



Mojave Desert Air Quality Management District

Victorville, California

**Annual Financial Report
For the Fiscal Year Ended
June 30, 2017**





Governing Board as of June 30, 2017

Name	Title	Area of Representation
James L. Cox	Chair	City of Victorville
Jeff Williams	Vice Chair	City of Needles
Barbara Cram Riordan	Director	Public Member
Joseph DeConinck	Director	City of Blythe
Robert Lovingood	Director	County of San Bernardino
James Ramos	Director	County of San Bernardino
Barb Stanton	Director	Town of Apple Valley
Paul Russ	Director	City of Hesperia
V. Manuel Perez	Director	County of Riverside
Carmen Hernandez	Director	City of Barstow
Ed Camargo	Director	City of Adelanto
Robert Leone	Director	Town of Yucca Valley
John Cole	Director	City of Twentynine Palms

Mojave Desert Air Quality Management District

**14306 Park Avenue
Victorville, CA 92392
(760) 245-1661**

Mojave Desert Air Quality Management District

Annual Financial Report

For the Fiscal Year Ended June 30, 2017

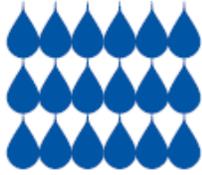
Mojave Desert Air Quality Management District

For the Fiscal Year Ended June 30, 2017

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Financial Section



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Independent Auditor's Report

Governing Board
Mojave Desert Air Quality Management District
Victorville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major of the Mojave Desert Air Quality Management District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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; and the State Controller's Minimum Audit Requirements for California Special Districts. 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Mojave Desert Air Quality Management District, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Emphasis of Matter

As described in Note 12 to the financial statements, the District restated net position related to a long-term receivable and deferred revenue for year ended June 30, 2016. Our opinion is not modified with respect to this matter.

Prior Period Restatement

The financial statements as of and for the year ended June 30, 2016, were audited by the predecessor auditor who expressed an unmodified opinion on their report dated November 16, 2016.

As part of our audit of the June 30, 2017 financial statements, we also audited the adjustments described in Note 12 that were applied to restate the June 30, 2016 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2016 financial statements of the District other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements as a whole.

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 7 and the required supplementary information on pages 43 through 49 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 April 23, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance. That report can be found on pages 50 and 51.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

April 23, 2018

**Mojave Desert Air Quality Management District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Mojave Desert Air Quality Management District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here with additional information that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2017, the District's net position decreased by 67.65% or \$1,095,462 to \$523,790 as a result of on-going operations. In fiscal year 2017, the District determined that the previously reported beginning net position as of June 30, 2016, required restatement. The total adjustments to net position amounted to \$949,813. Please see note 12 for further information.
- In 2017, the District's total revenues decreased 4.99% or \$399,500 to \$7,607,188, due primarily to decreases of \$702,537 in charges for services, \$28,531 in operating grants – Carl Moyer, which were offset by increases of \$268,298 in operating grants – other, \$46,332 operating grants – mobile emissions program AB2677, and \$15,939 in investment earnings.
- In 2017, the District's total expenses increased by 0.56% or \$48,891 to \$8,702,650, due primarily to an increase of \$198,307 in general expenses, which were offset by decreases of \$101,788 in capital outlay expenses and \$48,725 in mobile emission program AB 2766 expenses.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, obligations to creditors (liabilities), and deferred inflows of resources. 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 Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

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 Statement of Net Position and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting 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 it. Think of the District's net position – the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors to assess the *overall financial health* of the District.

**Mojave Desert Air Quality Management District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2017**

Fund Financial Statements

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 16 through 42.

Government-wide Financial Analysis

Statements of Net Position

Condensed Statements of Net Position

	2017	As Restated 2016	Change
Assets:			
Current assets	\$ 8,690,330	3,561,796	5,128,534
Capital assets, net	2,383,368	2,662,812	(279,444)
Total assets	11,073,698	6,224,608	4,849,090
Deferred outflows of resources	4,881,013	3,456,502	1,424,511
Liabilities:			
Current liabilities	3,225,957	1,608,275	1,617,682
Non-current liabilities	10,065,086	8,577,340	1,487,746
Total liabilities	13,291,043	10,185,615	3,105,428
Deferred inflows of resources	2,139,878	2,140,995	(1,117)
Net position:			
Net investment in capital assets	2,383,368	2,662,812	(279,444)
Restricted	3,935,028	3,937,878	(2,850)
Unrestricted	(5,794,606)	(4,981,438)	(813,168)
Total net position	\$ 523,790	1,619,252	(1,095,462)

**Mojave Desert Air Quality Management District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2017**

Government-wide Financial Analysis, continued

Statements of Net Position, continued

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 and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$523,790 as of June 30, 2017. The District's total net position is made-up of three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

Statements of Activities

Condensed Statements of Activities

	2017	As Restated 2016	Change
Revenues:			
Program revenues:			
Charges for services	\$ 5,269,959	5,972,496	(702,537)
Operating grants:			
Mobile emission program AB 2766	1,598,734	1,552,402	46,332
Carl Moyer program	245,508	274,039	(28,531)
Other	403,243	134,945	268,298
Total program revenues	7,517,444	7,933,882	(416,438)
General revenues:			
Fines, forfeitures, and penalties	37,975	36,000	1,975
Investment earnings	42,370	26,431	15,939
Other revenue	9,399	10,375	(976)
Total general revenues	89,744	72,806	16,938
Total revenues	7,607,188	8,006,688	(399,500)
Expenses:			
General	7,596,857	7,398,550	198,307
Mobile emission program AB 2766	726,718	775,443	(48,725)
Carl Moyer program	340,564	339,467	1,097
Capital outlay	38,511	140,299	(101,788)
Total expenses	8,702,650	8,653,759	48,891
Change in net position	(1,095,462)	(647,071)	(448,391)
Net position – beginning of year, as restated (note 12)	1,619,252	2,266,323	(647,071)
Net position – end of period	\$ 523,790	1,619,252	(1,095,462)

Compared to prior year, net position of the District decreased 67.65% or \$1,095,462 to \$523,790 as a result of on-going operations. In fiscal year 2017, the District determined that the previously reported beginning net position as of June 30, 2016, required restatement. The total adjustment to net position amounted to \$949,813. Please see note 12 for further information.

**Mojave Desert Air Quality Management District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2017**

Government-wide Financial Analysis, continued

Statements of Activities, continued

Total revenues decreased 4.99% or \$399,500 to \$7,607,188, due primarily to decreases of \$702,537 in charges for services, \$28,531 in operating grants – Carl Moyer, which were offset by increases of \$268,298 in operating grants – other, \$46,332 operating grants – mobile emissions program AB2677, and \$15,939 in investment earnings.

Total expenses increased by 0.56% or \$48,891 to \$8,702,650, due primarily to an increase of \$198,307 in general expenses, which were offset by decreases of \$101,788 in capital outlay expenses and \$48,725 in mobile emission program AB 2766 expenses.

Governmental Fund Balance

The following table is a summary of the changes in fund balance for all governmental funds for the year ended June 30, 2017.

Condensed Changes in Fund Balance

	<u>General Fund</u>	<u>Mobile Emissions Program AB 2766 Fund</u>	<u>Carl Moyer Fund</u>	<u>Total</u>
Fund balance – beginning of year, as restated	\$ 2,989,373	3,058,504	338,456	6,386,333
Change in fund balance	<u>(597,214)</u>	<u>95,927</u>	<u>(255,060)</u>	<u>(756,347)</u>
Fund balance – end of year	\$ <u>2,392,159</u>	<u>3,154,431</u>	<u>83,396</u>	<u>5,629,986</u>

In 2017, total fund balance decreased by 11.84% or \$756,347 to \$5,629,986. The General fund decreased by 19.98% or \$597,214 to \$2,392,159; the mobile emissions program (AB2766) increased by 3.14% or \$95,927 to \$3,154,431; and the Carl Moyer fund decreased by 75.36% or \$255,060 to \$83,396.

