

**ANTELOPE VALLEY AIR QUALITY
MANAGEMENT DISTRICT**

**COUNTY OF LOS ANGELES
LANCASTER, CALIFORNIA**

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2012**

**BURKEY COX EVANS & BRADFORD
Accountancy Corporation
1058 West Avenue M-14, Suite B
Palmdale, CA 93551**

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
DISTRICT SUMMARY, GOVERNING BOARD AND PERSONNEL
JUNE 30, 2012**

DISTRICT SUMMARY

The Antelope Valley Air Quality Management District was created pursuant to Health and Safety Code Section 40106 and became operational on July 1, 1997. The District has the primary responsibility for the control of air pollution from all sources other than vehicles within its jurisdiction. The Antelope Valley Air Quality Management District contracted with the Mojave Desert Air Quality Management District to provide air pollution control services for all aspects of administration and operation.

GOVERNMENT

The Antelope Valley Air Quality Management District Governing Board consists of seven members:

- Two members of the City of Lancaster City Council as appointed by the City Council
- Two members of the City of Palmdale City Council as appointed by the City Council
- Two persons appointed by the Los Angeles County Board of Supervisors who represent a majority of the population of the District
- One public member appointed by the members above

As of June 30, 2012, the Governing Board consisted of the following:

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>REPRESENTED AREA</u>
Marvin Crist	Chair	City of Lancaster
Mike Dispenza	Vice Chair	City of Palmdale
Ron Hawkins	Member	County District Supervisor Appointment
Vern Lawson	Member	County District Supervisor Appointment
James Ledford	Member	City of Palmdale
Ken Mann	Member	City of Lancaster
Newton Chelette	Member	Public Member

CONTRACTED SERVICES

Eldon Heaston - Executive Director / Air Pollution Control Officer

Bret Banks - Operations Manager

Michele Baird - Clerk of the Board

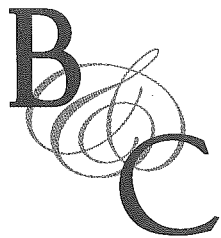
Karen K. Nowak - District Counsel

Jean Bracy - Director of Administrative Services

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
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FINANCIAL INFORMATION



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MARTHA J. WILLEY, CPA

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Governing Board
Antelope Valley Air Quality Management District
Lancaster, California

We have audited the accompanying financial statements of the governmental activities, general fund, and the aggregate remaining fund information of Antelope Valley Air Quality Management District (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, general fund, and the aggregate remaining fund information of Antelope Valley Air Quality Management District, as of June 30, 2012, and the respective changes in financial position and thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012, on our consideration of Antelope Valley Air Quality Management 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**BURKEY COX
EVANS & BRADFORD**

ACCOUNTANCY CORPORATION

Antelope Valley Air Quality Management District

Page 2

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and pages 27 through 30, 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.

Burkey Cox, CPAs
BURKEY COX EVANS & BRADFORD
Accountancy Corporation

Palmdale, California
October 19, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. Please read this in conjunction with the basic financial statements.

A. Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,596,999 (*total net assets*). Of this amount \$525,270 (*unrestricted*) may be used to finance the District's day-to-day operations without constraints established by legal requirements. However, \$300,000 of that amount is designated as Committed Fund Balance for Operating Cash Reserves.

The District's governmental funds reported total fund balances of \$3,292,410 for the year; \$225,270 represented the unassigned fund balance.

B. Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements have three components: 1) Government-wide Financial Statements; 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements. The District's report also includes required supplementary information to the basic financial statements.

In general, the purpose of financial reporting is to provide the external parties that read the financial statements with information that will help them make decisions or draw conclusions about an entity. In order to address the needs of as many parties as reasonably possible, the District, in accordance with required reporting standards, presents government-wide financial statements and fund financial statements.

Government-wide Financial Statements

The focus of government wide financial statements is the overall financial position and activities of the District. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to commercial enterprises or a private-sector business. These financial statements include the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets reports all assets held and liabilities owed by the District on a full accrual basis. The difference between the two is reported as *net assets*. This difference is comparable to the total stockholders' equity presented by a commercial enterprise. Over time, increases or decreases in net assets may serve as a useful indicator or whether the financial position of the District is improving or deteriorating.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

The Statement of Activities reports the net cost of the District's activities by program and is prepared on the full accrual basis. Revenues and expenses are recognized as earned and incurred even though they may not have been received or paid in cash.

The focus of the Statement of Activities is the cost of various program activities performed by the District. The statement begins with a column that identifies the cost of each of the District's major programs. Another set of columns identifies the revenues that are specifically related to these activities. The difference between the expenses and the revenues related to specific program activities represents the net cost of benefit of the program activity.

