

**SHASTA COUNTY
AIR QUALITY MANAGEMENT DISTRICT
FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018**

CliftonLarsonAllen LLP



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TABLE OF CONTENTS

	PAGE
FINANCIAL SECTION	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Statement of Net Position and Governmental Funds Balance Sheet	8
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	9
Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balance.....	10
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	11
Notes to Financial Statements	12-20
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures, and Changes in Fund Balance General Fund - Budget and Actual.....	21
Schedule of Revenues, Expenditures, and Changes in Fund Balance Emission Technology - Budget and Actual.....	22
SUPPLEMENTARY INFORMATION	
Report on Internal Control Over Financial Reporting and Compliance on Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	23

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INDEPENDENT AUDITORS' REPORT

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

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, a component unit of the County of Shasta, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the entity'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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, 2018, 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.

Emphasis of Matter

Prior Period Adjustments

As noted in Note 6 to the financial statements, prior period adjustments were recorded for the correction of errors in the prior year financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedules 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 and other auditors 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 December 10, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Roseville, CA
December 10, 2018



SHASTA COUNTY

DEPARTMENT OF RESOURCE MANAGEMENT

1855 Placer Street
Redding, California 96001

Paul A. Hellman
Director/APCO

Dale J. Fletcher, CBO
Assistant 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, 2018.

FINANCIAL HIGHLIGHTS

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 position has increased by \$739,592 between 2017 and 2018. This increase is due to a combination of changes in the District's funding presented in the tables below and the recognition of Carl Moyer grant funds for the current year and prior years. See Note 6.

The District's overall cash position increased from \$2,804,956 in 2017, to \$3,657,323 in 2018, for a total increase of \$852,367. This increase was due to the Air Resources Board's receipt of Carl Moyer and Carl Moyer Timber Engine Change-out Program Funds utilized for the grant program.

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 Fund Revenues, Expenditures, and Changes in Fund Balance, (5) Notes to Financial Statements, (6) Required Supplementary Information: Governmental Fund Budgetary Comparison Schedules, (7) Independent Auditor's Report on Internal Control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

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 Fund 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 increased from \$1,510,315 in 2017, to \$3,765,737 in 2018, an increase of \$2,255,422 (increase of \$739,592 from operations, increase of \$1,458,595 from prior period adjustment relating to revenue recognition of grant funds, and increase of \$57,233 from a prior period adjustment relating to compensated absences-see Note 6).

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

Table 1
Net Position

	2018	2017
Current and Other Assets	\$ 3,751,700	\$ 2,943,140
Capital Assets	234,783	174,676
Total Assets	<u>3,986,483</u>	<u>3,117,816</u>
Long-Term Debt	-	-
Other Liabilities	220,747	1,607,501
Total Liabilities	<u>\$ 220,747</u>	<u>\$ 1,607,501</u>
Net Position:		
Net Investment in Capital Assets	234,783	174,676
Restricted	2,146,126	-
Unrestricted	1,384,828	1,335,639
Total Net Position	<u>\$ 3,765,737</u>	<u>\$ 1,510,315</u>

Within Net Position, Current and Other Assets have increased by \$808,560 between 2017 and 2018. Liabilities have decreased by \$1,337,593. Asset increases are primarily due to increases 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. Decreases in liabilities relates to the recognition of grant funds received as revenue versus unearned revenue. This change reflects the District's revenue recognition change in compliance with Governmental Accounting Standards Board (GASB) Statement 33. See note 6.

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 \$174,676 in 2017, to \$234,783 in 2018. 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**

	2018	2017
Total Operating Revenue	\$ 1,965,178	\$ 2,085,381
Total Operating Expense	(1,260,235)	(2,132,756)
Net Program Change	704,943	(47,375)
Total Nonoperating Revenue	34,649	25,388
Increase (Decrease) in Net Position	\$ 739,592	\$ (21,987)

The District's increase in Changes in Net Position from 2017 to 2018 is \$761,579. The District's increase in Operating Revenue is due to more revenue being recognized in the current year from funding received for the Carl Moyer and Carl Moyer Timber Engine Change-out Program. The District's decrease in Operating Expense is primarily due to a decrease 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 \$25,388 in 2017, to \$34,649 in 2017, an increase of \$9,261. This increase is due to increased interest on the District's pooled cash and equivalents held by the County.

BUDGETARY HIGHLIGHTS-Governmental Funds

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 \$2,198,187 (inclusive of prior period adjustment in the Governmental Funds) as shown in Table 3.

