

BIG BEAR AIRPORT DISTRICT

Audited Financial Statements
(With Independent Auditor's Report)

For the Years Ended June 30, 2012 and 2011

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BIG BEAR AIRPORT DISTRICT

Management's Discussion and Analysis

Big Bear Airport District offers readers of its financial statements this narrative and analysis of the financial activities of the Airport for the fiscal year ended June 30, 2012.

Financial Highlights

- The assets of the Airport exceeded its liabilities at the close of the most recent fiscal year by \$26 million (net assets). Net Assets is the difference between all of the Airport's assets and liabilities.
- The Airport's total net assets increased by \$576,719.
- The Airport's total revenues and capital contributions exceeded its total expenses by 20%.
- The Airport expended \$1,073,560 for property and equipment, primarily airport improvements and operating equipment.
- Big Bear Airport District modified its payment policy for the rental of hangars by requiring advance rent payments to be paid in accordance with the District's fiscal year. This policy change resulted in an increase in cash and deferred revenue of \$120,336.
- The Airport adopted a change in accounting estimate for the depreciation of its property and equipment. The change in accounting estimate resulted in higher depreciation expense of \$492,226 for the year ended June 30, 2012 compared to the prior year. See note 7 on page 16 for further analysis.

Overview of the Financial Statements

The annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplemental information.

The management's discussion and analysis is intended to serve as an introduction to the Airport's basic financial statements. The Airport's basic financial statements are comprised of three components: (1) independent auditor's report, (2) statements of net assets, revenues, expenses and changes in net assets, and cash flows, and (3) compliance reports. The annual report also contains other supplementary information in addition to the basic statements.

Basic Financial Statements

Independent Auditor's Report is a statement by the Accountancy Firm performing the annual financial audit. This is a statement that the audit is in accordance with Government Auditing Standards. See pages 5 and 6 for further analysis.

The Statement of Net Assets presents information on all of the Airport's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Airport is improving or deteriorating. See page 7 for further analysis.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Airport's net assets changed during the most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). See page 8 for further analysis.

Basic Financial Statements, continued

The *Statement of Cash Flows* illustrates sources providing and using cash flows of the Airport. The statement categorizes cash flows in three distinct classes. These classes are operations, investing and financing. Cash flows provided or used in operations relates to the transactions giving rise to the airports operating activities. Cash flows provided or used in investing activities are comprised of the acquisitions of investments and property, equipment and improvements and proceeds from the related sale of these assets. Financing activities include cash provided or used in the borrowing or repayment of debt, which does not apply to the Big Bear Airport District. See page 9 for further analysis.

Notes to Financial Statements consist of information on the Airport and a summary of the Airport's accounting policies. The operations of the Airport are accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing services to the general public on a continuing basis are financed or recovered through user charges and other non-operating revenues. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. See pages 10-16 for further analysis.

The *Schedule of Expenditures of Federal Awards* provides separate information on certain governmental funding used for capital improvements. The Airport Improvement Program (AIP) of the Federal Aviation Administration (FAA) provided this funding. See page 18 for further analysis.

Financial Information

Condensed Statement of Net Assets:

| | 2012 | 2011 | 2010 |
|----------------------------|----------------------|-------------------|-------------------|
| Current and other assets | \$ 3,746,168 | 4,977,963 | 4,062,549 |
| Certificate of deposits | 2,041,889 | - | - |
| Capital assets | 20,628,769 | 20,729,228 | 20,674,596 |
| Total assets | <u>26,416,826</u> | <u>25,707,191</u> | <u>24,737,145</u> |
| Current liabilities | 123,792 | 167,237 | 127,703 |
| Deferred revenue | 137,586 | 17,220 | 47,502 |
| Noncurrent liabilities | 185,250 | 129,255 | 78,008 |
| Total liabilities | <u>446,628</u> | <u>313,712</u> | <u>253,213</u> |
| Net assets | | | |
| Invested in capital assets | 20,628,769 | 20,729,228 | 20,674,596 |
| Unrestricted | 5,341,429 | 4,664,251 | 3,809,336 |
| Total net assets | <u>\$ 25,970,198</u> | <u>25,393,479</u> | <u>24,483,932</u> |

