINSULA AIRPORT DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Years Ended June 30, 2014 and 2013

Future Impacts (continued)

Enplanements in FY14 totaled 200,884 (Table I), a 3.8% decrease compared to the previous fiscal year (FY13). The decrease resulted from commercial air carrier schedule changes and the elimination of the daily non-stop service to Denver by United Express. 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. A Passenger Demand Analysis completed for the Airport in June 2011 revealed that the percentage of local passengers choosing to fly from MRY instead of Bay Area airports has increased from 27% in 2005 to 40% in 2011.

The District continues its dialogue with the airlines now serving the Airport to expand service. The District promotes the introduction of new service to cities in the Midwest, Northwest and Southern California. It offers incentives for new air service to the Pacific Northwest that include a \$500,000 grant from the U.S. Department of Transportation to fund an airline's start-up operating costs. The Airport and its community co-sponsor will fund \$214,000 in initial marketing and advertising expenses. The District has requested a one year extension of the grant through December 31, 2014.

General aviation (GA), which recorded disappointing numbers in FY13, rebounded in FY14. GA landing fees were 11.2% higher than FY13. Fuel flowage fees were 9.3% higher than FY13. However, light general aviation space and hangar rentals decreased 1.5% compared to FY13.

Non-aviation rents increased 5.4% in FY14 and continued a two-year upward trend.

Given the historical performance data and current economic indicators, the forecast for FY15 is for financial results very similar to FY14. Rates adopted for FY15 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 accounting for anyone interested in its finances. Questions concerning any of the information should be addressed to the attention of the General Manager, Monterey Peninsula Airport District, 200 Fred Kane Drive, Suite 200, Monterey, CA 93940.

MONTEREY PENINSULA AIRPORT DISTRICT

Statements of Net Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets:		
Unrestricted:		
Cash and cash equivalents (Note 2)	\$ 310,154	\$ 486,162
Investments (Note 2)	2,001,132	3,682,821
Accounts receivable, net	1,824,066	401,889
Note receivable, current portion	2,569	9,604
Interest receivable	6,595	14,234
Prepaid and other assets	86,709	76,680
Total unrestricted current assets	<u>4,231,225</u>	<u>4,671,390</u>
Restricted:		
Cash and cash equivalents (Note 2)	1,696,328	1,152,878
Investments (Note 2)	550,016	538,931
Total current assets	<u>6,477,569</u>	<u>6,363,199</u>
Noncurrent assets:		
Note receivable	-	2,568
Capital assets (Note 3)		
Nondepreciable	10,525,057	6,296,180
Depreciable	32,512,525	37,463,508
Total capital assets	<u>43,037,582</u>	<u>43,759,688</u>
Total noncurrent assets	<u>43,037,582</u>	<u>43,762,256</u>
Total assets	<u>49,515,151</u>	<u>50,125,455</u>
LIABILITIES		
Current liabilities:		
Accrued liabilities (Note 4)	1,656,746	699,006
Unearned revenues	16,135	54,925
Accrued compensated absences (Note 5)	84,881	146,357
Due to the City of Monterey (Notes 5 and 11)	19,966	-
Pension obligation bond payable, current portion (Note 5)	274,000	262,000
Funds held in trust (Note 6)	141	40,839
Total current liabilities	<u>2,051,869</u>	<u>1,203,127</u>
Noncurrent liabilities:		
Security deposits	322,710	320,401
Unearned revenues - rent received in advance from tenants	301,059	309,936
Accrued compensated absences, net of current portion (Note 5)	229,492	401,468
Due to the City of Monterey, net of current portion (Notes 5 and 11)	159,729	-
OPEB liability (Notes 5 and 9)	359,155	337,697
Pension obligation bonds payable, net of current portion (Note 5)	2,291,000	2,565,000
Total noncurrent liabilities	<u>3,663,145</u>	<u>3,934,502</u>
Total liabilities	<u>5,715,014</u>	<u>5,137,629</u>
NET POSITION		
Net investment in capital assets	41,656,195	43,214,547
Restricted (Note 6)	1,824,123	1,383,565
Unrestricted	319,819	389,714
Total net position	<u>\$ 43,800,137</u>	<u>\$ 44,987,826</u>

