

March 1, 2019

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Feather River Air Quality Management District (the "District") for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 15, 2019. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Matters

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Feather River Air Quality Management District are described in Note "Significant Accounting Policies" to the financial statements. New accounting policies were adopted related to GASB 75, however the Organization did not perform actuarial analysis related to OPEB as a result an impact on the financial statements is unknown. The application of existing policies was not changed during 2018. We noted no transactions entered into by Feather River Air Quality Management District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the Feather River Air Quality Management District's financial statements were:

Management's estimate of the accumulated depreciation is based on useful life of an asset. We evaluated the key factors and assumptions used to develop the fixed asset policy in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

Management's estimate of the Pension Plan liability as it is based on actuarial assumptions. We evaluated the key factors and assumptions used to develop Pension Plan liability in determining that it is reasonable in relation to the financial statements taken as a whole. The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not correct all such misstatements as the organization does not have an accounting software to accommodate the corrections proposed. In addition, misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole. Summary of adjustment listed on page 3.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 1, 2019

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Feather River Air Quality Management District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Feather River Air Quality Management District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to Budgets and Pension Plan disclosures, which are (is) required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

### Restriction on Use

This information is intended solely for the information and use of the Board of Directors and management of Feather River Air Quality Management District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*ST Group P.C.*

Sacramento, California

March 1, 2019

Feather River Air Quality Management District  
 Adjusting Journal Entries  
 June 30, 2018

	Dr.	Cr.
<b>AJE 1</b>		
Accounts receivable	610	
Other licenses&permits-Annual permits		610
-to adjust for revenue receivable	610	610
<b>AJE2</b>		
Prepaid expenses	14,887	
Group Health ins		14,587
Maintenance/bldg improv.		300
-to adjust for prepaid expense, health premiums	14,887	14,887
<b>AJE3*</b>		
Interest receivable	14,798	
Use of money and property		14,798
-to adjust for interest receivable 4th qtr.	14,798	14,798
<b>AJE4</b>		
Fixed Assets	2,721	
Accumulated depreciation		64,981
Depreciation expense	64,981	
Encumbrances Equipment		2,721
-to adjust for depreciation expense and F.A. additions	67,702	67,702
<b>AJE5</b>		
Compensated absences	6,828	
Salaries		6,828
-to adjust for changes in accrued compensated absences	6,828	6,828
<b>AJE6</b>		
Current portion of long term debt		985
Noncurrent portion of long-term debt	21,794	
Rents & leases, bldg&improv		37,888
Interest expense	17,079	
-to reclassify loan payment to accrual basis	38,873	38,873
<b>AJE7</b>		
Deferred outflow of recourses	24,245	
Pension liability net		136,409
Deferred inflow of recourses	76,266	
Co share Pers	35,898	
-To recognize GASB68 items on the accrual basis.	136,409	136,409
<b>AJE8*</b>		
Accounts payable	2,698	
Professional services		5,675
Maintenance/equipment	20	
Office expense		
Office expense	156	
Communications	142	
Travel-operations	327	
Travel-personal	2,332	
-to post various other accounts payables	5,675	5,675
<b>AJE9</b>		
Cash and cash equivalents -BOA	120	
Miscellaneous		120
-to adjust for Bank of American balance	120	120
<b>AJE10</b>		
Interest payable		7,976
Interest expense	7,976	
-to accrue for interest expense up to end of the year	7,976	7,976

**FEATHER RIVER  
AIR QUALITY MANAGEMENT DISTRICT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018**

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT

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## 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, 2018, 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 whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 unmodified and qualified audit opinions.

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund	Unmodified
Special Revenue Fund	Unmodified

### Basis for Qualified Opinion on Governmental Activities

Management has not adopted Governmental Accounting Standards Board statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pension (OPEB). Accounting principles generally accepted in the United States of America require that assets, liabilities, deferred outflows of resources, and deferred inflows of resources for Postemployment Benefits Other Than Pension have an actuarial study to determine the effect on the net position. The amount by which this departure would affect the assets, liabilities, deferred outflows of resources, deferred inflows of resources, and net position has not been determined.

### Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion in the Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities of the Feather River Air Quality Management District, as of June 30, 2018, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund and each major fund, and the aggregate remaining fund information of the Feather River Air Quality Management District as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated March 1, 2019, 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.

*ST Group P.C.*

Sacramento, California  
March 1, 2019



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Christopher D. Brown  
Air Pollution Control Officer

March 1, 2019

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, 2018. Please read it in conjunction with accompanying basic financial statements.

#### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources at the close fiscal year 2017-18 by \$3,816,942 (net position). For governmental activities, 2,438,959 is unrestricted, \$1,148,444 is restricted and must only be used for specific purposes and \$229,539 is the net investment in capital assets.
- The District's total net position for the primary government decreased by \$17,686 over the prior year. Of this amount, net investment in capital assets, decreased \$62,260(net) and represents the District's continued investment in and depreciation of capital assets. The District's total long-term liabilities increased by \$148,584 primarily as a result of an increase in the District's net pension liability.
- As of June 30, 2018, the District's governmental funds reported combined fund balances of \$4,182,742, an increase of \$56,842 in comparison with the prior year. Amounts available for spending include restricted, committed, assigned and unassigned fund balances and total of \$4,182,742 of ending fund balance. Of this amount, \$1,148,444 restricted by law or externally imposed requirements, \$48,884 is committed for specific purposes and \$1,225,279 is assigned for specific purposes based on the intent of the Board of Supervisors.
- At the end of the fiscal year, unassigned fund balance for the General Fund, the District's largest fund, was \$1,760,135 or 76% of total General 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 725. Budgetary comparison statements have been provided to demonstrate compliance with the budget.