The largest portion of the Airport's net assets, \$20,628,769 is invested in capital assets (land, improvements, equipment, and construction-in-progress). Capital asset balances have trended upward due to rehabilitation of a runway, taxiways, and ramps during the 2010 to 2012 fiscal years. The Airport anticipates the investment in capital assets to tend downward in future fiscal years due to fewer airport improvement projects and changes in its depreciation policy as discussed earlier. The Airport uses its capital assets to provide hangar space, taxiways, runways, and equipment to maintain these facilities for airport users.

Financial Information, continued

Current and other assets include cash, investments, receivables, prepaid expenses and inventory. These assets are available to meet both current and non-current obligations.

Since 2010, total assets increased 6.8%. The increases are the result of operating surpluses and additions of capital assets for a runway, taxiways, ramps, security improvements, hangar acquisitions, and equipment purchases over the past three years in excess of \$3.7 million dollars.

The change in total liabilities relates to increases in the GASB 45, *Other Post Employment Benefits* (OPEB) for retired and retiring employees and increases in deferred revenue as discussed in the *Financial Highlights* on page 1.

Total net assets increased primarily as the result of federal and state annual capital contributions.

Revenues: The following schedule presents a summary of revenues for the fiscal years ended June 30, 2012, 2011 and 2010:

| | 2012 | 2011 | 2010 |
|---------------------------------------|---------------------|------------------|------------------|
| <i>Operating revenues:</i> | | | |
| Facility rentals | \$ 496,310 | 509,165 | 437,913 |
| Fuel sales, tiedown, and parking fees | 84,527 | 99,342 | 97,776 |
| Total operating revenues | <u>580,837</u> | <u>608,507</u> | <u>535,689</u> |
| <i>Nonoperating revenues:</i> | | | |
| Grants | 1,053,590 | 787,546 | 800,488 |
| Property taxes | 1,215,299 | 1,124,148 | 1,188,081 |
| Investment income | 18,351 | 20,340 | 22,768 |
| Loss on disposal of equipment | (72,690) | - | - |
| Other | 20,092 | 30,809 | 37,218 |
| Total nonoperating revenues | <u>2,234,642</u> | <u>1,962,843</u> | <u>2,048,555</u> |
| Total revenues | <u>\$ 2,815,479</u> | <u>2,571,350</u> | <u>2,584,244</u> |

Operating revenues decreased 5% compared to 2011 due to decreases in revenues from commercial office leases, fuel sales, tiedown and parking fees.

Non-operating revenues increased by \$271,799 (13.8%) from 2011 due to increases in FAA Airport Improvement Program and State of California Match grant funding programs, and increased property tax apportionment. Local Agency Investment Fund (LAIF) quarterly apportionment rates decreased from 0.48% as of June 30, 2011 to 0.36% as of June 30, 2012. However, during 2012 \$2,040,000 was invested in bank certificates of deposit having a weighted average interest rate of 0.9% as of June 30, 2012. See note 2 on page 12 of the audit report for more information about the LAIF investment fund.

