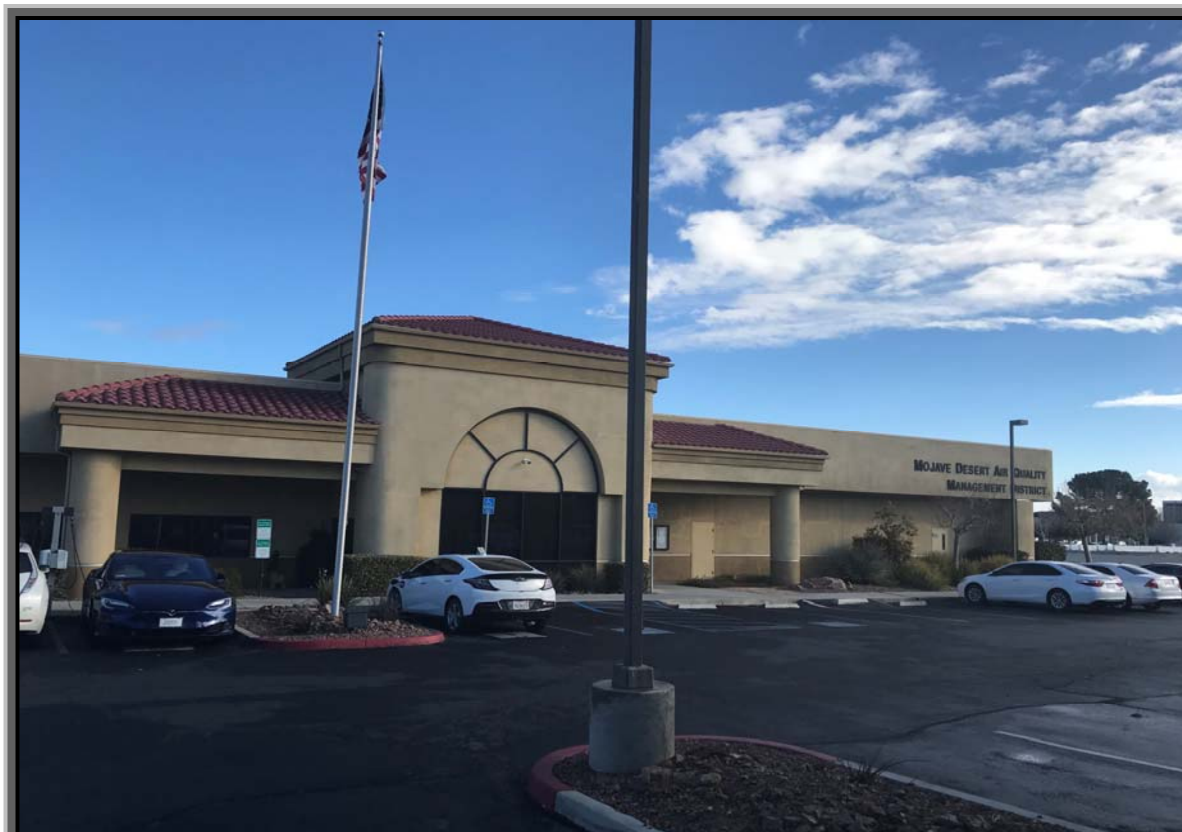
Mojave Desert Air Quality Management District

Victorville, California

Annual Financial Report
For the Fiscal Year Ended
June 30, 2018



Governing Board as of June 30, 2018

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

Mojave Desert Air Quality Management District

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

Mojave Desert Air Quality Management District

Annual Financial Report

For the Fiscal Year Ended June 30, 2018

Mojave Desert Air Quality Management District

For the Fiscal Year Ended June 30, 2018

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Financial Section

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Independent Auditor's Report

Governing Board
Mojave Desert Air Quality Management District
Victorville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Mojave Desert Air Quality Management District (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Mojave Desert Air Quality Management District, as of June 30, 2018, 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.

Emphasis of Matter

As part of our audit of the June 30, 2018, financial statements, we audited the adjustments described in note 12. An adjustment was recorded to remove the other post-employment benefits liability recognized under GASB 45; and for the beginning balance of the District's net other post-employment benefits liability under GASB 75 as a prior period adjustment to restate net position as of July 1, 2017.

As discussed in Note 1.C to the financial statements, in June 30, 2018, the District adopted new accounting guidance *Governmental Accounting Standards Board Statement Nos. 75 and 74.* Our opinion is not modified with respect to this matter.

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 47 through 53 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 25, 2019, 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 54 and 55.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
February 25, 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, 2018. 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 68.58% or $359,239 to $883,029 due to an increase of $964,132 from ongoing operations, which was offset by a $604,893 decrease related to the implementation of GASB 75. (See note 12 for further information).
- The District's total revenues increased 25.67% or $1,952,678 to $9,559,866, due to increases of $1,770,260 in program revenues and $182,418 in general revenues as compared to prior year.
- The District's total expenses decreased by 7.24% or $630,119 to $8,072,531, due primarily to decreases of $624,436 in general expenses and $202,775 in Carl Moyer program expenses, which were offset by increases of $104,981 in mobile emission program AB 2766 expenses, and $92,111 in capital outlay expenses as compared to prior year.

Using This Financial Report

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

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in it. Think of the District's net position – the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors to assess the *overall financial health* of the District.

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 46.