Governmental Activities Budgetary Highlights

For the year ended June 30, 2017, the final actual expenditures were less than budgeted for the General fund by \$1,170,678 and the Mobile Emissions program (AB 2766) by \$47,282; and the Carl Moyer fund by \$294,456. For the year ended June 30, 2017, actual revenues were less than budgeted for the General fund by \$410,763, the Carl Moyer fund by \$440,380, and more than budgeted for the Mobile Emissions program (AB 2766) by \$48,645. At June 30, 2017, there were no differences between the original and final amended budgets. (See the Budgetary Comparison Schedules for the General fund, Mobile Emissions program (AB 2766), and Carl Moyer program under the Required Supplementary Information section on pages 46 through 49).

**Mojave Desert Air Quality Management District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2017**

Capital Asset Administration

	Capital Assets			
	<u>Balance 2016</u>	<u>Adjustment/ Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2017</u>
Capital assets:				
Non-depreciable assets	\$ 278,568	-	-	278,568
Depreciable assets	<u>6,275,044</u>	<u>38,511</u>	<u>-</u>	<u>6,313,555</u>
Total capital assets	6,553,612	38,511	-	6,592,123
Accumulated depreciation	<u>(3,890,800)</u>	<u>(317,955)</u>	<u>-</u>	<u>(4,208,755)</u>
Total capital assets, net	<u>\$ 2,662,812</u>	<u>(279,444)</u>	<u>-</u>	<u>2,383,368</u>

At the end of fiscal year 2017, the District's investment in capital assets amounted to \$2,383,368 (net of accumulated depreciation). This investment in capital assets includes building and improvements, furniture and fixtures, machinery and equipment, vehicles, computers, and software. The capital assets of the District are more fully analyzed in Note 4 to the basic financial statements.

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 in terms of past, present, and future.

Requests for Information

This financial report is designed to provide the District's present users, including funding sources, customers, stakeholders, and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability 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 Deputy Director / Administration, Mojave Desert Air Quality Management District, 14306 Park Avenue, Victorville, California 92392 or (760) 245-1661.

Basic Financial Statements

Mojave Desert Air Quality Management District
Statement of Net Position
June 30, 2017

	2017
Assets:	
Current assets:	
Cash and cash equivalents (note 2)	\$ 2,174,006
Restricted cash and cash equivalents (note 2)	3,935,028
Accounts receivable	1,139,268
Due from California Air Resources Board	1,344,545
Due from fiduciary fund (note 3)	55,779
Prepays	41,704
Total current assets	8,690,330
Non-current assets:	
Capital assets – not being depreciated (note 4)	278,568
Capital assets – being depreciated, net (note 4)	2,104,800
Total non-current assets	2,383,368
Total assets	11,073,698
Deferred outflows of resources:	
Deferred pension outflows (note 8)	4,881,013
Total deferred outflows of resources	4,881,013
Liabilities:	
Current liabilities:	
Accounts payable	658,406
Accrued salaries and related payables	286,432
Due to California Air Resources Board	212,117
Unearned revenue (note 5)	1,903,389
Long-term liabilities – due within one year:	
Compensated absences (note 6)	165,613
Total current liabilities	3,225,957
Non-current liabilities:	
Long-term liabilities – due in more than one year:	
Compensated absences (note 6)	498,839
Other post-employment benefits payable (note 7)	314,010
Net pension liability (note 8)	9,252,237
Total non-current liabilities	10,065,086
Total liabilities	13,291,043
Deferred inflows of resources:	
Deferred pension inflows (note 8)	2,139,878
Total deferred inflows of resources	2,139,878
Net position:	
Net investment in capital assets (note 9)	2,383,368
Restricted (note 10)	3,935,028
Unrestricted (note 11)	(5,794,606)
Total net position	\$ 523,790

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Statement of Activities
For the Fiscal Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>		<u>Operating Grants</u>	
		<u>Application and Permit Fees</u>	<u>Management Contract Antelope Valley AQMD</u>		
Governmental activities					
General	\$ 7,596,857	4,013,125	1,256,834	1,202,610	(1,124,288)
Mobile emission program AB 2766	726,718	-	-	799,367	72,649
Carl Moyer program	340,564	-	-	245,508	(95,056)
Capital outlay	38,511	-	-	-	(38,511)
Total governmental	\$ 8,702,650	4,013,125	1,256,834	2,247,485	(1,185,206)
General revenues:					
					\$ 37,975
					42,370
					9,399
					<u>89,744</u>
					Change in net position (1,095,462)
					Net position – beginning of year, as restated (note 12) <u>1,619,252</u>
					Net position – end of year \$ <u>523,790</u>

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Balance Sheet – Governmental Funds
June 30, 2017

	General Fund	Mobile Emissions Program AB 2766 Fund	Carl Moyer Fund	Total Fund
Assets:				
Cash and cash equivalents	\$ 2,174,006	-	-	2,174,006
Restricted cash and cash equivalents	-	3,222,626	712,402	3,935,028
Accounts receivable	995,346	143,922	-	1,139,268
Due from California Air Resources Board	-	-	1,344,545	1,344,545
Due from fiduciary fund (note 4)	55,779	-	-	55,779
Prepays	41,704	-	-	41,704
Total assets	\$ 3,266,835	3,366,548	2,056,947	8,690,330
Liabilities:				
Accounts payable	\$ 588,244	-	70,162	658,406
Accrued payroll and related expenses	286,432	-	-	286,432
Due to California Air Resources Board	-	212,117	-	212,117
Unearned revenue (note 5)	-	-	1,903,389	1,903,389
Total liabilities	874,676	212,117	1,973,551	3,060,344
Fund balance:				
Restricted:				
Mobile emissions program AB 2677	-	3,154,431	-	3,154,431
Carl Moyer	-	-	83,396	83,396
Nonspendable:				
Prepays	41,704	-	-	41,704
Committed:				
Operating reserves	690,000	-	-	690,000
Building improvement reserves	200,000	-	-	200,000
Legal and litigation reserves	300,000	-	-	300,000
Retirement reserves	1,000,000	-	-	1,000,000
Assigned:				
Budget stabilization	250,000	-	-	250,000
Compensated absences	150,000	-	-	150,000
Unassigned	(239,545)	-	-	(239,545)
Total fund balance	2,392,159	3,154,431	83,396	5,629,986
Total liabilities and fund balance	\$ 3,266,835	3,366,548	2,056,947	8,690,330

Continued on next page

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2017

Reconciliation:

Total Fund Balances of Governmental Funds	\$	5,629,986
Amounts reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the statement of net position includes those capital position among the assets of the District as a whole.		
Capital assets, net		2,383,368
Pension contributions made during the fiscal year after the measurement date are reported as expenditures in governmental funds and as deferred outflows of resources in the government-wide financial statements.	\$	1,328,520
Recognized net difference between projected and actual earnings on pension plan investments are reported as deferred outflows of resources in the government-wide financial statements.		2,004,233
Recognized changes in assumptions are reported as deferred outflows of resources in the government-wide financial statements.		638,907
Recognized portion due to differences between the actual employer contribution and the proportionate share of contribution are reported as deferred outflows of resources in the government-wide financial statements.		909,353
		<u>4,881,013</u>
Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as governmental fund liabilities. All liabilities both current and long-term, are reported in the statement of net position as follows:		
Compensated absences		(664,452)
Other post-employment benefits payable		(314,010)
Net pension liability		(9,252,237)
Recognized differences between the expected and actual experience for the General Plan are reported as deferred inflows of resources in the government-wide financial statements.	(1,400,728)	
Recognized portion due to differences between the actual employer contribution and the proportionate share of contribution are reported as deferred inflows of resources in the government-wide financial statements.	<u>(739,150)</u>	<u>(2,139,878)</u>
Total adjustments		<u>(5,106,196)</u>
Net Position of Governmental Activities	\$	<u><u>523,790</u></u>