Financial Information, continued

Expenses: The following schedule presents a summary of expenses for the fiscal years ended June 30, 2012, 2011 and 2010:

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|--------------------------|---------------------|------------------|------------------|
| Operating expenses: | | | |
| Personnel cost | \$ 673,608 | 599,418 | 616,646 |
| Operating cost | 327,406 | 293,726 | 330,931 |
| Repair and maintenance | 42,327 | 60,056 | 69,433 |
| Utilities and telephone | 103,492 | 108,901 | 118,690 |
| Total operating expenses | <u>1,146,833</u> | <u>1,062,101</u> | <u>1,135,700</u> |
| Other expenses: | | | |
| Depreciation | 1,091,927 | 599,701 | 609,789 |
| Total other expenses | <u>1,091,927</u> | <u>599,701</u> | <u>609,789</u> |
| Total expenses | <u>\$ 2,238,760</u> | <u>1,661,802</u> | <u>1,745,489</u> |

Total expenses for 2012 increased 35% over 2011 primarily as a result of management's changes in the estimated useful lives of property and equipment. The results of such changes are more fully explained in note 7 on page 16 of the audit report. The balance of 2012 operating expenditures is considered normal and similar to 2011.

Capital Assets

The Airport expended \$1,073,560 and \$654,333 for capital assets during the 2012 and 2011 fiscal years, respectively. The major expenditures for fiscal year 2012 are related to expenditures for a tractor/mower, hangar and taxiway/ramp rehabilitation.

Long-term Debt

No new debt was incurred during the year; the Airport remains free of long-term debt.

Contacting the Airport District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Airport District's finances and to show the Airport District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the General Manager, Big Bear Airport District at 501 W. Valley Boulevard, Big Bear City, CA 92314, or at (909) 585-3219.

James C. Gwaltney
General Manager
Big Bear Airport District



Independent Auditor's Report

To the Board of Directors
Big Bear Airport District
Big Bear City, California

We have audited the accompanying statement of net assets of Big Bear Airport District as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Big Bear Airport District's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Bear Airport District as of June 30, 2012 and 2011 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2012, on our consideration of Big Bear Airport District's internal control over financial reporting and 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 controls 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* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Accounting principles generally accepted in the United States of America require that the managements' discussion and analysis and the schedules of funding progress identified in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, 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 inquires to management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statement, 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.

Shawn Washington Accountancy Corporation

Moreno Valley, California
December 4, 2012

BIG BEAR AIRPORT DISTRICT
 Statements of Net Assets
 As of June 30, 2012 and 2011

(See Independent Auditor's Report)

ASSETS

| | 2012 | 2011 |
|---|--------------|------------|
| Current assets: | | |
| Cash and cash equivalents (Notes 1 and 2) | \$ 3,295,770 | 4,783,660 |
| Certificates of deposit | 2,041,889 | - |
| Federal and state cost reimbursement contracts receivable | 212,073 | 31,712 |
| Taxes receivable | 103,124 | 47,087 |
| Other receivables | 44,799 | 23,509 |
| Prepaid expense | 45,922 | 41,947 |
| Inventory | 44,480 | 50,048 |
| Total current assets | 5,788,057 | 4,977,963 |
| Noncurrent assets: | | |
| Property and equipment, net (Notes 1 and 3) | 20,429,649 | 19,903,793 |
| Construction-in-progress | 199,120 | 825,435 |
| Total noncurrent assets | 20,628,769 | 20,729,228 |
| Total assets | 26,416,826 | 25,707,191 |

LIABILITIES AND NET ASSETS

| | | |
|--|---------------|------------|
| Current liabilities: | | |
| Construction contract(s) payable | - | 33,381 |
| Accounts payable | 89,490 | 58,534 |
| Accrued expenses | 34,302 | 75,322 |
| Deferred revenue | 137,586 | 17,220 |
| Total current liabilities | 261,378 | 184,457 |
| Noncurrent liabilities: | | |
| Other post employment benefit obligation (OPEB) (Note 6) | 184,275 | 129,255 |
| Security deposits | 975 | - |
| Total noncurrent liabilities | 185,250 | 129,255 |
| Total liabilities | 446,628 | 313,712 |
| Net assets: | | |
| Invested in capital assets | 20,628,769 | 20,729,228 |
| Unrestricted | 5,341,429 | 4,664,251 |
| Total net assets | 25,970,198 | 25,393,479 |
| Total liabilities and net assets | \$ 26,416,826 | 25,707,191 |

