



**Antelope Valley Air Quality Management
District**

Lancaster, California

**Annual Financial Report
For the Fiscal Year Ended
June 30, 2019**



Governing Board as of June 30, 2019

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

Antelope Valley Air Quality Management District

**43301 Division Street, Suite 206
Lancaster, California 93535
(661) 723-8070**

Antelope Valley Air Quality Management District

Annual Financial Report

For the Fiscal Year Ended June 30, 2019

Antelope Valley Air Quality Management District

For the Fiscal Year Ended June 30, 2019

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Financial Section

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Fedak & Brown LLP

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Independent Auditor's Report

Governing Board
Antelope Valley Air Quality Management District
Lancaster, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Antelope Valley Air Quality Management District (District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express our 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; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Antelope Valley Air Quality Management District, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary information on pages 26 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 21, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance. That report can be found on pages 31 and 32.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

April 21, 2020

**Antelope Valley Air Quality Management District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2019**

The following Management’s Discussion and Analysis (MD&A) of activities and financial performance of the Antelope Valley Air Quality Management District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here with additional information that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2019, the District’s net position increased by 36.84% or \$1,270,090 to \$4,717,927.
- In 2019, total revenues from all sources increased 38.39% or \$1,417,206 to \$5,108,537.
- In 2019, total expenses increased 27.94% or \$838,337 to \$3,838,448.

Using This Financial Report

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

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

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

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

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

**Antelope Valley Air Quality Management District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2019**

Fund Financial Statements

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

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

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

Notes to the Basic Financial Statements

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

Government-wide Financial Analysis

Statements of Net Position

The following table is a summary of the statements of net position at June 30, 2019 and 2018.

Condensed Statements of Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Assets:			
Current assets	\$ 5,672,993	4,276,682	1,396,311
Capital assets, net	<u>259,417</u>	<u>304,899</u>	<u>(45,482)</u>
Total assets	<u>5,932,410</u>	<u>4,581,581</u>	<u>1,350,829</u>
Liabilities:			
Current liabilities	<u>1,214,483</u>	<u>1,133,744</u>	<u>80,739</u>
Total liabilities	<u>1,214,483</u>	<u>1,133,744</u>	<u>80,739</u>
Net position:			
Net investment in capital assets	259,417	304,899	(45,482)
Restricted	2,221,091	2,465,363	(244,272)
Unrestricted	<u>2,237,419</u>	<u>677,575</u>	<u>1,559,844</u>
Total net position	<u>\$ 4,717,927</u>	<u>3,447,837</u>	<u>1,270,090</u>

**Antelope Valley Air Quality Management District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2019**

Government-wide Financial Analysis, continued

Statements of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4,717,927 as of June 30, 2019. The District's total net position is made-up of three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

Statements of Activities

The following table is a summary of the statements of activities for the year ended June 30, 2019 and 2018.

Condensed Statements of Activities

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,301,813	811,144	490,669
Operating grants	<u>3,711,580</u>	<u>2,807,025</u>	<u>904,555</u>
Total program revenues	5,013,393	3,618,169	1,395,224
General revenues	<u>95,145</u>	<u>73,162</u>	<u>21,983</u>
Total revenues	<u>5,108,538</u>	<u>3,691,331</u>	<u>1,417,207</u>
Expenses:			
General	1,724,273	1,480,467	243,806
Mobile emission program AB 2766	776,246	378,339	397,907
Mobile emission program AB 923	474,844	505,067	(30,223)
Carl Moyer program	<u>863,085</u>	<u>636,238</u>	<u>226,847</u>
Total expenses	<u>3,838,448</u>	<u>3,000,111</u>	<u>838,337</u>
Changes in net position	1,270,090	691,220	578,870
Net position, beginning of year	<u>3,447,837</u>	<u>2,756,617</u>	<u>691,220</u>
Net position, end of year	<u>\$ 4,717,927</u>	<u>3,447,837</u>	<u>1,270,090</u>

In the case of the District, net position increased 36.84% or \$1,270,090 to \$4,717,927, from ongoing operations.