Government-wide Financial Analysis

Statements of Net Position

Condensed Statements of Net Position

	2018	2017	Change
Assets:			
Current assets	$ 10,021,872	8,690,330	1,331,542
Capital assets, net	2,198,040	2,383,368	(185,328)
Total assets	12,219,912	11,073,698	1,146,214
Deferred outflows of resources	5,039,754	4,881,013	158,741
Liabilities:			
Current liabilities	3,099,482	3,225,957	(126,475)
Non-current liabilities	11,592,962	10,065,086	1,527,876
Total liabilities	14,692,444	13,291,043	1,401,401
Deferred inflows of resources	1,665,554	2,139,878	(474,324)
Net position:			
Net investment in capital assets	2,198,040	2,383,368	(185,328)
Restricted	4,056,980	3,935,028	121,952
Unrestricted	(5,371,991)	(5,794,606)	422,615
Total net position	$ 883,029	523,790	359,239

Government-wide Financial Analysis, continued

Statements of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by $883,029 as of June 30, 2018. 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

		2018	2017	Change
Revenues:				
Program revenues:				
Charges for services	$	5,811,519	5,269,959	541,560
Operating grants:				
Mobile emission program AB 2766		1,602,335	1,598,734	3,601
Carl Moyer program		73,184	245,508	(172,324)
Other		1,800,666	403,243	1,397,423
Total program revenues		9,287,704	7,517,444	1,770,260
General revenues:				
Fines, forfeitures, and penalties		197,716	37,975	159,741
Investment earnings		72,905	42,370	30,535
Other revenue		1,541	9,399	(7,858)
Total general revenues		272,162	89,744	182,418
Total revenues		9,559,866	7,607,188	1,952,678
Expenses:				
General		6,972,421	7,596,857	(624,436)
Mobile emission program AB 2766		831,699	726,718	104,981
Carl Moyer program		137,789	340,564	(202,775)
Capital outlay		130,622	38,511	92,111
Total expenses		8,072,531	8,702,650	(630,119)
Change in net position before transfers		1,487,335	(1,095,462)	2,582,797
Transfers		(523,203)	-	(523,203)
Change in net position		964,132	(1,095,462)	2,059,594
Net position – beginning of year, as previously stated		523,790	1,619,252	(1,095,462)
Prior period adjustment (note 12)		(604,893)	-	(604,893)
Net position – beginning of year, as restated		(81,103)	1,619,252	(1,700,355)
Net position – end of period	$	883,029	523,790	359,239

Government-wide Financial Analysis, continued

Statements of Activities, continued

Compared to prior year, net position of the District increased 68.58% or $359,239 to $883,029 due to an increase of $963,580 from ongoing operations, which was offset by a $604,893 decrease related to the implementation of GASB 75. (See note 12 for further information).

Total revenues increased 25.67% or $1,952,678 to $9,559,866, due to increases of $1,770,260 in program revenues and $182,418 in general revenues as compared to prior year.

Program revenues increased by 23.55% or $1,770,260 to $9,287,704, primarily due to increases of $1,397,423 in other operating grants and $541,560 in charges for services, which were offset by a decrease of $172,324 in Carl Moyer program operating grant revenue as compared to prior year.

General revenues increased by 203.26% or $182,418 to $272,162, primarily due to increases of $159,741 in fines, forfeitures, and penalties and $30,535 in investment earnings as compared to prior year.

Total expenses decreased by 7.24% or $630,119 to $8,072,531, due primarily to decreases of $624,436 in general expenses and $202,775 in Carl Moyer program expenses, which were offset by increases of $104,981 in mobile emission program AB 2766 expenses, and $92,111 in capital outlay expenses as compared to prior year.

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, 2018.

Condensed Changes in Fund Balance

		General Fund	Mobile Emissions Program AB 2766 Fund	Carl Moyer Fund	Total
Fund balance – beginning of year, as restated	$	1,787,266	3,154,431	83,396	5,025,093
Change in fund balance		2,269,486	(146,968)	(52,927)	2,069,591
Fund balance – end of year	$	4,056,752	3,007,463	30,469	7,094,684

Total fund balance decreased by 36.76% or $2,069,591 to $7,094,684. The General fund increased by 94.87% or $2,269,486 to $4,056,752; the mobile emissions program (AB2766) decreased by 4.66% or $146,968 to $3,007,463; and the Carl Moyer fund decreased by 63.46% or $52,927 to $30,469.

Governmental Activities Budgetary Highlights

For the year ended June 30, 2018, the final actual expenditures were less than budgeted for the General fund by $1,407,038 and more than budgeted for the Mobile Emissions program (AB 2766) by $50,699; and less than budgeted for the Carl Moyer fund by $572,219. For the year ended June 30, 2018, actual revenues were more than budgeted for the General fund by $1,323,551, the Mobile Emissions program (AB 2766) by $59,331, and less than budgeted for the Carl Moyer fund by $629,046. At June 30, 2018, there were no differences between the original and final amended budgets. (See the Budgetary Comparison Schedules for the General fund, Mobile Emissions program (AB 2766), and Carl Moyer program under the Required Supplementary Information section on pages 50 through 53).

Capital Asset Administration

Capital Assets

		Balance 2017	Adjustment	Additions	Deletions/ Transfers	Balance 2018
Capital assets:						
Non-depreciable assets	$	278,568	-	-	-	278,568
Depreciable assets		6,313,555	(372,313)	130,622	-	6,071,864
Total capital assets		6,592,123	(372,313)	130,622	-	6,350,432
Accumulated depreciation		(4,208,755)	372,313	(315,950)	-	(4,152,392)
Total capital assets, net	$	2,383,368	-	(185,328)	-	2,198,040

At the end of fiscal year 2018, the District's investment in capital assets amounted to $2,198,040 (net of accumulated depreciation). This investment in capital assets includes building and improvements, furniture and fixtures, machinery and equipment, vehicles, computers, and software. The capital assets of the District are more fully analyzed in note 4 to the basic financial statements.

Conditions Affecting Current Financial Position

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

Requests for Information

This financial report is designed to provide the District's present users, including funding sources, customers, stakeholders, and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Deputy Director / Administration, Mojave Desert Air Quality Management District, 14306 Park Avenue, Victorville, California 92392 or (760) 245-1661.

