

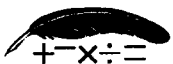
**SHASTA COUNTY**  
**AIR QUALITY MANAGEMENT DISTRICT**  
**FINANCIAL STATEMENTS**  
**FISCAL YEAR ENDED JUNE 30, 2017**



Hathaway, Ksenzulak & Lapp, LLP

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Shasta County Air Quality Management District  
Redding, CA 96001

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Shasta County Air Quality Management District (the District), a component unit of the County of Shasta, California, as of and for the year ended June 30, 2017, 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, the State Controller's *Minimum Audit Requirements for California Special Districts*, 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.

### 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 Shasta County Air Quality Management District, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-7 and 21-22 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 January 26, 2018 on our consideration of the Shasta County Air Quality Management 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 the effectiveness of the Shasta County Air Quality Management 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 Shasta County Air Quality Management District's internal control over financial reporting and compliance.

Hathaway, Ksenzulak & Lapp, LLP  
Redding, California  
January 26, 2018





# Shasta County

DEPARTMENT OF RESOURCE MANAGEMENT  
1855 Placer Street, Redding, CA 96001

Richard W. Simon, AICP  
Director

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Shasta County Air Quality Management District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2017.

### FINANCIAL HIGHLIGHTS

As you will learn through this discussion and analysis, the Shasta County Air Quality Management District (the District) is primarily funded through State Department of Motor Vehicle fees and State grants.

The District's total net positions have decreased by \$21,987 between 2016 and 2017. This decrease is due to a combination of changes in the District's funding as you will see in the tables below.

The District's overall cash position increased from \$2,777,200 in 2016, to \$2,804,956 in 2017, for a total increase of \$27,756. This increase was due to the Air Resources Board's advance of Carl Moyer and Carl Moyer Timber Engine Change-out Program Funds being utilized for the grant program (utilization of unearned revenue). This will be explained in more detail below.

### USING THIS ANNUAL REPORT

The annual report consists of the following series of financial information: (1) Independent Auditor's Report, (2) Management's Discussion and Analysis, (3) Statement of Net Position and Governmental Funds Balance Sheet, (4) Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balance, (5) Notes to Financial Statements, (6) Required Supplementary Information: Governmental Fund Budgetary Comparison Schedules.

The financial statements include all assets and liabilities using accrual basis accounting, which is similar to the accounting used by most private-sector companies. Accrual basis accounting records all current year revenue and expenses regardless of when the cash is actually received or disbursed. Thus, revenues and expenses are reported in these statements for some items that will impact cash flows in future fiscal periods.

All of the District's assets and liabilities are shown on the Statement of Net Position and Governmental Funds Balance Sheet, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balance describes the net income or deficit of the District for the fiscal year.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the District's basic financial statements.

## CONDENSED FINANCIAL INFORMATION

The difference between assets and liabilities is one way to measure the District's financial health. As stated before, over time, increases and decreases in net position may be an indicator of whether the District's financial position is improving or deteriorating. In the case of the Shasta County Air Quality Management District, net position decreased from \$1,532,302 in 2016, to \$1,510,315 in 2017, a decrease of \$21,987.

Table 1 displays a summary breakdown of the District's net position for the last two fiscal years.

**Table 1**  
**Net Position**

	2017	2016
Current and Other Assets	\$ 2,943,140	\$ 2,874,300
Capital Assets	174,676	132,096
Total Assets	<u>\$ 3,117,816</u>	<u>\$ 3,006,396</u>
Long-Term Debt Outstanding	\$ -	\$ -
Other Liabilities	1,607,501	1,474,094
Total Liabilities	<u>\$ 1,607,501</u>	<u>\$ 1,474,094</u>
Net Position:		
Net Investment in Capital Assets	\$ 174,676	\$ 132,096
Unrestricted	1,335,639	1,400,206
Total Net Position	<u>\$ 1,510,315</u>	<u>\$ 1,532,302</u>

When reviewing the Net Position, you will see that the Current and Other Assets have increased by \$68,840 between 2016 and 2017. You will also note the Other Liabilities have increased by \$133,407. Both of these increases are primarily due to an increase in funding that has been received by the District from the State of California Air Resources Board for the Carl Moyer and Carl Moyer Timber Engine Change-out Program. This increases the District assets and liabilities as the funds have been received but are held in an unearned account until they are considered earned. The funds are considered earned when they are obligated and distributed to Carl Moyer grant recipients.

