

**FEATHER RIVER AIR QUALITY
MANAGEMENT DISTRICT,
CALIFORNIA**

**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2019**

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FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Annual Financial Report
For the Year Ended June 30, 2019

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INTRODUCTORY SECTION

- **List of Officials**

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FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT

List of Officials

For the Year Ended June 30, 2019

Board of Directors

Jay Pendergraph	City of Wheatland - Chairman
Mat Conant	County of Sutter – Vice Chairman
Doug Lofton	County of Yuba
Randy Fletcher	County of Yuba
Gary Bradford	County of Yuba
James Whiteaker	County of Sutter
Manny Cardoza	City of Yuba City
Lakhvir Ghag	City of Live Oak
Ricky Samayoa	City of Marysville

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FINANCIAL SECTION

- **Independent Auditor's Report**
- **Management's Discussion and Analysis**
- **Basic Financial Statements**
- **Required Supplementary Information**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2019, 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, District Pension Plan information, District OPEB Plan information and budgetary comparison information, as listed 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.

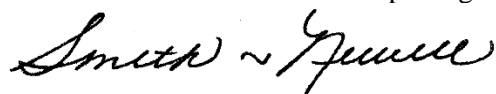
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 13, 2021, 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 solely 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 the effectiveness of the District's 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.



Smith & Newell CPAs
Yuba City, California
August 13, 2021

**Management's Discussion and Analysis
(Unaudited)**

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Serving Sutter and Yuba Counties

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

August 13, 2021

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, 2019. 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 2018-19 by \$4,352,415 (net position). For governmental activities, \$1,940,364 is unrestricted, \$2,207,752 is restricted and must only be used for specific purposes and \$204,299 is the net investment in capital assets.
- The District's total net position for the primary government increased by \$805,133 over the prior year. Of this amount, net investment in capital assets, decreased \$25,240 (net) and represents the District's continued investment in and depreciation of capital assets. The District's total long-term liabilities increased by \$453,273, primarily as a result of an increase in the District's net OPEB liability.
- As of June 30, 2019, the District's governmental funds reported combined fund balances of \$5,207,596, an increase of \$1,024,854 in comparison with the prior year. Amounts available for spending include restricted, committed, assigned and unassigned fund balances and total of \$5,207,596 of ending fund balance. Of this amount, \$2,207,752 is 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 Directors.
- At the end of the fiscal year, unassigned fund balance for the General Fund, the District's largest fund, was \$1,709,485 or 60% 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



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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 the 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 the 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 the 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 the 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 the 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 the District's programs.

The District adopts annual appropriated budgets for its General fund 725. Budgetary comparison statements have been provided to demonstrate compliance with the budget.

Notes to the Financial Statements

Financial statement notes are an important part of the basic financial statements and provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 14-34 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. Budgetary required supplementary information can be found starting on page 41. Furthermore, the District presents schedules related to pension plan disclosures starting on page 35 as other supplementary information.



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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 and deferred outflows exceeded liabilities and deferred inflows by \$4,352,415 at the close of fiscal year 2018-19. The schedule below presents a condensed Statement of Net Position as of June 30, 2019.

	Governmental Activities
Current and Other Assets	\$ 5,387,921
Capital Assets	523,044
Total Assets	<u>5,910,965</u>
Related to Pensions	283,183
Total Deferred Outflows of Resources	<u>283,183</u>
Current Liabilities	108,151
Non-Current Liabilities	1,679,208
Total Liabilities	<u>1,787,359</u>
Related to Pensions	54,374
Total Deferred Inflows of Resources	<u>54,374</u>
Net Investment in Capital Assets	204,299
Restricted	2,207,752
Unrestricted	1,940,364
Total Net Position	<u>\$ 4,352,415</u>

The largest portion of the District's net position is invested in cash and cash equivalents. The capital assets (net of debt), represent 5% 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 increased by \$805,133.

As of June 30, 2019 the District's net investment in capital assets for its governmental activities was \$204,299 (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 \$0.



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Additional information on capital assets can be found in the Notes to the Financial Statements on page 23.

As of June 30, 2019 the District's net investment in capital assets for its governmental activities was \$204,299 (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 \$0. Additional information on capital assets can be found in the Notes to the Financial Statements on page 23.

Long-term Debt. At the end of fiscal year 2018-19, the District had an outstanding obligation secured by the District's office building. Total debt outstanding as of June 30, 2019 was \$318,745 and accrued interest of \$8,092. Additional information on the District's long-term debt can be found in the Notes to the Financial Statements on page 23.

Statements of Activities

The following schedule shows revenues by major source, expenses by function and Changes in Net Position for the fiscal year ended June 30, 2019.

	Governmental Activities
<u>REVENUES</u>	
Operating grants and contributions	\$ 2,878,110
Permits	1,019,402
Use of money and property	89,471
Other revenues	24,462
Total Revenues	4,011,445
<u>EXPENDITURES</u>	
Public protection	3,190,079
Interest Expense	16,233
Total Expenses	3,206,312
Increase (decrease) in net position	805,133
Net position, beginning balance	3,547,282
Net position, ending balance	\$ 4,352,415



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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, 2019 the District's governmental funds reported a combined ending fund balance of \$5,207,596 compared to a \$4,182,742 balance of the previous year.

The General Fund is the chief operating fund of the District. As of June 30, 2019, the General Fund's unassigned fund balance has a surplus balance of \$1,709,485 compared to a \$1,760,135 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 95991

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Basic Financial Statements

- **Government-Wide Financial Statements**

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FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Statement of Net Position
June 30, 2019

	<u>Total Governmental Activities</u>
ASSETS	
Cash and investments	\$ 5,179,608
Receivables:	
Accounts	5,888
Interest	25,402
Intergovernmental	160,827
Prepaid costs	16,196
Capital assets:	
Non-depreciable	85,000
Depreciable, net	438,044
Total capital assets	<u>523,044</u>
Total Assets	<u>5,910,965</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension adjustments	<u>283,183</u>
Total Deferred Outflows of Resources	<u>283,183</u>
LIABILITIES	
Accounts payable	85,417
Salaries and benefits payable	14,642
Accrued interest payable	8,092
Long-term liabilities:	
Due within one year	57,046
Due in more than one year	296,004
Net pension liability	854,785
Net OPEB liability	471,373
Total Liabilities	<u>1,787,359</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred pension adjustments	<u>54,374</u>
Total Deferred Inflows of Resources	<u>54,374</u>
NET POSITION	
Net investment in capital assets	204,299
Restricted for:	
Grants and projects	2,207,752
Unrestricted	<u>1,940,364</u>
Total Net Position	<u><u>\$ 4,352,415</u></u>