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

MONTEREY PENINSULA AIRPORT DISTRICT
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Commercial aviation	\$ 691,938	\$ 692,553
General aviation	270,288	242,956
Terminal leases and concessions	3,780,275	3,763,362
Heavy general aviation	911,844	873,563
Light general aviation and other aviation tenants	450,589	457,396
Non-aviation tenants	1,524,922	1,447,303
Other operating revenue	307,855	268,410
Total operating revenues	7,937,711	7,745,543
OPERATING EXPENSES		
Finance and administration	2,101,150	1,954,130
Planning and development	480,206	478,933
Maintenance and custodial services	1,319,428	1,306,119
Airport operations	516,573	461,023
Police department	1,166,898	1,124,937
Fire department	1,921,509	1,719,797
Board of Directors	115,245	180,505
Depreciation and amortization	5,453,461	5,812,743
Total operating expenses	13,074,470	13,038,187
Operating loss	(5,136,759)	(5,292,644)
NONOPERATING REVENUES AND (EXPENSES)		
Passenger Facility Charges	771,372	816,019
Investment income	28,594	65,036
Interest expense	(121,508)	(133,788)
Total nonoperating revenues (expenses)	678,458	747,267
CAPITAL CONTRIBUTIONS		
Grants from government agencies	3,270,612	916,219
Change in net position	(1,187,689)	(3,629,158)
Net position, beginning of year	44,987,826	48,616,984
Net position, end of year	\$ 43,800,137	\$ 44,987,826

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

MONTEREY PENINSULA AIRPORT DISTRICT

Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 7,972,551	\$ 7,398,376
Other receipts	-	277,358
Payments to vendors	(3,514,814)	(3,414,708)
Payments to employees	(4,681,388)	(3,378,192)
Net cash provided by (used in) operating activities	<u>(223,651)</u>	<u>882,834</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from grants and PFC charges	2,508,514	1,732,238
Acquisition of capital assets	(3,240,750)	(2,612,658)
Interest paid on long-term debt	(121,508)	(133,788)
Principal payments on long-term debt	(262,000)	(250,000)
Net cash provided by (used in) capital and related financing activities	<u>(1,115,744)</u>	<u>(1,264,208)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	36,233	69,265
Investments matured	1,670,604	507,901
Net cash provided by investing activities	<u>1,706,837</u>	<u>577,166</u>
Net change in cash and cash equivalents	367,442	195,792
Cash and cash equivalents, beginning of year	1,639,040	1,443,248
Cash and cash equivalents, end of year	<u>\$ 2,006,482</u>	<u>\$ 1,639,040</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (5,136,759)	\$ (5,292,644)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,453,461	5,812,743
(Increase) decrease in:		
Accounts receivable	111,293	(28,701)
Note receivable	9,603	8,948
Prepaid and other current assets	(10,029)	(12,489)
Increase (decrease) in:		
Accrued liabilities	(532,865)	412,780
Unearned revenues	(47,667)	(55,473)
Accrued compensated absences	(33,785)	5,653
Due to the City of Monterey	(19,972)	-
Funds held in trust	(40,698)	120
Security deposits	2,309	5,416
OPEB liability	21,458	26,481
Net cash provided by (used in) operating activities	<u>\$ (223,651)</u>	<u>\$ 882,834</u>

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

MONTEREY PENINSULA AIRPORT DISTRICT

Statements of Cash Flows (Continued)

For the Years Ended June 30, 2014 and 2013

Non-cash capital and related financing activities:

Acquisition of capital assets in accrued liabilities	\$ 1,490,605	\$ -
Grants - capital contributions	1,533,470	-

STATEMENT OF FINANCIAL POSITION

CLASSIFICATION OF CASH AND CASH EQUIVALENTS:

Unrestricted	\$ 310,154	\$ 486,162
Restricted	<u>1,696,328</u>	<u>1,152,878</u>
Total cash and cash equivalents	<u>\$ 2,006,482</u>	<u>\$ 1,639,040</u>

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

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements

For the Years Ended June 30, 2014 and 2013

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 transportation charges. Operating expenses of the District include personnel costs, administrative expenses and depreciation 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 market value in the accompanying financial statements and the corresponding change in fair market 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, 2014 and 2013 was \$10,000.

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Prepaid Expenses

Prepaid amounts have been allocated to expense prorated in the periods in which the benefit was 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 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 health and welfare, pension, vacation, training and annuity for members of the trade unions (carpenters, electricians, floor layers, glaziers, laborers, painters and plumbers) are determined by the respective agreement between the District and the respective employees’ labor contract.

(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 for accumulated sick leave is charged to a maximum of one month’s salary. Accordingly, compensation for vacation and sick leave is charged to expense as earned by the employee, and accumulated, unpaid vacation and sick leave, which is payable upon an employee’s termination or retirement, is recorded as a liability.

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) *Unearned Revenue*

Unearned revenue represents amounts collected before year-end which were not earned as of year-end.

(k) *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.

