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EVANS & BRADFORD**  
ACCOUNTANCY CORPORATION

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MARTHA J. WILLEY, CPA

November 29, 2012

County of San Bernardino  
Auditor/Controller-Recorder  
222 West Hospitality Lane, 4<sup>th</sup> Floor  
San Bernardino, CA 92415-0018

Dear Sir or Madam:

Enclosed is a copy of the audited financial statements for Mojave Desert Air Quality Management District for the year ended June 30, 2012.

Sincerely,

*Burkey & Cox CPAs*

BURKEY COX EVANS & BRADFORD  
Certified Public Accountants

/yw

Encl.

Cc: Mojave Desert Air Quality Management District

**MOJAVE DESERT AIR QUALITY  
MANAGEMENT DISTRICT**

**COUNTY OF SAN BERNARDINO  
VICTORVILLE, CALIFORNIA**

**AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2012**

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

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
DISTRICT SUMMARY, GOVERNING BOARD AND PERSONNEL  
JUNE 30, 2012**

**DISTRICT SUMMARY**

The Mojave Desert Air Quality Management District is a local agency with the primary responsibility for the development, implementation, monitoring, and enforcement of air pollution control strategies and motor vehicle use reduction measures. The District represents the citizens of the Mojave Desert district in influencing the decisions of other public and private agencies whose actions may have an adverse impact on air quality within the Mojave Desert district. The District began operations on July 1, 1993, by assuming the authority of the San Bernardino County Air Pollution Control District that ceased operations. The District is governed by an appointed Governing Board from areas within its boundaries.

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

**GOVERNING BOARD**

| <u>MEMBER</u>           | <u>OFFICE</u> | <u>REPRESENTED AREA</u>   |
|-------------------------|---------------|---------------------------|
| Brad Mitzelfelt         | Chair         | County of San Bernardino  |
| Barb Stanton            | Vice Chair    | Town of Apple Valley      |
| Ed Camargo              | Member        | City of Adelanto          |
| Joe Gomez               | Member        | City of Barstow           |
| Mike Rothschild         | Member        | City of Victorville       |
| Joseph "Joey" DeConinck | Member        | City of Blythe            |
| John J. Benoit          | Member        | County of Riverside       |
| Terry Campbell          | Member        | City of Needles           |
| Neil Derry              | Member        | County of San Bernardino  |
| Merl Abel               | Member        | Town of Yucca Valley      |
| Bill Holland            | Member        | City of Hesperia          |
| John Cole               | Member        | City of Twenty-Nine Palms |
| Barbara Cram Riordan    | Member        | Public Member             |

**PERSONNEL**

Eldon Heaston – Executive Director / Air Pollution Control Officer

Karen K. Nowak –District Counsel

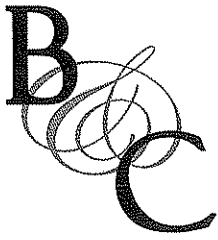
Jean Bracy – Director of Administrative Services

Michele Baird – Clerk of the Board

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
TABLE OF CONTENTS  
JUNE 30, 2012**

|   | <u>Page No.</u> |
|---|-----------------|
| <b>FINANCIAL INFORMATION</b>  |                 |
| Independent Auditors' Report on Financial Statements  | 1 – 2           |
| <b>Management's Discussion and Analysis</b>   | 3 – 7           |
| <b>BASIC FINANCIAL STATEMENTS</b>   |                 |
| <b>Government-Wide Financial Statements</b>   |                 |
| Statement of Net Assets   | 8               |
| Statement of Activities   | 9               |
| <b>Fund Financial Statements</b>  |                 |
| Balance Sheet – Governmental Funds  | 10              |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets  | 11              |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds   | 12              |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities  | 13              |
| Statement of Fiduciary Net Assets – Fiduciary Fund  | 14              |
| Statement of Changes in Fiduciary Net Assets – Fiduciary Fund   | 15              |
| <b>Notes to Financial Statements</b>  | 16 – 34         |
| <b>REQUIRED SUPPLEMENTARY INFORMATION</b>   |                 |
| <b>Budgetary Comparison Schedules</b>   |                 |
| General Fund  | 35              |
| Mobile Emissions Program  | 36              |
| Carl Moyer Program  | 37              |
| Other Post Employment Benefit Plan – Schedule of Funding Progress   | 38              |
| <b>OTHER INDEPENDENT AUDITORS' REPORT</b>   |                 |
| Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i> | 39 – 40         |

## **FINANCIAL INFORMATION**



**BURKEY COX  
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MARTHA J. WILLEY, CPA

## INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Governing Board  
Mojave Desert Air Quality Management District  
Victorville, California

We have audited the accompanying financial statements of the governmental activities, general fund, and the aggregate remaining fund information of Mojave Desert 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 Mojave Desert Air Quality Management District, as of June 30, 2012, and the respective changes in financial position 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 24, 2012, on our consideration of the Mojave Desert Air Quality Management District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial 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.

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ACCOUNTANCY CORPORATION

Mojave Desert Air Quality Management District  
Page 2

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, and funding progress information on pages 3 through 7 and 37 through 40, 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 24, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



MOJAVE DESERT 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 the basic financial statements.

**A. Financial Highlights**

The assets of the District exceeded its liabilities (all funds) at the close of the most recent fiscal year by \$7,400,177 (*net assets*). Of this amount \$1,082,544 (*unrestricted*) may be used to finance the District's day-to-day operations without constraints established by legal requirements.

The District's governmental funds reported total fund balances of \$6,011,282 for the year, \$1,936,028 represented the unreserved 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 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.

MOJAVE DESERT 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

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole.

#### 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.

MOJAVE DESERT 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 11 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 13 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 16 to 36 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>June 30, 2012</u> | <u>June 30, 2011</u> |
|-------------------|----------------------|----------------------|
| Total Assets      | \$10,412,559         | \$9,680,806          |
| Total Liabilities | <u>3,012,382</u>     | <u>(3,118,867)</u>   |
| Net Assets        | \$7,400,177          | \$6,561,939          |

At the close of the most recent fiscal year, the District's assets exceeded liabilities by \$7,400,177.

The largest portion of the District's net assets (59%) is restricted for special programs. These funds are restricted to expenditures for specific purposes. Capital assets (31%) reflect the District's investment in capital assets used by the District (e.g. land, buildings, equipment, software application development, and vehicles). The District uses these capital assets in

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012

carrying out its mission of protecting public health while being sensitive to the economic needs of local businesses. Consequently, these assets are not available for future spending. The remaining portion of the District's net assets (10%) is unrestricted, and unreserved, and may be used to meet the District's ongoing obligations in carrying out day-to-day operations.

