MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT

COUNTY OF SAN BERNARDINO
VICTORVILLE, CALIFORNIA

AUDITED FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014

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, 2014, the Governing Board consisted of the following:

GOVERNING BOARD

MEMBER	OFFICE	REPRESENTED AREA
Barbara Cram Riordan	Chair	Public Member
Eric Schmidt	Member	City of Hesperia
Ed Camargo	Member	City of Adelanto
Carmen Hernandez	Member	City of Barstow
Jim Cox	Member	City of Victorville
Joseph "Joey" DeConinck	Member	City of Blythe
John J. Benoit	Member	County of Riverside
Terry Campbell	Member	City of Needles
Robert Lovingood	Member	County of San Bernardino
Robert Leone	Member	Town of Yucca Valley
Larry Cusak	Member	Town of Apple Valley
Dan Mintz	Member	City of Twenty-Nine Palms
James Ramos	Member	County of San Bernardino

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
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FINANCIAL INFORMATION

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INDEPENDENT AUDITORS' REPORT

Governing Board
Mojave Desert Air Quality Management District
Victorville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, 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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 *Government Auditing Standards*, issued by the 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 from material misstatement.

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

MEMBER: AMERICAN INSTITUTE AND CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2014, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 3–7 and 33–36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Burkey & Cox CPAs

BURKEY COX EVANS & BRADFORD
Accountancy Corporation

Palmdale, California
October 17, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2014. 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 $9,272,049 (*net position*). Of this amount $1,194,848 (*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 $6,964,378 for the year; $1,809,123 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 Position and Statement of Activities.

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

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, 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 32 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 Position as of the year ending June 30, 2014, as compared to the prior year.

	June 30, 2014	June 30, 2013
Total Assets	$11,036,316	$10,921,167
Total Liabilities	(1,764,267)	(2,321,630)
Net Position	$9,272,049	$8,599,537

At the close of the most recent fiscal year, the District's assets exceeded liabilities by $9,272,049.

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 (32%) 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 (13%) 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 Net Position as of fiscal year ending June 30, 2014, as compared to the prior year.

	June 30, 2014	June 30, 2013
Revenues	$7,845,297	$7,847,033
Expenses	(7,197,330)	(6,647,673)
Net Change in Position	$647,967	$ 1,199,360

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 position changed during fiscal year 2013-14. All changes in net position 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, Air Monitoring, Public Education, Air Quality Analysis, and the Mobile Source Emission Reduction Program.

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 $6,964,378, an increase of $647,967 in comparison with the prior year. Approximately 74% of this fund balance ($5,155,255) 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 $1,809,123, a decrease of $149,211 in comparison with the prior year. Use of the unreserved fund balance is unrestricted.

E. Capital Assets

The District's investment in capital assets is for its governmental activities. The book value was $2,936,456 (net of accumulated depreciation of $3,272,679) as of June 30, 2014. 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 2014-15 budget estimates (all funds) expenditures totaling $8,740,047 with sufficient revenues, including the use of unassigned reserves, to pay for those services. The expenditure budget is an increase of 8% from FY 2013-14. 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 $8,527,468, an 8% increase over last year's projections. This increase can be attributed in part to a 3.25% increase on all application fees and annual permit renewal fees, new permitted facilities, use of reserves and 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 POSITION
JUNE 30, 2014

ASSETS	
Cash and Investments	$ 5,719,781
Receivables (net of allowances for uncollectibles)	1,670,011
Prepaid Items	14,510
Long Term Receivables	695,558
Capital Assets (net of accumulated depreciation):	
Land	278,568
Buildings, Vehicles, and Equipment	2,657,888
Total Assets	11,036,316
LIABILITIES	
Accounts Payable and Other Current Liabilities	133,436
Due to Local Government Agencies	121,749
Due to Other Government Agencies	192,793
Deferred Revenue	687,504
Noncurrent Liabilities:	
Due Within One Year	4,661
Due In More Than One Year	624,124
Total Liabilities	1,764,267
NET POSITION	
Invested in Capital Assets, Net of Related Debt	2,936,456
Restricted for Other Purposes	5,140,745
Unrestricted	1,194,848
Total Net Position	$ 9,272,049