The notes to the basic financial statements are an integral part of this statement.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Statement of Activities
For the Year Ended June 30, 2019

<u>Functions/Programs:</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Position
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
Governmental activities:				
Public protection	\$ 3,190,079	\$ 1,019,402	\$ 2,878,110	\$ -
Interest on long-term debt	16,233	-	-	-
Total Governmental Activities	3,206,312	1,019,402	2,878,110	-
Total	\$ 3,206,312	\$ 1,019,402	\$ 2,878,110	\$ -
General revenues:				
				89,471
				24,462
				113,933
				805,133
				3,816,942
				156,440
				(426,100)
				3,547,282
				\$ 4,352,415

The notes to the basic financial statements are an integral part of this statement.

Basic Financial Statements

- **Fund Financial Statements**

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FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Balance Sheet
Governmental Funds
June 30, 2019

	General Fund	Special Grants	Totals
ASSETS			
Cash and investments	\$ 2,797,833	\$ 2,381,775	\$ 5,179,608
Receivables:			
Accounts	5,888	-	5,888
Interest	16,297	9,105	25,402
Intergovernmental	110,570	50,257	160,827
Prepaid costs	16,196	-	16,196
	\$ 2,946,784	\$ 2,441,137	\$ 5,387,921
LIABILITIES			
Accounts payable	\$ 49,107	\$ 36,310	\$ 85,417
Salaries and benefits payable	14,642	-	14,642
	63,749	36,310	100,059
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	55,183	25,083	80,266
	55,183	25,083	80,266
FUND BALANCES			
Nonspendable	16,196	-	16,196
Restricted	801,713	1,406,039	2,207,752
Assigned	251,574	973,705	1,225,279
Committed	48,884	-	48,884
Unassigned	1,709,485	-	1,709,485
	2,827,852	2,379,744	5,207,596
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,946,784	\$ 2,441,137	\$ 5,387,921

The notes to the basic financial statements are an integral part of this statement.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Position - Governmental Activities
June 30, 2019

Total Fund Balances - Total Governmental Funds	\$ 5,207,596
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds balance sheet.	523,044
Other long-term assets are not available to pay for current period expenditures and therefore, are reported as unavailable revenues in the governmental funds.	80,266
Interest payable on long-term debt does not require the use of current financial resources and therefore, is not accrued as a liability in the governmental funds balance sheet.	(8,092)
Deferred outflows of resources related to pension are not reported in the governmental funds.	283,183
Deferred inflows of resources related to pension are not reported in the governmental funds.	(54,374)
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Compensated absences	(34,305)
Loan payable	(318,745)
Net pension liability	(854,785)
Net OPEB liability	(471,373)
Net Position of Governmental Activities	<u>\$ 4,352,415</u>

The notes to the basic financial statements are an integral part of this statement.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

	General Fund	Special Grants	Totals
REVENUES			
Licenses and permits	\$ 946,934	\$ -	\$ 946,934
Fines, forfeitures and penalties	72,468	-	72,468
Use of money and property	56,027	33,444	89,471
Intergovernmental	843,150	2,031,282	2,874,432
Other revenues	24,462	-	24,462
	<hr/>	<hr/>	<hr/>
Total Revenues	1,943,041	2,064,726	4,007,767
EXPENDITURES			
Current public protection:			
Salaries and benefits	1,030,280	-	1,030,280
Communication	8,197	-	8,197
Insurance	15,992	-	15,992
Maintenance	9,473	-	9,473
Membership dues and subscriptions	2,213	-	2,213
Office	15,757	-	15,757
Professional services	151,611	-	151,611
Publications and legal notices	2,505	-	2,505
Travel and transportation	10,922	-	10,922
Rent	1,809	-	1,809
Utilities	10,727	-	10,727
Program activities	183,306	-	183,306
Special grant program activities	-	1,582,085	1,582,085
Debt service:			
Principal	21,771	-	21,771
Interest and other charges	16,117	-	16,117
	<hr/>	<hr/>	<hr/>
Total Expenditures	1,480,680	1,582,085	3,062,765
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balances	462,361	482,641	945,002
	<hr/>	<hr/>	<hr/>
Fund Balances - Beginning	2,310,593	1,872,149	4,182,742
Prior period adjustment	54,898	24,954	79,852
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Fund Balances - Beginning, Restated	2,365,491	1,897,103	4,262,594
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Fund Balances - Ending	<u>\$ 2,827,852</u>	<u>\$ 2,379,744</u>	<u>\$ 5,207,596</u>

The notes to the basic financial statements are an integral part of this statement.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of the Governmental Funds to the
Government-Wide Statement of Activities - Governmental Activities
For the Year Ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds	\$ 945,002
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Less current year depreciation	(54,987)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal retirements	21,771
Some revenues are reported in the statement of activities will not be collected for several months after the District's year end and do not provide current financial resources and therefore, are not reported as revenues in the governmental funds.	
Change in unavailable revenue	3,678
Certain changes in deferred outflows and deferred inflows of resources reported in the statement of activities relate to long-term liabilities and are not reported in the governmental funds.	
Change in deferred outflows of resources related to pension	(74,913)
Change in deferred inflows of resources related to pension	(8,068)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	
Change in compensated absences	(336)
Change in net pension liability	18,375
Change in net OPEB liability	(45,273)
Change in accrued interest on long-term debt	(116)
Change in Net Position of Governmental Activities	\$ 805,133

The notes to the basic financial statements are an integral part of this statement.

Basic Financial Statements

- **Notes to Basic Financial Statements**

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FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government.

Component Units

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that there are no component units of the District.

Joint Agencies

The District is a member of the Special District Risk Management Authority (SDRMA). SDRMA is a joint powers authority organized for the purpose of providing coverage protection, risk management services, claims management as well as safety and loss prevention programs for its members. SDRMA is composed of member agencies and is governed by a board of directors appointed by the members. Complete audited financial statements can be obtained from SDRMA's office at 1112 I Street, Suite 300, Sacramento, CA 95814. The District is not financially accountable for this organization and therefore it is not a component unit under Statement Nos. 14, 39 and 61 of the Governmental Accounting Standards Board.