**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

**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.

**Other Information**

In addition to the basic financial statements and accompanying notes, the District also presents certain required supplementary information concerning the District's final budget to actual comparison. Required supplementary information can be found starting on page 23. Furthermore, the District presents schedule related to pension plan disclosures on page 24 as other supplementary information.

**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 \$3,816,942 at the close of fiscal year 2017-18. The schedule below presents a condensed Statement of Net Position as of June 30, 2018.

	<b>Governmental Activities</b>
Current and Other Assets	\$ 4,187,371
Capital Assets	578,031
<b>Total Assets</b>	<b>4,765,402</b>
Related to Pensions	358,096
<b>Total Deferred Outflows of Resources</b>	<b>358,096</b>
Current Liabilities	34,315
Non-Current Liabilities	1,225,935
<b>Total Liabilities</b>	<b>1,260,250</b>
Related to Pensions	46,306
<b>Total Deferred Outflows of Resources</b>	<b>46,306</b>
Invested in Capital Assets, net	229,539
Restricted	1,148,444
Unrestricted	2,438,959
<b>Total net position</b>	<b>\$ 3,816,942</b>

The largest portion of the District's net position is invested in cash and cash equivalents. The fixed assets (net of debt), represent 6.01% 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 \$17,686.

As of June 30, 2018 the District's net investment in capital assets for its governmental activities was \$229,539 (net of accumulated depreciation and related debt). This investment in capital assets includes land, building, office equipment and vehicles. The total net investment in capital assets for the current fiscal year was \$2,721. Additional information on capital assets can be found in the Notes to the Financial Statements on page 15.

Long-term Debt. At the end of fiscal year 2017-18, the District had outstanding obligation secured by the District's office building. Total debt outstanding as of June 30, 2018 was \$340,516 and accrued interest of \$7,976. Additional information on the District's long-term debt can be found in the Notes to the Financial Statements on page 17.

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

**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, 2018.

Statement of Activities  
For the Year Ended June 30, 2018

	<b>Governmental Activities</b>
<b><u>REVENUES</u></b>	
Operating grants and contributions	\$ 1,480,378
Permits	587,258
Penalties and fines	30,812
Use of money and property	53,111
Other revenues	607,150
<b>Total Revenues</b>	<b>2,758,709</b>
<b><u>EXPENDITURES</u></b>	
Public protection	2,776,395
<b>Total Expenses</b>	<b>2,776,395</b>
<b>Increase (decrease) in net position</b>	<b>(17,686)</b>
Net position, beginning balance	3,834,628
Net position, ending balance	<b>\$ 3,816,942</b>

**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 fund. 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, 2018 the District's governmental funds reported a combined ending fund balance of \$4,182,742 compared to \$4,125,900 balance of the previous year.

The General Fund is the chief operating fund of the District. As of June 30, 2018, the General Fund's unreserved undesignated fund has a surplus balance of \$1,760,135 compared to \$1,676,625 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, 2018**

<b>ASSETS</b>	<b>Governmental Activities</b>
Cash and cash equivalents	\$ 4,153,626
Accounts receivable	4,060
Interest receivable	14,798
Prepaid expenses	14,887
<b>Total current assets</b>	<u>4,187,371</u>
Fixed Assets (net)	<u>578,031</u>
<b>Total noncurrent assets</b>	<u>578,031</u>
<b>TOTAL ASSETS</b>	<u><u>4,765,402</u></u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>	
Related to Pensions	<u>358,096</u>
<b>LIABILITIES</b>	
Accounts payable	4,629
Current portion of long-term liabilities	21,710
Interest payable	7,976
<b>Total current liabilities</b>	<u>34,315</u>
Noncurrent portion of long-term liabilities	318,806
Compensated absences payable	33,969
Pension liability, net	873,160
<b>Total noncurrent liabilities</b>	<u>1,225,935</u>
<b>TOTAL LIABILITIES</b>	<u>1,260,250</u>
<b>DEFERRED INFLOW OF RESOURCES</b>	
Related to Pensions	<u>46,306</u>
<b>NET POSITION</b>	
Net investment in capital assets	229,539
Restricted for air quality grants and projects	1,148,444
Unrestricted net position	2,438,959
<b>TOTAL NET POSITION</b>	<u><u>\$ 3,816,942</u></u>

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

<b>Function</b>	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Net (Expenses)/Revenue and Changes in Net Position</b>
Primary government:				
Public Protection	\$ 2,776,395	587,258	1,480,378	(708,759)
<b>Total Government Activities</b>	<b>\$ 2,776,395</b>	<b>587,258</b>	<b>1,480,378</b>	<b>(708,759)</b>

