



**Antelope Valley Air Quality
Management District
Lancaster, California**

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



Governing Board as of June 30, 2017

Name	Title	Elected/ Public
Marvin Crist	Chair	Elected
Ron Hawkins	Vice Chair	Elected
Austin Bishop	Governing Board Member	Elected
Newton Chelette	Governing Board Member	Public
Steven Hofbauer	Governing Board Member	Elected
Vern Lawson	Governing Board Member	Elected
Ken Mann	Governing Board Member	Elected

**Antelope Valley Air Quality
Management District
43301 Division Street, Suite 206
Lancaster, California 93535
(661) 723-8070**

**Antelope Valley Air Quality
Management District**

Annual Financial Report

For the Fiscal Year Ended June 30, 2017

**Antelope Valley Air Quality
Management District
For the Fiscal Year Ended June 30, 2017**

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Financial Section

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Independent Auditor's Report

Governing Board
Antelope Valley Air Quality
Management District
Lancaster, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express our 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 Antelope Valley Air Quality Management District, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

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 26 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance. That report can be found on pages 31 and 32.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

March 20, 2018

**Antelope Valley Air Quality Management District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

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

Financial Highlights

- In 2017, the District’s net position increased by 12.53% or \$306,911 to \$2,756,617 as a result of ongoing operations.
- In 2017, the District’s total revenues increased 8.52% or \$296,704 to \$3,779,281, due primarily to increases of \$401,911 in operating grants and \$21,900 in general revenues; which was offset by a decrease of \$127,107 in charges for services.
- In 2017, the District’s total expenses decreased by 4.74% or \$172,614 to \$3,472,370, due primarily to decreases of \$302,473 in general fund expenses, \$138,971 in mobile emissions program (AB 2766) expenses, and \$46,329 in mobile emissions program (AB 923) expenses; which was offset by an increase of \$315,159 in Carl Moyer program expenses.

Using This Financial Report

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

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

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

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

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

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

Fund Financial Statements

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

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 12 through 25.

Government-wide Financial Analysis

Statements of Net Position

The following table is a summary of the statements of net position at June 30, 2017 and 2016.

Condensed Statements of Net Position

	2017	2016	Change
Assets:			
Current assets	\$ 3,588,818	3,561,796	27,022
Capital assets, net	306,228	350,947	(44,719)
Total assets	3,895,046	3,912,743	(17,697)
Liabilities:			
Current liabilities	1,138,429	1,463,037	(324,608)
Total liabilities	1,138,429	1,463,037	(324,608)
Net position:			
Net investment in capital assets	306,228	350,947	(44,719)
Restricted	2,170,264	1,454,349	715,915
Unrestricted	280,125	644,410	(364,285)
Total net position	\$ 2,756,617	2,449,706	306,911

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

Government-wide Financial Analysis, continued

Statements of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$2,756,617 as of June 30, 2017. The District's total net position is made-up of three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

Statements of Activities

The following table is a summary of the statements of activities for the year ended June 30, 2017 and 2016.

Condensed Statements of Activities

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 743,343	870,450	(127,107)
Operating grants	<u>2,990,199</u>	<u>2,588,288</u>	<u>401,911</u>
Total program revenues	3,733,542	3,458,738	274,804
General revenues	<u>45,739</u>	<u>23,839</u>	<u>21,900</u>
Total revenues	<u>3,779,281</u>	<u>3,482,577</u>	<u>296,704</u>
Expenses:			
General	1,440,464	1,742,937	(302,473)
Mobile emission program AB 2766	342,591	481,562	(138,971)
Mobile emission program AB 923	690,279	736,608	(46,329)
Carl Moyer program	<u>999,036</u>	<u>683,877</u>	<u>315,159</u>
Total expenses	<u>3,472,370</u>	<u>3,644,984</u>	<u>(172,614)</u>
Change in net position	306,911	(162,407)	469,318
Net position, beginning of period	<u>2,449,706</u>	<u>2,612,113</u>	<u>(162,407)</u>
Net position, end of period	<u>\$ 2,756,617</u>	<u>2,449,706</u>	<u>306,911</u>

Compared to prior year, net position of the District increased 12.53% or \$306,911 to \$2,756,617 as a result of ongoing operations.