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

(l) *Passenger Facility Charge*

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act, which authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. In May 1991, the Federal Aviation Administration (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 Years Ended June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) 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 an offset to operating expenses. For the years ended June 30, 2014 and 2013, the District requested and received \$116,800 and \$112,631, respectively, as reimbursement of certain police department costs. Grants for capital asset acquisition, facility development and rehabilitation are reported as capital contributions, after nonoperating revenues and expenses.

(n) Use of Estimates

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities 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.

(o) Reclassification

Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

(p) New Accounting Standards Adopted

During the years ended June 30, 2014 and 2013, the District adopted the following GASB Statements:

- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: This statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.
- In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This statement also amends certain provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statements No. 4, *Elements of Financial Statements*. It also provides other financial reporting guidance related to the impact of the financial statements elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

The implementation of these statements did not have a significant impact on the District for the years ended June 30, 2014 and 2013.

(g) *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 June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement establishes accounting and financial reporting requirements for pension plans that are administered through trusts. Statement No. 68 requires governments participating in the single and agent multiple employer defined benefit plans to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no later than the end of the employer's prior year (the measurement date), consistently applied from period to period. The pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that are required to be recognized by an employer primarily result from changes in the components of the net pension liability—that is, changes in the total pension liability and in the pension plan's fiduciary net position. It requires that most changes in the net pension liability be included in pension expense in the period of the change. The effects of certain other changes in the net pension liability are required to be included in pension expense over the current and future periods. It also requires that notes to financial statements of single and agent employers include descriptive information, such as the types of benefits provided and the number and classes of employees covered by the benefit terms, sources of changes in the net pension liability for current year, significant assumptions and other inputs used in the valuations and the valuation date. The statement also requires the government to present required supplementary information for each of the ten most recent years. The requirements of this statement are effective for the District's year ending June 30, 2015.
- In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement 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

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Application of this statement is effective for the District's year ending June 30, 2015.

- In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement is intended to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement also requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities and requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. Application of this statement is effective for the District's year ending June 30, 2015.
- In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This statement is intended to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this statement are effective for the District's fiscal year ending June 30, 2015.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2014 and 2013 comprised of the following:

	<u>2014</u>	<u>2013</u>
Unrestricted:		
Deposits with banks	\$ 310,154	\$ 486,162
Investments	<u>2,001,132</u>	<u>3,682,821</u>
Total unrestricted	<u>2,311,286</u>	<u>4,168,983</u>
Restricted:		
Deposits with banks	1,696,328	1,152,878
Investments	<u>550,016</u>	<u>538,931</u>
Total restricted	<u>2,246,344</u>	<u>1,691,809</u>
Total cash and investments	<u>\$ 4,557,630</u>	<u>\$ 5,860,792</u>

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

(a) Custodial Credit Risk – Deposits

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.

(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, which must be in financial institutions located in California and may not exceed \$100,000 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 and Fully Collateralized Certificates of Deposit**	5 Year	None	\$100,000 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.

** More restrictive than the California Government Code.

(c) Investments

The following is a summary of the District’s unrestricted and restricted investments at June 30, 2014:

	Fair Value	(Maturities in Years)		Credit Ratings (Standard & Poor’s)
		Less than 1	1 - 5	
Negotiable certificates of deposit	\$ 2,465,687	\$ 1,052,564	\$ 1,413,123	Not rated
Local Agency Investment Fund	85,461	85,461	-	Not rated
Total investments	<u>\$ 2,551,148</u>	<u>\$ 1,138,025</u>	<u>\$ 1,413,123</u>	

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 2 – CASH AND INVESTMENTS (Continued)

(c) Investments (continued)

The following is a summary of the District’s unrestricted and restricted investments at June 30, 2013:

	Fair Value	Maturities in Years		Credit Ratings (Standard & Poor’s)
		Less than 1	1 - 5	
Negotiable certificates of deposit	\$ 4,136,501	\$ 926,153	\$ 3,210,348	Not rated
Local Agency Investment Fund	85,251	85,251	-	Not rated
Total investments	<u>\$ 4,221,752</u>	<u>\$ 1,011,404</u>	<u>\$ 3,210,348</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). The investments in LAIF are not rated by rating agencies.

The weighted average maturity of LAIF at June 30, 2014 and 2013 was 232 and 278 days, respectively. The total amount recorded by all public agencies in PMIA at June 30, 2014 and 2013 was approximately \$64.8 billion and \$58.8 billion, respectively. Of that amount at June 30, 2014, 98.14% was invested in non-derivative financial products and 1.86% in structured notes and asset backed securities. Of that amount at June 30, 2013, 98.04% was invested in non-derivative financial products and 1.96% in structured notes and asset backed securities.