Basic Financial Statements

Mojave Desert Air Quality Management District
Statement of Net Position
June 30, 2018

		2018
Assets:		
Current assets:		
Cash and cash equivalents (note 2)	$	1,967,848
Restricted cash and cash equivalents (note 2)		4,056,980
Accounts receivable		2,433,007
Due from California Air Resources Board		1,544,294
Due from fiduciary fund (note 3)		9,593
Prepaids		10,150
Total current assets		10,021,872
Non-current assets:		
Capital assets – not being depreciated (note 4)		278,568
Capital assets – being depreciated, net (note 4)		1,919,472
Total non-current assets		2,198,040
Total assets		12,219,912
Deferred outflows of resources:		
Deferred pension outflows (note 8)		5,039,754
Total deferred outflows of resources		5,039,754
Liabilities:		
Current liabilities:		
Accounts payable		190,108
Accrued salaries and related payables		103,401
Due to California Air Resources Board		4,721
Unearned revenue (note 5)		2,628,958
Long-term liabilities – due within one year:		
Compensated absences (note 6)		172,294
Total current liabilities		3,099,482
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)		518,962
Net other post-employment benefits liability (note 7)		979,577
Net pension liability (note 8)		10,094,423
Total non-current liabilities		11,592,962
Total liabilities		14,692,444
Deferred inflows of resources:		
Deferred other post-employment benefits inflows (note 7)		18,639
Deferred pension inflows (note 8)		1,665,554
Total deferred inflows of resources		1,684,193
Net position:		
Net investment in capital assets (note 9)		2,198,040
Restricted (note 10)		4,056,980
Unrestricted (note 11)		(5,371,991)
Total net position	$	883,029

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Statement of Activities
For the Fiscal Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services: Application and Permit Fees	Program Revenues: Charges for Services: Management Contract Antelope Valley AQMD	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes in Net Position
Governmental activities					
General	$ 6,972,421	4,534,689	1,276,830	2,762,067	1,601,165
Mobile emission program AB 2766	831,699	-	-	640,934	(190,765)
Carl Moyer program	137,789	-	-	73,184	(64,605)
Capital outlay	130,622	-	-	-	(130,622)
Total governmental	$ 8,072,531	4,534,689	1,276,830	3,476,185	1,215,173

General revenues:	
Fines, forfeitures, and penalties	$ 197,716
Investment earnings	72,905
Other revenue	1,541
Transfers out to OPEB Trust	(23,203)
Transfers out to Pension Trust	(500,000)
Total general revenues	(251,041)
Change in net position	964,132
Net position – beginning of year	523,790
Prior period adjustment	(604,893)
Net position – beginning of year, as restated (note 12)	(81,103)
Net position – end of year	$ 883,029

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Balance Sheet – Governmental Funds
June 30, 2018

		General Fund	Mobile Emissions Program AB 2766 Fund	Carl Moyer Fund	Total Fund
Assets:					
Cash and cash equivalents	$	1,967,848	-	-	1,967,848
Restricted cash and cash equivalents		-	2,958,598	1,098,382	4,056,980
Accounts receivable		2,319,421	113,586	-	2,433,007
Due from California Air Resources Board		-	-	1,544,294	1,544,294
Due from fiduciary fund (note 3)		9,593	-	-	9,593
Due from other funds (note 3)		60,000	-	127,659	187,659
Prepaids		10,150	-	-	10,150
Total assets	$	4,367,012	3,072,184	2,770,335	10,209,531
Liabilities:					
Accounts payable	$	73,151	-	116,957	190,108
Accrued payroll and related expenses		103,401	-	-	103,401
Due to California Air Resources Board		-	4,721	-	4,721
Due to other fund (note 3)		127,659	60,000	-	187,659
Unearned revenue (note 5)		6,049	-	2,622,909	2,628,958
Total liabilities		310,260	64,721	2,739,866	3,114,847
Fund balance:					
Restricted:					
Mobile emissions program AB 2677		-	3,007,463	-	3,007,463
Carl Moyer		-	-	30,469	30,469
Nonspendable:					
Prepaids		10,150	-	-	10,150
Committed:					
Operating reserves		700,000	-	-	700,000
Building improvement reserves		200,000	-	-	200,000
Legal and litigation reserves		300,000	-	-	300,000
Retirement reserves		1,000,000	-	-	1,000,000
Assigned:					
Budget stabilization		250,000	-	-	250,000
Compensated absences		150,000	-	-	150,000
Unassigned		1,446,602	-	-	1,446,602
Total fund balance		4,056,752	3,007,463	30,469	7,094,684
Total liabilities and fund balance	$	4,367,012	3,072,184	2,770,335	10,209,531

Continued on next page

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2018

Reconciliation:

Total Fund Balances of Governmental Funds		$ 7,094,684
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 amoung the assets of the District as a whole.		
Capital assets, net		2,198,040
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.	$ 1,417,654	
Recognized net difference between projected and actual earnings on pension plan investments are reported as deferred outflows of resources in the government-wide financial statements.	366,518	
Recognized net changes in assumptions for the pension plan are reported as deferred outflows of resources in the government-wide financial statements.	2,579,612	
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.	675,970	5,039,754
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		(691,256)
Net other post-employment benefits liability		(979,577)
Net pension liability		(10,094,423)
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.	(1,079,896)	
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.	(585,658)	(1,665,554)
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.	(8,295)	
Recognized net changes in assumptions for the OPEB plan are reported as deferred inflows of resources in the government-wide financial statements.	(10,344)	(18,639)
Total adjustments		(6,211,655)
Net Position of Governmental Activities		$ 883,029

