MOJAVE AIR AND SPACE PORT

FINANCIAL STATEMENTS

JUNE 30, 2018

MOJAVE AIR AND SPACE PORT
FINANCIAL STATEMENTS
JUNE 30, 2018

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mojave Air and Space Port
Mojave, California

We have audited the accompanying financial statements of Mojave Air and Space Port (the District), as of June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The prior year comparative information has been derived from the District's 2017 financial statements and, in our report dated December 1, 2017, we expressed an unmodified opinion on the basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 respective financial position of the District as of June 30, 2018, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the District's Proportionate Share of the Net Pension Liability (CalPERS), Schedule of Contributions (CalPERS), and Schedule of Changes in the Net OPEB Liability and Related Ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 19, 2018

The following discussion and analysis of Mojave Air and Space Port's financial performance provides an overview of the financial activities for the year ended June 30, 2018. 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 $0.81 million, or 2%, over the course of the year's operations.

The District's total revenues experienced a net decrease of $0.59 million, or 6%, during the year ended June 30, 2018.

The District's total expenses increased $6.84 million, or 74%, during the year ended June 30, 2018.

The District's net capital assets decreased $.86 million, or 2%, during the year ended June 30, 2018.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's 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 of Directors (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 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 deferred outflows of resources and liabilities and deferred inflows of resources – 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, 2018 and 2017
(000's)

	2018	2017	Dollar Change	Percentage Change
Current assets	$ 9,391	$ 9,873	$ (482)	-5%
Capital assets	37,631	38,527	(896)	-2%
Total assets	47,022	48,400	(1,378)	-3%
Deferred outflows of resources	1,797	1,228	569	46%
Total assets and deferred outflows of resources	$ 48,819	$ 49,628	$ (809)	-2%
Current liabilities	$ 572	$ 848	$ (276)	-33%
Long-term liabilities	11,880	5,517	6,363	115%
Total liabilities	12,452	6,365	6,087	96%
Deferred inflows of resources	361	198	163	82%
Invested in capital assets, net of related debt	37,631	38,526	(895)	-2%
Unrestricted	(1,625)	4,539	(6,164)	-136%
Total net position	36,006	43,065	(7,059)	-16%
Total liabilities, deferred inflows of resources, and net position	$ 48,819	$ 49,628	$ (809)	-2%

As the Condensed Statements of Net Position above indicate, total assets decreased by $1.38 million to $47.02 million at June 30, 2018, from $48.40 million at June 30, 2017. The decrease in the total assets of the District was primarily due to a decrease in current assets of $0.48 million, chiefly due to an decrease in cash of $0.68 million, which was partially offset by increases in receivables and fuel inventory totaling $0.21 million, and a decrease in capital assets of $0.90 million, due to depreciation of $2.20 million and acquisition and retirements of capital assets and completion of construction projects of $1.30 million.

Total liabilities increased by $6.09 million or 96% during the year ended June 30, 2018, due to increases in long-term liabilities of $6.36 million, offset by a decrease in current liabilities of $0.28 million. The increase is mainly a result of increases of $5.86 million in other post-employment benefits liabilities and $0.50 in net pension liability.

Deferred outflows of resources increased by $0.57 million or 46% from $1.23 million at June 30, 2017, to $1.80 million at June 30, 2018 The predominant changes were a result of a decrease of $0.36 million in pension contributions subsequent to the measurement date, an increase of $0.59 million in changes in assumptions, an increase of $0.94 million in the change in employer's proportion, and a decrease of $0.56 million in the difference between projected and actual earnings from pension plan investments.

Deferred outflows of resources increased by $0.57 million or 46% from $1.23 million at June 30, 2017, to $1.80 million at June 30, 2018 The predominant changes were a result of a decrease of $0.36 million in pension contributions subsequent to the measurement date, an increase of $0.59 million in changes in assumptions, an increase of $0.94 million in the change in employer's proportion, and a decrease of $0.56 million in the difference between projected and actual earnings from pension plan investments.

Table B
Condensed Statements of Revenues, Expenses, and Changes in Net Position
June 30, 2018 and 2017
(000's)

	2018	2017	Dollar Change	Percentage Change
Operating revenue	$ 8,378	$ 8,782	$ (404)	-5%
Nonoperating revenue	682	865	(183)	-21%
Total revenues	9,060	9,647	(587)	-6%
Operating expenses	13,919	7,000	6,919	99%
Depreciation expense	2,200	2,255	(55)	-2%
Total expenses	16,119	9,255	6,864	74%
Change in net position	(7,059)	392	(7,451)	-1901%
Net position, beginning of year	43,065	42,673	392	1%
Net position, end of year	$ 36,006	$ 43,065	$ (7,059)	-16%

While the Condensed Statements of Net Position show the change in financial position of the District, the Condensed 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 $0.59 million to $9.06 million during the year ended June 30, 2018, from $9.65 million during the year ended June 30, 2017. Operating revenues decreased by $0.40 million, primarily due to decreased sales of fuel and related services of $0.50 million and a decrease in other operating revenue sources of $0.05 million but were offset by higher rent proceeds of $0.15 million. Nonoperating revenues decreased by $0.18 million because of lower tax receipts, lower grant proceeds, losses on disposals of assets, but offset by an increase in interest income.

