

*Mojave Air and Space Port*

*Financial Statements*

*June 30, 2016 and 2015*

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### *Independent Auditors' Report*

Board of Directors  
Mojave Air and 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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 District'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 District'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, 2016 and 2015, 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.

**Change in Accounting Principle**

As described in note 7 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7, the schedules related to the District's defined benefit plans as listed on the table of contents on pages 30 and 31, and the schedule of funding progress on page 32 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 December 1, 2016, 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  
December 1, 2016

## ***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, 2016. 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 \$0.4 million or 1% over the course of the year's operations.

The District's total revenues experienced a net decrease of \$3.3 million or 29% during the year ended June 30, 2016.

The District's total expenses decreased \$0.9 million, or 9% during the year ended June 30, 2016.

The District's net capital assets decreased \$1.6 million, or 4%, during the year ended June 30, 2016.

### ***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 required supplementary 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.

### ***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 statements of net position

## *Management's Discussion and Analysis*

and the condensed statements 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, 2016 and 2015**  
**(000's)**

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Current assets	\$ 8,521	\$ 7,702	\$ 819	11%
Capital assets	39,590	41,237	(1,647)	-4%
Note receivable	94	-	94	
Total assets	<u>48,205</u>	<u>48,939</u>	<u>(734)</u>	-1%
Deferred outflow of resources	<u>410</u>	<u>245</u>	<u>165</u>	0%
	<u>\$ 48,615</u>	<u>\$ 49,184</u>	<u>\$ (569)</u>	-1%
Current liabilities	\$ 701	\$ 1,162	\$ (461)	-40%
Long-term liabilities	<u>4,927</u>	<u>4,240</u>	<u>687</u>	16%
Total liabilities	<u>5,628</u>	<u>5,402</u>	<u>226</u>	4%
Deferred inflow of resources	<u>314</u>	<u>682</u>	<u>(368)</u>	0%
Invested in capital assets, net of related debt	39,590	41,237	(1,647)	-4%
Unrestricted	<u>3,083</u>	<u>1,863</u>	<u>1,220</u>	65%
Total net position	<u>42,673</u>	<u>43,100</u>	<u>(427)</u>	-1%
	<u>\$ 48,615</u>	<u>\$ 49,184</u>	<u>\$ (569)</u>	-1%

As the net position table above indicates, total assets decreased by \$0.7 million to \$48.2 million at June 30, 2016, from \$48.9 million at June 30, 2015. The decrease in the total assets of the District was primarily due to a decrease in capital assets of \$1.6 million, due to depreciation of \$2.3 million, which was partially offset by acquisitions of capital assets of \$0.6 million and an increase in current assets of \$0.8 million, due to increases in cash and net receivables of \$0.7 million and \$0.2 million respectively.

### *Management's Discussion and Analysis*

Total liabilities increased by \$0.2 million, or 4% during the year ended June 30, 2016 primarily due to the increased recording of pension and post-employment benefits related liabilities of \$0.7 million partially offset by decreases in current liabilities of \$0.5 million.

**Table B**  
**Condensed Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended June 30, 2016 and 2015**  
*(000's)*

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenue	\$ 7,070	\$ 8,121	\$ (1,051)	-13%
Nonoperating revenue	1,093	3,341	(2,248)	-67%
Total revenues	<u>8,163</u>	<u>11,462</u>	<u>(3,299)</u>	-29%
Operating expenses	6,338	7,332	(994)	-14%
Depreciation expense	2,252	2,136	116	5%
Total expenses	<u>8,590</u>	<u>9,468</u>	<u>(878)</u>	-9%
Change in net position	(427)	1,994	(2,421)	-121%
Net position, beginning of year	43,100	44,539	(1,439)	-3%
Cumulative effect of change in accounting principal	<u>-</u>	<u>(3,433)</u>	<u>3,433</u>	0%
Net position, end of year	<u>\$ 42,673</u>	<u>\$ 43,100</u>	<u>\$ (427)</u>	-1%

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 \$3.3 million to \$8.2 million during the year ended June 30, 2016, from \$11.5 million during the year ended June 30, 2015. Operating revenues decreased by \$1.1 million, primarily due to decreases in fuel sales and lower fuel prices of \$1.0 million. Nonoperating revenues decreased by \$2.2 million as a result of one-time funds received related to wind energy projects in the year ended June 30, 2015.