Net Investment in Capital Assets are Capital Assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction, or improvement of those assets. Capital Assets have increased (net) from \$132,096 in 2016, to \$174,676 in 2017. This increase is due to the acquisition of Capital Assets offset by current year depreciation. The acquisition of Capital Assets is shown in more detail below. The District's Capital Assets do not have any outstanding debt related to the acquisition, construction, or improvement of those assets.

Table 2 provides a summary of the District's changes in net position for the last two fiscal years.

**Table 2**  
**Changes in Net Position**

	<b>2017</b>	<b>2016</b>
Total Operating Revenue	\$ 2,085,381	\$ 1,891,442
Total Operating Expenses	(2,132,756)	(1,920,812)
Net Program Deficit	(47,375)	(29,370)
Total Nonoperating Revenue	25,388	14,787
Decrease in Net Position	\$ (21,987)	\$ (14,583)

The District's decrease in Changes in Net Position from 2016 to 2017 is \$7,404. The District's increase in Operating Revenue is primarily due to more revenue being recognized in the current year from funding received for the purpose of the Carl Moyer and Carl Moyer Timber Engine Change-out Program that is held in the Unearned Revenue account. The District's increase in Operating Expense is primarily due to an increase in services and supplies, resulting from the same Carl Moyer and Carl Moyer Timber Engine Change-out Program mentioned above. The District's nonoperating revenues increased from \$14,787 in 2016, to \$25,388 in 2017, an increase of \$10,601. This increase is due to increased interest on the District's pooled cash and equivalents held by the County.

#### **BUDGETARY HIGHLIGHTS**

The District's FY 2017/18 Preliminary Budget was reviewed at the Air Pollution Control Board meeting held on June 6, 2017, and considered for adoption at the final budget hearings on June 27, 2017.

Comparing actual revenue and expenses with the budgeted revenues and expenses shows a net favorable variance of \$529,877 as shown in Table 3.

**Table 3**  
**Actual Compared to Budget**

	<b>2017 Actual</b>	<b>2017 Budget</b>	<b>Favorable (Unfavorable) Variance</b>
Operating Revenues	\$ 2,085,381	\$ 2,059,900	\$ 25,481
Operating Expenses	(2,132,756)	(2,625,764)	493,008
Net Operating Income (Loss)	(47,375)	(565,864)	518,489
Nonoperating Income (Expenses)	25,388	14,000	11,388
Net Budgeted Income (Loss)	\$ (21,987)	\$ (551,864)	\$ 529,877

The changes in the Operating Expenses are due to the budgeted amount of Carl Moyer and Carl Moyer Timber Engine Change-out Program expenses and Capital Asset Vehicle purchases that were budgeted but not spent in FY 2017/18. The District's overall decrease in operating expenses was 19% between budget to actual.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

As of June 30, 2017, the District had \$68,745 invested in capital assets (net of accumulated depreciation). This investment in capital assets includes vehicles, machinery, and equipment. The District also has a software upgrade in progress at year-end and had incurred \$105,931 in costs associated with this at June 30, 2017. Capital assets at year-end are represented in Table 4.

**Table 4**  
**Changes in Capital Assets**

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
<b>Assets Being Depreciated:</b>				
Ozone Analyzer	\$ 7,187	\$ -	\$ -	\$ 7,187
Calibrator S9100	11,849	-	-	11,849
Display Stand Interactive	8,280	-	-	8,280
Analyzer Ozone	7,107	-	-	7,107
Data Logger	6,703	-	-	6,703
Beta Attn Monitor	16,058	-	-	16,058
Data Logger	12,535	-	-	12,535
Visibility Monitoring Camera	5,107	-	-	5,107
Scanners	3,942	-	-	3,942
Envelope Sealer	5,402	-	-	5,402
Vehicles	243,996	-	-	243,996
Data Logger 8832	6,092	-	-	6,092
Ozone Analyzer	12,291	-	-	12,291
Ozone Air Analyzer	-	15,195	-	15,195
Ozone Air Analyzer	-	12,593	-	12,593
Total Assets Being Depreciated	346,549	27,788	-	374,337
<b>Accumulated Depreciation</b>	<b>(286,078)</b>	<b>(19,514)</b>	<b>-</b>	<b>(305,592)</b>
<b>Net Assets Being Depreciated</b>	<b>60,471</b>	<b>8,274</b>	<b>-</b>	<b>68,745</b>
<b>Assets Not Being Depreciated:</b>				
Software Project in Process	71,625	34,306	-	105,931
Total Assets Not Being Depreciated	71,625	34,306	-	105,931
<b>Net Capital Assets</b>	<b>\$ 132,096</b>	<b>\$ 42,580</b>	<b>\$ -</b>	<b>\$ 174,676</b>