Total expenses increased $6.86 million to $16.12 million during the year ended June 30, 2018, from $9.26 million during the year ended June 30, 2017. The primary reasons for the increase were the reporting of $5.86 million of expense for other post-employment benefits now required by GASB 75 and an increase of $0.81 million in salaries and related benefits.

Table C
Capital Assets
June 30, 2018 and 2017
(000's)

	2018	2017	Dollar Change	Percentage Change
Land	$ 6,381	$ 6,250	$ 131	2%
Buildings and structures	12,284	12,419	(135)	-1%
Furniture and equipment	4,454	5,135	(681)	-13%
Infrastructure	46,542	46,049	493	1%
Construction in progress	265	156	109	70%
Total capital assets	69,926	70,009	(83)	0%
Less accumulated depreciation	32,295	31,483	812	3%
Total net capital assets	$ 37,631	$ 38,526	$ (895)	-2%

As of June 30, 2018, the District had invested $70 million in capital assets. As can be seen from the previous table, net capital assets decreased $0.9 million to $37.63 million at June 30, 2018, from $38.53 million at June 30, 2017, due to depreciation of $2.20 million, acquisitions of capital assets of $1.56 million, minus the completion of infrastructure projects of $0.17 million, and retirement of assets of a net $0.07 million. The decrease resulting from depreciation was partially offset by increases in capital assets. Significant capital asset increases during the year ended June 30, 2018 were $0.39 million expended to acquire hangers from departing tenants, purchase a vacated building, and replace a roof, $0.48 million for new and enhanced infrastructure, $0.19 million for fire department equipment, and $0.13 million for additional land.

Budgetary Comparison

The following table is a comparison of the Board approved budget for 2018 against actual results.

Table D
Budget vs. Actual Comparison
For the Year Ended June 30, 2018
(000's)

	Actual	Budget	Change	Percentage Change
Operating revenue	$ 8,378	$ 7,839	$ 539	7%
Nonoperating revenue	682	2,772	(2,090)	-75%
Total revenues	9,060	10,611	(1,551)	-15%
Operating expenses	13,919	8,508	5,411	64%
Depreciation expense	2,200	- *	2,200	0%
Total expenses	16,119	8,508	7,721	91%
Change in net position	$ (7,059)	$ 2,103	$ (9,162)	-436%

* 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 2018 by $1.55 million mainly due to lower than anticipated federal grant revenues of $1.87 million, property tax revenues of $0.10 million. These under-budget amounts were offset by over-budget amounts including, higher than anticipated rent revenues of $0.21 million, fuel sales and services of $0.13 million, and interest income of $0.05 million.

Actual total expenses, exclusive of depreciation, came out $5.41 million above budgeted operating expenses primarily due recognition of $5.86 million in other post-employment benefits in conformity with requirements of GASB Statement No. 75, $0.09 million in other pension expenses, and $0.11 million in supplies. These over-budget amounts were offset by under-budget amounts including lower than anticipated salaries and related benefits of $0.19 million, repairs and maintenance of $0.11 million, outside services of $0.21 million, and grant expense of $0.05 million.

The annual budget is presented and approved by the District's Board each June with revisions presented and approved when appropriate to accommodate changes in conditions.

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.

BASIC FINANCIAL STATEMENTS

MOJAVE AIR AND SPACE PORT
STATEMENT OF NET POSITION
JUNE 30, 2018, WITH COMPARATIVE TOTALS

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and Cash Equivalents	$ 8,587,931	$ 9,264,399
Receivables		
Accounts Receivable, Net of Allowance for Doubtful Accounts	392,107	294,778
Other Receivables	49,558	18,041
Fuel Inventory	292,705	208,767
Prepaid Expenses	69,013	87,245
Total Current Assets	9,391,314	9,873,230
Capital Assets, Net of Accumulated Depreciation	37,631,414	38,526,189
Total Assets	47,022,728	48,399,419
Deferred Outflows of Resources		
Deferred Outflows - CalPERS Pension Plan	1,796,483	1,228,306
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 48,819,211	$ 49,627,725
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities		
Accounts Payable	$ 339,029	$ 369,515
Accrued Liabilities	31,734	30,588
Customer Deposits	92,988	310,597
Compensated Absences	108,381	137,257
Total Current Liabilities	572,132	847,957
Long-Term Liabilities		
Net Other Post-Employment Benefits Liabilities	7,257,100	7,103,500
Net Pension Liability	4,622,788	4,123,519
Total Long-Term Liabilities	11,879,888	11,227,019
Total Liabilities	12,452,020	12,074,976
Deferred Inflows of Resources		
Deferred Inflows - CalPERS Pension Plan	360,773	197,507
Net Position		
Net Investment in Capital Assets	37,631,414	38,526,189
Unrestricted	(1,624,996)	(1,170,947)
Total Net Position	36,006,418	37,355,242
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 48,819,211	$ 49,627,725

