



Antelope Valley Air Quality Management District

Lancaster, California

**Annual Financial Report
For the Fiscal Year Ended
June 30, 2021**



Governing Board as of June 30, 2021

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

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, 2021

Antelope Valley Air Quality Management District

For the Fiscal Year Ended June 30, 2021

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Financial Section

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Independent Auditor's Report

Governing Board
Antelope Valley Air Quality Management District
Lancaster, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Antelope Valley Air Quality Management District (District) as of and for the year ended June 30, 2021, 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; 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 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 and each major fund of the Antelope Valley Air Quality Management District, as of June 30, 2021, 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

Emphasis-of-Matter

Prior Period Adjustment

As discussed in note 9 to the financial statements, the District restated its net position and fund balance as of June 30, 2020, to accumulate grants that have not been awarded as unearned revenues and to restate cash. Our opinion is not modified with respect to this matter.

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 29 through 31 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 February 15, 2022, 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 32 and 33.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

February 15, 2022

Antelope Valley Air Quality Management District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2021

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, 2021. 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 2021, the District's net position increased \$911,061 from ongoing operations and decreased \$1,571,060 from a prior period adjustment to \$5,056,320.
- In 2021, total revenues from all sources decreased 8.97% or \$468,327 to \$4,753,559.
- In 2021, total expenses decreased 9.02% or \$380,99 to \$3,842,498.

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 – 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, 2021**

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 28.

Government-wide Financial Analysis

Statements of Net Position

The following table is a summary of the statements of net position at June 30, 2021 and 2020.

Condensed Statements of Net Position

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Assets:			
Current assets	\$ 7,472,593	6,923,666	548,927
Capital assets, net	<u>242,548</u>	<u>229,238</u>	<u>13,310</u>
Total assets	<u>7,715,141</u>	<u>7,152,904</u>	<u>562,237</u>
Liabilities:			
Current liabilities	<u>2,658,821</u>	<u>1,436,585</u>	<u>1,222,236</u>
Total liabilities	<u>2,658,821</u>	<u>1,436,585</u>	<u>1,222,236</u>
Net position:			
Net investment in capital assets	242,548	229,238	13,310
Restricted	2,509,392	2,700,456	(191,064)
Unrestricted	<u>2,304,380</u>	<u>2,786,625</u>	<u>(482,245)</u>
Total net position	<u>\$ 5,056,320</u>	<u>5,716,319</u>	<u>(659,999)</u>

**Antelope Valley Air Quality Management District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2021**

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 \$5,056,320 as of June 30, 2021. The District's total net position is made-up of three components: (1) net investment in capital assets, (2) restricted, and (3) unrestricted.

Statements of Activities

The following table is a summary of the statements of activities for the years ended June 30, 2021 and 2020.

Condensed Statements of Activities

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,145,149	988,938	156,211
Operating grants	<u>3,559,185</u>	<u>4,116,806</u>	<u>(557,621)</u>
Total program revenues	4,704,334	5,105,744	(401,410)
General revenues	<u>49,225</u>	<u>116,142</u>	<u>(66,917)</u>
Total revenues	<u>4,753,559</u>	<u>5,221,886</u>	<u>(468,327)</u>
Expenses:			
General	2,372,124	2,783,391	(411,267)
Mobile emission program AB 2766	465,560	530,166	(64,606)
Mobile emission program AB 923	232,172	425,577	(193,405)
Carl Moyer program	<u>772,642</u>	<u>484,360</u>	<u>288,282</u>
Total expenses	<u>3,842,498</u>	<u>4,223,494</u>	<u>(380,996)</u>
Changes in net position	<u>911,061</u>	<u>998,392</u>	<u>(87,331)</u>
Net position – beginning of year, as previously restated	5,716,319	4,717,927	998,392
Prior period adjustment	<u>(1,571,060)</u>	<u>-</u>	<u>(1,571,060)</u>
Net position – beginning of year, as restated	<u>4,145,259</u>	<u>4,717,927</u>	<u>(572,668)</u>
Net position – end of year	<u><u>\$ 5,056,320</u></u>	<u><u>5,716,319</u></u>	<u><u>(659,999)</u></u>

**Antelope Valley Air Quality Management District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2021**

Government-wide Financial Analysis, continued

Statements of Activities, continued

In the case of the District, net position increased \$911,061 from ongoing operations and decreased \$1,571,060 from a prior period adjustment to \$5,056,320.