(d) Restricted Cash and Investments

At June 30, 2014 and 2013, cash and investments were restricted for the following:

	June 30, 2014			June 30, 2013		
	Cash in Bank	Investment	Total	Cash in Bank	Investment	Total
Quick turn around facility	\$ -	\$ -	\$ -	\$ 40,839	\$ -	\$ 40,839
Security deposits from tenants	309,925	-	309,925	305,193	-	305,193
Passenger facility charge program	1,383,347	549,996	1,933,343	801,005	538,931	1,339,936
Emergency medical supplies	-	-	-	2,789	-	2,789
Debt service	3,076	-	3,076	3,052	-	3,052
Total restricted cash and investments	<u>\$ 1,696,348</u>	<u>\$ 549,996</u>	<u>\$ 2,246,344</u>	<u>\$ 1,152,878</u>	<u>\$ 538,931</u>	<u>\$ 1,691,809</u>

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2014
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,784,717	\$ -	\$ -	\$ 1,784,717
Construction in progress	<u>4,511,463</u>	<u>4,731,355</u>	<u>(502,478)</u>	<u>8,740,340</u>
Total capital assets, not being depreciated	<u>6,296,180</u>	<u>4,731,355</u>	<u>(502,478)</u>	<u>10,525,057</u>
<i>Capital assets, being depreciated/amortized:</i>				
Intangible assets	21,909,735	-	-	21,909,735
Land improvements	34,104,822	202,305	-	34,307,127
Buildings and improvements	20,993,995	219,859	-	21,213,854
Furniture, equipment and vehicles	<u>3,608,725</u>	<u>80,314</u>	<u>(30,883)</u>	<u>3,658,156</u>
Total capital assets, being depreciated	<u>80,617,277</u>	<u>502,478</u>	<u>(30,883)</u>	<u>81,088,872</u>
<i>Less accumulated depreciation/amortization</i>				
Intangible assets	(15,506,467)	(1,539,054)	-	(17,045,521)
Land improvements	(15,462,731)	(2,450,581)	-	(17,913,312)
Buildings and improvements	(9,726,202)	(1,185,764)	-	(10,911,966)
Furniture, equipment and vehicles	<u>(2,458,369)</u>	<u>(278,062)</u>	<u>30,883</u>	<u>(2,705,548)</u>
Less accumulated depreciation	<u>(43,153,769)</u>	<u>(5,453,461)</u>	<u>30,883</u>	<u>(48,576,347)</u>
Total capital assets, being depreciated, net	<u>37,463,508</u>	<u>(4,950,983)</u>	<u>-</u>	<u>32,512,525</u>
Total capital assets, net	<u>\$ 43,759,688</u>	<u>\$ (219,628)</u>	<u>\$ (502,478)</u>	<u>\$ 43,037,582</u>

Construction in progress activity for the year ended June 30, 2014 was as follows:

Projects	Balance July 1, 2013	Additions	Completed Transferred to Depreciable	Balance June 30, 2014
2012-01 RSA - Construction	\$ 4,410,164	\$ 3,900,067	\$ -	\$ 8,310,231
2013-02 Airport Master Plan	86,044	344,065	-	430,109
2013-03 ARFP Apron Expansion Joints	10,715	65,798	(76,513)	-
2013-07 Shurry Seal - Skypark Drive	4,540	121,252	(125,792)	-
2014-02 Police Replacement Vehicle - Utility AWD	-	40,117	(40,117)	-
2014-03 Police Replacement Vehicle - Utility AWD	-	40,198	(40,198)	-
2014-04 Tarp's Roof and Structure	-	176,603	(176,603)	-
2014-05 ARFF Station Alarm/ Alerting System	<u>-</u>	<u>43,255</u>	<u>(43,255)</u>	<u>-</u>
Total	<u>\$ 4,511,463</u>	<u>\$ 4,731,355</u>	<u>\$ (502,478)</u>	<u>\$ 8,740,340</u>

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 3 – CAPITAL ASSETS (Continued)

Capital assets activity for the year ended June 30, 2013 was as follows:

	Balance July 1, 2012	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2013
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,784,717	\$ -	\$ -	\$ 1,784,717
Construction in progress	2,219,097	2,608,834	(316,468)	4,511,463
Total capital assets, not being depreciated	<u>4,003,814</u>	<u>2,608,834</u>	<u>(316,468)</u>	<u>6,296,180</u>
<i>Capital assets, being depreciated/amortized:</i>				
Intangible assets	21,767,629	142,106	-	21,909,735
Land improvements	34,104,822	-	-	34,104,822
Buildings and improvements	20,855,345	138,650	-	20,993,995
Furniture, equipment and vehicles	3,569,189	39,536	-	3,608,725
Total capital assets, being depreciated	<u>80,296,985</u>	<u>320,292</u>	<u>-</u>	<u>80,617,277</u>
<i>Less accumulated depreciation/amortization</i>				
Intangible assets	(13,646,808)	(1,859,659)	-	(15,506,467)
Land improvements	(13,011,532)	(2,451,199)	-	(15,462,731)
Buildings and improvements	(8,507,948)	(1,218,254)	-	(9,726,202)
Furniture, equipment and vehicles	(2,174,739)	(283,630)	-	(2,458,369)
Less accumulated depreciation/amortized	<u>(37,341,027)</u>	<u>(5,812,742)</u>	<u>-</u>	<u>(43,153,769)</u>
Total capital assets, being depreciated, net	<u>42,955,958</u>	<u>(5,492,450)</u>	<u>-</u>	<u>37,463,508</u>
Total capital assets, net	<u>\$ 46,959,772</u>	<u>\$ (2,883,616)</u>	<u>\$ (316,468)</u>	<u>\$ 43,759,688</u>

Construction in progress activity for the year ended June 30, 2013 was as follows:

Projects	Balance July 1, 2012	Additions	Completed Transferred to Depreciable	Balance June 30, 2013
2010-01 Wildlife Hazard Assessment/ Mitigation	\$ 126,041	\$ 16,065	\$ (142,106)	\$ -
2012-01 RSA - Construction	2,075,221	2,334,943	-	4,410,164
2012-02 Terminal Improvements and Entryway	17,835	94,433	(112,268)	-
2013-02 Airport Master Plan	-	86,044	-	86,044
2013-03 ARFP Apron Expansion Joints	-	10,715	-	10,715
2013-04 AGA Perimeter Fence Security	-	10,691	(10,691)	-
2013-06 Observation Deck - Roof Expansion Joint	-	26,382	(26,382)	-
2013-07 Shurry Seal - Skypark Drive	-	4,540	-	4,540
2013-08 Exhibit Case Art in Airport	-	25,021	(25,021)	-
Total	<u>\$ 2,219,097</u>	<u>\$ 2,608,834</u>	<u>\$ (316,468)</u>	<u>\$ 4,511,463</u>

At June 30, 2014 and 2013, intangible assets consist of the following:

	2014	2013
Noise safety study and sound proofing	\$ 21,549,356	\$ 21,549,356
Master plan	208,440	208,440
Wildlife hazard assessment plan	9,833	9,833
Logo	142,106	142,106
Total intangible assets, gross	21,909,735	21,909,735
Less accumulated amortization	<u>(17,045,521)</u>	<u>(15,506,467)</u>
Total intangible assets, net	<u>\$ 4,864,214</u>	<u>\$ 6,403,268</u>

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 4 – ACCRUED LIABILITIES

At June 30, 2014 and 2013, accrued liabilities consist of the following:

	<u>2014</u>	<u>2013</u>
Accrued settlement (see Note 11)	\$ -	\$ 545,138
Accrued employee benefits	44,684	70,679
Other accrued expenses	<u>1,612,062</u>	<u>83,189</u>
Total accrued liabilities	<u>\$ 1,656,746</u>	<u>\$ 699,006</u>

NOTE 5 – LONG-TERM OBLIGATIONS

A summary of the changes in long-term obligations for the year ended June 30, 2014 is as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Due in One Year</u>
Accrued compensated absences	\$ 552,825	\$ 60,292	\$ (298,744)	\$ 314,373	\$ 84,881
Due to the City of Monterey (Note 11)	-	199,661	(19,966)	179,695	19,966
Other postemployment benefits liability	337,697	21,458	-	359,155	-
Pension obligation bonds	<u>2,827,000</u>	<u>-</u>	<u>(262,000)</u>	<u>2,565,000</u>	<u>274,000</u>
Total	<u>\$ 3,717,522</u>	<u>\$ 281,411</u>	<u>\$ (580,710)</u>	<u>\$ 3,418,223</u>	<u>\$ 378,847</u>

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

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>	<u>Due in One Year</u>
Accrued compensated absences	\$ 547,172	\$ 5,653	\$ -	\$ 552,825	\$ 146,357
Other postemployment benefits liability	311,216	26,481	-	337,697	-
Pension obligation bonds	<u>3,077,000</u>	<u>-</u>	<u>(250,000)</u>	<u>2,827,000</u>	<u>262,000</u>
Total	<u>\$ 3,935,388</u>	<u>\$ 32,134</u>	<u>\$ (250,000)</u>	<u>\$ 3,717,522</u>	<u>\$ 408,357</u>

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 6 months as set forth in the “Indenture of Trust.” The refinancing was reported as a special item within the statements of revenues, expenses and changes in net position. This obligation was incurred to retire a previously unrecorded liability between the District’s funded statuses of the CalPERS plan versus the funded status of the entire risk pool.