General revenue:

Use of the money	53,111
Penalties and fines	30,812
DMV fees	585,835
Other revenue	21,315
<b>Total general revenue</b>	<b>691,073</b>

Change in net position for the period (17,686)

Net position, beginning balance 3,834,628

Net position, ending balance \$ 3,816,942

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2018**

<u>ASSETS</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 555	\$ 0	\$ 555
Cash with fiscal agent (725)	2,287,061	0	2,287,061
Cash with fiscal agent (728)	0	1,866,010	1,866,010
Total cash and cash equivalents	2,287,616	1,866,010	4,153,626
Interest receivable	8,659	6,139	14,798
Accounts receivable	4,060	0	4,060
Prepaid expenses	14,887	0	14,887
Total current assets	2,315,222	1,872,149	4,187,371
Total assets	2,315,222	1,872,149	4,187,371
<u>LIABILITIES</u>			
Accounts payable	4,629	0	4,629
Other liabilities	0	0	0
Total current liabilities	4,629	0	4,629
Total liabilities	4,629	0	4,629
<u>FUND BALANCE</u>			
Restricted fund balance	250,000	898,444	1,148,444
Committed fund balance	48,884	0	48,884
Unassigned fund balance	1,760,135	0	1,760,135
Assigned fund balance	251,574	973,705	1,225,279
Total fund balances	2,310,593	1,872,149	4,182,742
Total liabilities and fund balances	\$ 2,315,222	\$ 1,872,149	\$ 4,187,371

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

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

Total fund balance, governmental fund	\$	4,182,742
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 \$843,271 and accumulated depreciation is \$265,240		578,031
In governmental funds deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.		
Deferred outflows of resources relating to pensions		358,096
Deferred inflows of resources relating to pensions		(46,306)
Certain liabilities applicable to governmental activities were not reported in the current period. The liabilities not reported as funds liabilities consist of:		
Compensated absences		(33,969)
Current portion of long-term debt		(21,710)
Interest payable on long term debt		(7,976)
In governmental funds, certain long term liabilities were not reported because they are applicable to future periods. The following liabilities were reported in the statement of net position:		
Net pension liability		(873,160)
Long term obligations		(318,806)
		(1,191,966)
Total net position, governmental activities	\$	3,816,942

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

REVENUES	General Fund	Special Revenue Fund	Total Governmental
<b>Licenses/permits and intergovernmental:</b>			
Annual permits	\$ 395,823	\$ 0	\$ 395,823
New applications	121,338	0	121,338
Agricultural burn permits	70,097	0	70,097
Fees and penalties	30,812	0	30,812
Miscellaneous	212,217	0	212,217
Motor vehicle in lieu of fees	585,835	0	585,835
Carl Moyer/AB923 revenue (728)	0	1,172,538	1,172,538
Subvention	95,623	0	95,623
<b>Use of money: Interest earned</b>	<b>29,524</b>	<b>23,587</b>	<b>53,111</b>
<b>Miscellaneous: Indirect</b>	<b>21,315</b>	<b>0</b>	<b>21,315</b>
			0
<b>Total Revenues</b>	<b>1,562,584</b>	<b>1,196,125</b>	<b>2,758,709</b>
<b>EXPENDITURES</b>			
Salaries and benefits	990,218	0	990,218
Services and supplies:			
Insurance	14,500	0	14,500
Office expense	10,578	0	10,578
Professional services	112,418	0	112,418
Publications	2,467	0	2,467
Rents	1,298	0	1,298
Communication	9,388	0	9,388
Dues and subscriptions	2,213	0	2,213
Maintenance and repairs	29,106	0	29,106
Travel	9,672	0	9,672
Utilities	9,178	0	9,178
Program activities	167,432	0	167,432
Interest expense	17,079	0	17,079
Debt service	20,809	0	20,809
Capital outlay	2,721	0	2,721
<b>Special revenue fund activities:</b>			
Carl Moyer program activities	0	1,011,854	1,011,854
AB923 program activities	0	290,937	290,937
			0
<b>Total Expenditures</b>	<b>1,399,076</b>	<b>1,302,791</b>	<b>2,701,867</b>
			0
<b>Excess of Revenues over (under) Expenditures</b>	<b>163,508</b>	<b>(106,666)</b>	<b>56,842</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Fund Transfers	0	0	0
<b>Total Other Financing Sources (uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>
			0
<b>Net Change in Fund Balances</b>	<b>163,508</b>	<b>(106,666)</b>	<b>56,842</b>
<b>Fund Balances, July 1, 2017</b>	<b>2,147,085</b>	<b>1,978,815</b>	<b>4,125,900</b>
<b>Fund Balances, June 30, 2018</b>	<b>\$ 2,310,593</b>	<b>\$ 1,872,149</b>	<b>\$ 4,182,742</b>

**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, 2018**

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

Net change in Fund Balance Governmental Fund	\$	56,842
<p>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.</p>		
Capital outlay		2,721
Capital assets disposition		0
Depreciation expense		(64,981)
<p>In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual basis pension costs and actual employer contributions</p>		
		(35,898)
<p>Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities and has no effect on net position</p>		
		20,809
<p>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):</p>		
Interest payable		(7,976)
Compensated absences		10,797
		(17,686)
Change in net position of governmental activities	\$	(17,686)



**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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.

Government-Wide Financial Statements

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

Capital 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 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.