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

BIG BEAR AIRPORT DISTRICT
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2012 and 2011

(See Independent Auditor's Report)

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|--------------------|
| Operating revenues: | | |
| Facility and hangar rentals | \$ 496,310 | 509,165 |
| Fuel sales (net of cost of goods sold) | 48,837 | 66,019 |
| Aircraft tiedown fees, parking, souvenirs, and other | <u>35,690</u> | <u>33,323</u> |
| Total operating revenues | <u>580,837</u> | <u>608,507</u> |
| Operating expenses: | | |
| Salaries and employee benefits | 673,608 | 599,418 |
| Utilities and telephone | 103,492 | 108,901 |
| Office supplies and expenses | 122,165 | 121,600 |
| Insurance | 39,997 | 38,179 |
| Repairs and maintenance | 42,327 | 60,056 |
| Outside professional services | 143,417 | 112,924 |
| Board expenses and directors fees | <u>21,827</u> | <u>21,023</u> |
| Total operating expenses | <u>1,146,833</u> | <u>1,062,101</u> |
| Operating loss before depreciation | (565,996) | (453,594) |
| Depreciation | 1,091,927 | 599,701 |
| Operating loss | <u>(1,657,923)</u> | <u>(1,053,295)</u> |
| Nonoperating revenues and (expenses): | | |
| Property taxes | 1,215,299 | 1,124,148 |
| Interest income | 18,351 | 20,340 |
| Loss on disposal of equipment | (72,690) | - |
| Other | <u>20,092</u> | <u>30,809</u> |
| Total nonoperating revenues | <u>1,181,052</u> | <u>1,175,297</u> |
| Change in net assets before capital contributions | <u>(476,871)</u> | <u>122,002</u> |
| Capital contributions: | | |
| Federal grants | 969,068 | 783,420 |
| State grants | <u>84,522</u> | <u>4,126</u> |
| Total capital contributions | <u>1,053,590</u> | <u>787,546</u> |
| Increase in net assets | 576,719 | 909,548 |
| Net assets, beginning of year | <u>25,393,479</u> | <u>24,483,931</u> |
| Net assets, end of year | <u>\$ 25,970,198</u> | <u>25,393,479</u> |

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

BIG BEAR AIRPORT DISTRICT
Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011

(See Independent Auditor's Report)

| | <u>2012</u> | <u>2011</u> |
|---|--------------------|------------------|
| Cash flows from operating activities: | | |
| <u>Revenue collected:</u> | | |
| Grant awards | \$ 873,229 | 755,834 |
| Rentals, fuel sales, and tiedown fees | 699,314 | 578,225 |
| Property taxes | 1,159,262 | 1,165,280 |
| Other miscellaneous receipts | 18,130 | 56,281 |
| <u>Payments for expenses:</u> | | |
| Salaries and other benefits | (618,589) | (546,358) |
| Payments to vendors and other creditors | (371,660) | (335,721) |
| Professional services | (143,417) | (112,925) |
| Net cash provided by operating activities | <u>1,616,269</u> | <u>1,560,616</u> |
| Cash flows from investing activities: | | |
| Purchase of equipment and property improvements | (1,073,560) | (654,333) |
| Purchase of certificates of deposit | (2,040,000) | - |
| Proceeds from sale of equipment | 9,401 | - |
| Net cash used in investing activities | <u>(3,104,159)</u> | <u>(654,333)</u> |
| Net increase (decrease) in cash | (1,487,890) | 906,283 |
| Cash at beginning of year | <u>4,783,660</u> | <u>3,877,377</u> |
| Cash at end of year | <u>3,295,770</u> | <u>4,783,660</u> |
| Reconciliation of increase in net assets to net cash provided by operating activities: | | |
| Increase in net assets | 576,719 | 909,548 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 1,091,927 | 599,701 |
| loss on disposal of equipment | 72,690 | - |
| Change in current assets | (256,095) | (9,131) |
| Interest earned on certificates of deposit | (1,889) | - |
| Change in current liabilities | 110,302 | (24,129) |
| Change in non current liabilities | 55,996 | 51,246 |
| Change in construction contracts payable | (33,381) | 33,381 |
| Net cash provided by operating activities | <u>1,616,269</u> | <u>1,560,616</u> |
| <u>Supplementary Information:</u> | | |
| Cash paid for interest | - | - |
| Cash paid for income taxes | \$ - | - |