The District's total revenues from all sources increased 38.39% or \$1,417,206 to \$5,108,537. Program revenues increased \$1,395,224, primarily due to increases in charges for services and operating grants. General revenues increased \$21,982, primarily due to an increase in investment earnings.

The District's total expenses increased by 27.94% or \$838,337 to \$3,838,448, due primarily to increases of \$397,907 in mobile emissions program (AB 2766) expenses, \$226,847 in Carl Moyer program expenses, and \$243,806 in general fund expenses; which were offset by decreases of \$30,223 in mobile emissions program (AB 923) expenses.

**Antelope Valley Air Quality Management District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2019**

Governmental Fund Balance

The following table is a summary of the changes in fund balance for all governmental funds for the year ended June 30, 2019.

Condensed Changes in Fund Balance					
	<u>General Fund</u>	<u>AB 2766</u>	<u>AB 923</u>	<u>Carl Moyer</u>	<u>Total</u>
Fund balance, beginning of year	\$ 1,507,019	701,623	883,143	51,153	3,142,938
Changes in fund balance	<u>1,461,796</u>	<u>(333,811)</u>	<u>172,409</u>	<u>15,178</u>	<u>1,315,572</u>
Fund balance, end of year	<u>\$ 2,968,815</u>	<u>367,812</u>	<u>1,055,552</u>	<u>66,331</u>	<u>4,458,510</u>

In 2019, total fund balance increased by 41.86% or \$1,315,571 to \$4,458,510. The General fund increased by 97.00% or \$1,461,795 to \$2,968,815; the mobile emissions program (AB2766) decreased by 47.58% or \$333,811 to \$367,812; the mobile emissions program (AB 923) increased by 19.52% or \$172,409 to \$1,055,552; and the Carl Moyer program increased by 29.67% or \$15,178 to \$66,331.

Governmental Activities Budgetary Highlights

For the year ended June 30, 2019, the final actual expenditures were more than budgeted for the General fund by \$64,416, Mobile Emissions program (AB 2766) by \$346,546, and Carl Moyer Fund by \$59,341; and less than budgeted for the Mobile Emissions program (AB 923) by \$130,756. For the year ended June 30, 2019, actual revenues were more than budgeted for the General Fund by \$1,256,519, Mobile Emissions program (AB 2766) by \$12,735, Mobile Emissions program (AB 923) by \$41,653, and Carl Moyer Fund by \$145,636. At June 30, 2019, there were no differences between the original and final amended budgets. (See Budgetary Comparison Schedule for the General fund, Mobile Emissions program (AB 2766), Mobile Emissions program (AB 923), and Carl Moyer program under Required Supplementary Information section on pages 26 through 29).

Capital Asset Administration

	<u>Balance</u>		<u>Deletions/ Transfers</u>	<u>Balance</u>
	<u>2018</u>	<u>Additions</u>		<u>2019</u>
Capital assets:				
Depreciable assets	\$ 712,539	6,407	(17,619)	701,327
Total capital assets	712,539	6,407	(17,619)	701,327
Accumulated depreciation	<u>(407,640)</u>	<u>(51,889)</u>	<u>17,619</u>	<u>(441,910)</u>
Total capital assets, net	<u>\$ 304,899</u>	<u>(45,482)</u>	<u>-</u>	<u>259,417</u>

At the end of fiscal year 2019, the District's investment in capital assets amounted to \$259,517 (net of accumulated depreciation). This investment in capital assets includes building improvements, furniture and fixtures, machinery and equipment, vehicles, computers, and software. The capital assets of the District are more fully analyzed in Note 3 to the basic financial statements.

Conditions Affecting Current Financial Position

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net position, or operating results in terms of past, present, and future.

**Antelope Valley Air Quality Management District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2019**

Requests for Information

This financial report is designed to provide the District's present users, including funding sources, customers, stakeholders, and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Deputy Director / Administration, Mojave Desert Air Quality Management District, contractor to the Antelope Valley Air Quality Management District, 43301 Division Street, Suite 206, Lancaster, California 93535 or (661) 723-8070.

