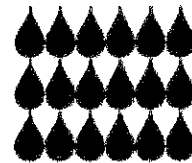


Big Bear Airport District

Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012



Charles Z. Fedak & Company

Certified Public Accountants

An Accountancy Corporation

Big Bear Airport District
Mission Statement

The District provides Big Bear Valley with a safe, efficient and superior venue for aviation operations.

Big Bear Airport District
Board of Directors as of June 30, 2013

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Term Ends</u>
Julie Smith	President	Elected	2016
Gary Steube	Vice President	Elected	2014
Steve Baker	Director	Elected	2014
Steve Castillo	Director	Elected	2016
Charles Knight	Director	Elected	2016

Big Bear Airport District
Pete Gwaltney, General Manager
P.O. Box 755
501 Valley Blvd.
Big Bear City, California 92314
(909) 585-3219 – www.bigbearcityairport.com

Big Bear Airport District

Annual Financial Report

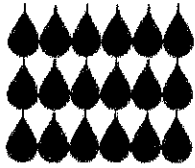
For the Fiscal Years Ended June 30, 2013 and 2012

Big Bear Airport District
Annual Financial Report
For the Fiscal Years Ended June 30, 2013 and 2012

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Financial Section



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Big Bear Airport District (District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The comparative financial information as of June 30, 2012, was audited by other auditors whose report dated December 4, 2012, expressed an unmodified opinion on those 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013, 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.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the required supplementary information on page 25 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 October 31, 2013, 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. This report can be found on pages 26 and 27.

Charles Z. Fedak and Company CPAs - An Accountancy Corporation

Charles Z. Fedak and Company, CPAs - An Accountancy Corporation
Cypress, California
October 31, 2013

Big Bear Airport District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Big Bear Airport District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2013 and 2012. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased 3.66% or \$953,130 to \$27,009,219 in fiscal year 2013 as a result of operations.
- In 2013, the District's total revenues increased 7.88% or \$149,824 primarily due to an \$180,577 increase in property tax and redevelopment agency increment tax revenues.
- In 2013, the District's operating expenses before depreciation increased 6.98% or \$73,607 primarily due to increases in utilities, supplies and repairs and maintenance expenses.

Required Financial Statements

This annual report consists of a series of financial statements. The Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statements of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statements of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statements of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

Big Bear Airport District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Financial Analysis of the District, continued

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's 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, zoning and new or changed government legislation.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 11 through 24.

Statement of Net Position

Condensed Statements of Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Assets:			
Current assets	\$ 6,235,626	5,788,057	447,569
Capital assets, net	21,033,945	20,629,636	404,309
Total assets	<u>27,269,571</u>	<u>26,417,693</u>	<u>851,878</u>
Liabilities:			
Current liabilities	143,539	234,429	(90,890)
Non-current liabilities	116,813	127,175	(10,362)
Total liabilities	<u>260,352</u>	<u>361,604</u>	<u>(101,252)</u>
Net Position:			
Net investment in capital assets	21,033,945	20,629,636	404,309
Unrestricted	5,975,274	5,426,453	548,821
Total net position	<u>27,009,219</u>	<u>26,056,089</u>	<u>953,130</u>
Total liabilities and net position	<u>\$ 27,269,571</u>	<u>26,417,693</u>	<u>851,878</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$27,009,219 and \$26,056,089 as of June 30, 2013 and 2012, respectively.

By far the largest portion of the District's net position (78% as of June 30, 2013 and 79% as of June 30, 2012) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2013 and 2012, the District showed a positive balance in its unrestricted net position of \$5,975,274 and \$5,426,453, respectively, which may be utilized in future years. See note 6 for further information.

Big Bear Airport District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Statement of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Revenue:			
Operating revenue	\$ 614,696	601,305	13,391
Non-operating revenue	1,437,489	1,301,056	136,433
Total revenue	<u>2,052,185</u>	<u>1,902,361</u>	<u>149,824</u>
Expense:			
Operating expense	1,119,896	1,046,829	73,067
Depreciation	1,611,368	1,173,151	438,217
Non-operating expense	-	88,558	(88,558)
Total expense	<u>2,731,264</u>	<u>2,308,538</u>	<u>422,726</u>
Net loss before capital contributions	(679,079)	(406,177)	(272,902)
Capital contributions	<u>1,632,209</u>	<u>1,000,584</u>	<u>631,625</u>
Change in net position	953,130	594,407	358,723
Net position, beginning of year	<u>26,056,089</u>	<u>25,461,682</u>	<u>594,407</u>
Net position, end of year	<u>\$ 27,009,219</u>	<u>26,056,089</u>	<u>953,130</u>

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's net position increased by \$953,130 and \$594,407 for the fiscal years ended June 30, 2013 and 2012, respectively.

