ST GROUP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Feather River Air Quality Management District
Yuba City, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Feather River Air Quality Management District (the "District"), as of and for the year ended June 30, 2015, 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement where due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion 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 with respect to Feather River Air Quality Management District's and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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 circumstance, 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 opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Feather River Air Quality Management District as of June 30, 2015, and the respective changes in its financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and Schedule of Proportionate Share of the Net Pension Liability and Contributions identified in the table of contents 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.
Change in Accounting Principle
As discussed in Notes to the financial statements, in 2015 the District adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contribution Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68. The District has not restated the actual and pro forma effect of the Statements on the financial statements as of and for the year ended June 30, 2014. This data is not readily available due to an actuary study not being prepared in accordance with GASB 68 for measurement dates prior to June 30, 2014. Our opinion is not modified with respect to this matter.
The effects of this restatement are described in Notes to the basic financial statements. The implementation of GASB 68 required the District to recognize its unfunded net pension liability resulting in the District having a negative unrestricted net position in the current year. The District currently funds this obligation on a pay-as-you go basis. The District anticipates that its ongoing funding and current resources are sufficient to meet its obligations as they come due.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 20, 2016, 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.

Respectfully Submitted,

ST Group P.C.

ST Group P.C.
Certified Public Accountants
Sacramento, California
April 20, 2016

Serving Sutter and Yuba Counties

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Yuba City, CA 95991
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Christopher D. Brown
Air Pollution Control Officer

April 20, 2016

Citizens of Sutter and Yuba Counties and
Members of the Board of Directors

This discussion and analysis of the Feather River Air Quality Management District (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

Government-wide Financial Statements
The assets of the District exceeded its liabilities at June 30, 2015 by $2,808,657 dollars. Of this amount, $1,546,164 is considered unrestricted and may be used to meet the District's ongoing obligations.

The current year change in net position was a decrease of $(378,050). This resulted from excess of expenditures over revenue. The excess of expenditures was impacted by depreciation expense of $46,172 dollars.

Governmental Fund Financial Statements
At June 30, 2015, the Districts' Governmental Funds reported a combined ending fund balance of $3,194,698 million. The combined fund balance increased by $475,596 from the prior year ending fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three sections: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. These sections are described as follows:

Government-wide Financial Statements
The *government-wide financial statements* are comprised of the *Statement of Net Position* and the *Statement of Activities* which provide broad financial information and present a longer-term view of District's finances. These statements are reported using the accrual basis of accounting which is similar to the accounting used by most private sector companies.

The *Statement of Net Position* presents information on all of District's assets and deferred outflows, and liabilities and deferred inflows, with the difference between them reported as net position. The *Statement of Activities* presents the most recent fiscal year changes in District's net position. Revenues and expenses are recognized as soon as the underlying event occurs, regardless of the timing of related cash flows. These two statements report District's net position and changes in them. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of District is improving or deteriorating.

Governmental Fund Financial Statements
A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The governmental fund financial statements are comprised of the *Balance Sheet* and the *Statement of Revenues, Expenditures, and Changes in Fund Balance*, which focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. These statements present a detailed short-term view of District's operations and services. The modified accrual basis of accounting is used to measure cash and all other financial assets that can readily be converted into cash. It helps determine the availability of financial resources that can be spent in the near future to finance District's programs.

District adopts annual appropriated budgets for its general fund and special revenue funds. Budgetary comparison statements have been provided to demonstrate compliance with each fund's budget.

Notes to the Financial Statements
Financial statement notes are an important part of the basic financial statements and 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 12-22 of this report. In addition to the Basic Financial Statements and accompanying notes, this report also presents certain Required Supplementary Information such as Pension information and Budgets.

NEW PENSION ACCOUNTING STANDARDS

The District adopted two new statements issued by the Governmental Accounting Standards Board (GASB) that relate to pension activity:

- Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, and
- Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.

These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense related to District's pension obligations in the government-wide financial statements. The statements now require the reporting of the unfunded pension liability on District's full accrual basis of accounting government-wide financial statements in addition to an expanded set of required disclosures. However, they have no impact on District's governmental fund financial statements, which do not report the unfunded pension liability.

GOVERNMENT-WIDE FINANCIAL STATEMENTS ANALYSIS

Statements of Net Position
As noted earlier, net position may serve over time as a useful indicator of the government's financial position. In the District's case, assets exceeded liabilities by $2,808,657 at the close of fiscal year 2014-15. The schedule below presents a condensed Statement of Net Position as of June 30, 2015.