Basic Financial Statements

Antelope Valley Air Quality Management District
Statement of Net Position
June 30, 2019

	2019
Assets:	
Current assets:	
Cash and cash equivalents (note 2)	\$ 2,584,042
Restricted cash and cash equivalent (note 2)	2,221,091
Accounts receivable	867,230
Prepaid expenses and other assets	630
Total current assets	5,672,993
Non-current assets:	
Capital assets – being depreciated, net (note 3)	259,417
Total non-current assets	259,417
Total assets	5,932,410
Liabilities:	
Current liabilities:	
Accounts payable and accrued expenses	452,532
Unearned revenues (note 5)	761,951
Total current liabilities	1,214,483
Total liabilities	1,214,483
Net position (note 7):	
Net investment in capital assets	259,417
Restricted	2,221,091
Unrestricted	2,237,419
Total net position	\$ 4,717,927

See accompanying notes to the basic financial statements

Antelope Valley Air Quality Management District
Statement of Activities
For the Fiscal Year Ended June 30, 2019

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Service</u>	<u>Operating Grants</u>	
Governmental activities				
General	\$ 1,724,273	1,301,813	1,717,786	1,295,326
Mobile emission program AB 2766	776,246	-	436,402	(339,844)
Mobile emission program AB 923	474,844	-	623,191	148,347
Carl Moyer program	863,085	-	934,201	71,116
Total governmental activities	\$ 3,838,448	1,301,813	3,711,580	1,174,945
General revenues:				
				\$ 11,450
				76,624
				7,071
				<u>95,145</u>
				1,270,090
				<u>3,447,837</u>
				<u>\$ 4,717,927</u>

See accompanying notes to the basic financial statements

**Antelope Valley Air Quality Management District
Reconciliation of the Balance of Governmental Funds to the
Statement of Net Position
June 30, 2019**

	General Fund	AB 2766 Fund	AB 923 Fund	Carl Moyer Fund	Total Fund
Assets:					
Cash and cash equivalents	\$ 2,584,042	-	-	-	2,584,042
Restricted cash and cash equivalents	-	53,409	1,266,956	900,726	2,221,091
Accounts receivable	681,994	76,291	108,945	-	867,230
Inter-fund receivable (note 4)	299,131	256,737	-	-	555,868
Prepaid expenses	630	-	-	-	630
Total assets	\$ 3,565,797	386,437	1,375,901	900,726	6,228,861
Liabilities:					
Accounts payable and accrued expenses	\$ 340,245	18,625	21,218	72,444	452,532
Inter-fund payable (note 4)	256,737	-	299,131	-	555,868
Unearned revenue	-	-	-	761,951	761,951
Total liabilities	596,982	18,625	320,349	834,395	1,770,351
Fund balance:					
Nonspendable	630	-	-	-	630
Restricted	-	367,812	1,055,552	66,331	1,489,695
Unassigned	2,968,185	-	-	-	2,968,185
Total fund balance	2,968,815	367,812	1,055,552	66,331	4,458,510
Total liabilities and fund balance	\$ 3,565,797	386,437	1,375,901	900,726	6,228,861

Reconciliation:

Total Fund Balances of Governmental Funds \$ 4,458,510

Amounts reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not current financial resources and, therefore, not in the governmental funds balance sheet. However, the statement of net position includes those capital position among the assets of the District as a whole as follows:

Depreciable capital assets, net 259,417

Net Position of Governmental Activities \$ 4,717,927

See accompanying notes to the basic financial statements

Antelope Valley Air Quality Management District
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019