A closer examination of the sources of changes in net position reveals that:

In 2013, the District's total revenues increased 7.88% or \$149,824 primarily due to an \$180,577 increase in property tax and redevelopment agency increment tax revenues.

In 2013, the District's operating expenses before depreciation increased 6.98% or \$73,607 primarily due to increases in utilities, supplies and repairs and maintenance expenses.

Big Bear Airport District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Capital Asset Administration

Changes in capital asset amounts for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2013</u>
Capital assets:				
Non-depreciable assets	\$ 2,874,120	1,882,651	(2,005,212)	2,751,559
Depreciable assets	27,927,661	2,138,238	(1,150,489)	28,915,410
Accumulated depreciation	<u>(10,172,145)</u>	<u>(1,611,368)</u>	<u>1,150,489</u>	<u>(10,633,024)</u>
Total capital assets, net	<u>\$ 20,629,636</u>	<u>2,409,521</u>	<u>(2,005,212)</u>	<u>21,033,945</u>

Changes in capital asset amounts for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2012</u>
Capital assets:				
Non-depreciable assets	\$ 3,500,435	874,389	(1,500,704)	2,874,120
Depreciable assets	27,206,035	1,699,874	(978,248)	27,927,661
Accumulated depreciation	<u>(9,977,242)</u>	<u>(1,173,151)</u>	<u>978,248</u>	<u>(10,172,145)</u>
Total capital assets, net	<u>\$ 20,729,228</u>	<u>1,401,112</u>	<u>(1,500,704)</u>	<u>20,629,636</u>

At the end of fiscal year 2013 and 2012, the District's investment in capital assets amounted to \$21,033,945 and \$20,629,636 (net of accumulated depreciation), respectively. This investment in capital assets includes land, land improvements, structures, operating equipment, office equipment and restaurant equipment. See note 3 for further information.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net position or operating results based on past, present and future events.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 501 Valley Blvd., Big Bear City, California 92314 – (909) 585-3219.

Basic Financial Statements

Big Bear Airport District
Statements of Net Position
June 30, 2013 and 2012

<i>Assets</i>	2013	2012
Current assets:		
Cash and cash equivalents (note 2)	\$ 4,266,678	3,295,771
Investments (note 2)	1,832,059	2,041,889
Accrued interest receivable	1,982	3,851
Accounts receivable – customers	42,434	40,948
Accounts receivable – other	3,143	-
Property tax receivable	31,108	103,124
Grants receivable	-	212,072
Materials and supplies inventory	50,558	44,480
Prepaid expenses and other deposits	7,664	45,922
Total current assets	6,235,626	5,788,057
Non-current assets:		
Capital assets – not being depreciated (note 3)	2,751,559	2,874,120
Capital assets, net – being depreciated (note 3)	18,282,386	17,755,516
Total non-current assets	21,033,945	20,629,636
Total assets	\$ 27,269,571	26,417,693
<i>Liabilities and Net Position</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 102,706	85,971
Accrued wages and related payables	18,016	9,897
Customer deposits and deferred revenue	22,817	138,561
Total current liabilities	143,539	234,429
Non-current liabilities:		
Compensated absences (note 4)	33,389	27,925
Other post-employment benefits payable (note 5)	83,424	99,250
Total non-current liabilities	116,813	127,175
Total liabilities	260,352	361,604
Net position:		
Net investment in capital assets	21,033,945	20,629,636
Unrestricted (note 6)	5,975,274	5,426,453
Total net position	27,009,219	26,056,089
Total liabilities and net position	\$ 27,269,571	26,417,693