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, 2014

Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
PRIMARY GOVERNMENT				
Governmental Activities:				
Public Safety:				
Salaries and Benefits	$ 5,121,695	$ 4,298,908	$ 1,272,949	$ 450,162
Services and Supplies	994,420	834,669	247,154	87,403
Contributions to Other Participants	1,056,670	886,919	262,625	92,874
Total Governmental Activities	7,172,785	6,020,496	1,782,728	630,439
Total Primary Government	$ 7,172,785	$ 6,020,496	$ 1,782,728	630,439
General Revenues:				
Unrestricted Investment Earnings				17,699
Miscellaneous				24,374
Total General Revenues				42,073
Change in Net Position				672,512
Net Position - Beginning				8,599,537
Net Position - Ending				$ 9,272,049

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, 2014

	General Fund	Mobile Emissions Program	Carl Moyer Program	Total Governmental Funds
ASSETS				
Cash and Investments	$ 841,950	$ -	$ -	$ 841,950
Cash with Fiscal Agent	1,267,889	3,093,077	516,865	4,877,831
Receivables (net of allowances for uncollectibles)	887,036	2,755	555,784	1,445,575
Receivable from Related Parties	196,741	-	-	196,741
Due from Other Funds	266,883	121,749	-	388,632
Prepaid Items	14,510	-	-	14,510
Long Term Receivables	695,558	-	-	695,558
Total Assets	$ 4,170,567	$ 3,217,581	$ 1,072,649	$ 8,460,797
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable and Other Current Liabilities	$ 133,436	$ -	$ -	$ 133,436
Due to Other Funds	121,749	188,687	50,501	360,937
Due to Local Government Agencies	121,749	-	-	121,749
Due to Other Government Agencies	-	192,793	-	192,793
Deferred Revenues	-	-	687,504	687,504
Total Liabilities	376,934	381,480	738,005	1,496,419
FUND BALANCES				
Non-spendable	14,510	-	-	14,510
Restricted	-	2,836,101	334,644	3,170,745
Committed	670,000	-	-	670,000
Assigned	1,300,000	-	-	1,300,000
Unreserved	1,809,123	-	-	1,809,123
Total Fund Balances	3,793,633	2,836,101	334,644	6,964,378
Total Liabilities and Fund Balances	$ 4,170,567	$ 3,217,581	$ 1,072,649	$ 8,460,797

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 POSITION
FOR THE YEAR ENDED JUNE 30, 2014

Total Fund Balances - Governmental Funds		$ 6,964,378
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 $6,209,135 and the accumulated depreciation is $3,272,679.		2,936,456
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:		
Retiree Health Benefits	$ 15,539	
Compensated Absences	613,246	
Total		(628,785)
Total Net Position - Governmental Activities		$ 9,272,049

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, 2014

	General Fund	Mobile Emissions Program	Carl Moyer Program	Total Governmental Funds
REVENUES				
Antelope Valley Air Quality Management Contract	$ 1,166,548	$ -	$ -	$ 1,166,548
Application and Permit Fees	4,449,389	-	-	4,449,389
AB 2766 and Other Program Revenues	1,546,780	-	-	1,546,780
Grants	373,431	-	242,749	616,180
Fines	24,327	-	-	24,327
Investment Earnings	6,851	9,323	1,525	17,699
Miscellaneous	24,374	-	-	24,374
Total Revenues	7,591,700	9,323	244,274	7,845,297
EXPENDITURES				
Public Safety:				
Salaries and Benefits	5,136,443	-	-	5,136,443
Services and Supplies	694,563	-	67,005	761,568
Contributions to Other Participants	128,088	755,857	172,725	1,056,670
Capital Outlay				
Improvements and Equipment	242,649	-	-	242,649
Total Expenditures	6,201,743	755,857	239,730	7,197,330
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,389,957	(746,534)	4,544	647,967
Other Financing Sources (Uses)				
Operating Transfers In	-	734,906	-	734,906
Operating Transfers Out	(734,906)	-	-	(734,906)
Total Other Financing Sources (Uses)	(734,906)	734,906	-	-
Net Change in Fund Balances	655,051	(11,628)	4,544	647,967
Fund Balance - Beginning of Year	3,138,582	2,847,729	330,100	6,316,411
Fund Balance - End of Year	$ 3,793,633	$ 2,836,101	$ 334,644	$ 6,964,378