The changes in capital assets occurred from the purchase of two Ozone Analyzers and additional costs incurred on the Software Project which is in progress, as well as, the depreciation of existing assets.



## **NEXT YEAR'S BUDGET**

The District is continuing to apply for Carl Moyer and Carl Moyer Timber Grant Funds; as the State makes changes, we will see how these Grants will be affected.

## **CONTACTING THE DISTRICT**

This financial report is designed to provide a general overview of the Shasta County Air Quality Management District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or to request any additional financial information, should be directed to the District office at 1855 Placer Street, Suite 200, Redding, CA 96001.

**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
**(A Component Unit of the County of Shasta, California)**

**Statement of Net Position and Governmental Funds Balance Sheet**  
**June 30, 2017**

	<u>General Fund</u>	<u>Emission Technology</u>	<u>Total Governmental Funds</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,346,361	\$ 1,458,595	\$ 2,804,956	\$ -	\$ 2,804,956
Accounts receivable	3,651	-	3,651	-	3,651
Due from other governments	134,533	-	134,533	-	134,533
Capital assets, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>174,676</u>	<u>174,676</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,484,545</u></b>	<b><u>\$ 1,458,595</u></b>	<b><u>\$ 2,943,140</u></b>	<b><u>\$ 174,676</u></b>	<b><u>\$ 3,117,816</u></b>
<b>LIABILITIES</b>					
Accounts payable	\$ 28,907	\$ -	\$ 28,907	\$ -	\$ 28,907
Accrued payroll	25,200	-	25,200	-	25,200
Compensated absences	-	-	-	94,799	94,799
Unearned revenue	<u>-</u>	<u>1,458,595</u>	<u>1,458,595</u>	<u>-</u>	<u>1,458,595</u>
<b>TOTAL LIABILITIES</b>	<b><u>54,107</u></b>	<b><u>1,458,595</u></b>	<b><u>1,512,702</u></b>	<b><u>94,799</u></b>	<b><u>1,607,501</u></b>
<b>FUND BALANCE</b>					
Unassigned	<u>1,430,438</u>	<u>-</u>	<u>1,430,438</u>	<u>(1,430,438)</u>	<u>-</u>
<b>TOTAL FUND BALANCE</b>	<b><u>1,430,438</u></b>	<b><u>-</u></b>	<b><u>1,430,438</u></b>	<b><u>(1,430,438)</u></b>	<b><u>-</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 1,484,545</u></b>	<b><u>\$ 1,458,595</u></b>	<b><u>\$ 2,943,140</u></b>		
<b>NET POSITION</b>					
Net investment in capital assets				174,676	174,676
Unrestricted				<u>1,335,639</u>	<u>1,335,639</u>
<b>TOTAL NET POSITION</b>				<b><u>\$ 1,510,315</u></b>	<b><u>\$ 1,510,315</u></b>

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



**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
**(A Component Unit of the County of Shasta, California)**

**Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position  
June 30, 2017**

Fund balances - total governmental funds \$ 1,430,438

Amounts reported for governmental activities in the Statement  
of Net Position are different because:

Capital assets net of accumulated depreciation have not been  
included as financial resources in governmental funds activity.  
These capital assets are reported in the Statement of Net  
Position as capital assets, net.

174,676

Long-term liabilities are not due and payable in the current period  
and accordingly are not reported as fund liabilities. All liabilities, both  
current and long-term are reported in the Statement of Net Position.