	Governmental Activities
Current and Other Assets	$ 3,412,544
Capital Assets	668,316
Total Assets	4,080,860
Related to Pensions	0
Total Deferred Outflows of Resources	0
Current Liabilities	261,273
Non-Current Liabilities	841,805
Total Liabilities	1,103,078
Related to Pensions	169,125
Total Deferred Outflows of Resources	169,125
Invested in Capital Assets, net	268,316
Restricted	994,177
Unrestricted	1,546,164
Total net position	$ 2,808,657

The largest portion of the District's net position is invested in cash and cash equivalents. The fixed assets (net of debt), represent 10% of District's net position. At the end of the fiscal year, the District is able to report a positive balance of net position. Governmental net position decreased by $1,161,784 mainly due to the application of GASB 68 which resulted in a prior period adjustment that decreased beginning net position by $783,734. Excluding the GASB 68 prior period adjustment, the change in net position from governmental activities was $378,050.

Statements of Activities
The following schedule shows revenues by major source, expenses by function and Changes in Net Position for the fiscal years ended June 30, 2015.

Statement of Activities
For the Year Ended June 30, 2015

		Governmental Activities
REVENUES		
Operating grants and contributions	$	2,323,970
Permits		568,552
Penalties		44,979
Use of money and property		13,061
Other revenues		243,747
Total Revenues		3,194,309
EXPENDITURES		
Public protection		3,572,359
Total Expenses		3,572,359
Increase (decrease) in net position		(378,050)
Beginning Net Position, as previously reported		2,707,948
Prior Period Adjustments		(783,734)
Beginning Net Position, as adjusted		1,924,214
Ending Net Position	$	1,546,164

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. Governmental activities are generally accounted for under the General Fund and Special Revenue funds. Governmental funds provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financial requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use. They represent the portion of the fund balance which has not yet been limited to use for a particular purpose by either an external party, the District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the District.

As of June 30, 2015 the District's governmental funds reported a combined ending fund balance of $2,808,657 compared to $2,719,102, balance of the previous year.

The General Fund is the chief operating fund of the District. As of June 30, 2015, the General Fund's unreserved undesignated fund has a surplus balance of $1,546,164 compared to $1,464,033, balance of the previous year.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Feather River Air Quality Management District,
541 Washington Ave,
Yuba City, CA 95591

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities
ASSETS	
Cash Deposits	$ 1,326,120
Cash with fiscal agent (727,728)	2,066,654
Total cash and cash equivalents	3,392,774
Accounts receivable	5,331
Prepaid expenses	9,663
Interest receivable	4,776
Total current assets	3,412,544
Fixed Assets	668,316
Total noncurrent assets	668,316
TOTAL ASSETS	4,080,860
DEFERRED OUTFLOW OF RESOURCES	
Related to Pensions	0
LIABILITIES	
Accounts payable	2,852
Deferred revenue	200,000
Compensated absences payable	39,421
Current portion of long-term liabilities	19,000
Total current liabilities	261,273
Noncurrent portion of long-term liabilities	381,000
Pension liability, net	460,805
Total noncurrent liabilities	841,805
TOTAL LIABILITIES	1,103,078
DEFERRED INFLOW OF RESOURCES	
Related to Pensions	169,125
NET POSITION	
Net investment in general fixed assets	268,316
Restricted for air quality grants and projects	994,177
Unrestricted net position	1,546,164
TOTAL NET POSITION	2,808,657

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Function	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expenses)/Revenue and Changes in Net Net Position
Public Protection	$ 3,572,359	843,666	2,323,970	(404,723)
Total Government Activities	$ 3,572,359	843,666	2,323,970	(404,723)

General Revenue:	
Use of the money	13,061
Other revenue	13,612
Change in net position	(378,050)
Net position, as originally reported	2,707,948
Prior period adjustments	(783,734)
Beginning net position, as restated	1,924,214
Net position, end of year	$ 1,546,164

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015

ASSETS	General Fund	Special Revenue Funds	Total Governmental Funds
Bank deposit	$ 950	0	$ 950
Cash with fiscal agent	1,325,170	0	1,325,170
Cash with fiscal agent (727)	0	565,245	565,245
Cash with fiscal agent (728)	0	1,501,409	1,501,409
Total cash and cash equivalents	1,326,120	2,066,654	3,392,774
Interest receivable	2,200	2,576	4,776
Total current assets	1,328,320	2,069,230	3,397,550
Total assets	1,328,320	2,069,230	3,397,550
LIABILITIES			
Accounts payable	2,852	0	2,852
Deferred revenue	0	200,000	200,000
Total current liabilities	2,852	200,000	202,852
Total liabilities	2,852	200,000	202,852
FUND BALANCE			
Restricted fund balance	0	994,177	994,177
Committed fund balance	100,000	0	100,000
Unassigned fund balance	1,225,468	0	1,225,468
Assigned fund balance	0	875,053	875,053
Total fund balances	1,325,468	1,869,230	3,194,698
Total liabilities and fund balances	$ 1,328,320	$ 2,069,230	$ 3,397,550

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2015

Amounts reported for governmental activities in the Statement of Net Positon are different from those reported in the Governmental Funds because of the following:

Total fund balance, governmental fund	$	3,194,698
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the governmental funds. The historical cost of the capital assets is $804,919 and accumulated depreciation is $136,603		668,316
Certain receivables are not available to pay current period expenditures and therefore are unavailable in the government funds		5,331
Certain prepaid are not available to pay current period expenditures and therefore are unavailable in the government funds		9,663
Deferred inflows related to pensions are applicable to future periods and, therefore, are not reported in the funds		(169,125)
Certain liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as funds liabilities. All liabilities, both current and long-term, are reported in the statement of net position:		
Compensated absences		(39,421)
Net pension liability		(460,805)
Capital lease obligations		(400,000)
Total net position, governmental activities	$	2,808,657

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Major Funds		
REVENUES	General Fund	Special Revenue Fund(s)	Total Governmental
Licenses/permits and intergovernmental:			
Annual permits	$ 358,195	0	358,195
New applications	144,299	0	144,299
Agricultural burn permits	66,058	0	66,058
Fees and penalties	44,979	0	44,979
Miscellaneous	230,135	0	230,135
Carl Moyer fund revenue (728)	0	905,914	905,914
Motor vehicle in lieu of fees (727)	0	548,507	548,507
Subvention	95,182	774,367	869,549
Use of money: interest earned	6,680	6,381	13,061
Miscellaneous: Indirect	13,612	0	13,612
			0
Total Revenues	959,140	2,235,169	3,194,309
EXPENDITURES			
Salaries and benefits	886,184	0	886,184
Services and supplies:			
Insurance	11,564	0	11,564
Office expense	12,078	0	12,078
Professional services	115,955	0	115,955
Rents	31,292	0	31,292
Communication	5,544	0	5,544
Dues and subscriptions	2,457	0	2,457
Travel	13,311	0	13,311
Capital outlay	316,177	0	316,177
Miscellaneous	43,278	0	43,278
Program actitivties:			
Motor vehicle expense (727)	0	175,634	175,634
Carl Moyer fund expense (728)	0	1,105,239	1,105,239
Total Expenditures	1,437,840	1,280,873	2,718,713
			0
Excess of Revenues over (under) Expenditures	(478,700)	954,296	475,596
Beginning Fund Balances	1,464,033	1,255,069	2,719,102
Ending Fund Balances	$ 985,333	$ 2,209,365	3,194,698

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Amounts reported for governmental activities in the Statement of Activities are different because of the following:		
Net change in Fund Balance Governmental Fund	$	(478,700)
Governmental Fund report capital outlays as expenditures. However in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.		
Cost of assets capitalized		316,177
Depreciation expense		(46,172)
The amounts below included in the Statement of Activities don't provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):		
Change in accounts receivables		(2,910)
Change in prepaid expenses		9,663
Change in compensated absences		(3,717)
Change in pension liability		(172,391)
Change in net position of governmental activities	$	(378,050)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Feather River Air Quality Management District, the "District", was formed on April 8, 1991 pursuant to the California Health and Safety Code. The District provides for uniformity in addressing air pollution control needs, strategies, and responsibilities in relation to the California Clean Air Act, in the Yuba and Sutter County areas.

The District's financial statements include the operations of all organizations for which the District's Governing Board exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

B. Basis of Presentation

The District accounts for its financial transactions in accordance with accounting principles generally accepted in United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as U.S. Generally Accepted Accounting Principles for state and local governments.

<u>Government-Wide Financial Statements</u>

The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government. District has only governmental activities, which are supported primarily by grants, intergovernmental revenues, and charges for services.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Therefore, reconciliations, containing brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds, are included.

The government-wide statement of net position records all of the District's assets and liabilities including capital assets, long-term liabilities, deferred inflows and deferred outflows.

The government-wide statement of activities presents a comparison between total expenses and program revenues for each function or program of the District's governmental activities. Total expenses are those that are associated with or allocated to a service, program, or department and are therefore identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District.

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

<u>Fund Financial Statements</u>

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues to be available if they are collected within 30 days of the end of the current fiscal period. Charges for services , intergovernmental revenues and investment earnings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Payable balances consist primarily of payables to vendors.

The accounts of The District are organized on the basis of funds. A fund is a separate accounting unit with a self-balancing set of accounts. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent. The District has three major funds for reporting purposes, called the general fund, and special revenue funds (i.e. Fund 727, 728 emission technology funds). The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required or designated by the Board of Directors to be accounted for in another fund. The special revenue funds are project funds used to account for state grant(s) that are legally restricted to expenditures for specific purposes.

C. Net Position / Fund Balance

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

General Fixed Assets – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt, if any, that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents net position of the District not restricted for any project or other purpose.

The governmental fund statements utilize a fund balance presentation. Fund balances are categorized as restricted, committed, assigned, and unassigned.

Nonspendable Fund Balance – This category presents the portion of fund balance that cannot be spent because it is either not in a spendable form or it is legally or contractually required to be maintained intact.

Restricted Fund Balance – This category presents the portion of the fund balance that is for specific purposes stipulated by constitution, external resource providers, or enabling legislation.