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 5 – LONG-TERM OBLIGATIONS (Continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2015	\$ 274,000	\$ 109,868	\$ 383,868
2016	286,000	97,658	383,658
2017	299,000	84,920	383,920
2018	312,000	71,632	383,632
2019	326,000	57,750	383,750
2020 - 2022	<u>1,068,000</u>	<u>83,556</u>	<u>1,151,556</u>
Total	<u>\$ 2,565,000</u>	<u>\$ 505,384</u>	<u>\$ 3,070,384</u>

NOTE 6 – RESTRICTED NET POSITION

At June 30, 2014 and 2013, restricted net position consists of the following:

	<u>2014</u>	<u>2013</u>
Unspent passenger facility charges	\$ 1,824,123	\$ 1,339,937
Funds held in trust	-	40,839
Emergency medical supplies	<u>-</u>	<u>2,789</u>
Total restricted net position	<u>\$ 1,824,123</u>	<u>\$ 1,383,565</u>

Funds held in trust represents monies collected by various rental car companies and placed in the custody of the District. These monies were collected as a customer facility charge (CFC) in the amount of \$10 per rental car contract. The funds were used to construct a quick-turn-around (QTA) facility on land leased to the rental car companies.

Construction costs outpaced CFC collections and the District advanced the project funds. Collections continued until the District was repaid the advance. The collection of customer facility charges was terminated on January 15, 2012. The funds held in by the District on June 30, 2013, are residual collections after building a \$3.8 million facility. The residual funds held in trust were used to pay for final costs of the facility and any remaining amount will be remitted to the rental car companies. This trust was closed during fiscal year 2014.

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 7 – OPERATING LEASES

A significant portion of the District’s revenue comes from operating leases of which the District is the lessor. The District leases parts of the terminal building, parking areas, north side buildings, land, hangars and ramps to various businesses and individuals. The cost of property held for leasing is not readily determinable

Future minimum rentals on noncancelable leases as of June 30, 2014 are as follows:

2015	\$ 2,147,544
2016	2,190,493
2017	2,234,305
2018	2,210,111
2019	2,254,315
2020 - 2024	10,429,860
2025 - 2029	10,718,827
2030 - 2034	11,803,576
2035 - 2039	12,908,947
2040 - 2044	13,734,748
2045 - 2049	7,182,728
2050 - 2054	<u>545,269</u>
Total	<u>\$ 78,360,723</u>

NOTE 8 – 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. 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.

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.

Funding Policy - Participants are required to contribute salary percentage of their annual covered salary at a rate of 9% for safety fire personnel, 9% for safety police personnel and 7% for miscellaneous personnel. The District is required to contribute at an actuarial determined rate of recommended by CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. From July 1, 2012 through December 31, 2012, the employer contribution rates were 24.7% for safety fire personnel, 24.7% for safety police personnel and 10.24% for the miscellaneous personnel. From January 1, 2013 through June 30, 2013, the employer contribution rates were 11.5% for safety fire personnel, 11.5% for safety police personnel and 6.25% for the miscellaneous personnel. From July 1, 2013 through June 30, 2014, the employer contribution rates were 26.1% for safety fire personnel, 26.1% for safety police personnel and 10.8% for the miscellaneous personnel. The District’s contributions to CalPERS for the years ended June 30, 2014, 2013, and 2012 were \$466,835, \$556,457, and \$851,950, respectively, which equal to the required contributions for each year.

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 8 – PENSION PLAN (continued)

Actuarial Assumptions and Methods

For each plan, CalPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the District’s total normal benefit cost for each employee from the date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the District must pay annually to fund an employee’s projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The District uses the actuarially determined percentages of payroll to calculate and pay contributions to CalPERS. This results in no net pension obligations or unpaid contributions. Actuarial Assumptions for each plan are as follows:

	<u>Fire</u>	<u>Police</u>	<u>Miscellaneous</u>
Valuation Date	June 30, 2011	June 30, 2011	June 30, 2011
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Average remaining period	Closed; 21 years as of the valuation date	Closed; 21 years as of the valuation date	Closed; 20 years as of the valuation date
Asset valuation method	15 year smoothed market	15 year smoothed market	15 year smoothed market
Investment rate of return	7.50% (net of administrative expenses)	7.50% (net of administrative expenses)	7.50% (net of administrative expenses)
Projected salary increases	3.30% to 14.20% depending on age, service and type of employment	3.30% to 14.20% depending on age, service and type of employment	3.30% to 14.20% depending on age, service and type of employment
Inflation	2.75%	2.75%	2.75%
Payroll growth	3.00%	3.00%	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

