

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT

**COUNTY OF SAN BERNARDINO
VICTORVILLE, CALIFORNIA**

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2009**

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

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
JUNE 30, 2009**

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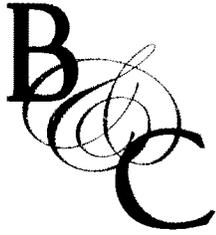
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JUNE 30, 2009**

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FINANCIAL INFORMATION



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INDEPENDENT AUDITOR'S 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, as of and for the year ended June 30, 2009, which collectively comprise the Mojave Desert Air Quality Management District basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mojave Desert Air Quality Management 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 opinions.

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, 2009, and the respective changes in financial position and, where applicable, cash flows 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 9, 2009, 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.

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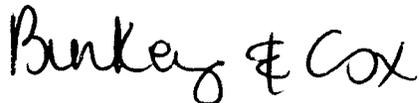
ACCOUNTANCY CORPORATION

Mojave Desert Air Quality Management District

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The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 32 through 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mojave Desert Air Quality Management District's basic financial statements. The introductory section and required supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and supplementary information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



BURKEY, COX, EVANS BRADFORD & ALDEN
Certified Public Accountants

Palmdale, California
December 17, 2009

MANAGEMENT DISCUSSION AND ANALYSIS

Mojave Desert Air Quality Management District
Management's Discussion and Analysis
June 30, 2009

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, 2009. Please read this in conjunction the basic financial statements.

A. Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$5,829,698 (*net assets*). Of this amount \$691,295 (*unreserved and net assets*) 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 \$4,536,806 for the year, \$1,332,974 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 statement include the Statement of Net Assets and the Statement of Activities.

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

Mojave Desert Air Quality Management District
Management's Discussion and Analysis
June 30, 2009

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.

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, a 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.

Mojave Desert Air Quality Management District
Management's Discussion and Analysis
June 30, 2009

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 14 to 31 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, 2009, as compared to the prior year.

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Total Assets	\$9,448,963	\$7,938,147
Total Liabilities	<u>(3,619,265)</u>	<u>(2,792,206)</u>
Net Assets	\$5,829,698	\$5,145,941

At the close of the most recent fiscal year, the District's assets exceeded liabilities by \$5,829,698.

The largest portion of the District's net assets (55%) is restricted for special programs. These funds are restricted to expenditures for specific purposes. Capital assets (33%) 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 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 (12%) is unrestricted, and unreserved, and may be used to meet the District's ongoing obligations in carrying out day-to-day operations.

Mojave Desert Air Quality Management District
 Management's Discussion and Analysis
 June 30, 2009

The following schedule is a condensed statement of Changes in Fund Balances as of fiscal year ending June 30, 2009, as compared to the prior year.

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Revenues	\$7,960,273	\$7,802,597
Expenses	<u>(7,308,682)</u>	<u>(6,884,139)</u>
Net Assets	\$651,591	\$918,456

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 2008-09. 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 \$4,536,806, an increase of \$651,591 in comparison with the prior year. Approximately 71% of this fund balance (\$3,203,832) 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 \$1,332,974, an increase of \$151,547 in comparison with the prior year. The unreserved fund balance is 100% unrestricted.

E. Capital Assets

The District's investment in capital assets is for its governmental activities. The book value was \$2,881,959 (net of accumulated depreciation of \$2,723,858) as of June 30, 2009. 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 24 of this report.

Mojave Desert Air Quality Management District
Management's Discussion and Analysis
June 30, 2009

F. Economic Factors and Next Year's Budget

The FY 2009-10 budget calls for expenditures totaling \$7,614,140 with sufficient revenues to pay for those services. The expenditure budget is a decrease of less than 1% from FY 2008-09. This budget also includes continuing projects to improve the automated permit billing system, implementing electronic storage of District records, building improvements, completing a solar project, a video conferencing system, and training/development opportunities for governing board members and staff.

