

Mojave Air and Space Port

Financial Statements

June 30, 2014 and 2013

C O N T E N T S

	<u>Page(s)</u>
<i>Independent Auditors' Report</i>	1 - 2
<i>Management's Discussion and Analysis (Required Supplementary Information)</i>	3 - 7
<i>Financial Statements</i>	
Statements of Net Position	8
Statements of Revenue, Expenses and Changes in Net Position	9
Statements of Cash Flows	10 - 11
Notes to Financial Statements	12 - 22
<i>Schedule of Funding Progress – OPEB (Required Supplementary Information)</i>	23
<i>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</i>	24 - 25
<i>Schedule of Findings</i>	26 - 27



Independent Auditors' Report

Board of Directors
Mojave Air & Space Port
Mojave, California

Report on the Financial Statements

We have audited the accompanying financial statements of Mojave Air and Space Port as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits 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 auditors' 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mojave Air and Space Port as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years 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 and budgetary comparison information on pages 3 through 7 and the schedule of funding progress on page 23 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mojave Air and Space Port's internal control over financial reporting and compliance.

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation



Bakersfield, California
September 8, 2015

Management's Discussion and Analysis

The following discussion and analysis of Mojave Air and Space Port financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the basic audited financial statements and accompanying notes, which follow this section.

Financial Highlights

The District's total net position decreased \$0.7 million or 2% over the course of the year's operations.

The District's total revenues experienced a net decrease of \$3.2 million or 29% during the year ended June 30, 2014.

The District's total expenses decreased \$0.7 million, or 8%.

The District's gross capital assets increased \$2.3 million, or 4%, during the year ended June 30, 2014.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditors' report, the basic financial statements of the District and selected additional information. The financial statements also include notes that explain in more detail some of the information contained in the financial statements.

Required Financial Statements

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. The financial statements conform to accounting principles which are generally accepted in the United States of America and utilize the accrual basis of accounting.

The statement of net position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities), with the difference between the two reported as net position. This statement will indicate which assets are restricted due to contractual, Board action, or other commitments. This statement also provides the basis for assessing the liquidity, capital structure and financial flexibility of the District.

Revenues and expenses are accounted for in the statements of revenues and expenses and changes in net position. These statements measure the success of the District's operations and can be used to determine profitability, credit worthiness and whether the District has successfully recovered all its costs through user fees and other charges.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. From this statement, information related to sources and uses of cash and the change in cash balances are presented.

Management's Discussion and Analysis

Financial Analysis of the District

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of this year's activities?" The condensed statement of net position and the condensed statement of revenues, expenses, and changes in net position reports information about the District's activities in a way that will help answer this question. These two condensed statements report the net position of the District and the changes in net position. One can think of the District's net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

To begin our analysis, a summary of the District's statements of net position is presented in Table A.

Table A
Condensed Statements of Net Position
June 30, 2014 and 2013
(000's)

	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Current assets	\$ 3,634	\$ 4,699	\$ (1,065)	-23%
Capital assets	42,958	42,482	476	1%
Total assets	<u>\$ 46,592</u>	<u>\$ 47,181</u>	<u>\$ (589)</u>	-1%
Current liabilities	\$ 1,106	\$ 1,137	\$ (31)	-3%
Long-term liabilities	947	779	168	22%
Total liabilities	<u>2,053</u>	<u>1,916</u>	<u>137</u>	7%
Invested in capital assets, net of related debt	42,958	42,482	476	1%
Unrestricted	<u>1,581</u>	<u>2,783</u>	<u>(1,202)</u>	-43%
Total net position	<u>44,539</u>	<u>45,265</u>	<u>(726)</u>	-2%
	<u>\$ 46,592</u>	<u>\$ 47,181</u>	<u>\$ (589)</u>	-1%

As the net position table above indicates, total assets decreased by \$0.6 million to \$46.6 million at June 30, 2014, from \$47.2 million at June 30, 2013. The decrease in the total assets of the District was primarily due to a decrease in current assets of \$1.1 million, due to decreases in cash and cash equivalents of \$0.5 million and grants receivable of \$0.4 million, which were partially offset by an increase in capital assets of \$0.5 million, due to infrastructure and equipment expenditures.

Management's Discussion and Analysis

Total liabilities increased by \$0.1 million, or 7% during the year ended June 30, 2014 primarily due to an increase in other post-employment benefits liability.