Total expenses decreased \$0.9 million to \$8.6 million during the year ended June 30, 2016 from \$9.5 million during the year ended June 30, 2015. The primary reason for the decrease was due to lower sales and costs for fuel.

*Management's Discussion and Analysis*

**Table C**  
**Capital Assets**  
**June 30, 2016 and 2015**  
**(000's)**

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Land	\$ 6,250	\$ 6,250	\$ -	0%
Buildings and structures	12,040	11,896	144	1%
Furniture and equipment	4,968	4,943	25	1%
Infrastructure	45,495	45,049	446	1%
Construction in progress	<u>66</u>	<u>76</u>	<u>(10)</u>	-13%
Total capital assets	68,819	68,214	605	1%
Less accumulated depreciation	<u>29,229</u>	<u>26,977</u>	<u>2,252</u>	8%
Total net capital assets	<u>\$ 39,590</u>	<u>\$ 41,237</u>	<u>\$ (1,647)</u>	-4%

As of June 30, 2016, the District had invested \$68.8 million in capital assets. As can be seen from the table above, net capital assets decreased \$1.7 million to \$39.6 million at June 30, 2016, from \$41.2 million at June 30, 2015 due to depreciation of \$2.3 million. \$0.5 million of construction projects in progress were completed during the year ended June 30, 2016, specifically, \$0.3 million for a lighting project on runway 8/26, \$0.1 million for a fitness center and, \$0.2 million for the first phase of an upgrade to a pressure reducing valve.



## *Management's Discussion and Analysis*

### ***Budgetary Comparison***

The following table is a comparison of the Board approved budget for 2016 against actual results.

***Table D***  
***Budget vs. Actual Comparison***  
***For the Year Ended June 30, 2016***  
***(000's)***

	<u><i>Actual</i></u>	<u><i>Budget</i></u>	<u><i>Change</i></u>	<u><i>Percentage Change</i></u>
Operating revenue	\$ 7,070	\$ 7,030	\$ 40	1%
Nonoperating revenue	<u>1,093</u>	<u>737</u>	<u>356</u>	48%
Total revenues	<u>8,163</u>	<u>7,767</u>	<u>396</u>	5%
Operating expenses	6,338	7,818	(1,480)	-19%
Depreciation expense	<u>2,252</u>	<u>-</u>	<u>2,252</u>	0%
Total expenses	<u>8,590</u>	<u>7,818</u>	<u>772</u>	10%
Change in net position	<u>\$ (427)</u>	<u>\$ (51)</u>	<u>\$ (376)</u>	737%

\* 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 above budgeted revenues for 2016 by \$0.4 million mainly due to higher than anticipated property tax collections.

Actual total expenses, exclusive of depreciation, came out below budgeted operating expenses by \$1.5 million primarily due to lower than anticipated costs for retiring employees, insurance, water costs, and aviation fuel.