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

BIG BEAR AIRPORT DISTRICT
Notes to Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Organization

The Big Bear City Airport (the Airport) began operations before the 1940's. In 1972, the Airport became part of a San Bernardino County Service Area (CSA-53) and was operated by the County. In 1979, the Big Bear Valley voted to form a duly constituted and existing airport district under the constitution and laws of the State of California. As a public corporation, the Big Bear Airport District at large is independent, distinct from, and not an agent of the State or any other of the State's political subdivisions, including the County of San Bernardino. The enabling legislation is found at Public Utilities Code 22000.

The governing body consists of a five-member board elected from the Big Bear Valley. The Board members serve terms of four years. The Airport is a self-governed, enterprise district. A variety of federal, state and local laws, agreements and regulations govern operations at the Airport. The Federal Aviation Administration (FAA) has jurisdiction over flying operations generally, including personnel, aircraft, ground facilities and other technical matters, as well as certain environmental matters. Federal law governs the Airport noise limits, and imposes certain other restrictions on the Airport operations.

The Airport derives operating revenues primarily from terminal space and facility rentals, auto parking, fuel sales, concessions, and aircraft tiedown fees. The Airport's major expenses include salaries and employee benefits, and other expenses such as maintenance, insurance and utilities.

Basis of Accounting

The operations of the Airport are accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Under Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Airport has elected to apply all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Basis of Accounting and Estimates

The Airport prepares its financial statements on the accrual basis of accounting in conformity with generally accepted accounting principles, which provides that revenues are recorded when earned and expenses are recorded when incurred. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

BIG BEAR AIRPORT DISTRICT
Notes to Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Enterprise funds distinguish operating revenues and expenses from non-operating 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 Airport's enterprise fund are charges to customers for use of property. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Transactions that are capital, tax revenues, and other income are reported as non-operating revenues.

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include highly liquid investments with an original maturity date of three months or less.

Receivables

Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectable.

Inventory

Fuel inventory is valued using the First-in First-out method.

Property and Equipment

Acquisition of equipment in excess of \$600 is capitalized and is recorded at cost. Property assets, including infrastructure assets, purchased or constructed by the Airport are capitalized at cost, while contributed properties are recorded at fair market value when received. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets, which range from 5 to 35 years for equipment and 15 to 40 years for infrastructure and buildings. No depreciation is provided on construction in progress until construction is completed and the asset is placed in service.

Capital Contributions

Certain expenditures for airport capital improvements are significantly funded through the Airport Improvement Program (AIP) of the FAA, with certain matching funds provided by the State, or from various State allocations or grant programs. Capital funding provided under government grants is considered earned as the related allowable expenditures are incurred.

Grants for capital asset acquisition, facility development and rehabilitation are reported in the Statement of Revenues, Expenses and Changes in Net Assets, after non-operating revenues and expenses as capital contributions.

BIG BEAR AIRPORT DISTRICT
Notes to Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Compensated Absences

Compensated Absences includes accrued vacation and sick time. Employees can carry forward up to a maximum of 300 hours of vacation time. There is no limit on the amount of sick hours that could be accumulated. Regular employees who receive disability retirement due to permanent incapacity to work are entitled to 100% cash payment of accrued sick leave. The provision for compensated absences earned through this fiscal year-end, but not yet taken, is included with current liabilities under the caption accrued expenses.