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

MOJAVE AIR AND SPACE PORT
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018, WITH COMPARATIVE TOTALS

	2018	2017
Operating Revenues		
Rents and Leases	$ 5,225,203	$ 5,077,319
Landing Area	2,859,763	3,357,624
Non-Aviation Activities	283,461	333,443
Other Buildings and Areas	9,185	13,177
Total Operating Revenues	8,377,612	8,781,563
Operating Expenses		
Direct Expenses	5,955,125	3,059,188
General Shop and Equipment	2,929,706	912,541
General and Administrative	5,034,342	3,028,619
Depreciation Expense	2,199,527	2,254,400
Total Operating Expenses	16,118,700	9,254,748
Operating Loss	(7,741,088)	(473,185)
Non-Operating Income		
Interest Income	94,575	59,627
Tax Revenues	606,871	636,533
Grant Revenues	21,170	160,686
Loss on Sale of Asset	(40,152)	-
Other Income	-	8,315
Total Non-Operating Income	682,464	865,161
Change in Net Position	$ (7,058,624)	$ 391,976

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

MOJAVE AIR AND SPACE PORT
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018, WITH COMPARATIVE TOTALS

Balance, June 30, 2016	$ 42,673,066
Change in Net Position	391,976
Prior period adjustment (Note 7)	(5,709,800)
Balance, June 30, 2017	37,355,242
Change in Net Position	(1,348,824)
Balance, June 30, 2018	$ 36,006,418

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

MOJAVE AIR AND SPACE PORT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018, WITH COMPARATIVE TOTALS

	Year Ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 8,062,674	$ 9,300,828
Payments to Employees	(7,989,145)	(7,324,683)
Payments to Suppliers for Goods and Services	(2,230,013)	(2,330,113)
Other Operating Cash Receipts and Disbursements	2,133,821	2,114,300
Net Cash (Used) Provided by Operating Activities	(22,663)	1,760,332
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES		
Proceeds from Grants	21,170	160,686
Payments for Acquisition and Construction of Capital Assets	(1,344,904)	(1,190,901)
Net Cash Used by Capital and Related Financing Activities	(1,323,734)	(1,030,215)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	63,058	48,196
Net Cash Provided by Investing Activities	63,058	48,196
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Tax Revenues	606,871	636,533
Other Income	-	8,315
Net Cash Provided by Noncapital Financing Activities	606,871	644,848
Net Increase (Decrease) in Cash and Cash Equivalents	(676,468)	1,423,161
Cash and Cash Equivalents at Beginning of Year	9,264,399	7,841,238
Cash and Cash Equivalents at End of Year	$ 8,587,931	$ 9,264,399

RECONCILIATION OF OPERATING LOSS
TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES

	2018	2017
Operating Loss	$ (7,741,088)	$ (473,185)
Adjustments to Reconcile Operating Loss to		
Net Cash (Used) Provided by Operating Activities		
Depreciation	2,199,527	2,254,400
Changes in Operating Assets, Liabilities, and Other Income:		
(Increase) Decrease in:		
Accounts Receivable	(97,329)	177,142
Prepaids	18,232	(87,245)
Notes Receivable	-	138,696
Fuel Inventory	(83,938)	(52,855)
Increase (Decrease) in:		
Accounts Payable	(30,486)	(75,713)
Accrued Liabilities	1,146	(17,375)
Compensated Absences	(28,876)	36,946
Deferred Pensions	(404,911)	(934,467)
Customer Deposits	(217,609)	203,427
Other Post-Employment Benefits Liability	5,863,400	(23,770)
Net Pension Liability	499,269	614,331
Net Cash (Used) Provided by Operating Activities	$ (22,663)	$ 1,760,332

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

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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.

B. Basis of Accounting and Financial Reporting

The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, 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 Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position*. Net position is categorized as net investment in capital assets, restricted components of net position, and unrestricted components of net position. These categories are defined as follows.

Net investment in capital assets - 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 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.

C. 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.

D. 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, 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.

E. 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 the District's property taxes.

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

F. 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. At June 30, 2018, the allowance for doubtful accounts was $6,536.

G. 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.

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets

Capital assets are defined by the District as assets with an individual cost of more than $5,000 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:

	Years
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.