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, 2016 and 2015*

<b><i>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</i></b>	<b><i>2016</i></b>	<b><i>2015</i></b>
<b><i>Current Assets</i></b>		
Cash and cash equivalents	\$ 7,841,238	\$ 7,181,585
Receivables		
Accounts receivable, net of allowance for doubtful accounts of \$33,775 and \$48,359, respectively	471,920	266,953
Other receivables	6,610	3,348
Fuel inventory	155,912	250,114
Current maturities of note receivable	44,911	-
Total current assets	<u>8,520,591</u>	<u>7,702,000</u>
<b><i>Capital Assets</i>, net of accumulated depreciation</b>	<u>39,589,688</u>	<u>41,236,599</u>
<b><i>Note Receivable</i></b> , less current maturities	<u>93,785</u>	<u>-</u>
<b><i>Total Assets</i></b>	<u>48,204,064</u>	<u>48,938,599</u>
<b><i>Deferred Outflows of Resources</i></b>		
Deferred outflows - CalPERS pension plan	<u>410,461</u>	<u>245,275</u>
	<u>\$ 48,614,525</u>	<u>\$ 49,183,874</u>

*See Notes to Financial Statements.*

<b><i>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</i></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
<b><i>Current Liabilities</i></b>		
Accounts payable	\$ 445,228	\$ 400,001
Accrued liabilities	47,963	73,993
Customer deposits	107,170	139,498
Compensated absences	100,311	548,215
Total current liabilities	<u>700,672</u>	<u>1,161,707</u>
 <b><i>Long-Term Liabilities</i></b>		
Other post-employment benefits liability	1,417,470	1,173,800
Net pension liability	3,509,188	3,066,778
Total long-term liabilities	<u>4,926,658</u>	<u>4,240,578</u>
 <b><i>Total Liabilities</i></b>	 <u>5,627,330</u>	 <u>5,402,285</u>
 <b><i>Deferred Inflows of Resources</i></b>		
Deferred inflows - CalPERS pension plan	<u>314,129</u>	<u>682,245</u>
 <b><i>Net Position</i></b>		
Invested in capital assets, net of related debt	39,589,688	41,236,599
Unrestricted	3,083,378	1,862,745
	<u>42,673,066</u>	<u>43,099,344</u>
	<u>\$ 48,614,525</u>	<u>\$ 49,183,874</u>

*Mojave Air and Space Port*

*Statements of Revenues and Expenses  
For the Years Ended June 30, 2016 and 2015*

	<u>2016</u>	<u>2015</u>
<b><i>Operating revenue:</i></b>		
Rents and leases	\$ 4,744,246	\$ 4,629,184
Landing area	1,822,354	2,862,395
Non-aviation activities	484,045	613,151
Other buildings and areas	18,923	16,768
	<u>7,069,568</u>	<u>8,121,498</u>
<b><i>Operating expenses:</i></b>		
Direct expenses	1,920,812	2,875,589
General shop and equipment	1,258,569	1,174,162
General and administrative	3,157,980	3,283,069
Depreciation expense	2,251,932	2,136,403
	<u>8,589,293</u>	<u>9,469,223</u>
Operating loss	<u>(1,519,725)</u>	<u>(1,347,725)</u>
<b><i>Nonoperating income:</i></b>		
Interest income	29,650	9,598
Tax revenues	687,622	594,029
Grant revenue	289,152	539,387
Other income	87,023	2,197,854
	<u>1,093,447</u>	<u>3,340,868</u>
Change in net position	<u>\$ (426,278)</u>	<u>\$ 1,993,143</u>

*See Notes to Financial Statements.*

*Mojave Air and Space Port*

*Statements of Changes in Net Position  
For the Years Ended June 30, 2016 and 2015*

<i>Balance, June 30, 2014, as previously stated</i>	\$ 44,539,245
Cumulative effect of change in accounting principle (see Note 7)	<u>(3,433,044)</u>
<i>Balance, June 30, 2014, as restated</i>	41,106,201
Change in net position	<u>1,993,143</u>
<i>Balance, June 30, 2015</i>	43,099,344
Change in net position	<u>(426,278)</u>
<i>Balance, June 30, 2016</i>	<u><u>\$ 42,673,066</u></u>