The District's total revenues from all sources decreased 8.97% or \$468,327 to \$4,753,559. Program revenues decreased \$401,410, primarily due to a decrease in operating grants of \$557,621; which was offset by an increase in charges for services of \$156,211. General revenues decreased \$66,917, primarily due to a decrease in investment earnings of \$64,442.

The District's total expenses decreased by 9.02% or \$380,996 to \$3,842,498, due primarily to decreases in general fund expenses of \$411,267, mobile emissions program (AB 923) of \$193,405, and mobile emissions program (AB 2766) of \$64,606; which were offset by an increase in Carl Moyer program expenses of \$288,282.

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, 2021.

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, as restated	\$ 2,158,744	455,962	1,223,525	77,790	3,916,021
Changes in fund balance	<u>279,516</u>	<u>193,189</u>	<u>427,019</u>	<u>(1,973)</u>	<u>897,751</u>
Fund balance – end of year	<u>\$ 2,438,260</u>	<u>649,151</u>	<u>1,650,544</u>	<u>75,817</u>	<u>4,813,772</u>

In 2021, total fund balance increased by 22.93% or \$22.93 to \$4,813,772. The General fund increased by 12.95% or \$279,516 to \$2,438,260; the mobile emissions program (AB2766) increased by 42.37% or \$193,189 to \$649,151; the mobile emissions program (AB 923) increased by 34.90% or \$427,019 to \$1,650,544; and the Carl Moyer program decreased by 2.54% or \$1,973 to \$75,817.

Governmental Activities Budgetary Highlights

For the year ended June 30, 2021, the final actual expenditures were more than budgeted for the General fund by \$450,634; and less than budgeted for the AB 2766, AB 923, and Carl Moyer funds by \$567,684. For the year ended June 30, 2021, actual revenues were more than budgeted for the General Fund by \$730,150 and AB 2766, AB 923, and Carl Moyer funds by \$52,524. At June 30, 2021, there were no differences between the original and final amended budgets. (See Budgetary Comparison Schedule for the General fund, and programs AB 2766, AB 923, and Carl Moyer under Required Supplementary Information section on pages 29 through 31).

Antelope Valley Air Quality Management District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2021

Capital Asset Administration

	<u>Balance 2020</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2021</u>
Capital assets:				
Non-depreciable assets	\$ 1,329	-	(1,329)	-
Depreciable assets	<u>722,492</u>	<u>57,862</u>	<u>(66,621)</u>	<u>713,733</u>
Total capital assets	723,821	57,862	(67,950)	713,733
Accumulated depreciation	<u>(494,583)</u>	<u>(43,223)</u>	<u>66,621</u>	<u>(471,185)</u>
Total capital assets, net	\$ <u><u>229,238</u></u>	<u><u>14,639</u></u>	<u><u>(1,329)</u></u>	<u><u>242,548</u></u>

At the end of fiscal year 2021, the District's investment in capital assets amounted to \$242,548 (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

The COVID-19 pandemic in the United States has caused business disruption through labor shortages and closing businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the disruption. However, the related financial impact on the District and the duration cannot be estimated at this time.

Management is unaware of any other 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.

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 Finance Manager, 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, 2021

	<u>2021</u>
Assets:	
Current assets:	
Cash and cash equivalents (note 2)	\$ 4,495,492
Restricted cash and cash equivalent (note 2)	2,509,392
Accounts receivable	466,795
Prepaid expenses and other assets	<u>914</u>
Total current assets	<u>7,472,593</u>
Non-current assets:	
Capital assets – being depreciated, net (note 3)	<u>242,548</u>
Total non-current assets	<u>242,548</u>
Total assets	<u>7,715,141</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued expenses	323,447
Unearned revenues (note 5)	<u>2,335,374</u>
Total current liabilities	<u>2,658,821</u>
Total liabilities	<u>2,658,821</u>
Net position (note 7):	
Net investment in capital assets	242,548
Restricted	2,509,392
Unrestricted	<u>2,304,380</u>
Total net position	<u>\$ 5,056,320</u>