I. 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 employees with up to 200 hours of sick leave accruals. Upon retirement, employees who have been with the District for 5 to 10 years are entitled to 50% payment of unused sick leave accruals and employees who have been with the District over 10 years are entitled to 100% payment of unused sick leave accruals.

J. 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.

K. 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 statement of net position. Deferred outflows of resources reported in the statement 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.

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. 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, 2018 and 2017:

	2018	2017
Cash Deposits with financial Institutions	$ 247,211	$ 2,116,683
Deposits with Kern County Treasurer	2,891,390	2,257,561
Deposits with Local Agency Investment Fund (LAIF)	5,449,330	4,890,155
	$ 8,587,931	$ 9,264,399

The District invests any excess funds not needed for immediate needs into the State of California managed LAIF. The LAIF 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 statement of net position.

Cash funds deposited with the State Treasurer's Office are in a pooled money fund. Cash funds are then pooled with other agencies throughout California. Investments are made in accordance with California 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.

M. 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 of 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, 2018 and 2017, the District had no risk associated with custodial assets.

N. Fair Value Measurements

In accordance with GASB Statement No. 72, investments in the County Treasurer's Investment Pools are not subject to the three tiered fair value hierarchy: Level 1, Level 2, and Level 3. The three-tiers are defined as follows:

Level 1 – reflect unadjusted quoted prices in active markets for identical assets.

Level 2 – reflect inputs that are based on a similar observable asset either directly or indirectly.

Level 3 – reflect unobservable inputs.

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fair Value Measurements (Continued)

The District has no recurring fair value measurements as of June 30, 2018.

Treasury Pool Income and Participant Withdrawals

Treasury Pool investments are accounted for in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires governmental entities to report certain investments at fair value in the balance sheet and the statement of net position and recognize the corresponding change in value of investments in the year in which the change occurred. The value of the participant's shares in the Treasury Pool that may be withdrawn is determined on an amortized cost basis, which is different from the fair value of the participant's position in the Treasury Pool. The fair value fluctuates with interest rates, and increasing rates could cause the value to decline below original cost; however, Kern County management believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude Kern County from having to sell investments below original cost for that purpose.

O. 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.

P. Cash Flows

GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* states for purposes of preparing the statement 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.

Q. Governmental Accounting Standards Update

During the fiscal year ending June 30, 2018, the Districted implemented the following standards:

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pension Plans.* The provisions of this statement are effective for fiscal years beginning after June 15, 2017. The District implemented the provision of this statement during the current fiscal year.

GASB Statement No. 81 – *Irrevocable Split-Interest Agreements*. The requirements of this statement are effective for reporting periods beginning after December 15, 2016. There was no impact on the financial statements due to the implementation of this statement.

GASB Statement No. 85 – *Omnibus 2017*. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. There was no impact on the financial statements due to the implementation of this statement.

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Governmental Accounting Standards Update (Continued)

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. There was no impact on the financial statements due to the implementation of this statement.

Governmental Accounting Standards Board Statements affecting future years are as follows:

GASB Statement No. 83 – *Certain Asset Retirement Obligations.* The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The District has not fully judged the impact of implementation of GASB Statement No. 83 on the financial statements.

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The District has not fully judged the impact of implementation of GASB Statement No. 84 on the financial statements.

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The District has not fully judged the impact of implementation of GASB Statement No. 87 on the financial statements.

GASB Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The District has not fully judged the impact of implementation of GASB Statement No. 87 on the financial statements.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The District has not fully judged the impact of implementation of GASB Statement No. 87 on the 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, 2018 and 2017 for comparison purposes:

	Capital Assets - At Cost				
	Balance June 30, 2017	Acquisitions	Retirements	Transfers	Balance June 30, 2018
Capital Assets Not Being Depreciated					
Land	$ 6,250,000	$ 131,298	$ -	$ -	$ 6,381,298
Construction in Progress	156,216	282,348	(173,291)	-	265,273
Capital Assets Being Depreciated					
Buildings and Structures	12,419,462	391,802	(525,169)	(2,393)	12,283,702
Furniture and Equipment	5,134,613	267,469	(775,095)	(172,888)	4,454,099
Infrastructure	46,048,837	478,729	(160,661)	175,281	46,542,186
	$ 70,009,128	$ 1,551,646	$ (1,634,216)	$ -	$ 69,926,558

	Accumulated Depreciation				
	Balance June 30, 2017	Depreciation Expense	Retirements	Transfers	Balance June 30, 2018
Capital Assets Being Depreciated					
Buildings and Structures	$ 8,075,261	$ 342,283	$ (507,111)	$ (2,393)	$ 7,908,040
Furniture and Equipment	4,169,286	169,539	(729,430)	(172,888)	3,436,507
Infrastructure	19,238,392	1,687,703	(150,779)	175,281	20,950,597
	$ 31,482,939	$ 2,199,525	$ (1,387,320)	$ -	$ 32,295,144