Table 3
Budget to Actual-Governmental Funds (Combined)

	2018 Actual	2018 Budget	Variance
Operating Revenues	\$ 1,965,178	\$ 1,789,658	\$ 175,520
Operating Expenses	(1,260,235)	(2,219,013)	958,778
Net Operating Income (Loss)	704,943	(429,355)	1,134,298
Nonoperating Income (Expense)	34,649	15,000	19,649
Prior Period Adjustment	1,458,595	-	1,458,595
Net Budgeted Income (Loss)	\$ 2,198,187	\$ (414,355)	\$ 2,612,542

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 41% between budget to actual.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2018, the District had \$234,783 net invested in capital assets. This investment in capital assets includes vehicles, machinery, and equipment. Included in the District's net investment in Capital assets includes a software upgrade in progress at year-end and land for a parking lot. Capital assets at year-end are represented in Table 4.

Table 4
Changes in Capital Assets

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Assets Being Depreciated				
Ozone Analyzer	\$ 7,187	\$ -	\$ -	\$ 7,187
Calibrator S9100	11,849	-	-	11,849
Dosplay Stand Interactive	8,280	-	-	8,280
Analyzer Ozone	7,107	-	-	7,107
Data Logger	6,703	-	-	6,703
Beta Atten Monitor	16,058	-	-	16,058
Data Logger	12,535	-	-	12,535
Visibility Monitoring Camera	5,107	-	-	5,107
Scanners	3,943	-	-	3,943
Envelope Sealer	5,402	-	-	5,402
Vehicles	243,994	-	-	243,994
Data Logger	6,092	-	-	6,092
Ozoner Analyzer	12,292	-	-	12,292
Ozoner Air Analyzer	15,195	-	-	15,195
Ozoner Air Analyzer	12,592	-	-	12,592
Toal Assets being Depreciated	374,337	-	-	374,337
Accumulyted Depreciation	(305,592)	(19,442)	-	(325,034)
Net Assets Being Depreciated	68,745	(19,442)	-	49,303
Assets Not Being Depreciated				
Software-CIP	105,931	5,438	-	111,370
Land-Portion of Parking Lot	-	74,109	-	74,109
Toal Assets Not Being Depreciated	105,931	79,547	-	185,479
Net Capital Assets	\$ 174,676	\$ 60,106	\$ -	\$ 234,783

The changes in capital assets occurred from the purchase of land for a parking lot 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 continues to apply for Carl Moyer and Carl Moyer Timber Grant Funds and it is indeterminable the impact on next year's budget.

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.

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

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

SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2018

	General Fund	Emission Technology	Total Governmental Funds	Adjustments	Statement of Net Position
ASSETS					
Cash & Investments	\$ 1,511,197	\$ 2,146,126	\$ 3,657,323	\$ -	\$ 3,657,323
Accounts receivable	4,925	-	4,925	-	4,925
Due from other govts	89,144	-	89,144	-	89,144
Due from other funds	309	-	309	-	309
Capital Assets, Net	-	-	-	234,783	234,783
TOTAL ASSETS	<u>\$ 1,605,574</u>	<u>\$ 2,146,126</u>	<u>\$ 3,751,700</u>	<u>\$ 234,783</u>	<u>\$ 3,986,483</u>
LIABILITIES					
Accounts payable	\$ 14,980	\$ -	\$ 14,980	\$ -	\$ 14,980
Salary/benefits pybl	34,741	-	34,741	-	34,741
Due to Primary Government	111,875	-	111,875	-	111,875
Compensated Absences	-	-	-	45,638	45,638
Unearned revenue	13,512	-	13,512	-	13,512
TOTAL LIABILITIES	175,109	-	175,109	45,638	220,747
FUND BALANCE					
Restricted	-	2,146,126	2,146,126	(2,146,126)	-
Unassigned	1,430,466	-	1,430,466	(1,430,466)	-
TOTAL FUND BALANCE	<u>1,430,466</u>	<u>2,146,126</u>	<u>3,576,591</u>	<u>(3,576,591)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,605,574</u>	<u>\$ 2,146,126</u>	<u>\$ 3,751,700</u>		
NET POSITION					
Net Investment in Capital Assets				234,783	234,783
Restricted				2,146,126	2,146,126
Unrestricted				1,384,828	1,384,828
TOTAL NET POSITION				<u>\$ 3,765,737</u>	<u>\$ 3,765,737</u>

The notes to the financial statements are an integral part of this statement.
SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT
(A Component Unit of County of Shasta, California)

