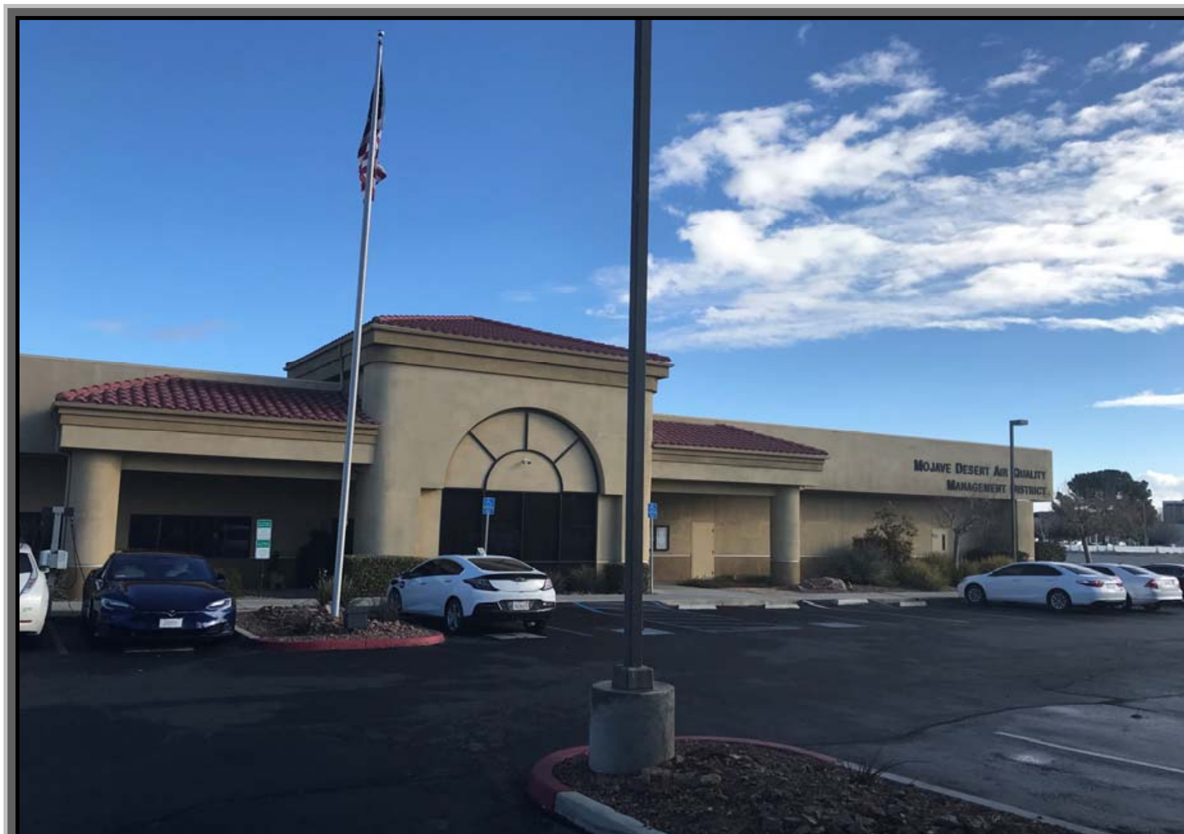
Mojave Desert Air Quality Management District

Clean air is everybody's business.

Mojave Desert Air Quality Management District

Victorville, California

Annual Financial Report
For the Fiscal Year Ended
June 30, 2019



Governing Board as of June 30, 2019

Name	Title	Area of Representation
Jeff Williams	Chair	City of Needles
Carmen Hernandez	Vice Chair	City of Barstow
James L. Cox	Director	City of Victorville
Barbara Cram Riordan	Director	Public Member
Joey DeConinck	Director	City of Blythe
Robert Lovingood	Director	County of San Bernardino
Dawn Rowe	Director	County of San Bernardino
Kari Leon	Director	Town of Apple Valley
Rebekah Swanson	Director	City of Hesperia
V. Manuel Perez	Director	County of Riverside
Ed Camargo	Director	City of Adelanto
Merl Abel	Director	Town of Yucca Valley
Daniel Mintz Sr.	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, 2019

Mojave Desert Air Quality Management District
Annual Financial Report
For the Fiscal Year Ended June 30, 2019

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Financial Section

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Fedak & Brown LLP
Certified Public Accountants

Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Andy Beck, CPA

Cypress Office:
6081 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9154

Riverside Office:
1945 Chicago Avenue, Suite C-1
Riverside, California 92507
(951) 783-9149

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 fund of the Mojave Desert Air Quality Management District (District), as of and for the year ended June 30, 2019, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 opinions.

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, 2019, 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

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 48 through 54 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 February 24, 2020, 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 55 and 56.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
February 24, 2020

Mojave Desert Air Quality Management District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

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, 2019. 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

- The District's net position increased 25.52% or $225,356 to $1,108,385 from ongoing operations.
- The District's total revenues increased 29.48% or $2,818,615 to $12,378,481, due primarily to increases of $2,688,554 in program revenues and $130,061 in general revenues as compared to prior year.
- The District's total expenses increased by 46.21% or $3,730,594 to $11,803,125.

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 revenues 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.

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 18 through 47.

Government-wide Financial Analysis

Statements of Net Position

Condensed Statements of Net Position

	2019	2018	Change
Assets:			
Current assets	$ 10,738,225	10,021,872	716,353
Capital assets, net	2,012,261	2,198,040	(185,779)
Total assets	12,750,486	12,219,912	530,574
Deferred outflows of resources	4,003,052	5,039,754	(1,036,702)
Liabilities:			
Current liabilities	2,909,557	3,099,482	(189,925)
Non-current liabilities	11,400,413	11,592,962	(192,549)
Total liabilities	14,309,970	14,692,444	(382,474)
Deferred inflows of resources	1,335,183	1,684,193	(349,010)
Net position:			
Net investment in capital assets	2,012,261	2,198,040	(185,779)
Restricted	3,719,505	4,056,980	(337,475)
Unrestricted	(4,623,381)	(5,371,991)	748,610
Total net position	$ 1,108,385	883,029	225,356

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 exceeded liabilities and deferred inflows of resources by $1,108,385 as of June 30, 2019. 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

	2019	2018	Change
Revenues:			
Program revenues:			
Charge for services	$ 6,269,582	5,811,519	458,063
Operating grants:			
Mobile emission program AB 2766	1,732,747	1,602,335	130,412
Carl Moyer program	1,510,018	73,184	1,436,834
Other	2,463,911	1,800,666	663,245
Total program revenues	11,976,258	9,287,704	2,688,554
General revenues:			
Fines, forfeitures, and penalties	293,378	197,716	95,662
Investment earnings	98,336	72,905	25,431
Other revenue	10,509	1,541	8,968
Total general revenues	402,223	272,162	130,061
Total revenues	12,378,481	9,559,866	2,818,615
Expenses:			
General	9,062,851	7,103,043	1,959,808
Mobile emission program AB 2766	1,230,256	831,699	398,557
Carl Moyer program	1,510,018	137,789	1,372,229
Total expenses	11,803,125	8,072,531	3,730,594
Change in net position before transfers	575,356	1,487,335	(911,979)
Transfers to Fiduciary funds	(350,000)	(523,203)	173,203
Change in net position	225,356	964,132	(738,776)
Net position, beginning of year, as previously stated	883,029	523,790	359,239
Prior period adjustment	-	(604,893)	604,893
Net position, beginning of year, as restated	883,029	(81,103)	964,132
Net position, end of year	$ 1,108,385	883,029	225,356

Government-wide Financial Analysis, continued

Statements of Activities, continued

The District's net position increased 25.52% or $225,356 to $1,108,385 from ongoing operations.

Total revenues increased 29.48% or $2,818,615 to $12,378,481, due primarily to increases of $2,688,554 in program revenues and $130,061 in general revenues.

Program revenues increased by 28.95% or $2,688,554 to $11,976,258, due primarily to increases of $1,436,834 in Carl Moyer program operating grants, $663,245 in other operating grants, $130,412 in mobile emissions program AB 2766, and $458,063 in charge for services.