See accompanying notes to the basic financial statements

**Mojave Desert Air Quality Management District
Statement of Revenues, Expenditures, and
Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2017**

	<u>General Fund</u>	<u>Mobile Emissions Program AB 2766 Fund</u>	<u>Carl Moyer Fund</u>	<u>Total Fund</u>
Revenues:				
Program revenues:				
Charges for services:				
Application and permit fees	\$ 4,013,125	-	-	4,013,125
Management contract – Antelope Valley AQMD (note 13)	<u>1,256,834</u>	<u>-</u>	<u>-</u>	<u>1,256,834</u>
Total charges for services	<u>5,269,959</u>	<u>-</u>	<u>-</u>	<u>5,269,959</u>
Operating grants:				
Assembly Bill 2766	799,367	799,367	-	1,598,734
State grants	39,801	-	245,508	285,309
State subvention	138,096	-	-	138,096
Federal grants	133,624	-	-	133,624
California Clean Air Act	66,606	-	-	66,606
Other programs	<u>25,116</u>	<u>-</u>	<u>-</u>	<u>25,116</u>
Total operating grants	<u>1,202,610</u>	<u>799,367</u>	<u>245,508</u>	<u>2,247,485</u>
Total program revenues	<u>6,472,569</u>	<u>799,367</u>	<u>245,508</u>	<u>7,517,444</u>
General revenues:				
Fines, forfeitures, and penalties	37,975	-	-	37,975
Investment earnings	15,202	23,278	3,890	42,370
Other revenue	<u>9,399</u>	<u>-</u>	<u>-</u>	<u>9,399</u>
Total general revenues	<u>62,576</u>	<u>23,278</u>	<u>3,890</u>	<u>89,744</u>
Total revenues	<u>6,535,145</u>	<u>822,645</u>	<u>249,398</u>	<u>7,607,188</u>
Expenditures:				
Salaries and benefits	5,682,711	-	-	5,682,711
Services and supplies	1,575,031	604	68,345	1,643,980
Contributions	-	726,114	272,219	998,333
Capital outlay	<u>38,511</u>	<u>-</u>	<u>-</u>	<u>38,511</u>
Total expenditures	<u>7,296,253</u>	<u>726,718</u>	<u>340,564</u>	<u>8,363,535</u>
Excess(deficiency) of revenue over expenditures	(761,108)	95,927	(91,166)	(756,347)
Other financing sources(uses):				
Net position transfers in(out) (note 4)	<u>163,894</u>	<u>-</u>	<u>(163,894)</u>	<u>-</u>
Net change in fund balance	(597,214)	95,927	(255,060)	(756,347)
Fund balance – beginning of year, as restated (note 12)	<u>2,989,373</u>	<u>3,058,504</u>	<u>338,456</u>	<u>6,386,333</u>
Fund balance – end of year	<u>\$ 2,392,159</u>	<u>3,154,431</u>	<u>83,396</u>	<u>5,629,986</u>

Continued on next page

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Reconciliation:

Net Changes in Fund Balances – Total Governmental Funds	\$ (756,347)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense as follows:</p>	
Capital outlay	38,511
Depreciation expense and adjustment	(317,955)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenses in governmental funds as follows:</p>	
Net change in compensated absences for the current period	7,786
Net change in other post-employment benefit obligations for the current period	(23,203)
Net change in pension obligations for the current period	<u>(44,254)</u>
Change in Net Position of Governmental Activities	\$ <u><u>(1,095,462)</u></u>

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Statement of Net Position – Fiduciary Fund
June 30, 2017

	Other Post-Employment Benefit(OPEB) Trust Fund
Assets:	
Cash in trust	\$ <u>629,068</u>
Total assets	<u>629,068</u>
Liabilities:	
Due to general fund	<u>55,779</u>
Total liabilities	<u>55,779</u>
Net position:	
Restricted – held in trust for OPEB benefits	<u>573,289</u>
Total net position	<u>\$ <u>573,289</u></u>

See accompanying notes to the basic financial statements

**Mojave Desert Air Quality Management District
Statement of Changes in Net Position – Fiduciary Fund
For the Year Ended June 30, 2017**

	Other Post-Employment Benefit(OPEB) Trust Fund
Additions:	
Investment income	\$ <u>70,394</u>
Total additions	<u>70,394</u>
Deductions:	
Distributions	31,341
Bank fees	<u>5,150</u>
Total deductions	<u>36,491</u>
Net change in net position	33,903
Net position – beginning of period	<u>539,386</u>
Net position – end of period	<u>\$ <u>573,289</u></u>

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements
June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Mojave Desert Air Quality Management District (District), was established on July 1, 1993, upon the dissolution of the San Bernardino County Air Pollution Control District. The District's operates pursuant to the Lewis Air Quality Management Act which became effective on February 1, 1977, commencing at Section 40400 of the Health and Safety Code of the State of California. The District's primary responsibility is to regulate stationary sources of air pollution located within its jurisdictional boundaries. To accomplish its responsibility, the District implements air quality programs required by State and Federal mandates, enforces rules and regulations based on air pollution laws, and educates businesses and residents about their role in protecting air quality. The District represents the citizens within its 20,000 mile jurisdiction covering the San Bernardino High Desert and the Palo Verde Valley portion of Riverside County. Air monitoring staff operates six monitoring stations in Barstow, Hesperia, Phelan, Trona, Twentynine Palms, and Victorville.

The District's mission is to protect the air quality within its boundaries while supporting strong and sustainable economic growth. This is accomplished through a comprehensive and common-sense program of planning, regulation, compliance assistance, enforcement, monitoring, and public education. The District is an independent, special district, governed by a thirteen member Governing Board consisting of members from represented areas within its boundaries.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for governmental activities. Accordingly, all of the District's assets (including capital assets), deferred outflows of resources, liabilities, and deferred inflows of resources are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used; such as, unbilled but utilized utility services that are recorded at year end. The Statement of Activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the District are charges for services directly related to the operations of the District. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes and other items, properly not included among program revenues, are reported instead as general revenues.

Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the differences in fund balances, as presented in these statements, to the net position presented in the Government-wide Financial Statements.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period.

Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are interest earnings, investment revenue, and operating grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations.

Funds are organized into two major categories: governmental and fiduciary categories. An emphasis is placed on major funds within the governmental and fiduciary categories. A fund is considered major if it is the primary operational fund of the District or meets the following criteria:

- a) Total assets and deferred outflows of resources, liabilities and deferred inflows resources, revenues, or expenditures/expenses of that individual governmental, governmental special revenue, or fiduciary fund is at least 10 percent of the corresponding total for all funds of that category or type;
- b) Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental, governmental special revenue, or fiduciary fund is at least 5 percent of the corresponding total for all governmental funds combined; or
- c) The entity has determined that a fund is important to the financial statement user.

The governmental funds of the financial reporting entity are described below:

General Fund – this governmental fund is a government’s primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund when necessary.

Mobile Emissions Program AB 2766 Fund – this special revenue fund is a special revenue fund used to account for the retention of funds allocated for the support of the District’s mobile emissions grant program pursuant to Assembly Bill No. 2766.