Total revenues increased 8.52% or \$296,704 to \$3,779,281, due primarily to increases of \$401,911 in operating grants and \$21,900 in general revenues; which was offset by a decrease of \$127,107 in charges for services.

Total expenses decreased by 4.74% or \$172,614 to \$3,472,370, due primarily to decreases of \$302,473 in general fund expenses, \$138,971 in mobile emissions program (AB 2766) expenses, and \$46,329 in mobile emissions program (AB 923) expenses; which was offset by an increase of \$315,159 in Carl Moyer program expenses.

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

Governmental Fund Balance

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

Condensed Changes in Fund Balance					
	<u>General Fund</u>	<u>AB 2766</u>	<u>AB 923</u>	<u>Carl Moyer</u>	<u>Total</u>
Fund balance, beginning of year	\$ 644,410	566,747	848,165	39,437	2,098,759
Change in fund balance	<u>348,825</u>	<u>81,162</u>	<u>(83,148)</u>	<u>4,791</u>	<u>351,630</u>
Fund balance, end of year	<u>\$ 993,235</u>	<u>647,909</u>	<u>765,017</u>	<u>44,228</u>	<u>2,450,389</u>

In 2017, total fund balance increased by 16.75% or \$351,630 to \$2,450,389. The General fund increased by 54.13% or \$348,825 to \$993,235; the mobile emissions program (AB2766) increased by 14.32% or \$81,162 to \$647,909; the mobile emissions program (AB 923) decreased by 9.80% or \$83,148 to \$765,017; and the Carl Moyer program increased by 12.15% or \$4,791 to \$44,228.

Governmental Activities Budgetary Highlights

For the year ended June 30, 2017, the final actual expenditures were less than budgeted for the General fund by \$119,785 and Mobile Emissions program (AB 2766) by \$50,909; and more than budgeted for the Mobile Emissions program (AB 923) by \$122,779, and Carl Moyer Fund by \$337,448. For the year ended June 30, 2017, actual revenues were more than budgeted for the General Fund by \$208,891, Mobile Emissions program (AB 2766) by \$30,253, Mobile Emissions program (AB 923) by \$39,631, and Carl Moyer Fund by \$268,161. At June 30, 2017, there were no differences between the original and final amended budgets. (See Budgetary Comparison Schedule for the General fund, Mobile Emissions program (AB 2766), Mobile Emissions program (AB 923), and Carl Moyer program under Required Supplementary Information section on pages 26 through 29).

Capital Asset Administration

Capital Assets				
	<u>Balance</u>		<u>Deletions/</u>	<u>Balance</u>
	<u>2016</u>	<u>Additions</u>	<u>Transfers</u>	<u>2017</u>
Capital assets:				
Depreciable assets	\$ 667,941	-	-	667,941
Total capital assets	667,941	-	-	667,941
Accumulated depreciation	<u>(316,994)</u>	<u>(44,719)</u>	-	<u>(361,713)</u>
Total capital assets, net	<u>\$ 350,947</u>	<u>(44,719)</u>	-	<u>306,228</u>

At the end of fiscal year 2017, the District's investment in capital assets amounted to \$306,228 (net of accumulated depreciation). This investment in capital assets includes building improvements, furniture and fixtures, machinery and equipment, vehicles, computers, and software. The capital assets of the District are more fully analyzed in Note 3 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.

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

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 Deputy Director / Administration, Mojave Desert Air Quality Management District, contractor to the Antelope Valley Air Quality Management District, 43301 Division Street, Suite 206, Lancaster, California 93535 or (661) 723-8070.