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>June 30, 2012</u> | <u>June 30, 2011</u> |
|------------|----------------------|----------------------|
| Revenues   | \$7,634,869          | \$7,421,381          |
| Expenses   | <u>(6,542,281)</u>   | <u>(6,847,140)</u>   |
| Net Assets | \$1,092,588          | \$574,241            |

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 2010-12. 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, Public Education, Air Quality Analysis, and Air Monitoring.

**D. Financial Analysis of the District's Funds**

Governmental Funds

At the end of the fiscal year, the District's Governmental Funds reported an ending balance of \$6,011,282, an increase of \$1,092,588 in comparison with the prior year. Approximately 68% of this fund balance (\$4,075,254) are reserved and restricted for specific purposes. The long-term contractual commitments related to these restricted programs involve multiple-year spending. At the end of the fiscal year, the District's unreserved fund balance was \$1,936,028, an increase of \$170,509 in comparison with the prior year. The unreserved fund balance is 100% unrestricted.

MOJAVE DESERT 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 \$2,693,181 (net of accumulated depreciation of \$3,121,361) 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 25 of this report.

**F. Economic Factors and Next Year's Budget**

The FY 2012-13 budget estimates expenditures totaling \$8,227,064 with sufficient revenues, including the use of unassigned fund balance, to pay for those services. The expenditure budget is an increase of 7.58% from FY 2011-12. The increase is due, in part, to anticipated prepayments and satisfaction of two long term debts. This budget also includes continuing projects to improve the automated permit billing system, replacing and upgrading a remote air monitoring stations and office equipment, energy efficiency improvement projects, and training/development opportunities for governing board members and staff.

Revenues are projected at \$7,140,112, a 1.39% increase over last year's projections. This increase can be attributed in part to a 1.7% increase on all application fees and annual permit renewal fees, new permitted facilities, and increased revenues from the Carl Moyer Grant Program for administrative support.

**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, Mojave Desert Air Quality Management District, 14306 Park Avenue, Victorville, CA 92392-3210.

## **BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

**ASSETS**

|  |                   |
|--|-------------------|
| Cash and Investments                               | \$ 5,427,430      |
| Receivables (net of allowances for uncollectibles) | 1,827,193         |
| Prepaid Items                                      | 9,434             |
| Long Term Receivables                              | 455,321           |
| Capital Assets (net of accumulated depreciation):  |                   |
| Land   | 278,568           |
| Work in Progress                                   | 496,417           |
| Buildings, Vehicles, and Equipment                 | <u>1,918,196</u>  |
| Total Assets                                       | <u>10,412,559</u> |

**LIABILITIES**

|  |                  |
|--|------------------|
| Accounts Payable and Other Current Liabilities | 345,016          |
| Due to Local Government Agencies               | 190,199          |
| Due to Other Government Agencies               | 21,532           |
| Deferred Revenue                               | 1,151,349        |
| Noncurrent Liabilities:                        |                  |
| Due Within One Year                            | 354,264          |
| Due In More Than One Year                      | <u>950,022</u>   |
| Total Liabilities                              | <u>3,012,382</u> |

**NET ASSETS**

|   |                            |
|---|----------------------------|
| Invested in Capital Assets, Net of Related Debt | 2,251,813                  |
| Restricted for Other Purposes                   | 4,065,820                  |
| Unrestricted                                    | <u>1,082,544</u>           |
| Total Net Assets                                | <u><u>\$ 7,400,177</u></u> |

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



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

| <u>Functions / Programs</u>         | <u>Expenses</u>     | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> | <u>Net (Expense)<br/>Revenue and<br/>Changes in<br/>Net Assets</u> |
|-------------------------------------|---------------------|---------------------------------|---|--|
| <b>PRIMARY GOVERNMENT</b>           |                     |                                 |   |  |
| Governmental Activities:            |                     |                                 |   |  |
| Public Safety:                      |                     |                                 |   |  |
| Salaries and Benefits               | \$ 4,728,228        | \$ 4,150,203                    | \$ 1,144,048                                      | \$ 566,023   |
| Services and Supplies               | 1,281,379           | 1,124,731                       | 310,044   | 153,396  |
| Contributions to Other Participants | 747,706             | 690,810                         | 190,429   | 133,534  |
| Interest on Long-Term Debt          | 39,318              | 0                               | 0   | (39,318)   |
|                                     | <u>6,796,631</u>    | <u>5,965,744</u>                | <u>1,644,521</u>                                  | <u>813,634</u>   |
| Total Governmental Activities       |                     |                                 |   |  |
| Total Primary Government            | <u>\$ 6,796,631</u> | <u>\$ 5,965,744</u>             | <u>\$ 1,644,521</u>                               | <u>813,634</u>   |
| General Revenues:                   |                     |                                 |   |  |
| Unrestricted Investment Earnings    |                     |                                 |   | 24,587   |
| Miscellaneous                       |                     |                                 |   | <u>17</u>  |
| Total General Revenues              |                     |                                 |   | <u>24,604</u>  |
| Change in Net Assets                |                     |                                 |   | 838,238  |
| Net Assets - Beginning              |                     |                                 |   | <u>6,561,939</u>   |
| Net Assets - Ending                 |                     |                                 |   | <u>\$ 7,400,177</u>  |

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

**FUND FINANCIAL STATEMENTS**

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2012**

|   | General<br>Fund     | Mobile<br>Emissions<br>Program | Carl<br>Moyer<br>Program | Total<br>Governmental<br>Funds |
|---|---------------------|--------------------------------|--------------------------|--------------------------------|
| <b>ASSETS</b>   |                     |                                |                          |                                |
| Cash and Investments                                  | \$ 67,076           | \$ -                           | \$ -                     | \$ 67,076                      |
| Cash with Fiscal Agent                                | 2,379,540           | 2,384,861                      | 595,953                  | 5,360,354                      |
| Receivables (net of allowances<br>for uncollectibles) | 898,418             | 2,965                          | 925,810                  | 1,827,193                      |
| Due from Other Funds                                  | 27,948              | 190,199                        | -                        | 218,147                        |
| Prepaid Items   | 9,434               | -                              | -                        | 9,434                          |
| Long Term Receivables                                 | 455,321             | -                              | -                        | 455,321                        |
| <br>Total Assets                                      | <b>\$ 3,837,737</b> | <b>\$ 2,578,025</b>            | <b>\$ 1,521,763</b>      | <b>\$ 7,937,525</b>            |
| <br><b>LIABILITIES AND FUND BALANCES</b>              |                     |                                |                          |                                |
| <b>LIABILITIES</b>                                    |                     |                                |                          |                                |
| Accounts Payable and Other                            |                     |                                |                          |                                |
| Current Liabilities                                   | \$ 330,345          | \$ -                           | \$ 14,671                | \$ 345,016                     |
| Due to Other Funds                                    | 190,199             | -                              | 27,948                   | 218,147                        |
| Due to Local Government Agencies                      | 190,199             | -                              | -                        | 190,199                        |
| Due to Other Government Agencies                      | 21,532              | -                              | -                        | 21,532                         |
| Deferred Revenues                                     | -                   | -                              | 1,151,349                | 1,151,349                      |
| <br>Total Liabilities                                 | 732,275             | -                              | 1,193,968                | 1,926,243                      |
| <br><b>FUND BALANCES</b>                              |                     |                                |                          |                                |
| Non-spendable   | 9,434               | -                              | -                        | 9,434                          |
| Restricted  | -                   | 2,578,025                      | 327,795                  | 2,905,820                      |
| Committed   | 660,000             | -                              | -                        | 660,000                        |
| Assigned  | 500,000             | -                              | -                        | 500,000                        |
| Unreserved  | 1,936,028           | -                              | -                        | 1,936,028                      |
| <br>Total Fund Balances                               | 3,105,462           | 2,578,025                      | 327,795                  | 6,011,282                      |
| <br>Total Liabilities and Fund Balances               | <b>\$ 3,837,737</b> | <b>\$ 2,578,025</b>            | <b>\$ 1,521,763</b>      | <b>\$ 7,937,525</b>            |

