

FEATHER RIVER
AIR QUALITY MANAGEMENT DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2016

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Feather River Air Quality Management District (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America with respect to Feather River Air Quality Management District's and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Feather River Air Quality Management District as of June 30, 2016, and the respective changes in its financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 21, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

ST Group P.C.

Sacramento, California
April 21, 2017



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Christopher D. Brown
Air Pollution Control Officer

April 21, 2017

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, 2016. 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 2015-16 by \$3,326,839 (net position). For governmental activities, \$1,401,425 is unrestricted, \$1,620,126 is restricted and must only be used for specific purposes and \$305,291 is the net investment in capital assets.
- The District's total net position for the primary government increased by \$518,182 over the prior year. Of this amount, net investment in capital assets, increased \$18,087 and represents the District's continued investment in capital projects. The District's total long-term liabilities increased by \$155,011 primarily as a result of an increase in the District's net pension liability.
- As of June 30, 2016, the District's governmental funds reported combined fund balances of \$3,522,332, an increase of \$124,782 in comparison with the prior year. Amounts available for spending include restricted, committed, assigned and unassigned fund balances and total of \$3,522,332 of ending fund balance. Of this amount, \$1,620,126 restricted by law or externally imposed requirements, \$65,697 is committed for specific purposes and \$545,424 is assigned for specific purposes based on the intent of the Board of Supervisors.
- At the end of the fiscal year, unassigned fund balance for the General Fund, the District's largest fund, was \$1,230,468 or 63% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

Governmental Fund Financial Statements

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

District adopts annual appropriated budgets for its general fund (725 and 727). Budgetary comparison statements have been provided to demonstrate compliance with the budget.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

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 11-21 of this report. In addition to the Basic Financial Statements and accompanying notes, this report also presents certain Required Supplementary Information such as Pension information and Budgets.

Other Information

In addition to the basic financial statements and accompanying notes, the District also presents certain required supplementary information concerning the District's final budget to actual comparison. Required supplementary information can be found starting on page 22. Furthermore, the District presents schedule related to pension plan disclosures on page 23 as other supplementary information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS ANALYSIS

Statements of Net Position

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. In the District's case, assets exceeded liabilities by \$3,326,839 at the close of fiscal year 2015-16. The schedule below presents a condensed Statement of Net Position as of June 30, 2016.

	Governmental Activities
Current and Other Assets	\$ 3,526,616
Capital Assets	686,403
Total Assets	4,213,019
Related to Pensions	167,691
Total Deferred Outflows of Resources	167,691
Current Liabilities	57,592
Non-Current Liabilities	939,224
Total Liabilities	996,816
Related to Pensions	57,055
Total Deferred Outflows of Resources	57,055
Invested in Capital Assets, net	305,291
Restricted	1,620,123
Unrestricted	1,401,425
Total net position	\$ 3,326,839

The largest portion of the District's net position is invested in cash and cash equivalents. The fixed assets (net of debt), represent 9% 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 \$518,182 dollars.

As of June 30, 2016 the District's net investment in capital assets for its governmental activities was \$305,291 (net of accumulated depreciation). This investment in capital assets includes land, building, office equipment and vehicles. The total investment in capital assets for the current fiscal year was \$68,811. Additional information on capital assets can be found in the Notes to the Financial Statements on page 15.

Long-term Debt. At the end of fiscal year 2015-16, the District had outstanding obligation secured by the District's office building. Total debt outstanding as of June 30, 2016 was \$381,112. Additional information on the District's long-term debt can be found in the Notes to the Financial Statements on page 16.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Statements of Activities

The following schedule shows revenues by major source, expenses by function and Changes in Net Position for the fiscal years ended June 30, 2016.

Statement of Activities
For the Year Ended June 30, 2016

	Governmental Activities
<u>REVENUES</u>	
Operating grants and contributions	\$ 1,491,842
Permits	673,024
Penalties	71,527
Use of money and property	25,996
Other revenues	36,156
Total Revenues	2,298,545
 <u>EXPENDITURES</u>	
Public protection	1,780,363
Total Expenses	1,780,363
Increase (decrease) in net position	518,182
Net position, beginning balance	2,808,657
Net position, ending balance	\$ 3,326,839

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, 2016 the District's governmental funds reported a combined ending fund balance of \$3,522,332 compared to \$3,397,550 balance of the previous year.