Fund Financial Statements

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.

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

Fund Financial Statements - (continued)

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 two major funds for reporting purposes, called the general fund 725 and special revenue fund 728. 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 fund are the project funds used to account for state grant(s) that are legally restricted to expenditures for specific purposes. Specifically Carl Moyer and AB923 program activities.

**C. Fund Balance**

The governmental fund statements utilize a fund balance presentation in accordance with Government Accounting Standards Board (GASB) Statement No.54. "Fund Balance Reporting and Government Fund type Definitions." The fund balances are categorized as non-spendable, 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 programs or sub-account categories 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) The Board of Directors adopts supplementary budgetary revenue and expenditure appropriations 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. The District accounts for the projects that have been allocated and has budgeted \$250,000 for future projects under the general fund.

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**E. Cash and Cash Equivalents**

The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

**F. 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.

**G. Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of resources that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Conversely, deferred inflows of resources represent an acquisition of resources that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

Contributions made to the District's pension plan(s) after the measurement date but before the fiscal year end are recorded as a deferred outflow of resources and will reduce the net position liability in the next fiscal year.

Additional factors involved in the calculation of the District's pension expense and net position liability include the differences between expected and actual experience, changes in assumptions, differences between projected and actual investment earnings, changes in proportion, and differences between the District's contributions and proportionate share of contributions. These factors are recorded as deferred outflows and inflows of resources and amortized over various periods.

**H. Pension Liability**

For purposes of measuring the net position liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**I. 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.

**J. 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.

**K. 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 and compensatory time at the time of separation from the District.

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**L. Committed Fund Balance**

As of June 30, 2018, 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).

**M. 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, if any during the year, to minimize the "grossing up" effect on assets and liabilities.

**N. Change in Accounting Principle**

As of June 30, 2018, the District's net OPEB liability must be recognized in accordance with Government Accounting Board Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pension. Statement no. 75 requires a cost sharing employer to recognize OPEB expense and report deferred outflows of resources and deferred inflow of resources related to OPEB for its proportionate shares of collective OPEB expense and collective deferred outflows of resources and deferred inflows of resources related to OPEB. The provision of this Statement are required to be applied and are effective for the District's fiscal year ended June 30, 2018. The Management has not adopted Governmental Accounting Standards No. 75 as of June 30, 2018.

**NOTE 2: CASH AND INVESTMENTS**

Cash and investments of the District are summarized below:

Bank deposit	\$	555
Investment in County of Yuba Treasury		4,153,026
Total cash and investments	\$	4,153,581

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 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, 2018, the bank deposit is insured. The county treasure deposit exceeds the insurable limit.

Authorized Investments

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, 2018 was \$390,512,942. The investment pool is actively managed with a weighted net of return of 1.754%. 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.

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)

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

Cash in County Treasury

The District maintains all investments other than a payroll account (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.

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District does not have any investments that are measured using Level 3 inputs.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
United States Treasury Notes	\$ 2,040,780	0	0	\$ 2,040,780
Treasury Securities - Discount	210,974	0	0	210,974
Negotiable CD's	0	128,761	0	128,761
Mutual Funds	0	860,092	0	860,092
Corporate Notes	0	911,174	0	911,174
Municipal Bonds	0	1,246	0	1,246
	<u>\$ 2,251,754</u>	<u>1,772,511</u>	<u>0</u>	<u>\$ 4,153,026</u>

Interest Rate Risk

The Counties investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investments are generally limited to five years or less. At the end of June 30, 2018, Treasury's investments appear to be in accordance with the Counties investment policy. The Treasury's investment has an average days-to-maturity of 332 days and yields 1.754% as of June 30, 2018.

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, 2018:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Land	\$ 85,000	0	0	85,000
Building	575,000	0	0	575,000
Equipment	53,061	2,721	0	55,782
Automobiles	127,489	0	0	127,489
<b>Total</b>	<u>840,550</u>	<u>2,721</u>	<u>0</u>	<u>843,271</u>
Accumulated Depreciation	<u>200,259</u>	<u>64,981</u>	<u>0</u>	<u>265,240</u>
<b>Fixed Assets Net</b>	<u>\$ 640,291</u>			<u>\$ 578,031</u>

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 4: COMPENSATED ABSENCES**

The following is a summary of changes for unpaid vacation of the District for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Subtractions	Balance June 30, 2018
Compensated absences	\$ 40,797	\$ 38,725	\$ 45,553	\$ 33,969
Total	<u>\$ 40,797</u>	<u>\$ 38,725</u>	<u>\$ 45,553</u>	<u>\$ 33,969</u>

**NOTE 5: LONG TERM LIABILITIES**

The District's loan obligation secured by real property located at 541 Washington Ave. Yuba City, CA, amounted to \$340,516 dollars, as of June 30, 2018. The outstanding obligation associated with this purchase is payable West America Bank, in yearly installments, at the interest rate of 4.75% per annum. The accrued interest payable amounted to \$7,976 as of June 30, 2018.