See accompanying notes to the basic financial statements

Big Bear Airport District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Facility and hangar rentals	\$ 512,004	496,310
Fuel and oil sales, net of cost	62,807	48,836
Aircraft tiedown fees, parking and souvenirs	31,852	35,690
Other operating revenue	8,033	20,469
	Total operating revenues	601,305
Operating expenses:		
Salaries and wages	341,955	343,587
Employee benefits	228,221	224,989
Utilities and telephone	124,480	103,492
Materials and supplies	150,580	122,428
Insurance	44,960	39,997
Repairs and maintenance	85,377	41,747
Professional services	112,103	147,392
Board of director expenses	32,220	23,197
	Total operating expenses	1,046,829
Operating loss before depreciation expense	(505,200)	(445,524)
Depreciation expense – capital recovery	(1,611,368)	(1,173,151)
	Operating loss	(2,116,568)
Non-operating revenue(expense):		
Property taxes	1,310,613	1,191,222
Property taxes – redevelopment increment	85,263	24,077
Investment earnings	34,004	18,351
Reimbursement revenue	-	50,000
CalPERS side-fund payoff	-	(88,558)
Other revenue	7,609	17,406
	Total non-operating revenue, net	1,212,498
	Net loss before capital contributions	(406,177)
Capital contributions:		
Federal capital grants	1,632,209	969,068
State capital grants	-	31,516
	Total capital contributions	1,000,584
	Change in net position	594,407
Net position, beginning of year	26,056,089	25,393,479
Prior period adjustment (note 7)	-	68,203
Net position, end of year	\$ 27,009,219	26,056,089

See accompanying notes to the basic financial statements

Big Bear Airport District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash receipts from customers and others	\$ 501,932	772,613
Cash paid to employees for salaries and wages	(357,288)	(359,587)
Cash paid to vendors and suppliers for materials and services	<u>(715,936)</u>	<u>(779,453)</u>
Net cash used in operating activities	<u>(571,292)</u>	<u>(366,427)</u>
Cash flows from non-capital financing activities:		
Property taxes	1,382,629	1,135,185
Property taxes – redevelopment increment	<u>85,263</u>	<u>24,077</u>
Net cash provided by non-capital financing activities	<u>1,467,892</u>	<u>1,159,262</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,015,677)	(1,073,559)
Capital contributions	<u>1,844,281</u>	<u>820,224</u>
Net cash used in capital and related financing activities	<u>(171,396)</u>	<u>(253,335)</u>
Cash flows from investing activities:		
Purchase of investments, net	209,830	(2,041,889)
Investment earnings	<u>35,873</u>	<u>14,500</u>
Net cash provided by(used in) investing activities	<u>245,703</u>	<u>(2,027,389)</u>
Net increase(decrease) in cash and cash equivalents	970,907	(1,487,889)
Cash and cash equivalents, beginning of year	<u>3,295,771</u>	<u>4,783,660</u>
Cash and cash equivalents, end of year	<u>\$ 4,266,678</u>	<u>3,295,771</u>

Continued on next page

See accompanying notes to the basic financial statements

Big Bear Airport District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2013 and 2012

Reconciliation of operating loss to net cash used in operating activities:

	2013	2012
Operating loss	\$ (2,116,568)	(1,618,675)
Adjustments to reconcile operating loss to net used in operating activities:		
Deprecation	1,611,368	1,173,151
Reimbursement revenue	-	50,000
CalPERS side-fund payoff	-	(88,558)
Other revenue	7,609	17,406
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable – customers	(1,486)	(17,439)
Accounts receivable – other	(3,143)	-
Materials and supplies inventory	(6,078)	5,568
Prepaid expenses and other deposits	38,258	(3,975)
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	16,735	(5,944)
Accrued wages and related payables	8,119	(103)
Customer deposits and deferred revenue	(115,744)	121,341
Compensated absences	5,464	(37,397)
Other post-employment benefits payable	(15,826)	38,198
Total adjustments	1,545,276	1,252,248
Net cash used in operating activities	\$ (571,292)	(366,427)

See accompanying notes to the basic financial statements

Big Bear Airport District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Big Bear City Airport District (District) began operations before the 1940's. In 1972, the District became part of a San Bernardino County (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 District at large is an independent, distinct from, and not an agent of the State or any other of the State's political subdivisions, including the County. 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. A variety of federal, state and local laws, agreements and regulations govern operations at the District. 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 District's noise limits, and imposes certain other restrictions on District operations.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The District has no component units as of year end.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing services on a continuing basis be financed or recovered primarily through user charges, capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

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

C. Financial Reporting

The District's basic financial statements are prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* effective for financial statements for periods beginning after December 15, 2011. The District implemented this new pronouncement in the current year. The effect of the implementation of this statement to the District is limited to renaming of *Net Assets* to *Net Position*.