Table B
Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013
(000's)

	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenue	\$ 6,788	\$ 6,949	\$ (161)	-2%
Nonoperating revenue	1,113	4,114	(3,001)	-73%
Total revenues	<u>7,901</u>	<u>11,063</u>	<u>(3,162)</u>	-29%
Operating expenses	6,805	7,602	(797)	-10%
Depreciation expense	1,822	1,761	61	3%
Total expenses	<u>8,627</u>	<u>9,363</u>	<u>(736)</u>	-8%
Change in net position	(726)	1,700	(2,426)	-143%
Net position, beginning of year	<u>45,265</u>	<u>43,565</u>	<u>1,700</u>	4%
Net position, end of year	<u>\$ 44,539</u>	<u>\$ 45,265</u>	<u>\$ (726)</u>	-2%

While the Statement of Net Position shows the change in financial position of the District, the Statements of Revenues and Expenses and Changes in Net Position provides answers as to the nature and source of these changes.

The District's total revenues decreased by \$3.2 million to \$7.9 million during the year ended June 30, 2014, from \$11.1 million during the year ended June 30, 2013. Operating revenues remained relatively flat, but nonoperating revenues decreased by \$3.0 million due to less grant revenue received.

Total expenses decreased \$0.7 million to \$8.6 million during the year ended June 30, 2014 from \$9.4 million during the year ended June 30, 2013. The primary reason for the decrease was due to a reduction in spending of \$0.3 million in general shop and equipment as well as a reduction of \$0.4 million general and administrative spending.

Management's Discussion and Analysis

Table C
Capital Assets
June 30, 2014 and 2013
(000's)

	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Land	\$ 6,250	\$ 6,250	\$ -	0%
Buildings and structures	11,615	9,768	1,847	19%
Furniture and equipment	4,864	4,586	278	6%
Infrastructure	36,242	34,685	1,557	4%
Construction in progress	<u>8,827</u>	<u>10,211</u>	<u>(1,384)</u>	-14%
Total capital assets	67,798	65,500	2,298	4%
Less accumulated depreciation	<u>24,840</u>	<u>23,018</u>	<u>1,822</u>	8%
Total net capital assets	<u><u>\$ 42,958</u></u>	<u><u>\$ 42,482</u></u>	<u><u>\$ 476</u></u>	1%

As of June 30, 2014, the District had invested \$67.8 million in capital assets. As can be seen from the table above, net capital assets increased \$0.5 million to \$43.0 million at June 30, 2014, from \$42.5 million at June 30, 2013. Significant expenditures were made of \$0.6 million for improvements to Runway 4-22 and \$1.2 million for repurposing Building 137 as an Event Center. Equipment acquisitions included a sweeper truck at \$0.2 million and four vehicles totaling \$0.1 million.

Management's Discussion and Analysis

Budgetary Comparison

The following table is a comparison of the Board approved budget for 2014 against actual results.

Table D
Budget vs. Actual Comparison
For the Year Ended June 30, 2014
(000's)

	<u>Actual</u>	<u>Budget</u>	<u>Change</u>	<u>Percentage Change</u>
Operating revenue	\$ 6,788	\$ 6,808	\$ (20)	0%
Nonoperating revenue	1,113	2,816	(1,703)	-60%
Total revenues	<u>7,901</u>	<u>9,624</u>	<u>(1,723)</u>	-18%
Operating expenses	6,805	7,493	(688)	-9%
Depreciation expense	<u>1,822</u>	-	<u>1,822</u>	0%
Total expenses	<u>8,627</u>	<u>7,493</u>	<u>1,134</u>	15%
Change in net position	<u>\$ (726)</u>	<u>\$ 2,131</u>	<u>\$ (2,857)</u>	-134%

* The District does not include depreciation expense as part of the budget and as such, has not been included in the budget analysis below.

Actual total revenues were below budgeted revenues for 2014 by \$1.7 million mainly due to the unsuccessful grant acquisition for our Taxiway B project.

Actual total expenses, exclusive of depreciation, came out below budgeted operating expenses by \$0.7 million due to lower expenditures in general shop.

The annual budget is presented and approved by the District's Board of Directors each June.

Contacting the District Management

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District at 1434 Flightline, Mojave, California 93501.