Year ending June 30,	Principal	Interest	Total
2019	21,710	16,179	37,889
2020	22,741	15,147	37,888
2021	23,821	14,067	37,888
2022	24,953	12,936	37,889
2023	26,138	11,750	37,888
Thereafter,	<u>221,153</u>	<u>67,481</u>	<u>288,634</u>
Total	<u>\$ 340,516</u>	<u>\$ 137,560</u>	<u>\$ 478,076</u>

**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, 2018, 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, 2018 through March 1, 2019, 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.

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 9: PENSION PLAN**

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the Plan), administered by the California Public Employees' Retirement System (CalPERS). The Plan's benefit provisions are established by statute. The Plan is included as a pension trust fund in the CalPERS Comprehensive Annual Financial Report, which is available online at [www.calpers.ca.gov](http://www.calpers.ca.gov).

The Plan consists of a miscellaneous pool and a safety pool (referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively, including those of the Feather River Air Quality Management District. The Feather River Air Quality Management District's employer rate plans in the miscellaneous risk pool include the Miscellaneous plan (Miscellaneous) and the PEPRA Miscellaneous plan (PEPRA Misc.). The Feather River Air Quality Management District does not have any rate plans in the safety risk pool.

Benefits Provided

The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Classic members and PEPRA Safety members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. PEPRA Miscellaneous members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is the Basic Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

**Employer Rate Plans in the Miscellaneous Risk Pool**

Employer rate plan	Miscellaneous On or after	PEPRA Misc. On or after
Hire Date	January 01, 1900	January 01, 2200
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52
Monthly benefits, as of % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	7.946%	6.25%
Required employer contribution rates	10.11%	6.533%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the CalPERS actuary and shall be effective on the July 1 following notice of a change in the rate. Contribution rates for the employer rate plans are determined through the CalPERS' annual actuarial valuation process. Each employer rate plan's actuarially determined rate is based on the estimated amount necessary to pay the employer rate plan's allocated share of the cost of benefits earned by employees during the year, and any unfunded accrued liability. The Feather River Air Quality Management District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The Feather River Air Quality Management District's contributions to the risk pools in the Plan for the year ended June 30, 2018, were as follows:

	<b>Contributions</b>
Miscellaneous Risk Pool	\$ 98,908
Safety Risk Pool	<u>0</u>
Total contributions	<u>\$ 98,908</u>

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 9: PENSION PLAN (continued)**

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, Feather River Air Quality Management District reported net pension liabilities for its proportionate shares of the net pension liability of each risk pool as follows:

	<b>Proportionate Share of Net Pension Liability</b>
Miscellaneous Risk Pool	\$873,160
Safety Risk Pool	0
Total net pension liability	\$873,160

\* The proportionate share of the total NPL to each of the enterprise and internal service funds is not being allocated because it is deemed to have an immaterial effect on the financial statements.

The Feather River Air Quality Management District's net pension liability for each risk pool is measured as the proportionate share of each risk pool's net pension liability. GASB 68 indicates that to the extent different contribution rates are assessed based on separate relationships that constitute the collective net pension liability, the determination of the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those relationships. The allocation method used by CalPERS to determine each employer's proportionate share reflects those relationships through the employer rate plans they sponsor within the respective risk pools. An actuarial measurement of the employer's rate plan liability and asset-related information are used where available, and proportional allocations of individual employer rate plan amounts as of the valuation date are used where not available.

The Feather River Air Quality Management District's proportionate share of the net pension liability as of June 30, 2018 was calculated as follows. In determining an employer's proportionate share, the employer rate plans included in the Plan were assigned to either the Miscellaneous or Safety risk pool. Estimates of the total pension liability and the fiduciary net position were first determined for the individual rate plans and each risk pool as of the valuation date, June 30, 2016. Each employer rate plan's fiduciary net position was subtracted from its total pension liability to obtain its net pension liability as of the valuation date. The Feather River Air Quality Management District's proportionate share percentage for each risk pool at the valuation date was calculated by dividing the Feather River Air Quality Management District's net pension liability for each of its employer rate plans within each risk pool by the net pension liability of the respective risk pool as of the valuation date.

The Feather River Air Quality Management District's proportionate share of the net pension liability as of June 30, 2017, the measurement date, was calculated as follows:

Each risk pool's total pension liability was computed at the measurement date, June 30, 2017, by applying standard actuarial roll-forward methods to the total pension liability amounts as of the valuation date. The fiduciary net position for each risk pool at the measurement date was determined by CalPERS' Financial Office. The net pension liability for each risk pool at June 30, 2017, was computed by subtracting the respective risk pool's fiduciary net position from its total pension liability.

The individual employer risk pool's proportionate share percentage of the total pension liability and fiduciary net position as of June 30, 2017, was calculated by applying Feather River Air Quality Management District's proportionate share percentage as of the valuation date (described above) to the respective risk pool's total pension liability and fiduciary net position as of June 30, 2017, to obtain the total pension liability and fiduciary net position as of June 30, 2017. The fiduciary net position was then subtracted from total pension liability to obtain the net pension liability as of the measurement date.