The District's government-wide financial statements are presented on pages 8 to 9 of this report.

Fund Financial Statements

The focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. These financial statements are presented on pages 10 to 13 of this report.

Governmental Funds

The fund financial statements consist of the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance. These are prepared on the modified accrual basis of accounting. The government-wide financial statements are prepared on the full accrual basis.

In general, these financial statements under the modified accrual basis have a short-term emphasis and for the most part, measure and account for cash and receivables collectible within a very short period of time, as reported on the balance sheet. The capital assets such as land and buildings are not reported.

Fund liabilities include amounts that are to be paid within a very short period of time after the end of the fiscal year. The long-term liabilities are not included. The difference between a fund's total assets and total liabilities are not included. The difference between a fund's total assets and total liabilities represents the fund balance. The unreserved portion of the fund balance indicates the amount available to finance future activities.

The operating statements for governmental funds report only those revenues and expenditures that were collected in cash or paid with cash during the current period or very shortly after the end of the year.

The District's Balance Sheet is presented on page 10 and Statement of Revenues, Expenditures, and Changes in Fund Balances is presented on page 12 of this report.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

The focus of the fund financial statement is narrower than that of the government-wide financial statements. Since different accounting bases are used to prepare the above statements, reconciliation is required to facilitate the comparison between the fund statements and the government-wide statements. The reconciliation between the total fund balances can be found on page 13 of this report.

The reconciliation of the total changes in fund balances for all governmental funds to the change in net assets can be found on page 11 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to the 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 14 to 26 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the budgetary comparison schedule and budgetary reconciliation.

C. Government-Wide Financial Analysis

Our analysis focuses on the net assets and the changes in net assets of the District's governmental activities.

The following schedule is a condensed Statement of Net Assets as of the year ending June 30, 2012, as compared to the prior year.

	<u>6/30/2012</u>	<u>6/30/2011</u>
Total Assets	\$4,351,816	\$4,029,465
Total Liabilities	<u>(754,817)</u>	<u>(859,194)</u>
Net Assets	\$3,596,999	\$3,170,271

At the close of the most recent fiscal year, the District's assets exceeded liabilities by \$3,596,999

Of the District's net assets, (15%) is unrestricted, and unreserved, and may be used to meet the District's ongoing obligations in carrying out day-to-day operations. Capital assets (8%) reflect the District's investment in capital assets used by the District (e.g. land, buildings, equipment, and vehicles). The District uses these capital assets in carrying out its mission of protecting public health while being sensitive to the economic needs of local businesses. Consequently,

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

these assets are not available for future spending. The remaining portion of the District's net assets (77%) is restricted. These funds are restricted to expenditures for specific purposes.

The following schedule is a condensed statement of Changes in Fund Balances as of fiscal year ending June 30, 2012, as compared to the prior year.

	<u>6/30/2012</u>	<u>6/30/2011</u>
Total Revenues	\$2,949,776	\$2,961,545
Total Expenditures	<u>(2,209,260)</u>	<u>(3,011,246)</u>
Change in Net Assets	\$740,516	(\$49,701)

Governmental Activities

The objective of the Statement of Activities is to report the full cost of providing government services for the year. The format also permits the reader to ascertain the extent to which each function is either self-financing or draws from the general funds of the District.

The Statement of Activities presents information showing how the District's net assets changed during fiscal year 2011-12. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

Fees, grants, state subvention, penalties, and settlements predominantly support the governmental programs of the District. The primary governmental activities of the District include the following: Permit Services and Enforcement, Mobile Source Emission Reduction Program, Public Education, Air Quality Analysis, and Air Monitoring.

D. Financial Analysis of the District's Funds

Governmental Funds

As of the end of the fiscal year, the District's Governmental Funds reported an ending balance of \$3,292,410, an increase of \$740,516 in comparison with the prior year. Approximately 93% of this fund balance (\$2,767,140) is restricted for specific purposes (grant programs). The long-term contractual commitments related to restricted programs often involve multiple-year spending. At the end of the fiscal year, the District's unassigned fund balance was \$225,270, an increase of \$5,893 in comparison with the prior year. The unassigned fund balance is 100% unrestricted.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

E. Capital Assets

The District's investment in capital assets is for its governmental activities. The book value was \$304,589 (net of accumulated depreciation of \$220,367) as of June 30, 2012. This investment in capital assets includes land, buildings, and improvements, equipment for air monitoring stations, computer and office equipment, video conferencing equipment and District vehicles.

Additional information on the capital assets can be found in the "Notes to Financial Statements," page 22 (Note 5) of this report.