Revenues are projected at \$7,167,956, a 3% increase over last year's projections. This increase can be attributed in part to 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, 2009

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 4,174,624
Receivables (net of allowances for uncollectibles)	2,390,830
Prepaid Items	1,550
Capital Assets (net of accumulated depreciation):	
Land	278,568
Buildings, Machinery and Equipment	<u>2,603,391</u>
Total Assets	<u>9,448,963</u>
LIABILITIES	
Accounts Payable and Other Current Liabilities	310,635
Due to Local Government Agencies	196,140
Due to Other Government Agencies	89,970
Deferred Revenue	1,433,453
Noncurrent Liabilities:	
Due within one year	182,378
Due in more than one year	<u>1,406,689</u>
Total Liabilities	<u>3,619,265</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	1,934,571
Restricted for Other Purposes	3,203,832
Unrestricted	<u>691,295</u>
Total Net Assets	<u><u>\$ 5,829,698</u></u>

The accompanying notes are an integral part of these statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
PRIMARY GOVERNMENT				
Governmental Activities:				
Public Safety:				
Salaries and Benefits	\$ 4,496,068	\$ 3,616,524	\$ 1,221,950	\$ 342,406
Services and Supplies	1,374,806	1,105,859	373,647	104,701
Contributions to Other Participants	1,350,867	1,130,663	382,028	161,824
Interest on Long-Term Debt	<u>54,775</u>			<u>(54,775)</u>
Total Governmental Activities	<u>7,276,516</u>	<u>5,853,047</u>	<u>1,977,625</u>	<u>554,156</u>
Total Primary Government	<u><u>\$ 7,276,516</u></u>	<u><u>\$ 5,853,047</u></u>	<u><u>\$ 1,977,625</u></u>	<u>554,156</u>
General Revenues:				
Unrestricted Investment Earnings				128,928
Miscellaneous				<u>673</u>
Total General Revenues				<u>129,601</u>
Change in Net Assets				683,757
Net Assets - Beginning				<u>5,145,941</u>
Net Assets - Ending				<u><u>\$ 5,829,698</u></u>

The accompanying notes are an integral part of these statements.

FUND FINANCIAL STATEMENTS

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009**

	<u>General Fund</u>	<u>Mobile Emissions Program</u>	<u>Carl Moyer Program</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Investments	\$ 183,708	\$ 0	\$ 0	\$ 0	\$ 183,708
Cash with Fiscal Agent	1,882,780	1,891,635	216,501	0	3,990,916
Receivables (net of allowances for uncollectibles)	934,303	9,990	1,446,537	0	2,390,830
Due from Other Funds	0	100,694	83,928	0	184,622
Prepaid Items	1,550	0	0	0	1,550
	<u>1,550</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,550</u>
Total Assets	<u>\$ 3,002,341</u>	<u>\$ 2,002,319</u>	<u>\$ 1,746,966</u>	<u>\$ 0</u>	<u>\$ 6,751,626</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable and Other					
Current Liabilities	\$ 310,635	\$ 0	\$ 0	\$ 0	\$ 310,635
Due to Other Funds	184,622	0	0	0	184,622
Due to Local Government Agencies	196,140	0	0	0	196,140
Due to Other Government Agencies	89,970	0	0	0	89,970
Deferred Revenues	0	0	1,433,453	0	1,433,453
	<u>0</u>	<u>0</u>	<u>1,433,453</u>	<u>0</u>	<u>1,433,453</u>
Total Liabilities	<u>781,367</u>	<u>0</u>	<u>1,433,453</u>	<u>0</u>	<u>2,214,820</u>
FUND BALANCES					
Unreserved	1,332,974	0	0	0	1,332,974
Reserved, reported in nonmajor					
Special Revenue Funds	0	2,002,319	313,513	0	2,315,832
Reserved for Other Purpose	888,000	0	0	0	888,000
	<u>888,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>888,000</u>
Total Fund Balances	<u>2,220,974</u>	<u>2,002,319</u>	<u>313,513</u>	<u>0</u>	<u>4,536,806</u>
Total Liabilities and	<u>\$ 3,002,341</u>	<u>\$ 2,002,319</u>	<u>\$ 1,746,966</u>	<u>\$ 0</u>	<u>\$ 6,751,626</u>

The accompanying notes are an integral part of these 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, 2009**

Total Fund Balances - Governmental Funds \$ 4,536,806

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 \$5,605,817 and the accumulated depreciation is \$2,723,858. 2,881,959

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the noncurrent portion of capital leases, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Long-term obligations that will be paid from governmental funds are not recognized as a current liability in the fund financial statements when due but rather recognized as an expense when paid.