	Capital Assets - At Cost				
	Balance June 30, 2016	Acquisitions	Retirements	Transfers	Balance June 30, 2017
Capital Assets Not Being Depreciated					
Land	$ 6,250,000	$ -	$ -	$ -	$ 6,250,000
Construction in Progress	65,097	107,358	(16,239)	-	156,216
Capital Assets Being Depreciated					
Buildings and Structures	12,040,440	379,022	-	-	12,419,462
Furniture and Equipment	4,967,714	166,899	-	-	5,134,613
Infrastructure	45,494,976	553,861	-	-	46,048,837
	$ 68,818,227	$ 1,207,140	$ (16,239)	$ -	$ 70,009,128

	Accumulated Depreciation				
	Balance June 30, 2016	Depreciation Expense	Retirements	Transfers	Balance June 30, 2017
Capital Assets Being Depreciated					
Buildings and Structures	$ 7,733,761	$ 341,500	$ -	$ -	$ 8,075,261
Furniture and Equipment	3,878,713	290,573	-	-	4,169,286
Infrastructure	17,616,065	1,622,327	-	-	19,238,392
	$ 29,228,539	$ 2,254,400	$ -	$ -	$ 31,482,939

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, 2018 and 2017, was $5,225,203 and $5,077,319, respectively. Future minimum rental receipts due under non-cancellable leases are as follows:

Year Ending June 30,	
2019	$ 1,892,589
2020	1,506,614
2021	1,490,876
2022	1,423,503
2023	1,405,879
After 2023	18,386,850
	$ 26,106,311

NOTE 4 – RETIREMENT PLANS

CalPERS

A. Plan Description

The District participates in the Public Agency portion of CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. The District's offers three 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 nonsafety employees hired after January 1, 2013, are placed in the California Public Employees' Pension Reform Act (PEPRA) Miscellaneous Plan of the Mojave Air and Space Port ("PEPRA"). All plans 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 (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.

B. Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments (COLA) 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 COLAs for each plan are applied as specified by the California Public Employees' Retirement Law (PERL).

NOTE 4 – RETIREMENT PLANS (Continued)

CalPERS (Continued)

B. Benefits Provided (Continued)

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	Safety	PEPRA
Benefit Formula	2.7%@55	3.0%@50	2.0%@62
Benefit Vesting Schedule	5 years service	5 years service	5 years service
Benefit Payments	Monthly for life	Monthly for life	Monthly for life
Retirement Age	50-55	50	52-67
Monthly Benefits, as a Percentage of Eligible Compensation	2.0% to 2.7%	3.0	1.0% to 2.5%
Required Employee Contribution Rates	8.00% *	9.00% *	6.75%
Required Employer Contribution Rates	13.83%	22.50%	6.95%

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

C. Contributions

Section 20814(c) of the PERL 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 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, 2018 and 2017, the contributions recognized as part of pension expense for each Plan were as follows:

2018	Miscellaneous	Safety	PEPRA
Contributions - Employer	$ 104,711	$ 30,149	$ 35,455
Contributions - Employee	58,169	11,780	33,659
Contributions - Side Fund	244,158	28,896	59
	$ 407,038	$ 70,825	$ 69,173

2017	Miscellaneous	Safety	PEPRA
Contributions - Employer	$ 101,918	$ 28,970	$ 27,007
Contributions - Employee	56,808	11,412	-
Contributions - Side Fund	219,197	24,785	-
	$ 377,923	$ 65,167	$ 27,007

NOTE 4 – RETIREMENT PLANS (Continued)

CalPERS (Continued)

D. Pension Liabilities, Pension Expense, and Pension Deferred Outflows/Inflows of Resources

As of June 30, 2018 and 2017, the District reported net pension liabilities for its proportionate share of the net pension liability of each Plan as follows:

	2018	2017
Miscellaneous	$ 4,070,987	$ 3,626,498
Safety	551,801	497,021
PEPRA*	-	-
	$ 4,622,788	$ 4,123,519

*During the year ended June 30, 2018 and 2017, amounts from the PEPRA Miscellaneous Plan are included in the Miscellaneous Plan.

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, 2016 (for year ended June 30, 2017) and June 30, 2017 (for year ended June 30, 2018), 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, 2015, rolled forward to June 30, 2016, for June 30, 2017 year-end and as of June 30, 2016, rolled forward to June 30, 2017, for June 30, 2018 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.