Carl Moyer Fund – this special revenue fund is a special revenue fund used to account for revenues received pursuant to the Carl Moyer Air Quality Standards Attainment Program. Expenditures are restricted to providing incentive for participating entities to undertake reduced-emission heavy-duty engine projects.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

The fiduciary fund of the financial reporting entity is described below:

Other Post-Employment Benefits Trust Fund – this fund is a fiduciary fund used to account for asset held by the District as Trustees. The District maintains one non-major expendable trust fund, Retiree Benefits Fund, which is used to provide contingency reserves for the District payment of current and future retiree health and welfare benefits.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District has adopted the following GASB pronouncements in the current year:

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25 – *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50 – *Pension Disclosures*.

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development.

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

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

C. Financial Reporting, continued

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

In March 2016, the GASB issued Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

D. Financial Statement Elements

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, deferred outflows of resources, liabilities, and deferred inflows of resources, and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in District 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 and Investment Policy

The District has adopted an investment policy to deposit funds in financial institutions. Investments are to be made in the following area:

- San Bernardino County Pooled 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. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – This valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – This valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

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

D. Financial Statement Elements, continued

4. Fair Value Measurements, continued

- **Level 3** – This valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques attempt to maximize the use of observable inputs and minimize the use of unobservable inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurement at the reporting date.

The District does not currently hold any investments which require the treatment of fair value measurements.

5. Accounts Receivable

The District extends credit to customers in the normal course of operations. Management deems all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been recorded.

6. Prepaids

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both the government-wide and fund financial statements. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

7. Internal Balances and Activities

Internal activity and balances reported as interfund activity in the governmental fund financial statements are reclassified or eliminated in the preparation of the government-wide statements of net position and activities. This elimination will avoid the "grossing up" of amounts resulting from internal activity within the primary government.

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. The District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at acquisition value and/or historical cost at the date of donation. 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:

- Buildings – 20 to 50 years
- Buildings and improvements – 20 years
- Vehicles – 5 years
- Machinery and equipment – 15 to 20 years
- Computer equipment – 3 to 15 years

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

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

D. Financial Statement Elements, continued

9. Deferred Outflows of Resources

The statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of resources applicable to future periods and therefore will *not* be recognized as an outflow of resources (expenditure) until that time. The District has the following pension related items that qualify for reporting in this category:

- Deferred outflow which is equal to the employer contributions made after the measurement date of the net pension liability. This amount will be amortized-in-full against the net pension liability in the next fiscal year.
- Deferred outflow for the net difference in projected and actual earnings on investments of the pension plans fiduciary net position. This amount is amortized over a 5 year period.
- Deferred outflow for the net changes in assumptions which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.
- Deferred outflow for the net differences in actual and proportionate share of employer contribution and net changes in proportion which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

10. Unearned Revenue

Certain receipts from customer reflect revenue applicable to future accounting periods and are recorded as unearned revenues in both the government-wide and fund financial statements.

11. Compensated Absences

It is the District's policy to allow employees to accumulate earned but unused vacation, administrative time, and sick leave benefits. The vesting method is used to calculate the liability. Depending on the years of service, an employee will be paid which range from 0% to 50%, dependent upon certain vesting criteria, of earned sick leave benefits, 100% of earned vacation and administrative time upon separation. All vacation pay, compensatory time and sick leave is accrued when incurred in the government-wide financial statements. The current portion of the liability is estimated from prior year payment and adjusted for material expected variances. The non-current portion of the liability will be recorded as fund expenditures in the year in which they are paid or become due on demand to terminated employees. The General Fund is used to liquidate compensated absences, respective to each funds' liability.

12. Pensions

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

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

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

D. Financial Statement Elements, continued

12. Pensions, continued

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2015
- Measurement Date: June 30, 2016
- Measurement Period: July 1, 2015 to June 30, 2016

13. Deferred Inflows of Resources

The statement of net position will sometimes report a separate section for deferred inflows of resources. This financial statement element, *deferred inflows of resources*, represents an acquisition of resources applicable to future periods and therefore will *not* be recognized as an inflow of resources (revenue) until that time. The District has the following pension related item that qualifies for reporting in this category:

- Deferred inflow for the net differences in actual and proportionate share of employer contribution and net changes in proportion which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.
- Deferred inflow for the net differences between the actual and expected experience which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

14. Net Position

The government-wide financial statements utilize a net position presentation. Net position categories are as follows:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and amortization, and reduced by debt balances outstanding or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted Net Position** – This component of net position consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- **Unrestricted Net Position** – This component of net position consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position.

15. Fund Balance

The financial statements, governmental funds, report fund balance as non-spendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable fund balance** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

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

D. Financial Statement Elements, continued

15. Fund Balance, continued

- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.
- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the District’s highest level of decision-making authority (the Governing Board) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** – amounts that are constrained by the District’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- **Unassigned fund balance** – the residual classification for the District’s general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Fund Balance Policy

The Governing Board established, modifies, or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, followed by the unrestricted, committed, assigned, and unassigned resources as they are needed.

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balances are considered unrestricted.

The purpose of the District’s fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

16. Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, are classified as follows:

	2017
Unrestricted cash and cash equivalents:	
General Fund	\$ <u>2,174,006</u>
Total unrestricted cash and cash equivalents	<u>2,174,006</u>
Restricted cash and cash equivalents:	
Mobile Emissions Program AB 2766 Fund	3,222,626
Carl Moyer Fund	<u>712,402</u>
Total restricted cash and cash equivalents	<u>3,935,028</u>
Total cash and cash equivalents	\$ <u><u>6,109,034</u></u>

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

	2017
Cash on hand	\$ 164,124
Deposits held with financial institutions	888,172
Deposits held with San Bernardino County Treasurer	<u>5,056,738</u>
Total	\$ <u><u>6,109,034</u></u>

As of June 30, the District's authorized deposits had the following maturities:

	2017
San Bernardino County Investment Pool	<u>341 days</u>

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(2) Cash and Cash Equivalents

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

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
State and local agency bonds, notes and warrants	5 years	None	None
U.S. treasury obligations	5 years	None	None
Federal agency obligations	5 years	None	None
Banker's acceptances	180 days	40%	None
Commercial paper - Pooled/Non-Pooled	270 days	40%/25%	40%
Negotiable/Non-Negotiable certificates of deposit	5 years	30%/None	None
Placement Service - Certificates of Deposit	5 years	30%	None
Repurchase agreements	1 years	None	None
Reverse repurchase agreements	92 days	20%	None
Medium-term notes	5 years	30%	None
Money market mutual funds	N/A	20%	10%
Mortgage pass-through securities	5 years	20%	None
California Local Agency Investment Fund (LAIF)	N/A	None	\$40 million
County Pooled Investment Fund	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None
Supranational obligations	5 years	30%	None

Investment in San Bernardino County Investment Pool

The San Bernardino County Investment Pool (SBCIP) is a pooled investment fund program governed by the County of San Bernardino Board of Supervisors, and administered by the County of San Bernardino Auditor-Controller/Treasurer/ Tax Collector. 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 SBCIP for the entire SBCIP portfolio. Investments in SBCIP are highly liquid as deposits and withdrawals can be made at any time without penalty following the restrictions and limitations as identified below. SBCIP does not impose a maximum investment limit. SBCIP is not registered with the Securities and Exchange Commission as an investment company. At June 30, 2017, SBCIP is rated Fitch AAA/VI.