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

Installment Purchase Agreement	\$	805,721	
California Energy Commission		141,667	
Compensated Absences		615,755	
Retiree Health Benefits		<u>25,924</u>	
Total			<u>(1,589,067)</u>

Total Net Assets - Governmental Activities \$ 5,829,698

The accompanying notes are an integral part of these statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009**

	General Fund	Mobile Emissions Program	Carl Moyer Program	Other Governmental Funds	Total Governmental Funds
REVENUES					
Antelope Valley Air Quality Management Contract	\$ 1,106,156	\$ 0	\$ 0	\$ 0	\$ 1,106,156
Application and Permit Fees AB 2766 and Other Program Revenues	4,095,090	0	0	0	4,095,090
Grants	1,566,541	0	0	0	1,566,541
Fines	339,824	0	531,645	0	871,469
Investment Earnings	191,416	0	0	0	191,416
Miscellaneous	54,405	57,018	17,505	0	128,928
	673	0	0	0	673
Total Revenues	7,354,105	57,018	549,150	0	7,960,273
EXPENDITURES					
Public Safety:					
Salaries and Benefits	4,485,390	0	0	0	4,485,390
Services and Supplies	1,042,534	0	32,974	2,911	1,078,419
Contributions to Other Participants	442,855	467,460	440,552	0	1,350,867
Debt Service:					
Principal	0	0	0	154,909	154,909
Interest and Fiscal Charges	0	0	0	54,775	54,775
Capital Outlay Improvements and Equipment	184,322	0	0	0	184,322
Total Expenditures	6,155,101	467,460	473,526	212,595	7,308,682
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,199,004	(410,442)	75,624	(212,595)	651,591
Other Financing Sources (Uses)					
Operating Transfers In	0	370,871	193,129	209,684	773,684
Operating Transfers Out	(773,684)	0	0	0	(773,684)
Total Other Financing Sources (Uses)	(773,684)	370,871	193,129	209,684	0
Net Change in Fund Balances	425,320	(39,571)	268,753	(2,911)	651,591
Fund Balance - Beginning of Year	1,719,427	2,041,890	120,987	2,911	3,885,215
Prior Year Adjustments	76,227	0	(76,227)	0	0
Fund Balance - End of Year	\$ 2,220,974	\$ 2,002,319	\$ 313,513	\$ 0	\$ 4,536,806

The accompanying notes are an integral part of these 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, 2009**

Total Net Change in Fund Balances - Governmental Funds \$ 651,591

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	\$	184,322	
Disposal of Asset		(1,495)	
Current Year Depreciation		<u>(294,892)</u>	
Total			(112,065)

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, 2009.

Retiree Health Benefits		<u>(29,690)</u>	
Total			(29,690)

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		144,800	
California Energy Commission		10,109	
Post Employment Benefits		<u>19,012</u>	
Total			<u>173,921</u>

Total Change in Net Assets - Governmental Activities \$ 683,757

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of Mojave Desert Air Quality Management District (the “District”) have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

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

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

The 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, Basis of Accounting

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 taxes, 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 taxes, 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, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 nonmajor governmental funds:

Barstow United States Marine Corps – In August 1993, the District entered into an agreement with the United States Marine Corps at the Barstow Marine Corps Logistics Base for the installation, operation and maintenance of an ambient air monitoring station.

Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs.

C. Measurement Focus, Basis of Accounting

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 property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used of the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, and then unrestricted resources as they are needed.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

F. Assets, Liabilities, and Equity

1. Deposits and Investments

The District adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures," as of July 1, 2004. GASB Statement 40 requires governmental entities to assess categories of risk associated with their deposits and investments and disclose these risks.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national and international exchange are valued at the last reported sales price at current exchange rates. (See Note 2 for further discussion).

2. Inventories and Prepaid Expenditures

Inventories of supplies were not significant as of June 30, 2009.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Capital Assets

In the Government-wide Financial Statements, fixed assets are accounted for as Capital Assets. All fixed assets are reported at cost or estimated historical cost, except for donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$1,000 is used.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Useful Lives
Land Improvements	20 years
Buildings	20 - 50 years
Building and Improvements	20 years
Vehicles	8 years
Equipment	15 - 20 years
Computer Equipment	3 - 15 years

4. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

Accounts receivable are deemed by management to be fully collectible at June 30, 2009, and therefore no allowance for doubtful accounts has been established.

5. 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, 2009 was \$615,755.

6. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or 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.

G. 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.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fund Equity

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation; or as (3) designated by Board action.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

The following is a description of the reserves and designations used by the District.