Related Organizations

The Counties of Yuba and Sutter and Cities of Live Oak, Marysville, Wheatland and Yuba City appoint nine members to the Board of Directors. However, the Counties and Cities are not financially accountable for this organization and therefore it is not a component unit under Statement Nos. 14, 39 and 61 of the Governmental Accounting Standards Board.

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statement of activities display information on all of the activities of the District. These statements include the financial activities of the overall District. These statements report on the governmental activities of the District, which are normally supported by licenses and permits and intergovernmental revenues. The District had no business-type activities at June 30, 2019.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

Government-Wide Financial Statements (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods and services offered by the program, 2) operating grants and contributions and 3) capital grants and contributions. Revenues not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Fund financial statements of the District are organized into two funds, each of which is considered to be a separate accounting entity. The fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures. The funds of the District is organized into the governmental category. The emphasis is placed on major funds within the governmental category.

The District reports the following major governmental funds:

- The General fund is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the District.
- The Special Grants fund is a special revenue fund used to account for state grants that are legally restricted to expenditures for specific purpose, specifically Carl Moyer and AB923 program activities.

C. Basis of Accounting and Measurement Focus

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements and donations. Under the accrual basis, revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Interest and certain state and federal grants are considered susceptible to accrual and are accrued when their receipt occurs within sixty days after the end of the fiscal year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in the governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Non-Current Governmental Assets/Liabilities

Non-current governmental assets and liabilities, such as capital assets and long-term liabilities, are reported in the governmental activities column in the government-wide statement of net position.

E. Investments

The District pools all cash and investments, other than cash in a checking account, with the County of Yuba. The Yuba County Treasury is an external investment pool for the District and the District is considered an involuntary participant. The District's share in this pool is displayed in the accompanying financial statements as cash and investments.

Participant's equity in the investment pool is determined by the dollar amount of participants deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on an amortized cost basis. Interest payments, accrued interest, accreted discounts, amortized premiums and realized gains and losses, net of administrative fees, are apportioned to pool participants every quarter. This method differs from the fair value methods used to value investments in these financial statements as unrealized gains and losses are not apportioned to pool participants.

F. Receivables

Receivables consist mainly of accounts, interest, and intergovernmental revenues. Management believes its receivables are fully collectible and, accordingly, no allowance for doubtful accounts is required.

G. Inventory

Inventories are recorded as expenditures at the time the inventory is purchased rather than when consumed. Records are not maintained of inventory and supplies on hand, although these amounts are not considered material.

H. Capital Assets

Capital assets are defined by the District as assets with a cost of \$2,500 or more, and which have a useful life of at least one fiscal year. Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is unavailable. Contributed capital assets are recorded at their acquisition value at the date of donation.

Capital assets used in operations are depreciated or amortized using the straight-line method over the assets' estimated useful lives in the government-wide financial statements. The range of estimated useful lives by type of asset is as follows:

<u>Depreciable Asset</u>	<u>Estimated Lives</u>
Equipment	5 to 10 years
Buildings and improvements	15 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Compensated Absences

The District's policy regarding compensated absences is to permit employees to accumulate earned but unused vacation leave. In the government-wide financial statements the accrued compensated absences are recorded as an expense and related liability, with the current portion estimated based on historical trends. In the governmental fund financial statements, the expenditures and liabilities related to those obligations are recognized only when they mature.

J. Pension

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pension, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plan (Plan) 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.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

K. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. This item relates to the outflows from changes in the net pension liability and is reportable on the statement of net position.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items which qualify for reporting in this category. The first item relates to the inflows from changes in the net pension liability and is reportable on the statement of net position. The second item, unavailable revenue, is only reported in the governmental funds balance sheet. The governmental funds report unavailable revenues for receivables that have not been received within the modified accrual period.

M. Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

N. Implementation of Governmental Accounting Standards Board (GASB) Statements

The following Governmental Accounting Standards Board (GASB) Statements have been implemented, if applicable, in the current financial statements.

Statement No. 83, Certain Asset Retirement Obligations (AROs). This statement enhances the comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs including obligations that may not have been previously reported. This statement also enhances the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowing, and Direct Placements. This statement improves financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risk associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows.

O. Future Accounting Pronouncements

Statement No. 84 "Fiduciary Activities"	The requirements of this statement are effective for periods beginning after December 15, 2019. (FY 20/21)
Statement No. 87 "Leases"	The requirements of this statement are effective for periods beginning after June 15, 2021. (FY 21/22)
Statement No. 89 "Accounting for Interest Cost Incurred Before the End of a Construction Period"	The requirements of this statement are effective for periods beginning after December 15, 2020. (FY 21/22)

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Future Accounting Pronouncements (Continued)

Statement No. 90 “Majority Equity Interests”	The requirements of this statement are effective for periods beginning after December 15, 2018. (FY 19/20)
Statement No. 91 “Conduit Debt Obligations”	The requirements of this statement are effective for periods beginning after December 15, 2020. (FY 21/22)
Statement No. 92 “Omnibus 2020”	The requirements of this statement are effective for periods beginning after June 15, 2021. (FY 21/22)
Statement No. 93 “Replacement of Interbank Offered Rates”	The requirements of this statement are effective for periods beginning after June 15, 2021. (FY 21/22)
Statement No. 94 “Public-Private and Public-Public Partnerships and Availability Payment”	The requirements of this statement are effective for periods beginning after June 15, 2021. (FY21/22)
Statement No. 96 “Subscription-Based Information Technology Arrangements”	The requirements of this statement are effective for periods beginning after June 15, 2020. (FY22/23)

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Restatement of Net Position/Fund Balance

Adjustments resulting from errors or a change to comply with provisions of the accounting standards are treated as adjustments to prior periods. Accordingly, the District reports these changes as restatements of beginning net position/fund balance. During the current year, a prior period adjustment was made to reflect the prior period costs related to implementing the net OPEB liability as required by GASB Statement No. 75. The District also reported a prior period adjustment to correct an understatement of prior year intergovernmental receivables.