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, 2014

Total Net Change in Fund Balances - Governmental Funds			$ 647,967
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	$ 242,649		
Current Year Depreciation	(232,852)		
Total			9,797
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 position.			
The District issued long term debt during the fiscal year ended June 30, 2014.			
Compensated Absences	(22,719)		
Total			(22,719)
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 position.			
Retiree Health Benefits	2,974		
Post Employment Benefits	34,493		
Total			37,467
Total Change in Net Position - Governmental Activities			$ 672,512

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

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2014

ASSETS	
Cash in Trust	$ 602,104
Total Assets	602,104
LIABILITIES	
Due to Other Funds	27,695
Total Liabilities	27,695
NET POSITION	
Held in Trust for Post Employment Benefits	574,409
Total Net Position	$ 574,409

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

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2014

ADDITIONS	
Investment Gain	$ 79,865
Total Additions	79,865
DEDUCTIONS	
Fees	29,289
Total Deductions	29,289
Net Change in Net Position	50,576
Net Position - Beginning of Year	523,833
Net Position - End of Year	$ 574,409

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

NOTES TO FINANCIAL STATEMENTS

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 by Government Accounting Standards, 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 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.

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.

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:

Description	Estimated Useful Lives
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, 2014, 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, 2014, was $613,246.

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.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

8. Fund Balance Reserves and Designations (Continued)

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.

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, 2014:

	Unrestricted	Restricted		
	General Fund	Mobile Emissions	Carl Moyer	Total
Cash on Hands and in Banks	$ 841,950	$ -	$ -	$ 841,950
Pooled Investments - San Bernardino County Treasury	1,267,889	3,093,077	516,865	4,877,831
Total	$ 2,109,839	$ 3,093,077	$ 516,865	$ 5,719,781

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.

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 San Bernardino County for the entire San Bernardino County

NOTE 2 – CASH AND INVESTMENTS (Continued)

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.

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio *	Maximum Investment in One Issuer
State and Local Agency Bonds	5 years	100%	None
U.S. Treasury Notes	5 years**	100%	None
Federal Agency Obligations	5 years**	100%	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper - Select Agencies	270 days	25%	10%
Commercial Paper - Other Agencies	270 days	40%	10%
Non-negotiable Certificates of Deposit	5 years	30%	None
Negotiable Certificates of Deposit	5 years	30%	None
Medium-Term Notes**	5 years	30%	None
Repurchase Agreements	1 year	100%	None
Reverse Purchase Agreements and Securities Lending Agreements	92 days***	20%	None
Money Market Funds	N/A	20%	None
Collaterized Bank Deposits	5 years	100%	None
Bank/Time Deposits	5 years	100%	None
Pooled Investment Funds	N/A	100%	None
Mortgage Pass-Through Securities	5 years	20%	None
Voluntary Investment Program Fund	N/A	100%	None
California Local Agency Investment Fund (LAIF)	N/A	100%	None

* 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
*** Except when the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire between the sale of a security using a reverse purchase agreement or securities lending agreement and the final matur dates of the same security.