- a. Reserved for Special Programs – Representing funds received and accumulated for specific grant program expenditures to be incurred at a future date.
- b. Reserved by District– Represents funds reserved for future contingencies that may occur that are not anticipated or known as of June 30, 2009.

NOTE 2 – CASH AND INVESTMENTS

General

The District has adopted Governmental Accounting Standards Board Statement 31 (GASB 31) which requires investments of governmental agencies to be reported at fair value. However, investment pools, such as a state or county treasury, may report the value of short-term investments with remaining maturities of less than 90 days at amortized costs. The majority of the County Treasury investments have a remaining maturity of less than 90 days. In addition, GASB 31 does not apply to immaterial cost/value differences. The District has chosen to continue to reflect investments in the County Treasury at cost.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Unrestricted and Restricted

Cash and investments consisted of the following at June 30, 2009:

	Unrestricted	Restricted		Totals
	General Fund	Mobile Emissions	Carl Moyer	
Cash on Hand and in Banks	\$ 180,925	\$ 0	\$ 0	\$ 180,925
Pooled Investments - San Bernardino County Treasury	<u>1,885,563</u>	<u>1,891,635</u>	<u>216,501</u>	<u>3,993,699</u>
Totals	<u>\$ 2,066,488</u>	<u>\$ 1,891,635</u>	<u>\$ 216,501</u>	<u>\$ 4,174,624</u>

All cash and time deposits are entirely insured or collateralized. The California Government Code requires state banks to secure District deposits by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the District's deposits. The District may waive collateral requirements for deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

The surplus funds of the District may be invested in any of the approved investments contained in the California Government code Sections 53600 et seq., limited further by the investment policy adopted by the District.

Investments Authorized by the Entity's Investment Policy

The District's investment policy authorizes investment in the local government investment pool administered by San Bernardino County. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

Additionally, the District may invest idle or surplus funds in accordance with California Government Code Section 53601. The following represents permissible investments per this code section

- Local agency bonds, notes or warrants within the state
- United States Treasury instruments
- Registered state warrants or treasury notes
- Securities of the U.S. Government, or its agencies
- Bankers acceptances
- Commercial paper
- Certificates of deposit (or time deposits) placed with commercial banks and/or savings and loan companies
- Repurchase or reverse repurchase agreements
- Medium term corporate notes
- Shares of beneficial interest issued by diversified management companies
- Certificate of Participation
- Obligations with first priority security
- Collateralized mortgage obligations

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District’s investment policy. The District had no debt proceeds investments as of June 30, 2009.

Disclosures Relating to 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. As of fiscal year-end, the weighted average maturity of the investments contained in the San Bernardino County Investment Pool is approximately twelve (12) months.

Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

	<u>Maturity Date</u>	<u>Carrying Amount</u>	<u>Fair Value Adjustment *</u>	<u>Fair Value</u>
San Bernardino County Investment Pool - Unrestricted	12 months average	<u>\$ 1,885,563</u>	<u>\$ 25,288</u>	<u>\$ 1,910,851 *</u>
Restricted	12 months average	<u>\$ 2,108,136</u>	<u>\$ 28,274</u>	<u>\$ 2,136,410 *</u>

* 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.

Disclosures Relating to 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. San Bernardino County Investment Pool does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Investments in any one issuer that represent 5% or more of total investments by reporting unit are as follows:

As of June 30, 2009 \$3,993,699 of the cash and investments are held in the form of a nonnegotiable unrated investment in the San Bernardino County Investment Pool.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The 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, 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.

None of the District's deposits with financial institutions were in excess of federal depository insurance limits.

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

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 San Bernardino. 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 San Bernardino County for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by San Bernardino County, which are recorded on an amortized cost basis.

Derivative Investments

The District did not directly enter into any derivative investments.

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following are the excess of expenditures over appropriations as of June 30, 2009.