The District's deposit and withdrawal restrictions and limitations are as follows:

- Withdrawals are required to be submitted in writing, from the governing authority of the funds being withdrawn. The request should state the amount, date of transfer, where investment and/or deposit are to be made, and the reason for the request.
- The request must be received by the County Treasurer no less than thirty (30) days prior to the requested date of withdrawal.
- Prior to approving the withdrawal, the County Treasurer shall find that the proposed withdrawal will not adversely affect the interests of other depositors in the County Treasury pool, in accordance with California Government Code Section 27136(b).

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(2) Cash and Investments, continued

Investment in San Bernardino County Investment Pool, continued

Information related to the SBCIP may be obtained from the County of San Bernardino Administrative Offices – 268 West Hospitality Lane, 1st Floor – Treasury – San Bernardino, California 92415 or the Auditor-Controller/Treasurer/ Tax Collector’s office website www.sbcounty.gov.

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 (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: 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 District’s bank balances, up to \$250,000 is 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 contain 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.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has, the greater its fair value has sensitivity to changes in market interest rates. The District’s investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The San Bernardino County Investment Pool is not rated.

Concentration of Credit Risk

The District’s investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. There were no investments in any one non-governmental issuer that represent 5.0% or more of the District’s total investments.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(3) Internal Transfers

Inter-fund Operational Transfers

Inter-fund receivables/payables are used to move financial resources between the General fund and the Fiduciary – Other Post-Employment Benefits Trust fund as advances to temporarily support the operations of each respective fund.

As of June 30, inter-fund receivables/payables between the District’s funds were as follows:

Receivable from	Payable to	2017
Fiduciary Fund	General Fund	\$ <u>55,779</u>
Payable to General		\$ <u><u>55,779</u></u>

For the year ended June 30, 2017, inter-fund transfers were utilized to transfer net position from the Carl Moyer fund for the purpose of establishing the District’s clean air program within the General fund consist of the following:

Transfer from	Transfer to	2017
Carl Moyer Fund	General Fund	\$ <u><u>163,894</u></u>

(4) Capital Assets

Change in capital assets as of June 30 was as follows:

Governmental Activities

	Balance 2016	Adjustment	Additions/ Transfers	Deletions/ Transfers	Balance 2017
Non-depreciable assets:					
Land	\$ 278,568	-	-	-	278,568
Total depreciable assets	<u>278,568</u>	-	-	-	<u>278,568</u>
Depreciable assets:					
Building and improvements	2,701,363	-	-	-	2,701,363
Equipment	3,400,352	-	14,438	-	3,414,790
Vehicles	173,329	-	24,073	-	197,402
Total depreciable assets	<u>6,275,044</u>	-	<u>38,511</u>	-	<u>6,313,555</u>
Accumulated depreciation:					
Building and improvements	(1,496,540)	-	(124,910)	-	(1,621,450)
Equipment	(2,239,515)	(4,939)	(179,038)	-	(2,423,492)
Vehicles	(154,745)	-	(9,068)	-	(163,813)
Total accumulated depreciation	<u>(3,890,800)</u>	<u>(4,939)</u>	<u>(313,016)</u>	-	<u>(4,208,755)</u>
Total depreciable assets, net	<u>2,384,244</u>	<u>(4,939)</u>	<u>(274,505)</u>	-	<u>2,104,800</u>
Total capital assets, net	\$ <u><u>2,662,812</u></u>				<u><u>2,383,368</u></u>

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(5) Unearned Revenue

Changes in unearned revenues as of June 30, were as follows:

	<u>Balance 2016</u>	<u>New Awards</u>	<u>Expenses/ Revenues</u>	<u>Balance 2017</u>
Carl Moyer Grant				
Round 17	\$ 644,348	-	(180,434)	463,914
Round 18	752,959	-	(65,074)	687,885
Round 19	-	751,590	-	751,590
Total unearned revenue	<u>\$ 1,397,307</u>	<u>751,590</u>	<u>(245,508)</u>	<u>1,903,389</u>

(6) Compensated Absences

Changes in compensated absences as of June 30 were as follows:

	<u>Balance 2016</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2017</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$	<u>672,238</u>	<u>596,915</u>	<u>(604,701)</u>	<u>664,452</u>	<u>165,613</u>	<u>498,839</u>

(7) Other Post-Employment Benefits Payable

Plan Description – Eligibility

The District pays a portion of the cost of health insurance for retirees, subject to certain restrictions as determined by the District. The Plan is open to qualified employees, who retire with a minimum of twenty years of public service, of which, a minimum of ten years were served with the District.

Membership in the OPEB plan consisted of the following members as on June 30:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Active plan members	27	24	26
Retirees and beneficiaries receiving benefits	14	11	11
Separated plan members entitled to but not yet receiving benefits	1	-	-
Total plan membership	<u>42</u>	<u>35</u>	<u>37</u>

Plan Description – Benefits

The District offers post-employment medical benefits to retired employees who satisfy the eligibility rules. Dependents are also eligible to receive benefits. Retirees may enroll in any plan available through the District's CalPERS medical program. The contribution requirements of Plan members and the District are established and may be amended by the Governing Board.

Annual Cost

For the year ended June 30, 2017, the District's ARC cost after adjustments was \$54,544. The District's net OPEB payable obligation amounted to \$314,010 for the year ended June 30, 2017. The District contributed \$31,341 in age adjusted contributions for current retiree OPEB premiums for the year ended June 30, 2017.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(7) Other Post-Employment Benefits Payable, continued

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual OPEB cost:			
Annual required contribution (ARC)	\$ 57,656	57,656	34,245
Interest on net OPEB obligation	20,356	-	13,980
Adjustment to annual required contribution	<u>(23,468)</u>	<u>252,412</u>	<u>-</u>
Total annual OPEB cost	54,544	310,068	48,225
Change in net OPEB payable obligation			
Medical premium contributions	<u>(31,341)</u>	<u>(19,955)</u>	<u>(47,531)</u>
Total change in net OPEB payable obligation	23,203	290,113	694
OPEB payable – beginning of year	<u>290,807</u>	<u>694</u>	<u>-</u>
OPEB payable – end of year	<u>\$ 314,010</u>	<u>290,807</u>	<u>694</u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2017 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Medical Premium Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation Payable</u>
2017	\$ 54,544	31,341	57.46%	314,010
2016	310,068	19,955	6.44%	290,807
2015	48,225	47,531	98.56%	694

Funded Status and Funding Progress of the Plan

The most recent valuation (dated July 1, 2015) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$253,113. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2017, was \$3,353,224. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 7.55%.

See page 45 for the Schedules of Funding Status for the other post-employment defined benefit plan, which presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

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.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(7) Other Post-Employment Benefits Payable, continued

Actuarial Methods and Assumptions on Other Post-Employment Benefits, Continued

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

Valuation date	July 1, 2015
Actuarial cost method	Projected unit credit
Amortization method	30-year level dollar, open period
Actuarial assumptions:	
Investment rate of return	7.00%
Inflation - discount rate	7.00%
Health care trend rate	4.00%

(8) Defined Benefit Pension Plan

Plan Description

The District participates in the San Bernardino County Employees' Retirement Association (SBCERA) pension plan – a cost-sharing multiple-employer defined benefit pension plan (the Plan). SBCERA administers the Plan which provides benefits for two membership classifications, General and Safety, and those benefits are tiered based upon date of SBCERA membership. Safety membership is extended to those involved in active law enforcement and fire suppression. All other members are classified as General members. Generally, those who become members prior to January 1, 2013 are Tier 1 members. All other members are Tier 2. An employee who is appointed to a regular position, whose service is greater than fifty percent of the full standard of hours, required are members of SBCERA, and are provided with pension benefits pursuant to Plan requirements.