Basic Financial Statements

Antelope Valley Air Quality Management District
Statement of Net Position
June 30, 2017

	2017
Assets:	
Current assets:	
Cash and cash equivalents (note 2)	\$ 1,031,901
Restricted cash and cash equivalent (note 2)	2,170,264
Accounts receivable	380,790
Prepaid expenses and other assets	5,863
Total current assets	3,588,818
Non-current assets:	
Capital assets – being depreciated, net (note 3)	306,228
Total non-current assets	306,228
Total assets	3,895,046
Liabilities:	
Current liabilities:	
Accounts payable and accrued expenses	346,581
Unearned revenue (note 5)	791,848
Total current liabilities	1,138,429
Total liabilities	1,138,429
Net position (note 7):	
Net investment in capital assets	306,228
Restricted	2,170,264
Unrestricted	280,125
Total net position	\$ 2,756,617

See accompanying notes to the basic financial statements

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

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Service	Operating Grants	
Governmental activities				
General	\$ 1,440,464	743,343	951,916	254,795
Mobile emission program AB 2766	342,591	-	419,724	77,133
Mobile emission program AB 923	690,279	-	599,374	(90,905)
Carl Moyer program	999,036	-	1,019,185	20,149
Total governmental	\$ 3,472,370	743,343	2,990,199	261,172
General revenues:				
				\$ 20,750
				24,136
				853
				45,739
				306,911
				2,449,706
				\$ 2,756,617

See accompanying notes to the basic financial statements

Antelope Valley Air Quality Management District
Reconciliation of the Balance of Governmental Funds to the
Statement of Net Position
June 30, 2017

	<u>General Fund</u>	<u>AB 2766 Fund</u>	<u>AB 923 Fund</u>	<u>Carl Moyer Fund</u>	<u>Total Fund</u>
Assets:					
Cash and cash equivalents	\$ 1,031,901	-	-	-	1,031,901
Restricted cash and cash equivalents	-	316,746	937,700	915,818	2,170,264
Accounts receivable	196,865	75,751	108,174	-	380,790
Inter-fund receivable	341,829	257,412	-	-	599,241
Prepaid expenses	5,863	-	-	-	5,863
Total assets	<u>\$ 1,576,458</u>	<u>649,909</u>	<u>1,045,874</u>	<u>915,818</u>	<u>4,188,059</u>
Liabilities:					
Accounts payable and accrued expenses	\$ 325,811	2,000	7,521	11,249	346,581
Inter-fund payable	257,412	-	273,336	68,493	599,241
Unearned revenue	-	-	-	791,848	791,848
Total liabilities	<u>583,223</u>	<u>2,000</u>	<u>280,857</u>	<u>871,590</u>	<u>1,737,670</u>
Fund balance:					
Nonspendable	5,863	-	-	-	5,863
Restricted	-	647,909	765,017	44,228	1,457,154
Unassigned	987,372	-	-	-	987,372
Total fund balance	<u>993,235</u>	<u>647,909</u>	<u>765,017</u>	<u>44,228</u>	<u>2,450,389</u>
Total liabilities and fund balance	<u>\$ 1,576,458</u>	<u>649,909</u>	<u>1,045,874</u>	<u>915,818</u>	<u>4,188,059</u>

Continue on next page

See accompanying notes to the basic financial statements

Reconciliation:

Total Fund Balances of Governmental Funds \$ 2,450,389

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, not in the governmental funds balance sheet. However, the statement of net position includes those capital position among the assets of the District as a whole as follows:

Depreciable capital assets, net 306,228

Net Position of Governmental Activities \$ 2,756,617

See accompanying notes to the basic financial statements

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

	<u>General Fund</u>	<u>AB 2766 Fund</u>	<u>AB 923 Fund</u>	<u>Carl Moyer Fund</u>	<u>Total Fund</u>
Revenues:					
Charge for services	\$ 743,343	-	-	-	743,343
Operating grants	951,916	419,724	599,374	1,019,185	2,990,199
Fine, forfeitures, and penalties	20,750	-	-	-	20,750
Investment earnings	7,559	4,029	7,757	4,791	24,136
Other revenue	853	-	-	-	853
Total revenues	<u>1,724,421</u>	<u>423,753</u>	<u>607,131</u>	<u>1,023,976</u>	<u>3,779,281</u>
Expenditures:					
Services and supplies	1,393,648	342,591	690,279	999,036	3,425,554
Contributions	500	-	-	-	500
Capital outlay	1,597	-	-	-	1,597
Total expenditures	<u>1,395,745</u>	<u>342,591</u>	<u>690,279</u>	<u>999,036</u>	<u>3,427,651</u>
Excess(deficiency) of revenue over expenditures	328,676	81,162	(83,148)	24,940	351,630
Other financing sources(uses):					
Operating transfers in(out)	20,149	-	-	(20,149)	-
Net change in fund balance	348,825	81,162	(83,148)	4,791	351,630
Fund balance – beginning of year	<u>644,410</u>	<u>566,747</u>	<u>848,165</u>	<u>39,437</u>	<u>2,098,759</u>
Fund balance – end of period	<u>\$ 993,235</u>	<u>647,909</u>	<u>765,017</u>	<u>44,228</u>	<u>2,450,389</u>

Continue on next page

See accompanying notes to the basic financial statements

Reconciliation:

Net Changes in Fund Balances – Total Governmental Funds	\$ 351,630
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:	
Depreciation expense	<u>(44,719)</u>
Change in Net Position of Governmental Activities	<u>\$ 306,911</u>

See accompanying notes to the basic financial statements

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements
June 30, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Antelope Valley Air Quality Management District (District) was created based on a program established in 1997 by the State Legislature and pursuant to Health and Safety Code Section 41300, which separated Antelope Valley, located in the northern Los Angeles County, from the South Coast Air Quality Management District. The District's primary responsibility is to develop, implement, monitor, and enforce air pollution control strategies and motor vehicle use reduction measures. The District represents the citizens within its jurisdiction covering the San Bernardino County line to the east, the Kern County line to the north, the San Gabriel Mountains to the south, and the Sierra Nevada Mountains to the west.

The District's mission is to work in partnership with the local communities to achieve and preserve a healthful environment through effective air quality programs by promoting community and individual responsibility for air quality while supporting strong-economic growth throughout the region. The District is an independent, special district, governed by a seven member Governing Board consisting of two City Council members of the City of Lancaster by appointment, two City Council members of the City of Palmdale by appointment, two persons appointed by Board of Supervisors of the County of Los Angeles, and one appointed public member.

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.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

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

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

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

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary 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 or proprietary fund are 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 fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary 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 – this 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) – this 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.

Mobile Emissions Program (AB 923) – this 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. 923.

Carl Moyer Fund – this 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.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

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

C. Financial Reporting

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

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

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

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

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

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

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

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

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

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

D. Financial Statement Elements

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:

- Los Angeles County Pooled Surplus Investments

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

4. Accounts Receivable

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

5. Prepaid Expenses

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

6. Internal Balances and Activities

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

7. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. 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.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

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

D. Financial Statement Elements, continued

7. Capital Assets, continued

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

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

8. Unearned Revenues

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.

9. Net Position

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

- **Net investment in capital assets** – net investment in capital assets 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** – restricted 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** – unrestricted 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.

10. 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.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

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

D. Financial Statement Elements, continued

10. Fund Balance, continued

- **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.

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.

(2) Cash and Cash Equivalents

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

	2017
Unrestricted cash and cash equivalents:	
General Fund	\$ 1,031,901
Total unrestricted cash and cash equivalents	1,031,901
Restricted cash and cash equivalents:	
AB 2766 Fund	316,746
AB 923 Fund	937,700
Carl Moyer Fund	915,818
Total restricted cash and cash equivalents	2,170,264
Total cash and cash equivalents	\$ 3,202,165

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(2) Cash and Investments, continued

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

		<u>2017</u>
Deposits held with financial institutions	\$	123,278
Deposits held with Los Angeles County Treasurer		<u>3,078,887</u>
Total	\$	<u><u>3,202,165</u></u>

Authorized Deposits and Investments

Under the District's investment policy and in accordance with Section 53601 of the California Government Code, the District invests in the Los Angeles County Pooled Surplus Investments.