Mobile Emissions		
Services and Supplies	\$	67,460
Debt Service Fund		
Interest and Fiscal Charges	\$	4

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 4 – ACCOUNTS RECEIVABLE

Receivables at June 30, 2009, consist of the following:

	General Fund	Special Revenue Fund	Totals
Federal Government:			
Grant Program	\$ 23,200	\$ 0	\$ 23,200
Total Federal	23,200	0	23,200
State Government:			
Department of Motor Vehicles	270,416	0	270,416
Carl Moyer	0	1,444,436	1,444,436
Total State	270,416	1,444,436	1,714,852
Local Government:			
Local Sources	631,572	0	631,572
Interest Receivable	9,115	12,091	21,206
Total Local	640,687	12,091	652,778
Total Accounts Receivable	\$ 934,303	\$ 1,456,527	\$ 2,390,830

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 5 – CAPITAL ASSETS

The changes in fixed assets for the year ended June 30, 2009 are shown below:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 278,568	\$ 0	\$ 0	\$ 278,568
Total capital assets not being depreciated	<u>278,568</u>	<u>0</u>	<u>0</u>	<u>278,568</u>
Capital Assets being depreciated:				
Buildings and Improvements	2,242,508	27,025	0	2,269,533
Equipment	<u>2,954,958</u>	<u>157,297</u>	<u>(54,539)</u>	<u>3,057,716</u>
Total capital assets being depreciated	<u>5,197,466</u>	<u>184,322</u>	<u>(54,539)</u>	<u>5,327,249</u>
Less accumulated depreciation for:				
Buildings and Improvements	(554,288)	(88,980)	0	(643,268)
Equipment	<u>(1,927,722)</u>	<u>(205,912)</u>	<u>53,044</u>	<u>(2,080,590)</u>
Total accumulated depreciation	<u>(2,482,010)</u>	<u>(294,892)</u>	<u>53,044</u>	<u>(2,723,858)</u>
Total capital assets being depreciated, net	<u>2,715,456</u>	<u>(110,570)</u>	<u>(1,495)</u>	<u>2,603,391</u>
Governmental activities capital assets, net	<u>\$ 2,994,024</u>	<u>\$ (110,570)</u>	<u>\$ (1,495)</u>	<u>\$ 2,881,959</u>
Depreciation was charged to functions as follows:				
Public Safety - Other	<u>\$ 294,892</u>			
Total Depreciation Expenses	<u>\$ 294,892</u>			

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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, 2009 is as follows:

	Interfund Receivables	Interfund Payables
Carl Moyer	\$ 83,928	\$ 0
Mobile Emissions Project	100,694	0
General Fund	0	184,622
Totals	\$ 184,622	\$ 184,622

Transfers In / Transfers Out – Individual fund interfund transfers for the fiscal year ended June 30, 2009 were as follows:

Transfers In	Transfers Out	Amount	Purpose
Mobile Emissions Fund	General Fund	\$ 370,871	To transfer mobile emissions revenue to the Mobile Emissions Fund.
Debt Service Fund	General Fund	209,684	Payment of current year debt obligation.
Carl Moyer	General Fund	193,129	To transfer Carl Moyer revenue to the Carl Moyer Fund.
	Total	\$ 773,684	

NOTE 7 – SHORT-TERM DEBT ACTIVITY

The District had no short-term debt issued or outstanding during the fiscal year ended June 30, 2009.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 8 – LONG-TERM DEBT OBLIGATIONS

A summary of changes in general long-term debt at June 30, 2009 follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2009</u>	<u>Due Within One Year</u>
City National Bank	\$ 950,521	\$ 0	\$ 144,800	\$ 805,721	\$ 152,854
Energy Conservation	151,776	0	10,109	141,667	10,512
Subtotal	<u>1,102,297</u>	<u>0</u>	<u>154,909</u>	<u>947,388</u>	<u>163,366</u>
Retiree Health Benefits	39,404	5,532	19,012	25,924	19,012
Compensated Absences	<u>591,597</u>	<u>24,158</u>	<u>0</u>	<u>615,755</u>	<u>0</u>
Subtotal	<u>631,001</u>	<u>29,690</u>	<u>19,012</u>	<u>641,679</u>	<u>19,012</u>
Totals	<u><u>\$ 1,733,298</u></u>	<u><u>\$ 29,690</u></u>	<u><u>\$ 173,921</u></u>	<u><u>\$ 1,589,067</u></u>	<u><u>\$ 182,378</u></u>

Debt service requirements on long-term debt, excluding employment benefits, at June 30, 2009, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 163,366	\$ 46,318
2011	172,288	37,396
2012	181,687	27,997
2013	191,627	18,056
2014	153,665	7,603
2015-2019	69,213	10,817
2020-2022	<u>15,542</u>	<u>464</u>
Totals	<u><u>\$ 947,388</u></u>	<u><u>\$ 148,651</u></u>

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 9 – LEASE OBLIGATIONS

A. Operating Leases

The District has entered into operating leases for facilities and equipment as of June 30, 2009 that require payments extending for a period longer than twelve months. Future payments as of June 30, 2009 are as follows:

Year Ending June 30,	Amount
2010	\$ 58,804
2011	15,373
2012	10,249
Total	\$ 84,426
Rental Expenditures	
Fiscal Year 2008/2009	\$ 82,152

B. Capital Leases

As of June 30, 2009, the District has not entered into any lease agreements where title will pass upon the expiration of the lease.