(94,799)

**NET POSITION OF GOVERNMENTAL ACTIVITIES**

**\$ 1,510,315**

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



**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
**(A Component Unit of the County of Shasta, California)**

Statement of Activities and Governmental Funds Revenues,  
Expenditures, and Changes in Fund Balance  
For the Year Ended June 30, 2017

	General Fund	Emission Technology	Total Governmental Funds	Adjustments	Statement of Activities
<b>EXPENDITURES</b>					
Salaries and employee benefits	\$ 646,331	\$ -	\$ 646,331	\$ (64,220)	\$ 582,111
Services and supplies	239,906	1,245,719	1,485,625	-	1,485,625
Other charges	45,506	-	45,506	-	45,506
Capital outlay	62,094	-	62,094	(62,094)	-
Depreciation	-	-	-	19,514	19,514
<b>TOTAL EXPENDITURES</b>	<u>993,837</u>	<u>1,245,719</u>	<u>2,239,556</u>	<u>(106,800)</u>	<u>2,132,756</u>
<b>REVENUES</b>					
License and permits	221,436	-	221,436	-	221,436
Fines and penalties	5,975	-	5,975	-	5,975
Aid from other government agencies	606,507	1,245,719	1,852,226	-	1,852,226
Charges for services	2,787	-	2,787	-	2,787
Investment earnings	25,388	-	25,388	-	25,388
Other	2,957	-	2,957	-	2,957
<b>TOTAL REVENUES</b>	<u>865,050</u>	<u>1,245,719</u>	<u>2,110,769</u>	<u>-</u>	<u>2,110,769</u>
<b>NET CHANGE IN FUND BALANCE</b>	(128,787)	-	(128,787)	106,800	(21,987)
<b>FUND BALANCE/NET POSITION - BEGINNING OF YEAR</b>	<u>1,559,225</u>	<u>-</u>	<u>1,559,225</u>	<u>(26,923)</u>	<u>1,532,302</u>
<b>FUND BALANCE/NET POSITION - END OF YEAR</b>	<u>\$ 1,430,438</u>	<u>\$ -</u>	<u>\$ 1,430,438</u>	<u>\$ 79,877</u>	<u>\$ 1,510,315</u>

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



**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
(A Component Unit of the County of Shasta, California)

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, 2017

Net change in fund balance - total governmental funds \$ (128,787)

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

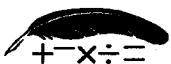
Government funds report capital outlays as expenditures. However, in the  
Statement of Activities, the cost of those assets is allocated over their  
estimated useful lives as depreciation expense. This is the amount of capital  
outlay recorded in the current period. 62,094

Depreciation expense on capital assets is reported in the Government-wide  
Statement of Activities, but they do not require the use of current  
financial resources. Therefore, depreciation expense is not reported as  
expenditures in governmental funds. (19,514)

Long-term compensated absences are reported in the Government-wide  
Statement of Activities, but they do not require the use of current  
financial resources. Therefore, they are not reported as expenditures  
in governmental funds. 64,220

CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (21,987)

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



**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
**(A Component Unit of the County of Shasta, California)**

Notes to Financial Statements  
June 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Shasta County Air Quality Management District (the District) as established by California Health & Safety Code Section 40000, is responsible for monitoring federal, state, and local air quality standards within Shasta County. The District issues permits and performs evaluations, inspections, and air quality tests. It also provides overall air quality planning efforts in the county, and as a result, District personnel work closely with various planning agencies. The District also has a responsibility for monitoring toxic and hazardous pollutants as required by state and federal statutes.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles in the United States. The following summary of the more significant accounting policies of the District is presented to assist the reader in interpreting these financial statements, and should be viewed as an integral part of this report.

**Reporting Entity**

The District is a component unit of the County of Shasta (County), and, accordingly, is included in the basic financial statements of the County because the County's Board of Supervisors exercises oversight responsibility over the operation of the District and the District provides specific financial benefits to the County. Only the accounts of the District are included herein; therefore, these financial statements do not purport to represent the financial position or results of operations of the County. The financial information of the District is included in the County's annual financial report. Administrative costs of the District are paid by the County and are not included in the accompanying financial statements.

**Financial Statement Presentation**

*Government-wide financial statements* - The statement of net position and the statement of activities are the government-wide statements. The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Therefore, reconciliations, containing brief explanations to better identify the relationship between government-wide statements and the statements for governmental funds, are included.

*Fund Financial Statements* - The fund financial statements report information about the District's funds. The District reports the following major governmental funds:

- *General Fund* - This is the District's primary operating fund; it accounts for all financial transactions not required to be accounted for in another fund.
- *Emission Technology Fund* - This is a special revenue fund used to account for moneys related to mobile source incentive awards.