Committed Fund Balance – This category presents the portion of the fund balance that can be used only for the specific purposes determined by a formal action (Resolution) of the District's highest level of decision making authority. For the District, this level of authority lies with the Board of Directors.

Assigned Fund Balance – This category presents the portion of the fund balance that is intended to be used by the District for specific purposes but does not meet the criteria to be classified as restricted or committed. For the District, balances can be assigned by management or through the budget process.

Unassigned Fund Balance – This category presents the portion of the fund balance that does not fall into restricted, committed, or assigned and are spendable.

If resources from more than one fund balance classification could be spent, the District will strive to spend resources from fund balance classification in the following order (first to last): restricted, committed, assigned, and unassigned as determined by the Board.

D. Budgets and Budgetary Accounting

As required by the laws of the State of California, The District prepares and legally adopts a final operating budget to be effective July 1 for the ensuing fiscal year. Public hearings are conducted on the proposed final budget to review all appropriations, sources of financing, and to provide opportunities for public comment. The Statements of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual is included as part of the basic financial statements.

The District follows these procedures in establishing the budgetary data reflected in the basic financial statements:

a) The Board of Directors adopts an annual budget by Directors' approval prior to July 1 of each fiscal year. The annual budget indicates appropriations by fund and by program. The Board of Directors may also adopt supplemental appropriations during the year. At the fund level, expenditures may not legally exceed appropriations. The Air Pollution Control Officer (APCO) is authorized to transfer budgeted amounts between divisions and programs within any fund.

b) Operating budgets are adopted for the General Fund on the modified accrual basis of accounting. Budgetary control and the legal level of control are at the fund level. Significant operating or capital spending changes are addressed by the District's Board of Directors, if necessary. The final budget data contained in the financial statements reflects the effect of all approved budget amendments.

c) Supplementary budgetary revenue and expenditure appropriations are adopted by the Board of Directors during the fiscal year. These supplemental appropriations included in the Budgeted Amounts - Final column of the Budgetary Comparison Schedules. There were no revisions during the year. Actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items for the general fund except for the account motor vehicle fees – projects. The budget for this account is actually the estimated carryover balance and is not necessarily budgeted for current expenditure.

E. Fixed Assets

Fixed assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' life are not capitalized. Capital assets are being depreciated using straight-life method over the estimated useful life ranging from 3 to 40 years. Gain or loss is recognized when assets are retired from service or are otherwise disposed. The District has adopted the accounting policy of capitalizing "infrastructure" general fixed assets (assets that are immovable and of value to the District) of $2,500 and higher.

F. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," The District recognizes deferred outflows and inflows of resources. In addition to assets, a deferred outflow of resources is reported separately which is defined as a consumption of net position that is applicable to a future reporting period. In addition to liabilities, a deferred inflow of resources is also reported separately and is defined as an acquisition of net position that is applicable to a future reporting period. See Pension Plan note for information about deferred outflows and inflows relating to the District's pension plan.

G. Use of Estimates

The preparation of the general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the general purpose financial statements and the reported amount of revenue and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

H. Non-Exchange Transaction

Imposed non-exchange transaction revenues result from assessments imposed on non-governmental entities, including individuals (other than assessments imposed on exchange transactions), and the revenues are recognized in the period when use of the resources is required or first permitted. District imposed non-exchange transactions are the motor vehicle fees, Permit fees, Penalties and Settlements.

Government-mandated non-exchange transactions result from one level of government providing resources to another level of government and requiring the recipient to use the resources for a specific purpose. Voluntary non-exchange transactions result from agreements entered into voluntarily by the parties thereto. Both types of non-exchange transaction revenues are treated in the same manner. Revenues are recognized when all applicable eligibility requirements are met. District transactions of both types include the Carl Moyer program, Lower Emission School Bus program, State Subvention, other grants. Those revenues susceptible to accrual are interest and charges for services, fines and penalties, and license and permit revenues.

Under the modified accrual basis, revenue from exchange and non-exchange transactions must meet both the "measurable" and "available" criteria to be recognized in the current period. On governmental fund financial statements, receivables that will not be collected within the availability period are offset with unavailable revenue. Unearned revenue arises when assets are received before the revenue recognition criteria have been satisfied. District's Funds received have been recorded as earned revenue in the governmental fund financial statements.

I. Compensated Absences

The District's policies provide compensation to employees' absences, such as vacation and compensatory time. A liability for compensated absences that are attributable to services already rendered and that are not contingent on any special event beyond the control of the District and its employees is accrued as employees earn those benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in a period in which such services are rendered or in which such events take place.

The District's liability for compensated absences is recorded in the Statement of Net Position. In the event of termination, the employees are reimbursed for all accumulated vacation at the time of separation from the District.

J. Committed Fund Balance

As of June 30, 2015, the District through action by its Board of Directors has internally committed portion of the unrestricted fund balance in the amount of $100,000 dollars. The amount represents future other post-retirement employee benefits (OPEB).