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

Funding Policy – The District’s contribution for each miscellaneous and public safety fire retiree is the CalPERS mandatory employer portion of the health care premium. The District’s contribution for each public safety police retiree is up to 90% of the health care premium (including the mandatory employer portion). The District currently contributes enough funds to the Retiree Health Plan to satisfy current obligations on a pay-as-you-go basis. The District does not have any assets segregated and restricted to provide funds towards the Retiree Health Plan. The contributions made to fund the Retiree Health Plan for the years ended June 30, 2014 and 2013 was \$22,644 and \$18,770, respectively.

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 26 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, 2014 and the related information for the Retiree Health Plan based on an actuarial valuation dated July 1, 2011 are as follows:

	<u>Police</u>	<u>Fire</u>	<u>Miscellaneous</u>	<u>Total</u>
Annual required contribution	\$ 15,963	\$ 9,298	\$ 22,477	\$ 47,738
Interest on net OPEB obligation	1,271	534	2,258	4,063
Adjustment to the annual required contribution	(2,480)	(1,024)	(4,195)	(7,699)
Annual OPEB cost (expense)	<u>14,754</u>	<u>8,808</u>	<u>20,540</u>	<u>44,102</u>
Contributions made	<u>(11,707)</u>	<u>(7,020)</u>	<u>(3,917)</u>	<u>(22,644)</u>
Change in net OPEB obligation	3,047	1,788	16,623	21,458
Net OPEB obligation, beginning of year	102,099	46,581	189,017	337,697
Net OPEB obligation, end of year	<u>\$ 105,146</u>	<u>\$ 48,369</u>	<u>\$ 205,640</u>	<u>\$ 359,155</u>

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>
6/30/2014	\$ 44,102	51.3%	\$ 359,155
6/30/2013	44,529	40.5%	337,697
6/30/2012	45,165	25.8%	311,216

Funded Status and Funding Progress - The table below indicates the funded status of the Retiree Health Plan as of July 1, 2011, the date of the most recent actuarial valuation.

Actuarial accrued liability (AAL)	\$ 542,029
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 542,029</u>
Funded ratio (actuarial value of plan assets)/AAL	0.0%
Approximate annual covered payroll (active plan members)	\$ 3,772,911
UAAL as a percentage of annual covered payroll	14.4%

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

- *Actuarial valuation date* – the actuarial valuation date was as of July 1, 2011.
- *Actuarial cost method* – the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2014, was twenty-six years.
- *Percentage of retirees electing coverage* – Historically, only about 28% of the District’s total retirees elect medical coverage. This is factored into our calculations to arrive at the Annual Required Contributions and the Actuarial Accrued Liability.
- *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. 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.

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

- *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* – 2013 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid.
- *Medicare coordination* – Medicare was assumed as the primary payer for current and future retirees at age 65.

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

- Currently the District contributes \$112.00 per month towards the medical premium for eligible Police retirees who have less than 10 years of service. For Police retirees who have more than 10 years of service, the District contributes 3% of the "retiree only" premium for every year of service, not to exceed 90% of the premium. The District does not contribute toward the retiree's spouse or dependent(s) medical premium.
- Currently the District contributes \$112.00 per month toward eligible Fire and Miscellaneous retirees medical premium.

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

- Current retirees drawing benefits, plus potential retirees (assuming a retirement age of 60 and 28% of retirees electing coverage under the 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 10 – 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 exceeded the District's insurance coverage in any of the past three years.

The District purchased coverage through an insurance broker, Aon Insurance Services West, for property and commercial liabilities and losses incurred above its deductible limits. Different insurance carries 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 Years Ended June 30, 2014 and 2013

NOTE 10 – RISK MANAGEMENT (Continued)

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

The District’s deductibles and maximum coverage follows:

<u>Coverage</u>	<u>Deductible</u>	<u>Coverage (aggregate)</u>
Buildings & Business Personal Property		
Except Tools &		
Maintenance Equipment	\$ 10,000	\$ 35,055,391
Tools & Maintenance	1,000	
Equipment		
Boiler & Machinery	10,000	27,494,242
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	1,000,000	5,000,000
Fiduciary Liability	5,000	1,000,000
Crime	5,000	500,000

MONTEREY PENINSULA AIRPORT DISTRICT

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 10 – RISK MANAGEMENT (Continued)

Workers' Compensation Liability

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 11 – COMMITMENTS AND CONTINGENCIES