The General Fund is the chief operating fund of the District. As of June 30, 2016, the General Fund's unreserved undesignated fund has a surplus balance of \$1,230,468 compared to \$1,546,164 balance of the previous year.

REQUEST FOR INFORMATION

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

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

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 3,515,219
Accounts receivable	4,218
Interest receivable	7,179
Total current assets	<u>3,526,616</u>
Fixed Assets	686,403
Total noncurrent assets	<u>686,403</u>
TOTAL ASSETS	<u>4,213,019</u>
DEFERRED OUTFLOW OF RESOURCES	
Related to Pensions	<u>167,691</u>
LIABILITIES	
Accounts payable	407
Compensated absences payable	37,400
Current portion of long-term liabilities	19,785
Total current liabilities	<u>57,592</u>
Noncurrent portion of long-term liabilities	361,327
Pension liability, net	577,897
Total noncurrent liabilities	<u>939,224</u>
TOTAL LIABILITIES	<u>996,816</u>
DEFERRED INFLOW OF RESOURCES	
Related to Pensions	<u>57,055</u>
NET POSITION	
Net investment in general fixed assets	305,291
Restricted for air quality grants and projects	1,620,123
Unrestricted net position	1,401,425
TOTAL NET POSITION	<u>3,326,839</u>

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Function</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses)/Revenue and Changes in Net Net Position</u>
Public Protection	<u>\$ 1,780,363</u>	<u>744,551</u>	<u>1,491,842</u>	<u>456,030</u>
Total Government Activities	<u><u>\$ 1,780,363</u></u>	<u><u>744,551</u></u>	<u><u>1,491,842</u></u>	<u><u>456,030</u></u>

General Revenue:

Use of the money	25,996
Other revenue	<u>36,156</u>
Change in net position	<u>518,182</u>
Net position, beginning balance	<u>2,808,657</u>
Net position, ending balance	<u><u>\$ 3,326,839</u></u>

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016**

<u>ASSETS</u>	General Fund	Special Revenue Fund	Total Governmental Funds
Bank deposit	\$ 600	0	\$ 600
Cash with fiscal agent (725)	1,440,968	0	1,440,968
Cash with fiscal agent (727)	514,495	0	514,495
Cash with fiscal agent (728)	0	1,559,156	1,559,156
Total cash and cash equivalents	1,956,063	1,559,156	3,515,219
Interest receivable	4,306	2,873	7,179
Total current assets	1,960,369	1,562,029	3,522,398
Total assets	1,960,369	1,562,029	3,522,398
<u>LIABILITIES</u>			
Accounts payable	66	0	66
Other liabilities	0	0	0
Total current liabilities	66	0	66
Total liabilities	66	0	66
<u>FUND BALANCE</u>			
Restricted fund balance	468,714	1,151,409	1,620,123
Committed fund balance	65,697	0	65,697
Unassigned fund balance	1,230,468	60,620	1,291,088
Assigned fund balance	195,424	350,000	545,424
Total fund balances	1,960,303	1,562,029	3,522,332
Total liabilities and fund balances	\$ 1,960,369	\$ 1,562,029	\$ 3,522,398

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2016**

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

Total fund balance, governmental fund	\$	3,522,332
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the governmental funds. The historical cost of the capital assets is \$873,730 and accumulated depreciation is \$187,327.....		686,403
Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.		
Deferred outflows of resources relating to pensions.....		167,691
Deferred inflows of resources relating to pensions.....		(57,055)
Certain receivables are not available to pay current period expenditures and therefore are unavailable in the governmental funds.....		4,218
Certain current liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as funds liabilities		
Accounts payable.....		(341)
Compensated absences.....		(37,400)
Current portion of long-term debt.....		(19,785)
In governmental funds, only certain liabilities are reported. In the statement of net position, all liabilities including long-term liabilities, are reported.		
Net pension liability.....		(577,897)
Long term obligations.....		(361,327)
		<u>(939,224)</u>
Total net position, governmental activities	\$	<u>3,326,839</u>