	<u>General Fund</u>	<u>AB 2766 Fund</u>	<u>AB 923 Fund</u>	<u>Carl Moyer Fund</u>	<u>Total Fund</u>
Revenues:					
Charge for services	\$ 1,301,813	-	-	-	1,301,813
Operating grants	1,717,786	436,402	623,191	934,201	3,711,580
Fine, forfeitures, and penalties	11,450	-	-	-	11,450
Investment earnings	31,350	6,033	24,062	15,179	76,624
Other revenue	7,071	-	-	-	7,071
Total revenues	<u>3,069,470</u>	<u>442,435</u>	<u>647,253</u>	<u>949,380</u>	<u>5,108,538</u>
Expenditures:					
Services and supplies	1,672,384	776,246	474,844	863,085	3,786,559
Capital outlay	6,407	-	-	-	6,407
Total expenditures	<u>1,678,791</u>	<u>776,246</u>	<u>474,844</u>	<u>863,085</u>	<u>3,792,966</u>
Excess of revenues over expenditures	1,390,679	(333,811)	172,409	86,295	1,315,572
Other financing sources(uses):					
Operating transfers in(out) (note 4)	71,117	-	-	(71,117)	-
Net change in fund balance	1,461,796	(333,811)	172,409	15,178	1,315,572
Fund balance – beginning of year	<u>1,507,019</u>	<u>701,623</u>	<u>883,143</u>	<u>51,153</u>	<u>3,142,938</u>
Fund balance – end of year	<u>\$ 2,968,815</u>	<u>367,812</u>	<u>1,055,552</u>	<u>66,331</u>	<u>4,458,510</u>

Reconciliation:

Net Change in Fund Balance – Total Governmental Funds	\$ 1,315,572
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense as follows:	
Depreciation expense	(51,889)
Capital outlay	6,407
Changes in Net Position of Governmental Activities	<u>\$ 1,270,090</u>

See accompanying notes to the basic financial statements

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements
June 30, 2019

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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

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

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for governmental activities. Accordingly, all of the District's assets (including capital assets), deferred outflows of resources, liabilities, and deferred inflows of resources are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used; such as, unbilled but utilized utility services that are recorded at year end. The Statement of Activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the District are charges for services directly related to the operations of the District. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes and other items, properly not included among program revenues, are reported instead as general revenues.

Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the differences in fund balance, as presented in these statements, to the net position presented in the Government-wide Financial Statements.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2019

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

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

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

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

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

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operational fund of the District or meets the following criteria:

- a) Total assets and deferred outflows of resources, liabilities and deferred inflows resources, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type;
- b) Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined; or
- c) The entity has determined that a fund is important to the financial statement user.

The governmental funds of the financial reporting entity are described below:

General – this fund is a government’s primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund when necessary.

Mobile Emissions Program (AB 2766) – this fund is a special revenue fund used to account for the retention of funds allocated for the support of the District’s mobile emissions grant program pursuant to Assembly Bill No. 2766.

Mobile Emissions Program (AB 923) – this fund is a special revenue fund used to account for the retention of funds allocated for the support of the District’s mobile emissions grant program pursuant to Assembly Bill No. 923.

Carl Moyer Fund – this fund is a special revenue fund used to account for revenues received pursuant to the Carl Moyer Air Quality Standards Attainment Program. Expenditures are restricted to providing incentive for participating entities to undertake reduced-emission heavy-duty engine projects.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2019

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

C. Financial Reporting

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

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

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

D. Financial Statement Elements

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in District net position during the reporting period. Actual results could differ from those estimates.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2019

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

D. Financial Statement Elements, continued

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

3. Investments and Investment Policy

The District has adopted an investment policy to deposit funds in financial institutions. Investments are to be made in the following area:

- Los Angeles County Pooled Surplus Investments

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

4. Accounts Receivable

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

5. Prepaid Expenses

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

6. Internal Balances and Activities

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

7. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at acquisition value and/or historical cost at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

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

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

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2019

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

D. Financial Statement Elements, continued

8. Unearned Revenues

Certain receipts from customer reflect revenue applicable to future accounting periods and are recorded as unearned revenues in both the government-wide and fund financial statements.

9. Net Position

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

- **Net investment in capital assets** – consists of capital assets, net of accumulated depreciation and amortization, and reduced by debt balances outstanding or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- **Unrestricted** – consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position.