Mojave Air and Space Port

*Statements of Net Position
June 30, 2014 and 2013*

<i>ASSETS</i>	<u>2014</u>	<u>2013</u>
<i>Current Assets</i>		
Cash and cash equivalents	\$ 2,985,315	\$ 3,516,086
Receivables		
Accounts receivable, net of allowance for doubtful accounts of \$225,263 and \$478,805, respectively	409,656	496,159
Grants receivable	-	444,975
Other receivables	825	2,907
Fuel inventory	238,318	238,924
	<u>3,634,114</u>	<u>4,699,051</u>
<i>Capital Assets</i> , net of accumulated depreciation	<u>42,958,334</u>	<u>42,481,860</u>
<i>Total Assets</i>	<u>\$ 46,592,448</u>	<u>\$ 47,180,911</u>
 <i>LIABILITIES AND NET POSITION</i>		
<i>Current Liabilities</i>		
Accounts payable	\$ 278,520	\$ 412,157
Accrued liabilities	129,394	123,198
Customer deposits	97,123	69,320
Compensated absences	601,366	532,450
Total current liabilities	<u>1,106,403</u>	<u>1,137,125</u>
<i>Long-Term Liabilities</i>		
Other post-employment benefits liability	<u>946,800</u>	<u>778,800</u>
<i>Total Liabilities</i>	<u>2,053,203</u>	<u>1,915,925</u>
<i>Net Position</i>		
Invested in capital assets, net of related debt	42,958,334	42,481,860
Unrestricted	1,580,911	2,783,126
	<u>44,539,245</u>	<u>45,264,986</u>
	<u>\$ 46,592,448</u>	<u>\$ 47,180,911</u>

See Notes to Financial Statements.

Mojave Air and Space Port

***Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013***

	2014	2013
<i>Operating revenue:</i>		
Rents and leases	\$ 4,363,564	\$ 4,329,423
Landing area	1,779,427	1,740,232
Non-aviation activities	600,571	823,026
Other buildings and areas	44,834	56,686
	6,788,396	6,949,367
<i>Operating expenses:</i>		
Direct expenses	2,131,813	2,281,134
General shop and equipment	1,267,109	1,553,657
General and administrative	3,405,637	3,766,504
Depreciation expense	1,822,078	1,761,253
	8,626,637	9,362,548
Operating loss	(1,838,241)	(2,413,181)
<i>Nonoperating income (expense):</i>		
Interest income	7,905	16,142
Tax revenues	673,441	462,958
Grant revenue	472,355	3,579,921
Other income (expense)	(41,201)	54,638
	1,112,500	4,113,659
Change in net position	(725,741)	1,700,478
<i>Net position, beginning of year</i>	45,264,986	43,564,508
<i>Net position, end of year</i>	\$ 44,539,245	\$ 45,264,986

See Notes to Financial Statements.

Mojave Air and Space Port

*Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013*

	<u>2014</u>	<u>2013</u>
<i>Cash flows from operating activities:</i>		
Receipts from customers	\$ 6,833,698	\$ 7,056,508
Receipts from taxes	673,441	462,958
Payments to suppliers for goods and services	(3,682,806)	(4,502,521)
Payments to employees for salaries and benefits	(2,983,869)	(3,210,079)
Net cash provided by (used in) operating activities	<u>840,464</u>	<u>(193,134)</u>
<i>Cash flows from capital and related financing activities:</i>		
Proceeds from grants	917,330	3,134,946
Payments for acquisition and construction of capital assets	(2,298,552)	(5,621,012)
Net cash used in capital and related financing activities	<u>(1,381,222)</u>	<u>(2,486,066)</u>
<i>Cash flows from investing activities:</i>		
Interest income	<u>9,987</u>	<u>16,667</u>
Net cash provided by investing activities	<u>9,987</u>	<u>16,667</u>
<i>Net decrease in cash and cash equivalents</i>	(530,771)	(2,662,533)
<i>Cash and cash equivalents at beginning of the year</i>	<u>3,516,086</u>	<u>6,178,619</u>
<i>Cash and cash equivalents at end of the year</i>	<u>\$ 2,985,315</u>	<u>\$ 3,516,086</u>

See Notes to Financial Statements.