	Miscellaneous	Safety	PEPRA
Proportion - June 30, 2016	0.1032%	0.0092%	0.0000%
Proportion - June 30, 2017	0.1044%	0.0096%	0.0000%
Change - Increase (Decrease)	0.0012%	0.0004%	0.0000%

	Miscellaneous	Safety	PEPRA
Proportion - June 30, 2015	0.1129%	0.0100%	-0.0001%
Proportion - June 30, 2016	0.1044%	0.0096%	0.0000%
Change - Increase (Decrease)	-0.0085%	-0.0004%	0.0001%

NOTE 4 – RETIREMENT PLANS (Continued)

CalPERS (Continued)

D. Pension Liabilities, Pension Expense, and Pension Deferred Outflows/Inflows of Resources (Continued)

For the years ended June 30, 2018 and 2017, the District recognized pension expense of $94,358 and $154,070, respectively. At June 30, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 118,080	$ -
Difference between employer's contributions and proportionate share of contributions	-	(229,717)
Differences between actual and expected experience	8,747	(62,076)
Changes in assumptions	592,647	(45,221)
Change in employer's proportion	943,505	(23,759)
Net difference between projected and actual earnings on plan investments	133,504	-
	$ 1,796,483	$ (360,773)

2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 474,206	$ -
Difference between employer's contributions and proportionate share of contributions	56,939	-
Differences between actual and expected experience	5,548	-
Changes in assumptions	-	(133,849)
Change in employer's proportion	-	(63,658)
Net difference between projected and actual earnings on plan investments	691,613	-
	$ 1,228,306	$ (197,507)

The $118,080 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, 2018. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	
2019	$ 920,285
2020	286,009
2021	190,475
2022	(79,139)
	$ 1,317,630

NOTE 4 – RETIREMENT PLANS (Continued)

CalPERS (Continued)

E. Actuarial Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous	Safety	PEPRA
Valuation Date	June 30, 2016	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:			
Discount Rate	7.15%	7.15%	7.15%
Inflation Rate	2.75%	2.75%	2.75%
Payroll Growth	2.75%	2.75%	2.75%
Projected Salary Increase	Varies by Entry Age and Service	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return	7.15%	7.15%	7.15%
Mortality	*	*	*

* Derived using CalPERS membership data for all funds.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 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 7.15% 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 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% will be applied to all plans in the California 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 Statement No. 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 7.65% (net of administrative expenses in 2015) to 7.65% as of the June 30, 2016 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 the Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statement No. 67 and Statement No. 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.

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.

NOTE 4 – RETIREMENT PLANS (Continued)

CalPERS (Continued)

E. Actuarial Assumptions (Continued)

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 0.25%.

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.

Asset Class	New Strategic Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

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

	Miscellaneous (Including PEPRA)	Safety
1% Decrease	6.15%	6.15%
Net Pension Liability	$ 5,809,615	$ 767,181
Current Discount Rate	7.15%	7.15%
Net Pension Liability	$ 4,070,987	$ 551,801
1% Increase	8.15%	8.15%
Net Pension Liability	$ 2,631,023	$ 375,738

NOTE 4 – <u>RETIREMENT PLANS</u> (Continued)

CalPERS (Continued)

G. <u>Side Funds</u>

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, 2017, the District's actuarial value of assets was less than the present value of the benefits which resulted in a negative side fund of $856,965 for the Miscellaneous Plan and $90,032 for the Safety Plan.

Other Post-Employment Benefits

A. <u>Plan Description</u>

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.

B. <u>Contributions</u>

The contribution requirements of plan members and the District are established and may be amended by the District's Board. Currently, contributions are not required from plan members. The District pays for post-employment health insurance on a pay-as-you go basis.

NOTE 4 – RETIREMENT PLANS (Continued)

Other Post-Employment Benefits (Continued)

C. Net OPEB Liability (NOL)

NOL at the end of June 30, 2018 and 2017 is as follows:

Reporting Date	June 30, 2018	June 30, 2017
Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2017	June 30, 2017
Discount Rate	3.50%	3.50%
Return on Assets	N/A	N/A
Participant Count		
Current Retirees	18	
Active Employees	19	
Total	37	
Actuarial Present Value of Benefits (APVB)		
Current Retirees	$ 4,733,900	
Active Employees	4,749,800	
Total	$ 9,483,700	
Totel OPEB Liability (TOL)		
Current Retirees	$ 4,733,900	$ 4,859,100
Active Employees	2,523,200	2,244,400
Total	$ 7,257,100	$ 7,103,500
Fiduciary Net Position (FNP) = Market Value of Assets	$ -	$ -
Net OPEB Liability (NOL) = TOL - FNP	$ 7,257,100	$ 7,103,500

NOTE 4 – RETIREMENT PLANS (Continued)

Other Post-Employment Benefits (Continued)

D. Changes in Total/NOL for the Year End June 30, 2018

	Total/NOL
Balance at Reporting Date at June 30, 2017 [1]	$ 7,103,500
Increase/Decrease within Fiscal Year 2017/18 attributable to:	
Service Cost	196,900
Interest Cost	247,000
Effect of Change in Actuarial Assumptions/Methods	-
Other Liability Experience Loss/(Gain)	-
Effect of Plan Amendments	-
Benefit Payments [2]	(290,300)
Net Increase/(Decrease) within Fiscal Year 2017/18	$ 153,600
Balance at Reporting Date June 30, 2018 [1]	$ 7,257,100

[1] Measurement date June 30, 2016 liability and assets have been used for the GASB Statement No. 75 reporting date of June 30, 2017, while measurement date June 30, 2017 liability and assets have been used for the GASB Statement No. 75 reporting date of June 30, 2018.