The Plan operates under the provisions of the SBCERA is governed by the County Employees' Retirement Law (CERL) of 1937 (California Government Code Section 31450 et. seq), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures, and policies adopted by SBCERA's Board of Retirement (Board). SBCERA administers the Plan which provides benefits for two membership classifications, General and Safety, and those benefits are tiered based upon date of SBCERA membership. Safety membership is extended to those involved in active law enforcement and fire suppression. All other members are classified as General members. Generally, those who become members prior to January 1, 2013 are Tier 1 members. All other members are Tier 2. An employee who is appointed to a regular position, whose service is greater than fifty percent of the full standard of hours, required are members of SBCERA, and are provided with pension benefits pursuant to Plan requirements.

SBCERA is a legally separate entity from the District, not a component unit, and there is no financial interdependency with the County of San Bernardino. For these reasons, the District's financial statements exclude the SBCERA pension plan as of June 30, 2017. SBCERA publishes its own comprehensive annual financial report that includes its financial statements and required supplementary information, that can be obtained by writing SBCERA at, 348 W. Hospitality Lane, Third Floor, San Bernardino, CA 92415-0014 or visiting the website at: www.SBCERA.org.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(8) Defined Benefit Pension Plan, continued

Benefits Provided

SBCERA provides retirement, disability, death and survivor benefits. The CERL and PEPRA establish benefit terms.

The Plans' provision and benefits in effect at June 30, 2017, are summarized as follows:

	General Plan	
	Tier 1	Tier 2
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Final Average Compensation	Highest 12 months	Highest 36 months
Normal Retirement Age	Age 55	Age 55
Early Retirement: Years of service and/or age eligible for	Age 70 any years 10 years age 50 30 years any age	Age 70 any years 5 years age 52 N/A
Benefit percent per year of service for normal retirement age	2.0% per year of final average compensation for every year of	2.5% per year of final average compensation for every year of
Benefit adjustments	Reduced before age 55, increased after 55 up to age 65	Reduced before age 67
Final Average Compensation Limitation	Internal Revenue Code section 401(a)(17)	Government Code 7522.10
Required employee contribution rates	7.07% – 13.52%	6.37% – 7.88%
Required employer contribution rates	33.31%	29.77%

An automatic cost of living adjustment is provided to benefit recipients based on changes in the local region Consumer Price Index (CPI) up to a maximum of 2% per year. Any increase greater than 2% is banked and may be used in years where the CPI is less than 2%. There is a one-time 7% increase at retirement for members hired before August 19, 1975. The Plan also provides disability and death benefits to eligible members and their beneficiaries, respectively. For retired members, the death benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to benefits based on the members years of service or if the death was caused by employment. General members are also eligible for survivor benefits which are payable upon a member's death.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(8) Defined Benefit Pension Plan, continued

Contributions

The System and System’s active members are required by statute to contribute a percentage of covered salary to the Plan. This requirement is pursuant to Government Code sections 31453.5 and 31454 for the System, and Government Code sections 31621.6, 31639.25, and 7522.30 for active members. The contribution requirements are established and may be amended by the SBCERA Board pursuant to Article 1 of the CERL, which is consistent with the Plan’s actuarial funding policy. The contribution rates are adopted yearly based on an annual actuarial valuation, which is conducted by an independent actuary, that requires actuarial assumptions with regard to mortality, expected future service (including age at entry into the Plan, if applicable and tier), and compensation increases of the members and beneficiaries. The combined active member and System contribution rates are expected to finance the costs of benefits for employees that are allocated during the year, with an additional amount to finance any unfunded accrued liability.

For the year ended June 30, the contributions for the Plan were as follows:

Contribution Source	General Plan 2017
Contributions – employer	\$ <u>1,328,520</u>

Net Pension Liability

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

Plan Description	Proportionate Share of Pension Liability 2017
General Plan	\$ <u>9,252,237</u>

The District’s net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, using standard update procedures. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(8) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

The District's proportionate share of the pension liability for the Plan as of June 30, 2015 and 2016, was as follows:

	General Plan
Proportional share – June 30, 2015	0.40100%
Proportional share – June 30, 2016	0.37500%
Change – Increase (Decrease)	-0.02600%

For the year ended June 30, 2017, the District recognized pension expense of \$44,254.

Deferred Pension Outflows (Inflows) of Resources

As June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017	
Description	Deferred Outflows of	Deferred Inflows of
Pension contributions subsequent to the measurement date	\$ 1,328,520	-
Net differences between projected and actual earnings on plan investments	2,004,233	-
Changes in assumptions	638,907	-
Differences between actual contribution and proportionate share of contribution	909,353	(739,150)
Differences between actual and expected experience	-	(1,400,728)
Total	\$ 4,881,013	(2,139,878)

As of June 30, 2017, the District reported \$1,328,520, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of June 30, 2017, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	General Plan Deferred Outflows /(Inflows) of Resources
2018	\$ 202,560
2019	527,290
2020	668,426
2021	267,936
2022	(212,490)
2023	(41,107)
Thereafter	-

Actuarial Assumptions

The significant actuarial assumptions and methods used to measure the total pension liability as of June 30, 2017, are as follows:

Actuarial assumptions:

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll (3.75% payroll growth assumed)
Investment Rate of Return ⁽¹⁾	7.50%
Inflation	3.25%
Projected salary increases ⁽²⁾	General: 4.60% to 13.75%
Administrative expenses	0.60% of payroll

(1) Includes inflation at 3.25% and is net of pension plan investment expenses.

(2) Includes inflation at 3.25%, plus real across the board salary increases of 0.50%, plus merit and promotional increases that vary by service.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the June 30, 2014 Review of Economic Assumptions and Actuarial Experience Study (experience study) which covered the periods from July 1, 2010 through June 30, 2013.

Discount Rate

The discount rate used to measure the total pension liability (TPL) was 7.50% as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed employer and member contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments of 7.50% was applied to all periods of projected benefit payments to determine the TPL as of June 30, 2016.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(8) Defined Benefit Pension Plan, continued

Discount Rate, continued

The long-term expected rate of return on Plan investments was determined in 2014 using a building block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. This information is combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocations approved by the SBCERA Board, and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumptions, are summarized in the following table. This information will change every three years based on the triennial actuarial experience study.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Large Cap U.S. Equity	5.00 %	5.94
Small Cap U.S. Equity	2.00	6.50
Developed International Equity	6.00	6.87
Emerging Market Equity	6.00	8.06
U.S. Core Fixed Income	2.00	0.69
High Yield/Credit Strategies	13.00	3.10
Global Core Fixed Income	1.00	0.30
Emerging Market Debt	6.00	4.16
Real Estate	9.00	4.96
Cash & Equivalents	2.00	(0.30)
International Credit	10.00	6.76
Absolute Return	13.00	2.88
Real Assets	6.00	6.85
Long/Short Equity	3.00	4.86
Private Equity	16.00	9.64
Total	<u>100.00 %</u>	

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in Discount Rate

The following table presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the District's proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(8) Defined Benefit Pension Plan, continued

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in Discount Rate, continued

As of June 30, 2017, the discount rate comparison was the following:

	Discount Rate – 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
District's Net Pension Liability – General Plan	\$ <u>13,048,162</u>	<u>9,252,237</u>	<u>6,106,727</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued SBCERA financial reports. See pages 43 through 45 for the Required Supplementary Schedules.

Payable to the Pension Plan

As of June 30, 2017, the District reported no payables for the outstanding amount of contribution to the pension plan.