	<u>2014</u>	<u>2013</u>
<i>Reconciliation of operating loss to net cash provided by (used in) operating activities:</i>		
Operating loss	\$ (1,838,241)	\$ (2,413,181)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:</i>		
Depreciation	1,822,078	1,761,253
<i>Changes in operating assets, liabilities and other income:</i>		
Accounts receivable	86,503	52,503
Fuel inventory	606	82,673
Accounts payable	(133,637)	(115,759)
Accrued liabilities	75,112	1,560
Customer deposits	27,803	(245,479)
Other post-employment benefits liability	168,000	165,700
Taxes	673,441	462,958
Other income	(41,201)	54,638
	<u>840,464</u>	<u>193,134</u>
Net cash provided by (used in) operating activities	<u>\$ 840,464</u>	<u>\$ (193,134)</u>

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of District's activities:

Mojave Air and Space Port (the District) was incorporated on February 24, 1972, under the provisions of the Public Utilities Code, Division 9, Part 2, beginning with Section 22002. The first organization meeting was held on February 28, 1972. On November 15, 1972, Kern County Airport No. 7 was transferred from the County of Kern to the District and the Airport name was changed to the Mojave Airport. On November 1, 1974, the District's name was changed to East Kern Airport District. On November 20, 2012, the District's name was changed to Mojave Air and Space Port.

The District's mission is to foster and maintain a recognized aerospace presence with a principal focus as the world's premier civilian aerospace test center while seeking compatible diverse business and industry.

Significant accounting policies are as follows:

Basis of accounting and financial reporting:

The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of cash payments or receipts.

When the District has both unrestricted and restricted resources available for District purposes, it is the District's practice to first expend restricted resources, subsequently utilizing unrestricted resources as needed.

The District utilizes a net position presentation in accordance with GASB Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB 63, *Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position*. Net position is categorized as invested in capital assets, net of related debt, restricted components of net position and unrestricted components of net position. These categories are defined as follows.

Invested in capital assets, net of related debt - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and the deferred outflow of advanced refunding of bonds, 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 are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted components of net position - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource

Notes to Financial Statements

flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Unrestricted components of net position - This component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund accounting:

The District utilizes an enterprise method to account for its operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or, (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges for the leasing of the District's facilities. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition:

Property tax revenue is recognized in the fiscal year for which the taxes have been levied, providing they become available. Available means then due, or past due and receivable within the current period and collected within the current period or expected to be collected soon thereafter (not to exceed 60 days) to be used to pay liabilities of the current period. The County of Kern collects property taxes for the District.

Grants are recognized as revenue in the accounting period when they become susceptible to accrual (i.e both measurable and available).

Accounts receivable:

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. Management provides for uncollectible accounts through a charge to earnings and a credit to an allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances still outstanding after management has

Notes to Financial Statements

used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to trade accounts receivable.

Fuel inventory:

Fuel inventory is carried at cost on a first-in, first-out (FIFO) basis on a moving average basis. Physical inventories are taken on a monthly basis.

Capital assets:

Capital assets are defined by the District as assets with an individual cost of more than \$500 and an estimated life greater than two years. The District's capital assets are recorded at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and structures	5-40
Furniture and equipment	5-30
Infrastructure	5-40

Maintenance and repairs of capital assets are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of capital assets, the cost and accumulated depreciation are eliminated from the accounts and the gain or loss is included in operations.

Compensated absences:

The District's established vacation policy states that each employee shall utilize his or her vacation in the year immediately succeeding the year during which the vacation is earned. The General Manager may authorize up to 20 days of vacation be deferred for one year. The employee may accrue no more than 40 days of vacation. The District's policy regarding sick leave provides employee with unlimited accruals. Upon retirement, employees who have been with the District from 5 to 10 years are entitled to 50% payment of unused sick leave accrual and employees who have been with the District over 10 years are entitled to 100% payment of unused sick leave accruals.