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

**MOJAVE DESERT 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 \$ 6,011,282

Capital assets used for governmental activities are not financial resources and therefore are not reported as assets in Governmental Funds. The cost of the assets is \$5,814,542 and the accumulated depreciation is \$3,121,361. 2,693,181

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. Bonds and other 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. Current bond and debt and all long-term liabilities at year end consist of:

|                              |    |                |                    |
|------------------------------|----|----------------|--------------------|
| City National Bank           | \$ | 332,500        |                    |
| California Energy Commission |    | 108,868        |                    |
| Retiree Health Benefits      |    | 28,604         |                    |
| Compensated Absences         |    | 563,714        |                    |
| Post Employment Benefits     |    | <u>270,600</u> |                    |
| Total                        |    |                | <u>(1,304,286)</u> |

Total Net Assets - Governmental Activities \$ 7,400,177

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

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

|  | General<br>Fund     | Mobile<br>Emissions<br>Program | Carl<br>Moyer<br>Program | Total<br>Governmental<br>Funds |
|--|---------------------|--------------------------------|--------------------------|--------------------------------|
| <b>REVENUES</b>  |                     |                                |                          |                                |
| Antelope Valley Air Quality<br>Management Contract           | \$ 1,059,817        | \$ -                           | \$ -                     | \$ 1,059,817                   |
| Application and Permit Fees                                  | 4,299,197           | -                              | -                        | 4,299,197                      |
| AB 2766 and Other Program Revenues                           | 1,580,747           | -                              | -                        | 1,580,747                      |
| Grants   | 331,799             | -                              | 252,905                  | 584,704                        |
| Fines  | 85,800              | -                              | -                        | 85,800                         |
| Investment Earnings  | 11,517              | 10,827                         | 2,243                    | 24,587                         |
| Miscellaneous  | 17                  | -                              | -                        | 17                             |
| <b>Total Revenues</b>  | <u>7,368,894</u>    | <u>10,827</u>                  | <u>255,148</u>           | <u>7,634,869</u>               |
| <b>EXPENDITURES</b>  |                     |                                |                          |                                |
| Public Safety:   |                     |                                |                          |                                |
| Salaries and Benefits  | 4,628,805           | -                              | -                        | 4,628,805                      |
| Services and Supplies  | 652,254             | -                              | 35,404                   | 687,658                        |
| Contributions to Other Participants                          | 488,721             | 41,485                         | 217,500                  | 747,706                        |
| Debt Service:  |                     |                                |                          |                                |
| Principal  | 170,366             | -                              | -                        | 170,366                        |
| Interest and Fiscal Charges                                  | 39,318              | -                              | -                        | 39,318                         |
| Capital Outlay   |                     |                                |                          |                                |
| Improvements and Equipment                                   | 268,428             | -                              | -                        | 268,428                        |
| <b>Total Expenditures</b>                                    | <u>6,247,892</u>    | <u>41,485</u>                  | <u>252,904</u>           | <u>6,542,281</u>               |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>1,121,002</u>    | <u>(30,658)</u>                | <u>2,244</u>             | <u>1,092,588</u>               |
| Other Financing Sources (Uses)                               |                     |                                |                          |                                |
| Operating Transfers In                                       | -                   | 373,979                        | -                        | 373,979                        |
| Operating Transfers Out                                      | <u>(373,979)</u>    | <u>-</u>                       | <u>-</u>                 | <u>(373,979)</u>               |
| <b>Total Other Financing Sources (Uses)</b>                  | <u>(373,979)</u>    | <u>373,979</u>                 | <u>-</u>                 | <u>-</u>                       |
| <b>Net Change in Fund Balances</b>                           | 747,023             | 343,321                        | 2,244                    | 1,092,588                      |
| Fund Balance - Beginning of Year                             | <u>2,358,439</u>    | <u>2,234,704</u>               | <u>325,551</u>           | <u>4,918,694</u>               |
| <b>Fund Balance - End of Year</b>                            | <u>\$ 3,105,462</u> | <u>\$ 2,578,025</u>            | <u>\$ 327,795</u>        | <u>\$ 6,011,282</u>            |

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

**MOJAVE DESERT 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 \$ 1,092,588

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 depreciation exceeded capital outlay in the current period.

|                           |    |                  |           |
|---------------------------|----|------------------|-----------|
| Fixed Assets Additions    | \$ | 268,428          |           |
| Disposal of Asset         |    | (316,021)        |           |
| Current Year Depreciation |    | <u>(277,700)</u> |           |
| Total                     |    |                  | (325,293) |

Issuance of long-term financial obligations is a source of revenue in the governmental funds, but the receipt of these proceeds increases long-term liabilities in the statement of net assets.

The District issued long term debt during the fiscal year ended June 30, 2012.

|                          |  |                  |           |
|--------------------------|--|------------------|-----------|
| Retiree Health Benefits  |  | (22,364)         |           |
| Compensated Absences     |  | (9,542)          |           |
| Post Employment Benefits |  | <u>(190,200)</u> |           |
| Total                    |  |                  | (222,106) |

Repayment of long-term financing obligations principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

|                                |  |                |                |
|--------------------------------|--|----------------|----------------|
| Installment Purchase Agreement |  | 159,011        |                |
| California Energy Commission   |  | 11,355         |                |
| Retiree Health Benefits        |  | 22,683         |                |
| Post Employment Benefits       |  | <u>100,000</u> |                |
| Total                          |  |                | <u>293,049</u> |

Total Change in Net Assets - Governmental Activities \$ 838,238

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

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2012**

**ASSETS**

|               |                   |
|---------------|-------------------|
| Cash in Trust | \$ 320,080        |
|               | <u>320,080</u>    |
| Total Assets  | <u>\$ 320,080</u> |