Pension Plan

The provision for retirement pension cost is recorded when the related payroll is accrued and the obligation is incurred.

Note 2 – Cash and Cash Equivalents

Pooled Cash and Investments

Cash includes pooled funds in the amount of \$2,835,809. The Treasurer maintains the LAIF pool for certain California local agencies and special districts for the purpose of benefiting from economies of scale through pooled investment activities. At June 30, 2012, the LAIF Pool contained time deposits, U.S. government agency securities, negotiable certificates of deposits, commercial paper, U.S. Treasury bills and notes, and International Bank for Reconstruction and Development notes. Interest is apportioned to individual funds based generally on the average daily balances on deposit with the Treasurer.

Note 3 – Property and Equipment

Property and equipment are comprised as follows:

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|--------------------|
| Land | \$ 2,675,000 | 2,675,000 |
| Improvements - runways, taxiways and aprons | 20,763,780 | 19,768,440 |
| Building | 5,677,558 | 5,713,243 |
| Operating equipment | 1,401,993 | 1,591,168 |
| Office equipment | 40,643 | 74,712 |
| Restaurant equipment | 42,821 | 58,472 |
| Total | <u>30,601,795</u> | <u>29,881,035</u> |
| Less: accumulated depreciation | <u>(10,172,146)</u> | <u>(9,977,242)</u> |
| Property and equipment, net | <u>\$ 20,429,649</u> | <u>19,903,793</u> |

Depreciation expense for the years ended June 30, 2012 and 2011 was \$1,091,927 and \$599,701, respectively.

BIG BEAR AIRPORT DISTRICT
Notes to Financial Statements

Note 4 – Pension Plan

Big Bear Airport District provides two pension benefits for all of its full-time employees. One is through California Public Employees' Retirement System (CalPERS), which is a state-run cost-sharing multiple-employer defined benefit pension plan. It provides benefits based on members' years of service, age, and highest compensation. In addition, benefits are provided for disability and death, with payments in some cases going to survivors or beneficiaries of eligible members.

The other pension plan Big Bear Airport District offers is a tax deferred retirement plan under Internal Revenue Code (IRC) Section 457. The plan covers all eligible employees of the Airport District. Participants are eligible after a six (6) month probationary period and may elect to defer up to the maximum annual deferral determined by the IRC. The Airport District matches eligible employee contributions up to \$3,000.00 annually.

The total pension expense for the years ending June 30, 2012 and 2011 was \$171,896 and \$85,952, respectively. Pension expense for the fiscal year ended June 30, 2012 includes a onetime pay-off of the CALPERS side fund obligation of \$88,588.

Note 5 – Tenant Agreements

Minimum future rentals to be received on non-cancelable leases as of June 30, 2012 for each of the next 5 years and in the aggregate are as follows:

| June 30, | |
|---------------------|---------|
| 2013 | 36,918 |
| 2014 | 28,638 |
| 2015 | 25,878 |
| 2016 | 19,665 |
| 2017 | 13,451 |
| 2018 and thereafter | 146,364 |
| Total \$ | 270,914 |

Note 6 – Postemployment Benefits Other Than Pensions

Plan Description. The Big Bear Airport District administers a single-employer defined benefit healthcare plan under the Public Employees' Medical and Hospital Care Act. The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Airport District's group health insurance plan, which covers both active and retired members. Benefit provisions are administered by the California Public Employees' Retirement System (CALPERS) on an annual basis.

BIG BEAR AIRPORT DISTRICT
Notes to Financial Statements

Note 6 – Postemployment Benefits Other Than Pensions, continued

Funding Policy. Contribution requirements are established by CALPERS representatives. The Airport District contributes a maximum per month of \$832 of the cost of current-year premiums for eligible retired plan members and their spouses and a maximum of \$1,400 per month, for eligible full-time employees and their families. Effective April 1, 2012, the maximum premium for eligible full-time employees and their families was increased to \$1,600 per month. For fiscal year 2012, the Airport District contributed \$75,901 for active members and \$21,287 for retired member contributions.