F. Economic Factors and Next Year's Budget

The FY 2012-13 budget estimates appropriations totaling \$2,440,757 with sufficient funds to pay for those services; this is an increase of 1.86% from FY 2011-12 and includes continuing projects to help streamline government and regulatory functions. The District contracts all of its services from the Mojave Desert Air Quality Management District (MDAQMD). Under this contract, the MDAQMD will provide the full time equivalent (FTE) of 8 employees.

The AVAQMD is a service based agency in which program staff (salaries and benefits) will comprise 80% of the total expenditure budget. Revenues are projected to be \$2,259,890, a 2.24% increase over last year's projections.

G. Requests for Information

This financial report is designed to provide a general overview of the District's finances for readers of the financial statements. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Administrative Services, Antelope Valley Air Quality Management District, 43301 Division Street, Suite 206, Lancaster, CA 93535-4649.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 3,258,101
Receivables (net of allowances for uncollectibles)	789,126
Capital Assets (net of accumulated depreciation):	
Machinery and Equipment	<u>304,589</u>
Total Assets	<u>4,351,816</u>
LIABILITIES	
Accounts Payable and Other Current Liabilities	209,608
Deferred Revenue	<u>545,209</u>
Total Liabilities	<u>754,817</u>
NET ASSETS	
Invested in Capital Assets	304,589
Restricted for Special Programs	2,767,140
Unrestricted	<u>525,270</u>
Total Net Assets	<u><u>\$ 3,596,999</u></u>

See independent auditors' report and accompanying notes to financial statements.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
PRIMARY GOVERNMENT				
Governmental Activities:				
Public Safety:				
Services and Supplies	\$ 2,217,792	\$ 469,761	\$ 625,444	\$ (1,122,587)
Contributions to Other Participants	<u>305,257</u>	<u>64,658</u>	<u>86,086</u>	<u>(154,513)</u>
Total Governmental Activities	<u>2,523,049</u>	<u>534,419</u>	<u>711,530</u>	<u>(1,277,100)</u>
Total Primary Government	<u>\$ 2,523,049</u>	<u>\$ 534,419</u>	<u>\$ 711,530</u>	<u>(1,277,100)</u>
General Revenues:				
AB 2766 and Other Program Revenues				1,640,287
Unrestricted Investment Earnings				26,478
Miscellaneous				<u>37,062</u>
Total General Revenues				<u>1,703,827</u>
Change in Net Assets				426,727
Net Assets - Beginning of Year				<u>3,170,272</u>
Net Assets - End of Year				<u>\$ 3,596,999</u>

See independent auditors' report and accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General Fund	Mobile Emissions Program (AB 2766)	Mobile Emissions Program (AB 923)	Carl Moyer Program	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 515,951	\$ 1,578,261	\$ 975,490	\$ 188,399	\$ 3,258,101
Receivables (net of allowances for uncollectibles)	324,796	795	361	463,174	789,126
Due from Other Funds	70,224	83,334	92,759	-	246,317
Total Assets	<u>\$ 910,971</u>	<u>\$ 1,662,390</u>	<u>\$ 1,068,610</u>	<u>\$ 651,573</u>	<u>\$ 4,293,544</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable and Other					
Current Liabilities	\$ 32,305	\$ -	\$ -	\$ -	\$ 32,305
Payable to Related Parties	177,303	-	-	-	177,303
Due to Other Funds	176,093	-	-	70,224	246,317
Deferred Revenues	-	-	-	545,209	545,209
Total Liabilities	<u>385,701</u>	<u>-</u>	<u>-</u>	<u>615,433</u>	<u>1,001,134</u>
FUND BALANCES					
Nonspendable	-	-	-	-	-
Restricted	-	1,662,390	1,068,610	36,140	2,767,140
Committed	300,000	-	-	-	300,000
Assigned	-	-	-	-	-
Unassigned	225,270	-	-	-	225,270
Total Fund Balances	<u>525,270</u>	<u>1,662,390</u>	<u>1,068,610</u>	<u>36,140</u>	<u>3,292,410</u>
Total Liabilities and Fund Balances	<u>\$ 910,971</u>	<u>\$ 1,662,390</u>	<u>\$ 1,068,610</u>	<u>\$ 651,573</u>	<u>\$ 4,293,544</u>

See independent auditors' report and accompanying notes to financial statements.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

Total Fund Balances - Governmental Funds	\$ 3,292,410
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<p>Capital assets used or governmental activities are not financial resources and therefore are not reported as assets in Governmental Funds. The cost of the assets is \$524,956 and the accumulated depreciation is \$220,367.</p>	304,589
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All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the noncurrent portion of capital leases, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Long-term obligations that will be paid from governmental funds are not recognized as a current liability in the fund financial statements when due but rather recognized as an expense when paid.