**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
**(A Component Unit of the County of Shasta, California)**

Notes to Financial Statements  
June 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus and Basis of Accounting**

The government-wide financial statements use a flow of economic resources measurement focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, these funds are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

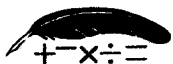
Governmental fund financial statements use a current financial resources measurement focus, and are maintained on the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual; that is, when they become both "measurable" and "available to finance expenditures of the current period". The District considers amounts collected within 90 days after year-end to be available and thus recognizes them as revenues of the current year. Expenditures are recognized in the accounting period in which the related fund liability is incurred, if measurable.

Revenues of the District which are susceptible to accrual under the modified accrual basis include certain federal and state grants, interest revenue, and charges for services. In applying the "susceptible to accrual" concept to intergovernmental revenues (grants, entitlements, and shared revenues), the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of these revenues. In one, moneys must be expended on the specific purpose or project before any amounts will be earned by the District; therefore, revenues are recognized based upon when the expenditures are made if they meet the criterion of availability. In the other, moneys are essentially unrestricted as to purpose of expenditure and revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if they meet the criterion of availability.

**Fund Balance Presentation**

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*, the District is required to report fund balances in the following categories:

- *Nonspendable* - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- *Restricted* - This classification includes amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation, or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- *Committed* - This classification includes amounts that can be spent only for specific purposes pursuant to constraints imposed by formal action of the District. Such formal action may be in the form of an ordinance or resolution and may only be modified or rescinded by a subsequent formal action.



**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
**(A Component Unit of the County of Shasta, California)**

Notes to Financial Statements  
June 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- *Assigned* - This classification includes amounts that are intended by the District to be used for specific purposes, but are neither restricted nor committed. Assignments may be made only by the governing body or official.
- *Unassigned* - This classification represents the residual positive balance within the General Fund, which has not been restricted, committed, or assigned. In funds other than the General Fund, unassigned fund balances are limited to negative residual balances.

The District uses restricted amounts first when both restricted and unrestricted fund balances are available.

**Budgets and Budgetary Accounting**

The approved budget for the District is balanced using the "Basic Budget Formula" as required by the State Controller and the California Government Code. This formula requires that total available financing sources, including unreserved/undesignated equity, equal the estimated financing uses (appropriations) plus a provision for reserves/designations.

Under Section 53065 of the California Government Code, Districts whose governing body is the County Board of Supervisors, or for which the county fiscal officers are ex-officio officers of the District, are subject to the budget provisions of California Government Code Sections 29000-29143, which include a requirement that a budgetary accounting system be used. Since an annual budget is legally adopted, budgetary amounts are presented in conformity with Statement 1 of the National Council on Governmental Accounting. This sometimes results in substantial variances from budget when financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

**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.

**Accounts Receivable**

Amounts due from individuals, organizations, or others which pertain to fines and penalties assessed by the District are reported as accounts receivable. Receivables are reviewed periodically to establish or update the provisions for uncollectible amounts. These provisions are estimated based on an analysis of the age of various accounts. For the year ended June 30, 2017, management expects to collect on all accounts receivable.





**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
**(A Component Unit of the County of Shasta, California)**

Notes to Financial Statements  
June 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Due from Other Funds**

"Due from other funds" represents certain transactions between the District and other funds of Shasta County. To the extent that funds have not been received as of the end of the fiscal year, balances of interfund amounts receivable have been presented.

**Capital Assets**

Capital assets purchased by governmental funds are recorded at historical cost or estimated historical cost when original cost is not available. The District follows the same capitalization as the County, set at \$5,000 for furniture and equipment and \$25,000 for buildings and improvements. Depreciation of capital assets is computed and recorded using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Vehicles	10 years
Equipment	8-13 years

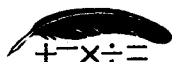
**Unearned Revenue**

Under both the accrual and modified accrual basis of accounting, revenue may be recognized only when it is earned. In instances where assets have been received by the District for services to be rendered in future periods, asset balances have been offset by an unearned revenue liability account in the financial statements. At June 30, 2017, the makeup of unearned revenue is as follows:

<u>Programs</u>	<u>Governmental Funds</u>
Carl Moyer Grant	\$ 106,116
Truck Improvement/Modernization	
Benefiting Emission Reductions Grant	<u>1,352,479</u>
Total	<u>\$ 1,458,595</u>

**Compensated Absences**

It is the policy of the District to permit employees to accumulate a limited amount of earned but unused leave benefits which will be paid to employees upon separation from service. For governmental funds, there is no legal requirement to accumulate expendable available financial resources to liquidate the obligation; thus expenditures are recognized in the governmental funds when payments are made to employees. The valuation of accrued leave benefits is calculated in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*.