The impact of the restatement on the net position of the government-wide financial statements as previously reported is presented below:

	<u>Governmental Activities</u>
Net Position, June 30, 2018, as previously reported	\$ 3,816,942
Adjustment associated with:	
Correction of prior year intergovernmental receivables	156,440
Net OPEB Liability Adjustment	<u>(426,100)</u>
Total Adjustments	<u>(269,660)</u>
Net Position, July 1, 2018, as restated	<u>\$ 3,547,282</u>

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Restatement of Net Position/Fund Balance (Continued)

The impact of the restatement on the fund balance of the fund financial statements as previously reported is presented below:

	General Fund	Special Grants
Fund Balance, June 30, 2018, as previously reported	\$ 2,310,593	\$ 1,872,149
Adjustment associated with:		
Correction of prior year intergovernmental receivables	54,898	24,954
Total Adjustments	54,898	24,954
Fund Balance, July 1, 2018, as restated	\$ 2,365,491	\$ 1,897,103

NOTE 3: CASH AND INVESTMENTS

A. Financial Statement Presentation

As of June 30, 2019, the District's cash and investments consisted of the following:

Cash:	
Deposits (less outstanding checks)	\$ <u>4,427</u>
Total Cash	<u>4,427</u>
Investments:	
Sutter County's Treasurer's Pool	<u>5,175,181</u>
Total Investments	<u>5,175,181</u>
Total Cash and Investments	<u>\$ 5,179,608</u>

B. Cash

At year end, the carrying amount of the District's cash deposits (including amount in a checking account) was \$4,427 and the bank balance was \$4,427.

Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The District complies with the requirements of the California Government Code. Under this code, deposits of more than \$250,000 must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds. The first \$250,000 of the District's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Deposits of more than the \$250,000 insured amount are collateralized.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

C. Investments

The District does not have a formal investment policy. At June 30, 2019, all investments of the District were in the County of Yuba investment pool. Under the provisions of the County's investment policy and the California Government Code, the County may invest or deposit in the following:

- Banker's Acceptances
- Commercial Paper
- Local Agency Investment Fund (LAIF)
- Mutual Funds
- Medium-Term Corporate Notes
- Money Market Funds
- Negotiable Certificates of Deposit
- Repurchase Agreements/Reverse Repurchase Agreements
- Securities of the Federal Government or its Agencies

Fair Value of Investments - The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs

The District's position in external investment pools is in itself regarded as a type of investment and looking through to the underlying investments of the pool is not appropriate. Therefore, the District's investments in external investment pools are not recognized in the three-tiered fair value hierarchy described above.

At June 30, 2019, the District had the following recurring fair value measurements:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level				
None	\$ -	\$ -	\$ -	\$ -
Total Investments Measured at Fair Value	-	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Investments in External Investment Pool				
Yuba County Treasurer's Pool	<u>5,175,181</u>			
Total Investments	<u>\$ 5,175,181</u>			

Interest Rate Risk - Interest rate risk is the risk of loss due to the fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. To limit exposure to fair value losses from increases in interest rates, the District's investment policy limits investment maturities to a term appropriate to the need for funds so as to permit the District to meet all projected obligations.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

C. Investments (Continued)

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County's investment policy sets specific parameters by type of investment to be met at the time of purchase. As of June 30, 2019, the District's investments were all held with the County of Yuba investment pool which is not rated by a nationally recognized statistical rating organization.

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. Custodial credit risk does not apply to a local government's indirect investments in securities through the use of mutual funds or government investment pools.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. State law and the investment policy of the County contain limitations on the amount that can be invested in any one issuer. All investments of the District are in the Yuba County investment pool which contains a diversification of investments.

D. Investments in External Pool

The Yuba County Pooled Investment Fund is a pooled investment fund program governed by the County which monitors and reviews the management of public funds maintained in the investment pool in accordance with the County investment policy and the California Government Code. The Board of Supervisors review and approve the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the Board of Supervisors every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost and fair value. Investments in the Yuba County Pooled Investment Fund are regarded as highly liquid as deposits and withdrawals can be made at any time without penalty. The Pool does not impose a maximum investment limit. Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The County of Sutter's financial statements may be obtained by contacting the County of Yuba Auditor-Controller's office at 915 8th Street, Suite 105, Marysville, CA 95901.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 4: CAPITAL ASSETS

	Balance July 1, 2018	Additions	Retirements	Balance June 30, 2019
Capital Assets, Not Being Depreciated:				
Land	\$ 85,000	\$ -	\$ -	\$ 85,000
Total Capital Assets, Not Being Depreciated	85,000	-	-	85,000
Capital Assets, Being Depreciated:				
Buildings and improvements	575,000	-	-	575,000
Equipment	55,782	-	-	55,782
Vehicles	127,489	-	-	127,489
Total Capital Assets, Being Depreciated	758,271	-	-	758,271
Less Accumulated Depreciation For:				
Buildings and improvements	(153,333)	(38,333)	-	(191,666)
Equipment	(23,747)	(6,660)	-	(30,407)
Vehicles	(88,160)	(9,994)	-	(98,154)
Total Accumulated Depreciation	(265,240)	(54,987)	-	(320,227)
Total Capital Assets, Being Depreciated, Net	493,031	(54,987)	-	438,044
Total Capital Assets, Net	\$ 578,031	(\$ 54,987)	\$ -	\$ 523,044

Depreciation

Depreciation expense was charged to governmental activities as follows:

Public Protection	\$ 54,987
Total Depreciation Expense	<u>\$ 54,987</u>

NOTE 5: LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2019:

<u>Type of Indebtedness</u>	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2019</u>	<u>Amounts Due Within One Year</u>
Compensated absences	\$ 33,969	\$ 47,417	(\$ 47,081)	\$ 34,305	\$ 34,305
Capital lease	340,516	-	(21,771)	318,745	22,741
Total	<u>\$ 374,485</u>	<u>\$ 47,417</u>	<u>(\$ 68,852)</u>	<u>\$ 353,050</u>	<u>\$ 57,046</u>

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 6: LEASES

Capital Leases

The District has entered into certain capital lease agreements under which the related Administrative facility will become the property of the District when all terms of the lease agreements are met.