Cash and cash equivalents:

For purposes of reporting cash flows, the District considers cash equivalents to be all highly liquid debt instruments purchased with a maturity of three months or less. Cash and cash equivalents included the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Cash deposits with financial institutions	\$ 1,084,863	\$ 202,894
Deposits with Kern County Treasurer	313,462	32,909
Deposits with Local agency investment fund	1,535,268	3,228,561
Certificate of deposit	51,722	51,722
	<u>\$ 2,985,315</u>	<u>\$ 3,516,086</u>

Notes to Financial Statements

The District invests any excess funds not needed for immediate needs into State of California managed Local Agency Investment Fund (LAIF), which is a permitted investment by both State law and the District's investment policy. Created by state statute, the LAIF is a component of a pooled money program that is administered by the State Treasurer's Office. The fund has regulatory oversight from the Local Investment Advisory Board, which is comprised of the State Treasurer as chair, the State Controller, and the Director of Finance. As the LAIF does not make share-value adjustments due to immaterial differences between fair value and cost, the District's cost basis in the fund is reflected in cash and cash equivalents on the statements of net position.

Cash funds deposited with the State Treasurer's office are in a pooled money fund. Funds are pooled with other agencies throughout California. Investments are made in accordance with Government Code Sections 16430 and 16480. Cash funds are also deposited with the County of Kern and are appropriately collateralized by cash, investments and securities.

Custodial credit risk:

Custodial credit risk of deposits is the risk that in the event of a bank failure, the District's deposits may not be returned. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2014 and 2013, the District had no risk associated with custodial assets.

Disclosures relating to interest rate risk and credit risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Both the deposits with Kern County and the LAIF have no maturity.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County of Kern and LAIF do not have a rating provided by a nationally recognized statistical rating organization.

Cash flows:

GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, states for purposes of preparing the statements of cash flows, all transactions that are not classified as capital and related financing activities, noncapital financing activities or investing activities are classified as operating activities. The adjustments to reconcile operating income to net cash provided by operating activities include tax revenues and other income.

Notes to Financial Statements

Note 2. Capital Assets

The following is a summary of changes in the District's capital assets for the years ended June 30, 2014 and 2013.

<i>Capital Assets-At Cost</i>					
	<i>Balance</i> <i>6/30/13</i>	<i>Acquisitions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance</i> <i>6/30/14</i>
<i>Capital Assets not being depreciated:</i>					
Land	\$ 6,250,000	\$ -	\$ -	\$ -	\$ 6,250,000
Construction in progress	10,211,118	2,020,502	-	(3,404,356)	8,827,264
<i>Capital Assets being depreciated:</i>					
Buildings and structures	9,767,611	-	-	1,847,468	11,615,079
Furniture and equipment	4,585,720	278,050	-	-	4,863,770
Infrastructure	34,685,537	-	-	1,556,888	36,242,425
	\$ 65,499,986	\$ 2,298,552	\$ -	\$ -	\$ 67,798,538
<i>Accumulated Depreciation</i>					
	<i>Balance</i> <i>6/30/13</i>	<i>Depreciation</i> <i>Expense</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance</i> <i>6/30/14</i>
Buildings and structures	\$ 6,706,572	\$ 322,221	\$ -	\$ -	\$ 7,028,793
Furniture and equipment	3,065,014	260,674	-	-	3,325,688
Infrastructure	13,246,540	1,239,183	-	-	14,485,723
	\$ 23,018,126	\$ 1,822,078	\$ -	\$ -	\$ 24,840,204

Notes to Financial Statements

Capital Assets-At Cost

	<i>Balance</i> <i>6/30/12</i>	<i>Acquisitions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance</i> <i>6/30/13</i>
<i>Capital Assets not being depreciated:</i>					
Land	\$ 6,250,000	\$ -	\$ -	\$ -	\$ 6,250,000
Construction in progress	4,944,414	5,500,993	-	(234,289)	10,211,118
<i>Capital Assets being depreciated:</i>					
Buildings and structures	9,538,250	-	-	229,361	9,767,611
Furniture and equipment	4,536,303	49,417	-	-	4,585,720
Infrastructure	34,610,007	70,602	-	4,928	34,685,537
	<u>\$ 59,878,974</u>	<u>\$ 5,621,012</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,499,986</u>

Accumulated Depreciation

	<i>Balance</i> <i>6/30/12</i>	<i>Depreciation</i> <i>Expense</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance</i> <i>6/30/13</i>
Buildings and structures	\$ 6,392,475	\$ 314,097	\$ -	\$ -	\$ 6,706,572
Furniture and equipment	2,809,408	255,606	-	-	3,065,014
Infrastructure	12,054,990	1,191,550	-	-	13,246,540
	<u>\$ 21,256,873</u>	<u>\$ 1,761,253</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,018,126</u>