General revenues increased by 47.79% or $130,061 to $402,223, due primarily to increases of $95,662 in fines, forfeitures, and penalties and $25,431 in investment earnings.

Total expenses increased by 46.21% or $3,730,594 to $11,803,125, due primarily to increases of $1,959,808 in general expenses, $1,372,229 in Carl Moyer program expenses, and $398,557 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, 2019.

Condensed Changes in Fund Balance

		General Fund	Mobile Emissions Program AB 2766 Fund	Carl Moyer Fund	Total
Fund balance – beginning of year	$	4,056,752	3,007,463	30,469	7,094,684
Change in fund balance		1,424,921	(478,038)	(20,904)	925,979
Fund balance – end of year	$	5,481,673	2,529,425	9,565	8,020,663

Total fund balance increased by 13.05% or $925,979 to $8,020,663. The General fund increased by 35.12% or $1,424,921 to $5,481,673; the mobile emissions program (AB2766) decreased by 15.90% or $478,038 to $2,529,425; and the Carl Moyer fund decreased by 68.61% or $20,904 to $9,565.

Governmental Activities Budgetary Highlights

For the year ended June 30, 2019, the final actual expenditures were more than budgeted for the General fund by $578,212, the Mobile Emissions program (AB 2766) by $1,230,256, and the Carl Moyer fund by $816,402. For the year ended June 30, 2019, actual revenues were more than budgeted for the General fund by $2,317,827, the Mobile Emissions program (AB 2766) by $40,252, and the Carl Moyer fund by $687,510. For the year ended June 30, 2019, 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) fund, and Carl Moyer fund under the Required Supplementary Information section on pages 51 through 54).

Capital Asset Administration

Capital Assets

	Balance 2018	Additions	Deletions/ Transfers	Balance 2019
Capital assets:				
Non-depreciable assets	$ 278,568	-	-	278,568
Depreciable assets	6,444,177	108,462	-	6,552,639
Total capital assets	6,722,745	108,462	-	6,831,207
Accumulated depreciation	(4,524,705)	(294,241)	-	(4,818,946)
Total capital assets, net	$ 2,198,040	(185,779)	-	2,012,261

At the end of fiscal year 2019, the District's capital assets (net of accumulated depreciation) amounted to $2,012,261. This capital assets (net of accumulated depreciation) includes building and improvements, furniture and fixtures, machinery and equipment, vehicles, computers, and software. See note 4 for further information.

Conditions Affecting Current Financial Position

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net position, or operating results 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, 2019

		2019
Assets:		
Current assets:		
Cash and cash equivalents (note 2)	$	4,489,710
Restricted cash and cash equivalents (note 2)		3,719,505
Accounts receivable		1,540,081
Due from California Air Resources Board		973,492
Due from Fiduciary fund (note 3)		9,593
Prepaids		5,844
Total current assets		10,738,225
Non-current assets:		
Capital assets – not being depreciated (note 4)		278,568
Capital assets – being depreciated, net (note 4)		1,733,693
Total non-current assets		2,012,261
Total assets		12,750,486
Deferred outflows of resources:		
Deferred pension outflows (note 8)		4,003,052
Total deferred outflows of resources		4,003,052
Liabilities:		
Current liabilities:		
Accounts payable		254,929
Accrued salaries and related payables		327,251
Due to California Air Resources Board		2,000
Unearned revenue (note 5)		2,133,382
Long-term liabilities – due within one year:		
Compensated absences (note 6)		191,995
Total current liabilities		2,909,557
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)		575,984
Net other post-employment benefits liability (note 7)		901,797
Net pension liability (note 8)		9,922,632
Total non-current liabilities		11,400,413
Total liabilities		14,309,970
Deferred inflows of resources:		
Deferred other post-employment benefits inflows (note 7)		83,889
Deferred pension inflows (note 8)		1,251,294
Total deferred inflows of resources		1,335,183
Net position:		
Net investment in capital assets (note 9)		2,012,261
Restricted (note 10)		3,719,505
Unrestricted (note 11)		(4,623,381)
Total net position	$	1,108,385

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Statement of Activities
For the Fiscal Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues: Charge for Services: Application and Permit Fees	Program Revenues: Charge for Services: Management Contract Antelope Valley AQMD	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes in Net Position
Governmental activities:					
General	$ 9,062,851	4,887,637	1,381,945	3,503,559	710,290
Mobile emission program AB 2766	1,230,256	-	-	693,099	(537,157)
Carl Moyer program	1,510,018	-	-	1,510,018	-
Total governmental activities	$ 11,803,125	4,887,637	1,381,945	5,706,676	173,133

General revenues:	
Fines, forfeitures, and penalties	$ 293,378
Investment earnings	98,336
Other revenue	10,509
Transfers out to OPEB Trust	(350,000)
Total general revenues	52,223
Changes in net position	225,356
Net position – beginning of year	883,029
Net position – end of year	$ 1,108,385

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Balance Sheet – Governmental Funds
June 30, 2019

		General Fund	Mobile Emissions Program AB 2766 Fund	Carl Moyer Fund	Total Fund
Assets:					
Cash and cash equivalents	$	4,489,710	-	-	4,489,710
Restricted cash and cash equivalents		-	2,468,650	1,250,855	3,719,505
Accounts receivable		1,417,306	122,775	-	1,540,081
Due from California Air Resources Board		-	-	973,492	973,492
Due from fiduciary fund (note 3)		9,593	-	-	9,593
Due from other funds (note 3)		60,000	-	32,620	92,620
Prepaids		5,844	-	-	5,844
Total assets	$	5,982,453	2,591,425	2,256,967	10,830,845
Liabilities:					
Accounts payable	$	132,833	-	122,096	254,929
Accrued payroll and related expenses		327,251	-	-	327,251
Due to California Air Resources Board		-	2,000	-	2,000
Due to other fund (note 3)		32,620	60,000	-	92,620
Unearned revenue (note 5)		8,076	-	2,125,306	2,133,382
Total liabilities		500,780	62,000	2,247,402	2,810,182
Fund balance:					
Restricted:					
Mobile emissions program AB 2677		-	2,529,425	-	2,529,425
Carl Moyer		-	-	9,565	9,565
Nonspendable:					
Prepaids		5,844	-	-	5,844
Committed:					
Operating reserves		765,700	-	-	765,700
Building improvement reserves		200,000	-	-	200,000
Legal and litigation reserves		300,000	-	-	300,000
Retirement reserves		200,000	-	-	200,000
Assigned:					
Budget stabilization		250,000	-	-	250,000
Compensated absences		150,000	-	-	150,000
Unassigned		3,610,129	-	-	3,610,129
Total fund balance		5,481,673	2,529,425	9,565	8,020,663
Total liabilities and fund balance	$	5,982,453	2,591,425	2,256,967	10,830,845

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Position
June 30, 2019

Reconciliation:

Total Fund Balance of Governmental Fund		$ 8,020,663
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		2,012,261
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.	$ 1,586,260	
Recognized net changes in assumptions for the pension plan are reported as deferred outflows of resources in the government-wide financial statements.	2,012,429	
Recognized portion due to net 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.	404,363	4,003,052
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		(767,979)
Net other post-employment benefits liability		(901,797)
Net pension liability		(9,922,632)
Recognized net difference between projected and actual earnings on pension plan investments are reported as deferred inflows of resources in the government-wide financial statements.	(180,655)	
Recognized net differences between the expected and actual experience for the pension plan are reported as deferred inflows of resources in the government-wide financial statements.	(638,473)	
Recognized portion net due to differences between the actual employer contribution and the proportionate share of contribution for the pension plan are reported as deferred inflows of resources in the government-wide financial statements.	(432,166)	(1,251,294)
Recognized net difference between projected and actual earnings on OPEB plan investments are reported as deferred inflows of resources in the government-wide financial statements.	(3,128)	
Recognized net changes in assumptions for the OPEB plan are reported as deferred inflows of resources in the government-wide financial statements.	(80,761)	(83,889)
Total adjustments		(6,912,278)
Net Position of Governmental Activities		$ 1,108,385