	<u>Stated Interest Rate</u>	<u>Present Value of Remaining Payments at June 30, 2019</u>
Governmental activities	4.73%	\$ 318,745
Total Capital Lease Obligations		<u>\$ 318,745</u>

Equipment and related accumulated depreciation under capital leases are as follows:

	<u>Governmental Activities</u>
Building	\$ 575,000
Less: accumulated depreciation	(191,666)
Net Value	<u>\$ 383,334</u>

As of June 30, 2019, capital lease annual amortization is as follows:

<u>Year Ended June 30</u>	<u>Governmental Activities</u>
2020	\$ 37,888
2021	37,888
2022	37,888
2023	37,888
2024	37,888
2025-2030	<u>227,185</u>
Total Requirements	416,625
Less: Interest	(97,880)
Present Value of Remaining Payments	<u>\$ 318,745</u>

NOTE 7: NET POSITION

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

- **Net investment in capital assets** - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- **Restricted net position** - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 7: NET POSITION (CONTINUED)

- **Unrestricted net position** - all other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

Net Position Flow Assumption

When a government funds outlays for a particular purpose from both restricted and unrestricted resources, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted net position are available, it is considered that restricted resources are used first, followed by the unrestricted resources.

NOTE 8: FUND BALANCE

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2019, fund balance for the governmental funds is made up of the following:

- **Nonspendable fund balance** - amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories and prepaid amounts.
- **Restricted fund balance** - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- **Committed fund balance** - amounts that can only be used for the specific purposes determined by formal action of the District’s highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the District that can, by Board action, commit fund balance. Once adopted, the limitation imposed remains in place until a similar action is taken to remove or revise the limitation. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** - amounts that are constrained by the District’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- **Unassigned fund balance** - the residual classification for the District’s General fund that includes all amounts not contained in the other classifications.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 8: FUND BALANCE (CONTINUED)

The fund balance for the governmental funds as of June 30, 2019, was distributed as follows:

	General Fund	Special Grants	Totals
Nonspendable:			
Prepaid costs	\$ 16,196	\$ -	\$ 16,196
Subtotal	<u>16,196</u>	<u>-</u>	<u>16,196</u>
Restricted for:			
AB2766 Blue Sky Project	801,713	-	801,713
AB923 Carl Moyer	<u>-</u>	<u>1,406,039</u>	<u>1,406,039</u>
Subtotal	<u>801,713</u>	<u>1,406,039</u>	<u>2,207,752</u>
Assigned for:			
Project Awards	<u>251,574</u>	<u>973,705</u>	<u>1,225,279</u>
Subtotal	<u>251,574</u>	<u>973,705</u>	<u>1,225,279</u>
Committed for:			
PERS Unfunded Liability	45,884	-	45,884
PERS Retiree OPEB	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Subtotal	<u>48,884</u>	<u>-</u>	<u>48,884</u>
Unassigned	<u>1,709,485</u>	<u>-</u>	<u>1,709,485</u>
Total	<u>\$ 2,827,852</u>	<u>\$ 2,379,744</u>	<u>\$ 5,207,596</u>

Fund Balance Flow Assumption

When a government funds outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance), a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted fund balance are available, it is considered that restricted fund balance is depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policy

The District follows the requirements of GASB Statement No. 54 in establishing procedures for reporting fund balance classifications and establishing a hierarchy for fund balance expenditures.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 9: PENSION PLAN

A. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan (Plan), a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Effective January 1, 2013, the District added a retirement tier for the Miscellaneous Plan for new employees as required under the Public Employee Pension Reform Act (PEPRA). New employees hired on or after January 1, 2013 will be subject to new, lower pension formulas, caps on pensionable income levels and new definitions of pensionable income. In addition, new employees will be required to contribute half of the total normal cost of the pension benefit unless impaired by an existing Memorandum of Understanding. The cumulative effect of these PEPRA changes will ultimately reduce the District's retirement costs.

Summary of Rate Tiers and Eligible Participants

Open for New Enrollment	
Miscellaneous PEPRA	Miscellaneous members hired on or after January 1, 2013
Closed to New Enrollment	
Miscellaneous	Miscellaneous members hired before January 1, 2013

Benefits Provided

CalPERS 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 (age 52 for Miscellaneous Plan members if membership date is on or after January 1, 2013) with statutorily reduced benefits. Retirement benefits are paid monthly for life. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

Each Rate Tier's specific provisions and benefits in effect at June 30, 2019, are summarized as follows:

	<u>Benefit Formula</u>	<u>Retirement Age</u>	<u>Monthly Benefits as a % of Eligible Compensation</u>
Miscellaneous	2.5% @ 55	50-55	2.000% to 2.500%
Miscellaneous PEPRA	2.0% @ 62	52-67	1.000% to 2.500%

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 9: PENSION PLAN (CONTINUED)

A. General Information about the Pension Plan (Continued)

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 actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for all Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

	<u>Employer Contribution Rates</u>	<u>Employee Contribution Rates</u>	<u>Employer Paid Member Contribution Rates</u>
Miscellaneous	10.609%	7.948%	0.000%
Miscellaneous PEPRA	6.842%	6.250%	0.000%

For the year ended June 30, 2019, the contributions recognized as part of pension expense were as follows:

	<u>Contributions-Employer</u>	<u>Contributions-Employee (Paid by Employer)</u>
Miscellaneous	\$ 112,756	\$ -

B. Pension Liability, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2017 and 2018 (measurement dates) was as follows:

	<u>Proportion June 30, 2017</u>	<u>Proportion June 30, 2018</u>	<u>Change – Increase (Decrease)</u>
Miscellaneous	0.022150%	0.022681%	0.000531%

As of June 30, 2019, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan as follows:

Miscellaneous	<u>\$ 854,785</u>
Total Net Pension Liability	<u>\$ 854,785</u>

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 9: PENSION PLAN (CONTINUED)

B. Pension Liability, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

For the year ended June 30, 2019, the District recognized pension expense of \$177,361. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 112,756	\$ -
Change of assumptions	97,271	(24,102)
Difference between expected and actual experience	33,098	(11,134)
Difference between projected and actual earnings on pension plan investments	11,543	-
Difference between District contributions and proportionate share of contributions	-	(19,138)
Adjustments due to differences in proportions	<u>28,515</u>	<u>-</u>
Total	<u>\$ 283,183</u>	<u>(\$ 54,374)</u>

\$112,756 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended <u>June 30</u>	
2020	\$ 96,878
2021	51,193
2022	(24,241)
2023	(7,777)
Thereafter	<u>-</u>
Total	<u>\$ 116,053</u>

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	Varies by entry-age and service
Investment Rate of Return	7.00%
Mortality	Derived using CalPERS membership data for all funds

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 9: PENSION PLAN (CONTINUED)

B. Pension Liability, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

Actuarial Assumptions (Continued)

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 Experience Study report (based on CalPERS demographic data from 1997 to 2011) that can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected.