*See Notes to Financial Statements.*

*Mojave Air and Space Port*

*Statements of Cash Flows  
For the Years Ended June 30, 2016 and 2015*

	<u>2016</u>	<u>2015</u>
<b><i>Cash flows from operating activities:</i></b>		
Receipts from customers	\$ 6,951,624	\$ 10,462,055
Receipts from taxes	687,622	594,029
Payments to suppliers for goods and services	(3,870,598)	(4,344,959)
Payments to employees for salaries and benefits	(2,680,818)	(2,646,649)
Net cash provided by operating activities	<u>1,087,830</u>	<u>4,064,476</u>
<b><i>Cash flows from capital and related financing activities:</i></b>		
Proceeds from grants	289,152	539,387
Payments for acquisition and construction of capital assets	(605,021)	(414,668)
Net cash provided by (used in) capital and related financing activities	<u>(315,869)</u>	<u>124,719</u>
<b><i>Cash flows from investing activities:</i></b>		
Interest income	26,388	7,075
Issuance of note receivable	(138,696)	-
Net cash provided by (used in) investing activities	<u>(112,308)</u>	<u>7,075</u>
<b><i>Net increase in cash and cash equivalents</i></b>	659,653	4,196,270
<b><i>Cash and cash equivalents at beginning of the year</i></b>	<u>7,181,585</u>	<u>2,985,315</u>
<b><i>Cash and cash equivalents at end of the year</i></b>	<u>\$ 7,841,238</u>	<u>\$ 7,181,585</u>

*See Notes to Financial Statements.*

	<u>2016</u>	<u>2015</u>
<b><i>Reconciliation of operating loss to net cash provided by operating activities:</i></b>		
Operating loss	\$ (1,519,725)	\$ (1,347,725)
<b><i>Adjustments to reconcile operating loss to net cash provided by operating activities:</i></b>		
Depreciation	2,251,932	2,136,403
<b><i>Changes in operating assets, liabilities and other income:</i></b>		
Accounts receivable	(204,967)	142,703
Fuel inventory	94,202	(11,796)
Accounts payable	45,227	121,481
Accrued liabilities	(473,934)	(108,552)
Customer deposits	(32,328)	42,375
Other post-employment benefits liability	243,670	227,000
Net pension liability	(90,892)	70,704
Taxes	687,622	594,029
Other income	87,023	2,197,854
	<u>87,023</u>	<u>2,197,854</u>
Net cash provided by operating activities	<u>\$ 1,087,830</u>	<u>\$ 4,064,476</u>

## *Mojave Air and Space Port*

### *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 Statement 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).

## *Notes to Financial Statements*

### ***Accounts receivable:***

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. Management provides for uncollectable 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 used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to 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><i>Years</i></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 was amended during the current year where it now provides employee with up to 200 hours of sick leave 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.

### ***Pensions:***

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## *Notes to Financial Statements*

### ***Deferred outflows/inflows of resources:***

The District reports increases/decreases in net position that relate to future periods as deferred outflows/inflows of resources in a separate section of the statements of net position. Deferred outflow of resources reported in the statements of net position are the results of the employer contributions made to the pension plan after the measurement date and will be recognized as a reduction of the net pension liability in the following year. Deferred inflows of resources are the results of actuarially determined amounts corresponding to the net pension liability that are amortized over an estimated life as part of pension expense.

### ***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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash deposits with financial institutions	\$ 1,377,449	\$ 1,391,033
Deposits with Kern County Treasurer	1,605,273	909,373
Deposits with Local Agency Investment Fund	4,858,516	4,841,179
Certificate of deposit	-	40,000
	<u>\$ 7,841,238</u>	<u>\$ 7,181,585</u>

The District invests any excess funds not needed for immediate needs into the 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

## *Notes to Financial Statements*

secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2016 and 2015, 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.

### ***Recently adopted accounting pronouncements:***

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for pensions based on methods and assumptions identified in GASB 68. This statement is effective for periods beginning after June 15, 2014. See Note 7 for the effect on net position as a result of adopting GASB 68 for the year ended June 30, 2015.