Long-term liabilities, including all bonds, are not due and payable in the current period and therefore are not reported as liabilities in the funds. The District did not have any long-term liabilities at year end.

Total Net Assets - Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">\$ 3,596,999</div>
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ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Mobile Emissions Program (AB2766)	Mobile Emissions Program (AB923)	Carl Moyer Program	Total Governmental Funds
REVENUES					
Application and Permit Fees	\$ 525,569	\$ -	\$ -	\$ -	\$ 525,569
AB 2766 and Other Program Revenues	1,640,287	-	-	-	1,640,287
Grants	131,858	-	-	579,672	711,530
Fines	8,850	-	-	-	8,850
Investment Earnings	6,490	13,121	5,949	918	26,478
Miscellaneous	37,062	-	-	-	37,062
Total Revenues	2,350,116	13,121	5,949	580,590	2,949,776
EXPENDITURES					
Public Safety:					
Services and Supplies	1,203,497	-	-	597,327	1,800,824
Contributions to Other Participants	-	305,257	-	-	305,257
Capital Outlay					
Improvements and Equipment	103,179	-	-	-	103,179
Total Expenditures	1,306,676	305,257	-	597,327	2,209,260
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,043,440	(292,136)	5,949	(16,737)	740,516
Other Financing Sources (Uses)					
Operating Transfers In	-	491,470	546,078	-	1,037,548
Operating Transfers Out	(1,037,548)	-	-	-	(1,037,548)
Total Other Financing Sources (Uses)	(1,037,548)	491,470	546,078	-	-
Net Change in Fund Balances	5,892	199,334	552,027	(16,737)	740,516
Fund Balance - Beginning of Year	519,378	1,463,056	516,583	52,877	2,551,894
Fund Balance - End of Year	\$ 525,270	\$ 1,662,390	\$ 1,068,610	\$ 36,140	\$ 3,292,410

See independent auditors' report and accompanying notes to financial statements.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Total Net Change in Fund Balances - Governmental Funds	\$	740,516
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital Asset Additions	\$	103,178	
Capital Asset Disposals		(388,592)	
Current Year Depreciation		<u>(28,375)</u>	
	Total		<u>(313,789)</u>

Total Change in Net Assets - Governmental Activities	\$	<u>426,727</u>
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NOTES TO FINANCIAL STATEMENTS

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The basic financial statements of Antelope Valley Air Quality Management District (the District) include the accounts of all its operations. The Antelope Valley Air Quality Management District was created pursuant to Health and Safety Code Section 40106 and became operational on July 1, 1997. The District has the primary responsibility for the control of air pollution from all sources other than vehicles within its jurisdiction. The Antelope Valley Air Quality Management District contracted with the Mojave Desert Air Quality Management District to provide air pollution control services for all aspects of administration and operation.

The District's basic financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- the exclusion of the organization would result in misleading or incomplete financial statements

The Antelope Valley Air Quality Management District, for financial purposes, includes all funds relevant to the operations of the District. The Board of Directors has governance responsibilities over all activities related to the District. The District receives funding from local, county, state and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" since board members are elected officials appointed by their respective jurisdictions, or by an elected official, or by the sitting members of the governing board (Health and Safety Code 41310), and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has no component units or potential component units.

B. Basis of Presentation

Government-wide Financial Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through fees, intergovernmental revenues, and other non-exchange transactions.

ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all fees, are presented as general revenues.

Fund Financial Statements: Fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Mobile Emissions Program (AB2766) was established by the District to account for the retention of funds allocated for the support of the District's mobile emissions grant program.

Mobile Emissions Program (AB923) was established by the District to account for the retention of funds allocated for the support of the District's mobile emissions grant program.

Carl Moyer Program was established by the District to account for revenues received pursuant to the Carl Moyer Memorial Air Quality Standards Attainment Program. Expenditures are restricted to providing incentive for participating entities to undertake reduced-emission heavy-duty engine projects.

C. Basis of Accounting and Measurement Focus

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include fees, grants, entitlements, and donations. On an accrual basis, revenue from fees is recognized in the fiscal year for which the fees are charged. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.

ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting and Measurement Focus (Continued)

Revenues from local sources consist primarily of permit fees and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, and then unrestricted resources.

D. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Investments are reported at fair value (generally based on quoted market prices) except for the position in the Los Angeles County Investment Pool. The District adopted an investment policy directing management to deposit funds in financial institutions. 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.

3. Inventories and Prepaid Items

The District records purchases of supplies as expenditures utilizing the purchase method of accounting for inventory.