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

	<u>Major Funds</u>		<u>Total Governmental</u>
	<u>General Fund</u>	<u>Special Revenue Fund</u>	
REVENUES			
Licenses/permits and intergovernmental:			
Annual permits	\$ 392,474	0	392,474
New applications	182,008	0	182,008
Agricultural burn permits	67,909	0	67,909
Fees and penalties	71,527	0	71,527
Miscellaneous	30,633	0	30,633
Motor vehicle in lieu of fees	557,862		557,862
Carl Moyer/AB923 revenue (728)	0	637,493	637,493
Subvention	95,197	0	95,197
Use of money: interest earned	15,005	10,991	25,996
Miscellaneous: Indirect	36,156	0	36,156
			0
Total Revenues	<u>1,448,771</u>	<u>648,484</u>	<u>2,097,255</u>
EXPENDITURES			
Salaries and benefits	926,491	0	926,491
Services and supplies:			
Insurance	12,959	0	12,959
Office expense	12,878	0	12,878
Professional services	121,550	0	121,550
Rents	0	0	0
Communication	6,828	0	6,828
Dues and subscriptions	2,110	0	2,110
Maintenance and repairs	11,056	0	11,056
Travel	9,636	0	9,636
Utilities	9,904	0	9,904
Miscellaneous	6,200	0	6,200
Program activities	203,407	0	203,407
Interest expense	19,000	0	19,000
Debt service	18,888	0	18,888
Capital outlay	68,811	0	68,811
Special revenue fund activities:			
Carl Moyer program activities		402,755	402,755
AB923 program activities	0	140,000	140,000
			0
Total Expenditures	<u>1,429,718</u>	<u>542,755</u>	<u>1,972,473</u>
			0
Excess of Revenues over (under) Expenditures	<u>19,053</u>	<u>105,729</u>	<u>124,782</u>
OTHER FINANCING SOURCES (USES)			
Fund Transfers	46,812	(46,812)	0
Total Other Financing Sources (uses)	<u>46,812</u>	<u>(46,812)</u>	<u>0</u>
			0
Net Change in Fund Balances	65,865	58,917	124,782
Fund Balances, July 1, 2015	<u>1,894,438</u>	<u>1,503,112</u>	<u>3,397,550</u>
			0
Fund Balances, June 30, 2016	<u>\$ 1,960,303</u>	<u>\$ 1,562,029</u>	<u>3,522,332</u>

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

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

Net change in Fund Balance Governmental Fund	\$	124,782
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Governmental Fund report capital outlays as expenditures. However in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Cost of assets capitalized.....		68,811
Depreciation expense		(50,724)

Pensions: In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual basis pension costs and actual employer contributions was.....		279,887
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Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities and has no effect on net position.....		18,888
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Certain deferred revenue reported in the Statement of Activities however were not reported as revenue in the governmental funds during current year.....		200,000
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The amounts below included in the Statement of Activities don't provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Accounts receivables.....		(363)
Prepaid expenses.....		(9,663)
Accounts payable.....		2,445
Compensated absences.....		2,021
Pension liability.....		(117,902)

Change in net position of governmental activities	<u>\$</u>	<u>518,182</u>
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FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

B. Basis of Presentation

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The accounts of The District are organized on the basis of funds. A fund is a separate accounting unit with a self-balancing set of accounts. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent. The District has three major funds for reporting purposes, called the general fund which includes 725 and 727 funds, and special revenue fund, 728 fund. The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required or designated by the Board of Directors to be accounted for in another fund. The special revenue fund are the project funds used to account for state grant(s) that are legally restricted to expenditures for specific purposes. Specifically Carl Moyer and AB923 program activities.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