*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, 2016 and 2015.

<i>Capital Assets-At Cost</i>					
	<u>Balance</u> <u>6/30/15</u>	<u>Acquisitions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u> <u>6/30/16</u>
<b>Capital Assets not being depreciated:</b>					
Land	\$ 6,250,000	\$ -	\$ -	\$ -	\$ 6,250,000
Construction in progress	75,008	492,076	-	(501,987)	65,097
<b>Capital Assets being depreciated:</b>					
Buildings and structures	11,895,668	52,536	-	92,236	12,040,440
Furniture and equipment	4,943,352	24,362	-	-	4,967,714
Infrastructure	45,049,178	36,047	-	409,751	45,494,976
	<u>\$ 68,213,206</u>	<u>\$ 605,021</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,818,227</u>
 <i>Accumulated Depreciation</i>					
	<u>Balance</u> <u>6/30/15</u>	<u>Depreciation</u> <u>Expense</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u> <u>6/30/16</u>
Buildings and structures	\$ 7,386,488	\$ 347,273	\$ -	\$ -	\$ 7,733,761
Furniture and equipment	3,601,662	277,051	-	-	3,878,713
Infrastructure	15,988,457	1,627,608	-	-	17,616,065
	<u>\$ 26,976,607</u>	<u>\$ 2,251,932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,228,539</u>

*Notes to Financial Statements*

***Capital Assets-At Cost***

	<b><i>Balance</i></b> <b><i>6/30/14</i></b>	<b><i>Acquisitions</i></b>	<b><i>Retirements</i></b>	<b><i>Transfers</i></b>	<b><i>Balance</i></b> <b><i>6/30/15</i></b>
<b><i>Capital Assets not being depreciated:</i></b>					
Land	\$ 6,250,000	\$ -	\$ -	\$ -	\$ 6,250,000
Construction in progress	8,827,264	382,586	-	(9,134,842)	75,008
<b><i>Capital Assets being depreciated:</i></b>					
Buildings and structures	11,615,079	-	-	280,589	11,895,668
Furniture and equipment	4,863,770	32,082	-	47,500	4,943,352
Infrastructure	36,242,425	-	-	8,806,753	45,049,178
	<u>\$ 67,798,538</u>	<u>\$ 414,668</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,213,206</u>

***Accumulated Depreciation***

	<b><i>Balance</i></b> <b><i>6/30/14</i></b>	<b><i>Depreciation</i></b> <b><i>Expense</i></b>	<b><i>Retirements</i></b>	<b><i>Transfers</i></b>	<b><i>Balance</i></b> <b><i>6/30/15</i></b>
Buildings and structures	\$ 7,028,793	\$ 357,695	\$ -	\$ -	\$ 7,386,488
Furniture and equipment	3,325,688	275,974	-	-	3,601,662
Infrastructure	14,485,723	1,502,734	-	-	15,988,457
	<u>\$ 24,840,204</u>	<u>\$ 2,136,403</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,976,607</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, 2016 and 2015 was \$4,744,246 and \$4,629,184, respectively. Future minimum rental receipts due under non-cancellable leases are as follows:

<b><i>Years ending June 30,</i></b>	
2017	\$ 2,914,655
2018	2,270,131
2019	1,967,828
2020	1,860,247
2021	1,845,409
	<u>\$ 10,858,270</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, 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 Mojave Air and Space Port (“Miscellaneous”), and the Safety Plan of the Mojave Air and Space Port (“Safety”). All non-safety employees hired after January 1, 2013 are placed in the PEPRA Miscellaneous Plan of the Mojave Air and Space Port (“PEPRA”). Both are cost-sharing multiple-employer defined benefit plans. All qualified permanent and probationary employees are eligible to participate in the District’s Miscellaneous and Safety Plans. Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**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. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plan’s provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Miscellaneous</u>		<u>Safety</u>		<u>PEPRA</u>
Benefit formula	2.7% @ 55		3% @ 50		2% @ 62
Benefit vesting schedule	5 yrs service		5 yrs service		5 yrs service
Benefit payments	monthly for life		monthly for life		monthly for life
Retirement age	50 - 55		50		52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%		3.0%		1.0% to 2.5%
Required employee contribution rates	8%	*	9%	*	6.75%
Required employer contribution rates	13.83%		22.50%		6.95%

\* The District pays the required employee contributions on behalf of the employees.