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2018

	General Fund	Mobile Emissions Program AB 2766 Fund	Carl Moyer Fund	Total Fund
Revenues:				
Program revenues:				
Charges for services:				
Application and permit fees	$ 4,534,689	-	-	4,534,689
Management contract – Antelope Valley AQMD (note 13)	1,276,830	-	-	1,276,830
Total charges for services	5,811,519	-	-	5,811,519
Operating grants:				
Assembly Bill 2766	961,401	640,934	-	1,602,335
State grants	1,398,439	-	73,184	1,471,623
State subvention	137,896	-	-	137,896
Federal grants	168,917	-	-	168,917
California Clean Air Act	67,452	-	-	67,452
Other programs	27,962	-	-	27,962
Total operating grants	2,762,067	640,934	73,184	3,476,185
Total program revenues	8,573,586	640,934	73,184	9,287,704
General revenues:				
Fines, forfeitures, and penalties	197,716	-	-	197,716
Investment earnings	17,430	43,797	11,678	72,905
Other revenue	1,541	-	-	1,541
Total general revenues	216,687	43,797	11,678	272,162
Total revenues	8,790,273	684,731	84,862	9,559,866
Expenditures:				
Salaries and benefits	4,843,246	-	-	4,843,246
Services and supplies	928,675	137	116,957	1,045,769
Contributions	95,041	831,562	20,832	947,435
Capital outlay	130,622	-	-	130,622
Total expenditures	5,997,584	831,699	137,789	6,967,072
Excess(deficiency) of revenue over expenditures	2,792,689	(146,968)	(52,927)	2,592,794
Other financing sources(uses):				
Transfers out – OPEB Trust (note 3)	(23,203)	-	-	(23,203)
Transfers out – Pension Trust (note 3)	(500,000)	-	-	(500,000)
Net change in fund balance	2,269,486	(146,968)	(52,927)	2,069,591
Fund balance – beginning of year	2,392,159	3,154,431	83,396	5,629,986
Prior period adjustment	(604,893)	-	-	(604,893)
Fund balance – beginning of year, as restated (note 12)	1,787,266	3,154,431	83,396	5,025,093
Fund balance – end of year	$ 4,056,752	3,007,463	30,469	7,094,684

Continued on next page

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018

Reconciliation:

Net Changes in Fund Balances – Total Governmental Funds	$	2,069,591
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		130,622
Depreciation expense		(315,950)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenses in governmental funds as follows:		
Net change in compensated absences for the current period		(26,804)
Net change in other post-employement benefit obligations for the current period		(684,206)
Net change in pension obligations for the current period		(209,121)
Change in Net Position of Governmental Activities	$	964,132

See accompanying notes to the basic financial statements

Mojave Desert Air Quality Management District
Statement of Net Position – Fiduciary Fund
Other Post-Employment Benefits
June 30, 2018

		Other Post-Employment Benefits (OPEB) Trust Fund
Assets:		
Cash in trust	$	611,196
Total assets		611,196
Liabilities:		
Due to general fund		9,593
Total liabilities		9,593
Net position:		
Restricted – held in trust for OPEB benefits		601,603
Total net position	$	601,603

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, 2018. (Please see note 7 for further information.)

Mojave Desert Air Quality Management District
Statement of Changes in Net Position – Fiduciary Fund
Other Post-Employment Benefits
For the Year Ended June 30, 2018

		Other Post-Employment Benefits (OPEB) Trust Fund
Additions:		
Investment income	$	47,929
Transfers in from general fund		23,203
Total additions		71,132
Deductions:		
Distributions		38,136
Payroll contract		42
Bank fees		1,639
Miscellaneous expense		3,001
Total deductions		42,818
Net change in net position		28,314
Net position – beginning of period		573,289
Net position – end of period	$	601,603

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, 2018. (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, 2018

		Pension Benefits Trust Fund
Assets:		
Cash in trust	$	654,942
Total assets		654,942
Net position:		
Restricted – held in trust for pension benefits		654,942
Total net position	$	654,942

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, 2018. This is due to differences between the Plan's measurement date of June 30, 2017 and the Trust funds' reporting measurement of June 30, 2018. (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, 2018

		Pension Benefits Trust Fund
Additions:		
Transfer from General Fund	$	500,000
Contributions to trust		150,000
Investment income		5,699
Total additions		655,699
Deductions:		
Bank fees		757
Total deductions		757
Net change in net position		654,942
Net position – beginning of period		-
Net position – end of period	$	654,942

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, 2018. This is due to differences between the Plan’s measurement date of June 30, 2017 and the Trust funds’ reporting measurement of June 30, 2018. (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 charges for services directly related to the operations of the District. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes and other items, properly not included among program revenues, are reported instead as general revenues.

Fund Financial Statements

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

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

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

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

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

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

a) Total assets and deferred outflows of resources, liabilities and deferred inflows resources, revenues, or expenditures/expenses of that individual governmental, governmental special revenue, or fiduciary fund is at least 10 percent of the corresponding total for all funds of that category or type;

b) Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental, governmental special revenue, or fiduciary fund is at least 5 percent of the corresponding total for all governmental funds combined; or

c) The entity has determined that a fund is important to the financial statement user.

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

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

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

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

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

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

Other Post-Employment Benefits Trust Fund – this fund is 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 – this fund is 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:

Governmental Accounting Standards Board Statement No. 75

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

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

Governmental Accounting Standards Board Statement No. 81

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

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

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

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

C. Financial Reporting, continued

Governmental Accounting Standards Board Statement No. 85

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

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

D. Financial Statement Elements

1. Use of Estimates

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

2. Cash and Cash Equivalents

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

3. Investments and Investment Policy

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

- San Bernardino County Pooled Investments

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

4. Fair Value Measurements

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

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

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

D. Financial Statement Elements, continued

4. Fair Value Measurements, continued

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

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

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

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

5. Accounts Receivable

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

6. Prepaids

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

7. Internal Balances and Activities

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

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. The District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at acquisition value and/or historical cost at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

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

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

D. Financial Statement Elements, continued

9. Deferred Outflows of Resources

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

Pension

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

10. Unearned Revenue

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

11. Compensated Absences

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

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

For purposes of measuring the total OPEB liability and 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.

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

D. Financial Statement Elements, continued

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

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, 2018
- Measurement Period: July 1, 2017 to June 30, 2018

13. Pensions

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

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, 2016
- Measurement Date: June 30, 2017
- Measurement Period: July 1, 2016 to June 30, 2017

14. Deferred Inflows of Resources

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

Post-Employment Benefits Other Than Pensions (OPEB)

- Deferred inflow for the net difference in projected and actual earnings on investments of the pension plans fiduciary net position. This amount is amortized over a 5 year period.
- Deferred inflow for the net changes in assumptions which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

Pensions

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

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

D. Financial Statement Elements, continued

15. Net Position

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

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

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

Fund Balance Policy

The Governing Board 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.