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund
For the Year Ended June 30, 2019

		General Fund	Mobile Emissions Program AB 2766 Fund	Carl Moyer Fund	Total Fund
Revenues:					
Program revenues:					
Charge for services:					
Application and permit fees	$	4,887,637	-	-	4,887,637
Management contract – Antelope Valley AQMD (note 13)		1,381,945	-	-	1,381,945
Total charge for services		6,269,582	-	-	6,269,582
Operating grants:					
Assembly Bill 2766		1,039,648	693,099	-	1,732,747
State grants		2,098,350	-	1,510,018	3,608,368
State subvention		134,695	-	-	134,695
Federal grants		151,117	-	-	151,117
California Clean Air Act		63,304	-	-	63,304
Other programs		16,445	-	-	16,445
Total operating grants		3,503,559	693,099	1,510,018	5,706,676
Total program revenues		9,773,141	693,099	1,510,018	11,976,258
General revenues:					
Fines, forfeitures, and penalties		293,378	-	-	293,378
Investment earnings		60,121	59,119	(20,904)	98,336
Other revenue		10,509	-	-	10,509
Total general revenues		364,008	59,119	(20,904)	402,223
Total revenues		10,137,149	752,218	1,489,114	12,378,481
Expenditures:					
Salaries and benefits		6,353,423	-	-	6,353,423
Services and supplies		929,437	-	122,097	1,051,534
Contributions		970,906	1,230,256	1,387,921	3,589,083
Capital outlay		108,462	-	-	108,462
Total expenditures		8,362,228	1,230,256	1,510,018	11,102,502
Excess(deficiency) of revenue over expenditures		1,774,921	(478,038)	(20,904)	1,275,979
Other financing uses:					
Transfers out – OPEB Trust (note 3)		(350,000)	-	-	(350,000)
Net change in fund balance		1,424,921	(478,038)	(20,904)	925,979
Fund balance – beginning of year		4,056,752	3,007,463	30,469	7,094,684
Fund balance – end of year	$	5,481,673	2,529,425	9,565	8,020,663

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 Fund to the Statement of Activities
For the Year Ended June 30, 2019

Reconciliation:

Net Change in Fund Balance – Total Governmental Fund	$	925,979
Amounts reported for governmental activities in the statement of activities are different because:		
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:		
Capital outlay		108,462
Depreciation expense		(294,241)
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 fund as follows:		
Net change in compensated absences for the current period		(76,723)
Net change in other post-employement benefit obligations for the current period		12,530
Net change in pension obligations for the current period		(450,651)
Change in Net Position of Governmental Activities	$	225,356

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Statement of Net Position – Fiduciary Fund
Other Post-Employment Benefit Obligation
For the Year Ended June 30, 2019

		2019
Assets:		
Cash in trust	$	646,380
Total assets		646,380
Liabilities:		
Due to general fund		9,593
Total liabilities		9,593
Net position:		
Restricted – held in trust for OPEB benefits		636,787
Total net position	$	636,787

See accompanying notes to the basic financial statements

Note: This fund balance is included in the calculation of the District's Net Other Post-Employment Benefits Liability at June 30, 2019. (Please see note 7 for further information.)

Mojave Desert Air Quality Management District
Statement of Changes in Net Position – Fiduciary Fund
Other Post-Employment Benefit Obligation
For the Year Ended June 30, 2019

		2019
Additions:		
Investment income	$	36,659
Total additions		36,659
Deductions:		
Bank fees		1,475
Total deductions		1,475
Changes in net position		35,184
Net position – beginning of year		601,603
Net position – end of year	$	636,787

See accompanying notes to the basic financial statements

Note: This fund balance is included in the calculation of the District's Net Other Post-Employment Benefits Liability at June 30, 2019. (Please see note 7 for further information.)

Mojave Desert Air Quality Management District
Statement of Net Position – Fiduciary Fund
Pension Benefits
For the Year Ended June 30, 2019

		2019
Assets:		
Cash in trust	$	1,063,923
Total assets		1,063,923
Net position:		
Restricted – held in trust for pension benefits		1,063,923
Total net position	$	1,063,923

See accompanying notes to the basic financial statements

Note: This fund balance is not included in the calculation of the District's Net Pension Liability at June 30, 2019. This is due to differences between the Plan's measurement date of June 30, 2018 and the Trust funds' reporting of June 30, 2019. (Please see note 8 for further information on the District's Net Pension Liability.)

Mojave Desert Air Quality Management District
Statement of Changes in Net Position – Fiduciary Fund
Pension Benefits
For the Year Ended June 30, 2019

		2019
Additions:		
Net position transfer from General Fund	$	350,000
Investment income		60,645
Total additions		410,645
Deductions:		
Bank fees		1,664
Total deductions		1,664
Changes in net position		408,981
Net position – beginning of year		654,942
Net position – end of year	$	1,063,923

See accompanying notes to the basic financial statements

Note: This fund balance is not included in the calculation of the District's Net Pension Liability at June 30, 2019. This is due to differences between the Plan's measurement date of June 30, 2018 and the Trust funds' reporting measurement of June 30, 2019. (Please see note 8 for further information on the District's Net Pension Liability.)

(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 charge for services directly related to the operations of the District. Charge 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 Balance for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the difference in fund balance, as presented in these statements, to the net position presented in the Government-wide Financial Statements.

(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 Balance 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 investment earnings 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 District's accounts are organized on the basis of funds, each of which is considered a separate accounting entity with 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 of 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 fund of the financial reporting entity are described below:

General Fund – 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 – 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 – 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.

(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 – a fiduciary fund used to account for assets held by the District as Trustees. The District maintains this 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.

Pension Benefits Trust Fund – a fiduciary fund used to account for assets held by the District as Trustees. The District maintains this non-major expendable trust fund, Pension Fund, which is used to provide contingency reserves for the District payment of current and future retiree pension 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 November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations.* This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

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

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 the District's 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. 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.

5. 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.

6. 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.

7. 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.

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

D. Financial Statement Elements, continued

7. Capital Assets, continued

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

8. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources applicable to future periods.

9. Unearned Revenue

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

10. 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 a range between 0% and 50%, dependent upon certain vesting criteria, of earned sick leave benefits, and 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 balance of compensated absences 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.

11. Post-Employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's OPEB plan (Plan) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported as cost.

GASB 75 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, 2018
- Measurement Date – June 30, 2019
- Measurement Period – July 1, 2018 to June 30, 2019

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

D. Financial Statement Elements, continued

12. Pensions

For purposes of measuring the net pension liability, 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 Association (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.

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, 2018
- Measurement Date – June 30, 2018
- Measurement Period – July 1, 2017 to June 30, 2018

13. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources applicable to future periods.

14. Net Position

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

- **Net investment in capital assets** – consists of capital assets, net of accumulated depreciation and amortization, and reduced by any debt balances outstanding against the acquisition, construction, or improvement of those assets.

- **Restricted 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** – 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.

- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or (b) imposed by law through constitutional provisions and enabling legislation.

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

D. Financial Statement Elements, continued

15. Fund Balance, continued

- **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 for those purposes.

Fund Balance Policy

The Governing Board establishes, 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 balance 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.

(2) Cash and Cash Equivalents

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

		2019
Unrestricted cash and cash equivalents:		
General Fund	$	4,489,710
Total unrestricted cash and cash equivalents		4,489,710
Restricted cash and cash equivalents:		
Mobile Emissions Program AB 2766 Fund		2,468,650
Carl Moyer Fund		1,250,855
Total restricted cash and cash equivalents		3,719,505
Total cash and cash equivalents	$	8,209,215

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

		2019
Cash on hand	$	268,033
Deposits held with financial institutions		4,530,386
Deposits held with San Bernardino County Treasurer		3,410,796
	$	8,209,215

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

	2019
San Bernardino County Investment Pool	424 days

(2) Cash and Cash Equivalents, continued

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

The following table 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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.