**NET ASSETS**

|  |                   |
|--|-------------------|
| Held in Trust for Post Employment Benefits | \$ 320,080        |
|  | <u>320,080</u>    |
| Total Net Assets                           | <u>\$ 320,080</u> |

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

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

**ADDITIONS**

|                 |    |                |
|-----------------|----|----------------|
| Transfers In    | \$ | 100,000        |
| Investment Gain |    | <u>4,549</u>   |
| Total Additions |    | <u>104,549</u> |

**DEDUCTIONS**

|                                |    |                       |
|--------------------------------|----|-----------------------|
| Fees                           |    | <u>548</u>            |
| Total Deductions               |    | <u>548</u>            |
| Net Change in Net Assets       |    | 104,001               |
| Net Assets - Beginning of Year |    | <u>216,079</u>        |
| Net Assets - End of Year       | \$ | <u><u>320,080</u></u> |

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



**NOTES TO FINANCIAL STATEMENTS**

**MOJAVE DESERT 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 Mojave Desert Air Quality Management District (the District) include the accounts of all its operations. The District is a local agency with the primary responsibility for the development, implementation, monitoring, and enforcement of air pollution control strategies and motor vehicle use reduction measures. The District represents the citizens of the Mojave Desert district in influencing the decisions of other public and private agencies whose actions may have an adverse impact on air quality within the Mojave Desert district. The District began operations on July 1, 1993, by assuming the authority of the San Bernardino County Air Pollution Control District that ceased operations. The District is governed by an appointed Governing Board from areas within its boundaries.

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 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.

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.

**MOJAVE DESERT 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 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 was established by the District to account for the retention of funds allocated for the support of the District's mobile emissions grant program (AB 2766).

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.

The District reports the following fiduciary funds:

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

**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, 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.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 San Bernardino 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.

**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<br/>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. Receivable and Payable Balances**

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. Compensated Absences**

Vacation and sick leave are recognized as expenses in the period accrued by the employee (with certain limitations). The current and non-current portion of accumulated unpaid vacation and sick leave as of June 30, 2012, was \$563,714.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. Assets, Liabilities, and Equity (Continued)

7. 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 reimbursements. 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.

8. 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 were established as a separate trust fund pursuant to Governing Board action May 26, 1996. 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.

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.

Other Post Employment Benefits (OPEB) Trust This fund was established to meet requirements for reporting post retirement benefit costs, obligations, and plan for the future funding of the benefits in accordance with Government Accounting Standards Board (GASB) No. 45. The Governing Board authorized establishment of this irrevocable Trust with the Public Agency Retirement System (PARS) on November 23, 2009 to ensure the sustainability of the District’s health benefits. Periodic actuarial reports determine liability and the annual budget establishes the deposit amount. An adopted investment policy guides the investment strategy to target a rate of return of approximately seven percent.

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 reserves must represent ten percent of the operating expenses from the combined budget totals for Salaries and Benefits, Supplies and Services, and Operating Transfers Out. The amount designated meets District policy requirements.

**MOJAVE DESERT 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)

8. Fund Balance Reserves and Designations (Continued)

Assigned Fund Balance The portion of fund balance representing resources that are intended to be used for specific purposes but for which the constraints do not meet the criteria to be reported as restricted or committed. Intent may be established either by the District's highest level of decision-making or by a designated body or official. Constraints giving rise to assigned fund balance may be imposed at any time before the financial statements are issued, and may be modified or removed by a process less formal than is required for committed fund balance. In governmental fund types other than the general fund, this is the residual fund balance classification.

Building Improvement Reserves These reserves are established for the District's administration facilities located at Park Avenue, Victorville in association with financing conditions. The reserves are increased incrementally each fiscal year according to financing schedules. The fund's purpose is to provide replacement funds for capital improvements not budgeted and associated with the Park Avenue facility.

Legal and Litigation Reserves These reserves were established in fiscal year 2012 in anticipation of costs associated with ongoing CEQA challenges to rule adoption activities.

Non-spendable Fund Balance The portion of fund balance reflecting assets not in spendable form, either because they will never convert to cash (such as prepaid items) or must remain intact pursuant to legal or contractual requirements (such as the principal of a permanent endowment).

Non-spendable Prepaid Items The portion of fund balance reflecting the value of prepaid items.

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

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. 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.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. 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.

**NOTE 2 – CASH AND INVESTMENTS**

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

|   | Unrestricted        |                     | Restricted        |  | Total               |
|---|---------------------|---------------------|-------------------|--|---------------------|
|   | General             | Mobile              | Carl              |  |                     |
|   | Fund                | Emissions           | Moyer             |  |                     |
| Cash on Hands and in Banks                          | \$ 67,076           | \$ -                | \$ -              |  | \$ 67,076           |
| Pooled Investments - San Bernardino County Treasury | 2,379,540           | 2,384,861           | 595,953           |  | 5,360,354           |
| <b>Total</b>  | <b>\$ 2,446,616</b> | <b>\$ 2,384,861</b> | <b>\$ 595,953</b> |  | <b>\$ 5,427,430</b> |

**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.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Investments Authorized by the California Government Code and the District's Investment Policy**  
**(Continued)**

| <u>Authorized Investment Type</u>              | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio *</u> | <u>Maximum Investment in One Issuer</u> |
|--|-------------------------|--|---|
| State and Local Agency Bonds                   | 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 San Bernardino County Investment Pools.

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits 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.



**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Investment in San Bernardino County Investment Pool**

The District is a voluntary participant in the San Bernardino 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</u> |                       |
|---|---------------------|-------------------------------|------------------------|-------------------------------|-----------------------|
|   |                     |                               |                        | <u>12 months or less</u>      | <u>Over 12 months</u> |
| San Bernardino County Investment Pool -Unrestricted                   | \$ 2,380,265        | \$ 725                        | \$ 2,379,540           | \$ 835,219                    | \$ 1,544,321          |
| San Bernardino County Investment Pool - Restricted - Mobile Emissions | 2,385,588           | 727                           | 2,384,861              | 837,086                       | \$ 1,547,775          |
| San Bernardino County Investment Pool - Restricted - Carl Moyer       | 596,135             | 182                           | 595,953                | 209,180                       | \$ 386,773            |
| <b>Total</b>  | <b>\$ 5,361,987</b> | <b>\$ 1,633</b>               | <b>\$ 5,360,354</b>    | <b>\$ 1,881,484</b>           | <b>\$ 3,478,870</b>   |