See accompanying notes to the basic financial statements

Antelope Valley Air Quality Management District
Statement of Activities
For the Fiscal Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues		Net Revenue and Changes in Net Position
		Charges for Service	Operating Grants	
Governmental activities				
General	\$ 2,372,124	1,145,149	1,471,832	244,857
Mobile emission program AB 2766	465,560	-	658,342	192,782
Mobile emission program AB 923	232,172	-	658,342	426,170
Carl Moyer program	772,642	-	770,669	(1,973)
Total governmental activities	\$ 3,842,498	1,145,149	3,559,185	861,836
General revenues:				
		Fines, forfeitures, and penalties	\$	7,250
		Investment earnings		17,857
		Other revenue		24,118
		Total general revenues		49,225
		Changes in net position		911,061
		Net position, beginning of year, as previously stated		5,716,319
		Prior period adjustment (note 9)		(1,571,060)
		Net position, beginning of year, as restated		4,145,259
		Net position, end of year	\$	5,056,320

See accompanying notes to the basic financial statements

Antelope Valley Air Quality Management District
Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
June 30, 2021

	General Fund	AB 2766 Fund	AB 923 Fund	Carl Moyer Fund	Total Fund
Assets:					
Cash and cash equivalents (note 2)	\$ 4,495,492	-	-	-	4,495,492
Restricted cash and cash equivalents (note 2)	-	541,732	1,535,791	431,869	2,509,392
Accounts receivable	232,097	122,349	112,349	-	466,795
Inter-fund receivable (note 4)	53,511	-	6,609	-	60,120
Prepaid expenses	914	-	-	-	914
Total assets	\$ 4,782,014	664,081	1,654,749	431,869	7,532,713
Liabilities:					
Accounts payable and accrued expenses	\$ 319,242	-	4,205	-	323,447
Inter-fund payable (note 4)	6,609	14,930	-	38,581	60,120
Unearned revenue	2,017,903	-	-	317,471	2,335,374
Total liabilities	2,343,754	14,930	4,205	356,052	2,718,941
Fund balance (note 8):					
Nonspendable	914	-	-	-	914
Restricted	-	649,151	1,650,544	75,817	2,375,512
Unassigned	2,437,346	-	-	-	2,437,346
Total fund balance	2,438,260	649,151	1,650,544	75,817	4,813,772
Total liabilities and fund balance	\$ 4,782,014	664,081	1,654,749	431,869	7,532,713

Reconciliation:

Total Fund Balance of Governmental Funds	\$ 4,813,772
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 fund balance sheet. However, the statement of net position includes those capital position among the assets of the District as a whole as follows:	
Capital assets, net	242,548
Net Position of Governmental Activities	<u>\$ 5,056,320</u>

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, 2021

	<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	\$ 1,145,149	-	-	-	1,145,149
Operating grants	1,471,832	658,342	658,342	770,669	3,559,185
Fine, forfeitures, and penalties	7,250	-	-	-	7,250
Investment earnings	16,890	118	849	-	17,857
Other revenue	23,829	289	-	-	24,118
Total revenues	<u>2,664,950</u>	<u>658,749</u>	<u>659,191</u>	<u>770,669</u>	<u>4,753,559</u>
Expenditures:					
Services and supplies	2,328,901	465,560	232,172	770,669	3,797,302
Capital outlay	56,533	-	-	-	56,533
Other expense	-	-	-	1,973	1,973
Total expenditures	<u>2,385,434</u>	<u>465,560</u>	<u>232,172</u>	<u>772,642</u>	<u>3,855,808</u>
Net change in fund balance	<u>279,516</u>	<u>193,189</u>	<u>427,019</u>	<u>(1,973)</u>	<u>897,751</u>
Fund balance – beginning of year, as previously stated	3,685,064	455,962	1,268,265	77,790	5,487,081
Prior period adjustment (note 9)	<u>(1,526,320)</u>	-	<u>(44,740)</u>	-	<u>(1,571,060)</u>
Fund balance – beginning of year, as restated	<u>2,158,744</u>	455,962	1,223,525	77,790	3,916,021
Fund balance – end of year	<u>\$ 2,438,260</u>	<u>649,151</u>	<u>1,650,544</u>	<u>75,817</u>	<u>4,813,772</u>