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

D. Financial Statement Elements, continued

16. Fund Balance, continued

Fund Balance Policy, continued

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

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

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

17. 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:

		2018
Unrestricted cash and cash equivalents:		
General Fund	$	1,967,848
Total unrestricted cash and cash equivalents		1,967,848
Restricted cash and cash equivalents:		
Mobile Emissions Program AB 2766 Fund		2,958,598
Carl Moyer Fund		1,098,382
Total restricted cash and cash equivalents		4,056,980
Total cash and cash equivalents	$	6,024,828

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

		2018
Cash on hand	$	152,903
Deposits held with financial institutions		2,750,871
Deposits held with San Bernardino County Treasurer		3,121,054
Total	$	6,024,828

(2) Cash and Cash Equivalents, continued

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

	2018
San Bernardino County Investment Pool	353 days

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

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

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. At June 30, 2018, SBCIP is rated Fitch AAA/VI.

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.

(2) Cash and Investments, continued

Investment in San Bernardino County Investment Pool, continued

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code (Code) and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the District's bank balances, up to $250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

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

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

(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 and between the Carl Moyer fund and the General funds' advances to temporarily support the operations of each respective fund.

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

Receivable from	Payable to		2018
Fiduciary Fund	General Fund	$	9,593
Payable to General		$	9,593

Receivable from	Payable to		2018
AB2766 Fund	General Fund	$	60,000
General Fund	Carl Moyer Fund		127,659
	Total due to/from	$	187,659

For the year ended June 30, 2018, inter-fund transfers were utilized to transfer net position from the General fund to the Other Post-Employement Benefits (OPEB) Trust fund for the purpose of making contributions to the fund and for the purpose of establishing the District's Pension Benefits Trust fund sourcing from the General fund.

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

Transfer from	Transfer to		2018
General Fund	Other Post-Employment Benefits (OPEB) Trust Fund	$	23,203
General Fund	Pension Benefits Trust Fund	$	500,000

(4) Capital Assets

Changes in capital assets as of June 30 were as follows:

	Balance 2017	Adjustment	Additions/ Transfers	Deletions/ Transfers	Balance 2018
Non-depreciable assets:					
Land	$ 278,568	-	-	-	278,568
Total depreciable assets	278,568	-	-	-	278,568
Depreciable assets:					
Building and improvements	2,701,363	-	5,670	-	2,707,033
Equipment	3,414,790	(372,313)	75,800	-	3,118,277
Vehicles	197,402	-	49,152	-	246,554
Total depreciable assets	6,313,555	(372,313)	130,622	-	6,071,864
Accumulated depreciation:					
Building and improvements	(1,621,450)	-	(122,482)	-	(1,743,932)
Equipment	(2,423,492)	372,313	(178,539)	-	(2,229,718)
Vehicles	(163,813)	-	(14,929)	-	(178,742)
Total accumulated depreciation	(4,208,755)	372,313	(315,950)	-	(4,152,392)
Total depreciable assets, net	2,104,800	-	(185,328)	-	1,919,472
Total capital assets, net	$ 2,383,368				2,198,040

In the current year the District identified capital assets which were impaired of $372,313; however the assets had not been removed from the capital assets system. The assets were fully depreciated at disposal.

(5) Unearned Revenue

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

	Balance 2017	New Unearned/ Awards	Expenses/ Revenues	Balance 2018
General Fund				
BCS	$ -	2,333	-	2,333
Caltrans – Kramer Junction	-	3,716	-	3,716
Carl Moyer Fund – Grant Awards				
Round 17	463,914	-	(20,832)	443,082
Round 18	687,885	-	(52,352)	635,533
Round 19	751,590	-	-	751,590
Round 20	-	792,704	-	792,704
Total unearned revenue	$ 1,903,389	798,753	(73,184)	2,628,958

(6) Compensated Absences

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

Balance 2017	Earned	Taken	Balance 2018	Due Within One Year	Due in More Than One Year
$ 664,452	607,347	(580,543)	691,256	172,294	518,962

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

General Information about the OPEB Plan

Plan Description

The District pays a portion of the cost of health insurance for retirees, subject to certain restrictions as determined by the District. The Plan is open to qualified employees, who retire with a minimum of twenty (20) years of public service, of which, a minimum of ten years were served with the District.

Benefits Provided

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

Employees Covered by Benefit Terms

At June 30, 2018, the following employees were covered by the benefit terms:

	2018
Inactive employees or beneficiaries currently receiving benefit payments	16
Inactive employees entitled to but not receiving benefit payments	1
Active employees	23
Total Plan membership	40

Contributions

The Plan and its contribution requirements for eligible retired employees of the District are established and may be amended by the Board of Directors. The District pays 100% of its share of the cost of health insurance for retirees under any group plan offered by CalPERS, subject to certain restrictions as determined by the District. The District's cap is $133 per month which is adjusted for each year in accordance with California Government Code Section 22892. The annual contribution is based on the actuarially determined contribution.

As of the fiscal year ended June 30, the contributions were as follows:

	2018
Contributions – employer	$ 27,623

As of June 30 2018, employer pension contributions of $27,623 reported as deferred outflows of resources related to contributions subsequent to the measurement date were recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2018.

Net OPEB Liability

The District's total OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of June 30, 2018. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

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

Actuarial Assumptions

The net OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	3.50 percent
Discount rates	6.30% as of June 30, 2018 and June 30, 2017, for explicit costs 3.89% as of June 30, 2018, and 3.53% as of June 30, 2017, for implicit costs
Healthcare cost trend rates	7.50 percent per year
Retirees' share of benefit-related costs	100% percent of projected health insurance premiums for retirees at age 50 with a minimum 20 years of public service and a minimum of 10 years served with the District subject to subject to certain restrictions determined by the District.

Discount Rate

The discount rate used to measure the net OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates.