C. Net Position / Fund Balance

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

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

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

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

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

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

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

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

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

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

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

D. Budgets and Budgetary Accounting

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

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

- a) The Board of Directors adopts an annual budget by Directors' approval prior to July 1 of each fiscal year. The annual budget indicates appropriations by fund and by program. The Board of Directors may also adopt supplemental appropriations during the year. At the fund level, expenditures may not legally exceed appropriations. The Air Pollution Control Officer (APCO) is authorized to transfer budgeted amounts between divisions and programs within any fund.
- b) Operating budgets are adopted for the General Fund on the modified accrual basis of accounting. Budgetary control and the legal level of control are at the fund level. Significant operating or capital spending changes are addressed by the District's Board of Directors, if necessary. The final budget data contained in the financial statements reflects the effect of all approved budget amendments.
- c) Supplementary budgetary revenue and expenditure appropriations are adopted by the Board of Directors during the fiscal year. These supplemental appropriations included in the Budgeted Amounts - Final column of the Budgetary Comparison Schedules. There were no revisions during the year. Actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items for the general fund except for the account motor vehicle fees – projects. The budget for this account is actually the estimated carryover balance and is not necessarily budgeted for current expenditure.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

E. Cash and Cash Equivalents

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

F. Fixed Assets

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

G. Deferred Outflows and Inflows of Resources

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

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

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

H. Pension Liability

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

I. Use of Estimates

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

J. Non-Exchange Transaction

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

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

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

K. Compensated Absences

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

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

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

L. Committed Fund Balance

As of June 30, 2016, the District through action by its Board of Directors has internally committed portion of the unrestricted fund balance in the amount of \$100,000 dollars. The amount represents future other post-retirement employee benefits (OPEB).

M. Elimination and Reclassifications

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

N. Recently Issued Accounting Pronouncements

In March 2016, the GASB approved Statement No. 82(pension issues), an amendment of GASB 67, 68, and 73. This Statement addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

NOTE 2: CASH AND INVESTMENTS

Cash and investments of the District are summarized below:

Bank deposits	\$	600
Investment in Yuba County Treasury		3,514,619
 Total cash and investments	 \$	 <u><u>3,515,219</u></u>

Deposits

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities must be equal to at least 110% of the total amount deposited by the public agencies. California law allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured deposits. The District may waive collateral requirements for deposits that are fully insured up to \$250,000 by Federal Deposit Insurance, effective October 2010. At June 30, 2016, the bank deposit is insured. The county treasure deposit exceeds the insurable limit.

Authorized Investments

The District maintains substantially all of its cash in the Yuba County Treasury (the Treasury). The Treasury pools these funds with those of other districts in the county and invests the cash. The share of each fund in the pooled cash account is separately accounted for and interest earned is apportioned quarterly to funds that are legally required to receive interest based on the relationship of a fund's daily balance to the total of pooled cash and investments. The total amount invested by all public agencies as of June 30, 2016 was \$324,234,286. The investment pool is actively managed with a weighted net of return of 1.20%. Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed income. This method differs from the fair value method used to value investments in these financial statements in that unrealized gains or losses are not distributed to pool participants.

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

The District may invest in the following types of investments:

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

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Cash in County Treasury

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

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

	Level 1	Level 2	Level 3	Total
United States Treasury Notes	\$ 1,841,660			\$ 1,841,660
Mutual Funds		480,800		480,800
Corporate Notes		596,079		596,079
Local Agency Investment Funds		541,603		541,603
Municipal Bonds		54,477		54,477
	<u>\$ 1,841,660</u>	<u>\$ 1,672,959</u>	<u>\$ 0</u>	<u>\$ 3,514,619</u>

Interest Rate Risk

The Counties investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investments are generally limited to five years or less. At the end of June 30, 2016, Treasury's investments appear to be in accordance with the Counties investment policy. The Treasury's investment has an average days-to-maturity of 276 days and yields 1.221% as of June 30, 2016.