**Contributions:**

Section 20814(c) of the California Public Employees’ Retirement Law required 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 all Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance

**Notes to Financial Statements**

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, 2016 and 2015, the contributions recognized as part of pension expense for each Plan were as follows:

<b>2016</b>	<b><i>Miscellaneous</i></b>	<b><i>Safety</i></b>	<b><i>PEPRA</i></b>
Contributions - employer	\$ 124,898	\$ 27,829	\$ 13,246
Contributions - employee	71,756	11,080	-
Contributions - side fund	208,476	22,512	-
	<u>\$ 405,130</u>	<u>\$ 61,421</u>	<u>\$ 13,246</u>
<b>2015</b>	<b><i>Miscellaneous</i></b>	<b><i>Safety</i></b>	<b><i>PEPRA</i></b>
Contributions - employer	\$ 202,947	\$ 34,691	\$ 7,637
Contributions - employee	83,459	11,080	3,068
Contributions - side fund	94,193	8,989	-
	<u>\$ 380,599</u>	<u>\$ 54,760</u>	<u>\$ 10,705</u>

***Pension liabilities, pension expense and pension deferred outflows/inflows of resources:***

As of June 30, 2016 and 2015, the District reported net pension liabilities for its proportionate share of the net pension liability of each Plan as follows:

	<b><i>2016</i></b>	<b><i>2015</i></b>
Miscellaneous	\$ 3,098,337	\$ 2,681,114
Safety	412,508	385,077
PEPRA	(1,657)	587
	<u>\$ 3,509,188</u>	<u>\$ 3,066,778</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014 (for year ended June 30, 2015) and June 30, 2015 (for year ended June 30, 2016), and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 for June 30, 2015 year end and as of June 30, 2014 rolled forward to June 30, 2015 for June 30, 2016 year end using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2013, 2014 and 2015 was as follows:



*Notes to Financial Statements*

	<u>Miscellaneous</u>	<u>Safety</u>	<u>PEPRA</u>
Proportion - June 30, 2014	0.1085%	0.0103%	0.0000%
Proportion - June 30, 2015	0.1129%	0.0100%	-0.0001%
Change - Increase (Decrease)	<u>0.0044%</u>	<u>-0.0003%</u>	<u>-0.0001%</u>
Proportion - June 30, 2013	0.0979%	0.0099%	0.0000%
Proportion - June 30, 2014	0.1085%	0.0103%	0.0000%
Change - Increase (Decrease)	<u>0.0106%</u>	<u>0.0004%</u>	<u>0.0000%</u>

For the years ended June 30, 2016 and 2015, the District recognized pension expense of \$234,387 and \$315,979, respectively. At June 30, 2016 and 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<b>2016</b>		
Pension contributions subsequent to measurement date	\$ 396,961	\$ -
Difference between expected and actual experience	13,500	-
Change in assumptions	-	(209,139)
Net difference between projected and actual earnings on plan investments	-	(104,990)
	<u>\$ 410,461</u>	<u>\$ (314,129)</u>
 <b>2015</b>		
Pension contributions subsequent to measurement date	\$ 245,275	\$ -
Change in employer's proportion	-	(58,443)
Net difference between projected and actual earnings on plan investments	-	(623,802)
	<u>\$ 245,275</u>	<u>\$ (682,245)</u>

The \$396,961 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized as pension expense as follows:

<u>Years ended June 30,</u>	
2017	\$ (149,374)
2018	(149,374)
2019	(135,400)
2020	133,519
	<u>\$ (300,629)</u>

*Notes to Financial Statements*

***Actuarial Assumptions:***

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	<u><i>Miscellaneous</i></u>	<u><i>Safety</i></u>	<u><i>PEPRA</i></u>
Valuation date	June 30, 2014	June 30, 2014	June 30, 2014
Measurement date	June 30, 2015	June 30, 2015	June 30, 2015
Actuarial cost method	Entry-Age Normal Cost Method		
Actuarial Assumptions:			
Discount Rate	7.65%	7.65%	7.65%
Inflation	2.75%	2.75%	2.75%
Payroll Growth	3.00%	3.00%	3.00%
Projected Salary Increase	Varies by entry age and service		
Investment Rate of Return	7.50%	7.50%	7.50%
Mortality	*	*	*

\* Derived using CalPERS membership data for all funds.

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

The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% will be applied to all plans in the Public Employees' Retirement Fund. The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to paragraph 30 of GASB 68, the long-term discount rate should be determined net of pension plan investment expense without reduction for pension plan administrative expense. The discount rate was changed from 7.5% (net of administrative expenses in 2014) to 7.65% as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expenses.

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

*Notes to Financial Statements*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major 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 the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest ¼%.

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

<i>Asset class</i>	<i>New Strategic Allocation</i>	<i>Real Return Years 1 - 10</i>	<i>Real Return Years 11+</i>
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%

***Sensitivity of the District's proportionate share of the net pension liability:***

The following presents the District's proportionate share of the net pension liability using the discount rate of 7.65%, as well as what the District's proportionate share of the net pension liability would be at June 30, 2016 if it were calculated using a discount rate that is 1-percentage-point lower (6.65%) or 1-percentage-point higher (8.65%) than the current rate:

	<i>Miscellaneous</i>	<i>Safety</i>	<i>PEPRA</i>
1% Decrease	6.65%	6.65%	6.65%
Net Pension Liability	\$ 5,196,127	\$ 661,392	\$ (2,778)
Current Discount Rate	7.65%	7.65%	7.65%
Net Pension Liability	\$ 3,098,337	\$ 412,508	\$ (1,657)
1% Increase	8.65%	8.65%	8.65%
Net Pension Liability	\$ 1,366,367	\$ 208,428	\$ (731)

## *Notes to Financial Statements*

### ***Side Funds:***

When the District joined the Miscellaneous and Safety plans, 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, 2015, the District's actuarial value of assets was less than the present value of the benefits which resulted in a negative side fund of \$3,013,662 for the Miscellaneous Plan and \$410,525 for the Safety Plan.

### ***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, 2016 and 2015 the annual required contribution (ARC) was \$394,000 and \$376,900, respectively, 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 years ended June 30, 2016 and 2015, the District had expenditures of \$126,530 and \$128,600, 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 and for the years ended June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Annual required contribution (ARC)	\$ 394,000	\$ 376,900
Interest on net pension obligation	35,200	28,400
Amortization of beginning-of-year net OPEB obligation	(59,000)	(49,700)
Annual OPEB cost	370,200	355,600
Contribution made	126,530	128,600
Increase in net OPEB obligation	243,670	227,000
Net OPEB obligation - beginning of year	1,173,800	946,800
Net OPEB obligation - end of year	\$ 1,417,470	\$ 1,173,800

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2016 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
6/30/2014	\$360,300	\$192,300	53%	\$946,800
6/30/2015	\$355,600	\$128,600	36%	\$1,173,800
6/30/2016	\$370,200	\$126,530	34%	\$1,417,470

***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
6/30/2015	\$ -	\$ 5,828,800	\$ (5,828,800)	0.00%	\$ 1,341,200	434.60%