Reconciliation:

Net Change in Fund Balance – Total Governmental Funds	\$ 897,751
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	(43,223)
Capital outlay	<u>56,533</u>
Changes in Net Position of Governmental Activities	<u>\$ 911,061</u>

See accompanying notes to the basic financial statements

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements
June 30, 2021

(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 members 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, 2021

(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 of 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 that 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, 2021

(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 pronouncement in the current year:

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.

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.

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.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

D. Financial Statement Elements

1. Use of Estimates

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

2. Uncertainty

The COVID-19 outbreak in the United States has caused business disruption through labor shortages and business closings. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the disruption. However, the related financial impact on the District and the duration cannot be estimated at this time.

3. 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.

4. 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.

5. 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.

6. 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.

7. 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.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

D. Financial Statement Elements, continued

8. 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

9. 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.

10. 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.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

D. Financial Statement Elements, continued

11. Fund Balance

The government fund financial statements 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.

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 balance 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.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2021

(2) Cash and Cash Equivalents

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

	<u>2021</u>
Unrestricted cash and cash equivalents:	
General Fund	\$ 4,495,492
Total unrestricted cash and cash equivalents	<u>4,495,492</u>
Restricted cash and cash equivalents:	
AB 2766 Fund	541,732
AB 923 Fund	1,535,791
Carl Moyer Fund	<u>431,869</u>
Total restricted cash and cash equivalents	<u>2,509,392</u>
Total cash and cash equivalents	<u><u>\$ 7,004,884</u></u>

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

	<u>2021</u>
Deposits held with financial institutions	\$ 2,384,819
Deposits held with Los Angeles County Treasurer	<u>4,620,065</u>
Total	<u><u>\$ 7,004,884</u></u>

Authorized Deposits and Investments

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

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

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that, in the event of 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 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.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2021

(2) Cash and Cash Equivalents, continued

Custodial Credit Risk, continued

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, 2021, the District's deposits in Los Angeles County Pooled Surplus Investments had an average of 590 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 Los 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, 2021

(3) Capital Assets

The change in capital assets as of June 30 was as follows:

	<u>Balance 2020</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2021</u>
Non-depreciable assets:				
Work in progress	\$ 1,329	-	(1,329)	-
Total non-depreciable assets	<u>1,329</u>	<u>-</u>	<u>(1,329)</u>	<u>-</u>
Depreciable assets:				
Improvements	15,875	-	-	15,875
Furniture and fixtures	72,757	-	(2,017)	70,740
Machinery and equipment	160,072	-	(16,841)	143,231
Vehicles	77,409	57,862	(36,514)	98,757
Computers	30,732	-	(11,249)	19,483
Software	<u>365,647</u>	<u>-</u>	<u>-</u>	<u>365,647</u>
Total depreciable assets	<u>722,492</u>	<u>57,862</u>	<u>(66,621)</u>	<u>713,733</u>
Accumulated depreciation:				
Improvements	(16,973)	(1,546)	-	(18,519)
Furniture and fixtures	(59,259)	(341)	2,017	(57,583)
Machinery and equipment	(135,350)	(5,597)	16,841	(124,106)
Vehicles	(62,541)	(5,952)	36,514	(31,979)
Computers	(30,732)	-	11,249	(19,483)
Software	<u>(189,728)</u>	<u>(29,787)</u>	<u>-</u>	<u>(219,515)</u>
Total accumulated depreciation	<u>(494,583)</u>	<u>(43,223)</u>	<u>66,621</u>	<u>(471,185)</u>
Total depreciable assets, net	<u>227,909</u>	<u>14,639</u>	<u>-</u>	<u>242,548</u>
Total capital assets, net	<u>\$ 229,238</u>			<u>242,548</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, 2021 inter-fund receivables/payables between the District's funds were as follows:

<u>Receivable from</u>	<u>Payable to</u>	<u>2021</u>
AB 2766 Fund	General Fund	\$ 14,930
Carl Moyer Fund	General Fund	<u>38,581</u>
General Fund receivable		53,511
General Fund	AB 923 Fund	<u>6,609</u>
Inter-fund receivables/payables		<u>\$ 60,120</u>

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2021

(5) Unearned Revenues

The change in unearned revenues as of June 30 was as follows:

	<u>Balance</u> <u>2020</u>	<u>New</u> <u>Awards</u>	<u>Expenses/</u> <u>Revenues</u>	<u>Balance</u> <u>2021</u>
General Fund				
AB134	\$ -	977,912	-	977,912
Farmers grant	-	6,860	(1,110)	5,750
Total General Fund	-	984,772	(1,110)	983,662
Carl Moyer Fund				
Round 20	2,606	-	(2,606)	-
Round 21	274,985	-	(221,658)	53,327
Round 22	810,202	-	(546,405)	263,797
Round 23	-	347	-	347
Total Carl Moyer Fund	1,087,793	347	(770,669)	317,471
Total unearned revenues	\$ 1,087,793	985,119	(771,779)	1,301,133

(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 \$4,720 through 2025. Future rent payments subsequent to year end are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Amount</u>
2022	\$ 56,638
2023	56,638
2024	56,638
2025	56,638
Total	\$ 226,552

For the year ended June 30, 2021, rent expense totaled \$57,485.

(7) Net Position

Net investment in capital assets is calculated as follows:

	<u>2021</u>
Net investment in capital asset:	
Capital assets – being depreciated, net	\$ 242,548
Total net investment in capital asset	\$ 242,548

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2021

(7) Net Position, continued

Restricted net position is calculated as follows:

	<u>2021</u>
Restricted:	
Restricted cash and cash equivalents	\$ <u>2,509,392</u>
Total restricted	\$ <u><u>2,509,392</u></u>

Unrestricted net position is calculated as follows:

	<u>2021</u>
Unrestricted:	
Non-spendable net position	
Prepaid expenses and other assets	\$ 914
Spendable net position	
Unrestricted	<u>2,303,466</u>
Total unrestricted	\$ <u><u>2,304,380</u></u>

(8) Fund Balance

Fund balance is presented in the following categories: non-spendable, restricted, committed, assigned, and unassigned (See Note 1.D.11 for a description of these categories). Fund balance and its funding composition at June 30, 2021, are as follows:

	<u>2021</u>
Nonspendable:	
Prepaid expenses and other asset	\$ <u>914</u>
Restricted:	
Mobile Emissions Program AB 2766	649,151
Mobile Emissions Program AB 923	1,650,544
Carl Moyer Program	<u>75,817</u>
Total restricted	<u><u>2,375,512</u></u>
Unassigned	
Operations	<u>2,437,346</u>
Total fund balance	\$ <u><u>4,813,772</u></u>

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2021

(9) Prior Period Adjustment

Unearned Grant Revenues

During the year, the District's grantor changed its rules and regulations to account for grants that have not been awarded by the District as unearned grant revenues. As a result, the District recorded a prior period adjustment to net position and fund balance.

Cash

As of June 30, 2020, the District's financial institution report cash balance sweep account and checking account causing cash to be overstated. As a result, the District recorded a prior period adjustment to net position and fund balance.

The effect of the above changes is summarized as follows:

	<u>Net Position</u>	<u>Fund Balance</u>
Net position/Fund balance - as previously stated	\$ 5,716,319	5,487,081
Reclassified to unearned revenues	(1,526,320)	(1,526,320)
Restated for cash	<u>(44,740)</u>	<u>(44,740)</u>
Net position/Fund balance - as restated	<u><u>\$ 4,145,259</u></u>	<u><u>3,916,021</u></u>

(10) Risk Management

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

At June 30, 2021, the District participated in the liability and property programs of the SDRMA as follows:

- Property coverage consists of general property and catastrophic loss of \$800 million, boiler & machinery of \$100 million, and pollution of \$2 million per occurrence.
- General liability insurance covers bodily injury, property damage, employment benefits, employee and public officials errors and omission, and employment practices liability of \$2.5 million per occurrence; public officials personal of \$500,000 per occurrence; and employee and public officials dishonesty of \$1 million per occurrence.
- Auto liability consists of auto bodily injury and auto property damage of \$2.5 million per occurrence.