Note 3. Rents and Leases

The District receives income from the rental of land, buildings, and hangars. Leases for these arrangements can be month-to-month or be fixed terms from 1 to 40 years. Lease income for the years ended June 30, 2014 and 2013 were \$4,363,564 and \$4,329,423, respectively. Future minimum rental receipts due under non-cancellable leases are as follows:

<i>Years ending June 30,</i>	
2015	\$ 2,283,941
2016	1,831,778
2017	1,821,411
2018	1,775,867
2019	1,621,180
	<u>\$ 9,334,177</u>

Notes to Financial Statements

Note 4. Retirement Plans

CalPERS

Plan description:

The District participates in the Public Agency portion of the California Public Employees Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. The District's offers two defined benefit pension plans, the Miscellaneous Plan of the East Kern Airport District ("non-safety"), and the Safety Plan of the East Kern Airport District. Beginning January 1, 2013, all employees hired after January 1, 2013 will be placed in the PEPRAs miscellaneous plan of the Mojave Air and Space Port ("PEPRA"). All are cost-sharing multiple-employer defined benefit plans. A menu of benefit provisions as well as other requirements is established by state statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through board action. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS's annual financial report may be obtained from the CalPERS executive office at 400 "P" Street, Sacramento, CA 95814. CalPERS covers all permanent, full-time employees of the District.

Funding policy:

The pension benefits earned by the District's employees are funded currently by contributions to the pension trust. Funding of normal pension costs is currently met through the combination of employer "pick up" of employee contributions and employer contributions. Employee membership in CalPERS is compulsory for all employees. Eligibility begins after 30 days of employment for employees that work at least half-time. Employees are required to contribute 7% of their annual covered salary which is subject to adjustments based on periodic valuations. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the years ended June 30, 2014 and 2013 are 35.47% and 32.68%, respectively, for safety employees and 26.38% and 26.22%, respectively, for non-safety employees, and 6.95% for PEPRA employees as of June 30, 2014 and 2013 per year of annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual pension cost:

For the years ended June 30, 2014, 2013 and 2012, the District's annual pension costs and contributions were \$468,259, \$504,786, and \$463,408, respectively. The required contributions were determined as part of the June 30, 2012 actuarial valuation - the latest available information - using the entry age normal actuarial cost. These contributions represented at least 100% of the District's required annual contribution. Significant actuarial assumptions used in the valuation include: (a) a rate of return on the investment of 7.50% (net of administrative expenses) and (b) 3.30% reallocation of a portion of employee funding of CalPERS retirement to 14.20% depending on age, length of service, and type of employment, coupled with an assumed annual inflation rate of 2.75% and an annual production growth of 0.25%. The actuarial value of CalPERS assets was determined using techniques that smooth

Notes to Financial Statements

the effects of short-term volatility in the market value of investments over a three-year period depending on the size of investment gains and/or losses (smoothed market value). CalPERS utilizes an aggregate actuarial cost method which does not identify and separately amortize unfunded actuarial liabilities.

When the District joined the plan, CalPERS created an employer side fund to cover the cost of purchasing qualifying employees' prior years experience to account for the difference between the funded status of the plan and the funded status of the retirement pool. A positive side fund will cause employer contributions to be reduced by the amortization of the side fund while a negative side fund will cause employer contributions to increase by the amortization of the side fund. As of June 30, 2014, the District's actuarial value of assets was less than the present value of the benefits which resulted in a negative side fund of \$1,093,928.

Amortization of the miscellaneous plan side fund liability included in the District's pension costs were \$103,576 for the years ended June 30, 2014 and 2013. Amortization of the safety plan side fund liability included in the District's pension costs were \$8,660 for the years ended June 30, 2014 and 2013.

Other Post-Employment Benefits

Plan description:

The District provides certain post-employment health care benefits in accordance with District policy to retired employees age 50 or older who were active members of CalPERS for at least five years, their dependents, and retired directors who were first elected before January 1, 1995, who served the District for at least 12 years, and their dependents. The benefits are available until death for both the participants and their spouse.

Funding policy:

The contribution requirements of plan members and the District are established and may be amended by the District's Board of Directors. Currently, contributions are not required from plan members.