(9) Net Investment in Capital Assets

Net investment in capital assets is calculated as follows:

	2017
Net investment in capital assets:	
Capital assets – being depreciated, net	\$ <u>2,383,368</u>
Total net investment in capital assets	\$ <u><u>2,383,368</u></u>

(10) Restricted Net Position

Restricted net position is calculated as follows:

	2017
Restricted:	
Restricted cash and cash equivalent – Mobile Emissions Program (AB 2677)	\$ 3,222,626
Restricted cash and cash equivalent – Carl Moyer Fund	<u>712,402</u>
Total restricted	\$ <u><u>3,935,028</u></u>

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(11) Unrestricted Net Position

The District's Governing Board has designated the use of the District's June 30, unrestricted net position as follows:

	2017
Unrestricted:	
Unfunded reserves	\$ (8,426,310)
Prepays	41,704
Operating cash reserve	690,000
Building improvement reserves	200,000
Legal and litigation reserves	300,000
Retirement reserves	1,000,000
Budget stabilization	250,000
Compensated absences	150,000
Total unrestricted	\$ (5,794,606)

(12) Adjustment to Net Position

Long-term Note Receivable – Proposed power plant

In fiscal year 2017, the District determined that the long-term receivable related to a proposed power plant was no longer collectible, which was recorded in the District's general fund. As a result the District recorded a prior period adjustment in the amount \$949,813.

The adjustment to net position is as follows:

Net position at June 30, 2014, as previously stated	\$ 2,734,196
Effect of adjustment to writeoff long-term receivable – Proposed power plant	(949,813)
Change in net position as of June 30, 2015, as previously stated	481,940
Net position at June 30, 2015, as restated	\$ <u>2,266,323</u>
Change in net position as of June 30, 2016, as previously stated	(647,071)
Net position at June 30, 2016, as restated	\$ <u>1,619,252</u>

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(12) Adjustment to Net Position, continued

The adjustment to fund balance in the governmental funds is as follows:

	<u>General Fund</u>	<u>Mobile Emissions Program AB 2766 Fund</u>	<u>Carl Moyer Fund</u>	<u>Total</u>
Fund balance at June 30, 2014, as previously stated	\$ 3,793,633	2,836,101	334,644	6,964,378
Effect of adjustment to writeoff long-term receivable – Proposed power plant	(949,813)	-	-	(949,813)
Change in fund balance as of June 30, 2015, as previously stated	175,636	136,615	1,416	313,667
Fund balance at June 30, 2015, as restated	3,019,456	2,972,716	336,060	6,328,232
Change in fund balance as of June 30, 2016, as previously stated	(30,083)	85,788	2,396	58,101
Fund balance at June 30, 2016, as restated	\$ 2,989,373	3,058,504	338,456	6,386,333

(13) Management Contract Revenue

Antelope Valley Air Quality Management District

On April 19, 2016, the District entered into an agreement with the Antelope Valley Air Quality Management District (AVAQMD) to provide air pollution control services including administration and operations to meet the regulatory and legislated responsibilities of AVAQMD.

The agreement commenced on January 1, 2016 and expires on June 30, 2021. The agreement carries an option to extend services for two years.

The contracts compensation terms include: (1) actual cost reimbursement for the purchase of materials for supplies, (2) the AVAQMD pays the pro-rata share of base salary and associated employment benefits of Program Staff, (3) the District provides utilization of its file management system, accounting system, compliance and permit system, and air monitoring data collection and reporting system, which AVAQMD will cover costs for enhancements and maintenance, (4) The District may assess a proportionate share of the purchase cost/service costs to the AVAQMD not to exceed a proportionate amount based on the ratio of operating permits between both District's, (5) AVAQMD will pay a charge to cover administrative overhead and compensate the District for indirect costs of delivering services. The charge is calculated as 14% of the total billed each month for services added to each invoice.

The District provides professional officers and employees. The District is responsible for the payment of all salaries and benefits, including health and dental benefits, union benefits, related employment taxes and pension contributions. Upon termination of the agreement any dedicated staff will be transitioned from the District to AVAQMD.

Payment of costs is billed monthly at 1/12th of the annual contract amount. On the quarterly basis the District will reconcile actual costs. At June 30, 2017, the District reported management contract revenue of \$1,256,834.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(14) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (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. Market value of all plan assets held in trust by ING Aetna Financial Service, Inc. at June 30, 2017, was \$5,214,965.

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.

(15) Operating Leases

The District has entered into several operating leases with Enterprise FM Trust for the purpose of leasing vehicles. The operating leases call for monthly payments ranging from \$3,050 to \$4,443 through 2020. Future rent payments subsequent to year end are as follows:

Year ending		Amount
June 30,		
2018	\$	22,421
2019		13,270
2020		<u>11,059</u>
Total	\$	<u><u>46,750</u></u>

At June 30, 2017, the District's rent expense amounted to \$51,569.

(16) 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 District 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, 2017, the District participated in the liability and property programs of the SDRMA as follows:

- Property coverage consists of \$1,000,000,000 pool limit, replacement cost of scheduled property, boiler & machinery of \$100,000,000 pool limit, replacement cost of scheduled property.
- Pollution liability of \$2,000,000 per pollution condition or indoor environmental condition.
- General liability insurance consists of bodily injury, property damage of \$5,000,000 per occurrence, Auto bodily injury and auto property damage of \$5,000,000 per occurrence, employee benefits liability of \$5,000,000 per occurrence, employee and public official's errors and omission of \$5,000,000 per occurrence; and employment practices liability of \$5,000,000 per occurrence.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(16) Risk Management, continued

- Personal liability coverage – Board members / Directors of \$500,000 per occurrence.
- Employee and public official’s dishonesty of \$1,000,000 per occurrence.
- Auto physical damage coverage subject to selected comprehensive and collision deductibles (option of \$250/\$500, \$500/\$1,000 or comprehensive only of \$250/\$500).

Settled claims, if any, have not exceeded any of the coverage amounts in the last three fiscal years. There were no reductions in insurance coverage in fiscal year years ending June 30, 2017, 2016, and 2015. 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 material IBNR claim payables as of June 30, 2017, 2016, and 2015.

(17) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2017, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(17) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 84, continued

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Mojave Desert Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(18) 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.

(19) Subsequent Events

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of April 23, 2018, which is the date the financial statements were available to be issued. The District is not aware of any further subsequent events that would require recognition or disclosure in the financial statements.

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Required Supplementary Information

Mojave Desert Air Quality Management District
District's Proportionate Share of the Net Pension Liability – Last Ten Fiscal Years*
As of June 30, 2017

<u>Description</u>	<u>Fiscal Year 2016-2017</u>	<u>Fiscal Year 2015-2016</u>	<u>Fiscal Year 2014-2015</u>	<u>Fiscal Year 2013-2014</u>
District's Proportion of the Net Pension Liability	0.37500%	0.40100%	0.41900%	0.38200%
District's Proportionate Share of the Net Pension Liability	\$ <u>9,252,237</u>	<u>7,782,355</u>	<u>7,124,444</u>	<u>7,580,519</u>
District's Covered-Employee Payroll	\$ <u>4,122,720</u>	<u>3,918,233</u>	<u>3,852,547</u>	<u>3,454,500</u>
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	<u>224.42%</u>	<u>198.62%</u>	<u>184.93%</u>	<u>219.44%</u>
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	<u>67.94%</u>	<u>71.93%</u>	<u>71.93%</u>	<u>68.36%</u>

Notes:

Changes in Benefit Terms – For the measurement date June 30, 2016, there were no changes in the benefit terms.

Changes of Assumptions – For the measurement date June 30, 2016, there were no changes in the assumptions.

* Historical information presented above follows the measurement periods for which GASB 68 & 71 were applicable. The fiscal year ended June 30, 2015, was the first year of implementation required by GASB 68 & 71, therefore only four years are shown.