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

NOTE 2 – CASH AND INVESTMENTS (Continued)
Interest Rate Risk(Continued)

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, 2014, consisted of the following

Investment Type	Fair Value	Fair Value Adjustment*	Carrying Amount	Remaining Maturity (in 12 months or less	Over 12 months
San Bernardino County Investment Pool -Unrestricted	$ 1,268,857	$ (968)	$ 1,267,889	$ 71,307	$ 1,196,582
San Bernardino County Investment Pool - Restricted - Mobile Emissions	3,095,440	(2,363)	3,093,077	173,957	2,919,120
San Bernardino County Investment Pool - Restricted - Carl Moyer	517,260	(395)	516,865	29,069	487,796
Total	$ 4,881,557	$ (3,726)	$ 4,877,831	$ 274,333	$ 4,603,498

* 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

Credit ratings as of June 30, 2014, consisted of the following:

Investment Type	Amount	Minimum Legal Rating	Exempt from Disclosure	Ratings AAA
San Bernardino County Investment Pool -Unrestricted	$ 1,267,889	N/A	$ 1,267,889	-
San Bernardino County Investment Pool - Restricted - Mobile Emissions	3,093,077	N/A	3,093,077	-
San Bernardino County Investment Pool - Restricted - Carl Moyer	516,865	N/A	516,865	-
Total	$ 4,877,831		$ 4,877,831	

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2014, expenditures exceeded the revised budget estimates in individual funds as follows:

	Excess Expenditures
General Fund	
Operating Transfers Out	$ 369,883
Mobile Emissions Program	
Public Safety:	
Services and Supplies	$ 355,857
Carl Moyer Program	
Public Safety:	
Contributions to Other Participants	$ 172,725

NOTE 4 – ACCOUNTS RECEIVABLE

Receivables at June 30, 2014, consist of the following:

Due Within One Year	General Fund	Special Revenue Funds	Totals
State Government:			
Carl Moyer	$ -	$ 555,382	$ 555,382
Other	53,219	-	53,219
Total State	53,219	555,382	608,601
Local Government:			
Local Sources	1,055,511	-	1,055,511
Interest Receivable	2,742	3,157	5,899
Total Local	1,058,253	3,157	1,061,410
Total Due Within One Year	1,111,472	558,539	1,670,011
Due in More Than One Year			
Local Sources	695,558	-	695,558
Total Due in More Than One Year	695,558	-	695,558
Total Accounts Receivable	$ 1,807,030	$ 558,539	$ 2,365,569

NOTE 5 – CAPITAL ASSETS

The changes in fixed assets for the year ended June 30, 2014, are shown below:

	Balance July 01, 2013	Additions	Transfers	Deletions	Balance June 30, 2014
Non-depreciable Capital Assets					
Land	$ 278,568	$ -	$ -	$ -	$ 278,568
Work in Progress	614,423	55,578	(670,001)	-	-
Total Non-depreciable Capital Assets	892,991	55,578	(670,001)	-	278,568
Depreciable Capital Assets					
Buildings and Improvements	2,679,301	22,062	-	-	2,701,363
Equipment	2,381,447	165,009	670,001	(160,582)	3,055,875
Vehicles	225,230	-	-	(51,901)	173,329
Total Depreciable Capital Assets	5,285,978	187,071	670,001	(212,483)	5,930,567
Less accumulated depreciation for:					
Buildings and Improvements	(1,105,691)	(132,514)	-	-	(1,238,205)
Equipment	(1,967,178)	(91,269)	-	160,582	(1,897,865)
Vehicles	(179,441)	(9,069)	-	51,901	(136,609)
Total Accumulated Depreciation	(3,252,310)	(232,852)	-	212,483	(3,272,679)
Net Depreciable Capital Assets	2,033,668	(45,781)	670,001	-	2,657,888
Total Capital Assets, Net	$ 2,926,659	$ 9,797	$ -	$ -	$ 2,936,456

Depreciation was charged to functions as follows:

Public Safety - Other	$ 232,852
Total Depreciation Expenses	$ 232,852

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, 2014, is as follows:

	Interfund Receivables	Interfund Payables
Carl Moyer Program	$ -	$ 50,501
Mobile Emissions Program	121,749	188,687
Fiduciary Fund	-	27,695
General Fund	266,883	121,749
Totals	$ 388,632	$ 388,632

NOTE 6 – INTERFUND TRANSACTIONS (Continued)

Transfers In / Transfers Out – Individual fund interfund transfers for the fiscal year ended June 30, 2014, were as follows:

Transfers In	Transfers Out	Amount	Purpose
Mobile Emissions Program	General Fund	$ 734,906	To transfer mobile emissions revenue to the Mobile Emissions Fund.
	Total	$ 734,906	

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, 2014, were $1,156,050 and receivable from to AVAQMD as of June 30, 2014, was $196,741.