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

**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

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Credit Risk (Continued)**

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

| <u>Investment Type</u>   | <u>Amount</u>       | <u>Minimum<br/>Legal<br/>Rating</u> | <u>Exempt<br/>from<br/>Disclosure</u> | <u>Ratings<br/>AAA</u> |
|--|---------------------|-------------------------------------|---------------------------------------|------------------------|
| San Bernardino County Investment<br>Pool -Unrestricted                   | \$ 2,379,540        | N/A                                 | \$ 2,379,540                          | -                      |
| San Bernardino County Investment<br>Pool - Restricted - Mobile Emissions | 2,384,861           | N/A                                 | 2,384,861                             | -                      |
| San Bernardino County Investment<br>Pool - Restricted - Carl Moyer       | 595,953             | N/A                                 | 595,953                               | -                      |
| Total  | <u>\$ 5,360,354</u> |                                     | <u>\$ 5,360,354</u>                   |                        |

**NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

As of June 30, 2012, expenditures exceeded the revised budget estimates in individual funds as follows:

|                                     |            |
|-------------------------------------|------------|
| General Fund                        |            |
| Debt Service:                       |            |
| Interest and Fiscal Charges         | \$ 11,321  |
| Carl Moyer Program                  |            |
| Public Safety:                      |            |
| Contributions to Other Participants | \$ 217,500 |

**NOTE 4 – ACCOUNTS RECEIVABLE**

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

| <u>Due Within One Year</u>      | <u>General<br/>Fund</u> | <u>Special<br/>Revenue<br/>Funds</u> | <u>Totals</u>       |
|---------------------------------|-------------------------|--------------------------------------|---------------------|
| State Government:               |                         |                                      |                     |
| Carl Moyer                      | \$ -                    | \$ 925,175                           | \$ 925,175          |
| Total State                     | -                       | 925,175                              | 925,175             |
| Local Government:               |                         |                                      |                     |
| Local Sources                   | 893,863                 | -                                    | 893,863             |
| Interest Receivable             | 4,555                   | 3,600                                | 8,155               |
| Total Local                     | 898,418                 | 3,600                                | 902,018             |
| Total Due Within One Year       | 898,418                 | 928,775                              | 1,827,193           |
| Due in More Than One Year       |                         |                                      |                     |
| Local Sources                   | 455,321                 | -                                    | 455,321             |
| Total Due in More Than One Year | 455,321                 | -                                    | 455,321             |
| Total Accounts Receivable       | <u>\$ 1,353,739</u>     | <u>\$ 928,775</u>                    | <u>\$ 2,282,514</u> |

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 5 – CAPITAL ASSETS**

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

|  | Balance<br>July 01, 2011 | Additions         | Deletions           | Balance<br>June 30, 2012 |
|--|--------------------------|-------------------|---------------------|--------------------------|
| <b>Non-depreciable Capital Assets</b>            |                          |                   |                     |                          |
| Land   | \$ 278,568               | \$ -              | \$ -                | \$ 278,568               |
| Work in Progress                                 | 421,511                  | 74,906            | -                   | 496,417                  |
| Total Non-depreciable Capital Assets             | <u>700,079</u>           | <u>74,906</u>     | <u>-</u>            | <u>774,985</u>           |
| <b>Depreciable Capital Assets</b>                |                          |                   |                     |                          |
| Buildings and Improvements                       | 2,613,899                | 58,182            | -                   | 2,672,081                |
| Equipment  | 2,730,935                | 100,299           | (684,283)           | 2,146,951                |
| Vehicles   | 254,651                  | 35,041            | (69,167)            | 220,525                  |
| Total Depreciable Capital Assets                 | <u>5,599,485</u>         | <u>193,522</u>    | <u>(753,450)</u>    | <u>5,039,557</u>         |
| <b><u>Less accumulated depreciation for:</u></b> |                          |                   |                     |                          |
| Buildings and Improvements                       | (858,902)                | (126,251)         | -                   | (985,153)                |
| Equipment  | (2,134,306)              | (146,730)         | 368,262             | (1,912,774)              |
| Vehicles   | (287,882)                | (4,719)           | 69,167              | (223,434)                |
| Total Accumulated Depreciation                   | <u>(3,281,090)</u>       | <u>(277,700)</u>  | <u>437,429</u>      | <u>(3,121,361)</u>       |
| Net Depreciable Capital Assets                   | <u>2,318,395</u>         | <u>(84,178)</u>   | <u>(316,021)</u>    | <u>1,918,196</u>         |
| Total Capital Assets, Net                        | <u>\$ 3,018,474</u>      | <u>\$ (9,272)</u> | <u>\$ (316,021)</u> | <u>\$ 2,693,181</u>      |

Depreciation was charged to functions as follows:

|                             |                   |
|-----------------------------|-------------------|
| Public Safety - Other       | \$ 277,700        |
| Total Depreciation Expenses | <u>\$ 277,700</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<br>Receivables | Interfund<br>Payables |
|--------------------------|--------------------------|-----------------------|
| Carl Moyer Program       | \$ -                     | \$ 27,948             |
| Mobile Emissions Program | 190,199                  | -                     |
| General Fund             | 27,948                   | 190,199               |
| Totals                   | <u>\$ 218,147</u>        | <u>\$ 218,147</u>     |

**MOJAVE DESERT 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 Program | General Fund         | \$ 373,979        | To transfer mobile emissions revenue to the Mobile Emissions Fund. |
|                          | Total                | <u>\$ 373,979</u> |  |

**NOTE 7 – RELATED PARTY TRANSACTIONS**

The District charges Antelope Valley Air Quality Management District (AVAQMD) for the cost of providing administrative support. Amounts charged to AVAQMD are recorded as earned revenue during the period incurred. Amounts charged to AVAQMD and recorded as revenue during the year ended June 30, 2012, were \$1,059,817 and receivable from to AVAQMD as of June 30, 2012, was \$265,570.

**NOTE 8 – LONG-TERM DEBT OBLIGATIONS**

A summary of changes in general long-term debt at June 30, 2012, follows:

|                          | <u>Balance<br/>July 01, 2011</u> | <u>Additions</u>  | <u>Deductions</u>   | <u>Balance<br/>June 30, 2012</u> | <u>Due Within<br/>One Year</u> |
|--------------------------|----------------------------------|-------------------|---------------------|----------------------------------|--------------------------------|
| City National Bank       | \$ 491,511                       | \$ -              | \$ (159,011)        | \$ 332,500                       | \$ 332,500                     |
| Energy Conservation      | 120,223                          | -                 | (11,355)            | 108,868                          | 11,821                         |
| Subtotal                 | <u>611,734</u>                   | <u>-</u>          | <u>(170,366)</u>    | <u>441,368</u>                   | <u>344,321</u>                 |
| Retiree Health Benefits  | 28,923                           | 22,364            | (22,683)            | 28,604                           | 9,943                          |
| Compensated Absences     | 554,172                          | 9,542             | -                   | 563,714                          | -                              |
| Post Employment Benefits | 180,400                          | 190,200           | (100,000)           | 270,600                          | -                              |
| Subtotal                 | <u>763,495</u>                   | <u>222,106</u>    | <u>(122,683)</u>    | <u>862,918</u>                   | <u>9,943</u>                   |
| Total                    | <u>\$ 1,375,229</u>              | <u>\$ 222,106</u> | <u>\$ (293,049)</u> | <u>\$ 1,304,286</u>              | <u>\$ 354,264</u>              |