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 rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1-10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	0.77%	1.18%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	<u>1.0%</u>	0.00%	0.92%
Total	<u>100.0%</u>		

(a) An expected inflation of 2.00% used for this period

(b) An expected inflation of 2.92% used for this period

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 9: PENSION PLAN (CONTINUED)

B. Pension Liability, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

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

The following presents the District’s proportionate share of the net pension liability for the Plan as of the measurement date, calculated using the discount rate for the Plan, as well as what the 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:

	1% Decrease 6.15%	Discount Rate 7.15%	1% Increase 8.15%
Miscellaneous	\$ 1,377,795	\$ 854,785	\$ 423,048

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 10: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General Information about the OPEB Plan

Plan Description

The District sponsors a defined benefit OPEB plan (the Plan) that provides healthcare coverage under the California Public Employees Medical and Hospital Care Act (“PEMHCA”), commonly referred to as PERS Health. PEMHCA provides health insurance through a variety of Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) options. The Plan is a multiple-employer plan administered by the California Public Employees’ Retirement System (CalPERS).

Benefits Provided

The District’s Retiree Health Plan provides healthcare benefits retired members.

Post-Retirement Coverage

Employees become eligible to retire and receive a District contribution towards PEMHCA coverage upon attainment of age 65. The District contribution towards retiree health benefits is limited to a maximum of \$250 per month, and continues for the retiree’s lifetime.

Employees Covered by Benefit Terms

At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employee or beneficiaries currently receiving benefit payments	1
Active employees	11
	12

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 10: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

B. Net OPEB Liability

The District's net OPEB liability of \$471,373 was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019.

Actuarial Assumptions

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Entry-Age Actuarial Cost Method
Salary increases	2.75% per year
Inflation rate	2.75% per year
Investment rate of return	3.50% per year
Healthcare cost trend rate	4.00% per year
Discount rate	3.50% per year net of expenses

The mortality assumptions are based on the 2017 CalPERS Retiree Mortality for Miscellaneous and Schools employees.

Discount Rate

The discount rate estimates investment earnings for assets earmarked to cover retiree health benefit liabilities. The discount rate depends on the nature of underlying assets for funded plans. The rate used for a funded plan is the real rate of return expected for plan assets plus the long-term inflation assumption. For an unfunded plan, the discount rate is based on an index of 20 year General Obligation municipal bonds. For partially funded plans, the discount rate is a blend of the funded and unfunded rates. As of the measurement date of June 30, 2019, a discount rate of 3.5%, net of expenses was used.

C. Changes in the Net OPEB Liability

The table below shows the changes in the total OPEB liability, the Plan Fiduciary Net Position (i.e. Fair value of the Plan assets), and the net OPEB liability during the measurement period ending on June 30, 2019 for the District's proportionate share.

	Increases (Decreases)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balance at fiscal year ended June 30, 2018	\$ 426,100	\$ -	\$ 426,100
Changes for the year:			
Service cost	47,768	-	47,768
Interest	15,413	-	15,413
Contributions - employer	-	17,908	(17,908)
Benefit payments	(17,908)	(17,908)	-
Net changes	45,273	-	45,273
Balance at fiscal year ended June 30, 2019	\$ 471,373	\$ -	\$ 471,373

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 10: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

C. Changes in the Net OPEB Liability (Continued)

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

The following presents the net OPEB liability of the District, as well as what the District's net OPEB 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 discount rate:

	<u>1% Decrease 2.50%</u>	<u>Discount Rate 3.50%</u>	<u>1% Increase 4.50%</u>
Net OPEB liability	\$ 532,466	\$ 471,373	\$ 420,665

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	<u>1% Decrease (3.00%)</u>	<u>Trend Rate (4.00%)</u>	<u>1% Increase (5.00%)</u>
Net OPEB Liability	\$ 425,309	\$ 471,373	\$ 526,038

NOTE 11: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District is a member of the Special District Risk Management Authority (SDRMA). The SDRMA's members have pooled funds to be self-insured for workers' compensation, general liability, public officials' errors and omissions, employment practices liability, auto, property, boiler and machinery and crime and fidelity. The District participates in the property/liability and workers' compensation programs.

There are no significant reductions in insurance coverage from prior years and there have been no settlements exceeding the insurance coverages for each of the past three years.

NOTE 12: OTHER INFORMATION

A. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time. No additional liability has been accrued at June 30, 2019, based on the requirements of GASB Code Section C50.110, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 12: OTHER INFORMATION (CONTINUED)

B. Subsequent Events

Management has evaluated events subsequent to June 30, 2019 through August 13, 2021, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

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**Required Supplementary Information
(Unaudited)**

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FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Required Supplementary Information
District Pension Plan
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2019
Last 10 Years*

Measurement Date	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
Miscellaneous					
Proportion of the net pension liability	0.010050%	0.008419%	0.008514%	0.008804%	0.008871%
Proportionate share of the net pension liability	\$ 625,367	\$ 577,897	\$ 736,751	\$ 873,160	\$ 854,785
Covered payroll	615,377	688,220	698,145	689,604	686,860
Proportionate share of the net pension liability as a percentage of covered payroll	101.62%	83.97%	105.53%	126.62%	124.45%
Plan fiduciary net position as a percentage of the total pension liability	77.71%	80.47%	76.40%	75.92%	77.89%

* The District implemented GASB 68 for the fiscal year June 30, 2015, therefore only five years are shown.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Required Supplementary Information
District Pension Plan
Schedule of Contributions
For the Year Ended June 30, 2019
Last 10 Years*

Fiscal Year	<u>2014/2015</u>	<u>2015/2016</u>	<u>2016/2017</u>	<u>2017/2018</u>	<u>2018/2019</u>
Miscellaneous					
Contractually required contribution (actuarially determined)	\$ 94,126	\$ 82,353	\$ 88,800	\$ 98,908	\$ 112,756
Contributions in relation to the actuarially determined contributions	<u>(94,126)</u>	<u>(94,126)</u>	<u>(88,800)</u>	<u>(101,229)</u>	<u>(112,756)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (11,773)</u>	<u>\$ -</u>	<u>\$ (2,321)</u>	<u>\$ -</u>
Covered payroll	\$ 688,220	\$ 698,145	\$ 689,604	\$ 686,860	\$ 708,233
Contributions as a percentage of covered payroll	13.68%	11.80%	12.88%	14.40%	15.92%

* The District implemented GASB 68 for the fiscal year June 30, 2015, therefore only five years are shown.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Required Supplementary Information
District Pension Plan
Note to District Pension Plan
For the Year Ended June 30, 2019

NOTE 1: SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Changes of benefit terms – There were no changes to benefit terms that applied to all members of the Public Agency Pool.