Big Bear Airport District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Position

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

3. Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

5. Property Taxes and Assessments

The San Bernardino County Assessor's Office assesses all real and personal property within the County each year. The San Bernardino County Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The San Bernardino County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the San Bernardino County which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

6. Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

7. Comparative Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

Big Bear Airport District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Position, continued

8. Materials and Supplies Inventory

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

9. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Contributed assets are recorded at estimated fair market value at the date of acceptance. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Land improvements – 10 to 40 years
- Structures and improvements – 20 to 40 years
- Operating equipment – 10 to 35 years
- Office equipment – 15 years
- Restaurant equipment – 20 years

10. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation (up to 300 hours) and sick pay (unlimited) for subsequent use or for payment upon termination or retirement.

11. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – This component of net position consists of net position that do not meet the definition of *restricted* or *investment in capital assets, net of related debt*.

12. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by granting agencies.

13. Reclassification

The District has reclassified certain prior year information to conform to current year presentations as well as conforming to the implementation of GASB No. 63 and 65.

Big Bear Airport District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

E. Implementation of New Accounting Pronouncements

For the year ended June 30, 2013, the District implemented the following Governmental Accounting Standards Board pronouncements:

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard addresses how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into. There were no Concession Arrangements entered into by the District.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*.

Governmental Accounting Standards Board Statement No. 62

In December 2010, The GASB issued Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the ***FASB & AICPA pronouncements***. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that statement for enterprise funds and business-type activities to apply post-November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989, FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as ***Net Position***, rather than ***Net Assets***.

Governmental Accounting Standards Board Statement No. 65

In March 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Big Bear Airport District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(2) Cash and Investments

Cash and investments as of June 30, are classified in the financials as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 4,266,678	3,295,771
Investments	<u>1,832,059</u>	<u>2,041,889</u>
Total cash and investments	<u>\$ 6,098,737</u>	<u>5,337,660</u>

Cash and investments as of June 30, consist of the following:

	<u>2013</u>	<u>2012</u>
Cash on hand	\$ 350	350
Deposits with financial institutions	1,420,556	459,612
Investments	<u>4,677,831</u>	<u>4,877,698</u>
Total cash and investments	<u>\$ 6,098,737</u>	<u>5,337,660</u>

Investments Authorized by the California Government Code and the District's Investment Policy

The District is legally empowered by statute and resolution to invest in certificates-of-deposit and the California State Investment Pool – Local Agency Investment Fund, The District's investment policy identifies other investment types that are authorized for the District to invest in under the California Government Code.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits.

Big Bear Airport District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(2) Cash and Investments, continued

Custodial Credit Risk, continued

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. Of the bank balances, up to \$250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

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

Interest Rate 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.

Investments at June 30, 2013 consisted of the following:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity 12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>
Certificates-of-deposit	\$ 1,832,059	981,521	446,133	404,405
Local Agency Investment Fund (LAIF)	2,845,772	2,845,772	-	-
Total	\$ 4,677,831	3,827,293	446,133	404,405

Investments at June 30, 2012 consisted of the following:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity 12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>
Certificates-of-deposit	\$ 2,041,889	219,811	978,695	843,383
Local Agency Investment Fund (LAIF)	2,835,809	2,835,809	-	-
Total	\$ 4,877,698	3,055,620	978,695	843,383

Big Bear Airport District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(2) Cash and Investments, continued

Credit Risk

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.

Credit ratings of investments as of June 30, 2013, were as follows:

Investment Type	Total	Minimum Legal Rating	Exempt or Not Rated
Certificates-of-deposit	\$ 1,832,059	N/A	1,832,059
Local Agency Investment Fund (LAIF)	2,845,772	N/A	2,845,772
Total	\$ 4,677,831		4,677,831

Credit ratings of investments as of June 30, 2012, were as follows:

Investment Type	Total	Minimum Legal Rating	Exempt or Not Rated
Certificates-of-deposit	\$ 2,041,889	N/A	2,041,889
Local Agency Investment Fund (LAIF)	2,835,809	N/A	2,835,809
Total	\$ 4,877,698		4,877,698

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for external investment pools and certificates-of-deposits) that represent 5% or more of total District's investments at June 30, 2013 and 2012, respectively.