Credit Risk

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

NOTE 3: GENERAL FIXED ASSETS

The following is a summary of changes in the general fixed assets of the District for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Retirements	Adjustments	Balance June 30, 2016
Land	\$ 85,000	0	0	0	\$ 85,000
Building	575,000	0	0	0	575,000
Equipment	33,618	14,700	0	0	48,318
Automobiles	111,301	54,111	0	0	165,412
	<u>804,919</u>	<u>68,811</u>	<u>0</u>	<u>0</u>	<u>873,730</u>
Total	<u>804,919</u>	<u>68,811</u>	<u>0</u>	<u>0</u>	<u>873,730</u>
Accumulated Depreciation	<u>136,603</u>	<u>50,724</u>	<u>0</u>	<u>0</u>	<u>187,327</u>
Fixed Assets Net	<u>\$ 668,316</u>				<u>\$ 686,403</u>

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4: COMPENSATED ABSENCES

The following is a summary of changes for unpaid vacation of the District for the year ended June 30, 2016:

	Balance July 1, 2015		Additions		Subtractions		Balance June 30, 2016
Compensated absences	\$ 39,421	\$	39,197	\$	41,218	\$	37,400
Total	<u>\$ 39,421</u>	<u>\$</u>	<u>39,197</u>	<u>\$</u>	<u>41,218</u>	<u>\$</u>	<u>37,400</u>

NOTE 5: LONG TERM LIABILITIES

The District loan/lease obligation secured by real property located at 541 Washington Ave. Yuba City, CA, amounted to \$381,112 dollars, as of June 30, 2016. The outstanding obligation associated with this purchase is payable West America Bank, in yearly installments, at the interest rate of 4.75% per annum.

Year ending June 30,	Principal	Interest	Total
2017	\$19,785	\$18,103	\$37,888
2018	20,725	17,163	37,888
2019	21,709	16,179	37,888
2020	22,741	15,147	37,888
2021	23,821	14,067	37,888
Thereafter,	<u>\$272,331</u>	<u>\$68,668</u>	<u>\$340,999</u>
Total	<u>381,112</u>	<u>149,327</u>	<u>530,439</u>

NOTE 6: RISK MANAGEMENT/CLAIMS LIABILITIES

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

During the fiscal year ended June 30, 2016, the District insured with the Special District Risk Management Authority (SDRMA) for general liability, errors and omissions, workers' compensation, and a variety of comprehensive coverage.

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

NOTE 7: SUBSEQUENT EVENTS

Management has reviewed its financial statements and evaluated subsequent events for the period from its year-end June 30, 2016 through April 21, 2017, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the accompanying statements.

NOTE 8: COMMITMENTS AND CONTINGENCIES

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

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9: PENSION PLAN

Plan Description

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

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

Benefits Provided

The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Classic members and PEPR Safety members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. PEPR Miscellaneous members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the Optional Settlement 2W Death Benefit, or the 1959 Survivor Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

Employer Rate Plans in the Miscellaneous Risk Pool

Employer rate plan	Miscellaneous	Miscellaneous - PEPR
	Prior to January	On or after
Hire Date	01, 2013	January 01, 2013
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52
Monthly benefits, as of % of eligible compensation	2.0% to 2.5%	1.0% to 2.0%
Required employee contribution rates	7.892%	6.25%
Required employer contribution rates	9.671%	6.313%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the CalPERS actuary and shall be effective on the July 1 following notice of a change in the rate. Contribution rates for the employer rate plans are determined through the CalPERS' annual actuarial valuation process. Each employer rate plan's actuarially determined rate is based on the estimated amount necessary to pay the employer rate plan's allocated share of the cost of benefits earned by employees during the year, and any unfunded accrued liability. The Feather River Air Quality Management District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The Feather River Air Quality Management District's contributions to the risk pools in the Plan for the year ended June 30, 2016, were as follows:

	Contributions
Miscellaneous Risk Pool	\$83,372
Safety Risk Pool	<u>0</u>
Total contributions	<u>\$83,372</u>

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9: PENSION PLAN (continued)

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

As of June 30, 2016, Feather River Air Quality Management District reported net pension liabilities for its proportionate shares of the net pension liability of each risk pool as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Risk Pool	\$577,897
Safety Risk Pool	0
Total net pension liability	\$577,897

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

	Miscellaneous Risk Pool
Proportion at valuation date – June 30, 2014	0.021012%
Proportion at measurement date – June 30, 2015	0.021064%
Change – increase (decrease)	0.000052%