**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 9: PENSION PLAN (continued)**

The Feather River Air Quality Management District's proportionate share percentage of the net pension liability for each risk pool as of June 30, 2016, and June 30, 2017, was as follows:

	Miscellaneous Risk Pool
Proportion at measurement date – June 30, 2016	0.021208%
Proportion at measurement date – June 30, 2017	0.022150%
Change – increase (decrease)	<u>0.000942%</u>

For the year ended June 30, 2018, the Feather River Air Quality Management District recognized pension expense of \$137,127. At June 30, 2018, the Feather River Air Quality Management District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$1,722	(\$17,455)
Changes of Assumptions	151,311	(16,301)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	55,161	0
Adjustment due to Differences in Proportions	48,515	0
Differences between Actual and Required Contributions	2,479	(12,550)
Contributions after Measurement Date	98,908	0
<b>Total</b>	<u>\$358,096</u>	<u>(\$46,306)</u>

Amounts other than contributions subsequent to the measurement date reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Date	Deferred Outflows/(Inflows) of Resources
June 30: 2018	\$79,715
2019	99,656
2020	53,971
2021	(20,460)
2022	0
2023	0
<b>Total</b>	<u>212,882</u>

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 9: PENSION PLAN (continued)**

Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase (1)	Varies By Age & Length of Service
Investment Rate of Return (2)	7.50%
Mortality Rate Table (3)	Derived Using CalPERS' Membership Data

(1) Depending on age, service and type of employment

(2) Net of Pension Plan Investment and Administrative Expenses; includes Inflation

(3) The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested employer rate plans within the Plan 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 employer rate plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report, GASB Statements 67 and 68 Crossover Testing Report for Measurement Date June 30, 2017 based on June 30, 2016 Valuations, that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the CalPERS Plan, the 7.15% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 0 basis points. An investment return excluding administrative expenses would have been 7.50%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

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, CalPERS 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 Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first 1 years) and the long-term (1-0 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 the Plan. 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.

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 9: PENSION PLAN (continued)**

The table below reflects the 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 1-0 (a)	Real Return Years 1+(b)
Global Equity	47.0%	4.9%	5.38%
Global Fixed Income	19.0	0.8	2.27
Inflation Sensitive	6.0	0.6	1.39
Private Equity	12.0	6.6	6.63
Real Estate	11.0	2.8	5.21
Infrastructure and Forestland	3.0	3.9	5.36
Liquidity	2.0	(0.4)	(0.9)

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Feather River Air Quality Management District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Feather River Air Quality Management District's proportionate share of the net pension liability of the each risk pool as of the measurement date, calculated using the discount rate, as well as what the Feather River Air Quality Management District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Feather River Air Quality Management District's proportionate share of the Miscellaneous Risk Pool's net pension liability	\$1,371,926	\$873,160	\$460,074

**NOTE 8: OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

The District participates in a multi-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. Benefits are provided through a third-party insurer, and the full cost of the benefit is covered by the plan. At June 30, 2018 the District had one retiree participating in the plan. The contribution to the plan amounted to \$3,000 for the year ended June 30, 2018. The District does not pre-fund the OPEB Annual Required Contribution (ARC) with the California Employees' Retirement Benefit Trust (CERBT).

**NOTE 9: DEFERRED COMPENSATION PLAN**

The District offers its employees an elective deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits a portion of the employees' salary to be deferred into future years. These funds are not available to employees until termination, retirement, death or unforeseen emergency.

The deferred compensation plan contributions are invested in various investment funds selected by the participating employees. The available investment options include a fixed return fund, stock fund, bond fund and a money market fund. All amounts of compensation deferred under the plan and all income attributed to those amounts are held in trust for the employee benefit and use of plan participants. The District will match a contribution to the plan up to \$50.00 dollars per employee, per month.

**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, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenue</b>				
Annual permits	\$ 340,000	\$ 340,000	\$ 395,823	\$ (55,823)
New applications	201,000	201,000	121,338	79,662
Penalties	35,000	35,000	30,812	4,188
Motor vehicle fees	536,000	536,000	585,835	(49,835)
Other Revenue	<u>211,500</u>	<u>211,500</u>	<u>428,776</u>	<u>(217,276)</u>
Total Revenue	<u>1,323,500</u>	<u>1,323,500</u>	<u>1,562,584</u>	<u>(239,084)</u>
<b>Expenditures</b>				
Salaries and benefits	1,045,272	1,045,272	990,218	55,054
Services and supplies:				
Insurance	14,530	14,530	14,500	30
Office expense	15,770	15,770	10,578	5,192
Professional services	144,700	144,700	112,418	32,282
Occupancy	37,888	37,888	37,888	(0)
Communication	10,124	10,124	9,388	736
Dues and subscriptions	2,500	2,500	2,213	287
Travel	18,600	18,600	9,672	8,928
Capital outlay	5,000	5,000	2,721	2,279
Utilities	10,950	10,950	9,178	1,772
Other expenditures	<u>72,836</u>	<u>72,836</u>	<u>200,302</u>	<u>(127,466)</u>
Total Expenditures	<u>1,378,170</u>	<u>1,378,170</u>	<u>1,399,075</u>	<u>106,561</u>
Net Change in Fund Balance	<u>\$ (54,670)</u>	<u>\$ (54,670)</u>	<u>\$ 163,509</u>	<u>\$ (345,645)</u>