(3) Capital Assets

Changes in capital assets for the year ended June 30, 2013 were as follows:

	Balance 2012	Additions/	Deletions/ Transfers	Balance 2013
Non-depreciable assets:				
Land	\$ 2,675,000	-	-	2,675,000
Construction-in-process	199,120	1,882,651	(2,005,212)	76,559
Total non-depreciable assets	2,874,120	1,882,651	(2,005,212)	2,751,559
Depreciable assets:				
Land improvements	20,764,646	1,994,104	(910,942)	21,847,808
Structures and improvements	5,677,558	51,517	(73,596)	5,655,479
Operating equipment	1,401,993	92,617	(109,012)	1,385,598
Office equipment	40,643	-	(29,525)	11,118
Restaurant equipment	42,821	-	(27,414)	15,407
Total depreciable assets	27,927,661	2,138,238	(1,150,489)	28,915,410
Accumulated depreciation:				
Land improvements	(7,401,326)	(1,178,358)	910,942	(7,668,742)
Structures and improvements	(2,191,453)	(273,878)	73,596	(2,391,735)
Operating equipment	(535,537)	(129,304)	109,012	(555,829)
Office equipment	(13,884)	(16,952)	29,525	(1,311)
Restaurant equipment	(29,945)	(12,876)	27,414	(15,407)
Total accumulated depreciation	(10,172,145)	(1,611,368)	1,150,489	(10,633,024)
Total depreciable assets, net	17,755,516	526,870	-	18,282,386
Total capital assets, net	\$ 20,629,636	2,409,521	(2,005,212)	21,033,945

Big Bear Airport District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(3) Capital Assets, continued

Changes in capital assets for the year ended June 30, 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions/</u>	<u>Deletions/ Transfers</u>	<u>Balance 2012</u>
Non-depreciable assets:				
Land	\$ 2,675,000	-	-	2,675,000
Construction-in-process	825,435	874,389	(1,500,704)	199,120
Total non-depreciable assets	<u>3,500,435</u>	<u>874,389</u>	<u>(1,500,704)</u>	<u>2,874,120</u>
Depreciable assets:				
Land improvements	19,768,440	1,536,532	(540,326)	20,764,646
Structures and improvements	5,713,243	40,483	(76,168)	5,677,558
Operating equipment	1,591,168	115,497	(304,672)	1,401,993
Office equipment	74,712	4,027	(38,096)	40,643
Restaurant equipment	58,472	3,335	(18,986)	42,821
Total depreciable assets	<u>27,206,035</u>	<u>1,699,874</u>	<u>(978,248)</u>	<u>27,927,661</u>
Accumulated depreciation:				
Land improvements	(7,123,738)	(817,914)	540,326	(7,401,326)
Structures and improvements	(2,023,045)	(244,576)	76,168	(2,191,453)
Operating equipment	(734,892)	(105,317)	304,672	(535,537)
Office equipment	(48,851)	(3,129)	38,096	(13,884)
Restaurant equipment	(46,716)	(2,215)	18,986	(29,945)
Total accumulated depreciation	<u>(9,977,242)</u>	<u>(1,173,151)</u>	<u>978,248</u>	<u>(10,172,145)</u>
Total depreciable assets, net	<u>17,228,793</u>	<u>526,723</u>	<u>-</u>	<u>17,755,516</u>
Total capital assets, net	<u>\$ 20,729,228</u>	<u>1,401,112</u>	<u>(1,500,704)</u>	<u>20,629,636</u>

(4) Compensated Absences

Changes to compensated absences for 2013, were as follows:

	<u>Balance 2012</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2013</u>
\$	<u>27,925</u>	<u>31,203</u>	<u>(25,739)</u>	<u>33,389</u>

Changes to compensated absences for 2012, were as follows:

	<u>Balance 2011</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2012</u>
\$	<u>28,240</u>	<u>32,678</u>	<u>(32,993)</u>	<u>27,925</u>

Big Bear Airport District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(5) Other Post Employment Benefits

Plan Description

The District provides post employment health care benefits to employees who retire from the District and meet certain eligibility requirements. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Funding Policy

As required by GASB No. 45, an actuary will determine the District's Annual Required Contributions (ARC) at least once every three fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year, and (2) a component for amortization of the total Unfunded Actuarial Accrued Liability (UAAL) over a period not to exceed 30 years.

