



MONTEREY PENINSULA AIRPORT DISTRICT

FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

ANNUAL FINANCIAL AND
COMPLIANCE REPORT

Focused
on YOU



MONTEREY PENINSULA AIRPORT DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

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**MONTEREY PENINSULA
AIRPORT DISTRICT**

**Board of Directors
at June 30, 2020**

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Mary Ann Leffel	Chair	December 2020
Gary Cursio	Vice-Chair	December 2022
Carl M. Miller	Director	December 2022
William J. Sabo	Chair	December 2020
Lisa Anne Sawhney	Director	December 2020

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INDEPENDENT AUDITORS' 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 as of and for the year ended June 30, 2020 and 2019, 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 opinions on these financial statements based on our audit. We conducted our audit 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. 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 opinions.



Board of Directors
Monterey Peninsula Airport District
Monterey, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Monterey Peninsula Airport District as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the District's proportionate share of the net pension liability – miscellaneous & safety risk pools, the schedule of Plan contributions – miscellaneous & safety risk pools, and the schedule of changes in the total OPEB liability and related ratios, 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 opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The schedule of passenger facility charge revenues and expenditures is presented for purposes of additional analysis as required by the Federal Aviation Administration and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the schedule of passenger facility charge revenues and expenditures are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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.



Board of Directors
Monterey Peninsula Airport District
Monterey, California

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Lance, Soll & Lughard, LLP

Sacramento, California
December 9, 2020

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MONTEREY PENINSULA AIRPORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019

The Management Discussion and Analysis (MD&A) is provided by the Monterey Peninsula Airport District (District) in compliance with requirements established by the Governmental Accounting Standards Board, Statement (GASB) No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34). It is intended to serve as an introduction to the financial statements for the years ended June 30, 2020 (FY20) and 2019 (FY19). The information presented is to be read in conjunction with the financial statements, footnotes and supplementary information found in this report.

Mission Statement

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

Overview of the Monterey Peninsula Airport District

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

The Monterey Regional Airport (Airport), 507 acres, has two parallel, east-west runways. The primary runway, 10R/28L, is 7,175 feet long and 150 feet wide. It is used by commercial and business aircraft and is equipped for instrument landings with a Category I instrument landing system on runway 10R. The secondary runway, 10L/28R, is 3,500 feet long and 65 feet wide, used solely by general aviation aircraft.

During FY20 and FY19, four commercial airlines served the airport with scheduled flights. Alaska, American Airlines, and United Express provided non-stop service to six gateway hubs: Dallas, 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 the airline tickets; (2) Passenger Facility Charges (PFC) collected for each enplaned passenger at the point of origin and one intermediate-stop; and (3) District contributed funds. Capital assets are capitalized and depreciated, except land and construction in progress, over their useful lives. Please refer to the notes to the basic financial statements for a summary of the District's significant accounting policies.

MONTEREY PENINSULA AIRPORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019

Overview of Fiscal Year 2020 Events

COVID-19 National Health Emergency

On March 15, 2020, the District's operations were impacted by the COVID-19 national health emergency which resulted in shelter in place orders by national, state and county health departments. The District implemented customer, tenant and staff safety procedures based on recommendations from the health departments and industry specialists. Terminal cleaning and disinfecting protocols were implemented, separation markers for social distancing were placed in the terminal and staff worked split schedules to reduce contact in all departments.

The District's commercial and general aviation services decreased significantly, local transportation and parking services concessions followed the decrease in aviation services and terminal food concessions were instructed by the county health department to discontinue services. Initially air carrier enplanements decreased by approximately 97%, general aviation services decreased 90% and concessions followed with similar changes in business.

Over the following months various changes in the commercial and general aviation services began to emerge. New operating and safety procedures were recommended by health departments and industry specialists, and aviation activities slowly started to improve, and appear to be returning at or near industry wide levels. By June 30, 2020 commercial airlines were operating 5 or 6 daily flights, general aviation was operating at approximately 50% of prior year levels and concessions implemented safety procedures to allow for partial services.

The financial impact on the District was significant and cost controls and staff reductions were implemented.

Coronavirus Aid, Relief, and Economic Security (CARES) Act

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress and signed into law by the President on March 27th, 2020. Included in the CARES Act was 10 billion dollars in aid for airports. On April 23, 2020 District staff submitted an application for a CARES Act grant with an award of \$12,664,024. The grant could be used by the District over 4 years from the date of acceptance.

On May 14, 2020, the District received the CARES Act grant award. The grant allowed the District to submit reimbursement for expenses back to February 20, 2020. In May the District began to submit expense reimbursement requests, which resulted in CARES Act draws totaling \$1,279,673 in FY 20.

Overview of District Financial Statements

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

The *Statements of Net Position* present information on the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between these balances presented as *Net Position*. The District implements changes adopted by Governmental Accounting Standards Board, which may require restatement of prior years' reported net position. The following financial information includes GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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

MONTEREY PENINSULA AIRPORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019

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

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

Financial Highlights

- ➔ The assets and deferred outflows of resources of the District exceed liabilities and deferred inflows of resources by \$69,054,931 and \$63,708,008 on June 30, 2020 and 2019, respectively.
- ➔ In FY20, the District acquired and placed into service the capital assets listed below:
 - Published FAA Disparity Study (\$24,363)
 - 10R-28L Charted Visual Approach Procedure Development (\$24,641)
 - Runway 10L-28R Overlay & PAPI installation (\$1,858,594)
 - RSA Project Mitigation - Years 4 and 5 (\$124,897)
 - Golden Tee Assets Purchase (\$114,479)
 - 2801 Monterey Salinas Highway Land Acquisition (\$7,545,960)
 - ARFF Building Exhaust System Upgrade (\$20,497)
 - Operations Department Vehicle Purchase (\$39,559)
 - Performed Terminal Upgrades (\$120,606)
 - Short-term Lot Pavement Rehab (\$110,580)
 - Airport Exterior Sign Replacement (\$44,770)
 - FAA Required Defensible Space Tree Removal (\$69,400)
 - PG&E Lighting Upgrade Project (\$156,226)
- ➔ In FY19, the District acquired and placed into service the capital assets listed below:
 - Published Approved Airport Master Plan (\$1,177,274)
 - Replaced Airfield Electrical Vault and Lighting (\$1,702,850)
 - Constructed Recreation Vehicle Lot 2 (\$32,294)
 - Replaced Terminal Road Pavement (Fred Kane Drive) (\$336,440)
 - Performed Terminal Upgrades (\$36,659)
 - Acquired one (1) Used Airport Rescue Fire Fighting Vehicle (\$223,250)
 - Completed Infield Safety Area Rehab Phase A (\$361,662)
 -
- ➔ The District met its obligations and reduced its taxable pension obligation bonds principal to \$727,000 (FY19 \$1,068,000), California Energy Commission Loan principal to \$2,650,783 (FY19 \$2,802,761) and incurred a new PG&E loan (\$156,227).
- ➔ In the airport industry, one standard measure of a commercial airport's size is the number of annual enplanements, i.e., passengers flying from the airport on commercial airlines. Enplaned passengers during the six-fiscal year period, FY15 through FY20, are presented below in Table I.

MONTEREY PENINSULA AIRPORT DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019**

Financial Highlights (Continued)

Table I

TOTAL ENPLANEMENTS: FISCAL YEARS 2015 - 2020											
FY 2015		FY 2016		FY 2017		FY 2018		FY 2019 *		FY 2020 *	
7/14	15,980	7/15	16,239	7/16	17,679	7/17	18,068	7/18	16,262	7/19	22,109
8/14	16,622	8/15	16,248	8/16	17,589	8/17	16,450	8/18	15,537	8/19	21,823
9/14	15,280	9/15	14,682	9/16	17,304	9/17	16,374	9/18	14,630	9/19	20,961
10/14	17,102	10/15	15,507	10/16	17,856	10/17	17,151	10/18	17,933	10/19	21,245
11/14	15,168	11/15	15,762	11/16	16,444	11/17	15,576	11/18	17,071	11/19	19,507
12/14	13,882	12/15	15,348	12/16	16,275	12/17	15,740	12/18	15,477	12/19	19,350
1/15	12,728	1/16	13,046	1/17	14,802	1/18	13,302	1/19	14,284	1/20	16,088
2/15	13,010	2/16	13,562	2/17	15,102	2/18	13,758	2/19	15,242	2/20	16,222
3/15	15,823	3/16	16,040	3/17	18,986	3/18	15,758	3/19	17,533	3/20	8,726
4/15	15,926	4/16	15,844	4/17	17,677	4/18	16,400	4/19	19,159	4/20	601
5/15	16,336	5/16	17,813	5/17	18,832	5/18	15,622	5/19	20,760	5/20	1,623
6/15	15,110	6/16	17,872	6/17	18,359	6/18	15,857	6/19	21,774	6/20	3,499
182,967		187,963		206,905		190,056		205,662		171,754	

* Enplanements reported by commercial airlines include both revenue and nonrevenue passenger counts.

Beginning FY19 the District removed nonrevenue passenger counts from financial reporting.

Enplanements report before FY19 still include nonrevenue reported passengers.

- ➔ FY20 enplanements decreased 16.5% compared to FY19 to 171,754 due to the COVID-19 national health emergency. Until March 2020 the District was on track to exceed fiscal year enplanements by approximately 30,000. Enplanements for the last 4 months of fiscal year 2020 totaled 14,448.
- ➔ FY19 enplanements increased 8.2% compared to FY18 to 205,662 due to increases in scheduled flights. The increase resulted from an airline adding two daily flights to Denver International Airport and another adding one daily flight to Dallas Fort Worth International Airport.

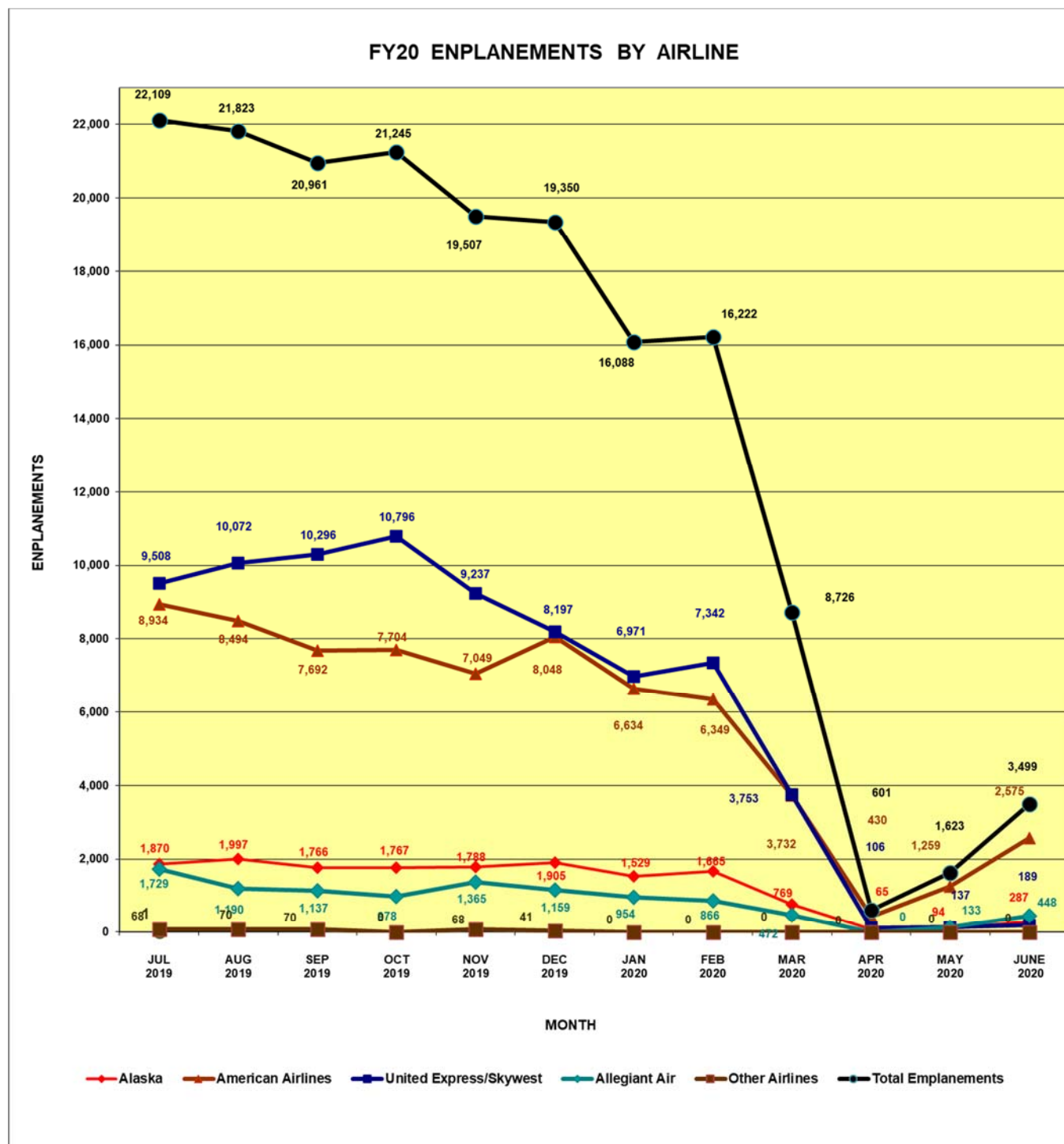
MONTEREY PENINSULA AIRPORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019

Financial Highlights (Continued)

Charts A and B present the monthly enplanements for FY20 and FY19, respectively, in total and for the scheduled commercial airlines that serve the Airport.