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**SCHEDULE OF THE PLAN'S PROPORTIONS SHARE OF THE NET PENSION LIABILITY**  
**AND PLAN'S CONTRIBUTION AS OF THE MEASUREMENT DATE**  
**JUNE 30, 2018**

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

Miscellaneous Plan	Measurement Date June 30, 2014	Measurement Date June 30, 2015	Measurement Date June 30, 2016	Measurement Date June 30, 2017
Plan's Proportion of the PERF C Net Pension Liability/(Asset)	0.010050%	0.008419%	0.008514%	0.008804%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$625,367	\$577,897	\$736,751	\$873,160
Plan's Covered-Employee Payroll**	\$615,377	\$688,220	\$698,145	\$689,604
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	101.62%	83.97%	105.53%	126.62%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	77.71%	80.47%	76.40%	75.92%

Notes to Schedule:

Changes of benefit terms – In 2018, there were no changes to the benefit terms.

Changes in assumptions – In 2018, there were no changes in assumptions.

\* Fiscal Year 2015 was the first year of implementation, therefore only 4 years are shown.

\*\* Valuation year payroll increased by assumed 3% increase.

Schedule of the Plan's Pension Plan Contributions:

Miscellaneous Plan	CalPERS Fiscal Year 2014-15	CalPERS Fiscal Year 2015-16	CalPERS Fiscal Year 2016-17	CalPERS Fiscal Year 2017-18
Actuarially Determined Contributions	\$94,126	\$82,353	\$88,800	\$98,908
Actual Contributions During the Measurement Period	(\$94,126)	(\$94,126)	(\$83,372)	\$(101,229)
Contribution Deficiency (Excess)	\$0	(\$11,773)	\$5,428	\$2,321
Covered-Employee Payroll	\$688,220	\$688,220	\$698,145	\$686,860
Contributions as a Percentage of Covered-Employee Payroll	13.68%	11.97%	12.72%	14.74%

Notes to Schedule:

Contribution Valuation Date:      June 30, 2012      June 30, 2013      June 30, 2014      June 30, 2015

\* Fiscal Year 2015 was the first year of implementation, therefore only 4 years are shown.

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**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.

**Change in Benefit Terms**

The figures above reflect the Plan's proportionate share of the liability impact resulting from plan changes which occurred during June 30, 2014 fiscal year. More information can be found in the CalPERS Valuation Report for the Miscellaneous Risk Pool as of June 30, 2014. Voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes) may need to be reported as a separate liability as CalPERS considers such amounts to be separately financed employer-specific liabilities. There were not benefit terms or plan assumptions changes during fiscal year ended June 30, 2018.

**Change in Assumptions**

The above figures reflect the Plan's proportionate share of the liability impact of changes in actuarial assumptions and methods as reported by CalPERS Board of Administration upon the recommendation of the Chief Actuary. More information can be found in the CalPERS Valuation Report for the Miscellaneous Risk Pool as of June 30, 2015. There were no changes in assumptions during the current fiscal year.

**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, 2018, and the related notes to the financial statements, which collectively comprise The District's basic financial statements and have issued our report thereon dated March 1, 2019.

**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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. FY2018-01

**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**

District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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.*

Sacramento, California  
March 1, 2019

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONS COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**FINANCIAL STATEMENTS FINDINGS**

FY2018-01

**Condition—** The District's Board of Directors and management depend on accurate financial statements to fulfill their oversight responsibilities and to report accurate information to the public and agencies from which the District receives funding. County of Yuba Auditor's office prepares the District's financial statements, also known as "green bars". The District provides information to County of Yuba Auditor for aggregating the financial information, including expenditures and revenues, with similar data from other departments on a fund basis. During the prior fiscal year ended June 30, 2017, the District implemented a new general ledger system, QuickBooks, to record the transactions on the accrual basis of accounting (GAAP). During the current fiscal year ended June 30, 2018, the District did not adequately review the annual financial statements to ensure the reported information is in accordance with governmental accounting standards and the U.S. generally accepted accounting principles (GAAP). As a result, the District's annual financial statements contained misstatements and errors that required correction. We identified errors in the District's accounting processes as follows: pension plan, fixed assets, current, and long term liabilities and other current assets.

**Criteria—** The purpose of the audit work was to determine whether the District's Financial Statements were fairly presented, in all material respects, in conformity with generally accepted accounting principles (GAAP) as of June 30, 2018, which includes statements issued by the Government Accounting Standards Board (GASB). For states and local governments, GASB establishes GAAP through the issuance of GASB Statements. We interviewed staff at the District and performed detailed tests of account balances. We used the following criteria to determine if the District complied with accounting standards:

➤ *GASB Statement No. 34, Basic Financial Statements for State and Local Government*

Paragraph 19 of GASB Statement No. 34 states that capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

➤ *GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, GASB Statement No. 34, Basic Financial Statements for State and Local Governments.*

Paragraph 48 of GASB 68 states that a liability should be recognized for the employer's proportionate share of the collective net pension liability, measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.