Changes in assumptions – The assumptions for individual salary increases and overall payroll growth are reduced from 3.00 percent to 2.75 percent.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Required Supplementary Information
District OPEB Plan
Schedule of Changes in the Net OPEB Liability and Related Ratios
For the Year Ended June 30, 2019
Last 10 Years*

	2018/2019
Total OPEB Liability	
Service cost	\$ 47,768
Interest	15,413
Benefit payments	(17,908)
Net Change in Total OPEB Liability	45,273
Total OPEB Liability - Beginning	426,100
Total OPEB Liability - Ending (a)	\$ 471,373
Plan Fiduciary Net Position	
Contributions - employer	\$ 17,908
Benefit payments	(17,908)
Net Change in Plan Fiduciary Net Position	-
Plan Fiduciary Net Position - Beginning	-
Plan Fiduciary Net Position - Ending (b)	\$ -
Net OPEB Liability - Ending (a) - (b)	\$ 471,373
Plan fiduciary net position as a percentage of the net OPEB liability	0.00%
Covered payroll	\$ 685,515
Net OPEB liability as a percentage of covered payroll	68.76%

* The District implemented GASB 75 for the fiscal year June 30, 2019, therefore only one year is shown.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Required Supplementary Information
District OPEB Plan
Schedule of Contributions
For the Year Ended June 30, 2019
Last 10 Years*

	2018/2019
Actuarially determined contributions	\$ 17,908
Contributions in relation to the actuarially determined contribution	(17,908)
Contribution deficiency (excess)	\$ -
Covered payroll	\$ 685,515
Contributions as a percentage of covered payroll	0.00%

* The District implemented GASB 75 for the fiscal year June 30, 2019, therefore only one year is shown.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Required Supplementary Information
District OPEB Plan
Notes to District OPEB Plan
For the Year Ended June 30, 2019

NOTE 1: SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

None.

NOTE 2: SCHEDULE OF CONTRIBUTIONS

The District contributes on an ad hoc basis, but in an amount sufficient to fully fund the obligation over a period not to exceed 32 years.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
REVENUES				
Licenses and permits	\$ 636,500	\$ 636,500	\$ 946,934	\$ 310,434
Fines, forfeitures and penalties	30,000	30,000	72,468	42,468
Use of money and property	20,000	20,000	56,027	36,027
Intergovernmental	721,961	721,961	843,150	121,189
Other revenues	22,000	22,000	24,462	2,462
Total Revenues	1,430,461	1,430,461	1,943,041	512,580
EXPENDITURES				
Current public protection:				
Salaries and benefits	1,040,311	1,040,311	1,030,280	10,031
Communication	10,536	10,536	8,197	2,339
Insurance	15,700	15,700	15,992	(292)
Maintenance	72,710	72,710	9,473	63,237
Membership dues and subscriptions	2,700	2,700	2,213	487
Office	21,080	21,080	15,757	5,323
Professional services	154,550	154,550	151,611	2,939
Publications and legal notices	3,750	3,750	2,505	1,245
Travel and transportation	19,100	19,100	10,922	8,178
Rent	1,690	1,690	1,809	(119)
Utilities	11,200	11,200	10,727	473
Program activities	250,000	250,000	183,306	66,694
Debt service	37,889	37,889	37,888	1
Total Expenditures	1,641,216	1,641,216	1,480,680	160,536
Net Change in Fund Balances	(210,755)	(210,755)	462,361	673,116
Fund Balances - Beginning	2,310,593	2,310,593	2,310,593	-
Prior period adjustment	-	-	54,898	54,898
Fund Balances - Beginning, Restated	2,310,593	2,310,593	2,365,491	54,898
Fund Balances - Ending	\$ 2,099,838	\$ 2,099,838	\$ 2,827,852	\$ 728,014

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Required Supplementary Information
Notes to Budgetary Comparison Schedules
For the Year Ended June 30, 2019

NOTE 1: BUDGETARY BASIS OF ACCOUNTING

Formal budgetary integration is employed as a management control device during the year. The District presents a comparison of annual budget to actual results for the General fund. The District did not adopt a budget for the Special Grants fund. The amounts reported on the budgetary basis are generally on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

The following procedures are performed by the District in establishing the budgetary data reflected in the financial statements:

- (1) The Air Pollution Control Officer submits to the Board of Directors a recommended budget for the fiscal year commencing the following July 1. The budget includes recommended expenditures and the means of financing them.
- (2) The Board of Directors reviews the recommended budget at regularly scheduled meetings, which are open to the public. The Board also conducts a public hearing on the recommended budget to obtain comments from interested persons.
- (3) Prior to July 1, the budget is adopted through the passage of a resolution.
- (4) From the effective date of the budget, the amounts stated therein, as recommended expenditures become appropriations to the District. The Board may amend the budget by motion during the fiscal year.

The District does not use encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

OTHER REPORT AND SCHEDULES

- **Other Report**
- **Schedule of Findings and Recommendations**
- **Schedule of Prior Year Findings and Recommendations**
- **Management's Corrective Action Plan**

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
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, California (District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 13, 2021.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations that we consider to be significant deficiencies. (2019-001, 2019-002, and 2019-003)

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

Compliance and Other Matters

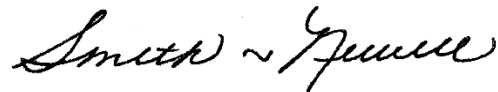
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the 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 Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying management's corrective action plan. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



Smith & Newell CPAs
Yuba City, California
August 13, 2021

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Schedule of Findings and Recommendations
For the Year Ended June 30, 2019

2019-001 Prior Period Adjustment (Significant Deficiency)

Criteria

Generally accepted accounting principles require that errors in the prior year ending balances be corrected by a prior period adjustment to beginning net position/fund balance.