NOTE 8 – LONG-TERM DEBT OBLIGATIONS

A summary of changes in general long-term debt at June 30, 2014, follows:

	Balance July 01, 2013	Additions	Deductions	Balance June 30, 2014	Due Within One Year
Retiree Health Benefits	$ 18,513	$ -	$ (2,974)	$ 15,539	$ 4,661
Compensated Absences	590,527	22,719	-	613,246	-
Post Employment Benefits	34,493	-	(34,493)	-	-
Total	$ 643,533	$ 22,719	$ (37,467)	$ 628,785	$ 4,661

NOTE 9 – LEASE OBLIGATIONS

The District has entered into operating leases for facilities and equipment as of June 30, 2014, that require payments extending for a period longer than twelve months. Future payments as of June 30, 2014, are as follows:

Year Ending June 30,	Amount
2015	$ 46,728
2016	34,014
2017	28,436
2018	19,476
2019	3,042
Total	$ 131,696

Rental Expenditures Fiscal Year 2014	$ 64,381

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, 2014, 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, 2014, 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, 2014, 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.

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.

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

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, 2014, are as follows:

Category		Rates as a Percentage of Wages
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, 2012. 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 4.75% to 14.00% 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.

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, 2012, 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, 2014, 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:

Completed Years of Service	Nonforfeitable Percentage
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).

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.

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

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, 2014, the amount actually contributed to the plan, and changes in the District's Net OPEB Obligation/(Asset).

Annual Required Contributions	$ -
Interest on Net OPEB Obligation/(Asset)	-
Adjustment to Annual Required Contributions	(34,493)
Annual OPEB cost (expense)	(34,493)
Contributions made	-
Decrease in Net OPEB Obligation/(Asset)	(34,493)
Net OPEB Obligation/(Asset) - beginning of year	34,493
Net OPEB Obligation /(Asset) - end of year	$ -

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, 2014 are shown in the following table.

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

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (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
06/30/2013	$ 34,245	$ 200,000	584.03%	$ 104,845
06/30/2014	$ -	$ -	0.00%	$ -

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, 2012. In that valuation, the Projected Unit Credit (PUC) Cost Method was used. The actuarial assumptions included a 7 percent discount rate and a 7 percent return on assets. 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, 2014, was 30 years.

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						
	X	XI	XII	XIII	XIV	XV	Total
Grant Funding							
Amount Received to Date	$ 271,140	$ 466,121	$ 187,000	$ 517,023	$ 718,449	$ 630,246	$ 2,789,9
Amount Expended to Date	(271,140)	(466,121)	(187,000)	(517,023)	(718,449)	-	(2,159,7
Total Grant Deferred	-	-	-	-	-	630,246	630,2
Administrative Support Funding							
Amount Received to Date	76,624	67,820	60,743	57,447	121,272	63,627	447,5
Amount Expended to Date	(76,624)	(67,820)	(60,743)	(57,447)	(121,272)	(6,369)	(390,2
Total Administrative Deferred	-	-	-	-	-	57,258	57,2
Total Amount Deferred	$ -	$ -	$ -	$ -	$ -	$ 687,504	$ 687,5

NOTE 13 – DEFERRED REVENUE (Continued)

As of June 30, 2014, 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, 2014. 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, 2014.

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 – 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.