Changes in the Net OPEB Liability

		Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017	$	1,547,971	629,068	918,903
Changes for the year:				
Service cost		64,270	-	64,270
Interest		81,969	-	81,969
Expected investment income		-	37,559	(37,559)
Employer contributions		-	27,623	(27,623)
Expenses		-	(1,639)	1,639
Benefit payments		(91,784)	(91,784)	-
Assumption changes		(11,653)	-	(11,653)
Investment experience		-	10,369	(10,369)
Net changes		42,802	(17,872)	60,674
Balance at June 30, 2018	$	1,590,773	611,196	979,577

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

Sensitivity of the Total and 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 percent explicit rate / 2.89 percent implicit rate) or 1-percentage-point higher (7.30 percent explicit rate / 4.89 percent implicit rate) than the current discount rate:

		Discount Rate - 1% (5.30%) Explicit (2.89%) Implicit	Current Discount Rate (6.30%) Explicit (3.89%) Implicit	Discount Rate + 1% (7.30%) Explicit (4.89%) Implicit
District's Total OPEB liability	$	1,771,772	1,590,773	1,439,802
District's Net OPEB liability	$	1,160,576	979,577	828,606

Sensitivity of the Total and 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 healthcare cost trend rates that are 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current healthcare cost trend rates:

		1% Decrease (6.50%)	Healthcare Cost Trend Rates (7.50%)	1% Increase (8.50%)
District's Total OPEB liability	$	1,410,249	1,590,773	1,858,514
District's Net OPEB liability	$	799,053	979,577	1,247,318

For the year ended June 30, 2018, the District recognized OPEB expense of $106,936.

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

At June 30, 2018, the District reported no 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	$	-	(8,295)
Changes in assumptions		-	(10,344)
Total	$	-	(18,639)

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

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

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

Actuarially Determined Deferred (Inflows) - OPEB Plan

Fiscal Year Ending June 30:		Differences between Projected and Actual Earnings on Plan Investments	Changes in Assumptions	Net, Deferred (Inflows)
2019	$	(2,074)	(1,309)	(3,383)
2020		(2,074)	(1,309)	(3,383)
2021		(2,074)	(1,309)	(3,383)
2022		(2,073)	(1,309)	(3,382)
2023		-	(1,309)	(1,309)
Thereafter		-	(3,799)	(3,799)
Total	$	(8,295)	(10,344)	(18,639)

Schedule of Changes in the District's Net OPEB Liability and Related Ratios

See page 47 for the Required Supplementary Schedule.

(8) Defined Benefit Pension Plan

Plan Description

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

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

(8) Defined Benefit Pension Plan, continued

SBCERA is a legally separate entity from the District, not a component unit, and there is no financial interdependency with the County of San Bernardino. For these reasons, the District's financial statements exclude the SBCERA pension plan as of June 30, 2018. SBCERA publishes its own comprehensive annual financial report that includes its financial statements and required supplementary information, that can be obtained by writing SBCERA at, 348 W. Hospitality Lane, Third Floor, San Bernardino, CA 92415-0014 or visiting the website at: www.SBCERA.org.

Benefits Provided

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

The Plans' provision and benefits in effect at June 30, 2018, are summarized as follows:

	General Plan	
	Tier 1	**Tier 2**
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Final Average Compensation	Highest 12 months	Highest 36 months
Normal Retirement Age	Age 55	Age 55
Early Retirement: Years of service and/or age eligible for	Age 70 any years 10 years age 50 30 years any age	Age 70 any years 5 years age 52 N/A
Benefit percent per year of service for normal retirement age	2.0% per year of final average compensation for every year of	2.5% per year of final average compensation for every year of
Benefit adjustments	Reduced before age 55, increased after 55 up to age 65	Reduced before age 67
Final Average Compensation Limitation	Internal Revenue Code section 401(a)(17)	Government Code 7522.10
Required employee contribution rates	7.07% – 13.52%	6.37% – 7.88%
Required employer contribution rates	34.53%	30.09%

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

(8) Defined Benefit Pension Plan, continued

Contributions

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

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

Contribution Source		General Plan 2018
Contributions – employer	$	1,417,654

Net Pension Liability

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

Plan Description		Proportionate Share of Pension Liability 2018
General Plan	$	10,094,423

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's change in the proportionate share of the pension liability for the Plan as of the measurement dates June 30, 2016 and 2017, was as follows:

	General Plan
Proportional share – June 30, 2016	0.37500%
Proportional share – June 30, 2017	0.38300%
Change – Increase (Decrease)	0.00800%

For the year ended June 30, 2018, the District recognized pension expense of $1,626,775.

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

As June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		2018	
Description		**Deferred Outflows of**	**Deferred Inflows of**
Pension contributions subsequent to the measurement date	$	1,417,654	-
Net differences between projected and actual earnings on plan investments		366,518	-
Changes in assumptions		2,579,612	-
Differences between actual contribution and proportionate share of contribution		675,970	(585,658)
Differences between actual and expected experience		-	(1,079,896)
Total	$	5,039,754	(1,665,554)

As of June 30, 2018, the District reported $1,417,654, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

As of June 30, 2018, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

		General Plan
Fiscal Year Ending June 30:		**Deferred Outflows /(Inflows) of Resources**
2019	$	587,617
2020		734,890
2021		329,408
2022		(161,897)
2023		381,843
2024		84,685
Thereafter		-

(8) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The significant actuarial assumptions and methods used to measure the total pension liability as of June 30, 2018, are as follows:

Actuarial assumptions:	
Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll (3.75% payroll growth assumed)
Investment Rate of Return(1)	7.25%
Inflation	3.00%
Projected salary increases(2)	General: 4.50% to 14.50%
Administrative expenses	0.60% of payroll

(1) Includes inflation at 3.25% and is net of pension plan investment expenses.
(2) Includes inflation at 3.25%, plus real across the board salary increases of 0.50%, plus merit and promotional increases that vary by service.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the June 30, 2014, Review of Economic Assumptions and Actuarial Experience Study (experience study) which covered the periods from July 1, 2010 through June 30, 2013.