## *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, 2015, 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 16 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, 2016 and 2015 were \$180,654 and \$188,330, 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>
Directors and Officers	National Union Fire	\$ 5,000	\$ 2,000,000
Commercial Property:	New Hampshire Ins. Co.		
Business Property		\$ 5,000	\$ 556,500
Business Income		\$ 5,000	\$ 2,819,140
Building		\$ 5,000	\$ 26,068,240
Personal Property		\$ 1,000	\$ 857,838
Boiler and Machinery	Hartford Steam Boiler	\$ 1,500	\$ 26,717,000
Railroad Liability	Arch Specialty Insurance Agency	\$ 10,000	\$ 3,000,000
General Liability	National Union Fire	\$ 2,500	\$ 50,000,000
Business Auto	Hartford Fire Insurance Co	\$ 1,000	\$ 1,000,000

Premiums for the above policies are paid annually and are not subject to retroactive adjustments. At June 30, 2016, the District had no outstanding claims which exceed insurance coverage.

**Note 7. Change in Accounting Principle**

For fiscal year 2015, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflow of resources, and expenses for pensions based on methods and assumptions identified in GASB 68. As a result of applying GASB 68, the District was required to record the net pension liability related to the District's CalPERS defined benefit plans. The impact of which was a decrease in net position of \$3,433,044 at June 30, 2014.

*Mojave Air and Space Port*

***Schedule of the District's Proportionate Share of the  
Net Pension Liability (CalPERS)  
Last Two Years Ended June 30  
See Independent Auditors' Report***

	<u>Miscellaneous</u>		<u>Safety</u>		<u>PEPRA</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.11294%	0.10848%	0.01001%	0.01027%	-0.00006%	0.00001%
District's proportionate share of the net pension liability	\$ 3,098,337	\$ 2,681,114	\$ 412,508	\$ 385,077	\$ (1,657)	\$ 587
District's covered-employee payroll	\$ 968,602	\$ 1,269,842	\$ 122,168	\$ 121,970	\$ 189,803	\$ 93,400
District's proportion of the net pension liability as a percentage of its covered-employee payroll	319.88%	211.14%	337.66%	315.71%	-0.87%	0.63%
Plan fiduciary net position as a percentage of the total pension liability	71.17%	74.52%	71.82%	76.20%	107.31%	83.04%

**Note 1.** GASB Statement No. 68 requires governments to include information from the most recent actuarial valuation and nine separate preceding valuations. As of June 30, 2016, the District had only performed two valuations.



*Mojave Air and Space Port*

*Schedule of Contributions (CalPERS)*

*Last Two Years Ended June 30  
See Independent Auditors' Report*

	<i>Miscellaneous</i>		<i>Safety</i>		<i>PEPRA</i>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 337,259	\$ 308,190	\$ 50,341	\$ 42,668	\$ 13,246	\$ 7,057
Contributions in relation to the contractually required contribution	<u>(337,259)</u>	<u>(308,190)</u>	<u>(50,341)</u>	<u>(42,668)</u>	<u>(13,246)</u>	<u>(7,057)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 968,602	\$ 1,269,842	\$ 122,168	\$ 121,970	\$ 189,803	\$ 93,400
Contributions as a percentage of covered-employee payroll	34.82%	24.27%	41.21%	34.98%	6.98%	7.56%

**Note 1.** GASB Statement No. 68 requires governments to include information from the most recent actuarial valuation and nine separate preceding valuations. As of June 30, 2016, the District had only performed two valuations.

*Mojave Air and Space Port*

*Schedule of Funding Progress - OPEB*

*June 30, 2016*

*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
6/30/2015	\$ -	\$ 5,828,800	\$ (5,828,800)	0.00%	\$ 1,341,200	435%	34



**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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 1, 2016.

**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.

*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. *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.

### **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*.

### **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.

**BARBICH HOOPER KING  
DILL HOFFMAN  
Accountancy Corporation**



Bakersfield, California  
December 1, 2016