**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
**(A Component Unit of the County of Shasta, California)**

Notes to Financial Statements  
June 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The liability for compensated absences at June 30, 2017, is as follows:

Administrative leave	\$ 2,526
Compensated time-off	242
Vacation time	22,720
Vested sick leave	<u>69,311</u>
Total	<u>\$ 94,799</u>

**Use of Estimates**

The preparation of 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.

**NOTE 2 - IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

**Effective in Future Fiscal Years**

In March of 2017 the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. This Statement is effective for reporting periods beginning after June 15, 2017, with early adoption permitted. The District does not expect there to be a material impact on the financial statements upon the adoption of this Statement.

In June of 2017 the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019, with early adoption permitted. The District has not determined the effect of this Statement on these financial statements.



**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
**(A Component Unit of the County of Shasta, California)**

Notes to Financial Statements  
June 30, 2017

**NOTE 3 - FAIR VALUE MEASUREMENTS**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset or liability. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; or
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable inputs for an asset or liability. Unobservable inputs should be used to measure fair value to the extent that relevant observable inputs are not available. Unobservable inputs are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The District measures fair value using using Level 1 inputs because they generally provide the most reliable evidence of fair value.

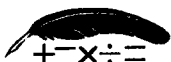
**NOTE 4 - DEPOSITS AND INVESTMENTS**

As of June 30, 2017, the carrying value of the District's deposits and investments was as follows:

Cash in County Treasury	<u>\$ 2,804,956</u>
-------------------------	---------------------

As of June 30, 2017, the composition of the District's investment return was as follows:

Interest	<u>\$ 25,388</u>
----------	------------------



**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
**(A Component Unit of the County of Shasta, California)**

Notes to Financial Statements  
June 30, 2017

**NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)**

**Cash Management**

As provided for by the California Government Code, cash balances of substantially all District funds are pooled and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The investment pool is not registered with the Securities and Exchange Commission (SEC) and as required by the California Government Code, a treasury oversight committee provides oversight to the management of the pool to insure that investments comply with the approved investment policy. The District's share of the total pool is included in the accompanying combined balance sheet under the caption "Cash and cash equivalents". These investments are stated at fair value. Interest earned on these investments is allocated quarterly to certain participating funds based on their daily cash-in-treasury balances.

The County Treasury determines the fair value of investments once a year at fiscal year-end for the purpose of financial reporting. Participants may withdraw their investment from the pool on a dollar per dollar basis.

**Fair Value of Investments**

Accounting pronouncement GASB Statement 31 generally applies to investments in external investment pools (State of California LAIF and other governmental sponsored investment pools), investments purchased with maturities greater than one year, mutual funds, and certain investment agreements. Generally, governmental entities are required to report the "fair value" changes for these investments at year-end and record these gains or losses on their income statement. As noted below, the District's investment carrying values at June 30, 2017, are considered "fair value" and, therefore, no realized and unrealized gains or losses have been presented as separate items on the face of its financial statements or in its note disclosures. All investments in the pool as of the year ended June 30, 2017, were considered to be Level 1 assets.

**Methods and Assumptions Used to Estimate Fair Value**

The County normally adjusts its investment accounting records to "fair value" at fiscal year-end. The County's investment custodian provides market values on each investment instrument on a monthly basis. The investments held by the County are widely traded, and trading values are readily available from numerous published sources. For the year ending June 30, 2017, an adjustment was not made to include the unrealized gains and losses as the amount was determined by the Shasta County Auditor-Controller's office to not be materially different from the stated value.