K. Unearned Revenue

Under both the accrual and modified accrual basis of accounting, revenue may be recognized only when it is earned. In instances where assets have been received by the District for services to be rendered in future periods, assets have been offset by an unearned revenue liability account in the financial statements. At June 30, 2015, the deferred revenue for Carl Moyer program amounted to $200,000

L. Elimination and Reclassifications

In the process of aggregating data for the government-wide statements, some amounts reported as interfund activity and balances in the fund financial statements were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities.

M. Recently Issued Accounting Pronouncements

In June 2012, the GASB approved Statement No. 68, Accounting and Financial Reporting for Pensions. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. Among other things, this Statement requires the balance sheet to reflect the plan funding status showing the net difference between the pension liabilities and pension assets. Pension liabilities are determined using the entry age normal cost method and pension assets are determined using market value. Certain other changes will also impact the pension liability and expense. In addition, this Statement requires employers to revise and expand note disclosures and to provide required supplementary information (RSI). This statement has been implemented in the current financial statements.

In February 2015, the GASB approved Statement No. 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements, including providing guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement establishes a hierarchy used to measure and report fair value, which has three levels: level 1 inputs that are quoted prices in active markets for identical assets or liabilities, level 2 inputs that are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly and level 3 inputs that are unobservable inputs. This Statement is effective for periods beginning after June 15, 2015.

In June 2015, the GASB approved Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to other postemployment benefits other than pensions (OPEB). This Statement also addresses footnote disclosures and required supplementary information requirements for defined benefit OPEB plans. The provisions of this Statement are effective for periods beginning after June 15, 2017.

In June 2015, the GASB approved Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This Statement identifies the hierarchy of generally accepted accounting principles (GAAP) for state and local governments, reducing the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This Statement is effective for periods beginning after June 15, 2015.

NOTE 2: CASH AND INVESTMENTS

Cash and investments of the District are summarized below:

Bank deposits	$	950
Investment in Yuba County Treasury		3,391,824
Total cash and investments	$	3,392,774

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 depositary regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities must be equal to at least 110% of the total amount deposited by the public agencies. California law allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured deposits. The District may waive collateral requirements for deposits that are fully insured up to $250,000 by Federal Deposit Insurance, effective October 2010. At June 30, 2015, the bank deposit is insured. The county treasure deposit exceeds the insurable limit.

Investments in Pooled Funds

The District maintains substantially all of its cash in the Yuba County Treasury (the Treasury). The Treasury pools these funds with those of other districts in the county and invests the cash. The share of each fund in the pooled cash account is separately accounted for and interest earned is apportioned quarterly to funds that are legally required to receive interest based on the relationship of a fund's daily balance to the total of pooled cash and investments. The total amount invested by all public agencies as of June 30, 2015 was $275,489,447. The investment pool is actively managed with a weighted average maturity of 456 days. Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed income. This method differs from the fair value method used to value investments in these financial statements in that unrealized gains or losses are not distributed to pool participants.

The funds maintained by the Treasury are authorized investments established by the California Government Code sections 53601 et seq. and 53635 et seq.

Investments (continued)
The District may invest in the following types of investments:

- Bonds issued by the State of California and/or any local agency within the State of California
- Securities of the U.S. Government, or its agencies
- Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan companies
- Negotiable Certificates of Deposit
- Bankers Acceptance
- Commercial Acceptances
- Local Agency Investment Fund (State Pool) Demand Deposits
- Repurchase Agreements (Repos)

Derivative Financial Products
Derivative financial products are contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. Rates are directly or inversely tied to various indexes. Therefore, the interest rate realized on these investments may lag or be inversed to market conditions and may cause a subsequent decline in market value. At June 30, 2015, the District did not hold any securities that had variable interest rates.

Investments that are represented by specific identifiable securities are classified as to credit risk by category. Category 1 includes investments that are insured or registered or for which collateral is held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or its trust department, but not in the District's name. Category 3 includes uninsured and unregistered investments for which securities are held by the broker or dealer or by its trust department or agent but not in the District's name.

The District maintains all investments other than a payroll account at Bank of America in the Yuba County Treasury. The Treasurer of Yuba County is responsible for the investment of these funds in accordance with the investment policies of the County. The District does not own any specific identifiable investments in the pool. Information regarding categorization of cash and investments held in the County can be found in the County of Yuba's financial statements.

Credit Risk
Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the instrument. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Except for municipal obligations and Community Reinvestment Act (CRA) bank deposits and certificates of deposit, the issuer's short-term credit ratings shall be at or above A-1 by Standard & Poor's, P-1 by Moody's and, if available, F 1 by Fitch, and the issuer's long-term credit ratings shall be at or above A by Standard & Poor's and A 2 by Moody's, and, if available, A by Fitch. Municipal obligations shall be at or above a short-term rating of SP-1 by Standard & Poor's, MIGI by Moody's, and, if available, F1 by Fitch. In addition, domestic banks are limited to those with a Fitch Individual bank rating of A or better, without regard to modifiers. Information regarding rating of cash and investments held in the County can be found in the County of Yuba's financial statements.