The pool portfolio is invested in a manner that meets the maturity, quality, diversification, and liquidity requirements set forth by GASB 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. SBCIP does not have any legally binding guarantees of share values. SBCIP does not impose liquidity fees or redemption gates on participant withdrawals. 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.

(2) Cash and Investments, continued

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 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. 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.

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. Of the District's bank balance, 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.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to change 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 no limitations on the amounts that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and/or external investment pools) that represent 5% or more of the District's total investments.

(3) Internal Transfers

Inter-fund Operational Transfers

Inter-fund receivables/payables are used to move financial resources between the General fund and the Mobile Emissions Program AB2766 fund, the Carl Moyer fund, and the Fiduciary fund as advances to temporarily support the operations of each respective fund.

As of June 30, inter-fund receivables/payables between the District's General fund and the Mobile Emissions Program AB2766 fund and the Carl Moyer Fund, were as follows:

Receivable from	Payable to		2019
AB2766 Fund	General Fund	$	60,000
General Fund	Carl Moyer Fund		32,620
Total due to/from		$	92,620

As of June 30, inter-fund receivables/payables between the District's General fund and the Fiduciary fund, were as follows:

Receivable from	Payable to		2019
Fiduciary Fund	General Fund	$	9,593
Payable to General		$	9,593

Inter-fund transfers are utilized to transfer funds from the General fund to the Fiduciary fund for the purpose of making contributions.

As of June 30, inter-fund transfers between the District's funds were as follows:

Transfer from	Transfer to		2019
General Fund	Pension Benefits Trust Fund	$	350,000

(4) Capital Assets

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

	Balance 2018	Additions/ Transfers	Deletions/ Transfers	Balance 2019
Non-depreciable assets:				
Land	$ 278,568	-	-	278,568
Total depreciable assets	278,568	-	-	278,568
Depreciable assets:				
Building and improvements	2,707,033	-	-	2,707,033
Equipment	3,490,590	80,189	-	3,570,779
Vehicles	246,554	28,273	-	274,827
Total depreciable assets	6,444,177	108,462	-	6,552,639
Accumulated depreciation:				
Building and improvements	(1,743,932)	(120,954)	-	(1,864,886)
Equipment	(2,602,031)	(168,907)	-	(2,770,938)
Vehicles	(178,742)	(4,380)	-	(183,122)
Total accumulated depreciation	(4,524,705)	(294,241)	-	(4,818,946)
Total depreciable assets, net	1,919,472	(185,779)	-	1,733,693
Total capital assets, net	$ 2,198,040			2,012,261

(5) Unearned Revenue

Change in unearned revenues as of June 30 was as follows:

		Balance 2018	New Awards	Expenses/ Revenues	Balance 2019
General Fund					
BCS	$	2,333	-	(2,333)	-
Caltrans – Kramer Junction		3,716	-	(1,663)	2,053
Fort Irwin CEIR		-	11,400	(5,377)	6,023
Total General Fund		6,049	11,400	(9,373)	8,076
Carl Moyer Grant					
Round 17		443,082	-	(443,082)	-
Round 18		635,533	-	(635,533)	-
Round 19		751,590	-	(93,949)	657,641
Round 20		792,704	-	(337,453)	455,251
Round 21		-	973,492	-	973,492
Carl Moyer interest earned		-	-	38,922	38,922
Total Carl Moyer Grant		2,622,909	973,492	(1,471,095)	2,125,306
Total unearned revenue	$	2,628,958	984,892	(1,480,468)	2,133,382

(6) Compensated Absences

Change in compensated absences as of June 30 was as follows:

	Balance 2018	Earned	Taken	Balance 2019	Due Within One Year	Due in More Than One Year
$	691,256	498,791	(422,068)	767,979	191,995	575,984

(7) Other Post-Employment Benefits (OPEB) Plan

Plan Description

The District's defined benefit OPEB plan provides OPEB for all permanent full-time employees of the District. The Plan is a single-employer defined benefit OPEB plan administered by the District. The District's Governing Board has the authority to establish and amend the benefit terms to the Plan.

Benefits Provided

The District provides retirees with access to medical, dental, and vision coverage. No subsidy is provided toward dental or vision coverage and neither is expected to create an OPEB liability for the District. Medical coverage is currently provided through CalPERS as permitted under the Public Employees' Medical and Hospital Care Act (PEMHCA). This coverage requires the employee to satisfy the requirements for retirement under the San Bernardino County Employees' Retirement Association (SBCERA).

(7) Other Post-Employment Benefits (OPEB) Plan, continued

Benefits Provided, continued

Retirees meeting further eligibility requirements are eligible for a temporary additional subsidy. The additional benefit is provided in addition to the PEMHCA minimum benefit. The additional benefits are summarized in table below:

Eligibility requirements	1. SBCERA retirement 2. 20 years of service with the District, member agency, and/or California air district service 3. Enrollment in a CalPERS medical plan at the time of retirement
Benefit percentage	2% times years of combined District, member agency, and/or California air district service
Benefit Percentage applies to	CalPERS medical premiums for retirees and any enrolled dependents The total District-paid benefit is limited to the Flexible Benefit caps for active employees
Duration of benefit	5 years or until retiree reaches age 65 (whichever comes first)

The District employees must meet one of the following criteria in accordance with PEMHCA:

SBCERA General Tiers	Minimum Age	Minimum Years of Service
Tier 1 (hired before January 2013	50	10
	70	Any
	Any	30
Tier 2 (hired on/after January 2013	52	5
	70	Any

Employees Covered by Benefit Terms

At June 30, the following employees were covered by the benefit terms:

	2019
Inactive employees or beneficiaries currently receiving benefit payments	16
Inactive employees entitled to but not receiving benefit payments	1
Active employees	23
Total	40

(7) Other Post-Employment Benefits (OPEB) Plan, continued

Contributions

The OPEB plan's contribution requirements for eligible retired employees of the District are established and may be amended by the Governing Board. District contributions to the Plan occur as benefits are paid to retirees and/or to the OPEB trust. Benefit payments may occur in the form of direct payments fro premiums and taxes ("explicit subsidies") and/or indirect payments to retirees in the form of higher premiums for active employees ("implicit subsidies").

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	3.50%
Investment rate of return	6.30% for explicit costs, net of plan investment expenses and including inflation
Healthcare cost trend rates	7.50% in 2019 to 5.00% in 2024 in steps of 0.50%

Mortality rates were based on the MacLeod Watts Scale 2017 applied generationally from 2014 on.

The actuarial assumptions used in the June 30, 2018 valuation are based on the 2017 experience study of the SBCERA using data from 2013 to 2016, except for a different basis used to project future mortality improvements.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method and best-estimate ranges of expected future real rates of return for each major asset class (expected returns, net of OPEB plan investment expense and inflation). The ranges are 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. The rate shown is prior to offset for non-imbedded investment related fees. Non-imbedded fees were estimated to reduce the expected yield above by 52 basis point (0.52%), reducing the net expected return on trust assets to 6.30% per year. Updates to expected returns were published after the measurement date and will be reflected in the next valuation.

(7) Other Post-Employment Benefits (OPEB) Plan, continued

Actuarial Assumptions, continued

The target allocation and best estimates of geometric real rates of return for each major class are summarized in the table below.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap Core	32.00 %	6.70 %
Mid Cap Core	6.00	7.00
Small Cap Core	9.00	9.90
Real Estate	2.00	5.70
International	7.00	7.30
Emerging Market	4.00	9.70
Short Term Bond	6.75	3.80
Intermediate Term Bond	27.00	4.60
High Yield	1.25	6.00
Alternatives	0.00	4.40
Cash	5.00	5.00
Total	100.00 %	

Discount Rate

The discount rates used to measure the total OPEB liability were: 1) 6.3% for the assumed long-term trust rate of return, for the explicit subsidy portion of the liability and 2) The Bond Buyer General Obligation 20-Bond Municipal Bond Index rate (3.89% on June 30, 2018 and 3.51% on June 30, 2019). The District established an irrevocable OPEB trust in 2010 with assets dedicated toward paying future retiree medical benefits. The District stated its intent to continue contributions equal to the Actuarially Determined Contribution determined for the explicit subsidy liability only. Financing of the implicit subsidy portion of the liability is on a pay-as-you-go basis.