Los Angeles County Pooled Surplus Investments complies with the California Government Code Sections 53601 and 53635, and the investment policy adopted by the Board of Supervisors of the County of Los Angeles. The Treasurer and Tax Collector of the Los Angeles County have the delegated authority to invest funds in the County Treasury.

Custodial Credit Risk

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

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. As of June 30, 2017, the District's deposits in Los Angeles County Pooled Surplus Investments had an average of 672 days to maturity for the entire portfolio.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(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. The Angeles County Pooled Surplus Investments 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) Capital Assets

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

	<u>Balance 2016</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2017</u>
Depreciable assets:				
Improvements	\$ 15,875	-	-	15,875
Furniture and fixtures	59,943	-	-	59,943
Machinery and equipment	125,654	-	-	125,654
Vehicles	70,090	-	-	70,090
Computers	30,732	-	-	30,732
Software	365,647	-	-	365,647
Total depreciable assets	<u>667,941</u>	<u>-</u>	<u>-</u>	<u>667,941</u>
Accumulated depreciation:				
Improvements	(9,128)	(1,587)	-	(10,715)
Furniture and fixtures	(42,870)	(4,097)	-	(46,967)
Machinery and equipment	(102,732)	(6,110)	-	(108,842)
Vehicles	(61,831)	(2,257)	-	(64,088)
Computers	(29,851)	(881)	-	(30,732)
Software	(70,582)	(29,787)	-	(100,369)
Total accumulated depreciation	<u>(316,994)</u>	<u>(44,719)</u>	<u>-</u>	<u>(361,713)</u>
Total depreciable assets, net	<u>350,947</u>	<u>(44,719)</u>	<u>-</u>	<u>306,228</u>
Total capital assets, net	<u>\$ 350,947</u>			<u>306,228</u>

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(4) Internal Transfers

Inter-fund Operational Transfers

Inter-fund receivables/payables are used to move financial resources between the General fund, AB 2766 fund, AB 923 fund, and the Carl Moyer fund as advances to temporarily support the operations of each respective fund.

As of June 30, 2017, inter-fund receivables/payables between the District's funds were as follows:

Receivable from	Payable to	2017
AB 923 Fund	General Fund	\$ 293,485
Carl Moyer Fund	General Fund	48,344
General Fund	AB 2766 Fund	<u>(257,412)</u>
Payable to General		\$ <u>84,417</u>

For the year ended June 30, 2017, inter-fund transfers consist of the following:

Transfer from	Transfer to	2017
Carl Moyer Fund	General Fund	\$ <u>20,149</u>

(5) Unearned Revenues

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

	Balance 2016	New Awards	Expenses/ Revenues	Balance 2017
Carl Moyer Grant				
Round 16	\$ 299,860	-	(299,860)	-
Round 17	69,353	-	(69,353)	-
Round 18	676,904	-	(609,941)	66,963
Round 19	<u>-</u>	<u>764,916</u>	<u>(40,031)</u>	<u>724,885</u>
Total unearned revenue	\$ <u>1,046,117</u>	<u>764,916</u>	<u>(1,019,185)</u>	<u>791,848</u>

(6) Operating Lease

The District has entered into an operating lease with the Woelfl Family Trust for office space located at 43301 Division Street, Suites 205 and 206, Lancaster, California. The operating lease calls for monthly rent of \$4,448 through 2020. Future rent payments subsequent to year end are as follows:

Year ending June 30,	Amount
2018	\$ 53,372
2019	53,372
2020	<u>53,372</u>
Total	\$ <u>160,116</u>

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(6) Operating Lease, continued

For the year ended June 30, 2017, rent expense totaled \$53,372.