NOTE 3: GENERAL FIXED ASSETS

The following is a summary of changes in the general fixed assets of the District for the year ended June 30, 2015:

	July 1, 2014	Additions	Retirements	Adjustments	June 30, 2015
Land	$ 0	85,000	0	0	$ 85,000
Building	0	575,000	0	0	575,000
Equipment	19,278	14,340	0	0	33,618
Automobiles	87,462	23,839	0	0	111,301
Total	106,740	698,179	0	0	804,919
Accumulated Depreciation	90,431	46,172	0	0	136,603
Fixed Assets Net	$ 16,309				$ 668,316

NOTE 4: COMPENSATED ABSENCES

The following is a summary of changes for unpaid vacation of the District for the year ended June 30, 2015:

	July 1, 2014	Additions	Subtractions	June 30, 2015
Compensated absences	$ 35,705	$ 38,061	$ 34,345	$ 39,421
Total	$ 35,705	$ 38,061	$ 34,345	$ 39,421

NOTE 5: LONG TERM LIABILITIES

The District financed a portion of premises located at 541 Washington Ave. Yuba City, CA by entering into a lease agreement. The outstanding obligation associated with this purchase is payable West America Bank, in yearly installments, at the interest rate of 4.75% per annum.

Year ending June 30,	Principal	Interest	Total
2016	$18,888	$19,000	$37,888
2017	19,785	18,103	37,888
2018	20,725	17,163	37,888
2019	21,709	16,179	37,888
2020	22,741	15,147	37,888
Thereafter,	$296,152	$82,736	$378,888

NOTE 6: RISK MANAGEMENT/CLAIMS LIABILITIES

The District is exposed to various risks of loss related to theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District is covered by commercial insurance purchased from independent third parties. There have been no significant changes in insurance coverage and no settlements or claims have been made in the last year.

During the fiscal year ended June 30, 2015, the District insured with the Special District Risk Management Authority (SDRMA) for general liability, errors and omissions, workers' compensation, and a variety of comprehensive coverage.

The District is a member of the Special District Risk Management Authority (SDRMA), through a Joint Power Agreement (JPA). The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes. SDRMA arranges for and provides property, liability, error and omissions, auto liability, crime and fidelity, workers' comp and boiler and machinery insurance to its members. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in SDRMA. Complete audited financial statements for the JPA can be obtained by contacting SDRMA, 1112 I Street, Suite 300, Sacramento CA 95814.

NOTE 7: SUBSEQUENT EVENTS

Management has reviewed its financial statements and evaluated subsequent events for the period from its year-end June 30, 2015 through April 20, 2016, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the accompanying statements.

NOTE 8: COMMITMENTS AND CONTINGENCIES

The District has received revenues for specific purposes that are subject to review and audit by the State government and others. Although such audits could result in expenditure disallowances, it is believed that any required reimbursements would not be material.

NOTE 9: PENSION PLAN

Plan Description

The Plan is "Miscellaneous Plan", a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which both act as a common investment and administrative agent for its participating member employers. CalPERS issues publicly available financial reports for its plans. Copies of the CalPERS annual financial report and pertinent past trend information may be obtained at https://www.calpers.ca.gov/page/investments/about-investment- office/investment-financial-reports. Or 400 P Street, Sacramento, CA 95814

Benefits Provided

The plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The passage of the Public Employees Pension Reform Act (PEPRA) imposed several restrictions to the pension benefits that may be offered to employees hired on or after January 1, 2013, including increasing minimum retirement ages, increasing the percentage required for member contributions, and excluding certain types of compensation as pensionable. PEPRA has also created limits on pensionable compensation tied to the Social Security taxable wage base. The cumulative effect of these PEPRA changes will ultimately reduce AIR Quality retirement costs.

All permanent employees and part-time employees working at least 1,000 hours per year are enrolled in the CalPERS Miscellaneous Plan. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor multiplied by their service years and by their highest average monthly salary over 12 consecutive months of employment or in the case of PEPRA employees 36 consecutive months of employment.

Hire date	prior to 1/1/13	on or after1/1/13
Benefit formula (at full retirement) Benefit vesting schedule	2.5% @ 55	2% @ 62
Benefit payments	5 years	5 years
Retirement age	50 and up	52 and up
Monthly benefits, as a % of eligible compensation	2% to 3%	1% to 2%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the active employee contribution rate is 7.942 percent of annual pay, and the average employer's contribution rate is 18.277 percent of annual payroll. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution. For the fiscal year 2015, the District contributed $133,932 to the plan.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. Both the June 30, 2013 total pension liability and the June 30, 2014 total pension liability were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

NOTE 9: PENSION PLAN (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan. However, employers may determine the impact at the plan level for their own financial reporting purposes. Refer to page 9 of this report, which provides information on the sensitivity of the net pension liability to changes in the discount rate

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and
68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building- block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account, both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10[1]	Real Return Years 11+[2]
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

[1] An expected inflation of 2.5% used for this period
[2] An expected inflation of 3.0% used for this period

NOTE 9: PENSION PLAN (continued)

Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in your GASB 68 accounting valuation report may differ from the plan assets reported in funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self- insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in your funding actuarial valuation. In addition, differences may result from early CAFR closing and final reconciled reserves.