The required contribution is based on a pay-as-you-go financing requirement with additional amounts to prefund benefits as determined by the District under an actuarial valuation. For the years ended June 30, 2014 and 2013 the annual required contribution (ARC) was \$376,900, amounts actuarially determined in accordance with the parameters of GASB Statement No. 45.

The District pays for post-employment health insurance on a pay-as-you go basis. For the fiscal years ended June 30, 2014 and 2013, the District had expenditures of \$192,300 and \$198,800, respectively, for other post-employment benefits.

Annual OPEB cost and Net OPEB obligation:

The District's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Notes to Financial Statements

The following table shows the components of the Districts annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation at June 30, 2014 and 2013:

	<i>2014</i>	<i>2013</i>
Annual required contribution (ARC)	\$ 376,900	\$ 376,900
Interest on net pension obligation	23,400	18,400
Amortization of beginning-of-year Net OPEB obligation	(40,000)	(30,800)
Annual OPEB cost	360,300	364,500
Contribution made	192,300	198,800
Increase in net OPEB obligation	168,000	165,700
Net OPEB obligation - beginning of year	778,800	613,100
Net OPEB obligation - end of year	\$ 946,800	\$ 778,800

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2014 fiscal year and the two preceding years were as follows:

Fiscal Year End	Annual OPEB Cost	Annual Contribution (Net of Adjustments)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$362,800	\$176,000	49%	\$613,100
6/30/2013	\$364,500	\$198,800	55%	\$778,800
6/30/2014	\$360,300	\$192,300	53%	\$946,800

Funded status and funding progress:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress below presents information about the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
6/30/2012	\$ -	\$ 5,426,900	\$ (5,426,900)	0.00%	\$ 1,220,700	444.57%

Notes to Financial Statements

Actuarial methods and assumptions:

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

The actuarial valuation, dated June 30, 2012, used the Entry Age Normal actuarial cost method, at a discount rate of 3%, the expected long-term rate of return on the District assets, and an annual compensation increase rate of 0%. The unfunded accrued actuarial liability (UAAL) is being amortized over a rolling 30 years using the level percentage of projected payroll method. As of the actuarial valuation date, the District had 18 active participants and 14 recipients.

Note 5. Commitments

On January 1, 1983, the District leased to The Gibson, Karpe, and Hitchcock Trust a certain parcel of land for the purpose of The Gibson, Karpe, and Hitchcock Trust constructing thereon, a hangar with appurtenant shops, offices and related improvements. The land lease term is from January 1, 1983 through December 31, 2024, a period of 42 years. Rental payments are as follows:

For the construction period	\$1.00
For the period of 19 years starting at the Completion of construction	\$700/Month

Upon completion, The Gibson, Karpe and Hitchcock Trust subleased back to the District the site and completed facilities (Building No. 79) for a term of approximately 42 years (terminating December 31, 2024). Rental payments by the District were \$16,275 per month (payable in advance, on the first day of the month) terminating December 31, 2003, ("first sublease rent period").

During the period January 1, 2004 through December 31, 2024, the District shall pay The Gibson, Karpe and Hitchcock Trust one-half the net rental income derived from leasing the facilities to third parties. Total payments for the years ended June 30, 2014 and 2013 were \$139,156 and 165,608, respectively.

Notes to Financial Statements

Note 6. Risk Management

The District is exposed to various risks of loss for which the District purchases commercial insurance. The following summarizes the coverage which the District has purchased:

<i>Type of Coverage</i>	<i>Carrier</i>	<i>Deductible</i>	<i>Limit per Occurrence</i>
Crime	Hartford Fire Insurance Co	\$ -	\$ 500,000
Directors and Officers	National Union Fire	\$ 5,000	\$ 1,000,000
Commercial Property:	Travelers Casualty and Surety		
Personal Property		\$ 5,000	\$ 105,000
Business Income		\$ 5,000	\$ 2,262,140
Building		\$ 5,000	\$ 27,793,122
Boiler and Machinery	Hartford Steam Boiler	\$ 1,000	\$ 26,717,900
Railroad Liability	Arch Specialty Insurance Agency	\$ 25,000	\$ 6,000,000
General Liability	National Union Fire Insurance of LA	\$ -	\$ 50,000,000
Business Auto	Hartford Fire Insurance Co	\$ 250	\$ 1,000,000

Premiums for the above policies are paid annually and are not subject to retroactive adjustments. At June 30, 2014, the District had no outstanding claims which exceed insurance coverage.