(7) Net Position

Net investment in capital assets is calculated as follows:

	2017
Net investment in capital asset:	
Capital assets – being depreciated, net	\$ <u>306,228</u>
Total net investment in capital asset	\$ <u><u>306,228</u></u>

Restricted net position is calculated as follows:

	2017
Restricted:	
Restricted cash and cash equivalents	\$ <u>2,170,264</u>
Total restricted	\$ <u><u>2,170,264</u></u>

Unrestricted net position is calculated as follows:

	2017
Unrestricted:	
Non-spendable net position	
Prepaid expenses and other assets	\$ 5,863
Spendable net position	
Unrestricted	<u>274,262</u>
Total unrestricted	\$ <u><u>280,125</u></u>

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

(8) Fund Balance

Fund balances are presented in the following categories: non-spendable, restricted, committed, assigned, and unassigned (See Note 1.D.10 for a description of these categories). Fund balances and their funding composition at June 30, 2017, are as follows:

	2017
Nonspendable:	
Prepaid expenses and other asset	\$ 5,863
Restricted:	
Mobile Emissions Program AB 2766	647,909
Mobile Emissions Program AB 923	765,017
Carl Moyer Program	44,228
Total restricted	1,457,154
Unassigned	
Operations	987,372
Total fund balance	\$ 2,450,389

(9) Risk Management

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

At June 30, 2017, the District participated in the liability and property programs of the SDRMA as follows:

- Property coverage consists of general property of \$1,000,000,000, boiler & machinery of \$100,000,000, and pollution of \$2,000,000 per occurrence.
- General liability insurance covers bodily injury, property damage, employment benefits, employee and public officials errors and omission, and employment practices liability of \$5,000,000 per occurrence; public officials personal of \$500,00 per occurrence; and employee and public officials dishonesty of \$1,000,000 per occurrence.
- Auto liability consists of auto bodily injury and auto property damage of \$5,000,000 per occurrence, subject to a comprehensive deductible of \$250 and collision deductible of \$500.

Settled claims, if any, have not exceeded any of the coverage amounts in the last fiscal year. There were no reductions in insurance coverage in fiscal year 2017. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no material IBNR claim payables as of June 30, 2017.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

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

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

Governmental Accounting Standards Board Statement No. 75

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

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

Governmental Accounting Standards Board Statement No. 81

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

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

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

Governmental Accounting Standards Board Statement No. 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) 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 requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

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

Governmental Accounting Standards Board Statement No. 84

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

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

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

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

Governmental Accounting Standards Board Statement No. 85

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

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

Governmental Accounting Standards Board Statement No. 86

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

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

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2017

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

Governmental Accounting Standards Board Statement No. 87

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

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

(11) Commitments and Contingencies

Grant Awards

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

Litigation

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

(12) Subsequent Event

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of March 20, 2018, which is the date the financial statements were available to be issued. The District is not aware of any further subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

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

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Charge for services	\$ 661,980	-	661,980	743,343	81,363
Operating grants	815,250	-	815,250	951,916	136,666
Fine, forfeitures, and penalties	35,000	-	35,000	20,750	(14,250)
Investment earnings	3,300	-	3,300	7,559	4,259
Other revenue	-	-	-	853	853
Total revenues	<u>1,515,530</u>	<u>-</u>	<u>1,515,530</u>	<u>1,724,421</u>	<u>208,891</u>
Expenditures:					
Services and supplies	1,492,530	-	1,492,530	1,393,648	98,882
Contributions	-	-	-	500	(500)
Capital outlay	23,000	-	23,000	1,597	21,403
Total expenditures	<u>1,515,530</u>	<u>-</u>	<u>1,515,530</u>	<u>1,395,745</u>	<u>119,785</u>
Excess(deficiency) of revenue over expenditures	-	-	-	328,676	328,676
Other Financing sources:					
Operating transfers out	-	-	-	20,149	20,149
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>348,825</u>	<u>348,825</u>
Fund balance – beginning of year	<u>644,410</u>		<u>644,410</u>	<u>644,410</u>	
Fund balance – end of period	<u>\$ 644,410</u>		<u>644,410</u>	<u>993,235</u>	