**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
(A Component Unit of the County of Shasta, California)

Notes to Financial Statements  
June 30, 2017

**NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)**

**Credit Risk, Bank Balance, and Carrying Amount of Cash Deposits**

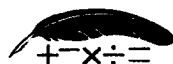
Investments are required to be categorized to give an indication of risk assumed by the District at fiscal year-end. The amount of the investments are classified into three categories of risk: (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name; (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name; and (3) Uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name). All of the District's cash and investments are pooled with Shasta County and, therefore, have not been categorized.

**NOTE 5 - CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2017, are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Software project in process	\$ 71,625	\$ 34,306	\$ -	\$ 105,931
Total capital assets not being depreciated	<u>71,625</u>	<u>34,306</u>	<u>-</u>	<u>105,931</u>
Capital assets being depreciated:				
Equipment	102,553	27,788	-	130,341
Vehicles	<u>243,996</u>	<u>-</u>	<u>-</u>	<u>243,996</u>
Total capital assets being depreciated	<u>346,549</u>	<u>27,788</u>	<u>-</u>	<u>374,337</u>
Less accumulated depreciation for:				
Equipment	(104,537)	(3,320)	-	(107,857)
Vehicles	<u>(181,541)</u>	<u>(16,194)</u>	<u>-</u>	<u>(197,735)</u>
Total accumulated depreciation	<u>(286,078)</u>	<u>(19,514)</u>	<u>-</u>	<u>(305,592)</u>
Net capital assets being depreciated	<u>60,471</u>	<u>8,274</u>	<u>-</u>	<u>68,745</u>
Total capital assets	<u>\$ 132,096</u>	<u>\$ 42,580</u>	<u>\$ -</u>	<u>\$ 174,676</u>

Depreciation expense for the year ended June 30, 2017 was \$19,514.

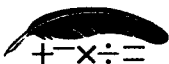


**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
**(A Component Unit of the County of Shasta, California)**

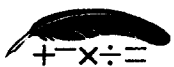
Notes to Financial Statements  
June 30, 2017

**NOTE 6 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 26, 2018, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.



**REQUIRED SUPPLEMENTARY INFORMATION**



Hathaway, Ksenzulak & Lapp, LLP

**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
**(A Component Unit of the County of Shasta, California)**

Schedule of Revenues, Expenditures, and Changes in Fund Balance  
General Fund - Budget and Actual  
For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual (See Notes)</u>	<u>Variance with Budget Positive (Negative)</u>
<b>REVENUE</b>			
License and permits	\$ 196,750	\$ 221,436	\$ 24,686
Fines and penalties	-	5,975	5,975
Aid from other government agencies	512,100	606,507	94,407
Charges for services	1,050	2,787	1,737
Interest	14,000	25,388	11,388
Other	<u>-</u>	<u>2,957</u>	<u>2,957</u>
<b>TOTAL REVENUES</b>	<u>723,900</u>	<u>865,050</u>	<u>141,150</u>
<b>EXPENDITURES</b>			
Salaries and employee benefits	740,974	582,111	158,863
Services and supplies	339,464	239,906	99,558
Other charges	44,020	65,020	(21,000)
Capital outlay	<u>88,136</u>	<u>-</u>	<u>88,136</u>
<b>TOTAL EXPENDITURES</b>	<u>1,212,594</u>	<u>887,037</u>	<u>325,557</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (488,694)</u>	<u>\$ (21,987)</u>	<u>\$ 466,707</u>

**NOTES TO BUDGET AND ACTUAL STATEMENT**

Explanation of Differences between Budgetary and GAAP Amounts

The District budgets for claims and compensated absences on the cash basis, rather than on the modified accrual basis. This causes this schedule to reflect a positive variance of \$64,220 which is included in the salaries and employee benefits line, as this amount was previously accrued in the Statement of Net Position and Governmental Funds Balance Sheet.

The District budgets for capital outlays which are purchases of assets and equipment. The actual results in the purchase of assets and equipment being capitalized and reported in the Statement of Net Position and Governmental Funds Balance Sheet. This causes this schedule to reflect a positive variance of \$62,094.

The District does not budget for depreciation expense as it is not a current use of financial resources. The actual results in the recording of depreciation expense in the Statement of Activities and Government Funds Revenues, Expenditures, and Changes in Fund Balance. This causes this schedule to reflect a negative variance of \$19,514.