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 2021. 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, 2021.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2021

(11) 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. 87

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

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

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

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. 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.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

Governmental Accounting Standards Board Statement No. 91, continued

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.

Governmental Accounting Standards Board Statement No. 92

In January 2020, the GASB issued Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

The requirements of this Statement were as follows: (1) The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; (2) The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020; (3) The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020; and (4) The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged and is permitted by topic.

Governmental Accounting Standards Board Statement No. 93

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by: (1) Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; (2) Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; (6) Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and (7) Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

Governmental Accounting Standards Board Statement No. 93, continued

The requirements of this Statement were effective as follows: (1) The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021; and (2) All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective dates have been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 94

In March 2020, the GASB issued Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 96

In May 2020, the GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2021

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

Governmental Accounting Standards Board Statement No. 97

In June 2020, the GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 41 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

Governmental Accounting Standards Board Statement No. 98

This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur.

This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness. Effective Date The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

Antelope Valley Air Quality Management District
Notes to the Basic Financial Statements, continued
June 30, 2021

(12) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by grantor agencies. Such an audit could lead to requests for reimbursements to 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.

(13) Subsequent Event

Events occurring after June 30, 2021, have been evaluated for possible adjustment to the financial statements or disclosure as of February 15, 2022, 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.

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Required Supplementary Information

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Antelope Valley Air Quality Management District
Budget Comparison Schedule – General Fund
For the Year Ended June 30, 2021

	<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	\$ 1,066,000	-	1,066,000	1,145,149	79,149
Operating grants	828,800	-	828,800	1,471,832	643,032
Fine, forfeitures, and penalties	10,000	-	10,000	7,250	(2,750)
Investment earnings	30,000	-	30,000	16,890	(13,110)
Other revenue	-	-	-	23,829	23,829
Total revenues	<u>1,934,800</u>		<u>1,934,800</u>	<u>2,664,950</u>	<u>730,150</u>
Expenditures:					
Services and supplies	1,849,800	-	1,849,800	2,328,901	(479,101)
Capital outlay	<u>85,000</u>	-	<u>85,000</u>	<u>56,533</u>	<u>28,467</u>
Total expenditures	<u>1,934,800</u>	-	<u>1,934,800</u>	<u>2,385,434</u>	<u>(450,634)</u>
Net change in fund balance	-	<u>-</u>	-	279,516	<u>279,516</u>
Fund balance – beginning of year	<u>3,685,064</u>		<u>3,685,064</u>	<u>3,685,064</u>	
Fund balance – end of year	\$ <u>3,685,064</u>		<u>3,685,064</u>	<u>3,964,580</u>	

Antelope Valley Air Quality Management District
Budget Comparison Schedule – Funds AB 2766, AB 923, and Carl Moyer
For the Year Ended June 30, 2021

	<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	\$ 2,008,085		2,008,085	2,087,353	79,268
Investment earnings	28,000	-	28,000	967	(27,033)
Other revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>289</u>	<u>289</u>
Total revenues	<u>2,036,085</u>	<u>-</u>	<u>2,036,085</u>	<u>2,088,609</u>	<u>52,524</u>
Expenditures:					
Services and supplies	2,036,085	-	2,036,085	1,468,401	567,684
Other expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,973</u>	<u>-</u>
Total expenditures	<u>2,036,085</u>	<u>-</u>	<u>2,036,085</u>	<u>1,470,374</u>	<u>567,684</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>618,235</u>	<u>620,208</u>
Fund balance – beginning of year	<u>1,757,277</u>		<u>1,757,277</u>	<u>1,757,277</u>	
Fund balance – end of year	<u>\$ 1,757,277</u>		<u>1,757,277</u>	<u>2,375,512</u>	

Antelope Valley Air Quality Management District
Notes to the Required Supplementary Information
June 30, 2021

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 the operating budget is 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 Internal Controls and Compliance

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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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 15, 2022.

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
February 15, 2022