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balances - Governmental Funds	\$	3,576,591
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.		234,783
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.		<u>(45,638)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>3,765,737</u>

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

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

SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2018

	General	Emission Technology	Total Governmental Funds	Adjustments	Statement of Activities
REVENUES:					
Licenses & permits	\$ 229,908	\$ -	\$ 229,908	\$ -	\$ 229,908
Fines & forfeitures	12,135	-	12,135	-	12,135
Use of money/property	34,649	-	34,649	-	34,649
Intergovernmental	604,167	1,091,783	1,695,950	-	1,695,950
Charges for services	27,184	-	27,184	-	27,184
Total Revenues	908,044	1,091,783	1,999,827	-	1,999,827
EXPENDITURES:					
Current					
Salaries and Benefits	556,666	-	556,666	8,072	564,738
Service and Supplies	242,661	404,252	646,914	-	646,914
Other Charges	29,141	-	29,141	-	29,141
Capital Outlay	79,547	-	79,547	(79,547)	-
Depreciation	-	-	-	19,442	19,442
Total Expenditures	908,016	404,252	1,312,268	(52,034)	1,260,235
EXCESS (DEFICIENCY) REVENUES OVER EXPENDITURES	29	687,531	687,559	(687,559)	-
CHANGE IN NET POSITION	-	-	-	(739,592)	739,592
FUND BALANCE, BEGINNING	1,430,438	-	1,430,438	79,877	1,510,315
FUND BALANCE, BEGINNING as Restated	1,430,438	1,458,595	2,889,033	137,110	3,026,143
FUND BALANCE/NET POSITION, ENDING	\$ 1,430,466	\$ 2,146,126	\$ 3,576,591	\$ 189,144	\$ 3,765,737

The notes to the financial statements are an integral part of this statement.
SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT
(A Component Unit of County of Shasta, California)

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Net Change in Fund Balances - Total Governmental Funds	\$ 687,559
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.	79,547
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.	(19,442)
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.	<u>(8,072)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 739,592</u>

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

Notes to Financial Statements
June 30, 2018

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 governmentwide 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.

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

Notes to Financial Statements
June 30, 2018

- *Emission Technology Fund*- This is a special revenue fund used to account for moneys related to mobile source incentive awards.

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. Revenue 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 amount collected within 180 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, or 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; these revenues are recognized in accordance with Governmental Accounting Standards Board (GASB) Statement 33. 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.

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

Notes to Financial Statements
June 30, 2018

- *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.
- *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 use of fund balance if necessary, equal the estimated financing uses (appropriations).

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

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

Notes to Financial Statements
June 30, 2018

the age of various accounts. For the year ended June 30, 2018, management expects to collect on all accounts receivable.

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 policy as the County; set at \$5,000 for furniture and equipment (includes software), \$25,000 for buildings and improvements and all land acquisitions regardless of amount. 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	3-13 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 grant funds have been received by the District and the District meets the eligibility requirements in GASB 33, the District recognizes the revenue upon receipt. At June 30, 2018, the makeup of unearned revenue is as follows:

	Balance June 30, 2017	Balance-Restated June 30, 2017	Additions	Subtractions	Balance June 30, 2018
Permit Fees	\$ -	\$ -	\$ 13,512	\$ -	\$ 13,512
Carl Moyer Grant	106,116	-	-	-	-
Improvement/Modernization Emissions Reduction Grant	1,352,479	-	-	-	-
	\$ 1,458,595	\$ -	\$ 13,512	\$ -	\$ 13,512

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

Notes to Financial Statements
June 30, 2018

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*.

The liability for compensated absences at June 30, 2018, is as follows:

Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
\$ 37,566 *	\$ 37,319	\$ 29,246	\$ 45,638

* Denotes correct Beginning Balance, See Note 6 for further information.

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 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 County of Shasta, California)

Notes to Financial Statements
June 30, 2018

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 Level I inputs because they generally provide the most reliable evidence of fair value.