Chart A

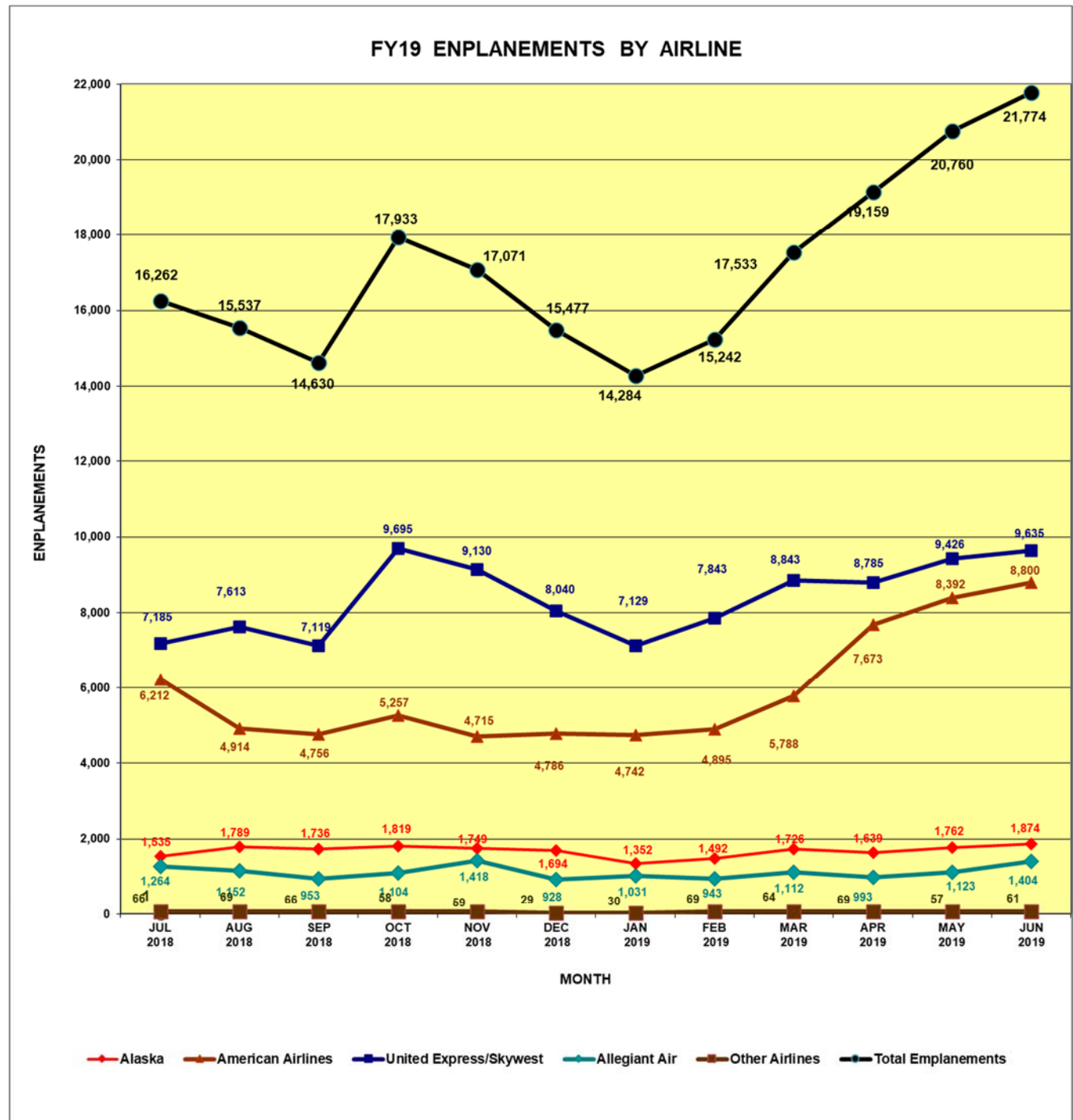


MONTEREY PENINSULA AIRPORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019

Financial Highlights (Continued)

Chart B



MONTEREY PENINSULA AIRPORT DISTRICT**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019****Summary of Net Position****Implementation of GASB Statement No. 75**

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

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

Table II

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

Net Position

	2020	% Change	2019	% Change	2018
Current and other assets	\$12,313,149	26.3%	\$ 9,747,987	9.8%	\$ 8,875,651
Capital assets, net	75,511,285	8.0%	69,948,622	-4.4%	73,168,404
Total assets	<u>87,824,434</u>	10.2%	<u>79,696,609</u>	-2.9%	<u>82,044,055</u>
Deferred outflow of resources	2,185,393	-2.7%	2,246,837	-15.2%	2,649,824
Debt outstanding	3,533,826	-8.7%	3,870,761	-10.5%	4,325,320
Other liabilities	15,813,508	18.0%	13,402,170	4.6%	12,817,535
Total liabilities	<u>19,347,334</u>	12.0%	<u>17,272,931</u>	0.8%	<u>17,142,855</u>
Deferred inflow of resources	1,607,562	67.0%	962,507	-20.4%	1,209,466
Net investment in capital assets	70,559,889	5.4%	66,913,811	-4.6%	70,121,950
Restricted - unspent					
Passenger Facilities Charges	1,911,081	-24.4%	2,526,464	30.9%	1,929,982
Cash Assets	956,469		-		-
Unrestricted	<u>(4,372,508)</u>	-23.7%	<u>(5,732,267)</u>	0.4%	<u>(5,710,374)</u>
Total net position	<u>\$69,054,931</u>	8.4%	<u>\$ 63,708,008</u>	-4.0%	<u>\$66,341,558</u>

FY 20 Total Net Position of the District increased \$5,346,923 from FY19. The District's FY20 Total Net Position increase resulted mostly from AIP funded capital assets (\$12.2M) that were offset by depreciation of capital assets (\$6.6M). See discussions below for changes in FY19 to FY20 revenues and expenses.

MONTEREY PENINSULA AIRPORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019

Net Position (Continued)

FY19 Total Net Position of the District decreased \$2,633,555 from FY18. The District's FY19 Total Net Position decreased after the addition of AIP funded capital assets (\$3.8M) that were offset by annual depreciation of capital assets (\$6.6M).

Conforming to requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, funds received from operating grants and PFCs are included in the financial statements, referred to as "Other Nonoperating Revenue" and grants restricted for capital purposes are reported as "Capital Contributions." In FY20, the District recognized \$10,268,950 from FAA Airport Improvement Program (AIP), \$1,279,637 CARES Act grants, \$117,440 in TSA Law Enforcement grants and \$722,204 from PFCs receipts to fund capital project planning, engineering design, and construction costs. In FY19 the District received \$1,826,046 from FAA AIP grants and \$899,816 from PFCs to fund airport improvement projects.

FY20 Total Liabilities increased \$2,074,403 primarily from an increase in accounts payable which included \$1,962,264 of AIP capital project related invoices and a \$156K PG&E Lighting upgrade loan.

Operating Revenues

An airport functions as a landlord. District revenue is derived from fees and lease revenues. Total operating revenues for the FY20 are \$8,806,595, a decrease of 7.1% or \$668,456 when compared to FY19 (\$9,475,051) and an increase of 3.1% or \$281,308 when comparing FY19 to FY18 (\$9,193,743).

The FY20 operating revenue decrease resulted from loss of commercial, general aviation and concession fees due to the national health emergency. Additionally, the District provided rent and minimum annual guaranteed (MAG) fee abatements to aviation related tenants from April 1, 2020 to October 31, 2020. The impact on FY20 rent and MAG abatements is estimated to be between \$500K and \$700K. Fortunately, commercial and general aviation fees, and some concessions MAG continued and exceeded revised plans.

The FY19 operating revenue increases resulted from new air service by United and American Airlines. In October 2018 United restarted its twice daily flights from Monterey to Denver and in April 2019 American started daily flights to Dallas. These additional flights also had a positive impact on Airport concessions (parking, rental cars, etc.) which showed a 5.9% growth for the year.

Revenues derived from the activities of commercial airlines and from airline passengers using services offered by the Airport account for 51.1% of FY20, 55.7% of FY19 and 53.6% of FY18 total operating revenues. In FY20 the Airport recognized a decrease of 4.6% airline and related revenues when compared to FY19 and a 2.2% increase comparing to FY19 to FY18 (see Table III, "Subtotal – Commercial Aviation"). Included in this category are revenues paid by commercial airlines for landing, apron, aircraft overnight parking fees and fuel flowage fees, and income received from tenants that lease space in the airport terminal. Commercial Airline fuel flowage fees were first included in the District's rates and charge schedules beginning August 1, 2018. Commercial Airline Fuel Flowage fees provided revenues of \$91,398 in FY20 and \$75,108 in FY19.

Terminal Leases & Concessions includes lease and concession income from many sources: concessions such as *The Flyaway Café (formerly 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

MONTEREY PENINSULA AIRPORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019

Operating Revenues (Continued)

in-terminal advertising. This category of revenue in FY20 decreased 16.3% or \$720,818 and in FY19 increased 5.9% or \$246,093 when compared to FY18. The FY20 decrease is fully attributed to the impact of the national health emergency and abated rents and MAGs.

General Aviation activities generated 20.1% of FY20, 21.5% of FY19 and 20.8% of FY18 total operating revenues. Corporate aviation and general aviation tenants remit landing fees, fuel fees, and rental income for leased land, hangars, tie-downs, aircraft parking aprons, and offices. These revenues for FY20 decreased

13.1% from FY19 and increased 5.4% from FY18 to FY19, respectively. The FY20 decrease is fully attributed to the impact of the national health emergency the FY19 increase comes from additional landing fees and fuel flowage fees from heavy general aviation aircraft operations.

Non-aviation tenants and Other Revenues produced 29.0% of FY20, 22.9% of FY19, and 25.6% % of FY18 total operating revenues, an increase of 4.0% compared to FY19 and 1.9% decrease from FY18 to FY19. The FY20 revenue increase comes from the FAA grant funded purchase of 2801 Monterey-Salinas highway properties which generate office space rents of \$429K. The FY 19 decrease Non-aviation tenants and Other Revenues resulted from a change in contracted services. In FY19 the Airport discontinued its contract to provide Police chief services to the City of Del Rey Oaks and settled its worker's compensation claims resulting in lower revenues.

Table III presents a comparison of operating revenues for Fiscal Years 2020, 2019 and 2018. Chart C provides a graphic representation of operating revenues.

Table III

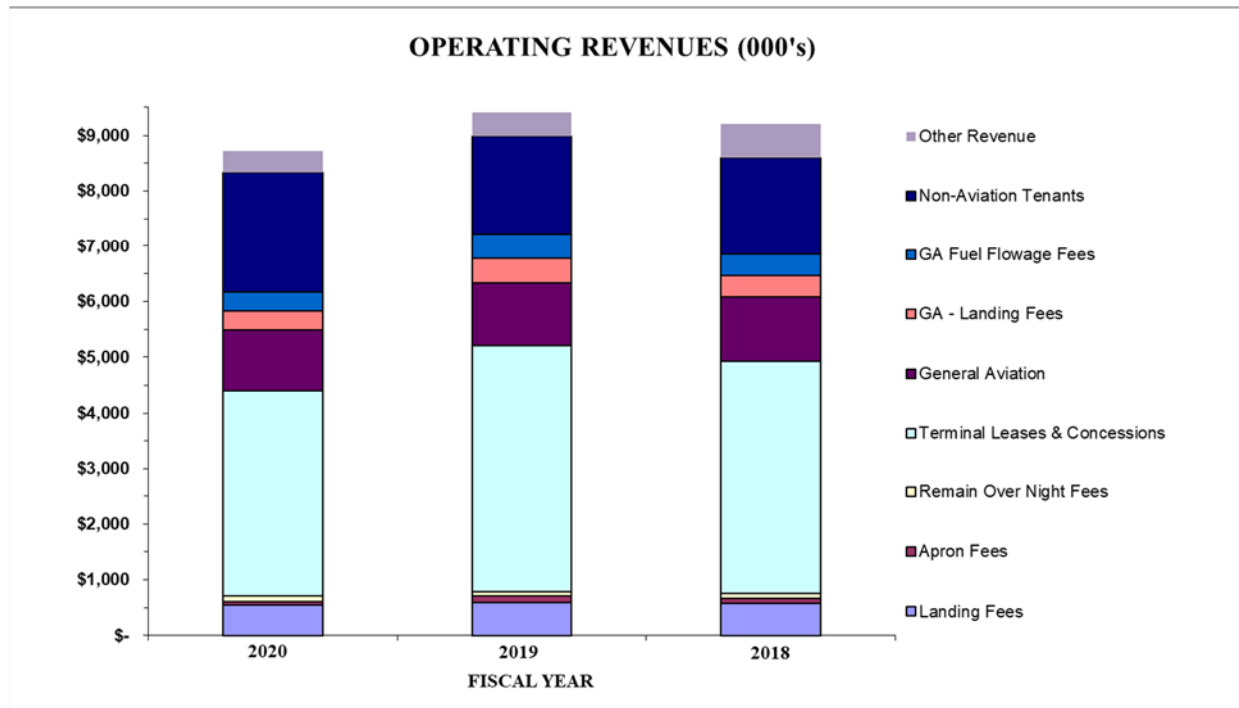
FISCAL YEARS 2020, 2019 & 2018 OPERATING REVENUES						
	2020		2019		2018	
Landing Fees	\$ 544,897	6.2%	\$ 600,181	6.3%	\$ 576,305	6.3%
Apron Fees	69,286	0.8%	108,855	1.1%	83,673	0.9%
Remain Over Night Fees	97,599	1.1%	79,331	0.8%	94,627	1.0%
CA Fuel Flowage Fees	91,398	1.0%	75,108	0.8%	-	0.0%
Terminal Leases & Concessions	3,696,826	41.9%	4,417,644	46.7%	4,171,551	45.4%
Subtotal - Commercial Aviation	\$ 4,500,006	51.0%	\$ 5,281,119	55.7%	\$ 4,926,156	53.5%
General Aviation	\$ 1,083,270	12.3%	\$ 1,132,318	12.1%	\$ 1,151,930	12.5%
Landing Fees	\$ 340,734	3.9%	435,218	4.6%	390,446	4.2%
GA Fuel Flowage Fees	\$ 332,052	3.8%	454,130	4.8%	375,571	4.1%
Subtotal - General Aviation	\$ 1,756,056	20.0%	\$ 2,021,666	21.5%	\$ 1,917,947	20.9%
Non-Aviation Tenants	\$ 2,168,145	24.6%	\$ 1,756,559	18.5%	\$ 1,759,318	19.1%
Other Revenues	382,388	4.4%	415,707	4.4%	590,322	6.4%
Subtotal - Non-Aviation and Other	\$ 2,550,533	29.0%	\$ 2,172,266	22.9%	\$ 2,349,640	25.6%
Total	\$ 8,806,595	100.0%	\$ 9,475,051	100.0%	\$ 9,193,743	100.0%

MONTEREY PENINSULA AIRPORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019

Operating Revenues (Continued)

Chart C



Operating Expenses Before Depreciation and Amortization

Operating expense before depreciation and amortization in FY20 (\$9,283,450) increased 8.9% compared to FY19 (\$8,526,332) and increased 2.6% when compared to FY18 (\$8,307,876) (see Table V, "Fiscal Years 2020, 2019 and 2018 Operating Expenses Before Depreciation and Amortization"). As discussed below, most of the year over year expense increases are the result of staffing changes, GASB Statement No. 68 and 75 adjustments, CalPERS Unfunded Account Liability expense increases, and other changes to the Districts operations.

Table IV presents FY20, FY19 and FY18 salary, payroll benefit expenses by District department. The District provides a wide variety of services and staffs the Airport for Planning and Development, Maintenance, Airport Operations and Administration functions. In FY19 the District negotiated a new contract with the City of Monterey for five years of Airport Rescue and Fire Fighting (ARFF) services. In FY19 the District negotiated a five-year contract with the City of Del Rey Oaks for Law Enforcement services that began on October 1, 2018.

Total FY20 salaries and payroll costs increased \$334,395 (8.3%) compared to FY19 and decreased \$380,768 (8.7%) from FY18 to FY19. In FY20 salaries and payroll costs, measured as a percentage of total operating expenses before depreciation and amortization, were 51.0% in FY20, 47.1% in FY19 and 52.9% in FY18.

MONTEREY PENINSULA AIRPORT DISTRICT**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019****Operating Expenses Before Depreciation and Amortization (Continued)**

A significant portion of the FY20 salaries and payroll increase compared to FY19 resulted from increases in CalPERS UAL payments and in GASB 68 (\$832,502) accruals. A significant portion of the FY19 salaries and payroll decrease compared to FY18 resulted from contracting for Law Enforcement services with the City of Del Rey Oaks. The District's receives "Law Enforcement Officer (LEO) Reimbursement Grant" from the U. S. Department of Homeland Security (DHS) that directly offsets Police Department labor expenses. The LEO grant reimbursements/offsets are not included in Table IV but are included in Other Revenues and Expenses (see Table VI.).

Table IV

FISCAL YEARS 2020, 2019 & 2018 SALARY & PAYROLL EXPENSES						
	2020		2019		2018	
Finance & Administration	\$ 1,041,530	24.0%	\$ 1,030,814	25.7%	\$ 1,019,767	23.2%
Planning & Development	552,528	12.7%	417,311	10.4%	337,693	7.7%
Maintenance & Custodial Services	1,218,041	28.1%	1,101,312	27.4%	1,085,270	24.7%
Airport Operations	448,765	10.3%	348,316	8.7%	356,847	8.1%
Police Department ¹	300,657	6.9%	656,411	16.3%	1,340,201	30.5%
ARFF / Fire Department	776,557	17.9%	463,664	11.5%	258,818	5.9%
Total	\$ 4,338,078	100%	\$ 4,017,828	100%	\$ 4,398,596	100%

Table V compares operating expenses for Fiscal Years 2020, 2019 and 2018. Chart D provides a graphic representation of operating expenses. All operating department expenses were affected by changes in merit salaries, CalPERS Unfunded Account Liability and offset by lower GASB 68 and GASB 75 OPEB non-cash adjustments. These expenses are recognized as components of the compensation and retirement related expenses.