Annual OPEB Cost and Net OPEB Asset

The following table shows the components of the District's Annual OPEB cost for the past four fiscal years ended June 30th, the amount actually contributed to the plan and the changes in the District's Net OPEB Asset:

The balance at June 30, consists of the following:	2013	2012	2011	2010
Annual OPEB expense:				
Annual required contribution (ARC)	\$ 56,525	54,752	52,801	50,635
Interest on net OPEB obligation	7,691	4,733	2,125	-
Interest earnings on irrevocable trust balance	-	-	-	-
Adjustment to annual required contribution	-	-	-	-
Total annual OPEB expense	<u>64,216</u>	<u>59,485</u>	<u>54,926</u>	<u>50,635</u>
Contributions (to)from trust:				
Contributions made to irrevocable trust	(50,000)	-	-	-
Retiree benefit payments paid from outside of trust	(30,042)	(21,287)	(21,287)	(23,222)
Total contributions made	<u>(80,042)</u>	<u>(21,287)</u>	<u>(21,287)</u>	<u>(23,222)</u>
Total change in net OPEB payable obligation	<u>(15,826)</u>	<u>38,198</u>	<u>33,639</u>	<u>27,413</u>
OPEB payable(asset) – beginning of year	<u>99,250</u>	<u>61,052</u>	<u>27,413</u>	<u>-</u>
OPEB payable(asset) – end of year	<u>\$ 83,424</u>	<u>99,250</u>	<u>61,052</u>	<u>27,413</u>

The District's Annual OPEB Cost, the Percentage of Annual OPEB Cost Contributed to the plan, and the Net OPEB Obligation Asset for the fiscal year ended June 30, 2013 and the two preceding years are shown in the following table.

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Contributions Made to Trust	Retiree Benefit Payments	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2013	\$ 64,216	50,000	30,042	124.64%	\$ 83,424
2012	59,485	-	21,287	35.79%	99,250
2011	54,926	-	21,287	38.76%	61,052

The most recent valuation (dated July 1, 2010) includes an Actuarial Accrued Liability of \$956,801. There are no plan assets because the District applies the pay-as-you principal to fund the annual expense at that time. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2010 was \$312,105. The ratio of the funded actuarial accrued liability to annual covered payroll was 306.56%.

Big Bear Airport District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

See page 25 for the Schedule of Funding Progress.

(5) Other Post-Employment Benefits Asset, continued

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	July 1, 2010
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	29 Years as of the valuation date
Asset valuation method	30 Year smoothed market
Actuarial assumptions:	
Investment rate of return	3.00%
Projected salary increase	1.00%
Inflation - discount rate	3.30%

(6) Unrestricted Net Position

Unrestricted net assets as of June 30, were categorized as follows:

	<u>2013</u>	<u>2012</u>
Non-spendable net assets:		
Materials and supplies inventory	\$ 50,558	44,480
Prepaid expenses and other deposits	7,664	45,922
Total non-spendable net assets	<u>58,222</u>	<u>90,402</u>
Spendable net assets are designated as follows:		
Operating reserve	2,366,821	2,134,420
Construction and facilities reserve	2,070,968	1,867,618
Capital improvement reserve	1,479,263	1,334,013
Total spendable net assets	<u>5,917,052</u>	<u>5,336,051</u>
Total unrestricted net assets	<u>\$ 5,975,274</u>	<u>5,426,453</u>

Big Bear Airport District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(7) Prior Period Adjustment

Description	Amount
Net position – June 30, 2011	\$ 25,393,479
Adjustment to OPEB payable balance	<u>68,203</u>
Net position – June 30, 2011 – as restated	<u>\$ 25,461,682</u>
Change in net position – June 30, 2012	\$ 577,585
Increase in change of net OPEB expense	<u>16,822</u>
Change in net position – June 30, 2012 – as restated	<u>\$ 594,407</u>

As of June 30, 2012, the District had not adjusted its Other Post Employment Benefits (OPEB) obligation for annual age adjusted contributions made for current retired employees' post-employment health care benefits. Therefore, the above noted adjustments have been made to restate the prior years balances.

(8) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program. The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net position.

(9) Defined Benefit Pension Plan

Plan Description

The Agency contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the Agency. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA, 95814.