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

ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets/Fund Balance (Continued)

4. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$1,000. Donated assets are recorded at estimated fair market value 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:

<u>Description</u>	<u>Estimated Useful Lives</u>
Buildings	20 - 50 years
Building and Improvements	20 years
Vehicles	5 years
Equipment	15 - 20 years
Computer Equipment	3 - 15 years

5. Accounts Receivable

Accounts receivable are deemed by management to be fully collectible at June 30, 2012, and therefore no allowance for doubtful accounts has been established.

6. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures of expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfer in and transfers out are netted and presented as a single "transfers" line on the government-wide statement of activities.

7. Fund Balance Reserves and Designations

Restricted Fund Balance The portion of fund balance representing resources subject to externally imposed and legally enforceable constraints imposed either by external resource providers, e.g., grantors or creditors, or by law through constitutional provisions or enabling legislation.

Mobile Emissions Reduction Grant (AB2766) These funds are collected on motor vehicle registrations (\$4 each) in the Antelope Valley region. Funds are allocated on a competitive basis to local government entities and other organizations capable of effectively using funds to reduce mobile emissions. A Work Plan adopted by the Governing Board provides the grant program guidelines.

Incentive Based Emission Reduction Funding (AB 923) These funds are collected on motor vehicle registrations (\$2 each) in the Antelope Valley region beginning October 1, 2005. Funds are granted by the Governing Board for specific projects as set forth in the Health and Safety Code Section 44229.

ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets/Fund Balance (Continued)

7. Fund Balance Reserves and Designations (Continued)

Carl Moyer Grant Program Funds These funds may be distributed by the California Air Resources Board for projects obligated by the District under this state regulated program. Projects are awarded on a competitive basis.

Committed Fund Balance The portion of fund balance representing resources whose use is constrained by limitations self-imposed by the District through formal action of its highest level of decision-making authority. The constraints can be modified or removed only through the same process by which they were imposed. The action imposing the constraint must be made by the end of the reporting period. The actual amounts may be determined at a later date, prior to the issuance of the financial statements.

Operating Cash Reserves The amount is set equivalent to 25% of the operating expenses from the combined budget totals for Salaries and Benefits and Supplies and Services. The fund may be increased to provide protection against uncertain economic times.

Unassigned Fund Balance The portion of fund balance not classified as restricted or committed.

In all governmental funds including the general fund, the excess of non-spendable, restricted, and committed fund balance over total fund balance (deficits), assigned amounts must be reduced or estimated if a deficit exists.

E. Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses, as appropriate, during the reporting period. Actual results could differ from those estimates.

F. Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain comments from those subject to District fees.
3. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the Governing Board.

Once a budget is approved, it can be amended only by approval of a majority of the members of the Governing Board. As required by law, such amendments are made before the fact, reflected in the official minutes of the Governing Board and not made after fiscal year end. During the year, the budget was amended as necessary. Budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts are as originally adopted; individual amendments were not material in relation to the original budget.

ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 – CASH AND INVESTMENTS

Cash and investments consisted of the following at June 30, 2012:

	Unrestricted	Restricted			
	General	Mobile Emissions	Mobile Emissions	Carl	
	Fund	Program (AB2766)	Program (AB923)	Moyer	Total
Pooled Investments	\$ 515,951	\$ 1,578,261	\$ 975,490	\$ 188,399	\$ 3,258,101
Total	\$ 515,951	\$ 1,578,261	\$ 975,490	\$ 188,399	\$ 3,258,101

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

The following table identifies the investment types that are authorized by the District in accordance with the California Government Code or the District's investment policy, where more restrictive. The table also identifies certain provisions of the California Government Code or the District's investment policy, where more restrictive that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio *	Maximum Investment in One Issuer
State and Local Agency Bonds	5 years	100%	None
U.S. Treasury Notes	5 years **	100%	None
Federal Agency Obligations	5 years **	100%	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	40%	10%
Non-negotiable Certificates of Deposit	1 year	30%	None
Negotiable Certificates of Deposit	5 years	30%	None
Medium-Term Notes	5 years	30%	None
Repurchase Agreements	30 days	100%	None
Money Market Funds	N/A	20%	None
California Local Agency Investment Fund (LAIF)	N/A	100%	10%

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions

** Except when authorized by the District's legislative body in accordance with Government Code Section 53601

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools such as the State of California (LAIF) and Kern County Investment Pools.

ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 – CASH AND INVESTMENTS (Continued)

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the 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.

Investment in Los Angeles County Investment Pool

The District is a voluntary participant in the Los Angeles County Investment Pool that is regulated by the California Government Code under the oversight of the Treasurer of the County of Los Angeles. 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 Los Angeles County for the entire Los Angeles County portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by Los Angeles County, which are recorded on an amortized cost basis.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date.