Finance & Administration (F&A) operating expenses increased 7.5% or \$151,267 compared to FY19 and decreased 5.2% or \$110,417 from FY18 to FY19. The FY20 F&A expense increase resulted from legal expenses related to a development of a LAFCO application and memorandum of understanding with the City of Monterey and a tree removal dispute on the 2801 Monterey Salinas Highway properties (\$109,041). The FY19 F&A expense increase came from lower Electricity Utilities expenses from use of the solar array installed in November 2017 (\$118,399) this decrease was offset by a variety of other expenses totaling \$7,985.

Planning & Development (PD) operating expenses increased 22.5% or \$116,273 compared to FY19 and an increased 8.2% or \$39,334 from FY18 to FY19. The FY20 PD expense increase came from higher labor liquidations (-\$24,848), higher GASB 68 expenses (\$97,505), higher CalPERS UAL expenses (\$51,125) and other small variances (-\$7,510). The FY19 PD expense increase resulted from changes in personnel that increased salaries. The Senior Planning Manager was promoted to Deputy Director Strategy and Development, and a replacement Planning Manager was hired at a higher salary. These changes in staffing resulted in an increase of (\$46,890) including salaries and benefits that were offset by a decrease in a variety of other expenses (\$7,559).

MONTEREY PENINSULA AIRPORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019

Operating Expenses Before Depreciation and Amortization (Continued)

Maintenance & Custodial Services (MCS) operating expenses increased 8.7% of \$134,590 from FY19 and increased 0.2% or \$3,214 from FY18 to FY19. The FY20 MCS expense increased from higher workers comp expenses (\$37,133), higher GASB 68 expenses (\$110,091) and other expense variances (\$3,099). In FY19 MCS recognized a wide variety of expense variances. Salaries increased (\$39,013) but were offset by a decrease in GASB 68 expenses (\$50,444). In addition to these two significant changes there was a decrease in a variety of other expenses (\$8,217).

Airport Operations (OPS) operating expenses increased 25.9% or \$118,739 compared to FY19 and a decreased 9.0% or \$45,182 from FY18 to FY19. FY20 OPS expenses included higher salary and benefits related expenses with the addition of an Operations Supervisor (\$75,415), higher GASB 68 expenses (\$26,179) and higher Computer / LAN & IT expenses (\$20,014) that were offset by various net expenses (\$2,856). FY19 OPS expenses included lower salary and benefits related expenses (\$8,446) and other/contracts services (\$33,062). The lower other/contracts services expense came from cancelling the Taxi starter service effective October 2018.

Police Department operating expenses decreased 4.5% or \$68,877 compared to FY19 and increased 6.0% or \$86,129 from FY18 to FY19. In FY20 Police Department expenses decreased from the Law Enforcement services contract with the City of Del Rey Oaks which reduced direct labor expenses (\$94,773) but was offset by increases in GASB 68 and 75 expenses (\$24,635) and decreases in other expenses (\$4,926). Table V excludes the annual LEO Grant reimbursement of \$117,440, which is reported as Operating Grant revenue. In FY19 (October 2018) the District contracted law enforcement services with the City of Del Rey Oaks and closed its Police department. Closing the Police department resulted in a net decrease in salaries and related expenses (\$683,790) and a decrease in other operating expenses (\$86,127), which combined totaled \$739,128. The City of Del Rey Oaks purchased the District's police vehicles and supplies for a total of \$65,000 which resulted in a gain on the sale of \$51,555. The City of Del Rey Oaks FY19 partial year Law Enforcement contract services totaled \$825,256. In future fiscal periods the District will benefit from lower staffing and variable operating expenses.

ARFF / Fire operating expenses increased 4.3% or \$99,192 compared to FY19 and increased 10.9% or \$228,872 from FY18 to FY19. In FY14 District eliminated its Aircraft Rescue and Fire Fighting (ARFF) department staff and contracted with the City of Monterey for fire department staffing services. The City of Monterey absorbed the District's fire department staff through a 5-year contract, which provides the ARFF services. The Airport's ARFF department is subject to CalPERS Pension Unfunded Account Liabilities payments and GASB 68 and 75 expense adjustments for ARFF department staff who worked for the airport before contracting with City of Monterey. The District negotiated a new contract with the City of Monterey to continue services beyond June 30, 2019. In FY20 ARFF Department expense increased (\$323,047) from changes in CalPERS UAL, GASB 68 and GASB 75 changes but was reduced by lower Fire Service Contract expenses (\$156,207) and lower vehicle ARFF truck repairs (\$74,359). In FY19 ARFF department recognized an increase in pension expenses (\$204,845) and ARFF vehicle repairs and other expenses (\$24,026).

Board of Directors (Director) operating expenses increased 8.8% or \$12,453 compared to FY19 and an increase of 13.3% or \$16,511 from FY18 to FY19. FY20 was an off-election year therefore no Director election expenses were incurred. The FY20 Director expense increase came from higher District legal counsel fees (\$21,862) that were offset by lower travel and entertainment expenses (\$9,409). FY19 was an election year but the Directors up for reelection ran uncontested which saved the District \$105,000. The increase in FY19 expenses relates to slightly higher Director stipends (\$5,805), business travel (\$8,558) and conference (\$1,995) fees.

MONTEREY PENINSULA AIRPORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019

Operating Expenses Before Depreciation and Amortization (Continued)

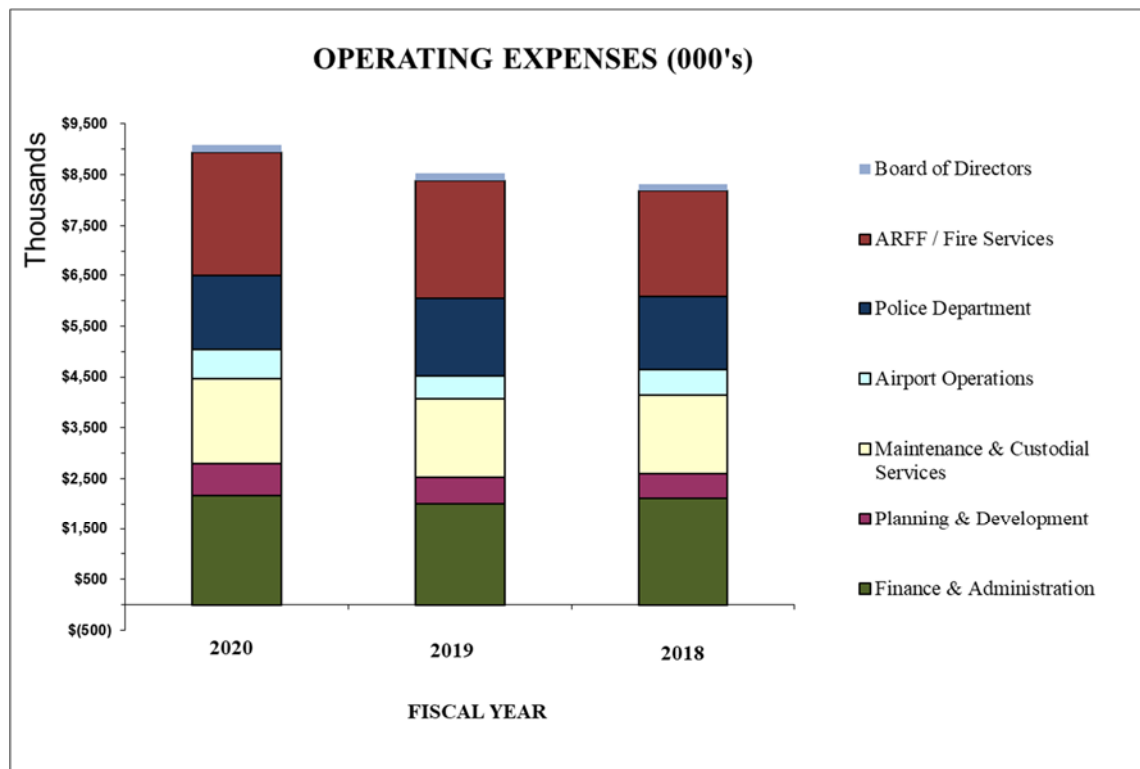
Office Space Rental Property (Office Space) In July 2019 the District acquired the 2801 Monterey Salinas Highway commercial properties as part of the Airport Master Plan with a grant from the FAA. The 2801 properties consist of two office building with various suites. Building A currently has three tenants that have leased the property through 2028. Expenses for property maintenance, repairs, and tax for FY20 were \$193,476. The District is still in the process of developing a plan for maintenance and repairs that may impact operating plan expenses in the future.

Table V

FISCAL YEARS 2020, 2019 & 2018 OPERATING EXPENSE BEFORE DEPRECIATION AND AMORTIZATION						
	2020		2019		2018	
Finance & Administration	\$ 2,159,953	23.3%	\$ 2,008,686	23.6%	\$ 2,119,103	25.5%
Planning & Development	\$ 633,345	6.8%	517,072	6.1%	477,738	5.8%
Maintenance & Custodial Services	\$ 1,680,160	18.1%	1,545,570	18.1%	1,542,356	18.6%
Airport Operations	\$ 576,327	6.2%	457,588	5.4%	502,770	6.1%
Police Department ¹	\$ 1,456,201	15.7%	1,525,078	17.9%	1,438,949	17.3%
ARFF / Fire Services	\$ 2,430,465	26.2%	2,331,273	27.3%	2,102,401	25.3%
Board of Directors	\$ 153,523	1.7%	141,070	1.7%	124,559	1.5%
Office Space Rentals	\$ 193,476	2.1%	-	0.0%	-	0.0%
Total	\$ 9,283,450	100%	\$ 8,526,337	100%	\$ 8,307,876	100%

¹ Leo Grant Special Item is excluded (\$117,440).

Chart D



MONTEREY PENINSULA AIRPORT DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019**

Table VI compares actual Operating Revenues, Operating expenses, and the change in Net Position for Fiscal Years 2020, 2019 & 2018.

Table VI

	FY 2020	FY 2019	FY 2018
	Actual	Actual	Actual
Operating Revenues			
Commercial Aviation - Fees	\$ 803,180	\$ 863,475	\$ 754,605
General Aviation - Fees	340,734	435,218	390,446
Terminal Concessions and Leases	3,696,826	4,417,644	4,171,551
Heavy General Aviation	967,317	1,132,318	1,068,931
Light General & Other Aviation Tenants	448,005	454,130	458,570
Non-Aviation Tenants	2,168,145	1,756,559	1,759,318
Other Operating Revenues	382,388	415,707	590,322
Total Operating Revenues	8,806,595	9,475,051	9,193,743
Operating Expenses			
Finance & Administration	2,159,953	2,008,686	2,119,103
Planning & Development	633,345	517,072	477,738
Maintenance & Custodial Services	1,680,160	1,545,570	1,542,356
Airport Operations	576,327	457,588	502,770
Police Department	1,456,201	1,525,078	1,438,949
ARFF Services	2,430,465	2,331,273	2,102,401
Board of Directors	153,523	141,070	124,559
Office Space Rentals	193,476	-	-
Total Operating Expenses	9,283,450	8,526,337	8,307,876
Operating Income before Depreciation	(476,854)	948,714	885,867
Depreciation & Amortization Expense	6,641,491	6,552,360	6,865,240
Net Operating Income / (Loss)	(7,118,345)	(5,603,646)	(5,979,373)
Other Revenue (Expense), net	12,465,269	2,970,096	2,578,263
Change in Net Position	\$ 5,346,923	\$ (2,633,550)	\$ (3,401,110)
Net Position Beginning of Year	63,708,008	66,341,558	71,909,977
Cumulative Effect of implementing GASB 75	-	-	(2,167,309)
Net Position End of Year	69,054,931	63,708,008	66,341,558

MONTEREY PENINSULA AIRPORT DISTRICT**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019****Capital Assets and Debt Activity**

The District finances airport capital improvements by aggressively pursuing FAA Airport Improvement Program (AIP) grants and Passenger Facilities Charges to fund its capital projects. When practical the District will also finance the purchase or the construction of Capital assets with the assistance of agencies like Air Quality District, California Energy Commission, or other funding resources.

Capital assets, net of depreciation, and intangible assets, net of amortization, are presented below:

Table VII

	2020	2019	2018
Tangible assets, net			
Land	\$ 4,206,755	\$ 1,784,717	\$ 1,784,717
Land improvements	50,471,803	53,163,237	55,902,726
Buildings	9,928,090	5,419,808	6,254,984
Furniture, equipment and vehicles	2,985,860	3,284,266	3,464,210
Construction in progress	6,463,007	4,513,426	5,037,833
Total	74,055,515	68,165,454	72,444,470
Intangible assets, net	1,455,770	1,783,168	723,934
Total capital assets - net	\$ 75,511,285	\$ 69,948,622	\$ 73,168,404

Contractual Commitments

The District approved capital expenditures for fiscal years 2020 and 2019 and authorized contracts for the construction of various capital assets. By June 30, 2020 and June 30, 2019, the District had approved construction in progress (CIP) projects totaling \$ 12,204,154 and \$3,346,023 respectively. As presented in the financial statements notes, work completed on these approved CIP projects on June 30, 2020 totaled \$10,254,573 and on June 30, 2019 totaled \$3,870,428. Remaining approved CIP expenditures and contracts for subsequent years beginning July 1, 2020 are \$6,463,007 and July 1, 2019 are \$4,513,426. Most of these commitments will be funded by AIP grants and PFCs when work is complete.

Additional information pertaining to the Capital Assets and Expenditures can be found in the notes to the financial statements.

Debt

The Monterey Peninsula Airport District 2012 Taxable Pension Obligation Bonds (POB) were issued on June 27, 2012. The bonds' par value, coupon rate, and terms are \$3,077,000, 4.40% and 10 years, respectively. POB Bond proceeds were used to eliminate the "side accounts" associated with the District's CalPERS's pension obligations and employer retirement expense rates. The POB principal balance on June 30, 2020 is \$727,000.

MONTEREY PENINSULA AIRPORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019

Debt (continued)

On May 22, 2017, the Monterey Peninsula Airport District received approval for a \$3,000,000, 1% and 16.1-year California Energy Commission (CEC) construction and term loan to finance development of a 1.51M kWh Solar Panel Array on airport property. The District made draws on the CEC construction loan totaling \$2,931,320 through completion of the project in November 2017. The CEC loan will be repaid through the Airport's electricity savings from power generated by the Solar Panel Array. The Solar Panel Array power generation is expected to meet the power requirements of the District. The CEC loan principal balance on June 30, 2020 is \$2,650,783.

In April 2019 the Association of Monterey Bay Area Governments (AMBAG) contacted the District about no interest loans offered by Pacific Gas and Electric (PG&E) to upgrade lighting to newer LED technologies. The new lighting would be installed by Lumenature a PG&E authorized contractor. On November 15, 2019 the District approved two Pacific Gas and Electric no interest loans for upgrading parking lot and terminal lighting to newer LED fixtures and lights. On June 3, 2020 Loan TIF 010101 with a balance of \$145,762, payment terms of 45 months with monthly payments of \$3,239 was signed and project work was scheduled to be complete in July 2020. On June 9, 2020 Loan TIF 010598 with a balance of \$10,464, payment terms of 57 with months payments of \$184 per month was signed and the project was completed in June 2020. The PG&E loans have been combined in the financial statements with a total balance of \$156,043 on June 30, 2020.