For the year ended June 30, 2016, the Feather River Air Quality Management District recognized pension expense of \$217,399. At June 30, 2016, the Feather River Air Quality Management District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$6,030	\$0
Changes of Assumptions	0	(57,055)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	34,207	0
Adjustment due to Differences in Proportions	92,120	0
Differences between Actual and Required Contributions	35,334	0
Total	\$167,691	(\$57,055)

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9: PENSION PLAN (continued)

It should be noted that a deferred outflow of \$83,372 was recognized as pension expense related to contributions subsequent to the measurement date, but because the entire amount was recognized as of June 30, 2016, this amount is not shown above. Other amounts (i.e. amounts other than contributions subsequent to the measurement date) reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Date	Deferred Outflows/(Inflows) of Resources
June 30:	
2016	\$29,284
2017	27,731
2018	17,064
2019	36,557
2020	0
Total	110,636

Actuarial Assumptions

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous	Safety
Valuation Date	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase ⁽¹⁾	Varies By Age & Length of Service	Varies By Age & Length of Service
Investment Rate of Return ⁽²⁾	7.50%	7.50%
Mortality Rate Table ⁽³⁾	Derived Using CalPERS' Membership Data	Derived Using CalPERS' Membership Data

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested employer rate plans within the Plan that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested employer rate plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report, *GASB Statements 67 and 68 Crossover Testing Report for Measurement Date June 30, 2015 based on June 30, 2016 Valuations*, that can be obtained from the CalPERS website.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9: PENSION PLAN (continued)

Discount Rate (continued)

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the CalPERS Plan, the 7.65% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference. CalPERS is scheduled to review all actuarial assumptions as part of its regular asset liability management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the year ended 2017-18. CalPERS will continue to check the materiality of the difference in calculation until such time as CalPERS has changed their methodology.

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1-10 ^(a)	Real Return Years 11+ ^(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.5	5.13
Infrastructure and Forestland	3.0	4.5	5.09
Liquidity	2.0	(0.55)	(1.05)

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

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

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

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

	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Feather River Air Quality Management District's proportionate share of the Miscellaneous Risk Pool's net pension liability	\$980,830	\$577,897	\$245,229

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The District participates in a single-employer defined benefit medical plan administered by the California Public Employees' Retirement System (CalPERS). The plan provides postemployment healthcare benefits to eligible retirees by contributing the minimum employer contributions (MEC) \$250 dollars. This coverage is available for employees who retire with the District on reaching normal retirement age. At June 30, 2016 the District cost for the fiscal year, ended 2016 was \$0.00 dollars. The District does not pre-fund the OPEB Annual Required Contribution (ARC) with the California Employees' Retirement Benefit Trust (CERBT).

NOTE 9: DEFERRED COMPENSATION PLAN

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

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

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances
General Fund (725,727) - Budget and Actual
For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenue				
Annual permits	\$ 330,000	\$ 330,000	\$ 392,474	\$ (62,474)
New applications	65,000	65,000	182,008	(117,008)
Penalties	30,000	30,000	71,527	(41,527)
Motor vehicle fees	530,000	530,000	557,862	(27,862)
Other Revenue	<u>317,600</u>	<u>317,600</u>	<u>244,900</u>	<u>72,700</u>
Total Revenue	<u>1,272,600</u>	<u>1,272,600</u>	<u>1,448,771</u>	<u>(176,171)</u>
Expenditures				
Salaries and benefits	981,127	981,127	926,491	54,636
Services and supplies:				
Insurance	12,230	12,230	12,959	(729)
Office expense	19,250	19,250	12,878	6,372
Professional services	95,765	95,765	121,550	(25,785)
Rents	37,889	37,889	0	37,889
Communication	10,170	10,170	6,828	3,342
Dues and subscriptions	2,600	2,600	2,110	490
Travel	16,100	16,100	9,636	6,464
Program projects	200,000	200,000	203,407	(3,407)
Capital outlay	7,000	7,000	68,811	(61,811)
Miscellaneous	103,020	103,020	65,048	37,972
Total Expenditures	<u>1,485,151</u>	<u>1,485,151</u>	<u>1,429,718</u>	<u>55,433</u>
Net Change in Fund Balance	<u>\$ (212,551)</u>	<u>\$ (212,551)</u>	<u>\$ 19,053</u>	<u>\$ (231,604)</u>