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, 2009, 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, 2009, SDRMA maintained general liability, automobile liability, property liability, and public officials' liability insurance coverage of \$2,500,000 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, 2009, SDRMA also maintained workers' compensation insurance via self insurance for its member districts up to a maximum of \$150,000 per claim and claims above the self-insurance limits as required by law. Inasmuch 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, 2009**

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 final 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, 2009 are as follows:

<u>Category</u>		<u>Rates as a 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, 2008. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.00% per year compounded semi-annually, (b) projected salary increases of 4.25% to 11.48% per year, attributable to inflation, compounded annually, 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, 2009**

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, 2008, 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. Flexible Benefit Plan

District employees may 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 – OTHER POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described in Note 11, the District provides post retirement health care benefits to all employees who retire from the District and meet certain eligibility requirements.

The 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 five (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.

As of June 30, 2009 the District has had a valuation performed on these post employment benefit obligations to estimate the liability of future cost claims. As of June 30, 2009, the total expense paid for three retirees during the fiscal year ended June 30, 2009 was \$19,012. The District has not yet adopted the plan or established a trust fund. The District's planned implementation date is November 2009.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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:

	<u>Round of Funding</u>					<u>Total</u>
	<u>VII</u>	<u>VIII</u>	<u>IX</u>	<u>X</u>	<u>XI</u>	
<u>Grant Funding</u>						
Amount Awarded to Date	\$ 196,981	\$ 721,681	\$ 665,784	\$ 661,721	\$ 610,379	\$ 2,856,546
Amount Expended to Date	(196,981)	(721,681)	(662,765)	0	0	(1,581,427)
Total Grant Deferred	<u>0</u>	<u>0</u>	<u>3,019</u>	<u>661,721</u>	<u>610,379</u>	<u>2,856,546</u>
<u>Administrative Support Funding</u>						
Amount Awarded to Date	4,630	16,735	73,834	90,514	67,820	253,533
Amount Expended to Date	(4,630)	(16,735)	(73,834)	0	0	(95,199)
Total Grant Deferred	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 90,514</u>	<u>\$ 67,820</u>	<u>\$ 158,334</u>

As of June 30, 2009, 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, 2009. 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, 2009.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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 – COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions.

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

B. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year-end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

NOTE 16 – PRONOUNCEMENTS ISSUED, NOT YET EFFECTIVE

The GASB has issued several pronouncements prior to June 30, 2008 that has effective dates that may affect future financial presentations.

Management has not currently determined what, if any, effect implementation of the following statements may have on the financial statements:

- GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, issued April 2004, will be effective for the District beginning with its year ended June 30, 2010. This statement establishes uniform financial reporting standards for OPEB (other postemployment benefits) and supersedes the interim guidance included in Statement No. 26, Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans.
- GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, issued June 2004, will be effective for the District beginning with its year ending June 30, 2010. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.

REQUIRED SUPPLEMENTARY INFORMATION

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
REVENUES				
Antelope Valley Air Quality Management Contract	\$ 1,105,992	\$ 1,105,992	\$ 1,106,156	\$ 164
Application and Permit Fees AB 2766 and Other	3,989,140	3,989,140	4,095,090	105,950
Program Revenues	1,589,630	1,589,630	1,566,541	(23,089)
Grants	177,000	177,000	339,824	162,824
Fines	60,000	60,000	191,416	131,416
Investment Earnings	40,000	40,000	54,405	14,405
Miscellaneous	0	0	673	673
Total Revenues	<u>6,961,762</u>	<u>6,961,762</u>	<u>7,354,105</u>	<u>392,343</u>
EXPENDITURES				
Public Safety:				
Salaries and Benefits	5,000,108	5,000,108	4,485,390	514,718
Services and Supplies	1,151,065	1,151,065	1,042,534	108,531
Contributions to Other Participants	445,647	445,647	442,855	2,792
Capital Outlay:				
Improvements and Equipment	492,800	492,800	184,322	308,478
Total Expenditures	<u>7,089,620</u>	<u>7,089,620</u>	<u>6,155,101</u>	<u>934,519</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(127,858)</u>	<u>(127,858)</u>	<u>1,199,004</u>	<u>1,326,862</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers Out	<u>586,550</u>	<u>586,550</u>	<u>(773,684)</u>	<u>1,360,234</u>
Total Other Financing Sources (Uses)	<u>586,550</u>	<u>586,550</u>	<u>(773,684)</u>	<u>1,360,234</u>
Net Change in Fund Balances	458,692	458,692	425,320	(33,372)
Fund Balance - Beginning of Year	<u>1,719,427</u>	<u>1,719,427</u>	<u>1,719,427</u>	<u>0</u>
Fund Balance - End of Year	<u>\$ 2,178,119</u>	<u>\$ 2,178,119</u>	<u>\$ 2,144,747</u>	<u>\$ (33,372)</u>