Legal – To meet congressional and FAA mandates, the District began the construction of runway safety improvements near Highway 68. The Highway 68 Coalition filed a petition for writ of mandate alleging CEQA violations along with a motion for preliminary injunction and request for a temporary restraining order to halt and prevent the construction activities. Multiple motions were filed by both parties resulting in the writ of mandate being issued. The court held that the District had violated CEQA and ordered the certificate of the EIR to be set aside. After a lengthy litigation process a settlement agreement was reached on August 14, 2013. The settlement requires the District to modify the runway safety improvements plan along with paying the Highway 68 Coalition's legal fees totaling \$989,992. At June 30, 2014 and 2013, the amount reported in accrued expenses owed in legal fees was \$0 and \$545,138, respectively.

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

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

Fire Services – On October 31, 2013, the District and the City of Monterey (City) entered into an agreement to share resources to provide fire and emergency services to the area of Monterey along the Highway 68 corridor. The City agreed to assume the difference between the actual cost of providing fire and emergency services which amount will fluctuate over the term of the agreement and the Fire Service Fee charged by the City to the District. The initial term of the agreement is from January 1, 2014 through July 1, 2019 with an automatic extension for additional five year terms. The District will provide access to the City 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 \$179,695 remains outstanding at June 30, 2014. 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

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

NOTE 12 – SUBSEQUENT EVENTS

Actuarial Valuation – The District obtained an updated actuarial report on the Retiree Health Plan with a actuarial valuation date of July 1, 2014. As of June 30, 2014, the District’s actuary estimated its unfunded OPEB liability to be \$797,740.

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.

MONTEREY PENINSULA AIRPORT DISTRICT

Required Supplementary Information (Unaudited)

For the Years Ended June 30, 2014 and 2013

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)]
7/1/2011	\$ -	\$ 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 two actuarial valuation reports was primarily due to refinements in actuarial assumptions used by the District.

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**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, 2014, 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 13, 2014.

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 13, 2014

**Independent Auditor's Report on Compliance For
Each Major Federal Program and 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 each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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



Walnut Creek, California
November 13, 2014

MONTEREY PENINSULA AIRPORT DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2014

	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
U.S. Department of Transportation Federal Aviation Administration Airport Improvement Program	20.106	Various	<u>\$ 3,270,612</u>
Total expenditures of federal awards			<u><u>\$ 3,270,612</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, 2014

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 information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Expenditures of other federal awards are reported in the District's basic financial statements as expenses for non-capital expenditures and as additions to capital assets for capital-related expenditures.

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, 2014

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 deficienc(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 deficienc(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:	\$300,000
Auditee qualified as a low-risk auditee?	Yes

Section II – Financial Statement Findings

None

Section III – Federal Award Findings

None

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MONTEREY PENINSULA AIRPORT DISTRICT

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2014

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, 2014.

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, 2014.

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 13, 2014

MONTEREY PENINSULA AIRPORT DISTRICT
Schedule of Passenger Facility Charge Revenues and Expenditures
For the Years Ended June 30, 2014 and 2013

	Passenger Facility Charge Revenue	Interest Earned	Total Revenues	Expenditures on approved projects	Over (under) expenditures on approved projects
Balance to date as of June 30, 2012	\$ 12,712,324	\$ 258,621	\$ 12,970,945	\$ 11,844,818	\$ 1,126,127
Fiscal year 2012-2013 transactions:					
Quarter ended September 30, 2012	214,718	1,587	216,305	99,136	117,169
Quarter ended December 31, 2012	179,974	1,587	181,561	217,186	(35,625)
Quarter ended March 31, 2013	213,315	1,555	214,870	159,084	55,786
Quarter ended June 30, 2013	208,011	1,581	209,592	123,419	86,173
Total fiscal year 2012-2013 transactions	816,018	6,310	822,328	598,825	223,503
Balance to date as of June 30, 2013	13,528,342	264,931	13,793,273	12,443,643	1,349,630
Fiscal year 2013-2014 transactions:					
Quarter ended September 30, 2013	210,296	1,896	212,192	84,972	127,220
Quarter ended December 31, 2013	166,774	2,416	169,190	8,128	161,062
Quarter ended March 31, 2014	208,721	2,397	211,118	102,535	108,583
Quarter ended June 30, 2014	185,581	2,277	187,858	110,230	77,628
Total fiscal year 2013-2014 transactions	771,372	8,986	780,358	305,865	474,493
Balance to date as of June 30, 2014	\$ 14,299,714	\$ 273,917	\$ 14,573,631	\$ 12,749,508	\$ 1,824,123

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 Years Ended June 30, 2014 and 2013

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.

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