NOTE 16 – GASB 68 – Accounting and Financial Reporting for Pensions

In June 2012, GASB issued Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of Statement No. 27. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of recourses, and expense/expenditures. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The requirements of this Statement are effective for the fiscal year ending June 30, 2015. This Statement will have impact to the financial statements, including restating prior periods. This restatement is expected to be material to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Antelope Valley Air Quality Management Contract	$ 1,170,273	$ 1,170,273	$ 1,166,548	$ (3,725)
Application and Permit Fees	4,449,560	4,449,560	4,449,389	(171)
AB 2766 and Other Program Revenues	1,541,060	1,541,060	1,546,780	5,720
Grants	321,667	321,667	373,431	51,764
Fines	60,000	60,000	24,327	(35,673)
Investment Earnings	12,000	12,000	6,851	(5,149)
Miscellaneous	-	-	24,374	24,374
Total Revenues	7,554,560	7,554,560	7,591,700	37,140
EXPENDITURES				
Public Safety:				
Salaries and Benefits	5,317,816	5,317,816	5,136,443	181,373
Services and Supplies	985,690	985,690	694,563	291,127
Contributions to Other Participants	524,023	524,023	128,088	395,935
Capital Outlay:				
Improvements and Equipment	570,600	570,600	242,649	327,951
Total Expenditures	7,398,129	7,398,129	6,201,743	1,196,386
Excess (Deficiency) of Revenues Over (Under) Expenditures	156,431	156,431	1,389,957	1,233,526
OTHER FINANCING SOURCES (USES)				
Operating Transfers Out	(365,023)	(365,023)	(734,906)	369,883
Total Other Financing Sources (Uses)	(365,023)	(365,023)	(734,906)	369,883
Net Change in Fund Balances	(208,592)	(208,592)	655,051	863,643
Fund Balance - Beginning of Year	3,138,582	3,138,582	3,138,582	-
Fund Balance - End of Year	$ 2,929,990	$ 2,929,990	$ 3,793,633	$ 863,643

See independent auditors' report.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE - MOBILE EMISSIONS PROGRAM
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Investment Earnings	$ 15,709	$ 15,709	$ 9,323	$ (6,386)
Total Revenues	15,709	15,709	9,323	(6,386)
EXPENDITURES				
Public Safety Services and Supplies	400,000	400,000	755,857	(355,857)
Total Expenditures	400,000	400,000	755,857	(355,857)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(384,291)	(384,291)	(746,534)	(362,243)
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	365,023	365,023	734,906	369,883
Total Other Financing Sources (Uses)	365,023	365,023	734,906	369,883
Net Change in Fund Balances	(19,268)	(19,268)	(11,628)	7,640
Fund Balance - Beginning of Year	2,847,729	2,847,729	2,847,729	-
Fund Balance - End of Year	$ 2,828,461	$ 2,828,461	$ 2,836,101	$ 7,640

See independent auditors' report.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE - CARL MOYER PROGRAM
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Grants	$ 300,000	$ 300,000	$ 242,749	$ (57,251)
Investment Earnings	-	-	1,525	1,525
Total Revenues	300,000	300,000	244,274	(55,726)
EXPENDITURES				
Public Safety:				
Services and Supplies	300,000	300,000	67,005	232,995
Contributions to Other Participants	-	-	172,725	(172,725)
Total Expenditures	300,000	300,000	239,730	60,270
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	4,544	4,544
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	-	-	4,544	4,544
Fund Balance - Beginning of Year	330,100	330,100	330,100	-
Fund Balance - End of Year	$ 330,100	$ 330,100	$ 334,644	$ 4,544

See independent auditors' report.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
OTHER POST EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2014

The funded status of the plan as of June 30, 2014, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Projected Unit Credit Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2009	$ -	$ 1,421,221	$ 1,421,221	0%	$ 2,581,966	55%
July 1, 2012	$ -	$ 520,328	$ 200,248	0%	$ 3,041,756	7%

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, only two years are 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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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Governing Board
Mojave Desert Air Quality Management District
Victorville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 17, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

MEMBER: AMERICAN INSTITUTE AND CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

Purpose of this Report

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

Burkey & Cox CPAs

BURKEY COX EVANS & BRADFORD
Accountancy Corporation

Palmdale, California
October 17, 2014