The accompanying notes are an integral part of these statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE - MOBILE EMISSIONS PROGRAM
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
REVENUES				
Investment Earnings	\$ 0	\$ 0	\$ 57,018	\$ 57,018
Total Revenues	<u>0</u>	<u>0</u>	<u>57,018</u>	<u>57,018</u>
EXPENDITURES				
Public Safety Services and Supplies	<u>400,000</u>	<u>400,000</u>	<u>467,460</u>	<u>(67,460)</u>
Total Expenditures	<u>400,000</u>	<u>400,000</u>	<u>467,460</u>	<u>(67,460)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(400,000)</u>	<u>(400,000)</u>	<u>(410,442)</u>	<u>(10,442)</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	<u>367,550</u>	<u>367,550</u>	<u>370,871</u>	<u>3,321</u>
Total Other Financing Sources (Uses)	<u>367,550</u>	<u>367,550</u>	<u>370,871</u>	<u>3,321</u>
Net Change in Fund Balances	(32,450)	(32,450)	(39,571)	(7,121)
Fund Balance - Beginning of Year	<u>2,041,890</u>	<u>2,041,890</u>	<u>2,041,890</u>	<u>0</u>
Fund Balance - End of Year	<u>\$ 2,009,440</u>	<u>\$ 2,009,440</u>	<u>\$ 2,002,319</u>	<u>\$ (7,121)</u>

The accompanying notes are an integral part of these statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE - CARL MOYER PROGRAM
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Grants	\$ 750,000	\$ 750,000	\$ 531,645	\$ (218,355)
Investment Earnings	0	0	17,505	17,505
Total Revenues	<u>750,000</u>	<u>750,000</u>	<u>549,150</u>	<u>(200,850)</u>
EXPENDITURES				
Public Safety: Contributions to Other Participants	<u>766,237</u>	<u>766,237</u>	<u>440,552</u>	<u>325,685</u>
Total Expenditures	<u>766,237</u>	<u>766,237</u>	<u>440,552</u>	<u>325,685</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(16,237)</u>	<u>(16,237)</u>	<u>108,598</u>	<u>124,835</u>
Net Change in Fund Balances	(16,237)	(16,237)	108,598	124,835
Fund Balance - Beginning of Year	<u>120,987</u>	<u>120,987</u>	<u>120,987</u>	<u>0</u>
Fund Balance - End of Year	<u>\$ 104,750</u>	<u>\$ 104,750</u>	<u>\$ 229,585</u>	<u>\$ 124,835</u>

The accompanying notes are an integral part of these statements.

SUPPLEMENTARY INFORMATION

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
DISTRICT SUMMARY, GOVERNING BOARD AND PERSONNEL
JUNE 30, 2009**

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, 2009, the Governing Board consisted of the following:

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>REPRESENTED AREA</u>
Bob Sagona	Chair	Town of Apple Valley
Charley B. Glasper	Vice Chair	City of Adelanto
Mike Rothschild	Member	City of Victorville
Robert Crain	Member	City of Blythe
John Cole	Member	City of Twenty-Nine Palms
Joe Gomez	Member	City of Barstow
Ed Pack	Member	City of Hesperia
Jeff Williams	Member	City of Needles
Lori Herbel	Member	Town of Yucca Valley
Neil Derry	Member	County of San Bernardino (2nd District - Supervisor)
Brad Mitzelfelt	Member	County of San Bernardino (1st District - Supervisor)
Roy Wilson	Member	County of Riverside
Paul Biane	Member	County of San Bernardino (3rd District - Supervisor)
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