Funding Policy

The contribution rate for plan members in the CalPERS, 2.0% at 55 Risk Pool Retirement Plan is 7% of their annual covered salary and is paid by the District. The District is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2013, 2012 and 2011 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

Big Bear Airport District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(9) Defined Benefit Pension Plan

California Public Employees Pension Reform Act of 2013

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013.

Key components of the legislation are as follows:

- Establishes PEPRA which will apply to all public employers and public pension plans on and after January 1, 2013 (Except specific exemptions);
- Establishes new retirement tiers/benefits for new public employees;
- Prohibits certain cash payments from being counted as compensation; and
- Increases retirement age for all new public employees.

Second-Tier – Beginning January 1, 2013

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.25% of their annual covered wages. District employees contribute 6.25% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The employer and member contribution rate is 6.25% for a combined rate of 12.50% which will be in effect until June 30, 2015.

For fiscal years 2013, 2012, and 2011, the District's annual contributions for the CalPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

Three Years CalPERS Funding Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	APC Percentage of Payroll
2010-2011	\$ 57,185	100%	-	15.543%
2011-2012	54,725	100%	-	12.948%
2012-2013	31,927	100%	-	13.132%

See Page 25 for the Schedule of Funding Status.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Average remaining amortization period	9 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

Big Bear Airport District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(10) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2013, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$2,500,000, combined single limit at \$2,500,000 per occurrence. The District purchased additional excess coverage layers: \$10,000,000 for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's.
- Property loss is paid at the replacement cost for property on file, if replaced within three years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$1.0 billion per occurrence, subject to a \$2,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible per occurrence.
- Public officials personal liability up to \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of \$500 per claim.
- Workers' compensation insurance per statutory requirements and Employer's Liability Coverage up to \$5 million.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal year 2013, 2012 and 2011. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2013, 2012 and 2011.

(11) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(12) Subsequent Events

Events occurring after June 30, 2013 have been evaluated for possible adjustment to the financial statements or disclosure as of October 31, 2013, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Big Bear Airport District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(13) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 66

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections—2013—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 70

In April 2013, the GASB issued Statement No. 70 – *Accounting and Financial Reporting for Non-exchange Guarantees*. Provisions of this Statement require that governments that extend non-exchange financial guarantees to recognize a liability when qualitative factors and historic data, if any, indicate that it is more likely than not that the government will be required to make a payments on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

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Required Supplementary Information

Big Bear Airport District
Schedule of Funding Status
For the Fiscal Years Ended June 30, 2013 and 2012

(1) Defined Benefit Pension Plan

Development of the Actuarial Value of Assets Calculation in a Risk Pool			
The District is part of the CalPERS Miscellaneous 2.0% at 55 yrs. Risk Pool	June 30, 2011	June 30, 2012	June 30, 2013
1. Plan's accrued liability	\$ 2,150,693	-	-
2. Plan's side fund	(90,451)	-	-
3. Pool's accrued liability	3,619,835,876	-	-
4. Pool's side fund	(115,840,552)	-	-
5. Pool's actuarial value of assets (AVA) including receivables	3,203,214,899	-	-
6. Plan's actuarial value of assets (AVA) including receivables $[(1+2) / (3+4) \times 5]$	1,883,392	-	-
7. Pool's market value of assets (MVA) including receivables	2,867,303,802	-	-
8. Plan's market value of assets (MVA) including receivables $[(1+2) / (3+4) \times 7]$	1,685,887	-	-

Funding History

The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Market Value of Assets (MVA) (c)	Funded Ratio AVA (b/a)	MVA (c/a)	Annual Covered Payroll
June 30, 2011	\$ 2,150,693	1,883,392	1,685,887	87.57%	78.39%	\$ 264,187
June 30, 2012	*	-	-	0.00%	0.00%	-
June 30, 2013	*	-	-	0.00%	0.00%	-

* CalPERS has not provided the information for these periods as of the date of the audit report.

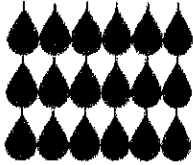
(2) Other Post Employment Benefits

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2010	\$ -	956,801	956,801	0.00%	\$ 312,105	306.56%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2014 based on the year ending June 30, 2013.

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Report on Internal Controls and Compliance



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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
Big Bear Airport District
Big Bear City, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Big Bear Airport District (District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated October 31, 2013.

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

**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*, (continued)**

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.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's - An Accountancy Corporation
Cypress, California
October 31, 2013