(7) Other Post-Employment Benefits (OPEB) Plan, continued

Changes in the Net OPEB Liability

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2018	$ 1,590,773	611,196	979,577
Changes for the year:			
Service cost	64,653	-	64,653
Interest	86,998	-	86,998
Net investment income	-	35,184	(35,184)
Employer contributions	-	111,968	(111,968)
Benefit payments	(94,680)	(94,680)	-
Assumption changes	(82,279)	-	(82,279)
Net changes	(25,308)	52,472	(77,780)
Balance at June 30, 2019	$ 1,565,465	663,668	901,797

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.30% explicit rate / 2.51% implicit rate) or 1-percentage-point higher (7.30% explicit rate / 4.51% implicit rate) than the current discount rate (6.30% explicit rate / 3.51% implicit rate):

	Current Rate - 1%	Current Rate	Current Rate + 1%
District's Net OPEB liability	$ 1,084,885	901,797	748,924

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.50% decreasing to 4.00%) or 1-percentage-point higher (8.50% decreasing to 6.00%) than the current healthcare cost trend rates (7.50% decreasing to 5.00%):

	Current Trend - 1%	Current Trend	Current Trend +1%
District's Net OPEB liability	$ 702,515	901,797	1,199,940

(7) Other Post-Employment Benefits (OPEB) Plan, continued

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the District recognized OPEB expense of $99,439. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings on plan investments	$ -	(3,128)
Changes in assumptions	-	(80,761)
Total	$ -	(83,889)

Amounts reported as deferred outflows(inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

Actuarially Determined Deferred Outflows(Inflows) - OPEB			
Year Ended June 30,	Differences between Projected and Actual Earnings on Plan Investments	Changes in Assumptions	Net, Deferred (Inflows)
2019	$ (1,301)	(11,861)	(13,162)
2020	(1,301)	(11,861)	(13,162)
2021	(1,300)	(11,861)	(13,161)
2022	774	(11,861)	(11,087)
2023	-	(11,861)	(11,861)
Thereafter	-	(21,456)	(21,456)
Total	$ (3,128)	(80,761)	(83,889)

(8) Defined Benefit Pension Plan

Plan Description

The District participates in the San Bernardino County Employees' Retirement Association (SBCERA) – a cost-sharing multiple-employer defined benefit public employee Retirement Association whose main function is to provide service retirement, disability, death and survivor benefits to the General and Safety members employed in the County of San Bernardino. SBCERA provides retirement benefits to the employee of the District. SBCERA issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be obtained from their executive office at 348 W. Hospitality Lane, Third Floor, San Bernardino, CA 92415-0014 or visiting the website at www.SBCERA.org.

(8) Defined Benefit Pension Plan, continued

Benefits Provided

SBCERA provides service retirement, disability, death and survivor benefits to eligible employees. Generally, any employee of the County of San Bernardino or participating employers who is appointed to a regular position whose service is greater than fifty percent of the full standard of hours required by a participating SBCERA employer (e.g. 20 hours per week or more) must become a member of SBCERA effective on the first day of employment. There are separate retirement benefits for General and Safety member employees. Safety membership is extended to those involved in active law enforcement and fire suppression. All other members are classified as General members.

There are currently two tiers applicable to both General and Safety members. Members with membership dates before January 1, 2013 are included in General Tier 1 or Safety Tier 1. Any new member who becomes a member on or after January 1, 2013 is designated as General Tier 2 or Safety Tier 2 and is subject to the provisions of the Public Employees' Pension Reform Act of 2013 (PEPRA).

The District participates in the SBCERA's General Tier. The provisions and benefits for the SBCERA General Tier in effect at June 30, 2019, are as follows:

Tier 1 members are eligible for Early Retirement once they attain the age of 70 regardless of service or at age 50 and have acquired 10 or more years of retirement service credit or with 30 years of service regardless of age. Tier 2 members are eligible for Early Retirement once they attain the age of 70 regardless of service or at age 52 and have acquired five or more years of retirement service credit.

The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit, and retirement plan and tier.

Tier 1 benefit is calculated pursuant to the provisions of California Government Code of Section 31676.15. The monthly allowance is equal to 2% of final compensation times years of accrued retirement service credit times age factor from Section 31676.15. Tier 2 benefit is calculated pursuant to the provisions found in California Government Code Section 7522.20(a). The monthly allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from Section 7522.20(a).

For Tier 1 members, the maximum monthly retirement allowance is 100% of final compensation. There is no final compensation limit on the maximum retirement benefit for Tier 2 members. However, the maximum amount of compensation earnable that can be taken into account for 2019 for Tier 1 members with membership dates on or after July 1, 1996 is $280,000. The maximum amount of pensionable compensation for Tier 2 members that can be taken into account for 2019 is equal to $149,016. These limits are adjusted on an annual basis. Tier 1 members and employers are exempt from paying contributions on compensation earnable paid in excess of the annual cap. In addition, Tier 1 members are exempt from paying member contributions once they have reached 30 or more years of service. Tier 2 members and employers are exempt from paying contributions on pensionable compensation paid in excess of the annual cap.

Final average compensation consists of the highest 12 consecutive months for Tier 1 members and the highest 36 consecutive months for Tier 2 members.

(8) Defined Benefit Pension Plan, continued

Benefits Provided, continued

The member may elect an unmodified retirement allowance, or choose an optional retirement allowance. The unmodified retirement allowance provides the highest monthly benefit and a 60% continuance to an eligible surviving spouse or domestic partner. An eligible surviving spouse or domestic partner is one married to or registered with the member one year prior to the effective retirement date or at least two years prior to the date of death and has attained age 55 on or prior to the date of death. There are four optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the unmodified retirement allowance in order to allow the member the ability to provide certain benefits to a surviving spouse, domestic partner, or named beneficiary having an insurable interest in the life of the member.

SBCERA provides an annual cost-of-living benefit to all retirees. The cost-of-living adjustment, based upon the Consumer Price Index for All Urban Consumers for the Riverside-San Bernardino-Ontario Area, is capped at 2.0%.

Contributions

The District and 17 other participating employers contribute to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Retirement. Employer contribution rates are adopted annually based upon recommendations received from SBCERA's actuary after the completion of the annual actuarial valuation. The average employer contribution rate as of June 30, 2018 for 2017-2018 (based on the June 30, 2016 valuation) was 27.55% of compensation.

For the year ended June 30, the contributions recognized as part of pension expense for the Plan are as follows:

		2019
Contributions – employer	$	1,417,654

Net Pension Liability

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

		2019
Proportionate share of net pension liability	$	9,922,632

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. As of June 30, 2019, the net pension liability of the Plan is measured as of June 30, 2018 (measurement date). The total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. 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.

(8) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

The District's proportionate share of the net pension liability for the Plan as of the measurement date June 30, 2018, was as follows:

	General Plan	
Proportional share – June 30, 2017	0.383	%
Proportional share – June 30, 2018	0.392	
Change – Increase (Decrease)	0.009	%

Deferred Pension Outflows (Inflows) of Resources

For the year ended June 30, 2019, the District recognized pension expense of $2,019,220. As June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
Description	Outflows of Resources	Inflows of Resources
Pension contributions subsequent to the measurement date	$ 1,586,260	-
Net differences between projected and actual earnings on plan investments	-	(180,655)
Changes in assumptions	2,012,429	-
Changes in proportions and differences between actual contribution and proportionate share of contribution	404,363	(432,166)
Differences between actual and expected experience	-	(638,473)
Total	$ 4,003,052	(1,251,294)

As of June 30, 2019, the District reported $1,586,260 as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of June 30, 2019, 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,	Deferred Outflows/ (Inflows) of Resources
2020	$ 682,271
2021	271,514
2022	(231,287)
2023	322,749
2024	116,634
2025	3,617

Actuarial Assumptions

The total pension liabilities in the June 30, 2018, actuarial valuation were determined using the following actuarial assumptions and methods:

Actuarial assumptions:	
Actuarial valuation date	June 30, 2018
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Investment rate of return(1)	7.25%
Inflation	3.00%
Projected salary increases(2)	General: 4.50% to 14.50%
Cost-of-Living adjustment	Contingent upon consumer price index with a 2.00% maximum
Administrative expenses	0.70% of payroll

(1) Includes inflation at 3.00% and is net of pension plan investment expenses.
(2) Includes inflation at 3.00%, real "across the board" salary increases of 0.50%, and merit and promotional increases. Amounts vary by service.