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
 COMBINING BALANCE SHEET - ALL NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2009**

	Special Revenue Fund Barstow USMC Fund	Debt Service Funds	Total Nonmajor Governmental Funds
ASSETS			
Cash with Fiscal Agent	\$ 0	\$ 0	\$ 0
Account's Receivable	0	0	0
Total Assets	\$ 0	\$ 0	\$ 0
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Total Liabilities	\$ 0	\$ 0	\$ 0
FUND BALANCES			
Unreserved, reported in nonmajor: Special Revenue Funds	0	0	0
Total Fund Balances	0	0	0
Total Liabilities and	\$ 0	\$ 0	\$ 0

The accompanying notes are an integral part of these statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
 COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - ALL NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2009**

	Special Revenue Fund <u>Barstow USMC Fund</u>	Debt Service Fund <u> </u>	Total Nonmajor Governmental Funds <u> </u>
REVENUES			
Investment Earnings	\$ 0	\$ 0	\$ 0
Total Revenues	<u>0</u>	<u>0</u>	<u>0</u>
EXPENDITURES			
Debt Service:			
Principal	0	154,909	154,909
Interest and Fiscal Charges	2,911	54,775	57,686
Total Expenditures	<u>2,911</u>	<u>209,684</u>	<u>212,595</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,911)</u>	<u>(209,684)</u>	<u>(212,595)</u>
Other Financing Sources (Uses)			
Operating Transfers In	0	209,684	209,684
Operating Transfers Out	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>209,684</u>	<u>209,684</u>
Net Change in Fund Balances	(2,911)	0	(2,911)
Fund Balance - Beginning of Year	<u>2,911</u>	<u>0</u>	<u>2,911</u>
Fund Balance - End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of these statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 SPECIAL REVENUE FUND - BARSTOW USMC
 FOR THE YEAR ENDED JUNE 30, 2009**

	Budget	Actual	Variance with Budget Positive (Negative)
REVENUES			
Investment Earnings	\$ 0	\$ 0	\$ 0
Total Revenues	0	0	0
EXPENDITURES			
Total Expenditures	0	0	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	0
Net Change in Fund Balances	0	0	0
Fund Balance - Beginning of Year	0	2,911	2,911
Fund Balance - End of Year	\$ 0	\$ 2,911	\$ 2,911

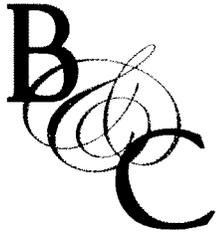
The accompanying notes are an integral part of these statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2009**

	Budget	Actual	Variance with Budget Positive (Negative)
REVENUES			
Total Revenues	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
EXPENDITURES			
Debt Service:			
Principal	154,909	154,909	0
Interest and Fiscal Charges	<u>54,771</u>	<u>54,775</u>	<u>(4)</u>
Total Expenditures	<u>209,680</u>	<u>209,684</u>	<u>(4)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(209,680)</u>	<u>(209,684)</u>	<u>(4)</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	<u>209,680</u>	<u>209,684</u>	<u>4</u>
Total Other Financing Sources (Uses)	<u>209,680</u>	<u>209,684</u>	<u>4</u>
Net Change in Fund Balances	0	0	0
Fund Balance - Beginning of Year	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance - End of Year	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of these statements.

OTHER INDEPENDENT AUDITOR'S REPORT



BURKEY & COX EVANS BRADFORD ALDEN

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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, as of and for the year ended June 30, 2009, which collectively comprise the Mojave Desert Air Quality Management District's basic financial statements and have issued our report thereon dated December 17, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 Mojave Desert Air Quality Management District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mojave Desert Air Quality Management District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Mojave Desert Air Quality Management District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Mojave Desert Air Quality Management District's financial statements that is more than inconsequential will not be prevented or detected by the Mojave Desert Air Quality Management District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Mojave Desert Air Quality Management District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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*.

We noted certain matters that we reported to management of Mojave Desert Air Quality Management District, in a separate letter dated October 9, 2009.

This report is intended solely for the information and use of management, others within the organization, and Governing Board. However, this report is a matter of public record and its distribution is not limited.



BURKEY COX EVANS BRADFORD & ALDEN
Certified Public Accountants

Palmdale, California
December 17, 2009