[2] Benefit payments consist of $237,000 cash benefits payments plus a $53,300 Implicit Subsidy. These payments were actually made in measurement period 2016/2017, but for GASB 75 accounting purposes they are being reported for fiscal year 2017/2018.

NOTE 4 – RETIREMENT PLANS (Continued)

Other Post-Employment Benefits (Continued)

E. Sensitivity of End-of-Year NOL to Changes in Assumptions

	Discount Rate		
	1% Decrease (2.50%)	Current Rate (3.50%)	1% Increase (4.50%)
NOL at Reporting Date June 30, 2018	$ 8,377,900	$ 7,257,100	$ 6,357,400

	Trend Rates		
	1% Decrease (1)	Current Rates (2)	1% Increase (3)
NOL at Reporting Date June 30, 2018	$ 6,336,500	$ 7,257,100	$ 8,360,800

(1) Various initial rates grading to ultimate 3.00% for medical, flat 1.00% for dental/vision, and flat 0.00% for PPO deductibles.

(2) Various initial rates grading to ultimate 4.00% for medical, flat 2.00% for dental/vision, and flat 1.00% for PPO deductibles.

(3) Various initial rates grading to ultimate 5.00% for medical, flat 3.00% for dental/vision, and flat 2.00% for PPO deductibles.

F. Deferred Outflows and Inflows of Resources

Type of Change in NOL (1)	Deferred Resources at Reporting Date June 30, 2018			Deferred Resources at Reporting Date June 30, 2017		
	Outflows	Inflows	Outflows less Inflows	Outflows	Inflows	Outflows less Inflows
Revised assumptions/methods	$ -	$ -	$ -	$ -	$ -	$ -
Other liability experience loss/(gain)	-	-	-	-	-	-
Investment experience loss/(gain)	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -	$ -

(1) Historical increases or decreases in NOL due to plan amendments are not reflected here, as those changes are immediately recognized in the Annual OPEB Expense as they occur. A NOL change of any other type is amortized as shown above so that it is gradually recognized, with the unamortized portion at a given point referred to as a Deferred Resource.

Type of Change in NOL (1)	Deferred Resources Increase/(Decrease) in Fiscal Year 2017/18		
	Current Year's Change in NOL	Amortizations	Total Increase/ Decrease
Revised assumptions/methods	$ -	$ -	$ -
Other liability experience loss/(gain)	-	-	-
Investment experience loss/(gain)	-	-	-
Total	$ -	$ -	$ -

(1) Historical increases or decreases in NOL due to plan amendments are not reflected here, as those changes are immediately recognized in the Annual OPEB Expense as they occur. A NOL change of any other type is amortized as shown above so that it is gradually recognized, with the unamortized portion at a given point referred to as a Deferred Resource.

NOTE 4 – <u>RETIREMENT PLANS</u> (Continued)

Other Post-Employment Benefits (Continued)

G. Annual OPEB Expense and Related Items

Fiscal Year		2017/18
Measurement Period		2016/17
Annual OPEB Expense		
Service Cost	$	196,900
Interest Cost		247,000
(Expected Investment Return)		-
Non-Benefit-Related Administrative Expenses from Plan Trusts		-
NOL change due to amendments		-
Amortizations of other changes in NOL		-
Total Annual OPEB Expense	$	443,900
Reconciliation of NOL		
NOL at beginning of year	$	7,103,500
Annual OPEB Expense		443,900
(Benefit Payments)		(290,300)
Increase/(Decrease) in Deferred Resources		-
Total NOL at end of year	$	7,257,100
Recognition of Deferred Resources in Future Annual OPEB Expense		
Amortization of Deferred Resources in current year + 1 = 2018/19	$	-
Amortization of Deferred Resources in current year + 2 = 2019/20		-
Amortization of Deferred Resources in current year + 3 = 2020/21		-
Amortization of Deferred Resources in current year + 4 = 2021/22		-
Amortization of Deferred Resources in current year + 5 = 2022/23		
Amortization of Deferred Resources in later years		-
Total Deferred Resources at end of current year	$	-

Projections and benefits of financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and includes 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 efforts 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, 2016, 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%.

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, 2018 and 2017, were $181,247 and $142,197, respectively.

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:

Type of Coverage	Carrier	Deductible	Limit per Occurrence
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	Star Indemnity & Liability Company	$ 1,000	$ 1,000,000

Premiums for the above policies are paid annually and are not subject to retroactive adjustments. At June 30, 2018, the District had no outstanding claims which exceed insurance coverage.