Investments at June 30, 2012, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Fair Value Adjustment</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>	
				<u>12 months or less</u>	<u>Over 12 months</u>
Los Angeles County Investment Pool - Unrestricted	\$ 521,126	\$ 5,175	\$ 515,951	\$ 308,642	\$ 207,309
Los Angeles County Investment Pool - Restricted - Mobile Emission AB 2766	1,594,092	15,831	1,578,261	944,116	\$ 634,145
Los Angeles County Investment Pool - Restricted - Mobile Emission AB 923	985,275	9,785	975,490	583,538	\$ 391,952
Los Angeles County Investment Pool - Restricted - Carl Moyer	190,289	1,890	188,399	112,700	\$ 75,699
Total	<u>\$ 3,290,782</u>	<u>\$ 32,681</u>	<u>\$ 3,258,101</u>	<u>\$ 1,948,996</u>	<u>\$ 1,309,105</u>

* Due to the immaterial nature of the Fair Value Adjustment, the Los Angeles County Investment Pool balances are reflected at their carrying amount in the financial statements.

ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 – CASH AND INVESTMENTS (Continued)

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. Presented below is the minimum rating required by, where applicable, the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type

Credit ratings as of June 30, 2012, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt from Disclosure</u>	<u>Ratings AAA</u>
Los Angeles County Investment Pool - Unrestricted	\$ 515,951	N/A	\$ 515,951	-
Los Angeles County Investment Pool - Restricted - Mobile Emission AB 2766	1,578,261	N/A	1,578,261	-
Los Angeles County Investment Pool - Restricted - Mobile Emission AB 923	975,490	N/A	975,490	-
Los Angeles County Investment Pool - Restricted - Carl Moyer	188,399	N/A	188,399	-
Total	<u>\$ 3,258,101</u>		<u>\$ 3,258,101</u>	

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The excess of expenditures over appropriations as of June 30, 2012 were as follows:

Carl Moyer Program	
Services and Supplies	\$ 139,895

NOTE 4 – ACCOUNTS RECEIVABLE

Receivables at June 30, 2012, consist of the following:

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Totals</u>
State Government:			
Department of Motor Vehicles	\$ 278,043	\$ 463,120	\$ 741,163
Total State	<u>278,043</u>	<u>463,120</u>	<u>741,163</u>
Local Government:			
Local Sources	46,753	-	46,753
Interest Receivable	-	1,210	1,210
Total Local	<u>46,753</u>	<u>1,210</u>	<u>47,963</u>
Total Accounts Receivable	<u>\$ 324,796</u>	<u>\$ 464,330</u>	<u>\$ 789,126</u>

ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5 – CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2012, are shown below:

	Balance July 01, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated				
Work in Progress	\$ 171,870	\$ 35,770	\$ 0	\$ 207,640
Total capital assets not being depreciated	<u>171,870</u>	<u>35,770</u>	<u>0</u>	<u>207,640</u>
Capital Assets being depreciated:				
Equipment	570,829	49,113	(388,592)	231,350
Vehicles	51,796	18,295	0	70,091
Improvements	15,875	0	0	15,875
Total capital assets being depreciated	<u>638,500</u>	<u>67,408</u>	<u>(388,592)</u>	<u>317,316</u>
<u>Less accumulated depreciation for:</u>				
Equipment	(168,499)	(17,356)	0	(185,855)
Vehicles	(22,170)	(9,431)	0	(31,601)
Improvements	(1,323)	(1,588)	0	(2,911)
Total accumulated depreciation	<u>(191,992)</u>	<u>(28,375)</u>	<u>0</u>	<u>(220,367)</u>
Total capital assets being depreciated, net	<u>446,508</u>	<u>39,033</u>	<u>(388,592)</u>	<u>96,949</u>
Governmental activities capital assets, net	<u>\$ 618,378</u>	<u>\$ 74,803</u>	<u>\$ (388,592)</u>	<u>\$ 304,589</u>

Depreciation was charged to functions as follows:

Public Safety - Other	\$ 28,375
Total Depreciation Expense	<u>\$ 28,375</u>

NOTE 6 – INTERFUND TRANSACTIONS

Due From / Due To Other Funds – All interfund balances are expected to be repaid within the next fiscal year and are considered ordinary in nature. The composition of interfund balances as of June 30, 2012, is as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 70,224	\$ 176,093
Mobile Emissions Program AB 2766	83,334	-
Mobile Emissions Program AB 923	92,759	-
Carl Moyer Program	<u>-</u>	<u>70,224</u>
Totals	<u>\$ 246,317</u>	<u>\$ 246,317</u>

ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 6 – INTERFUND TRANSACTIONS (Continued)

Transfers In / Transfers Out – Individual fund interfund transfers for the fiscal year ended June 30, 2012, were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
Mobile Emissions Fund (AB2766)	General Fund	\$ 491,470	To transfer mobile emissions program revenue to the mobile emissions fund. To transfer mobile emissions program
Mobile Emissions Fund (AB 923)	General Fund	<u>546,078</u>	revenue to the mobile emissions fund.
	Total	<u><u>\$ 1,037,548</u></u>	

NOTE 7 – RELATED PARTY TRANSACTIONS

The District reimburses Mojave Desert Air Quality Management District (MDAQMD) for the cost of providing administrative support. Amounts charged by MDAQMD are expensed during the period incurred. Amounts charged by MDAQMD and expensed during the year ended June 30, 2012, were \$1,059,817 and payable to MDAQMD as of June 30, 2012, was \$177,303.

NOTE 8 – LEASE OBLIGATIONS

The District has entered into operating leases for facilities and equipment as of June 30, 2012, that require payments extending for a period longer than twelve months. Future payments as of June 30, 2012, are as follows:

<u>Year Ending</u>	<u>Amount</u>
<u>June 30,</u>	
2013	\$ 44,627
2014	43,431
2015	<u>43,431</u>
Total	<u><u>\$ 131,489</u></u>

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year ended June 30, 2012, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for any of the past three fiscal years.

The District is a participant in the Special District Risk Management Authority (SDRMA) formed for the purpose of providing insurance to its member agencies.

ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 9 – RISK MANAGEMENT (Continued)

At June 30, 2012, SDRMA maintained general liability, automobile liability, property liability, and public officials' liability insurance coverage of \$5,000,000 per occurrence with \$500,000 self-insurance retention covered by a purchased policy. Inasmuch as SDRMA is acting as a broker obtaining low cost policies for its members, joint venture disclosure is not applicable.

NOTE 10 – DEFERRED REVENUE

The State of California Air Resources Board established the Carl Moyer Memorial Air Quality Standards Attainment Program to provide incentives for participating entities to undertake reduced-emission heavy-duty engine projects. The District applied for the Program and received funding under this program as follows:

	Round of Funding				Total
	XI	XII	XIII	XIV	
<u>Grant Funding</u>					
Amount Received to Date	\$ -	\$ 153,965	\$ 441,610	\$ 416,808	\$ 1,012,383
Amount Expended to Date	-	(87,000)	(441,610)	-	(528,610)
Total Grant Deferred	-	66,965	-	416,808	483,773
<u>Administrative Support Funding</u>					
Amount Received to Date	4,168	17,676	44,342	46,312	112,498
Amount Expended to Date	(4,168)	(15,832)	(31,062)	-	(51,062)
Total Administrative Deferred	-	1,844	13,280	46,312	61,436
Total Amount Deferred	\$ -	\$ 68,809	\$ 13,280	\$ 463,120	\$ 545,209

As of June 30, 2012, the District had identified and committed funds per grant requirements, but had not yet expended all of the program revenues. Since the District would be required to repay program revenue not used, the criteria for recognizing this program revenue as income is not met until District expenditures are actually made. The Carl Moyer Program income will be reflected as deferred revenue until the expenditures are made in subsequent periods.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

A. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

B. Litigation

The District may become involved in several matters of litigation that remain pending as June 30, 2012. The outcomes of these matters of litigation are uncertain as of June 30, 2012.

ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

C. State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

NOTE 12 – GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED, NOT YET EFFECTIVE

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2012, that have effective dates that may impact future financial presentation.

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after December 15, 2011. 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. 61

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, Omnibus*. This standard is designed to improve financial reporting for governmental entities amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments*. This statement is effective for financial statements for periods beginning after December 15, 2011. 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. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2011. 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. 64

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. This standard is designed to improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or swap counterparty's credit support provider is replaced. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this statement to the District's financial statements has not been assessed at this time.

ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 12 – GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED, NOT YET EFFECTIVE (Continued)

Governmental Accounting Standards Board Statement No. 65

The GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for financial statements for periods beginning after December 15, 2012. 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. 66

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

NOTE 13 – SUBSEQUENT EVENTS

The District had no reportable subsequent events as of the date of the auditors' report, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Application and Permit Fees	\$ 457,800	\$ 457,800	\$ 525,569	\$ 67,769
AB 2766 and Other Program Revenues	1,595,000	1,595,000	1,640,287	45,287
Grants and Donations	100,000	100,000	131,858	31,858
Fines	7,680	7,680	8,850	1,170
Investment Earnings	10,000	10,000	6,490	(3,510)
Miscellaneous	40,000	40,000	37,062	(2,938)
Total Revenues	2,210,480	2,210,480	2,350,116	139,636
EXPENDITURES				
Public Safety:				
Services and Supplies	2,268,931	2,268,931	1,203,497	1,065,434
Contributions to Other Participants	-	-	-	-
Capital Outlay:				
Improvements and Equipment	127,250	127,250	103,179	24,071
Total Expenditures	2,396,181	2,396,181	1,306,676	1,089,505
Excess (Deficiency) of Revenues Over (Under) Expenditures	(185,701)	(185,701)	1,043,440	1,229,141
OTHER FINANCING SOURCES (USES)				
Operating Transfers Out	(1,007,000)	(1,007,000)	(1,037,548)	30,548
Total Other Financing Sources (Uses)	(1,007,000)	(1,007,000)	(1,037,548)	30,548
Net Change in Fund Balances	(1,192,701)	(1,192,701)	5,892	1,198,593
Fund Balance - Beginning of Year	519,378	519,378	519,378	-
Fund Balance - End of Year	\$ (673,323)	\$ (673,323)	\$ 525,270	\$ 1,198,593

See independent auditors' report.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE - MOBILE EMISSIONS PROGRAM (AB2766)
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment Earnings	\$ -	\$ -	\$ 13,121	\$ 13,121
Total Revenues	-	-	13,121	13,121
EXPENDITURES				
Public Safety Services and Supplies	425,000	425,000	305,257	119,743
Total Expenditures	425,000	425,000	305,257	119,743
Excess (Deficiency) of Revenues Over (Under) Expenditures	(425,000)	(425,000)	(292,136)	132,864
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	477,000	477,000	491,470	14,470
Total Other Financing Sources (Uses)	477,000	477,000	491,470	14,470
Net Change in Fund Balances	52,000	52,000	199,334	147,334
Fund Balance - Beginning of Year	1,463,056	1,463,056	1,463,056	-
Fund Balance - End of Year	<u>\$ 1,515,056</u>	<u>\$ 1,515,056</u>	<u>\$ 1,662,390</u>	<u>\$ 147,334</u>

See independent auditors' report.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE - MOBILE EMISSIONS PROGRAM (AB923)
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Total Revenues	\$ -	\$ -	\$ 5,949	\$ 5,949
EXPENDITURES				
Public Safety Services and Supplies	500,000	500,000	-	500,000
Total Expenditures	500,000	500,000	-	500,000
Excess (Deficiency) of Revenues Over (Under) Expenditures	(500,000)	(500,000)	5,949	(494,051)
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	530,000	530,000	546,078	16,078
Total Other Financing Sources (Uses)	530,000	530,000	546,078	16,078
Net Change in Fund Balances	30,000	30,000	552,027	(477,973)
Fund Balance - Beginning of Year	516,583	516,583	516,583	-
Fund Balance - End of Year	\$ 546,583	\$ 546,583	\$ 1,068,610	\$ 522,027

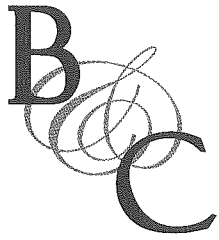
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**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE - CARL MOYER PROGRAM
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Grants and Donations	\$ 457,432	\$ 457,432	\$ 579,672	\$ 122,240
Investment Earnings	-	-	918	918
Total Revenues	457,432	457,432	580,590	123,158
EXPENDITURES				
Public Safety:				
Services and Supplies	457,432	457,432	597,327	(139,895)
Contributions to Other Participants	-	-	-	-
Total Expenditures	457,432	457,432	597,327	(139,895)
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(16,737)	(16,737)
Net Change in Fund Balances	-	-	(16,737)	(16,737)
Fund Balance - Beginning of Year	52,877	52,877	52,877	-
Fund Balance - End of Year	\$ 52,877	\$ 52,877	\$ 36,140	\$ (16,737)

See independent auditors' report.

OTHER INDEPENDENT AUDITORS' REPORT



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**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
Antelope Valley Air Quality Management District
Lancaster, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Antelope Valley Air Quality Management District (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Antelope Valley Air Quality Management District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Antelope Valley Air Quality Management District's financial statements are free of 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*.

**BURKEY COX
EVANS & BRADFORD**
ACCOUNTANCY CORPORATION

Antelope Valley Air Quality Management District
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This report is intended solely for the information and use of management, others within the District, and Board of Directors. However, this report is a matter of public record and its distribution is not limited.

Burkey Cox CPAs
BURKEY COX EVANS & BRADFORD
Accountancy Corporation

Palmdale, California
October 19, 2012