Additional information pertaining to the POB bonds, CEC Loan and PG&E Loan can be found in the notes to the financial statements.

Fiscal Year 2020 District Actions Impacting Future Operations

District and Management Focus

The District's FY20 operational and financial performance were a direct result of actions and changes implemented by the District's Board of Directors and Executive Management of the Airport. In FY20 the District continued to develop community awareness of the Airport's services, worked with commercial air service providers to increase available flights, continued infrastructure development and implementing the approved Airport Master Plan (Plan).

With the national health emergency, the District is taking a conservative position with its FY21 financial plans which can be reviewed at <https://montereyairport.specialdistrict.org/fiscal-administration>. In the following paragraphs are indicators of how District has changed its FY21 revenue and expense projections. Additionally, the District's annual financial plans do not include GASB 68 and GASB 75 adjustments, but the following audited financial statements do include the GASB adjustments. See the Notes to the audited financial statements for additional information on the impact of GASB adjustments.

Airport Master Plan

In 2013 the District began the process of developing a Master Plan to improve, upgrade or replace several components of the Airport's airside and landside facilities. On November 26, 2018 the District's Board of Directors passed resolutions 1730 which approved and certified the Final Environmental Impact Report and resolution 1731 Alternative 1 of the Monterey Regional Airport Master Plan. The Master Plan was then submitted to the Federal Aviation Administration (FAA) for National Environmental Policy Act (NEPA) Environmental Impact Assessment review. On June 8, 2020 the FAA issued a Finding of No

MONTEREY PENINSULA AIRPORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019

Fiscal Year 2020 District Actions Impacting Future Operations (Continued)

Significant Impact for the current Airport Safety Enhancements. On November 26, 2018 the District's Board of Directors under the California Environmental Quality Act (CEQA) requirements certified the Final Environmental Impact Report (FEIR) on the Master Plan. On August 12, 2020 the District's Board of Directors certified an Addendum to FEIR with minor modifications.

The Master Plan is a multiyear series of projects that began in FY20 and will continue for up to twenty or more years. Information about the Airport Master Plan can be viewed online at <http://montereyair.airportstudy.com>.

Commercial Air Service and Concessions

During FY20, the airlines continued to realign some flights and upgraded equipment servicing the Airport. The two nonstop flights to Denver continued until December 2020 and the nonstop flights to Dallas continued with enplanements ranging between 70 and 80 percent of capacity. Both services had performed well, and the District's customers and the financial benefits were presented in the first nine months of the FY 20 financial statements. As mentioned above the national health emergency forced airlines to reduce service levels after March 15, 2020. CARES Act funding has allowed some airlines to maintain flight schedules at reduced enplanement levels while customers and businesses reenter the travel market.

In FY20 the District prepared a conservative FY21 budget that reduced airlines and related concession revenues to levels supported by FAA CARES Act funding and potential industry changes. Commercial air service development is a continuing focus for the District and Executive Management who will be monitoring industry and economic changes in FY21.

General Aviation

Combined FY20 Heavy and Light general aviation revenues decreased 13.1% from FY19 and increased 5.4% from FY18 to FY19. Heavy general aviation operations and charters continued the upward trend until March 2020. The national health emergency reduced general aviation services and activity by approximately 90%. On May 28, 2020 the District provided rent abatements from May 1, 2020 to October 31, 2020 for the FBO's who were impacted by the business decline and operating restrictions. The District expects FY 21 general aviation operations to improve as shelter in place and other restrictions are removed.

Light general aviation hangar, tiedowns and hangar end space rentals are at capacity and revenues remained relatively flat since almost all hangars are occupied. Light general aviation hangar, tiedowns and hangar end space rentals were not impacted by the national health emergency.

Non-Aviation and Other Operating Services

Non-Aviation and Other Operating Revenues (NAOO) increased 17.4% from FY19 to FY20. Most of this increase came from Office Space Rents for the 2801 properties that were purchased on July 3, 2019 as part of the District's Master Plan. The 2801 properties will generate approximately \$380,000 in annual revenues and incur operating expenses of approximately \$200,000. No significant NAOO revenue changes are expected in FY21.

Operating Expenses

FY21 operating expenses are budgeted to decrease (\$359,258) over FY20. Included in the FY21 operating expenses are savings from the service contracts with the Cities of Monterey and Del Rey Oaks discussed below. The District has also implemented cost reductions and layoffs to manage expenses.

MONTEREY PENINSULA AIRPORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019

Fiscal Year 2020 District Actions Impacting Future Operations (Continued)

Service Contracts

Airport Rescue and Fire Fighting Services – As previously mentioned in FY14 the District eliminated its fire department staff and contracted with the City of Monterey for fire department staffing services. The City of Monterey absorbed the District's fire department staff through a 5-year contract, which provides the airport with Aircraft Rescue and Fire Fighting (ARFF) services. That contract expired on June 30, 2019. The District negotiated a new five-year ARFF contract with the City of Monterey that commenced July 1, 2019. In contrast to the previous contract the new five-year agreement includes a decreasing fee structure that recognized the benefits the City of Monterey receives from using the Districts ARFF station for both Airport and City fire and protection services. The decrease in ARFF fees is \$109,752 from FY 20 to FY21.

Police Department Law Enforcement Service Agreement – In October 2018, the District implemented a five-year contract for Law Enforcement Services with the City of Del Rey Oaks (DRO). The District's goals were to reduced management overhead while maintaining the needed services and improved flexibility in staffing with a larger pool of qualified officers. Due to national health emergency and decreased needs for services DRO was able to slightly reduce the FY21 planned expenses before any CalPERS or GASB expenses adjustments.

Airport Infrastructure

To improve the Airport Infrastructure, the District pursued grants and other financing to make capital investments in FY20 and FY21. The follow is a summary of three significant capital projects.

- In FY19, the District submitted AIP 3-06-0159-070 (2019-01) for the Infield and Taxiway Improvements Project total \$7,297,427. This Infield Improvements Project purpose is to enhance safety by minimizing FOD, increasing separation distances between aircraft, improve drainage, and reduce the amount of infield areas attractive to wildlife by resurfacing the existing infield areas located between Runway 10R-28L and parallel taxiways located to the north and south of the runway. The project was broken down into phases that were projected be completed in approximately two years. Due to the national health emergency and reduced traffic at the Airport the project will be completed ahead of scheduled in the second quarter of FY21.
- In FY20, the District submitted AIP 3-06-0159-072 (2020-13) Northeast Vehicle Service Road Improvements Project total \$2,139,811. The Vehicle Service Road Improvement (VSR) will allow for the relocation of the 44 GA tenants from the current southeast side of the Airport. The VSR improvements will build on an approximately 24-foot-wide, 1,600-footlong paved airport vehicle service road (northeast service road improvement) from the existing east vehicle service road to the terminus of Airport Road at the north GA apron to provide a construction haul route and a service road to the north GA area from both sides of the Airport. The construction includes installation of utilities (electrical, water, sewer, data, storm drain) fencing, access gate, fire hydrant, street lighting and required mitigation.
- In FY20, under the Supplemental Funding Program, the District submitted AIP 3-06-0159-073 (2020-12) Northside General Aviation Apron Construction total \$9,128,779. Construction of the Northside general aviation (GA) apron and hangar area will allow the relocation of the GA tenants and ARFF services from the current southeast side of the Airport. This would provide for the current southeast location to support a new passenger terminal complex and aircraft parking apron. This GA location will enhance airport safety by reducing crossover aircraft traffic through the consolidation of general aviation (GA) services on the north side of the Airport. Ultimately with the reconfiguration, operational safety of Runway 10R-28L taxiway system will be improved.

MONTEREY PENINSULA AIRPORT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019

Fiscal Year 2020 District Actions Impacting Future Operations (Continued)

Rental Car Customer Facility Charge

In FY19 the District implemented a Customer Facility Charge (CFC) and is tracking these funds as Funds held in Trust. CFCs are a user fee imposed by the District on each rental car contract, collected by rental car companies and deposited with the District. CFCs are regulated at the state level instead of the federal level. The District's CFC is charged at \$10.00 per rental contract. The CFC funds held in trust on June 30, 2020 total \$651,888 and on June 30, 2019 total \$199,733.

The CFCs are being collected to support the District's study to access, build and transport non-potable water from the northside of the Airport to the rental car Quick-Turn-Around (QTA) facility on the southside of the Airport. Access to this non-potable water source will help ensure water is available for the QTA facility in the future. The District would need to incur new debt to finance the installation of the non-potable water system. The District is currently investigating this capital project.

Events Subsequent to June 30, 2020

Pension Obligation Bonds Debt Covenants Forbearance

In 2012 the District issued Taxable Pension Obligation Bonds (POB) to pay off specific CalPERS retirement accounts. The POB includes debt covenants that require the District to maintain various operating ratios until the bonds are paid in full. Covenant 5.09(b) requires that the District maintain an annual operating income of 125% of the annual debt service. Below is the language of Covenant 5.09(b).

"Covenant 5.09(b) cause itself and its affiliates and subsidiaries to maintain (using GAAP and GASB 33 & 34 consistently applied and used consistently with prior practices except to the extent modified by the definitions herein) a ratio of aggregate Gross Operating Revenues less aggregate Gross Operating Expenses to aggregate Annual Debt Service for such Fiscal Year of not less than 1.25 to 1.00, calculated annually commencing with the Fiscal Year ending June 30, 2013."

Due to the national health emergency and abatements provided to tenants District staff recognized that the FY 2020 operating income would probably fall below the 5.09(b) covenant ratio. In May 2020 District Staff proactively communicated with the bond holder, Umpqua Bank, about the expected shortfall in operating income and requested information on how to apply for a forbearance. Communication with Umpqua Bank have been favorable, and the District expects a forbearance of Covenant 5.09(b) to be granted.

City of Monterey vs Monterey Peninsula Airport District Litigation for Alleged California Environmental Quality Act (CEQA) Violations

As mentioned above the District's Master Plan was submitted to the Federal Aviation Administration (FAA) for National Environmental Policy Act (NEPA) Environmental Impact Assessment review. On June 8, 2020 the FAA issued a Finding of No Significant Impact for the current Airport Safety Enhancements. On November 26, 2018 the District's Board of Directors under the California Environmental Quality Act (CEQA) requirements certified the Final Environmental Impact Report (FEIR) on the Master Plan. On August 12, 2020 the District's Board of Directors certified an Addendum to FEIR with minor modifications.

The City of Monterey is contesting the Addendum to FEIR with minor modifications and filed a lawsuit with the Superior Court of the State of California County of Monterey on September 10, 2020. The first hearing is scheduled on February 9, 2021.

MONTEREY PENINSULA AIRPORT DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEARS END JUNE 30, 2020 AND 2019**

Requests for Information

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

MONTEREY PENINSULA AIRPORT DISTRICT

STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019

	2020	2019
Assets:		
Current Assets:		
Unrestricted:		
Cash (Note 2)	\$ 1,644,038	\$ 1,470,315
Investments (Note 2)	4,012,537	4,267,386
Accounts receivable, net	313,744	799,149
Accrued interest receivable	11,981	29,973
Grants receivable	2,899,604	-
Prepaid costs and other assets	239,335	153,927
Total unrestricted current assets	9,121,239	6,720,750
Restricted:		
Cash (Note 2)	2,412,090	2,018,661
Investments (Note 2)	779,820	1,008,576
Total restricted current assets	3,191,910	3,027,237
Total Current Assets	12,313,149	9,747,987
Noncurrent Assets:		
Capital assets (Note 3)		
Non depreciable capital assets	10,669,762	6,298,143
Depreciable capital assets, net	64,841,523	63,650,479
Total Noncurrent Assets	75,511,285	69,948,622
Total Assets	87,824,434	79,696,609
Deferred Outflows of Resources:		
Deferred outflows related to pensions (Note 8)	2,052,098	2,110,560
Deferred outflows related to OPEB (Note 9)	133,295	136,277
Total Deferred Outflows of Resources	2,185,393	2,246,837
Liabilities:		
Current liabilities:		
Accrued liabilities (Note 4)	2,551,756	667,501
Unearned revenues	29,780	50,559
Accrued compensated absences (Note 5)	33,432	20,956
Due to the City of Monterey (Note 6 & 11)	19,966	19,966
Pension obligation bonds payable, current portion (Note 6)	356,000	341,000
Loans payable, current portion (Note 6)	194,650	151,979
Funds held in trust	651,888	199,733
Total Current Liabilities	3,837,472	1,451,694
Long-term liabilities:		
Security deposits	451,891	443,406
Unearned revenues - rent received in advance from tenants	247,798	256,675
Accrued compensated absences, net of current portion (Note 5)	141,918	126,021
Due to the City of Monterey, net of current portion (Note 6 & 11)	39,932	59,898
Pension obligation bonds payable, net of current portion (Note 6)	371,000	727,000
Loans payable, net of current portion (Note 6)	2,612,176	2,650,782
Net pension liability (Note 8)	9,592,973	8,886,130
Total OPEB liability (Note 9)	2,052,174	2,671,325
Total Long-Term Liabilities	15,509,862	15,821,237
Total Liabilities	19,347,334	17,272,931
Deferred Inflows of Resources:		
Deferred inflows related to pensions (Note 8)	901,741	834,475
Deferred inflows related to OPEB (Note 9)	705,821	128,032
Total Deferred Inflows of Resources	1,607,562	962,507
Net Position:		
Net investment in capital assets	70,559,889	66,913,811
Restricted - unspent Passenger Facilities Charges	1,911,081	2,526,464
Restricted - cash assets	956,469	-
Unrestricted	(4,372,508)	(5,732,267)
Total Net Position	\$ 69,054,931	\$ 63,708,008

MONTEREY PENINSULA AIRPORT DISTRICT
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
Operating Revenues:		
Commercial aviation	\$ 803,180	\$ 863,475
General aviation	340,734	435,218
Terminal leases and concessions	3,696,826	4,417,644
Heavy general aviation	967,317	1,132,318
Light general aviation and other aviation tenants	448,005	454,130
Non-aviation tenants	2,168,145	1,756,559
Other operating revenue	382,388	415,707
Total Operating Revenues	8,806,595	9,475,051
Operating Expenses:		
Finance and administration	2,159,953	2,008,686
Planning and development	633,345	517,072
Maintenance and custodial services	1,680,160	1,545,570
Airport operations	576,327	457,588
Police department	1,456,201	1,525,078
Fire department	2,430,465	2,331,273
Board of directors	153,523	141,070
Rental property	193,476	-
Total Operating Expenses Before Depreciation	9,283,450	8,526,337
Depreciation and amortization	6,641,491	6,552,360
Total Operating Expenses	15,924,941	15,078,697
Operating Income (Loss)	(7,118,346)	(5,603,646)
Nonoperating Revenues (Expenses):		
Passenger Facility Charges	722,204	899,816
Operating grants	1,397,077	116,800
Investment income	147,923	162,695
Interest expense	(70,885)	(86,816)
Gain (loss) on disposal of capital assets	-	51,555
Net Nonoperating Revenues (Expenses)	2,196,319	1,144,050
(Loss) Before Contributed Capital	(4,922,027)	(4,459,596)
Capital Contributions		
Grants from government agencies	10,268,950	1,826,046
Changes in Net Position	5,346,923	(2,633,550)
Net Position:		
Beginning of Fiscal Year	63,708,008	66,341,558
End of Fiscal Year	\$ 69,054,931	\$ 63,708,008