Debt service requirements on long-term debt, excluding employment benefits, at June 30, 2012, are as follows:

| <u>Year Ending<br/>June 30,</u> | <u>Principal</u>  | <u>Interest</u>  | <u>Total</u>      |
|---------------------------------|-------------------|------------------|-------------------|
| 2013                            | \$ 344,321        | \$ 4,185         | \$ 348,506        |
| 2014                            | 12,292            | 3,714            | 16,006            |
| 2015                            | 12,783            | 3,223            | 16,006            |
| 2016                            | 13,286            | 2,720            | 16,006            |
| 2017                            | 13,823            | 2,183            | 16,006            |
| 2017-2020                       | 44,863            | 3,155            | 48,018            |
| Totals                          | <u>\$ 441,368</u> | <u>\$ 19,180</u> | <u>\$ 460,548</u> |

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 8 – LONG-TERM DEBT OBLIGATIONS (Continued)**

|   | Long-Term<br>Portion | Current<br>Portion | Total<br>Amount |
|---|----------------------|--------------------|-----------------|
| City National Bank – Total loan \$1,865,497.<br>Payable \$48,418 quarterly including interest<br>at 5.45%   | \$ -                 | \$ 332,500         | \$ 332,500      |
| Energy Conservation – Total loan \$175,000.<br>Payable \$8,002 semi-annually including<br>interest at 3.95% | 97,047               | 11,821             | 108,868         |
| Total Long-Term Debt  | \$ 97,047            | \$ 344,321         | \$ 441,368      |

**NOTE 9 – 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:

| Year Ending June 30, | Amount    |
|----------------------|-----------|
| 2013                 | \$ 19,072 |
| 2014                 | 19,072    |
| 2015                 | 12,714    |
| Total                | \$ 50,858 |

|                     |           |
|---------------------|-----------|
| Rental Expenditures |           |
| Fiscal Year 2012    | \$ 19,493 |

**NOTE 10 – 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.

At June 30, 2012, SDRMA maintained general liability, automobile liability, workers' compensation 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.

At June 30, 2012, SDRMA also maintained property liability insurance coverage of \$1,000,000 per claim and claims above the self-insurance limits as required by law. As SDRMA is acting as a broker obtaining low cost policies for its members, joint venture disclosure is not applicable.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS**

**A. Defined Benefit Plan**

Plan Description The Mojave Desert Air Quality Management District employees participate in the San Bernardino County Employees' Retirement Association (SBCERA), which is a defined benefit pension plan (the "Plan") operating under the California County Employees' Retirement Act of 1937. All full-time, regular employees of the Mojave Desert Air Quality Management District are members of the plan.

Employees become eligible for membership on their first day of regular employment and become fully vested after five years. General members are eligible for retirement benefits upon completion of ten years of service and attaining age fifty, or thirty years of service regardless of age. Retirement benefits are calculated at 2% of highest compensation for each completed year of service based on a normal retirement age of fifty-five for general members. The Plan also provides disability benefits to members and death benefits to beneficiaries of members.

Employee and Employer Contribution Obligations Employees are required to contribute a percentage of their annual compensation to the Plan based on the member's age at entry into the Plan. Participating members contribute an amount, based on actuarial assumptions, that, together with employer contributions, is intended to provide sufficient reserves for payment of all prospective benefits to members. Employees of the District may also elect to have the District make contributions on their behalf under a contribution benefit option plan instituted by the District. Rates at June 30, 2012, are as follows:

| <u>Category</u> | <u>Rates as a<br/>Percentage of Wages</u> |
|-----------------|---|
| General Members | Employee      8.95% to 12.84%             |
|                 | Employer        19.97%                    |

Funding Status and Progress The amount shown below as the "pension benefit obligation" is a standardized measure of the present value of pension benefits, adjusted for the effects of step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help assess the funding status of the system on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons with other public employee retirement systems. The measure is the actuarial present value of credited projected benefits and is independent of the funding methods used to determine contributions to the SBCERA.

The pension benefit obligation was determined as part of an actuarial valuation performed as of June 30, 2011. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 7.75% per year, (b) projected salary increases of 5.00% to 13.25% per year, attributable to inflation, and (c) cost of living of 2.00% per year.

SBCERA does not maintain pension data on an entity basis; therefore, separate pension fund information for District employees is not available.

Actuarially Determined Contribution Requirements and Contributions Made SBCERA uses the Projected Unit Credit Normal Cost Method, which is an accrued benefit method. That is, it focuses on benefits earned by employees of service through valuation date.

According to the "benefit" method, the normal cost is the actuarial present value on the valuation date of the benefits credited for employee service through that date.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (Continued)**

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation, as previously described.

Trend Information Trend Information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Ten-year historical trend information for the SBCERA presenting progress in accumulating sufficient assets to pay benefits when due is presented in the County of San Bernardino's June 30, 2011, Comprehensive Annual Financial Report (CAFR).

**B. Deferred Compensation Plan**

District employees may participate in the "Mojave Desert Air Quality Management District Deferred Compensation Plan" established pursuant to Internal Revenue Code Section 457. The plan is administered by ING Aetna Financial Services, Inc. and all contributions are made entirely from employee compensation. No District contribution is required or made.

**C. Matching Contribution Plan**

District employees participating in the Deferred Compensation Plan become participants in the "Mojave Desert Air Quality Management District 401(a) Matching Contribution Plan" established pursuant to Internal Revenue Code Section 3401(a). The District (Employer) shall make matching contributions for each participant equal to a specified percentage of his or her salary deferrals made during the plan year under the Deferred Compensation Plan. For the fiscal year ended June 30, 2012, the Employer matched 100 percent up to 6 percent of the participant's deferral. Employee voluntary contributions are not permitted under the plan. Vesting in the District's matching contribution is based on years of continuous service as follows:

| <u>Completed Years of Service</u> | <u>Nonforfeitable Percentage</u> |
|-----------------------------------|----------------------------------|
| 0-4                               | 0%                               |
| 5                                 | 100%                             |

A participant shall be entitled to benefits under this plan upon termination of service due to death, disability or retirement.

**D. Flexible Benefit Plan**

District employees participate in the "Mojave Desert Air Quality Management District Flexible Benefit Plan" established pursuant to Internal Revenue Code Section 125. The plan allows for District employees to elect between taxable and nontaxable fringe benefits and compensation. The District makes payment to employees pursuant to negotiated bargaining agreement.

**NOTE 12 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

**A. Benefit Plan**

In addition to the pension benefits described in Note 11, the District provides post employment benefits for health care. This coverage is self-insured on a pooled basis through the California Public Employees' Retirement System (CalPers).