NOTE 7 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to the beginning net position to reflect the prior period costs related to the implementation of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The restatement of beginning net position is summarized as follows:

Net position at July 1, 2017, as previously stated	$ 43,065,042
Net OPEB liability adjustment	(5,709,800)
Net position at July 1, 2017, as restated	$ 37,355,242

NOTE 8 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 19, 2018, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

MOJAVE AIR AND SPACE PORT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (CalPERS)
LAST FOUR YEARS ENDED JUNE 30

	Miscellaneous				Safety				PEPRA*	
	2018	2017	2016	2015	2018	2017	2016	2015	2016	2015
District's Proportion of the Net Pension Liability	0.10327%	0.10439%	0.11294%	0.10848%	0.00923%	0.00960%	0.01001%	0.01027%	-0.00006%	0.00001%
District's Proportionate Share of the Net Pension Liability	$ 4,070,987	$ 3,626,498	$ 3,098,337	$ 2,681,114	$ 551,801	$ 497,021	$ 412,508	$ 385,077	$ (1,657)	$ 587
District's Covered-Employee Payroll	$ 1,149,742	$ 1,149,742	$ 968,602	$ 1,269,842	$ 122,463	$ 122,463	$ 122,168	$ 121,970	$ 189,803	$ 93,400
District's Proportion of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	354.08%	315.42%	319.88%	211.14%	450.59%	405.85%	337.66%	315.71%	-0.87%	0.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.39%	75.87%	71.17%	74.52%	71.74%	72.69%	71.82%	76.20%	107.31%	83.04%

*Amounts from the California Public Employees' Pension Reform Act (PEPRA) Plan are included in the Miscellaneous Plan for 2017 and 2018.

Note 1 Governmental Accounting Standards Board (GASB) Statement No. 68 requires governments to include information from the most recent actuarial valuation and nine separate preceding valuations. As of June 30, 2018, the District had only performed four valuations.

MOJAVE AIR AND SPACE PORT
SCHEDULE OF CONTRIBUTIONS (CalPERS)
LAST FOUR YEARS ENDED JUNE 30

	Miscellaneous				Safety				PEPRA*	
	2018	2017	2016	2015	2018	2017	2016	2015	2016	2015
Contractually Required Contribution	$ 425,432	$ 418,237	$ 337,259	$ 308,190	$ 60,786	$ 55,735	$ 50,341	$ 42,668	$ 13,246	$ 7,057
Contributions in Relation to the Contractually Required Contribution	(425,432)	(418,237)	(337,259)	(308,190)	(60,786)	(55,735)	(50,341)	(42,668)	(13,246)	(7,057)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's Covered-Employee Payroll	$ 1,149,742	$ 1,149,742	$ 968,602	$ 1,269,842	$ 122,463	$ 122,463	$ 122,168	$ 121,970	$ 189,803	$ 93,400
Contributions as a Percentage of Covered-Employee Payroll	37.00%	36.38%	34.82%	24.27%	49.64%	45.51%	41.21%	34.98%	6.98%	7.56%

*Amounts from the PEPRA Plan are included in the Miscellaneous Plan for 2017 and 2018.

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, 2018, the District had only performed four valuations.

MOJAVE AIR AND SPACE PORT
OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

	2018
Balance at Reporting Date at June 30, 2017 [(1)]	$ 7,103,500
Increase/Decrease within Fiscal Year 2017/18 attributable to:	
Service Cost	196,900
Interest Cost	247,000
Effect of Change in Actuarial Assumptions/Methods	-
Other Liability Experience Loss/(Gain)	-
Effect of Plan Amendments	-
Benefit Payments [(2)]	(290,300)
Net Increase/(Decrease) within Fiscal Year 2017/18	$ 153,600
Balance at Reporting Date June 30, 2018 [(1)]	$ 7,257,100
Percentages for Required Supplementary Information	
Annual Covered Employee Payroll	$ 1,267,700
Benefit Payments as a percentage of Covered Payroll	22.90%
End-of-year NOL as a percentage of Covered Payroll	572.46%
End-of-year FNP as a percentage of TOL	0.00%

[(1)] Measurement date June 30, 2016 liability and assets have been used for the GASB Statement No. 75 reporting date of June 30, 2017, while measurement date June 30, 2017 liability and assets have been used for the GASB Statement No. 75 reporting date of June 30, 2018.

[(2)] Benefit payments consist of $237,000 cash benefits payments plus a $53,300 Implicit Subsidy. These payments were actually made in measurement period 2016/2017, but for GASB 75 accounting purposes they are being reported for fiscal year 2017/2018.

BROWN ARMSTRONG
ARMSTRONG

CERTIFIED
PUBLIC
ACCOUNTANTS

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
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 (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 19, 2018.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.

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Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 19, 2018