MONTEREY PENINSULA AIRPORT DISTRICT

STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash Flows from Operating Activities:		
Receipts from customers	\$ 9,270,829	\$ 9,219,686
Payments to vendors for goods and services	(6,196,970)	(4,347,281)
Payments for employees pension and OPEB benefits	(796,496)	(761,310)
Payments to employees for services	(1,833,109)	(3,028,109)
Net Cash Provided by Operating Activities	444,254	1,082,986
Cash Flows from Non-Capital Financing Activities:		
Interest paid on pension obligation bond	(43,230)	(57,750)
Principal payments on pension obligation bond	(341,000)	(326,000)
Proceeds from operating grants	421,841	116,800
Net Cash Provided by Non-Capital Financing Activities	37,611	(266,950)
Cash Flows from Capital and Related Financing Activities:		
Proceeds from capital grants and Passenger Facility Charges	9,066,786	2,725,862
Proceeds from funds held in trust	452,155	199,592
Acquisition and construction of capital assets	(10,059,584)	(3,113,973)
Interest paid on loans	(27,655)	(29,066)
Principal paid on loans	(152,162)	(128,559)
Proceeds from loans issued	156,227	-
Proceeds from sale of capital assets	-	65,000
Net Cash (Used) in Capital and Related Financing Activities	(564,233)	(281,144)
Cash Flows from Investing Activities:		
Investment income received	56,283	24,346
Investments matured	593,237	476,288
Net Cash Provided (Used) by Investing Activities	649,520	500,634
Net Change in Cash and Cash Equivalents	567,152	1,035,526
Cash and Cash Equivalents at Beginning of Year	3,488,976	2,453,450
Cash and Cash Equivalents at End of Year	4,056,128	3,488,976
Reconciliation of cash and cash equivalents to amounts reported on the statement of Net Position		
Unrestricted cash and equivalents	1,644,038	1,470,315
Restricted cash and equivalents	2,412,090	2,018,661
	4,056,128	3,488,976
Reconciliation of Operating Income to Net Cash (Used) by Operating Activities:		
Operating (loss)	(7,118,346)	(5,603,646)
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:		
Depreciation	6,641,491	6,552,360
(Increase) decrease in accounts receivable	485,405	(255,243)
(Increase) decrease in prepaid costs and other assets	(85,408)	80,494
Increase (decrease) in accrued liabilities	(260,315)	77,441
Increase (decrease) in due to the City of Monterey	(19,966)	(19,967)
Increase (decrease) in security deposits	8,485	14,127
Increase (decrease) in unearned revenue	(29,656)	(14,249)
Increase (decrease) in compensated absences	28,373	(87,941)
Increase (decrease) in pension related items	832,571	275,773
Increase (decrease) in OPEB related items	(38,380)	63,837
Total Adjustments	7,562,600	6,686,632
Net Cash Provided by Operating Activities	\$ 444,254	\$ 1,082,986
Non-Cash Capital and Related Financing Activities:		
Acquisition and construction of capital assets in accrued liabilities	\$ 2,144,570	\$ 232,050
Accrued interest on CEC loan	591	660

See Notes to Financial Statements

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MONTEREY PENINSULA AIRPORT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

Note 1: Summary of Significant Accounting Policies

a. Description of the 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 507 acres. For financial reporting purposes, the District's basic financial statements include all financial activities that are controlled or are dependent upon actions taken the District's Board of Directors. There are no component units considered for inclusion in the District's financial reporting entity.

b. Measurement Focus and Basis of Accounting

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

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

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

c. Cash and Cash Equivalents

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

d. Investments

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

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

MONTEREY PENINSULA AIRPORT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

Note 1: Summary of Significant Accounting Policies (Continued)

e. Receivables

Receivables from tenants are recorded when the revenues are earned under the accrual method of accounting and accounted for using the allowance method. The allowance is estimated using historical collection experience as well as management's judgment about collectability of individual receivables. The allowance at both June 30, 2020 and 2019 was \$32,000 and \$10,000, respectively.

f. Prepaid Expenses

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

g. Capital Assets

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

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

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

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

h. Employee Benefits

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

i. Accrued Compensated Absences

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

MONTEREY PENINSULA AIRPORT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019**

Note 1: Summary of Significant Accounting Policies (Continued)

j. Unearned Revenues

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

k. Deferred Outflows and Inflows of Resources

Deferred outflows and inflows of resources related to pensions are certain changes in total pension liabilities and fiduciary net position that are to be recognized in future pension expense. Excluding deferred pension contributions, the remaining pension related deferred outflows and inflows of resources are amortized over the remaining expected average remaining service lifetime 3.8 years or five years, depending on the nature of items.

Deferred outflows and inflows of resources related to OPEB are certain changes to the total OPEB liability that are to be recognized in future OPEB expense. The OPEB related deferred outflows and inflows of resources are amortized: (1) over the expected average remaining service lifetime (6.33 years) for changes between expected and actual experience, changes in assumptions and changes in proportion; and (2) over five years for the net differences between projected and actual earnings on OPEB pension plan investments.

l. Net Position

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

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

Restricted - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Restricted net position represents (1) unspent Passenger Facility Charges (PFC), which are restricted by enabling legislation and (2) cash assets held for debt service, security deposits and funds held in trust.

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

MONTEREY PENINSULA AIRPORT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

Note 1: Summary of Significant Accounting Policies (Continued)

m. Passenger Facility Charges

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

The District was granted permission to begin collection of a \$3.00 PFC effective January 1, 1994. The charges, less an administrative fee charged by the airlines for processing, are collected by the airlines and remitted on a monthly basis to the District. Effective July 27, 2001, the District received approval from the FAA to increase the PFC charge to \$4.50 per enplaned passenger.

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

n. Operating Grants and Capital Contributions

Certain expenditures for airport capital improvements, airport safety and security operations, are significantly funded through the Airport Improvement Program (AIP) of the FAA and Transportation Security Administration (TSA), with certain matching funds provided by the District. Funding provided under government grants is considered earned as the related allowable expenditures are incurred. In addition, to provide temporary relief to governments in lights of the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress and signed into law by the President on March 27th, 2020. Included in the CARES Act was \$12 million approved aid for the District, funded by the FAA through the AIP grant.

Grants awarded by TSA to reimburse certain police department's costs are reported in the statement of revenues, expenses and changes in net position as nonoperating revenues. For the years ended June 30, 2020 and 2019, the District requested and received \$117,440 and \$116,800, respectively, as reimbursement of certain police department costs. Grants for capital asset acquisition, facility development and rehabilitation are reported as capital contributions, after nonoperating revenues and expenses. For the years ended June 30, 2020 and 2019, the District recognized \$10,268,950 and \$1,826,046, respectively, as capital contributions funded by AIP grants. Grants used to offset operating losses due to COVID-19 are reported as nonoperating revenues. For the year ended June 30, 2020, the District requested and received \$1,279,637 in reimbursable costs funded by additional AIP grants.

o. Use of Estimates

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

MONTEREY PENINSULA AIRPORT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019**

Note 1: Summary of Significant Accounting Policies (Continued)

p. Reclassifications and Presentation

There have been no reclassifications of prior year balances included with the current year presentation.

q. New Accounting Standards Adopted

During the year ended June 30, 2020, the District adopted the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance* – The following pronouncements have been postponed as a temporary relieve to governments and other stakeholders in light of the COVID-19 pandemic and the new effective date are reflected in the following fiscal years.

r. 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:

GASB Statement No. 83, *Certain Assets Retirement Obligations*, requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset. The requirements of this statement are effective for reporting periods beginning on or after June 15, 2020.

GASB Statement No. 84, *Fiduciary Activities*, improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The statement is effective for fiscal years beginning after December 15, 2019.

GASB Statement No. 87, *Leases*, increases the usefulness of government financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The statement is effective for fiscal years beginning after June 15, 2021.

MONTEREY PENINSULA AIRPORT DISTRICT**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019**

Note 2: Cash and Investments

Cash and investments at June 30, 2020 and 2019, comprised of the following:

	<u>2020</u>	<u>2019</u>
Unrestricted:		
Deposits with banks	\$ 1,644,038	\$ 1,470,315
Investments	<u>4,012,537</u>	<u>4,267,386</u>
Total unrestricted	<u>5,656,575</u>	<u>5,737,701</u>
Restricted		
Deposits with banks	2,412,090	2,018,661
Investments	<u>779,820</u>	<u>1,008,576</u>
Total restricted	<u>3,191,910</u>	<u>3,027,237</u>
Total cash and investments	<u>\$ 8,848,485</u>	<u>\$ 8,764,938</u>

a. Custodial Credit Risk – Deposits and Investments

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

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

MONTEREY PENINSULA AIRPORT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

Note 2: Cash and Investments (Continued)

b. Investments Permitted

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

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

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

c. Investments

The following is a summary of the District's investments at June 30, 2020:

	Fair Value	(Maturity in Years)		Credit Ratings (Standard & Poor's)
		Less than 1	1 - 5	
Negotiable certificates of deposits	\$ 2,184,691	\$ 841,301	\$ 1,343,390	Not Rated
Local Agency Investment Fund	2,607,666	2,607,666	-	Not Rated
Total investment	<u>\$ 4,792,357</u>	<u>\$ 3,448,967</u>	<u>\$ 1,343,390</u>	

The following is a summary of the District's investments at June 30, 2019:

	Fair Value	(Maturity in Years)		Credit Ratings (Standard & Poor's)
		Less than 1	1 - 5	
Negotiable certificates of deposits	\$ 2,728,247	\$ 599,945	\$ 2,128,302	Not Rated
Local Agency Investment Fund	2,547,715	2,547,715	-	Not Rated
Total investment	<u>\$ 5,275,962</u>	<u>\$ 3,147,660</u>	<u>\$ 2,128,302</u>	

The District is a voluntary participant in the LAIF that is governed by the California Government Code under the oversight of the Local Investment Advisory Board (Board). The board consists of five members as designated by state statute. The fair value of the District's investment in the LAIF pool is reported in the accompanying financial statements at amounts based upon the District's pro rata share of the fair value provided by LAIF, for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis, which is different from the fair value of the District's position in the LAIF pool. LAIF is not rated by rating agencies. The weighted average maturity of LAIF at June 30, 2019 and 2018 was 173 and 193 days, respectively.

MONTEREY PENINSULA AIRPORT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

Note 2: Cash and Investments (Continued)

As of June 30, 2020, and 2019, the District had unrestricted investments of \$2,067,666 and \$2,547,715, respectively invested in LAIF, which had invested 3.37% and 1.77% of the pooled investment funds in Structured Notes and Asset-Backed Securities. LAIF is part of the State's Pooled Money investment Account (PMIA). PMIA has a total of \$101.6 billion and \$105.7 billion in its investment portfolio as of June 30, 2020 and 2019, respectively. The District valued its investments in LAIF as of June 30, 2020 and 2019, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized costs resulting in a factor of 1.004912795 and 1.00171179 as of June 30, 2020 and 2019, respectively.

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

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

d. Restricted Cash and Investments

At June 30, 2020 and 2019, cash and investments were restricted for the following:

	June 30, 2020			June 30, 2019		
	Cash in Bank	Investments	Total	Cash in Bank	Investments	Total
Security deposits from tenants	\$ 451,956	\$ -	\$ 451,956	\$ 443,467	\$ -	\$ 443,467
Passenger facility charge program	1,332,857	779,820	2,112,677	1,410,121	1,008,576	2,418,697
Debt service	1,078	-	1,078	21,348	-	21,348
Customer Facilities Charges	626,199	-	626,199	143,725	-	143,725
Total restricted cash and investments	<u>\$ 2,412,090</u>	<u>\$ 779,820</u>	<u>\$ 3,191,910</u>	<u>\$ 2,018,661</u>	<u>\$ 1,008,576</u>	<u>\$ 3,027,237</u>

MONTEREY PENINSULA AIRPORT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

Note 3: Capital Assets

Capital assets activity for the year ended June 30, 2020 was as follows:

	Balance at June 30, 2019	Additions/ Transfers	Disposals/ Transfers	Balance at June 30, 2020
Capital assets not being depreciated:				
Land	\$ 1,784,717	\$ 2,422,038	\$ -	\$ 4,206,755
Construction in progress	4,513,426	12,204,154	(10,254,573)	6,463,007
Total Capital Assets Not being Depreciated	6,298,143	14,626,192	(10,254,573)	10,669,762
Capital assets being depreciated:				
Intangible assets	23,448,671	163,484	-	23,612,155
Land improvements	86,334,066	2,052,892	-	88,386,958
Buildings and improvements	21,314,152	5,576,600	-	26,890,752
Furniture, equipment and vehicles	7,207,538	39,559	-	7,247,097
Total Capital Assets being Depreciated	138,304,427	7,832,535	-	146,136,962
Less accumulated depreciation for:				
Intangible assets	(21,665,503)	(490,882)	-	(22,156,385)
Land improvements	(33,170,832)	(4,744,323)	-	(37,915,155)
Buildings and improvements	(15,894,344)	(1,068,318)	-	(16,962,662)
Furniture, equipment and vehicles	(3,923,269)	(337,968)	-	(4,261,237)
Less Accumulated Depreciation	(74,653,948)	(6,641,491)	-	(81,295,439)
Total Capital Assets, Being Depreciated, Net	63,650,479	1,191,044	-	64,841,523
Total Capital Assets, Net	\$ 69,948,622	\$ 15,817,236	\$ (10,254,573)	\$ 75,511,285

Construction in progress activity for the year ended June 30, 2020 was as follows:

Projects	Balance July 1, 2019	Additions/ Transfers	Completed Transferred to Depreciable	Balance July 1, 2020
2016-01 NEPA/CEQA Safety Initiative	\$ 2,258,524	\$ 383,569	\$ -	\$ 2,642,093
2017-07 FAA Disparity Study	14,995	9,368	(24,363)	-
2018-04 10R-28L Procedure Development	24,454	187	(24,641)	-
2018-09 Runway 10L-28R Overlay & Papi	1,722,567	136,027	(1,858,594)	-
2019-01 Infield Safety Area Rehab Phase 1	187,551	3,220,670	-	3,408,221
2019-02 RSA MITIGATION - YEAR 4	65,777	-	(65,777)	-
2019-03 Water Distribution System	18,150	7,259	-	25,409
2019-09 Restaurant Asset Purchase	-	114,479	(114,479)	-
2019-10 Land Acquisition	211,160	7,334,800	(7,545,960)	-
2019-11 ARFF BLDG Exhaust	10,248	10,249	(20,497)	-
2020-02 RSA MITIGATION - YEAR 5	-	59,120	(59,120)	-
2020-05 Operations Department - Vehicle	-	39,559	(39,559)	-
2020-06 Inside Terminal Refresh	-	120,606	(120,606)	-
2020-07 Lot Pavement Rehabilitation	-	110,580	(110,580)	-
2020-08 Exterior sign replacement	-	44,770	(44,770)	-
2020-09 Defensible Space Tree Removal	-	69,400	(69,400)	-
2020-10 SWRCB/PFAS Testing Project	-	123,773	-	123,773
2020-11 PG&E Lighting Project	-	156,227	(156,227)	-
2020-12 Northside GA Apron Construction	-	181,804	-	181,804
2020-13 Northeast VSR Improvements	-	81,707	-	81,707
Total	\$ 4,513,426	\$ 12,204,154	\$ (10,254,573)	\$ 6,463,007

MONTEREY PENINSULA AIRPORT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

Note 3: Capital Assets (Continued)

Capital assets activity for the year ended June 30, 2019 was as follows:

	Balance at July 1, 2018	Additions/ Transfers	Disposals/ Transfers	Balance at June 30, 2019
Capital assets not being depreciated:				
Land	\$ 1,784,717	\$ -	\$ -	\$ 1,784,717
Construction in progress	5,037,831	3,346,023	(3,870,428)	4,513,426
Total Capital Assets Not being Depreciated	6,822,548	3,346,023	(3,870,428)	6,298,143
Capital assets being depreciated:				
Intangible assets	21,909,735	1,538,936	-	23,448,671
Land improvements	84,262,484	2,071,582	-	86,334,066
Buildings and improvements	21,278,481	36,659	(988)	21,314,152
Furniture, equipment and vehicles	7,102,148	223,251	(117,861)	7,207,538
Total Capital Assets being Depreciated	134,552,848	3,870,428	(118,849)	138,304,427
Less accumulated depreciation for:				
Intangible assets	(21,185,801)	(479,702)	-	(21,665,503)
Land improvements	(28,359,754)	(4,811,078)	-	(33,170,832)
Buildings and improvements	(15,023,497)	(871,835)	988	(15,894,344)
Furniture, equipment and vehicles	(3,637,940)	(389,745)	104,416	(3,923,269)
Less Accumulated Depreciation	(68,206,992)	(6,552,360)	105,404	(74,653,948)
Total Capital Assets, Being Depreciated, Net	66,345,856	(2,681,932)	(13,445)	63,650,479
Total Capital Assets, Net	\$ 73,168,404	\$ 664,091	\$ (3,883,873)	\$ 69,948,622

Construction in progress activity for the year ended June 30, 2019 was as follows:

Projects	Balance July 1, 2018	Additions/ Transfers	Completed Transferred to Depreciable	Balance July 1, 2019
2013-02 Airport Master Plan	\$ 1,177,274	\$ -	\$ (1,177,274)	\$ -
2015-03 Infield Safety Area Rehabilitation - Phase 1	313,147	48,515	(361,662)	-
2016-01 NEPA/CEQA Safety Initiative	1,753,766	504,758	-	2,258,524
2017-06 Airfield Electrical Vault Upgrade	1,598,387	104,462	(1,702,849)	-
2017-07 FAA Disparity Study	6,990	8,005	-	14,995
2018-04 10R-28L Procedure Development	21,080	3,374	-	24,454
2018-09 Runway 10L-28R Overlay & Papi	167,187	1,555,380	-	1,722,567
2019-01 Infield Safety Area Rehab Phase 1	-	187,551	-	187,551
2019-02 RSA MITIGATION - YEAR 4	-	65,777	-	65,777
2019-03 Water Distribution System	-	18,150	-	18,150
2019-04 ARFF Vehicle Purchase	-	223,250	(223,250)	-
2019-05 Inside Terminal Refresh	-	36,659	(36,659)	-
2019-06 Pavement Rehabilitation	-	336,440	(336,440)	-
2019-07 RV LOT 2 Construction	-	32,294	(32,294)	-
2019-10 Land Acquisition	-	211,160	-	211,160
2019-11 ARFF BLDG Exhaust	-	10,248	-	10,248
Total	\$ 5,037,831	\$ 3,346,023	\$ (3,870,428)	\$ 4,513,426

MONTEREY PENINSULA AIRPORT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019**

Note 3: Capital Assets (Continued)

At June 30, 2020 and 2019, intangible assets consist of the following:

	2020	2019
Noise safety study and sound proofing easements	\$ 21,549,357	\$ 21,549,356
Master Plan	1,747,376	1,747,376
Wildlife hazard assesment plan	151,939	151,939
East End Visual Approach Procedure Development	24,641	-
FAA Disparity Study	24,363	-
Golden Tee	114,479	-
Total intangible assets, gross	23,612,155	23,448,671
Less accumulated amortization	(22,156,385)	(21,665,503)
Total intangible assets, net	<u>\$ 1,455,770</u>	<u>\$ 1,783,168</u>

Note 4: Accrued Liabilities

At June 30, 2020 and 2019, accrued liabilities consist of the following:

	2020	2019
Accrued employee benefits	\$ 34,129	\$ 31,630
Accounts payable	2,484,140	605,432
Other accrued expenses	33,487	30,439
Total accrued liabilities	<u>\$ 2,551,756</u>	<u>\$ 667,501</u>

Note 5: Accrued Compensated Absences

A summary of the changes in compensated absences for the year ended June 30, 2020 is as follows:

Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Due in One Year
\$ 146,977	\$ 63,035	\$ 34,662	\$ 175,350	\$ 33,432

A summary of the changes in compensated absences for the year ended June 30, 2019 is as follows:

Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due in One Year
\$ 234,918	\$ 177,871	\$ 265,812	\$ 146,977	\$ 20,956

MONTEREY PENINSULA AIRPORT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

Note 6: Long-Term Obligations

A summary of the changes in long-term obligations for the year ended June 30, 2020 is as follows:

Notes From Private Borrowings and Direct Placements	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Due in One Year
Due to the City of Monterey (Note 11)	\$ 79,864	\$ -	\$ 19,966	\$ 59,898	\$ 19,966
Pension obligation bonds	1,068,000	-	341,000	727,000	356,000
CEC secured loan	2,802,761	-	151,978	2,650,783	153,577
PG&E Loan	-	156,227	184	156,043	41,073
Total	<u>\$ 3,950,625</u>	<u>\$ 156,227</u>	<u>\$ 513,128</u>	<u>\$ 3,593,724</u>	<u>\$ 570,616</u>

A summary of the changes in long-term obligations for the year ended June 30, 2019 is as follows:

Notes From Private Borrowings and Direct Placements	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due in One Year
Due to the City of Monterey (Note 11)	\$ 99,831	\$ -	\$ 19,967	\$ 79,864	\$ 19,966
Pension obligation bonds	1,394,000	-	326,000	1,068,000	341,000
CEC secured loan	2,931,320	-	128,559	2,802,761	151,979
Total	<u>\$ 4,425,151</u>	<u>\$ -</u>	<u>\$ 474,526</u>	<u>\$ 3,950,625</u>	<u>\$ 512,945</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 six months as set forth in the Indenture of Trust. This obligation was incurred to retire a previously unrecorded liability between the District’s funded status of the CalPERS plan versus the funded status of the entire risk pool. The outstanding note from this direct borrowing contains a provision that in the occurrence or continuation of any event of default the trustee, at the written direction of the bond owners, must declare the principal of the bonds, together with the accrued interest, to be due and payable immediately and may exercise any other remedies available to the trustee and bond owners in law or at equity to enforce the rights of the bond owners. In addition, upon the occurrence and during the continuation of an event of default, interest on the bonds shall accrue at the default rate.

The future debt service requirements for the pension obligation bonds at June 30, 2020 are as follows:

Year	Principal	Interest	Total Requirement
2021	\$ 356,000	\$ 28,072	\$ 384,072
2022	371,000	12,254	383,254
Total	<u>\$ 727,000</u>	<u>\$ 40,326</u>	<u>\$ 767,326</u>

MONTEREY PENINSULA AIRPORT DISTRICT**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019****Note 6: Long-Term Obligations (Continued)**

California Energy Commission (CEC) Solar Array Loan - In May 2017, the Monterey Peninsula Airport District entered into a construction loan from the CEC to assist in the development of a 3-acre solar farm to power the District's operations. The CEC construction loan provided a maximum amount of \$3,000,000 at 1.00% per annum for a period of 16.1 years. The District requested and received reimbursements from the CEC loan totaling \$2,650,783 as of June 30, 2019. The 2020 payment includes the principal reduction and accrued interest during construction and the first year of operation. The remainder of the CEC loan will be repaid through the Airport's electricity savings earned from the solar farm. The solar farm was operational in November of fiscal year 2018. The outstanding note from this direct borrowing contains a provision that in the occurrence of any event of default, the Energy Commission may, to the extent permitted by law, declare all or any portion of the principal and accrued interest on this promissory note to be immediately due and payable.

The future debt service requirements for the California Energy Commission (CEC) Loan at June 30, 2020 are as follows:

Year	Principal	Interest	Total Requirement
2021	\$ 153,577	\$ 26,126	\$ 179,703
2022	155,117	24,586	179,703
2023	156,672	23,031	179,703
2024	158,185	21,518	179,703
2025	159,828	19,875	179,703
2026-2030	823,457	75,058	898,515
2031-2035	865,587	32,928	898,515
2036	178,360	895	179,255
Total	<u>\$ 2,650,783</u>	<u>\$ 224,017</u>	<u>\$ 2,874,800</u>

Pacific Gas & Electric (PG&E) Loan – On November 15, 2019 the District approved two PG&E no-interest loans for upgrading parking lot and terminal lighting to newer LED fixtures and lights. On June 3, 2020 Loan TIF 010101 with a balance of \$145,762, payment terms of 45 months with monthly payments of \$3,239 was signed and project work was scheduled to be complete in July 2020. On June 9, 2020 Loan TIF 010598 with a balance of \$10,464, payment terms of 57 with months payments of \$184 per month was signed and the project was completed in June 2020. The PG&E loans have been combined in the financial statements with a total balance of \$156,043 at June 30, 2020.

The future debt service requirements for the PG&E loan at June 30, 2020, are as follows:

Year	Principal
2021	\$ 41,073
2022	41,073
2023	41,073
2024	31,355
2025	1,469
Total	<u>\$ 156,043</u>

MONTEREY PENINSULA AIRPORT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

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 under long-term leases with terms from 5 – 60 years. Rental revenues from these operating leases were \$2,697,676 and \$2,321,005, included in terminal leases and concessions, for the years ended June 30, 2020 and 2019, respectively. The cost of property held for leasing is not readily determinable.

Future minimum rentals on noncancelable leases as of June 30, 2020 are as follows:

Year	Total Payment
2021	\$ 2,759,539
2022	2,831,191
2023	2,892,685
2024	2,812,269
2025	2,695,832
2026-2030	11,856,008
2031-2035	10,707,527
2036-2040	11,223,354
2041-2045	11,323,463
2046-2050	3,744,295
2051-2054	440,491
Total	<u>\$ 63,286,654</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.

MONTEREY PENINSULA AIRPORT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

Note 8: Pension Plan (Continued)

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

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

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

The Plans' provisions and benefits in effect at the measurement date, are summarized as follows:

	Fire	Police	PEPRA Police	Misc.	PEPRA Misc
	Prior to 1/1/2013	Prior to 1/1/2013	On/after 1/1/2013	Prior to 1/1/2013	On/after 1/1/2013
Hire date	1/1/2013	1/1/2013	1/1/2013	1/1/2013	1/1/2013
Benefit formula	3% @ 50	3% @ 50	2.7% @ 57	2% @ 55	2% @ 62
	5 years	5 years	5 years	5 years	5 years
Benefit vesting schedule	service	service	service	service	service
	monthly for life	monthly for life	monthly for life	monthly for life	monthly for life
Benefit payments	life	life	life	life	life
Retirement age	50 & Up	50 & Up	57 & Up	55 & Up	62 & Up
Monthly benefits, as a percentage of eligible compensation	3.00%	3.00%	2.70%	1.426%- 2.418%	2.00%
Required employee contribution rates	0.00%	9.00%	11.50%	7.00%	6.25%
Required normal employer contribution rates	0.00%	20.56%	12.14%	9.41%	6.84%
Required employer payment of unfunded liability	\$302,786	\$112,108	\$345	\$113,335	\$442

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

For the years ended June 30, 2020 and 2019, the employer contributions recognized as a reduction to the net pension liability were \$677,943, and \$634,069, respectively.

MONTEREY PENINSULA AIRPORT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019**

Note 8: Pension Plan (Continued)

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

As of June 30, 2020, and 2019, the District's reported total net pension liability of \$9,592,973 and \$8,886,130, respectively, for its proportionate shares of the net pension liability. The District's net pension liability is measured as the proportionate share of the net pension liability of the cost-sharing plan. The net pension liability at June 30, 2020 and 2019, of the Plan is measured as of June 30, 2019 and 2018 (measurement dates), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 and 2017, respectively, rolled forward to June 30, 2019 and 2018 using standard update procedures. The District's proportion of the net pension liability was based on the District's total pension liability based on the District's share of the actuarial accrued liability of the cost-sharing plan less the District's share of the fiduciary net position based on the District's share of the market value of assets in the cost-sharing plan. The District's proportionate share of the net pension liability for the Plan as of the measurement dates June 30, 2019 and 2018, were 0.09362% and 0.09222%, respectively.

For the years ended June 30, 2020 and 2019, the District recognized pension expense of \$1,629,066 and \$953,716, respectively. At June 30, 2020 and 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

June 30, 2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 796,495	\$ -
Differences between expected and actual experiences	636,612	13,284
Change in assumptions	409,730	98,715
Net differences between projected and actual earnings on pension plan investments	-	141,167
Adjustment due to difference in proportions	209,261	65,834
Differences between actual contributions and the proportionate share of contributions	-	582,741
Total	<u>\$ 2,052,098</u>	<u>\$ 901,741</u>

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

June 30, 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 677,943	\$ -
Differences between expected and actual experiences	223,676	29,712
Change in assumptions	884,576	147,422
Net differences between projected and actual earnings on pension plan investments	54,504	-
Adjustment due to difference in proportions	269,861	148,127
Differences between actual contributions and the proportionate share of contributions	-	509,214
Total	<u>\$ 2,110,560</u>	<u>\$ 834,475</u>

MONTEREY PENINSULA AIRPORT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019**

Note 8: Pension Plan (Continued)

At June 30, 2020 and 2019, the District reported \$796,495 and \$677,943, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the years ended June 30, 2021 and 2020, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Deferred Outflows/(Inflows) of Resources
2021	\$ 454,748
2022	(157,168)
2023	28,491
2024	27,791
Total	<u>\$ 353,862</u>

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

	2020	2019
Valuation Date	June 30, 2018	June 30, 2017
Measurement Date	June 30, 2019	June 30, 2018
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions		
Discount Rate	7.15%	7.15%
Inflation	2.50%	2.50%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	2.5% depending on Age, Service, and Type of Employment	3.30% to 14.20% depending on Age, Service, and Type of Employment
Investment Rate of Return	7.15% net of pension plan investment expenses, includes inflation Derived using CalPERS' Membership Data for all Funds	7.15% net of pension plan investment expenses, includes inflation Derived using CalPERS' Membership Data for all Funds
Mortality		

The mortality table used in the June 30, 2018 and 2017 valuation was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

All other actuarial assumptions used in the June 30, 2018 and 2017 valuations were based on the results of an actuarial experience study for the period 1997 to 2015, including updates to salary increase, mortality and retirement rates. Further details of the experience study can be found on the CalPERS website under Forms and Publications.

MONTEREY PENINSULA AIRPORT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

Note 8: Pension Plan (Continued)

Changes of Assumptions – No changes in assumptions.

Discount Rate – The discount rates used to measure the total pension liability at June 30, 2020 and 2019 were both 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The expected real rates of return by asset class are as followed:

The target allocation for the June 30, 2020 measurement date was as follows:

Asset Class	Current Target Allocation	Real Return Year 1-10 (a)	Real Return Year 1-10 (b)
Global Equity	50.00%	4.80%	5.98%
Global Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

(a) An expected inflation of 2.00% used for this period.

(b) An expected inflation of 2.92% used for this period.

MONTEREY PENINSULA AIRPORT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019**

Note 8: Pension Plan (Continued)

The target allocation for the June 30, 2019 measurement date was as follows:

Asset Class	Current Target Allocation	Real Return Year 1-10 (a)	Real Return Year 1-10 (b)
Global Equity	50.00%	4.80%	5.98%
Global Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

(a) An expected inflation of 2.00% used for this period.