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





**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
**(A Component Unit of the County of Shasta, California)**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Emission Technology - Budget and Actual**  
**For the Year Ended June 30, 2017**

	<u>Budget</u>	<u>Actual (See Notes)</u>	<u>Variance with Budget Positive (Negative)</u>
<b>REVENUE</b>			
License and permits	\$ -	\$ -	\$ -
Fines and penalties	-	-	-
Aid from other government agencies	1,300,000	1,186,466	(113,534)
Charges for services	50,000	59,253	9,253
Interest	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL REVENUES</b>	<u><b>1,350,000</b></u>	<u><b>1,245,719</b></u>	<u><b>(104,281)</b></u>
<b>EXPENDITURES</b>			
Salaries and employee benefits	-	-	-
Services and supplies	1,413,170	1,245,719	167,451
Other charges	-	-	-
Capital outlay	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b>	<u><b>1,413,170</b></u>	<u><b>1,245,719</b></u>	<u><b>167,451</b></u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u><b>\$ (63,170)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 63,170</b></u>

**NOTES TO BUDGET AND ACTUAL STATEMENT**

**Explanation of Differences between Budgetary and GAAP Amounts**

There are no differences in reporting in the Emissions Technology Fund due to the application of GAAP accounting and reporting.

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



## **SUPPLEMENTARY INFORMATION**



Hathaway, Ksenzulak & Lapp, LLP



**Hathaway,  
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**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***

**Independent Auditor's Report**

**Board of Directors  
Shasta County Air Quality Management District**

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 Shasta County Air Quality Management District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Shasta County Air Quality Management District's basic financial statements, and have issued our report thereon dated January 26, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Shasta County Air Quality Management 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 Shasta County Air Quality Management District's internal control. Accordingly, we do not express an opinion on the effectiveness of Shasta County Air Quality Management District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shasta County Air Quality Management 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*.

## 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.

*Hathaway, Ksenzulak & Lapp, LLP*

Redding, California

January 26, 2018



**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
**(A Component Unit of the County of Shasta, California)**

**Schedule of Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2017**

**Section I. SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

Material weakness identified?

No

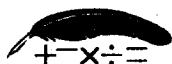
Significant deficiency identified?

None Reported

Noncompliance material to financial statements noted? No

**Section II. FINANCIAL STATEMENT FINDINGS**

None Noted



**SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT**  
**(A Component Unit of the County of Shasta, California)**

**Summary Schedule of Prior Audit Findings**  
**For the Fiscal Year Ended June 30, 2017**

**Reference Number: 2016-01 Segregation of Duties**

**Finding:** Costs associated with a new software system that exceeded the capitalization threshold set by the District were expensed instead of capitalized.

**Corrective Action Plan:** The District accountant will review monthly entries posted by the Auditor-Controller's office for accuracy and completeness, and communicate any discrepancies to the Auditor-Controller's office. Year-end trial balances will be reviewed by District personnel for accuracy and completeness before the County books and records are closed for the year. The District accountant will communicate any adjustments to the Auditor-Controller's office prior to the deadline for year-end transactions.

**Status:** Implemented in current year.





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## LETTER TO MANAGEMENT

To the Senior Management and  
The Board of Directors of  
Shasta County Air Quality Management District  
Redding, California 96001

In planning and performing our audit of the financial statements of Shasta County Air Quality Management District (the District) for the year ended June 30, 2017, we considered the District's internal control structure for purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit, we noted several matters involving the internal control structure that are presented for your consideration. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of this matter, or assist you in implementing the recommendations. Our comments are summarized as follows:

### PRIOR YEAR RECOMMENDATION

#### Closing Procedures

During our audit procedures we identified a year-end accrual entry posted by the Auditor-Controller's office for the first payment on a software upgrade that the County is implementing. This item was over the capitalization threshold but was expensed in full. It appears that the deficiency in internal control is in the review procedures and the lack of review and approval of County posted entries to the District's trial balance by District personnel in a timely manner. We recommend the District work with the Auditor-Controller's office to create procedures to ensure that entries posted to the District's general ledger are approved by District personnel before the Auditor-Controller's office can close the books.

This recommendation was implemented.

### CURRENT YEAR RECOMMENDATIONS

Nothing of significance noted.

This letter is intended solely for the information and use of the Board of Directors, management, others within the District, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Hathaway, Ksenzulak & Lapp, LLP*

Hathaway, Ksenzulak & Lapp, LLP  
January 26, 2018