**Mojave Desert Air Quality Management District
Pension Plan Contributions – Last Ten Fiscal Years*
As of June 30, 2017**

Schedule of Pension Plan Contributions:	Fiscal Year 2016-2017	Fiscal Year 2015-2016	Fiscal Year 2014-2015	Fiscal Year 2013-2014
Actuarially Determined Contribution	\$ 1,326,230	1,167,928	898,449	1,086,330
Contributions in Relation to the Actuarially Determined Contribution	<u>(1,328,520)</u>	<u>(1,312,568)</u>	<u>(898,449)</u>	<u>(1,086,330)</u>
Contribution Deficiency (Excess)	\$ <u>(2,290)</u>	<u>(144,640)</u>	<u>-</u>	<u>-</u>
Covered Payroll	\$ <u>4,122,720</u>	<u>3,918,233</u>	<u>3,852,547</u>	<u>3,454,500</u>
Contribution's as a percentage of Covered-employee Payroll	<u>32.17%</u>	<u>29.81%</u>	<u>23.32%</u>	<u>31.45%</u>

Notes:

- * Historical information presented above follows the measurement periods for which GASB 68 & 71 were applicable. The fiscal year ended June 30, 2015, was the first year of implementation required by GASB 68 & 71, therefore only four years are shown.

Mojave Desert Air Quality Management District
Funding Status – Other Post-Employment Benefits Obligation
For the Fiscal Year Ended June 30, 2017

Required Supplemental Information – Schedule of Funding Progress

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, 2015	\$ 588,142	841,255	253,113	69.91%	\$ 3,353,224	7.55%
July 1, 2012	320,080	520,328	200,248	61.52%	3,041,756	6.58%
July 1, 2009	-	1,421,221	1,421,221	0.00%	2,581,966	55.04%

Funding progress is presented for the years 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 based on the year ending June 30, 2018, for the implementation of GASB 75.

**Mojave Desert Air Quality Management District
Budget Comparison Schedule – General Fund
For the Year Ended June 30, 2017**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Program revenues:					
Charges for services:					
Application and permit fees	\$ 4,424,768	-	4,424,768	4,013,125	(411,643)
Management contract – AVAQMD	1,300,000	-	1,300,000	1,256,834	(43,166)
Operating grants:					
Assembly Bill 2766	762,000	-	762,000	799,367	37,367
State grants	51,690	-	51,690	39,801	(11,889)
State subvention	137,800	-	137,800	138,096	296
Federal grants	130,950	-	130,950	133,624	2,674
California Clean Air Act	70,000	-	70,000	66,606	(3,394)
Other programs	15,000	-	15,000	25,116	10,116
Total program revenues	<u>6,892,208</u>	<u>-</u>	<u>6,892,208</u>	<u>6,472,569</u>	<u>(419,639)</u>
General revenues:					
Fines, forfeitures, and penalties	45,000	-	45,000	37,975	(7,025)
Investment earnings	8,700	-	8,700	15,202	6,502
Other revenue	-	-	-	9,399	9,399
Total program revenues	<u>53,700</u>	<u>-</u>	<u>53,700</u>	<u>62,576</u>	<u>8,876</u>
Total revenues	<u>6,945,908</u>	<u>-</u>	<u>6,945,908</u>	<u>6,535,145</u>	<u>(410,763)</u>
Expenditures:					
Salaries and benefits	5,936,624	-	5,936,624	5,682,711	253,913
Services and supplies	2,327,307	-	2,327,307	1,575,031	752,276
Capital outlay	203,000	-	203,000	38,511	164,489
Total expenditures	<u>8,466,931</u>	<u>-</u>	<u>8,466,931</u>	<u>7,296,253</u>	<u>1,170,678</u>
Excess(deficiency) of revenue over expenditures	(1,521,023)	-	(1,521,023)	(761,108)	759,915
Other Financing sources:					
Net position transfers in	-	-	-	163,894	163,894
Net change in fund balance	<u>(1,521,023)</u>	<u>-</u>	<u>(1,521,023)</u>	<u>(597,214)</u>	<u>923,809</u>
Fund balance – beginning of year	<u>2,989,373</u>		<u>2,989,373</u>	<u>2,989,373</u>	
Fund balance – end of period	<u>\$ 1,468,350</u>		<u>1,468,350</u>	<u>2,392,159</u>	

**Mojave Desert Air Quality Management District
Budget Comparison Schedule – Mobile Emissions Program (AB 2766)
For the Year Ended June 30, 2017**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Program revenues:					
Operating grants:					
Assembly Bill 2766	\$ 760,000	-	760,000	799,367	39,367
General revenues:					
Investment earnings	14,000	-	14,000	23,278	9,278
Total revenues	<u>774,000</u>	<u>-</u>	<u>774,000</u>	<u>822,645</u>	<u>48,645</u>
Expenditures:					
Services and supplies	-	-	-	604	(604)
Contributions	774,000	-	774,000	726,114	47,886
Total expenditures	<u>774,000</u>	<u>-</u>	<u>774,000</u>	<u>726,718</u>	<u>47,282</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	95,927	<u>(95,927)</u>
Fund balance – beginning of year	<u>3,058,504</u>		<u>3,058,504</u>	<u>3,058,504</u>	
Fund balance – end of period	\$ <u>3,058,504</u>		<u>3,058,504</u>	<u>3,154,431</u>	

**Mojave Desert Air Quality Management District
Budget Comparison Schedule – Carl Moyer Fund
For the Year Ended June 30, 2017**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Program revenues:					
Operating grants	\$ 687,578	-	687,578	245,508	(442,070)
General revenues:					
Investment earnings	<u>2,200</u>	<u>-</u>	<u>2,200</u>	<u>3,890</u>	<u>1,690</u>
Total revenues	<u>689,778</u>	<u>-</u>	<u>689,778</u>	<u>249,398</u>	<u>(440,380)</u>
Expenditures:					
Services and supplies	16,200	-	16,200	68,345	(52,145)
Contributions	<u>618,820</u>	<u>-</u>	<u>618,820</u>	<u>272,219</u>	<u>346,601</u>
Total expenditures	<u>635,020</u>	<u>-</u>	<u>635,020</u>	<u>340,564</u>	<u>294,456</u>
Excess(deficiency) of revenue over expenditures	54,758	-	54,758	(91,166)	(145,924)
Other Financing sources:					
Net position transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(163,894)</u>	<u>(163,894)</u>
Net change in fund balance	54,758	<u>-</u>	54,758	(255,060)	<u>(309,818)</u>
Fund balance – beginning of year	<u>338,456</u>		<u>338,456</u>	<u>338,456</u>	
Fund balance – end of period	<u>\$ 393,214</u>		<u>393,214</u>	<u>83,396</u>	

Mojave Desert Air Quality Management District
Notes to the Required Supplementary Information
June 30, 2017

Budgets and Budgetary Data

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year, the District's Executive Director prepare and submit an operating budget to the Governing Board and adopted no later than June of each year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types. The adopted budget becomes operative on July 1.

The Governing Board must approve all supplemental appropriations to the budget and transfers between major funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the General fund, Mobile Emissions Program (AB 2766), and the Carl Moyer fund.

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Report on Compliance and Internal Controls



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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*

Governing Board
Mojave Desert Air Quality Management District
Victorville, 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 governmental activities and each major fund of Mojave Desert Air Quality Management District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated .

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in our separately issued, Management Report, that we consider material weaknesses.

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 Controls Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*, (continued)**

Mojave Desert Air Quality Management District's Response to Findings

The District's response to the findings identified in our audit is described in the separately issued Management Report. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
April 23, 2018