(b) An expected inflation of 2.92% used for this period.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability of the Plan as of the June 30, 2019 measurement date, calculated using the discount rate of 7.15 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

Decrease Rate -1% (6.15%)	Current Discount Rate (7.15%)	Decrease Rate + 1% (8.15%)
\$ 14,442,637	\$ 9,592,973	\$ 5,609,000

The following presents the District's proportionate share of the net pension liability of the Plan as of the June 30, 2018 measurement date, calculated using the discount rate of 7.15 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

Decrease Rate -1% (6.15%)	Current Discount Rate (7.15%)	Decrease Rate + 1% (8.15%)
\$ 13,566,944	\$ 8,886,130	\$ 5,042,689

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

MONTEREY PENINSULA AIRPORT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

Note 9: Other Post-Employment 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.

Number of Covered Employees

At June 30, 2020 and June 30, 2019 reporting dates, the following numbers of employees were covered

Measurement Date	6/30/2019	6/30/2018
Active	24	28
Retirees	15	15
Total	39	43

Contributions

The District's contribution for each miscellaneous and public safety retiree is the CalPERS mandatory employer portion of the health care premium. The District's contribution for each public safety police retiree is up to 90% of the health care premium (including the mandatory employer portion). The District currently contributes enough funds to the Retiree Health Plan to satisfy current obligations on a pay-as-you-go basis. The District does not have any assets segregated and restricted to provide funds towards the Retiree Health Plan. The contributions made to fund the Retiree Health Plan for the measurement periods ended June 30, 2019 and 2018 were \$83,376 and \$69,698, respectively.

Employer's Total OPEB Liability

The total OPEB liability as of June 30, 2020 and 2019 are presented below:

For Reporting at Fiscal Year End	June 30, 2020	June 30, 2019
<i>Measurement Date</i>	<i>6/30/2019</i>	<i>6/30/2018</i>
Total OPEB Liability	\$ 2,052,174	\$ 2,671,325

MONTEREY PENINSULA AIRPORT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

Note 9: Other Post-Employment Benefits (Continued)

Significant Actuarial Assumptions Used in Calculating the Total OPEB Liability

The total OPEB liability was determined by an actuarial valuation as of June 30, 2019 using the following actuarial assumptions:

Valuation date	June 30, 2019
Funding Method	Entry Age Normal Cost, level percent of pay
Asset Valuation Method	Market value of assets (\$0; plan is not yet funded)
Discount Rate	2.98% as of June 30, 2018
Discount Rate	2.79% as of June 30, 2019
Participants Valued	Only current active employees and retired participants and covered dependents are valued. No future errands are considered in this valuation.
Salary Increase	3.00% per year; since benefits do not depend on pay, this is used only to allocate the costs of benefits between service years.
Assumed Wage Inflation	3.0% per year: a component of assumed salary increases.
General Inflation Rate	2.5% per year

Discount Rate

When an agency finances retiree benefits on a pay-as-you-go basis, GASB Statement No. 75 requires the use of a discount rate equal to a 20-year high grade municipal bond rate. The District intends to continue financing its OPEB liability on a pay-as-you-go basis. Therefore, the District's discount rate used in this valuation is based on the S&P Municipal Bond 20 Year High Grade Index. As of the beginning and end of the Measurement Period this index requires use of discount rates of 2.79% as of June 30, 2019 and 2.98% as of June 30, 2018.

Changes in the Total OPEB Liability

The following table shows the changes in the total OPEB liability for the years ended June 30, 2020 and June 30, 2019, respectively:

For Reporting at Fiscal Year End <i>Measurement Date</i>	June 30, 2020 <i>6/30/2019</i>	June 30, 2019 <i>6/30/2018</i>	Change During Period
Balance at beginning of period	\$ 2,671,325	\$ 2,507,740	\$ 163,585
Changes for the year			
Service cost	95,605	89,300	6,305
Interest	81,212	80,196	1,016
Differences between expected and actual experience	(619,597)	-	(619,597)
Changes of assumptions	(92,995)	63,787	(156,782)
Benefit payments	(83,376)	(69,698)	(13,678)
Net Changes	(619,151)	163,585	(782,736)
Balance at end of period	<u>\$ 2,052,174</u>	<u>\$ 2,671,325</u>	<u>\$ (619,151)</u>

MONTEREY PENINSULA AIRPORT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019**

Note 9: Other Post-Employment Benefits (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement periods ended June 30, 2019 and June 30, 2018:

Measurement Period	1% Decrease	Current Discount Rate	1% Increase
June 30, 2019	(1.79%)	(2.79%)	(3.79%)
Total OPEB Liability	\$ 2,386,958	\$ 2,052,174	\$ 1,786,406

Measurement Period	1% Decrease	Current Discount Rate	1% Increase
June 30, 2018	(1.98%)	(2.98%)	(3.98%)
Total OPEB Liability	\$ 3,165,767	\$ 2,671,325	\$ 2,288,378

Sensitivity of the Total OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the Total OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2019 and June 30, 2018:

Measurement Period	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
June 30, 2019	(6% decreasing to 4%)	(7% decreasing to 5%)	(8% decreasing to 6%)
Total OPEB Liability	\$ 1,783,993	\$ 2,052,174	\$ 2,386,515

Measurement Period	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
June 30, 2018	(7% decreasing to 4%)	(8% decreasing to 5%)	(9% decreasing to 6%)
Total OPEB Liability	\$ 2,317,859	\$ 2,671,325	\$ 3,265,477

OPEB Expense for Fiscal Year

For the year ended June 30, 2020, the District recognized OPEB expense of \$41,960. For the year ended June 30, 2019, the District recognized OPEB expense of \$147,213.

MONTEREY PENINSULA AIRPORT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019**

Note 9: Other Post-Employment Benefits (Continued)

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

At June 30, 2020, the District reported deferred outflows of resources and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	\$ 52,955	\$ 184,106
Differences Between Expected and Actual Experience	-	521,715
Net Difference Between Projected and Actual Earnings on Investments	-	-
Contributions Made Subsequent to the Measurement Date	80,340	-
Total	<u>\$ 133,295</u>	<u>\$ 705,821</u>

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

For the Fiscal Year Ending June 30	Recognized Deferred Outflows (Inflows) of Resources
2021	\$ (134,857)
2022	(134,857)
2023	(130,213)
2024	(103,217)
2025	(112,574)
Thereafter	(37,148)
Total	<u>\$ (652,866)</u>

At June 30, 2019, the District reported deferred outflows of resources and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	\$ 52,901	\$ 128,032
Differences Between Expected and Actual Experience	-	-
Net Difference Between Projected and Actual Earnings on Investments	-	-
Contributions Made Subsequent to the Measurement Date	83,376	-
Total	<u>\$ 136,277</u>	<u>\$ 128,032</u>

MONTEREY PENINSULA AIRPORT DISTRICT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019**

Note 9: Other Post-Employment Benefits (Continued)

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

For the Fiscal Year Ending June 30	Recognized Deferred Outflows (Inflows) of Resources
2020	\$ (22,283)
2021	(22,283)
2022	(22,283)
2023	(17,639)
2024	9,357
Total	<u>\$ (75,131)</u>

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 in excess of the District's insurance coverage in any of the past three years.

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

The District's deductibles and maximum coverage follows:

Coverage	Deductible	Coverage (aggregate)
Buildings & Business Personal Property		
Except Tools & Maintenance Equipment	\$ 10,000	\$ 52,993,233
Tools & Maintenance Equipment	1,000	
Boiler & Machinery	50,000	31,180,175
Solar Package	5,000/50,000	3,035,000
Automobile	2,500	1,000,000
Fire Truck Physical Damage	5,000	3,017,256
Airport Liability		50,000,000
Bodily Injury & Property	10,000 per occurrence	
Personal Injury	10,000 per occurrence	
Combined	10,000 per occurrence	
Public Officials Liability	100,000	5,000,000
Fiduciary Liability	5,000	1,000,000
Crime	5,000	1,000,000

MONTEREY PENINSULA AIRPORT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

Note 10: Risk Management (Continued)

Workers' Compensation Insurance

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

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

Note 11: Commitments and Contingencies

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

Grants and Contracts – The District participates in various federally assisted grant programs that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements, 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 a fire and emergency services staffing agreement. The City will provide all staff required to operate the District's fire station and provide Airport Rescue Fire Fighting (ARFF) and on Airport Structural Fire Fighting (ASFF) services. The District would provide the fire station and associated equipment, and the ARFF and ASFF fire trucks. The City can house additional staff and fire trucks, and dispatch City fire trucks from the District fire house to service City public properties along the Highway 68 corridor and for Statewide mutual aid and assistance services.

Included in this initial contract the District transferred to the City its unused and unpaid compensated absence balances excluding sick leave in the amount of \$199,661 of which \$59,898 and \$79,864 remains outstanding on June 30, 2020 and 2019, respectively. The District reimburses the City at a rate of 10% per year or \$19,666 for a period of ten years until the City is compensated for the initial value of the unpaid sick leave balance.

The initial term of the agreement is from January 1, 2014, through July 1, 2019, with an automatic extension in five-year terms unless either party gives written notice of its intent to allow the agreement to lapse. In consideration for these services, the District agreed to compensate the City with an initial Fire Service Fee (Fee) in the amount of \$1,650,000 per fiscal year, payable monthly. The initial Fee would be adjusted each fiscal year using the All Urban Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the San Francisco-Oakland-San Jose Metropolitan Area.

In March 2019, the District adopted a resolution for a new fire and emergency services staffing agreement between the District and the City of Monterey (City) to provide staff for fire and emergency services to the District and the City's public properties along the Highway 68 corridor. The initial term of the renewed agreement is from July 1, 2019 through June 30, 2023, with an option to extend in five-year terms, however the extension is not automatic.

MONTEREY PENINSULA AIRPORT DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

Note 11: Commitments and Contingencies (Continued)

The Fees for the new contract were adjusted to recognize the District's contribution of the fire station for the City's use as a base for servicing the public properties along the Highway 68 corridor. In the table below are the Fees included in the renewal. In fiscal year 2023-2024 Fees will be subject to a True-Up provision where the City can propose adjustments based on fiscal year 2022-2023 actual operating costs.

Fire Service Fee Schedule. Fees for service shall be as follows for the term of this Agreement:

For the Fiscal Year Ending June 30	Fire Service Fee
2021	\$ 1,503,322
2022	1,344,720
2023	1,344,720
2024	1,344,720
Total	<u>\$ 5,537,482</u>

COVID-19 National Health Emergency – On March 15, 2020, the District's operations were impacted by the COVID-19 national health emergency which resulted in shelter in place orders by national, state and county health departments. The District implemented customer, tenant and staff safety procedures based on recommendations from the health departments and industry specialists. Terminal cleaning and disinfecting protocols were implemented, separation markers for social distancing were placed in the terminal and staff worked split schedules to reduce contact in all departments.

The District's commercial and general aviation services decreased significantly, local transportation and parking services concessions followed the decrease in aviation services and terminal food concessions were instructed by the county health department to discontinue services. Initially air carrier enplanements decreased by approximately 97%, general aviation services decreased 90% and concessions followed with similar changes in business.

Over the following months various changes in the commercial and general aviation services began to emerge. New operating and safety procedures were recommended by health departments and industry specialists, and aviation activities slowly started to improve. By June 30, 2020 commercial airlines were operating 5 or 6 daily flights, general aviation was operating at approximately 50% of prior year levels and concessions implemented safety procedures to allow for partial services.

To provide temporary relief to governments in lights of the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress and signed into law by the President on March 27th, 2020. Included in the CARES Act was \$12 million approved aid for the District, funded by the FAA through the Airport Improvement Program.

Forbearance Communications – Umpqua Bank – In 2012 the District issued Taxable Pension Obligation Bonds (POB) to pay off specific CalPERS retirement accounts. The POB includes debt covenants that require the District to maintain various operating ratios until the bonds are paid in full. Covenant 5.09(b) requires that the District maintain an annual operating income of 125% of the annual debt service. Due to the COVID-19 national health emergency and subsequent abatements provided to tenants, District staff recognized to possibility that fiscal year 2019-20 operating income may fall below the 5.09(b) covenant ratio. In May 2020 District Staff began proactive communication with the bond holder, Umpqua Bank, regarding the expected shortfall in operating income and expects a forbearance of Covenant 5.09(b) to be granted.

MONTEREY PENINSULA AIRPORT DISTRICT

**COST SHARING MULTIPLE-EMPLOYER PLAN
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)**

	2015	2016	2017	2018	2019	2020
<i>Measurement Period</i>	2014	2015	2016	2017	2018	2019
Miscellaneous Rate Plan						
Rate Plan's Proportion of the Net Pension Liability	0.02158%	0.02008%	0.02172%	0.02270%	0.02308%	0.02409%
Rate Plan's Proportionate Share of the Net Pension Liability	\$ 1,342,879	\$ 1,378,489	\$ 1,879,150	\$ 2,251,219	\$ 2,223,790	\$ 2,468,530
Rate Plan's Covered Payroll	\$ 1,921,962	\$ 1,723,531	\$ 1,677,728	\$ 1,577,199	\$ 1,671,567	\$ 1,783,112
Rate Plan's Proportionate Share of the Net Pension Liability as Percentage of Covered Payroll	69.87%	79.98%	112.01%	142.74%	133.04%	138.44%
Safety Rate Plan						
Rate Plan's Proportion of the Net Pension Liability	0.06163%	0.06574%	0.06681%	0.06670%	0.06914%	0.06953%
Rate Plan's Proportionate Share of the Net Pension Liability	\$ 3,834,741	\$ 4,512,232	\$ 5,781,218	\$ 6,614,914	\$ 6,662,340	\$ 7,124,443
Rate Plan's Covered Payroll	\$ 1,330,599	\$ 549,603	\$ 601,667	\$ 547,264	\$ 643,653	\$ 188,737
Rate Plan's Proportionate Share of the Net Pension Liability as Percentage of Covered Payroll	288.20%	821.00%	960.87%	1208.72%	1035.08%	3774.80%
Total Plan						
Plan Proportion of the Net Pension Liability	0.08321%	0.08582%	0.08853%	0.08940%	0.09222%	0.09362%
Plan Proportionate Share of the Net Pension Liability	\$ 5,177,620	\$ 5,890,721	\$ 7,660,368	\$ 8,866,133	\$ 8,886,130	\$ 9,592,973
Plan Covered Payroll	\$ 3,252,561	\$ 2,273,134	\$ 2,279,395	\$ 2,124,463	\$ 2,315,220	\$ 1,971,849
Plan Proportionate Share of the Net Pension Liability as Percentage of Covered Payroll	159.19%	259.15%	336.07%	417.34%	383.81%	486.50%
The Pension Plan's (PERF-C) Fiduciary Net Position as a Percentage of the Total Pension Liability	80.43%	78.40%	74.06%	73.31%	75.26%	75.26%

Notes to Schedule:

Benefit Changes: There were no changes to benefit terms. However, the figures above do not include any liability impact that may have resulted from plan changes which occurred after the measurement dates. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2019, there were no changes. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate in 2018. In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amount reported were based on the 7.5 percent discount rate.

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only six years are shown.