Annual OPEB Cost and Net OPEB Obligation. The Airport District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Airport District has elected to calculate the ARC and related information using the alternative measurement methods permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if not paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Airport District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Airport District's net OPEB obligation to the Retiree Health Plan:

| | | |
|--|----|---------|
| Annual required contribution | \$ | 54,752 |
| Interest on net OPEB obligation | | 269 |
| Adjustment to annual required contribution | | - |
| Annual OPEB cost (expense) | | 55,021 |
| Contributions made | | - |
| Increase in net OPEB obligation | | 55,021 |
| Net OPEB obligation, beginning of year | | 129,255 |
| Net OPEB obligation, end of year | \$ | 184,276 |

The Airport District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2011 and the two preceding fiscal years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------------|---------------------|---|---------------------------|
| June 30, 2012 | \$ 55,021 | 0.0% | \$ 55,021 |
| June 30, 2011 | 53,060 | 0.0% | 53,060 |
| June 30, 2010 | 76,195 | 0.0% | 76,195 |

BIG BEAR AIRPORT DISTRICT
Notes to Financial Statements

Note 6 – Postemployment Benefits Other Than Pensions, continued

Funded Status and Funding Progress. As of June 30, 2012, the actuarial accrued liability for benefits was \$1,009,499, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$290,934, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 347 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subjected to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The 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 following simplifying assumptions were made:

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 72, or at the first subsequent year in which the member would qualify for benefits.

Marital status – Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality – Life expectancies were based in mortality tables from the National Center for Health Statistics. The 2011 United States Life Table for Males and for Females was used.

Turnover – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on the three year average increase in overall inflation provided by US Department of the Census.

BIG BEAR AIRPORT DISTRICT
Notes to Financial Statements

Note 6 – Postemployment Benefits Other Than Pensions, continued

Health insurance premiums – For 2012 health insurance premiums, the maximum rate approved by Resolution of the Board of Directors *Fixing the Employer's Contribution* was used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate – The expected long-term inflation assumption of 3.3 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for a low-cost growth scenario.

Payroll growth rate – The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the Airport District's short-term investment portfolio (LAIF), a discount rate of .5 percent was used. For long term investments, the weighted average interest rate is 0.9%. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2012, was twenty-eight years.

Note 7 – Change in Estimates

The Airport's Management periodically performs assessments of the useful lives of assets. In evaluating useful lives, the Airport Management considers how long assets will remain functionally efficient and effective, given levels of technology, competitive factors, and the economic environment. If the assessment indicates that the assets will continue to be used for a longer or shorter period than previously anticipated, the useful life of the assets is revised, resulting in a change in estimate. Changes in estimates are accounted for on a prospective basis by depreciating the assets' current carrying values over their revised remaining useful lives.

Effective July 1, 2011, the Airport's Management reclassified property and equipment and revised their useful lives. The effect of these changes in estimates, compared to the original depreciation and amortization, for fiscal year 2011 was an increase in depreciation of \$477,809. The increase to depreciation in future periods is expected to be \$424,878, \$410,075, \$406,395, \$387,057, and \$307,682 over the five years ending June 30, 2017.

Note 8 – Subsequent Events

The District has evaluated subsequent events for recognition and disclosure through February 11, 2013, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

BIG BEAR AIRPORT DISTRICT
Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL)- Simplified Entry Age (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a) / c) |
|--------------------------|-------------------------------|---|-----------------------------|----------------------|---------------------|---|
| June 30, 2012 | \$ - | 1,009,499 | 1,009,499 | 0.0% | 290,934 | 347.0% |
| June 30, 2011 | - | 817,741 | 817,741 | 0.0% | 284,206 | 287.7% |
| June 30, 2010 | - | 956,801 | 956,801 | 0.0% | 312,105 | 306.6% |