➤ *GASB Statement No.75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Paragraph 59 of GASB 75 states that a liability should be recognized for the employer's proportionate share of the collective net OPEB liability, measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year and no later than the end of the employer's current fiscal year, consistently applied from period to period.

➤ *District's Accrual Practices.* The District manually aggregates data for accounts payable and accounts receivable for a period after the fiscal year ended June 30, 2018. The District reviews and determines if an accrual should be recorded for the transactions during the period 13 with the cutoff date of July 31, 2018. The County of Yuba Auditor is responsible for processing period 13 adjustments. It should be noted; the interest income receivable was the only item processed as a period 13 accrual adjustment for the year ended June 30, 2018, by the fiscal agent.

**Cause—** The District does not have written policies and procedures for accounting processes and year-end closing activities. The District lacks policies on capturing financial information into a double-entry accounting system, regularly. The District dedicated additional resources to the QuickBooks implementation during the fiscal year 2017, which resulted in staff resources being focused on QuickBooks implementation issues instead of core accounting processes. The District also lacked the appropriate training on the proper recording of a day to day transactions of revenues and expenditures into the accounting system and how to prepare and review reconciliations. The District engaged an outside accounting firm to provide these services and others.



**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONS COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**FINANCIAL STATEMENTS FINDINGS (Continued)**

FY2018-01

**Recommendation—** Accurate financial reporting and consistent application of GASB standards are critical to ensuring the District's Financial Statements are fairly stated. Further, having robust internal control processes such as reconciliations, system reports, and documented procedures are essential to ensure timely completion of financial reporting. Also, the errors we identified through our audit resulted in delays in the District's finalization of its Financial Statements.

The Feather River Air Quality Management District should ensure compliance with relevant accounting standards by:

1. Increase training for staff to provide an understanding of the accounting policies and procedures as it relates to the posting of revenue and expenditures regularly.
2. Developing, documenting, and implementing policies and procedures to record pension liability balances and OPEB in the accounting system.
3. Developing, documenting, and implementing policies and procedures to ensure assets and related liabilities are appropriately capitalized, and capital assets are supported by appropriate documentation.
4. Updating the accrual practices to determine an appropriate threshold and time for evaluating invoices received and revenue billed after the close that should be accrued and consistently applying the policy.
5. Working with the QuickBooks and develop reports in QuickBooks that provide detailed information of accounts payable and accounts receivable and implementing a process to reconcile these reports to the general ledger and the billing software. (i.e., Microsoft Access). Furthermore, to complete an accurate financial reporting and consistently apply GASB standards, to ensure the District's Financial Statements are fairly stated.

**Management response and plan corrective action—**

The District has received many previous audits with no findings and controls in place and recognized the accounting system on cash-basis. The District balanced to the "Green Bar" financials provided by the Yuba County Auditor as Yuba County holds the District's funds on account.

Previously, the Yuba County Auditor reported Special Districts to the State as a component of the County. However; this assistance has since been given to the Special Districts with the new GASB requirements imposed.

With the June 30, 2015 independent audit, it was documented that, "Similar to many local governments", the District does not have policies and procedures in place to ensure that complete and accurate financial statements, footnote disclosures and management's discussion and analysis are prepared in accordance with generally accepted accounting principles (GAAP) prior to the annual audit."

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

The expected completion date was to comply by the 16/17 fiscal year.

The District issued an RFP with the scope of work to serve as CFO, implement the accounting system, train and be a resource to staff and provide quarterly oversight of financial operations. Along with the ability to assist District staff to implement new accounting standards (GASB, FASB and State requirements).

The due date was May 31st, 2016. As recommended by the Policy/Finance Committee, the District sent the RFP to local and Sacramento area accounting firms.

The District received no response.

The decision was made to personally reach out to a local accounting agency that may be interested.

The District met twice with a Certified Public Accounting agency and was assured they could implement the needs of the District. Please refer to the attached letter of engagement.

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONS COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**FINANCIAL STATEMENTS FINDINGS (Continued)**

FY2018-01

**Management response and plan corrective action— (continue)**

The QuickBooks were downloaded with the previous year's information and statements were produced the morning of the independent audit. The District staff had yet to receive any training, nor was any data entered for FY 17/18.

The District met again with the engaged agency and was given the assurance the implementation would take place and that they would provide the District with another letter of engagement.

The District made several attempts to get in contact with the CPAs but was informed the CPA the District was working with had been out ill for a while and no contact was made beyond the receptionist.

An independent audit was held for FY 2017/2018 and the District did receive negative findings. This is the audit presented before the Committee and attached.

Please refer to page 28 (Recommendations).

The District is proposing to enter into an agreement with an alternate accountancy firm to meet the financial responsibilities and become GASB compliant.

**FISCAL IMPACT:**

Unknown currently. Will be included with the FY 19/20 budget.

**AWARD FINDINGS AND QUESTIONS COSTS**

None

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONS COSTS**

None