10. Fund Balance

The financial statements, governmental funds, report fund balance as non-spendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable fund balance** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.
- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority (the Governing Board) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** – amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- **Unassigned fund balance** – the residual classification for the District's general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2019

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

D. Financial Statement Elements, continued

10. Fund Balance, continued

Fund Balance Policy

The Governing Board establishes, modifies, or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, followed by the unrestricted, committed, assigned, and unassigned resources as they are needed.

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balances are considered unrestricted.

The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

(2) Cash and Cash Equivalents

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

	2019
Unrestricted cash and cash equivalents:	
General Fund	\$ 2,584,042
Total unrestricted cash and cash equivalents	2,584,042
Restricted cash and cash equivalents:	
AB 2766 Fund	53,409
AB 923 Fund	1,266,956
Carl Moyer Fund	900,726
Total restricted cash and cash equivalents	2,221,091
Total cash and cash equivalents	\$ 4,805,133

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

	2019
Deposits held with financial institutions	\$ 307,790
Deposits held with Los Angeles County Treasurer	4,497,343
Total	\$ 4,805,133

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2019

(2) Cash and Cash Equivalents, continued

Authorized Deposits and Investments

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

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the District's bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the code.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has, the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. As of June 30, 2019, the District's deposits in Los Angeles County Pooled Surplus Investments had an average of 547 days to maturity for the entire portfolio.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Angeles County Pooled Surplus Investments is not rated.

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. There were no investments in any one non-governmental issuer that represent 5.0% or more of the District's total investments.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2019

(3) Capital Assets

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

	<u>Balance 2018</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2019</u>
Depreciable assets:				
Improvements	\$ 15,875	-	-	15,875
Furniture and fixtures	59,943	6,407	-	66,350
Machinery and equipment	145,314	-	-	145,314
Vehicles	95,028	-	(17,619)	77,409
Computers	30,732	-	-	30,732
Software	365,647	-	-	365,647
Total depreciable assets	<u>712,539</u>	<u>6,407</u>	<u>(17,619)</u>	<u>701,327</u>
Accumulated depreciation:				
Improvements	(12,302)	(1,588)	-	(13,890)
Furniture and fixtures	(51,064)	(4,098)	-	(55,162)
Machinery and equipment	(116,210)	(9,173)	-	(125,383)
Vehicles	(67,176)	(7,244)	17,619	(56,801)
Computers	(30,732)	-	-	(30,732)
Software	(130,156)	(29,786)	-	(159,942)
Total accumulated depreciation	<u>(407,640)</u>	<u>(51,889)</u>	<u>17,619</u>	<u>(441,910)</u>
Total depreciable assets, net	<u>304,899</u>	<u>(45,482)</u>	<u>-</u>	<u>259,417</u>
Total capital assets, net	<u>\$ 304,899</u>			<u>259,417</u>

(4) Internal Transfers

Inter-fund Operational Transfers

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

As of June 30, 2019, inter-fund receivables/payables between the District's funds were as follows:

<u>Receivable from</u>	<u>Payable to</u>	<u>2019</u>
AB 923 Fund	General Fund	\$ 299,131
General Fund	AB 2766 Fund	<u>256,737</u>
Inter-fund receivables/payables		\$ <u>555,868</u>

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2019

(4) Internal Transfers, continued

Inter-fund Operational Transfers, continued

For the year ended June 30, 2019, inter-fund transfers consist of the following:

Transfer from	Transfer to	2019
Carl Moyer Fund	General Fund	\$ <u><u>71,117</u></u>

(5) Unearned Revenues

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

	Balance 2018	New Awards	Expenses/ Revenues	Balance 2019
Carl Moyer Grant				
Round 19	\$ 67,015	-	(67,015)	-
Round 20	801,744	-	(796,069)	5,675
Round 21	-	756,276	-	756,276
Total unearned revenues	\$ <u><u>868,759</u></u>	<u><u>756,276</u></u>	<u><u>(863,084)</u></u>	<u><u>761,951</u></u>

(6) Operating Lease

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

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

For the year ended June 30, 2019, rent expense totaled \$53,372.