NOTE 4 - DEPOSITS AND INVESTMENTS

As of June 30, 2018, the carrying value of the District's deposits and investments was as follows:

Cash in County Treasury	<u>\$ 3,657,323</u>
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As of June 30, 2018, the composition of the District's investment return was as follows:

Interest	<u>\$ 34,649</u>
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SHASTA COUNTY AIR QUALITY MANAGEMENT DISTRICT
(A Component Unit of County of Shasta, California)

Notes to Financial Statements
June 30, 2017

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 ensure 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, 2018, 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, 2018, 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, 2018, 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 County of Shasta, California)

Notes to Financial Statements
June 30, 2017

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, 2018, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Software project in process	\$ 105,931	\$ 5,438	\$ -	\$ 111,370
Land - Parking Lot	-	74,109	-	74,109
Total Capital Assets Not Being Depreciated	<u>105,931</u>	<u>79,547</u>	<u>-</u>	<u>185,479</u>
Capital assets being depreciated:				
Equipment	130,343	-	-	130,343
Vehicles	243,994	-	-	243,994
Total Capital Assets Being Depreciated	<u>374,337</u>	<u>-</u>	<u>-</u>	<u>374,337</u>
Less Accumulated Depreciation For:				
Equipment	(90,241)	(8,221)	-	(98,462)
Vehicles	(215,351)	(11,221)	-	(226,572)
Total Accumulated Depreciation	<u>(305,592)</u>	<u>(19,442)</u>	<u>-</u>	<u>(325,034)</u>
Net Capital Assets Being Depreciated	<u>68,745</u>	<u>(19,442)</u>	<u>-</u>	<u>49,303</u>
Total Capital Assets	<u>\$ 174,676</u>	<u>\$ 60,105</u>	<u>\$ -</u>	<u>\$ 234,783</u>

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

Notes to Financial Statements
June 30, 2018

Depreciation expense for the year ended June 30, 2018 was \$19,442.

NOTE 6 – PRIOR PERIOD ADJUSTMENTS

In the fiscal year ending June 30, 2018, the District changed revenue recognition to fully Comply with GASB Statement 33 concerning receipt of grant funds. The District meets all eligibility requirements upon receipt of funds and therefore should record as revenue when received. Included in the prior years audited financial statements were amounts previously recorded as unearned revenue. The recognition of these funds resulted in a prior period adjustment of \$1,458,595 increasing beginning fund balance (reflected in the Statement of Revenues, Expenditures and Changes in Fund Balance as Restated Beginning Balance).

Restatement of the Beginning Balance in Compensated Absences resulted in a Prior Period Adjustment of \$57,233 in the Statement of Activities, increasing beginning net position (reflected in a Restatement of Beginning Balance).

NOTE 7 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 10, 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.

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REQUIRED SUPPLEMENTARY INFORMATION

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

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2018

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenue				
License and Permits	\$ 218,358	\$ 240,608	\$ 229,908	\$ (10,700)
Fines and Penalties	-	-	12,135	12,135
Aid From Other Governmental Agencies	525,000	525,000	604,167	79,167
Charges For Services	3,000	3,000	27,184	24,184
Interest	15,000	15,000	34,649	19,649
Other	1,050	1,050	-	(1,050)
Total Revenues	<u>762,408</u>	<u>784,658</u>	<u>908,044</u>	<u>123,386</u>
Expenditures				
Salaries and Benefits	710,873	710,873	556,666	154,207
Service and Supplies	313,514	313,514	242,662	70,852
Other Charges	29,376	29,376	29,141	235
Capital Outlay	142,250	142,250	79,547	62,703
Total Expenditures	<u>1,196,013</u>	<u>1,196,013</u>	<u>908,016</u>	<u>287,997</u>
Net Change in Fund Balance	<u>\$ (433,605)</u>	<u>\$ (411,355)</u>	<u>\$ 29</u>	<u>\$ 411,383</u>

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

EMISSION TECHNOLOGY FUND
 BUDGETARY COMPARISON SCHEDULE
 YEAR ENDED JUNE 30, 2018

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenue				
Aid From Other Governmental Agencies	\$ 1,000,000	\$ 1,000,000	\$ 1,091,783	\$ 91,783
Charges For Services	20,000	20,000	-	(20,000)
Total Revenues	<u>1,020,000</u>	<u>1,020,000</u>	<u>1,091,783</u>	<u>71,783</u>
Expenditures				
Service and Supplies	1,023,000	1,023,000	404,252	618,748
Total Expenditures	<u>1,023,000</u>	<u>1,023,000</u>	<u>404,252</u>	<u>618,748</u>
Net Change in Fund Balance	<u>\$ (3,000)</u>	<u>\$ (3,000)</u>	<u>\$ 687,531</u>	<u>\$ 690,531</u>

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' 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

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

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 the Shasta County Air Quality Management District (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 10, 2018.

Internal Control Over Financial Reporting

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

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

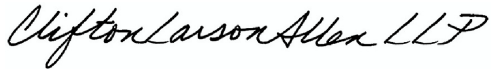
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

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*.

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.



CliftonLarsonAllen LLP

Roseville, CA
December 10, 2018