BIG BEAR AIRPORT DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2012

| Federal Grantor/ Pass-through Grantor/ Program Title | Federal CFDA No. | Grant Number | Award Amount | Revenue Recognized | Amount Expended |
|---|---------------------|--------------------|---------------------|-----------------------|--------------------|
| Department of Transportation, Federal Aviation Administration: | | | | | |
| Direct Funding: | | | | | |
| Rehabilitation Taxiway A West End of 8/26; Improve Airport Drainage and Fog Seal Runway 8/26" | 20.106 | 3-06-0022-018-2011 | 1,581,750 | 809,737 | 809,737 |
| Rehabilitate Taxiway A (east side), Taxiway Bravo and North Apron | 20.106 | 3-06-0022-019-2012 | 1,791,540 | 159,331 | 159,331 |
| | | | <u>\$ 3,373,290</u> | <u>969,068</u> | <u>969,068</u> |

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Big Bear Airport District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.



Report On Compliance And On Internal Control Over Financial Reporting
Based An Audit of Financial Statements Performed
In Accordance With *Government Auditing Standards*

To the Board of Directors
Big Bear Airport District
Big Bear City, California

We have audited the financial statements of Big Bear Airport District as of and for the year ended June 30, 2012, and have issued our report thereon dated December 4, 2012. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Big Bear Airport District's financial statements are free of material misstatements, 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Big Bear Airport District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Big Bear Airport District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Big Bear Airport District's internal control over financial reporting. Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects Big Bear Airport Districts' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Big Bear Airport Districts' financial statements that is more inconsequential will not be prevented or detected by Big Bear Airport Districts' internal control. A material weakness is a significant deficiency, or combination of significant deficiencies that result in more than a remote likelihood that a material misstatement of financial statements will not be prevented or detected by Big Bear Airport Districts' internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Shawn Washington Accountancy Corporation

Moreno Valley, California
December 4, 2012



Report On Compliance With Requirements
Applicable To Each Major Program And On The Internal Control
Over Compliance In Accordance With OMB Circular A-133

To the Board of Directors
Big Bear Airport District
Big Bear City, California

Compliance

We have audited the compliance of Big Bear Airport District with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*" that are applicable to each of its major federal programs for the year ended June 30, 2012. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Big Bear Airport District's management. Our responsibility is to express an opinion on Big Bear Airport District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Big Bear Airport District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Big Bear Airport District's compliance with those requirements.

In our opinion, Big Bear Airport District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012

Internal Control Over Compliance

The management of Big Bear Airport District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Big Bear Airport District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing an opinion the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Big Bear Airport District's internal control over compliance.

A *control deficiency* in Big Bear Airport District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or, employees, in the normal course of performing their assigned functions, to prevent, or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies that adversely affects Big Bear Airport Districts' ability to ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Big Bear Airport District's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Big Bear Airport District's internal control.

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

This report is intended solely for the information and use of management, audit committee, Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Shawn Washington Accountancy Corporation

Moreno Valley, California
December 4, 2012

BIG BEAR AIRPORT DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Section I – Summary of Auditor’s Results

Financial Statements

1. The auditor’s report expresses an unqualified opinion on the financial statements of Big Bear Airport District as of June 30, 2012.
2. No reportable conditions were identified during the audit of the financial statements.
3. No instances of noncompliance were identified during the audit.

Federal Awards

4. No reportable conditions or material weaknesses were disclosed during the audit of the major program.
5. The auditor’s report on compliance for the major federal award program expresses an unqualified opinion.
6. The program tested as a major program was:

| <u>Name of Federal Program or Grant</u> | <u>CFDA No.</u> |
|---|-----------------|
| Department of Transportation – Federal Aviation Administration | 20.106 |

7. The threshold used for distinguishing between Types A and B programs was \$300,000.
8. Big Bear Airport District qualifies as a low risk auditee.