(7) Net Position

Net investment in capital assets is calculated as follows:

Net investment in capital asset:	2019
Capital assets – being depreciated, net	\$ <u>259,417</u>
Total net investment in capital asset	<u><u>259,417</u></u>

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2019

(7) Net Position, continued

Restricted net position is calculated as follows:

	2019
Restricted:	
Restricted cash and cash equivalents	\$ 2,221,091
Total restricted	\$ 2,221,091

Unrestricted net position is calculated as follows:

	2019
Unrestricted:	
Non-spendable net position	
Prepaid expenses and other assets	\$ 630
Spendable net position	
Unrestricted	2,236,789
Total unrestricted	\$ 2,237,419

(8) Fund Balance

Fund balances are presented in the following categories: non-spendable, restricted, committed, assigned, and unassigned (See Note 1.D.10 for a description of these categories). Fund balances and their funding composition at June 30, 2019, are as follows:

	2019
Nonspendable:	
Prepaid expenses and other asset	\$ 630
Restricted:	
Mobile Emissions Program AB 2766	367,812
Mobile Emissions Program AB 923	1,055,552
Carl Moyer Program	66,331
Total restricted	1,489,695
Unassigned	
Operations	2,968,185
Total fund balance	\$ 4,458,510

(9) Risk Management

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

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2019

(9) Risk Management, continued

At June 30, 2019, the District participated in the liability and property programs of the SDRMA as follows:

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

Settled claims, if any, have not exceeded any of the coverage amounts in the last fiscal year. There were no reductions in insurance coverage in fiscal year 2019. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no material IBNR claim payables as of June 30, 2019.

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

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

Governmental Accounting Standards Board Statement No. 84

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

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

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

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

Governmental Accounting Standards Board Statement No. 87

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

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2019

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

Governmental Accounting Standards Board Statement No. 87, continued

Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

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

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

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

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2019

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

Governmental Accounting Standards Board Statement No. 90, continued

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Governmental Accounting Standards Board Statement No. 91

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

(11) Commitments and Contingencies

Grant Awards

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

Litigation

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

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2019

(12) Subsequent Event

Events occurring after June 30, 2019, have been evaluated for possible adjustment to the financial statements or disclosure as of April 21, 2020, which is the date the financial statements were available to be issued. The District is not aware of any further subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

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**Antelope Valley Air Quality Management District
Budget Comparison Schedule – General Fund
For the Year Ended June 30, 2019**

	<u>Adopted Original Budget</u>	<u>Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Charge for services	\$ 884,150	-	884,150	1,301,813	417,663
Operating grants	915,800	-	915,800	1,717,786	801,986
Fine, forfeitures, and penalties	9,000	-	9,000	11,450	2,450
Investment earnings	4,000	-	4,000	31,350	27,350
Other revenue	-	-	-	7,071	7,071
Total revenues	<u>1,812,950</u>	<u>-</u>	<u>1,812,950</u>	<u>3,069,470</u>	<u>1,256,520</u>
Expenditures:					
Services and supplies	1,509,375	-	1,509,375	1,672,384	(163,009)
Contributions	15,000	-	15,000	-	15,000
Capital outlay	90,000	-	90,000	6,407	83,593
Total expenditures	<u>1,614,375</u>	<u>-</u>	<u>1,614,375</u>	<u>1,678,791</u>	<u>(64,416)</u>
Excess of revenues over expenditures	198,575	-	198,575	1,390,679	1,192,104
Other financing sources:					
Operating transfers in	-	-	-	71,117	71,117
Net change in fund balance	198,575	<u>-</u>	198,575	1,461,796	<u>1,263,221</u>
Fund balance – beginning of year	<u>1,507,019</u>		<u>1,507,019</u>	<u>1,507,019</u>	
Fund balance – end of year	<u>\$ 1,705,594</u>		<u>1,705,594</u>	<u>2,968,815</u>	

**Antelope Valley Air Quality Management District
Budget Comparison Schedule – Mobile Emissions Program (AB 2766)
For the Year Ended June 30, 2019**