Discount Rate

The discount rate used to measure the total pension liability (TPL) was 7.25% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed employer and member contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments of 7.25% was applied to all periods of projected benefit payments to determine the TPL as of June 30, 2017.

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

(8) Defined Benefit Pension Plan, continued

Discount Rate

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

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
Cash & Equivalents	2.00	(0.17)
International Credit	11.00	6.75
Absolute Return	13.00	3.56
Real Assets	5.00	6.35
Private Equity	16.00	8.47
Total	100.00 %	

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

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

As of June 30, 2018, the discount rate comparison was the following:

	Discount Rate – 1% (6.25%)	Current Discount Rate (7.25%)	Discount Rate + 1% (8.25%)
District's Net Pension Liability – General Plan	$ 14,608,735	10,094,423	6,381,295

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 48 through 49 for the Required Supplementary Schedules.

Payable to the Pension Plan

As of June 30, 2018, the District reported no payables for the outstanding amount of contribution to the pension plan.

(9) Net Investment in Capital Assets

Net investment in capital assets is calculated as follows:

		2018
Net investment in capital assets:		
Capital assets – being depreciated, net	$	2,198,040
Total net investment in capital assets	$	2,198,040

(10) Restricted Net Position

Restricted net position is calculated as follows:

		2018
Restricted:		
Restricted cash and cash equivalent – Mobile Emissions Program (AB 2677)	$	2,958,598
Restricted cash and cash equivalent – Carl Moyer Fund		1,098,382
Total restricted	$	4,056,980

(11) Unrestricted Net Position

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

		2018
Unrestricted:		
Unfunded reserves	$	(7,982,141)
Prepaids		10,150
Operating cash reserve		700,000
Building improvement reserves		200,000
Legal and litigation reserves		300,000
Retirement reserves		1,000,000
Budget stabilization		250,000
Compensated absences		150,000
Total unrestricted	$	(5,371,991)

(12) Adjustment to Net Position

Other Post-employment Benefits (OPEB) – GASB 75 Implementation

In fiscal year 2018, the District implemented GASB pronouncements 74 and 75 to recognize its total other post-employment benefits (OPEB) liability. As a result of the implementation, the District recognized the OPEB liability and recorded a prior period adjustment, a (decrease) to net position, of $918,903 at July 1, 2017. The District recorded a prior period adjustment, an increase to net position, to reclassify from liabilities to net position, the prior year's OPEB liability, recognized in accordance with GASB 45, of $314,010 at July 1, 2017.

(12) Adjustment to Net Position

The adjustment to net position was as follows:

Net position at July 1, 2017, as previously stated	$	523,790
Effect of adjustment to record the net OPEB liability		(918,903)
Effect of adjustment to remove OPEB liability reported under GASB 45		314,010
Total adjustment to net position		(604,893)
Net position at July 1, 2017, as restated	$	(81,103)

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

		General Fund	Mobile Emissions Program AB 2766 Fund	Carl Moyer Fund	Total
Fund balance at July 1, 2017, as previously stated	$	2,392,159	3,154,431	83,396	5,629,986
Effect of adjustment to record total OPEB liability		(918,903)	-	-	(918,903)
Effect of adjustment to remove OPEB liability reported under GASB 45		314,010	-	-	314,010
Change in fund balance as of July 1, 2017, as previously stated		(604,893)	-	-	(604,893)
Fund balance at July 1, 2017, as restated	$	1,787,266	3,154,431	83,396	5,025,093

(13) Management Contract Revenue

Antelope Valley Air Quality Management District

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

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

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

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

Payment of costs is billed monthly at 1/12th of the annual contract amount. On the quarterly basis the District will reconcile actual costs. At June 30, 2018, the District reported management contract revenue of $1,276,830.

(14) Deferred Compensation Savings Plan

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by ING Aetna Financial Service, Inc. at June 30, 2018, was $5,532,035.

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

(15) Operating Leases

The District has entered into several operating leases with Enterprise FM Trust for the purpose of leasing vehicles. The operating leases call for monthly payments ranging from $3,654 to $4,443 through 2020. Future rent payments subsequent to year end are as follows:

Year ending June 30,		Amount
2019	$	13,270
2020		11,059
Total	$	24,329

At June 30, 2018, the District's rent expense amounted to $57,782.

(16) Risk Management

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

At June 30, 2018, the District participated in the liability and property programs of the SDRMA as follows:

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

(16) Risk Management, continued

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

Settled claims, if any, have not exceeded any of the coverage amounts in the last three fiscal years. There were no reductions in insurance coverage in fiscal year years ending June 30, 2018, 2017, and 2016. 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, 2018, 2017, and 2016.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2018, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 83

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) and 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.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2018. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 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 provisions of this Statement are effective for reporting periods beginning after December 15, 2018. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

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

Governmental Accounting Standards Board Statement No. 86

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

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 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 provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* The 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.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

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

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. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 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

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

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. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

(18) Commitments and Contingencies

Grant Awards

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

Litigation

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

(19) Subsequent Events

Events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of February 25, 2019, which is the date the financial statements were available to be issued. The District is not aware of any further subsequent events that would require recognition or disclosure in the financial statements.