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

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Operating grants	\$ 391,000	-	391,000	419,724	28,724
Investment earnings	<u>2,500</u>	<u>-</u>	<u>2,500</u>	<u>4,029</u>	<u>1,529</u>
Total revenues	<u>393,500</u>	<u>-</u>	<u>393,500</u>	<u>423,753</u>	<u>30,253</u>
Expenditures:					
Services and supplies	<u>393,500</u>	<u>-</u>	<u>393,500</u>	<u>342,591</u>	<u>50,909</u>
Total expenditures	<u>393,500</u>	<u>-</u>	<u>393,500</u>	<u>342,591</u>	<u>50,909</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,162</u>	<u>81,162</u>
Fund balance – beginning of year	<u>566,747</u>		<u>566,747</u>	<u>566,747</u>	
Fund balance – end of period	<u>\$ 566,747</u>		<u>566,747</u>	<u>647,909</u>	

**Antelope Valley Air Quality Management District
Budget Comparison Schedule – Mobile Emissions Program (AB 923)
For the Year Ended June 30, 2017**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Operating grants	\$ 562,000	-	562,000	599,374	37,374
Investment earnings	<u>5,500</u>	<u>-</u>	<u>5,500</u>	<u>7,757</u>	<u>2,257</u>
Total revenues	<u>567,500</u>	<u>-</u>	<u>567,500</u>	<u>607,131</u>	<u>39,631</u>
Expenditures:					
Services and supplies	<u>567,500</u>	<u>-</u>	<u>567,500</u>	<u>690,279</u>	<u>(122,779)</u>
Total expenditures	<u>567,500</u>	<u>-</u>	<u>567,500</u>	<u>690,279</u>	<u>(122,779)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>(83,148)</u>	<u>(83,148)</u>
Fund balance – beginning of year	<u>848,165</u>		<u>848,165</u>	<u>848,165</u>	
Fund balance – end of period	<u>\$ 848,165</u>		<u>848,165</u>	<u>765,017</u>	

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

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Operating grants	\$ 753,815	-	753,815	1,019,185	265,370
Investment earnings	<u>2,000</u>	<u>-</u>	<u>2,000</u>	<u>4,791</u>	<u>2,791</u>
Total revenues	<u>755,815</u>	<u>-</u>	<u>755,815</u>	<u>1,023,976</u>	<u>268,161</u>
Expenditures:					
Services and supplies	<u>661,588</u>	<u>-</u>	<u>661,588</u>	<u>999,036</u>	<u>(337,448)</u>
Total expenditures	<u>661,588</u>	<u>-</u>	<u>661,588</u>	<u>999,036</u>	<u>(337,448)</u>
Excess(deficiency) of revenue over expenditures	94,227	-	94,227	24,940	(69,287)
Other Financing sources:					
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,149)</u>	<u>(20,149)</u>
Net change in fund balance	94,227	<u>-</u>	94,227	4,791	<u>(89,436)</u>
Fund balance – beginning of year	<u>39,437</u>		<u>39,437</u>	<u>39,437</u>	
Fund balance – end of period	<u>\$ 133,664</u>		<u>133,664</u>	<u>44,228</u>	

Antelope Valley Air Quality Management District
Notes to the Required Supplementary Information
June 30, 2017

Budgets and Budgetary Data

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year, the District's Executive Director will 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), Mobile Emissions Program (AB 923), 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
Antelope Valley Air Quality Management District
Lancaster, 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 Antelope Valley Air Quality Management District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 20, 2018.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown LLP
Cypress, California
March 20, 2018