	<u>Adopted Original Budget</u>	<u>Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Operating grants	\$ 427,000	-	427,000	436,402	9,402
Investment earnings	<u>2,700</u>	<u>-</u>	<u>2,700</u>	<u>6,033</u>	<u>3,333</u>
Total revenues	<u>429,700</u>	<u>-</u>	<u>429,700</u>	<u>442,435</u>	<u>12,735</u>
Expenditures:					
Services and supplies	<u>429,700</u>	<u>-</u>	<u>429,700</u>	<u>776,246</u>	<u>(346,546)</u>
Total expenditures	<u>429,700</u>	<u>-</u>	<u>429,700</u>	<u>776,246</u>	<u>(346,546)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>(333,811)</u>	<u>(333,811)</u>
Fund balance – beginning of year	<u>701,623</u>		<u>701,623</u>	<u>701,623</u>	
Fund balance – end of year	<u>\$ 701,623</u>		<u>701,623</u>	<u>367,812</u>	

**Antelope Valley Air Quality Management District
Budget Comparison Schedule – Mobile Emissions Program (AB 923)
For the Year Ended June 30, 2019**

	<u>Adopted Original Budget</u>	<u>Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Operating grants	\$ 600,000	-	600,000	623,191	23,191
Investment earnings	<u>5,600</u>	-	<u>5,600</u>	<u>24,062</u>	<u>18,462</u>
Total revenues	<u>605,600</u>	<u>-</u>	<u>605,600</u>	<u>647,253</u>	<u>41,653</u>
Expenditures:					
Services and supplies	<u>605,600</u>	-	<u>605,600</u>	<u>474,844</u>	<u>130,756</u>
Total expenditures	<u>605,600</u>	<u>-</u>	<u>605,600</u>	<u>474,844</u>	<u>130,756</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>172,409</u>	<u>172,409</u>
Fund balance – beginning of year	<u>883,143</u>		<u>883,143</u>	<u>883,143</u>	
Fund balance – end of year	<u>\$ 883,143</u>		<u>883,143</u>	<u>1,055,552</u>	

**Antelope Valley Air Quality Management District
Budget Comparison Schedule – Carl Moyer Fund
For the Year Ended June 30, 2019**

	<u>Adopted Original Budget</u>	<u>Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Operating grants	\$ 801,744	-	801,744	934,201	132,457
Investment earnings	<u>2,000</u>	<u>-</u>	<u>2,000</u>	<u>15,179</u>	<u>13,179</u>
Total revenues	<u>803,744</u>	<u>-</u>	<u>803,744</u>	<u>949,380</u>	<u>145,636</u>
Expenditures:					
Services and supplies	<u>803,744</u>	<u>-</u>	<u>803,744</u>	<u>863,085</u>	<u>(59,341)</u>
Total expenditures	<u>803,744</u>	<u>-</u>	<u>803,744</u>	<u>863,085</u>	<u>(59,341)</u>
Excess of revenues over expenditures	-	-	-	86,295	86,295
Other financing uses:					
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(71,117)</u>	<u>(71,117)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,178</u>	<u>15,178</u>
Fund balance – beginning of year	<u>51,153</u>		<u>51,153</u>	<u>51,153</u>	
Fund balance – end of year	<u>\$ 51,153</u>		<u>51,153</u>	<u>66,331</u>	

**Antelope Valley Air Quality Management District
Notes to the Required Supplementary Information
June 30, 2019**

Budgets and Budgetary Data

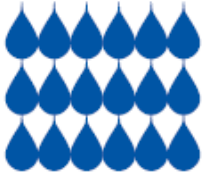
The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year, the District's Executive Director will prepare and submit an operating budget to the Governing Board and adopted no later than June of each year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types. The adopted budget becomes operative on July 1.

The Governing Board must approve all supplemental appropriations to the budget and transfers between major funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the General fund, Mobile Emissions Program (AB 2766), Mobile Emissions Program (AB 923), and the Carl Moyer fund.

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Report on Compliance and Internal Controls

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governing Board
Antelope Valley Air Quality Management District
Lancaster, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Antelope Valley Air Quality Management District (District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 21, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
April 21, 2020