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Required Supplementary Information

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Mojave Desert Air Quality Management District
Schedule of Changes in the District's Net OPEB Liability and Related Ratios
As of June 30, 2018
Last Ten Fiscal Years*

		2018
To Total OPEB Liability		
Service cost	$	64,270
Interest		81,969
Changes in assumptions		(11,653)
Benefit payments		(91,784)
Net change in total OPEB liability		42,802
Total OPEB liability – beginning		1,547,971
Total OPEB liability – ending	$	1,590,773
Plan Fiduciary Net Position		
Contributions employer	$	27,623
Net investment income		47,928
Benefit payments		(91,784)
Expenses		(1,639)
Net change in plan fiduciary net position		(17,872)
Plan fiduciary net position – beginning		629,068
Plan fiduciary net position – ending	$	611,196
Net OPEB liability – ending	$	979,577
Covered payroll	$	6,008,949
Net OPEB liability as a percentage of covered payroll		16.30%

Notes:

* 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, 2018
Last Ten Fiscal Years*

Description		Fiscal Year 2017-2018	Fiscal Year 2016-2017	Fiscal Year 2015-2016	Fiscal Year 2014-2015	Fiscal Year 2013-2014
District's Proportion of the Net Pension Liability		0.38300%	0.37500%	0.40100%	0.41900%	0.38200%
District's Proportionate Share of the Net Pension Liability	$	10,094,423	9,252,237	7,782,355	7,124,444	7,580,519
District's Covered-Employee Payroll	$	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-Employee Payroll		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		69.07%	67.94%	71.93%	71.93%	68.36%

Notes:

***Changes in Benefit Terms* –** For the measurement date June 30, 2017, there were no changes in the benefit terms.

***Changes of Assumptions* –** For the measurement date June 30, 2017, the discount rate was reduced from 7.50% percent to 7.25%

***** 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, 2018
Last Ten Fiscal Years*

Schedule of Pension Plan Contributions:		Fiscal Year 2017-2018	Fiscal Year 2016-2017	Fiscal Year 2015-2016	Fiscal Year 2014-2015	Fiscal Year 2013-2014
Actuarially Determined Contribution	$	1,324,459	1,326,230	1,167,928	898,449	1,086,330
Contributions in Relation to the Actuarially Determined Contribution		(1,417,654)	(1,328,520)	(1,312,568)	(898,449)	(1,086,330)
Contribution Deficiency (Excess)	$	(93,195)	(2,290)	(144,640)	-	-
Covered Payroll	$	4,139,787	4,122,720	3,918,233	3,852,547	3,454,500
Contribution's as a percentage of Covered-employee Payroll		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, 2018

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:					
Program revenues:					
Charges for services:					
Application and permit fees	$ 4,481,000	-	4,481,000	4,534,689	53,689
Management contract – AVAQMD	1,313,050	-	1,313,050	1,276,830	(36,220)
Operating grants:					
Assembly Bill 2766	951,600	-	951,600	961,401	9,801
State grants	266,172	-	266,172	1,398,439	1,132,267
State subvention	138,000	-	138,000	137,896	(104)
Federal grants	132,900	-	132,900	168,917	36,017
California Clean Air Act	66,000	-	66,000	67,452	1,452
Other programs	24,000	-	24,000	27,962	3,962
Total program revenues	7,372,722	-	7,372,722	8,573,586	1,200,864
General revenues:					
Fines, forfeitures, and penalties	82,000	-	82,000	197,716	115,716
Investment earnings	12,000	-	12,000	17,430	5,430
Other revenue	-	-	-	1,541	1,541
Total program revenues	94,000	-	94,000	216,687	122,687
Total revenues	7,466,722	-	7,466,722	8,790,273	1,323,551
Expenditures:					
Salaries and benefits	6,251,851	-	6,251,851	4,843,246	1,408,605
Services and supplies	861,771	-	861,771	928,675	(66,904)
Contributions	90,500	-	90,500	95,041	(4,541)
Capital outlay	200,500	-	200,500	130,622	69,878
Total expenditures	7,404,622	-	7,404,622	5,997,584	1,407,038
Excess(deficiency) of revenue over expenditures	62,100	-	62,100	2,792,689	2,730,589
Other Financing sources:					
Transfers out – OPEB Trust	-	-	-	(23,203)	(23,203)
Transfers out – Pension Trust	-	-	-	(500,000)	(500,000)
Net change in fund balance	62,100	-	62,100	2,269,486	2,207,386
Fund balance – beginning of year, as restated	1,787,266		1,787,266	1,787,266	
Fund balance – end of period	$ 1,849,366		1,849,366	4,056,752	

Mojave Desert Air Quality Management District
Budget Comparison Schedule – Mobile Emissions Program (AB 2766)
For the Year Ended June 30, 2018

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:					
Program revenues:					
Operating grants:					
Assembly Bill 2766	$ 604,400	-	604,400	640,934	36,534
General revenues:					
Investment earnings	21,000	-	21,000	43,797	22,797
Total revenues	625,400	-	625,400	684,731	59,331
Expenditures:					
Services and supplies	-	-	-	137	(137)
Contributions	781,000	-	781,000	831,562	(50,562)
Total expenditures	781,000	-	781,000	831,699	(50,699)
Net change in fund balance	(155,600)	-	(155,600)	(146,968)	(8,632)
Fund balance – beginning of year	3,154,431		3,154,431	3,154,431	
Fund balance – end of period	$ 2,998,831		2,998,831	3,007,463	

Mojave Desert Air Quality Management District
Budget Comparison Schedule – Carl Moyer Fund
For the Year Ended June 30, 2018

		Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:						
Program revenues:						
Operating grants	$	710,008	-	710,008	73,184	(636,824)
General revenues:						
Investment earnings		3,900	-	3,900	11,678	7,778
Total revenues		713,908	-	713,908	84,862	(629,046)
Expenditures:						
Services and supplies		94,120	-	94,120	116,957	(22,837)
Contributions		615,888	-	615,888	20,832	595,056
Total expenditures		710,008	-	710,008	137,789	572,219
Excess(deficiency) of revenue over expenditures		3,900	-	3,900	(52,927)	(56,827)
Net change in fund balance		3,900	-	3,900	(52,927)	(56,827)
Fund balance – beginning of year		83,396		83,396	83,396	
Fund balance – end of period	$	87,296		87,296	30,469	

Budgets and Budgetary Data

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

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

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Report on Compliance and Internal Controls

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governing Board
Mojave Desert Air Quality Management District
Victorville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Mojave Desert Air Quality Management District (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated .

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Mojave Desert Air Quality Management District's Response to Findings

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

Purpose of this Report

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

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
February 25, 2019