The mortality rates used are as follows:

Healthy	Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table set forward one year for males, projected generationally with the two-dimensional MP-2016 project scale.
Disabled	Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table set forward seven years, projected generationally with the two-dimensional MP-2016 projection scale.
Beneficiaries	Beneficiaries are assumed to have the same mortality as a General Member of the opposite sex who is receiving a service (non-disability) retirement

(8) Defined Benefit Pension Plan, continued

Discount Rate

The discount rate used to measure the total pension liability was 7.25% for June 30, 2018. 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's 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 returns on pension plan investments of 7.25% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

The long-term expected rate of return on pension plan investments was determined 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. These returns are 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, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation but before deducting investment expenses are shown in the following table. This information was used in the derivation of the long-term expected investment rate of return assumption for the June 30, 2018 actuarial valuation. This information will change every three years based on the actuarial experience study.

The table below reflects the long-term expected real rate of return by asset class.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Large Cap U.S. Equity	8.00 %	5.61 %
Small Cap U.S. Equity	2.00	6.37
Developed International Equity	6.00	6.96
Emerging Market Equity	6.00	9.28
U.S. Core Fixed Income	2.00	1.06
High Yield/Credit Strategies	13.00	3.65
Global Core Fixed Income	1.00	0.07
Emerging Market Debt	6.00	3.85
Real Estate	9.00	4.37
International Credit	11.00	6.75
Absolute Return	13.00	3.56
Real Assets	5.00	6.35
Private Equity	16.00	8.47
Cash & Equivalents	2.00	(0.17)
Total	100.00 %	

(8) Defined Benefit Pension Plan, continued

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 for the Plan, as well as what the District's proportionate 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.

	Discount Rate - 1% (6.25%)	Current Discount Rate (7.25%)	Discount Rate + 1% (8.25%)
District's Net Pension Liability	$ 14,628,685	9,922,632	6,062,517

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 49 and 50 for the Required Supplementary Information.

(9) Net Investment in Capital Assets

Net investment in capital assets is calculated as follows:

	2019
Net investment in capital assets:	
Capital assets – not being depreciated	$ 278,568
Capital assets – being depreciated, net	1,733,693
Total net investment in capital assets	$ 2,012,261

(10) Restricted Net Position

Restricted net position is calculated as follows:

	2019
Restricted:	
Restricted cash and cash equivalent – Mobile Emissions Program (AB 2677)	$ 2,468,650
Restricted cash and cash equivalent – Carl Moyer Fund	1,250,855
Total restricted	$ 3,719,505

(11) Unrestricted Net Position

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

		2019
Unrestricted:		
Unfunded reserves	$	(6,494,925)
Prepaids		5,844
Operating cash reserve		765,700
Building improvement reserves		200,000
Legal and litigation reserves		300,000
Retirement reserves		200,000
Budget stabilization		250,000
Compensated absences		150,000
Total unrestricted	$	(4,623,381)

(12) 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 legislative responsibilities of the 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 payment of 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 Districts, and (5) the AVAQMD will pay a charge to cover administrative overhead and compensate the District for indirect costs of delivering services. The charge is calculated at 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 the AVAQMD.

Payment of costs is billed monthly at 1/12th of the annual contract amount. On a quarterly basis, the District will reconcile actual costs. At June 30, 2019, the District reported management contract revenue of $1,381,945.

(13) 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, 2019, was $6,116,373.

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.

(14) 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 $3,654 to $4,443 through 2020. Future rent payments subsequent to year end are as follows:

Year ending June 30,		Amount
2020	$	11,059
Total	$	11,059

For the year ended June 30, 2019, the District's rent expense amounted to $34,688.

(15) Risk Management

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

At June 30, 2019, the District participated in the liability and property programs of the SDRMA as follows:

- Property coverage consists of $1 billion pool limit, replacement cost of scheduled property; boiler & machinery of $100 million pool limit, replacement cost of scheduled property.
- Pollution liability of $2 million per pollution condition or indoor environmental condition.
- General liability insurance consists of bodily injury, property damage, employment benefits, employee/public officials E&O, and employment practices liability of $5 million per occurrence; employee/public officials dishonesty of $1 million per occurrence; and public officials personal liability of $500,000 per occurrence.

(15) Risk Management, continued

- Auto liability insurance consists of auto bodily injury and auto property damage of $5 million 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).
- Workers' compensation insurance of $5 million per occurrence.

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 years ending June 30, 2019, 2018, and 2017. 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, 2019, 2018, and 2017.

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

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

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.

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. 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.

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

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

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

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

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

Governmental Accounting Standards Board Statement No. 90, continued

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Governmental Accounting Standards Board Statement No. 91

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

(17) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by grantor agencies. Such audit could lead to requests for reimbursements to 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.

(18) Subsequent Events

Events occurring after June 30, 2019, have been evaluated for possible adjustment to the financial statements or disclosure as of February 24, 2020, 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.

Required Supplementary Information

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Mojave Desert Air Quality Management District
Schedules of Change in the District's Net OPEB Liability and Related Ratios
As of June 30, 2019
Last Ten Fiscal Years*

		2019	2018
Total OPEB Liability			
Service cost	$	64,653	64,270
Interest		86,998	81,969
Changes in assumptions		(82,279)	(11,653)
Benefit payments		(94,680)	(91,784)
Net change in total OPEB liability		(25,308)	42,802
Total OPEB liability – beginning		1,590,773	1,547,971
Total OPEB liability – ending	$	1,565,465	1,590,773
Plan Fiduciary Net Position			
Contributions employer	$	111,968	27,623
Net investment income		35,184	47,928
Benefit payments		(94,680)	(91,784)
Expenses		-	(1,639)
Net change in plan fiduciary net position		52,472	(17,872)
Plan fiduciary net position – beginning		611,196	629,068
Plan fiduciary net position – ending	$	663,668	611,196
Net OPEB liability – ending	$	901,797	979,577
Covered payroll	$	6,443,315	6,008,949
Net OPEB liability as a percentage of covered payroll		14.00%	16.30%

Notes:

Change in Benefit Terms – For the measurement date June 30, 2018, there were no changes in the benefit terms.

Change of Assumptions – For the measurement date June 30, 2018, the discount rate for implicit costs was reduced from 3.89% to 3.51%

* Historical information presented above follows the measurement periods for which GASB 74 & 75 were applicable. The fiscal year ended June 30, 2018, (valuation date of June 30, 2017) was the first year of implementation required by GASB 74 & 75, therefore only one year is shown.

Mojave Desert Air Quality Management District
District's Proportionate Share of Net Pension Liability
As of June 30, 2019
Last Ten Fiscal Years*

	Reporting date June 30,					
Description	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
District's proportion of the net pension liability	0.392%	0.383%	0.375%	0.401%	0.419%	0.382%
District's proportionate share of the net pension liability	$ 9,922,632	10,094,423	9,252,237	7,782,355	7,124,444	7,580,519
District's covered Payroll	$ 4,206,347	4,139,787	4,122,720	3,918,233	3,852,547	3,454,500
District's proportionate share of the net pension liability as a percentage of its covered payroll	235.90%	243.84%	224.42%	198.62%	184.93%	219.44%
Plan's fiduciary net position as a percentage of the Plan's total pension liability	70.98%	69.07%	67.94%	71.70%	71.73%	66.38%

Notes:

Changes in Benefit Terms – For the measurement date June 30, 2018, there were no changes in the benefit terms.

Changes of Assumptions – For the measurement date June 30, 2018, there were no changes in actuarial assumptions or methods.