The following table shows the Plan's proportionate share of the risk pool collective net pension liability over the measurement period.

	Increase (Decrease)		
	Plan Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Plan Net Pension Liability/(Asset) (c) = (a) - (b)**
Balance at: 6/30/2013 (VD)	$ 2,648,537	$ 1,864,803	$ 783,734
Balance at: 6/30/2014 (MD)	$ 2,806,151	$ 2,345,346	$ 460,805
Net Changes during 2013-14	$ 157,614	$ 480,543	$ (322,929)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 7.50 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

	Discount Rate - 1% (6.50%)	**Current Discount Rate (7.50%)**	**Discount Rate + 1% (8.50%)**
Plan's Net Pension Liability/(Asset)	$ 833,076	$ 460,805	$ 151,854

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

NOTE 7: PENSION PLAN (continued)

Pension Expense and Deferred Outflows and Deferred Inflows

Paragraph 137 of GASB 68 and Questions 267 and 268 of the GASB 68 Implementation Guide set forth guidance on implementation. The employer should use this guidance for the adjusting entries concerning the net pension obligation and the initial net pension liability/(asset). As of the start of the measurement period (July 1, 2013), the net pension liability/(asset) for the plan is $783,734 (The net pension liability of the Miscellaneous Risk Pool as of June 30, 2013 is $3,276,668,431).

For the measurement period ended June 30, 2014 (the measurement date), the FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT incurred a pension expense/(income) of $75,572 for the Plan (the pension expense for the risk pool for the measurement period is $239,824,465). See Appendix C-2 for the complete breakdown of the proportionate share of plan pension expense and the development of the risk pool pension expense.

Note that no adjustments have been made for contributions subsequent to the measurement date. Adequate treatment of any contributions made after the measurement date is the responsibility of the employer

As of June 30, 2014, the FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT reports other amounts for the Plan as deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	$ 0	$ 0
Changes of Assumptions	0	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	0	(149,382)
Adjustment due to Differences in Proportions	0	(19,743)
Total	**$ 0**	**$ (169,125)**

In addition to the figures shown in the table above, each employer is required to recognize an employer-specific expense item and a deferred outflow or deferred inflow of resources related to pensions. This is derived from the difference between actual contributions made by the employer and the employer's proportionate share of the risk pool's total contributions (as defined in Paragraph 55 of GASB 68).

This deferral and the corresponding amortization amount will need to be calculated separately by each employer. The employer's pension expense needs to be adjusted for the amortization of this additional type of deferral. This item is required to be amortized over the expected average remaining service lifetime (EARSL). See page 10 for details on the EARSL.

Amounts reported as deferred outflows and deferred inflows of resources related to pensions, other than the employer-specific item, will be recognized in future pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2015	$ (44,397)
2016	(44,397)
2017	(42,987)
2018	(37,344)
2019	0
Thereafter	0

NOTE 8: OTHER POSTEMPLOYEMENT BENEFITS (OPEB)

The District participates in a single-employer defined benefit medical plan administered by the California Public Employees' Retirement System (CalPERS). The plan provides postemployment healthcare benefits to eligible retirees by contributing the minimum employer contributions (MEC) $250 dollars. This coverage is available for employees who retire with the District on reaching normal retirement age. At June 30, 2015 the District cost for the fiscal year, ended 2015 was $0.00 dollars. The District does not pre-fund the OPEB Annual Required Contribution (ARC) with the California Employees' Retirement Benefit Trust (CERBT).

NOTE 9: PRIOR PERIOD ADJUSTMENT

Management adopted the provisions of the following Government Accounting Standards Board (GASB). Statements, which became effective during the year ended June 30, 2015:

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The intention of this Statement is to improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 71 – In 2014, GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. The intention of this Statement is to eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities.