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 12 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS** (Continued)

Eligibility for District-paid Benefits

All District pays to eligible retired employees two percent (2%) per service year of the premium of CalPers health insurance for the employee and his or her spouse, but not to exceed the Flexible Benefit amount for a full time employee. Such benefit is payable from the date of retirement to (5) years, or until the date retiree becomes eligible for Medicare, or until the date retiree discontinues the coverage, whichever occurs first.

Retiring employee shall be eligible for retiree medical benefits under the following conditions:

- A. Retiring employee must be enrolled in a CalPers health plan at the time of the retirement.
- B. Retiring employee must have served a minimum of ten (10) years of public service with the District.
- C. Retiring employee must have a minimum total of twenty (20) years of public service with any of the member agencies of the District and any air district in California. For the purpose of this subsection, a “member agency” is defined as a city or county that lies in whole or in part within the boundaries of the District.

**B. Funding Policy**

As required by GASB 45, an actuary will determine the District’s Annual Required Contributions (ARC) at least once every two fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year, and (2) a component for amortization of the total unfunded actuarial accrued liability (UAAL) over a period not to exceed 30 years.

GASB 45 does not require pre-funding of OPEB benefits. Therefore, the District’s funding policy is to continue to pay healthcare premiums for retirees as they fall due. The District has elected to establish an irrevocable trust at this time. The Board Members reserve the authority to review and amend this funding policy from time to time, in order to ensure that the funding policy continues to best suit the circumstances of the District.

**C. Annual OPEB Cost and Net OPEB Obligation/(Asset)**

The following table shows the components of the District’s Annual OPEB cost for the fiscal year ended June 30, 2012, the amount actually contributed to the plan, and changes in the District’s Net OPEB Obligation/(Asset).

|   |            |
|---|------------|
| Annual Required Contributions                   | \$ 190,200 |
| Interest on Net OPEB Obligation/(Asset)         | -          |
| Adjustment to Annual Required Contributions     | -          |
| Annual OPEB cost (expense)                      | 190,200    |
| Contributions made                              | (100,000)  |
| Increase in Net OPEB Obligation/(Asset)         | 90,200     |
| Net OPEB Obligation/(Asset) - beginning of year | 180,400    |
| Net OPEB Obligation /(Asset) - end of year      | \$ 270,600 |



**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 12 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS** (Continued)

The district's Annual OPEB Cost, the percentage of Annual OPEB cost contributed to the plan, and the Net OPEB Obligation/(Asset) for the fiscal year ended June 30, 2012 are shown in the following table. Only two year's information is available since fiscal year 2010 was the District's initial year of implementation for GASB Statement No. 45.

| Fiscal<br>Year<br>Ended | Annual<br>OPEB Cost | Actual<br>Contribution | Percentage of<br>Annual OPEB<br>Cost Contributed | Net OPEB<br>Obligation/<br>(Asset) |
|-------------------------|---------------------|------------------------|--|------------------------------------|
| 06/30/2010              | \$ 190,200          | \$ 100,000             | 52.58%   | \$ 90,200                          |
| 06/30/2011              | \$ 190,200          | \$ 100,000             | 52.58%   | \$ 180,400                         |
| 06/30/2012              | \$ 190,200          | \$ 100,000             | 52.58%   | \$ 270,600                         |

**D. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The plan's most recent actuarial valuation was performed as of July 1, 2009. In that valuation, the Projected Unit Credit (PUC) Cost Method was used. The actuarial assumptions included a 6 percent investment rate of return (net of administrative expenses), an annual medical cost trend rate of 3.5 percent initially, increased by decrements to an ultimate rate of 5 percent after 4 years. These assumptions reflect an implicit 3.0 percent general inflation assumption. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over 30 years. The remaining amortization period as of June 30, 2012, was 30 years.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 13 – DEFERRED REVENUE**

A. 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               |
|---------------------------------------|------------------|-------------|-------------|-------------------|-------------------|---------------------|
|                                       | X                | XI          | XII         | XIII              | XIV               |                     |
| <u>Grant Funding</u>                  |                  |             |             |                   |                   |                     |
| Amount Received to Date               | \$ 271,140       | \$ 466,121  | \$ 187,000  | \$ 517,023        | \$ 545,724        | \$ 1,987,008        |
| Amount Expended to Date               | (268,121)        | (466,121)   | (187,000)   | (32,500)          | -                 | (953,742)           |
| Total Grant Deferred                  | 3,019            | -           | -           | 484,523           | 545,724           | 1,033,266           |
| <u>Administrative Support Funding</u> |                  |             |             |                   |                   |                     |
| Amount Received to Date               | 76,624           | 67,820      | 60,743      | 57,447            | 60,636            | 323,270             |
| Amount Expended to Date               | (76,624)         | (67,820)    | (60,743)    | -                 | -                 | (205,187)           |
| Total Administrative Deferred         | -                | -           | -           | 57,447            | 60,636            | 118,083             |
| Total Amount Deferred                 | <u>\$ 3,019</u>  | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 541,970</u> | <u>\$ 606,360</u> | <u>\$ 1,151,349</u> |

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 14 – 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 was involved in several matters of litigation as of June 30, 2012. There is a large potential for future lawsuits from environmentalists and other organizations that are in disagreement with manufacturing and other types of business activities that may have emissions as a result of their production activities and it appears to be no insurance available to help off-set these potential claims. The outcomes of these matters of litigation are uncertain as of June 30, 2012.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 14 – 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 15 – 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.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**NOTE 15 – 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 16 – 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**