* Historical information presented above follows the measurement periods for which GASB 68 & 71were 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
As of June 30, 2019
Last Ten Fiscal Years*

Schedule of Pension Plan Contributions		Reporting date June 30, 2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$	1,399,966	1,324,459	1,326,230	1,167,928	898,449	1,086,330
Contributions in Relation to the Actuarially Determined Contribution		(1,586,260)	(1,417,654)	(1,328,520)	(1,312,568)	(898,449)	(1,086,330)
Contribution Deficiency (Excess)	$	(186,294)	(93,195)	(2,290)	(144,640)	-	-
Covered Payroll	$	4,206,347	4,139,787	4,122,720	3,918,233	3,852,547	3,454,500
Contribution's as a percentage of Covered-employee Payroll		33.28%	31.99%	32.17%	29.81%	23.32%	31.45%

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 five years are shown.

Mojave Desert Air Quality Management District
Budget Comparison Schedule – General Fund
For the Year Ended June 30, 2019

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:					
Program revenues:					
Charges for services:					
Application and permit fees	$ 4,671,000	-	4,671,000	4,887,637	216,637
Management contract – AVAQMD	1,300,250	-	1,300,250	1,381,945	81,695
Operating grants:					
Assembly Bill 2766	1,050,000	-	1,050,000	1,039,648	(10,352)
State grants	191,172	-	191,172	2,098,350	1,907,178
State subvention	138,000	-	138,000	134,695	(3,305)
Federal grants	148,900	-	148,900	151,117	2,217
California Clean Air Act	67,000	-	67,000	63,304	(3,696)
Other programs	24,000	-	24,000	16,445	(7,555)
Total program revenues	7,590,322	-	7,590,322	9,773,141	2,182,819
General revenues:					
Fines, forfeitures, and penalties	213,000	-	213,000	293,378	80,378
Investment earnings	16,000	-	16,000	60,121	44,121
Other revenue	-	-	-	10,509	10,509
Total program revenues	229,000	-	229,000	364,008	135,008
Total revenues	7,819,322	-	7,819,322	10,137,149	2,317,827
Expenditures:					
Salaries and benefits	6,747,669	-	6,747,669	6,353,423	394,246
Services and supplies	816,347	-	816,347	929,437	(113,090)
Contributions	90,000	-	90,000	970,906	(880,906)
Capital outlay	130,000	-	130,000	108,462	21,538
Total expenditures	7,784,016	-	7,784,016	8,362,228	(578,212)
Excess(deficiency) of revenue over expenditures	35,306	-	35,306	1,774,921	1,739,615
Other Financing sources:					
Transfers out – OPEB Trust	-	-	-	(350,000)	(350,000)
Net change in fund balance	35,306	-	35,306	1,424,921	1,389,615
Fund balance – beginning of year	1,787,266		1,787,266	4,056,752	
Fund balance – end of year	$ 1,822,572		1,822,572	5,481,673	

Mojave Desert Air Quality Management District
Budget Comparison Schedule – Mobile Emissions Program (AB 2766)
For the Year Ended June 30, 2019

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:					
Program revenues:					
Operating grants:					
Assembly Bill 2766	$ 711,966	-	711,966	693,099	(18,867)
General revenues:					
Investment earnings	-	-	-	59,119	59,119
Total revenues	711,966	-	711,966	752,218	40,252
Expenditures:					
Contributions	-	-	-	1,230,256	(1,230,256)
Total expenditures	-	-	-	1,230,256	(1,230,256)
Excess(deficiency) of revenue over expenditures	711,966	-	711,966	(478,038)	(1,190,004)
Net change in fund balance	711,966	-	711,966	(478,038)	1,190,004
Fund balance – beginning of year	3,007,463		3,007,463	3,007,463	
Fund balance – end of year	$ 3,719,429		3,719,429	2,529,425	

Mojave Desert Air Quality Management District
Budget Comparison Schedule – Carl Moyer Fund
For the Year Ended June 30, 2019

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:					
Program revenues:					
Operating grants	$ 792,704	-	792,704	1,510,018	717,314
General revenues:					
Investment earnings	8,900	-	8,900	(20,904)	(29,804)
Total revenues	801,604	-	801,604	1,489,114	687,510
Expenditures:					
Services and supplies	-	-	-	122,097	(122,097)
Contributions	693,616	-	693,616	1,387,921	(694,305)
Total expenditures	693,616	-	693,616	1,510,018	(816,402)
Excess(deficiency) of revenue over expenditures	107,988	-	107,988	(20,904)	(128,892)
Net change in fund balance	107,988	-	107,988	(20,904)	(128,892)
Fund balance – beginning of year	30,469		30,469	30,469	
Fund balance – end of year	$ 138,457		138,457	9,565	

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 prepares and submits an operating budget to the Governing Board and is 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) fund, and the Carl Moyer fund.

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Report on Internal Controls and Compliance

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Fedak & Brown LLP
Certified Public Accountants

Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Andy Beck, CPA

Cypress Office:
6081 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9154

Riverside Office:
1945 Chicago Avenue, Suite C-1
Riverside, California 92507
(951) 783-9149

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 the Mojave Desert Air Quality Management District (District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 24, 2020.

Internal Control Over Financial Reporting

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

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

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

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

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
February 24, 2020

Mojave Desert Air Quality Management District

Management Report

June 30, 2019

Fedak & Brown LLP
Certified Public Accountants

Mojave Desert Air Quality Management District

Management Report

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Fedak & Brown LLP
Certified Public Accountants

Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Andy Beck, CPA

Cypress Office:
6081 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9154

Riverside Office:
1945 Chicago Avenue, Suite C-1
Riverside, California 92507
(951) 783-9149

Governing Board
Mojave Desert Air Quality Management District
Victorville, California

Dear Members of the Board:

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the fiduciary fund of the Mojave Desert Air Quality Management District (District) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Our comment, of which have been discussed with the appropriate members of management, are summarized as follows:

Current Year Comment and Recommendation

Disclosure of Audit Adjustments and Reclassifications

As your external auditor, we assume that the books and records of the District are properly adjusted before the start of the audit. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the District's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Governing Board to gain a full and complete understanding and appreciation of the scope and extent of the audit process we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Governing Board with a better understanding of the scope of the audit.

Current Year Comment and Recommendation, continued

Disclosure of Audit Adjustments and Reclassifications, continued

Management's Response

We have reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and will enter those entries into the District's accounting system to close-out the District's year-end trial balance at June 30, 2019.

Prior Year Comment and Recommendation

Material Weakness

Year-End Closing, Reconciliation, and Review Procedures

During our final fieldwork, we noted that the support provided for accounts receivable and accounts payable required additional support to show how they agreed to ending account balances on the trial balance. The balance for accrued payroll did not have support and also required additional adjustment to accrue the year-end balance. Certain reconciliations for year-end account balances for accounts receivable, prepaid expenses, capital assets and accounts payable appeared to require secondary review for either missing items or clean-up of stale balances. As a result, it was necessary for the auditor to prepare adjustments where account reconciliations or schedules did not agree to the District's general ledger. Auditing standards require that the auditor be independent from the maintenance of the District's books and records for which it plans to issue an opinion.

We recommend that the District increase controls for its year-end closing process to: 1) allocate additional time required to adjust year-end account balances, 2) prepare supporting reconciliations, and 3) review the support to ensure it does not contain stale or erroneous balances and is in agreement with the trial balance prior to the scheduled audit fieldwork.

Management's Response

We agree with the auditor's recommendation and will implement this recommendation in the next fiscal year.

Current Year Status

The District implemented controls for its year-end closing process and supporting schedules that reconcile to the trial balance were provided as necessary.

Other Comments

Disclosure of Audit Adjustments and Reclassifications

As your external auditor, we assume that the books and records of the District are properly adjusted before the start of the audit. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the District's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Governing Board to gain a full and complete understanding and appreciation of the scope and extent of the audit process we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Governing Board with a better understanding of the scope of the audit.

Prior Year Comment and Recommendation, continued

Other Comments, continued

Disclosure of Audit Adjustments and Reclassifications, continued

Management's Response

We have reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and have entered those entries into the District's accounting system to close-out the District's year-end trial balance at June 30, 2018.