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Schedule of the Plan's Proportions Share of the Net Pension Liability
and Related Ratios as of the Measurement Date
JUNE 30, 2016

Schedule of the Plan's Proportions Share of the Net Pension Liability and Related Ratios as of the Measurement Date for Rate Plan ID: 1723

	6/30/2015¹
Plan's Proportion of the Net Pension Liability/(Asset)	0.008421%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$578,025
Plan's Covered-Employee Payroll ²	\$629,646
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	91.80%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	80.42%
Plan's Proportionate Share of Aggregate Employer Contributions ^{3,4}	\$82,146

Schedule of the Plan's Proportions Share of the Net Pension Liability and Related Ratios as of the Measurement Date for Rate Plan ID: 26370

	6/30/2015¹
Plan's Proportion of the Net Pension Liability/(Asset)	(0.000002)%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$-128
Plan's Covered-Employee Payroll ²	\$58,574
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	(0.22)%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	102.18%
Plan's Proportionate Share of Aggregate Employer Contributions ^{3,4}	\$207

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

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

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

⁴ This data is not required to be displayed by GASB 68 for the employers participating in cost-sharing plans, but it is being shown here because it is used in the calculation of the Plan's pension expense.

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Schedule of the Plan Contributions
JUNE 30, 2016

Schedule of the Plan Contributions for Rate Plan ID: 1723

	<u>Fiscal Year 2014-15</u>
Actuarially Determined Contribution ²	91,028
Contributions in Relation to the Actuarially Determined Contribution ²	-91,028
Contribution Deficiency (Excess)	<u>\$(0.00)</u>
Covered-Employee Payroll ^{3,4}	\$629,646
Contributions as a Percentage of Covered-Employee Payroll ³	14.46%

Schedule of the Plan Contributions for Rate Plan ID: 26370

	<u>Fiscal Year 2014-15</u>
Actuarially Determined Contribution ²	3,098
Contributions in Relation to the Actuarially Determined Contribution ²	-3,098
Contribution Deficiency (Excess)	<u>\$(0.00)</u>
Covered-Employee Payroll ^{3,4}	\$58,574
Contributions as a Percentage of Covered-Employee Payroll ³	5.29%

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

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

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

⁴ Payroll from prior year (\$611,307) and (\$56,868), respectively, was assumed to increase by the 3.00 percent payroll

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Budgetary Comparison Schedule

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

Change in Benefit Terms

The figures above reflect the Plan's proportionate share of the liability impact resulting from plan changes which occurred after June 30, 2014. More information can be found in the CalPERS Valuation Report for the Miscellaneous Risk Pool as of June 30, 2014. Voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes) may need to be reported as a separate liability as CalPERS considers such amounts to be separately financed employer-specific liabilities. These employers should consult with their auditors.

Change in Assumptions

The above figures reflect the Plan's proportionate share of the liability impact of changes in actuarial assumptions and methods as reported by CalPERS Board of Administration upon the recommendation of the Chief Actuary. More information can be found in the CalPERS Valuation Report for the Miscellaneous Risk Pool as of June 30, 2014.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Feather River Air Quality Management District (An autonomous special district of the State of California), the (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise The District's basic financial statements and have issued our report thereon dated April 21, 2017.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2017-1 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

District's Response to Findings

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

Purpose of this Report

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

ST Group P.C.

Sacramento, California
April 21, 2017

FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

Finding 2017-1: Financial Statement Preparation

Criteria upon which audit finding is based (legal citation):

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

Finding (Condition):

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

Amount of Questioned Cost, How Computed and Prevalence:

None

Effect:

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

Cause:

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

Recommendation:

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

District's Response:

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

CORRECTIVE ACTION PLAN

Finding 2017-1: Financial Statement Preparation

Finding (Condition):

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

Corrective Action Planned:

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

Expected Completion Date:

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