Mojave Air and Space Port

Schedule of Funding Progress - OPEB

June 30, 2014

See Independent Auditors' Report

<i>Actuarial Valuation Report Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>Unfunded AAL (UAAL)</i>	<i>Actuarial Assets as a % of the AAL</i>	<i>Covered Payroll</i>	<i>UAAL as a % of Covered Payroll</i>	<i>Total Participants</i>
6/30/2009	\$ -	\$ 3,712,600	\$ (3,712,600)	0.00%	\$ 1,411,600	263%	N/A
6/30/2012	\$ -	\$ 5,426,900	\$ (5,426,900)	0.00%	\$ 1,220,700	445%	32

Note 1. GASB Statement No. 45 requires governments to include information from the most recent actuarial valuation and two separate preceding valuations. As of June 30, 2014, the District had only performed two valuations.



**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
Mojave Air and Space Port
Mojave, 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 Mojave Air and Space Port, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 8, 2015.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mojave Air and Space Port's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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*.

Mojave Air and Space Port's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings. The District's response was not subjected to the auditing procedures applied in the audits 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation**



Bakersfield, California
September 8, 2015

Mojave Air and Space Port

*Schedule of Findings
Year Ended June 30, 2014*

Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of Mojave Air and Space Port.
2. No instances of noncompliance material to the financial statements of Mojave Air and Space Port were disclosed during the audit.

Findings Financial Statement Audit

Material Weaknesses

Finding 1

The District does not prepare on-going and timely bank reconciliations.

Observation

We noted as part of the audit that there were no bank reconciliations being performed throughout the year under audit. In addition, the bank reconciliation performed for the year end balances were inaccurate and lead to a decrease in cash of \$50,000.

Recommendation

We recommend that this process be performed monthly and in a timely fashion. The process should not be performed by staff who has general ledger responsibilities and should be reviewed by an appropriate supervisor.

Response

Bank reconciliations are now prepared timely each month by staff having no access rights for deposit, withdrawal, or transfer to or from bank accounts. Each reconciliation receives a documented review by an appropriate supervisor.

Finding 2

There is not sufficient means to track any adjustments needed in the invoicing of the land, buildings, and hangars.

Observation

We noted as part of the audit multiple instances where a lease had a clause for a CPI adjustment or simple step-up in rental rate that was not made by the District.

Recommendation

We recommend the District create a schedule for all open leases that would track each lease and all relevant information including clauses for lease changes and the dates those changes come into effect.

Response

All open leases are now maintained on an Excel spreadsheet that documents the lessee information and relevant conditions including rate, term, and escalator. A monthly procedure was implemented to filter the list for leases due for escalation and/or renewal.

Significant Deficiencies

Finding 1

The District does not have a documented bad debt policy to address the adequacy of the allowance for doubtful accounts.

Observation

We noted as part of the audit that the overall allowance for doubtful accounts was greater than the actual receivable balance. In addition, no analysis of this account had been performed.

Recommendation

We recommend, the District implement a policy for evaluating the collectability of receivables which would include adjustments to the allowance and write-offs of bad debts.

Response

A review of the accounts receivable aging is now conducted monthly with consideration given to the collectability of accounts. A policy has been drafted to address the conditions under which account balances will be offset by entries to the allowance for uncollectible accounts and the conditions for writing off accounts to bad debt expense.

Finding 2

The District does not appropriately account for fuel excise taxes and sales taxes.

Observation

We noted as part of the audit that the District was accruing liabilities for fuel excise taxes as fuel was being sold, and was being paid by the District at the time of purchase. This resulted in an over accrual of liabilities. In addition, the District was properly accruing the sales taxes related to both fuel sales and merchandise sales, however, upon payment of these taxes, the District did not offset the accruals at the time of the payment which resulted in the over expensing of taxes.

Recommendation

We recommend the District implement a policy for reviewing balance sheet accounts, at a minimum annually, to determine the validity of balances at year end.

Response

An analytical procedure has been implemented to review all balance sheet accounts for the appropriateness of the deferred and accrued balances at year end. In addition, month-end procedures have been strengthened to minimize the likelihood of misstatements in such accounts.