* * * * * * * * * *

This report is intended solely for the information and use of management and the Governing Board of the District. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

We appreciate the courtesy and cooperation extended to us during our examination. We would be pleased to discuss the contents of this letter with you at your convenience. Please do not hesitate to contact us.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
February 24, 2020

APPENDIX

Mojave Desert Air Quality Management District

Audit/Finance Committee Letter

June 30, 2019

Fedak & Brown LLP
Certified Public Accountants

Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Andy Beck, CPA

Cypress Office:
6081 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9154

Riverside Office:
1945 Chicago Avenue, Suite C-1
Riverside, California 92507
(951) 783-9149

Governing Board
Mojave Desert Air Quality Management District
Victorville, California

We have audited the financial statements of the governmental activities, each major fund, and fiduciary fund of the Mojave Desert Air Quality Management District (District) for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated March 26, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

> Management's estimate of the fair value of cash and investments is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of cash and investments in determining that they are reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of capital assets depreciation is based on historical estimates of each capitalized item's useful life expectancy or cost recovery period. We evaluated the key factors and assumptions used to develop the capital asset depreciation calculations in determining that they are reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the other post-employment benefits plan's net OPEB liability, deferred outflows/inflows of resources, and OPEB expense are based on an actuarial valuation and was conducted by a third-party actuary. We evaluated the basis, methods, and assumptions used by the actuary to calculate these amounts for the District to determine that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Matters, continued

Qualitative Aspects of Accounting Practices, continued

Management's estimate of the defined benefit pension plan's net pension liability, and deferred outflows/inflows of resources, and pension expense are based on an actuarial valuation and was conducted by a third-party actuary. We evaluated the basis, methods, and assumptions used by the actuary to calculate these amounts for the District to determine that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of fair value of cash and investments in Note 2 to the basic financial statements represents amounts susceptible to market fluctuations.

The disclosure of capital assets, net in Note 4 to the basic financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

The disclosure of the District's other post-employment benefit plan in Note 7 to the basic financial statements is based on actuarial assumptions.

The disclosure of the District's defined benefit pension plan in Note 8 to the basic financial statements is based on actuarial assumptions.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 24, 2020.

Significant Audit Matters, continued

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis, Budge Comparison Schedules, Schedules of the District's Proportionate Share of the Net Pension Liability, Schedules of Pension Plan Contributions, and Schedules of Changes in the District Total OPEB Liability and Related Ratios, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Conclusion

We appreciate the cooperation extended us by Jean Bracy, Deputy Director/Administration, and Laquita Cole, Finance Manager, in the performance of our audit testwork. We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the District.

This information is intended solely for the information and use of the Governing Board and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
February 24, 2020

Mojave Desert Air Quality Management District
Schedule of Adjusting and Reclassifying Journal Entries
June 30, 2019

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
To adjust net pension liability and related accounts.			
10 2810 00 0000	Net Pension Liability	171,791.00	
10 2900 00 0000	Deferred Pension Inflows	414,260.00	
10 6416 00 0000	Contra CY Implementation GASB 68	450,651.00	
10 1900 00 0000	Deferred Outflows		1,036,702.00
Total		**1,036,702.00**	**1,036,702.00**
Adjusting Journal Entries JE # 2			
To adjust net OPEB liability and related accounts.			
10 2820 00 0000	Net OPEB Liability	77,780.00	
10 2905 00 0000	Deferred OPEB Inflows		65,250.00
10 6460 00 0000	Contra CY Implementation GASB 75		12,530.00
Total		**77,780.00**	**77,780.00**
Adjusting Journal Entries JE # 3			
To reconcile Carl Moyer Grant revenues and expenses.			
30 2610 00 3060	Deferred Revenue - Administrative Moyer 20	455.21	
30 4700 00 0000	Interest Revenue	1,524.72	
30 4700 00 0000	Interest Revenue	1,857.18	
30 2620 00 0000	Deferred Revenue - Interest		455.21
30 7300 00 3030	Program Expenditures Moyer 17		1,524.72
30 7300 00 3040	Program Expenditures Moyer 18		1,857.18
Total		**3,837.11**	**3,837.11**
Adjusting Journal Entries JE # 4			
To adjust prepaid expense.			
10 3400 00 0000	Pre Paid	2,602.12	
10 7000 00 1900	Software AV	987.04	
10 7020 00 0000	Equipment Lease	588.91	
10 7040 10 0000	Security	640.00	
10 7135 60 0000	Tech Support	386.17	
10 1300 00 0000	Pre Paid Expenses		2,602.12
10 3300 00 0000	Unassigned Fund Balance		2,602.12
Total		**5,204.24**	**5,204.24**

Mojave Desert Air Quality Management District
Schedule of Adjusting and Reclassifying Journal Entries
June 30, 2019

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 5			
To reconcile prior year ending net position and current year beginning net position.			
10 3000 00 0000	Restricted Fund Balance	23,203.00	
10 3300 00 0000	Unassigned Fund Balance	106,759.39	
10 9999 00 0000	Transfers (In) Out	350,000.00	
40 1100 10 0000	Cash Held For Other Fund	23,203.00	
40 3220 00 0000	Retirement Reserves	350,000.00	
10 1100 40 0000	Cash Held For Other Fund		23,203.00
10 3220 00 0000	Retirement Reserves		350,000.00
10 6000 20 0000	Salaries		106,759.39
40 3000 00 0000	Restricted Fund Balance		23,203.00
40 9999 00 0000	Transfers (In) Out		350,000.00
Total		**853,165.39**	**853,165.39**
Adjusting Journal Entries JE # 6			
To record depreciation expense.			
10 7635 30 0000	Depr Exp Furniture & Fixtures	10,810.71	
10 7635 30 0000	Depr Exp Furniture & Fixtures	120,953.92	
10 7635 30 0000	Depr Exp Furniture & Fixtures	53,835.43	
10 7655 30 0000	Depr Exp Vehicles	4,380.16	
10 7675 00 0000	Depr Exp Software	0.90	
10 7675 00 0000	Depr Exp Software	10,500.93	
10 7675 00 0000	Depr Exp Software	93,759.15	
10 8840 60 0000	Cap Exp Equip	537.15	
10 1715 00 0000	Acc Dep Buildings		120,953.92
10 1735 00 0000	Acc Dep Furniture & Fixtures		10,810.71
10 1745 00 0000	Acc Dep Machinery & Equipment		53,835.43
10 1755 00 0000	Acc Dep Vehicles		4,380.16
10 1765 00 0000	Acc Dep Computers		10,500.93
10 1775 00 0000	Acc Amort Software		93,759.15
10 7635 30 0000	Depr Exp Furniture & Fixtures		437.46
10 7655 30 0000	Depr Exp Vehicles		100.59
Total		**294,778.35**	**294,778.35**

Mojave Desert Air Quality Management District
Schedule of Adjusting and Reclassifying Journal Entries
June 30, 2019

Account	Description	Debit	Credit
Reclassifying Journal Entries JE # 201			
To reclassify from CIP to depreciable assets.			
10 1760 00 0000	Computers	1,654.82	
10 1790 00 0000	Work in Progress		1,654.82
Total		**1,654.82**	**1,654.82**
Reclassifying Journal Entries JE # 202			
To reclassify new source review fees for Fort Irwin CEIR.			
10 4200 00 7001	Contracts Irwin	11,400.00	
10 4530 00 7002	Federal Contracts & Agreements Ft Irwin CEIR	5,377.21	
10 4310 00 7002	New Source Review Fees Fort Irwin CEIR		5,377.21
10 4530 00 7001	Federal Contracts & Agreements Irwin Contract		11,400.00
Total		**16,777.21**	**16,777.21**
Reclassifying Journal Entries JE # 203			
To reclassify new source reviews fees for BCS from unearned revenues to accounts receivable.			
10 1200 00 0000	Accounts Receivable System	10,050.58	
10 2600 00 6070	BCS		10,050.58
Total		**10,050.58**	**10,050.58**