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

|  | Budgeted Amounts    |                     | Actual              | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|---------------------|---------------------|---------------------|---|
|  | Original            | Final               |                     |   |
| <b>REVENUES</b>  |                     |                     |                     |   |
| Antelope Valley Air Quality<br>Management Contract           | \$ 1,089,029        | \$ 1,089,029        | \$ 1,059,817        | \$ (29,212)   |
| Application and Permit Fees                                  | 3,968,482           | 3,968,482           | 4,299,197           | 330,715   |
| AB 2766 and Other Program Revenues                           | 1,546,700           | 1,546,700           | 1,580,747           | 34,047  |
| Grants   | 261,000             | 261,000             | 331,799             | 70,799  |
| Fines  | 60,000              | 60,000              | 85,800              | 25,800  |
| Investment Earnings  | 30,000              | 30,000              | 11,517              | (18,483)  |
| Miscellaneous  | -                   | -                   | 17                  | 17  |
| Total Revenues   | <u>6,955,211</u>    | <u>6,955,211</u>    | <u>7,368,894</u>    | <u>413,683</u>  |
| <b>EXPENDITURES</b>  |                     |                     |                     |   |
| Public Safety:   |                     |                     |                     |   |
| Salaries and Benefits  | 4,943,838           | 4,943,838           | 4,628,805           | 315,033   |
| Services and Supplies  | 973,265             | 973,265             | 652,254             | 321,011   |
| Contributions to Other Participants                          | 504,675             | 504,675             | 488,721             | 15,954  |
| Debt Service:  |                     |                     |                     |   |
| Principal  | 181,687             | 181,687             | 170,366             | 11,321  |
| Interest and Fiscal Charges                                  | 27,997              | 27,997              | 39,318              | (11,321)  |
| Capital Outlay:  |                     |                     |                     |   |
| Improvements and Equipment                                   | 539,289             | 539,289             | 268,428             | 270,861   |
| Total Expenditures   | <u>7,170,751</u>    | <u>7,170,751</u>    | <u>6,247,892</u>    | <u>922,859</u>  |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>(215,540)</u>    | <u>(215,540)</u>    | <u>1,121,002</u>    | <u>1,336,542</u>  |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                     |                     |                     |   |
| Operating Transfers Out                                      | <u>(466,491)</u>    | <u>(466,491)</u>    | <u>(373,979)</u>    | <u>(92,512)</u>   |
| Total Other Financing<br>Sources (Uses)                      | <u>(466,491)</u>    | <u>(466,491)</u>    | <u>(373,979)</u>    | <u>(92,512)</u>   |
| Net Change in Fund Balances                                  | (682,031)           | (682,031)           | 747,023             | 1,429,054   |
| Fund Balance - Beginning of Year                             | <u>2,358,439</u>    | <u>2,358,439</u>    | <u>2,358,439</u>    | <u>-</u>  |
| Fund Balance - End of Year                                   | <u>\$ 1,676,408</u> | <u>\$ 1,676,408</u> | <u>\$ 3,105,462</u> | <u>\$ 1,429,054</u>                                     |

See independent auditors' report.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
BUDGETARY COMPARISON SCHEDULE - MOBILE EMISSIONS PROGRAM  
FOR THE YEAR ENDED JUNE 30, 2012**

|  | Budgeted Amounts    |                     | Actual              | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|---------------------|---------------------|---------------------|---|
|  | Original            | Final               |                     |   |
| <b>REVENUES</b>  |                     |                     |                     |   |
| Investment Earnings  | \$ -                | \$ -                | \$ 10,827           | \$ 10,827   |
| Total Revenues   | -                   | -                   | 10,827              | 10,827  |
| <b>EXPENDITURES</b>  |                     |                     |                     |   |
| Public Safety<br>Services and Supplies                       | 400,000             | 400,000             | 41,485              | 358,515   |
| Total Expenditures   | 400,000             | 400,000             | 41,485              | 358,515   |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | (400,000)           | (400,000)           | (30,658)            | 369,342   |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                     |                     |                     |   |
| Operating Transfers In                                       | 366,175             | 366,175             | 373,979             | 7,804   |
| Total Other Financing<br>Sources (Uses)                      | 366,175             | 366,175             | 373,979             | 7,804   |
| Net Change in Fund Balances                                  | (33,825)            | (33,825)            | 343,321             | 377,146   |
| Fund Balance - Beginning of Year                             | 2,234,704           | 2,234,704           | 2,234,704           | -   |
| Fund Balance - End of Year                                   | <u>\$ 2,200,879</u> | <u>\$ 2,200,879</u> | <u>\$ 2,578,025</u> | <u>\$ 377,146</u>                                       |

See independent auditors' report.

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

|  | Budgeted Amounts  |                   | Actual            | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|-------------------|-------------------|-------------------|---|
|  | Original          | Final             |                   |   |
| <b>REVENUES</b>  |                   |                   |                   |   |
| Grants   | \$ 517,023        | \$ 517,023        | \$ 252,905        | \$ (264,118)  |
| Investment Earnings  | -                 | -                 | 2,243             | 2,243   |
| Total Revenues   | <u>517,023</u>    | <u>517,023</u>    | <u>255,148</u>    | <u>(261,875)</u>  |
| <b>EXPENDITURES</b>  |                   |                   |                   |   |
| Public Safety:   |                   |                   |                   |   |
| Services and Supplies  | 517,023           | 517,023           | 35,404            | 481,619   |
| Contributions to Other Participants                          | -                 | -                 | 217,500           | (217,500)   |
| Total Expenditures   | <u>517,023</u>    | <u>517,023</u>    | <u>252,904</u>    | <u>264,119</u>  |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | -                 | -                 | 2,244             | 2,244   |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                   |                   |                   |   |
| Operating Transfers In                                       | -                 | -                 | -                 | -   |
| Total Other Financing<br>Sources (Uses)                      | <u>-</u>          | <u>-</u>          | <u>-</u>          | <u>-</u>  |
| Net Change in Fund Balances                                  | -                 | -                 | 2,244             | 2,244   |
| Fund Balance - Beginning of Year                             | <u>325,551</u>    | <u>325,551</u>    | <u>325,551</u>    | <u>-</u>  |
| Fund Balance - End of Year                                   | <u>\$ 325,551</u> | <u>\$ 325,551</u> | <u>\$ 327,795</u> | <u>\$ 2,244</u>   |

See independent auditors' report.



**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT  
OTHER POST EMPLOYMENT BENEFIT PLAN  
SCHEDULE OF FUNDING PROGRESS  
JUNE 30, 2012**

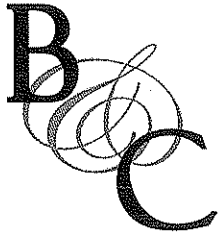
The funded status of the plan as of June 30, 2012, was as follows:

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets | Projected<br>Unit Credit<br>Actuarial<br>Accrued<br>Liability | Unfunded<br>AAL<br>(UAAL) | Funded<br>Ratio | Covered<br>Payroll | UAAL as a<br>Percentage<br>of Covered<br>Payroll |
|--------------------------------|---------------------------------|---|---------------------------|-----------------|--------------------|--|
| July 1, 2009                   | \$ 0                            | \$ 1,421,221  | \$ 1,421,221              | 0%              | \$ 2,581,966       | 55%  |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the Annual Required Contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, as presented shows where the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Because the fiscal year ended June 30, 2009, is the year of implementation of GASB No. 45, and no actuarial report has been issued since June 30, 2009, only one year is presented in the schedule at this time. In future years, required three year trend analysis will be presented as more actuarial reports are completed.

**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  
Mojave Desert Air Quality Management District  
Victorville, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mojave Desert 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 24, 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

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Mojave Desert 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 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 Mojave Desert 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

Mojave Desert Air Quality Management District  
Page 2

This report is intended solely for the information and use of management, others within the District, and Governing Board, and is not intended to be and should not be used by anyone other than these specified parties.

*Burkey Cox, CPAs*  
BURKEY COX EVANS & BRADFORD  
Accountancy Corporation

Palmdale, California  
October 24, 2012