MONTEREY PENINSULA AIRPORT DISTRICT

**COST SHARING MULTIPLE-EMPLOYER PLAN
SCHEDULE OF PLAN CONTRIBUTIONS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)**

	2015	2016	2017	2018	2019	2020
Miscellaneous Rate Plan						
Actuarially Determined Contribution	\$ 181,461	\$ 183,331	\$ 186,903	\$ 204,396	\$ 246,088	\$ 279,219
Contribution in Relation to the Actuarially Determined Contribution	(181,461)	(183,331)	(186,903)	(204,396)	(246,088)	(279,219)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 1,723,531	\$ 1,677,728	\$ 1,577,199	\$ 1,671,567	\$ 1,783,112	\$ 1,751,206
Contributions as a Percentage of Covered Payroll	10.53%	10.93%	11.85%	12.23%	13.80%	15.94%
Safety Rate Plan						
Actuarially Determined Contribution	\$ 135,343	\$ 294,509	\$ 371,546	\$ 429,673	\$ 431,855	\$ 517,276
Contribution in Relation to the Actuarially Determined Contribution	(135,343)	(294,509)	(371,546)	(429,673)	(431,855)	(517,276)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 549,603	\$ 601,667	\$ 547,264	\$ 643,653	\$ 188,737	\$ -
Contributions as a Percentage of Covered Payroll	24.63%	48.95%	67.89%	66.76%	228.81%	0.00%
Total Plan						
Actuarially Determined Contribution	\$ 316,804	\$ 477,840	\$ 558,449	\$ 634,069	\$ 677,943	\$ 796,495
Contribution in Relation to the Actuarially Determined Contribution	(316,804)	(477,840)	(558,449)	(634,069)	(677,943)	(796,495)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 2,273,134	\$ 2,279,395	\$ 2,124,463	\$ 2,315,220	\$ 1,971,849	\$ 1,751,206
Contributions as a Percentage of Covered Payroll	13.94%	20.96%	26.29%	27.39%	34.38%	45.48%

- (1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only six years are shown.
(2) The District is required to contribute to the Safety Rate Plan even though there is no Covered Payroll.

Note to Schedule:

Valuation Date: June 30, 2017

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method
Amortization method

Entry Age Normal Cost Method

Level percentage of pay, a summary of the current policy is provided in the table below:

Driver	(Gain)/Loss		Source		
	Investment	Non-investment	Assumption/ Method Change	Benefit Change	Golden Handshake
Amortization Period	30 years	30 Years	20 Years	20 Years	5 Years
Escalation Rate					
- Active Plans	2.875%	2.875%	2.875%	2.875%	2.875%
- Inactive Plans	0%	0%	0%	0%	0%
Ramp Up	5	5	5	0	0
Ramp Down	5	5	5	0	0

Asset valuation method
Inflation
Payroll Growth
Projected Salary Increases
Investment Rate of Return
Retirement Age

Direct rate smoothing

2.63%

2.88%

Varies by Entry Age and Service

7.00% (net of pension plan investment and administrative expenses, includes inflation)

All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report may be accessed on the CalPERS website at www.calpers.ca.gov under Forms and Publications.

Mortality

The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using 90 percent of Society of Actuaries' Scale 2016. For more details on this table, please refer to the 2017 experience study report.

MONTEREY PENINSULA AIRPORT DISTRICT

**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)**

	2018	2019	2020
Total OPEB Liability			
Service cost	\$ 96,514	\$ 89,300	\$ 95,605
Interest on the total OPEB liability	71,052	80,196	81,212
Actual and expected experience difference	-	-	(619,597)
Changes in assumptions	(194,370)	63,787	(92,995)
Changes in benefit terms	-	-	-
Benefit payments	(40,270)	(69,698)	(83,376)
Net change in total OPEB liability	(67,074)	163,585	(619,151)
Total OPEB liability - beginning	2,574,814	2,507,740	2,671,325
Total OPEB liability - ending	\$ 2,507,740	\$ 2,671,325	\$ 2,052,174
Covered-employee payroll	\$ 2,115,913	\$ 2,266,251	\$ 2,059,685
Total OPEB liability as a percentage of covered-employee payroll	118.52%	117.87%	99.64%

(1) Historical information is required only for the measurement periods for which GASB 75 is applicable. Fiscal Year 2018 was the first year of implementation. Future years' information will be displayed up to 10 years as information becomes available.

Notes to Schedule: None

Changes in assumptions: In 2019, the discount rate used to value the liability was changed from 2.98% as of June 30, 2018 to 2.79%. In 2018, the discount rate used to value the liability was changed from 3.13% as of June 30, 2017 to 2.98%.

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INDEPENDENT AUDITORS' 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 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, the financial statements of the Monterey Peninsula Airport District (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 9, 2020.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an 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 a 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 charged 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify the following deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies: 2020-001.

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 financial statements. 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*.





Board of Directors
Monterey Peninsula Airport District
Monterey, California

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sacramento, California
December 9, 2020



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Monterey Peninsula Airport District
Monterey, California

Report on Compliance for Each Major Federal Program

We have audited the Monterey Peninsula Airport District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2020. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for 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, 2020.



Board of Directors
Monterey Peninsula Airport District
Monterey, California

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated December 9, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.



Board of Directors
Monterey Peninsula Airport District
Monterey, California

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

Lance, Solt & Loughard, LLP

Sacramento, California
December 9, 2020

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MONTEREY PENINSULA AIRPORT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Expenditures</u>
<u>U.S. Department of Transportation</u>			
Federal Aviation Administration			
Airport Improvement Program*	20.106	DTFA08-06-C-31719	\$ 10,268,951
CARES Act Airport Grants*	20.106	MRY-WPG-3-06-0159- 071-2020	<u>1,279,637</u>
Total U.S. Department of Transportation			<u>11,548,588</u>
<u>U.S. Department of Homeland Security</u>			
Transportation Security Administration			
Law Enforcement Officer Reimbursement Program	97.090	HSTS02-16-H-SLR640	<u>117,440</u>
Total U.S. Department of Homeland Security			<u>117,440</u>
Total Federal Expenditures			<u>\$ 11,666,028</u>

* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: Total amount provided to subrecipients during the year was \$0.

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MONTEREY PENINSULA AIRPORT DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the Monterey Peninsula Airport District (the District), that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the District from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting. Under the accrual basis of accounting, expenditures are incurred when the District becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program. The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

c. 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.

d. Relationship to Basic Financial Statements

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

MONTEREY PENINSULA AIRPORT DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? ☒ yes ☐ none reported
 - Material weaknesses identified? ☐ yes ☒ no
- Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? ☐ yes ☒ none reported
- Material weaknesses identified? ☐ yes ☒ no

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)?

☐ yes ☒ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

20.106

Airport Improvement Program

Dollar threshold used to distinguish between type A and type B program

\$750,000

Auditee qualified as low-risk auditee?

☒ yes ☐ no

MONTEREY PENINSULA AIRPORT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS

Accrued Liabilities, Capital Assets, & SEFA/ Significant Deficiency

Reference number: 2020-001

Condition:

As a result of the search of unrecorded liabilities, we noted two invoices relating to expenditures incurred prior to June 30, 2020 and paid subsequently that were not accrued for the fiscal year ending June 30, 2020 in the amount of \$1,779,518. In addition, capital expenditures were not properly accrued related to known and likely reimbursable costs for which corresponding receivable and revenue amounts were not properly recorded. Material adjustment was required to properly increase construction-in-progress balances as well as the related accounts payable balances. As these capitals' costs relate to federally reimbursable costs funded through the Airport Improvement Program, an adjustment was required to properly state the District's Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year ended June 30, 2020.

Criteria:

Expenses should be recognized when incurred and based on the period of services performed. In addition, receivable amounts for reimbursable costs are recorded when likely and known payment is expected.

Cause of Condition:

The District had not reviewed all invoices received subsequent to fiscal year end to verify for proper accrual.

Effect of Condition:

As a result of our audit procedures, it was identified that construction-in-progress balances as well as accounts payable balances were understated by \$1,779,518. It was also identified that the SEFA was understated by the same amount.

Questioned Costs:

None

Recommendation:

We recommend that management perform cutoff procedures and carefully review subsequent invoices for potential accruals to ensure that items related to the prior fiscal year are properly recorded.

Management's Response and Corrective Action:

During the FY20 annual audit LSL CPA's and Advisors (LSL) identified five June 30, 2020 capital improvement project (CIP) invoices totaling \$1.8M with June 30, 2020 dates that were received after financial cut-off on July 23, 2020 and not included in Accounts Payable accruals. The invoices were received by the Airport around July 31 and were on hold waiting for the independent project management firm to certify the invoices.

The invoices were submitted to Accounts Payable around Friday August 7, 2020 and the invoices were incorrectly coded to July 2020 (a date on the cover letter) and checks were prepared. All checks require two signatures and all checks over \$30,000 require a Board of Director's (BOD) signature and an Airport approved signer signature. The check and the invoices were then forwarded to the Admin Office who notifies a Director that there are checks that require BOD's review and signature. The checks were ultimately signed on August 24 and returned to Account Payable.

MONTEREY PENINSULA AIRPORT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2020

FY20 client audit documents requested by LSL had a required deliver date of August 10, 2020 and field work started on August 17, 2020. Due to the late arrival of the capital improvement project invoices and the routine processes plus several conflicting objectives the documents were not reviewed for cut-off controls. LSL requested a subsequent disbursements list for both operations and CIP checking accounts from July 31 to August 31, 2020 on August 17, 2020. LSL identified the coding error and notified the Deputy Executive Director of Fin and Adm of the error. The information was shared with the Executive Director who notified the Finance Committee members.

Management agrees with LSL identification of the cut-off control error and has implemented the following correction procedures.

- At the District and LSL preaudit planning meeting management will set the proposed year-end financial cut-off and field work dates in consultation with the auditor to ensure all members of management team are involved and informed.
- Once the financial cut-off date is established the District will send letters to all vendors and contractors requesting, they provide all invoices for goods or services through June 30 of each fiscal year on or before the cut-off date.
- Further vendors and contractors will be asked to notify the District if they are unable to deliver invoices by the cut-off date and instead provide a date when the invoices would be available. Depending on the vendor and contractor response the District will determine next steps.
- Staff will receive a refresher on the concept of financial cut-off and the requirements for accruing purchases and expenses.
- All vendor and contractor project invoices will be provided to Finance/Accounts Payable upon receipt, date stamped, and period cut-off dates confirmed.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

MONTEREY PENINSULA AIRPORT DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE
PASSENGER FACILITY CHARGE AUDIT GUIDE FOR PUBLIC AGENCIES AND THE SCHEDULE OF
PASSENGER FACILITY CHARGE REVENUES AND EXPENDITURES

To the Board of Directors
Monterey Peninsula Airport District
Monterey, California

Report on Compliance

We have audited the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, for the Monterey Peninsula Airport District (the District) passenger facility charge program for the year ended June 30, 2020.

Management's Responsibility

Management is responsible for compliance with the requirements of the Guide.

Auditor's Responsibility

Our responsibility is to express opinions on compliance with the requirements described in the Guide 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 the *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 District's passenger facility charge program. 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 reasonable basis for our opinion on compliance. However, our audit does not provide a legal determination of the District's compliance with those requirements.

Opinions

In our opinion, the District is in compliance, in all material respects with the requirements referred to above that are applicable to the passenger facility charge program for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above.



Board of Directors
Monterey Peninsula Airport District
Monterey, California

In planning and performing our audit, we considered the District's internal control over compliance to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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* 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 a 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 charged 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.

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 based on the Guide. Accordingly, this report is not suitable for any other purpose.

Schedule of Passenger Facility Charge Revenues and Expenditures

We have audited the basic financial statements of the District as of and for the year ended June 30, 2020 and have issued our report thereon dated December 9, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the District as a whole. The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures is presented for the purpose of additional analysis as required by the Guide and is not a required part of the District's basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 Passenger Facility Charge Revenues and Expenditures is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in cursive script that reads "Lance, Soll & Lughard, LLP".

Sacramento, California
December 9, 2020

**MONTEREY PENINSULA AIRPORT DISTRICT
PASSENGER FACILITY CHARGE (PFC)**

**SCHEDULE OF PASSENGER FACILITY CHARGE (PFC) REVENUES AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	PFC Revenues	Interest Earned	Total Revenues	Expenditures on approved projects	Under (over) Expenditures on approved projects
Balance to date as of June 30, 2019	<u>\$ 18,244,872</u>	<u>\$ 343,116</u>	<u>\$ 18,587,988</u>	<u>\$ 16,061,524</u>	<u>\$ 2,526,464</u>
Fiscal year 2018-2019 transactions:					
Quarter ended September 30, 2019	252,796	6,122	258,918	771,945	
Quarter ended December 31, 2019	205,157	6,653	211,810	34,264	
Quarter ended March 31, 2020	208,766	6,223	214,989	191,923	
Quarter ended June 30, 2020	<u>29,772</u>	<u>6,715</u>	<u>36,487</u>	<u>339,455</u>	
Total fiscal year 2019-2020 transactions	<u>696,491</u>	<u>25,713</u>	<u>722,204</u>	<u>1,337,587</u>	<u>(615,383)</u>
Balance to date as of June 30, 2020	<u>\$ 18,941,363</u>	<u>\$ 368,829</u>	<u>\$ 19,310,192</u>	<u>\$ 17,399,111</u>	<u>\$ 1,911,081</u>

See Notes to Schedule of Passenger Facility Charge (PFC) Revenues and Expenditures.

**MONTEREY PENINSULA AIRPORT DISTRICT
PASSENGER FACILITY CHARGE (PFC)**

**NOTES TO SCHEDULE OF PASSENGER FACILITY CHARGE (PFC)
REVENUES AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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 basis financial statements.

Note 3: Relationship to Federal Financial Reports

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

Note 4: PFC Approved Projects and Expenditures

The general description of the approved projects and cumulative expenditures to date as of June 30, 2020 are as follow:

Passenger Facility Charge Project Number/Description	Identifying Number	Passenger Facility Charge Approved Amount	Expenditures
Acquire One Standard Police Vehicle - Security Improvement	14-19-C-00-MRY	\$ 50,000	\$ 40,117
Improve Runway Safety Area Runway 10R/28L - Phase 4	14-19-C-00-MRY	1,936,000	1,490,379
Environmental Assessment Infield Rehabilitation Project	16-21-C-00-MRY	35,000	31,770
Acquire Airport Sweeper	16-21-C-00-MRY	26,000	374
Environmental Assessment Safety Enhancement Project	16-21-C-00-MRY	251,000	286,068
Infield Rehabilitation-Design & Construction	16-21-C-00-MRY	650,000	130,000
Runway 10R/28L Airfield Lighting Replacement	18-22-U-00-MRY	160,000	159,045
Conduct DBE Disparity Report	18-22-U-00-MRY	5,000	2,206
Runway 10L/28R Overlay and PAPI	18-22-U-00-MRY	185,000	235,172
Land Acquisition Part A	18-22-U-00-MRY	310,000	804,168
Safety Enhance Project Phase 1	18-22-U-00-MRY	5,775,000	-
Terminal Rehab to Preserve ADA Compliance	20-24-C-00-MRY	375,000	-
Install Security Cameras in the Terminal Bldg	20-24-C-00-MRY	100,000	-
Runway Safety Area Mitigation Ph 6-7	20-24-C-00-MRY	100,000	-
Terminal Enhancement for ADA	20-24-C-00-MRY	45,000	-
Total Passenger Facility Charge Projects		<u>\$ 10,003,000</u>	<u>\$ 3,179,299</u>

Note 5: Excess Project Expenditures

The expenditure of the Environmental Assessment Safety Enhancement Project, Improve Runway 10L/28R Overlay and PAPI, and the Land Acquisition Part A were in excess of the authorized PFC application line item amount. However, in accordance with FAA guidelines, if the approved PFC application total is not exceeded the public agency application and revenue collections are considered in compliance with §158.37 (a) of Title 14 Code of Federal Regulations (CFR) 158.

**MONTEREY PENINSULA AIRPORT DISTRICT
PASSENGER FACILITY CHARGE (PFC)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2020**

PASSENGER FACILITY CHARGE COMPLIANCE FINDINGS

No matters were reported.

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