Condition

During our audit we noted that the District did not accrue material amounts related to AB2766 revenues in the 2017/2018 fiscal year. Revenue was understated in the prior year.

Cause

The District recognized revenue related to May and June 2018 AB2766 allocations in the current fiscal year. These revenues should have been recognized in the 2017/2018 fiscal year.

Effect of Condition

Beginning net position in the government-wide financial statements was understated and required an adjustment of \$156,440. Beginning fund balance in the fund financial statements was understated and required an adjustment of \$79,852.

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

Not applicable.

Repeat Finding

Not a repeat finding.

Recommendation

We recommend that the District review the financial records and ensure that all items are recorded correctly.

Views of Responsible Officials and Planned Corrective Action

Refer to separate Management's Corrective Action Plan for views of responsible officials and management's responses.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Schedule of Findings and Recommendations
For the Year Ended June 30, 2019

2019-002 Audit Adjustments (Significant Deficiency)

Criteria

Government auditing standards require independent auditors to evaluate all unadjusted misstatements of financial statements. Also, producing timely audited financial statements is more difficult when adjustments are not recorded prior to the start of the annual audit.

Condition

At the time of our audit, we noted that the financial statements as presented to us for audit contained misstatements in interest receivable, accounts payable, unavailable revenues, corresponding revenue and expenditure/expense accounts and required adjustment.

Cause

The District had not reconciled and adjusted all accounts on the general ledger prior to the start of the annual audit.

Effect

The financial statements as presented to us contained misstatements and required adjustment.

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

Not applicable.

Repeat Finding

This is a repeat of prior year finding 2018-01.

Recommendation

We recommend that the District reconcile all accounts in a timely manner so that required adjustments can be recorded prior to the start of the annual audit.

Views of Responsible Officials and Planned Corrective Action

Refer to separate Management's Corrective Action Plan for views of responsible officials and management's responses.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Schedule of Findings and Recommendations
For the Year Ended June 30, 2019

2019-003 Budget (Significant Deficiency)

Criteria

California Government Code requires that all special revenue funds have legally adopted budgets.

Condition

For the year ended June 30, 2019, we noted the District did not adopt a budget for the Special Grants special revenue fund.

Cause

The District was not aware of the requirement.

Effect

The Special Grants fund did not have a legally adopted budget.

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

Not applicable.

Repeat Finding

Not a repeat finding.

Recommendation

We recommend that all major special revenue funds have a legally adopted budget.

Views of Responsible Officials and Planned Corrective Action

Refer to separate Management's Corrective Action Plan for views of responsible officials and management's responses.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Schedule of Prior Year Findings and Recommendations
For the Year Ended June 30, 2019

<u>Audit Reference</u>	<u>Status of Prior Year Audit Recommendation</u>
2018-01	<p>Recommendation</p> <p>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.</p> <p>The Feather River Air Quality Management District should ensure compliance with relevant accounting standards by:</p> <ol style="list-style-type: none">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. <p>Status</p> <p>In Progress</p>

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Management's Corrective Action Plan
For the Year Ended June 30, 2019

2019-001 Prior Period Adjustment (Significant Deficiency)

We recommend that the District review financial records and ensure that all items are recorded correctly.

Management's Response: We concur

Responsible Individual: Christopher D. Brown, APCO

Corrective Action Plan: Upon receiving the results of the 17/18 audit, and the 2018-01 finding in March of 2019, the Board approved engaging an external CFO firm, Creating Answers, to review the accounting department's current processes and procedures, and to design and implement improved departmental processes. Included in the improvement plan was conversion to QuickBooks, a double entry accounting system, allowing for accrual basis accounting. Prior to this conversion, the District was utilizing Microsoft Excel spreadsheets for accounting records and cash basis accounting practices.

We understand the importance of maintaining proper record keeping and are continuing to work with Creating Answers on the monthly and annual close processes to ensure revenues and expenditures are recognized in the proper periods.

Anticipated Completion Date: September 30, 2020

2019-002 Audit Adjustments (Significant Deficiency)

We recommend that the District reconcile all accounts in a timely manner so that required adjustments can be recorded prior to the start of the annual audit.

Management's Response: We concur

Responsible Individual: Christopher D. Brown, APCO

Corrective Action Plan: Upon receiving the results of the 17/18 audit, and the 2018-01 finding in March of 2019, the Board approved engaging an external CFO firm, Creating Answers, to review the accounting department's current processes and procedures, and to design and implement improved departmental processes. Included in the improvement plan was conversion to QuickBooks, a double entry accounting system, allowing for accrual basis accounting. Prior to this conversion, the District was utilizing Microsoft Excel spreadsheets for accounting records and cash basis accounting practices.

In June of 2019, Creating Answers began recreating the 18/19 fiscal year in QuickBooks. The timing of this conversion and the limited records available made it challenging to properly close the fiscal year. At that time, we made the decision to continue with the audit as scheduled.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Management's Corrective Action Plan
For the Year Ended June 30, 2019

2019-002 Audit Adjustments (Significant Deficiency) (Continued)

Corrective Action Plan: (Continued)

We understand the importance of proper record keeping and are continuing to work with Creating Answers on the monthly and annual close processes to ensure the highest level of financial accuracy is upheld.

Anticipated Completion Date: September 30, 2020

2019-003 Budget (Significant Deficiency)

We recommend that all major special revenue funds have a legally adopted budget.

Management's Response: We concur

Responsible Individual: Christopher D. Brown, APCO

Corrective Action Plan: The District's annual budgeting process has been to include the special revenue fund within the total operating budget passed by the Board. Additionally, all grant agreements, including their pass-through expenditures, have been approved separately by the Board.

We understand the need and requirement for further clarity in the budgeting process. New budgeting practices were implemented with the 20/21 fiscal year under the guidance of our external CFO firm, Creating Answers.

Anticipated Completion Date: April 1, 2020