The implementation of the above Statements required District to make prior period adjustments. As a result, net position was reduced by $783,734 as of July 1, 2014.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances
General Fund - Budget and Actual
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenue				
Annual Permits	$ 329,550	$ 329,550	$ 358,195	$ (28,645)
New applications	70,000	70,000	144,299	(74,299)
Penalties	35,000	35,000	44,979	(9,979)
Other Revenue	303,300	303,300	411,667	(108,367)
Total Revenue	737,850	737,850	959,140	(221,290)
Expenditures				
Salaries and benefits	663,729	663,729	886,184	(222,455)
Services and supplies:				
Insurance	7,935	7,935	11,564	(3,629)
Office expense	12,213	12,213	12,078	135
Professional services	72,271	72,271	115,955	(43,684)
Rents	37,015	37,015	31,292	5,723
Communication	5,679	5,679	5,544	135
Dues and subscriptions	3,864	3,864	2,457	1,407
Travel	11,321	11,321	13,311	(1,990)
Capital outlay	3,105	3,105	316,177	(313,072)
Miscellaneous	6,086	6,086	43,278	(37,192)
Total Expenditures	823,218	823,218	1,437,840	(614,622)
Net Change in Fund Balance	$ (85,368)	$ (85,368)	$ (478,700)	$ 393,332

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances
Special Revenue Funds - Budget and Actual
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance Positive
Revenue				
Other Revenue	7,000	7,000	6,381	(619)
Motor Vehicle Fund	533,000	530,000	548,507	18,507
Special Renue (Moyer, AB923)	$ 850,000	$ 850,000	$ 1,680,281	$ (830,281)
Total Revenue	1,390,000	1,387,000	2,235,169	(812,393)
Expenditures				
Projects	1,722,049	1,722,049	1,280,873	441,176
Total Expenditures	1,722,049	1,722,049	1,280,873	441,176
Net Change in Fund Balance	$ (332,049)	$ (335,049)	$ 954,296	$ (371,217)

Schedule of the Plan's Proportions Share of the Net Pension Liability and Related Radios as of the Measurement Date:

	6/30/2014[1]
Plan's Proportion of the Net Pension Liability/(Asset)	0.00741%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	$460,805
Plan's Covered-Employee Payroll[2]	$615,377
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	74.88%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	83.58%
Plan's Proportionate Share of Aggregate Employer Contributions[3]	$229,376

[1] Historical information is required only for measurement periods for which GASB 68 is applicable.

[2] Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

[3] The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT

Schedule of the Plan Contributions

JUNE 30, 2015

	Fiscal Year 2013-14
Actuarially Determined Contribution[2]	97,264
Contributions in Relation to the Actuarially Determined Contribution [2]	(267,830)
Contribution Deficiency (Excess)	$(170,566)
Covered-Employee Payroll[3,4]	$615,377
Contributions as a Percentage of Covered-Employee Payroll[3]	43.52%

[1] Historical information is required only for measurement periods for which GASB 68 is applicable.

[2] Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.

[3] Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

[4] Payroll from prior year ($597,453) was assumed to increase by the 3.00 percent payroll growth assumption.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Budgetary Comparison Schedule

District employs budget control by object level coded and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Expenditures cannot legally exceed appropriations by major object code. Expenditures cannot legally exceed appropriations by major object code.

Schedule of Proportionate Share of Net Pension Liability

In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees. Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

Schedule of Contributions

If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements, the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

ST GROUP
Certified Public Accountants

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

To the Governing Board
Feather River Air Quality Management District
Yuba City, 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 Feather River Air Quality Management District (An autonomous special district of the State of California), the (District), as of and for the year ended June 30, 2015, 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 20, 2016.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2015-1 to be material weaknesses.

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.

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.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

ST Group P.C.

ST Group P.C.
Certified Public Accountants
Sacramento, California
April 20, 2016

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Finding 2015-1: Financial Statement Preparation

Criteria upon which audit finding is based (legal citation):
In Accordance with Statement on Auditing Standards No. 122 (SAS 122), the District is responsible for preparing complete and accurate financial statements, footnote disclosures, and management's discussion and analysis in accordance with Generally Accepted Auditing Principles (GAAP).

Finding (Condition):
Similar to many local governments, The District does not have policies and procedures in place to ensure that complete and accurate financial statements, footnotes disclosures, and management's discussion and analysis are prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Amount of Questioned Cost, How Computed and Prevalence:
None

Effect:
There is a risk that a material financial statement misstatement may exist and not be prevented or detected by the District's system of internal controls.

Cause:
This condition has always existed at the District, and is being reported in accordance with SAS 122.

Recommendation:
The District should consider the cost benefit of hiring independent CPA firm or developing internal systems which would allow the District to complete financial statements in conformity with GAAP.

District's Response:
The district met with the Finance/Policy Committee on 03/27/16 to discuss the possibility of entering into an agreement with a CPA firm in order provide accounting software, keep up on all GASB requirements and State Controller's reporting in order to meet all GAAP.

CORRECTIVE ACTION PLAN

Finding 2015-1: Financial Statement Preparation

Finding (Condition):
Similar to many local governments, The District does not have policies and procedures in place to ensure that complete and accurate financial statements, footnotes disclosures, and management's discussion and analysis are prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Corrective Action Planned:
As recommended by the Policy/Finance Committee, the district will issue an RFP and explore all options.

Expected Completion Date:
The district expects to issue the RFP after the FY 15/16 budget cycle and upon completion, present to the Board of Directors for consideration in order to comply by the FY 16/17 fiscal year.