

**NORTHERN SIERRA AIR QUALITY
MANAGEMENT DISTRICT**

**AUDIT REPORT
JUNE 30, 2018**

**NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2018**

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Independent Auditors' Report

Board of Directors
Northern Sierra Air Quality Management District
Grass Valley, CA

We have audited the accompanying financial statements of the governmental activities and the major funds of the Northern Sierra 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 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 of 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 District'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 District'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.

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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 the major funds of Northern Sierra 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, the schedule of Proportionate Share of the Net Pension Liability and the schedule of District Contributions and the schedule of the District's proportionate share of the net OPEB liability and schedule of District OPEB contributions and Schedule of Changes in the District's Total OPEB Liability and Related Ratios as shown in the notes to the financial statements and required supplementary information be presented to supplement the basic financial statements. Such information, although not a basic part of the 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 18, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Respectfully Submitted,



SingletonAuman PC
Susanville, CA
January 18, 2019

FINANCIAL SECTION

NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
Management's Discussion and Analysis (MD&A)
June 30, 2018

INTRODUCTION

Our discussion and analysis of Northern Sierra Air Quality Management District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. It should be read in conjunction with the District's financial statements (including notes and supplementary information), which follow this section.

The District's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Overview of District's Financial Activity

The District's mission is to preserve air quality and protect the public health and welfare in Nevada, Plumas and Sierra Counties. The District does this through programs implemented with the assistance of federal, state and local contributions. A major portion of the District's yearly annual revenue is through state subvention.

Pursuant to the joint powers agreement and amendments signed by the chairperson of each member county Board of Supervisors, the District receives funding from each of the Counties it serves. Each year, the District's Board of Directors adopts one method of calculating the current year's contribution. Methods are based on historical contributions, county populations, need, and inflation. Additional revenue comes from the following sources:

State Subvention Funds
AB 2766 DMV Surcharge Fees
AB 923 DMV Surcharge Fees
Stationary Source Fees
Hearing Board Fees
Open Burning Fees
Woodstove Inspection Fees
AB 2588 Air Toxics Hot Spots Fees
Fines Levied for Rule Infractions
Interest on Reserves
Subscriptions & Copies
Contract with EPA to Monitor PM2.5
Carl Moyer Program (grant pass-through only)
EPA's 2015 Target Grant (for the Plumas PM2.5 Nonattainment Area)
H & S Settlement with EPA

Assembly Bill 2766 (1991) Vehicle Registration Fee funds make up a significant portion of District revenue, however, these funds may be used solely to reduce air pollution from motor vehicles and for related planning, monitoring, enforcement, and technical studies necessary for the implementation of the California Clean Air Act of 1988. The District collects \$4 per vehicle registration in Nevada County and Plumas County and \$2 registration in Sierra County.

The District receives revenues from the State which are restricted - funds which can only be used for exclusive purposes allocated by the Board and state requirements. Examples of continuing restricted funds are the pass-through grant programs of Board-approved AB2766 projects and Carl Moyer Heavy-Duty Diesel program. The District administers the expenditure of these monies (restricted expenditures) for worthy air pollution projects within the District's jurisdiction. All monies restricted for external grants only are placed in an account (Restricted Budget) separate from the District's Internal Operating Budget.

Carl Moyer Program pass-through funds come from ARB at a different cycle than the District's Fiscal Year of July 1, and is to be used throughout a three year time period. During FY 17/18, the District disbursed \$179,761.

The External AB2766 grant cycle lags behind the fiscal year by 3 months, running from October 1st to September 30th. AB 2766 funding is encumbered in June (for previously approved grants) for use after June 30th. Typically, about half of originally allocated funds are used in these final months. During the first 3 months of the AB 2766 grant cycle, the opposite is true. As grantees gear up and since grant payments are reimbursement-based there is a lag of several months before payments are made to grantees. This irregular, unpredictable cash flow produces confusion to those trying to evaluate the District's reserves and can lead to overly optimistic estimations of the financial health of the District's reserves. In order to make this process easier to understand, the District places the granted portion of AB2766 funds in a separate account (Restricted Account) from the Operating Account. The AB 2766 projects must go through a competitive process and be approved by the District's Board of Directors. During FY 17/18, the District disbursed \$332,600.

TIMBER (Truck Improvement Modernization Emission Reduction Program)

The Carl Moyer Truck Improvement/Modernization Benefitting Emission Reductions (TIMBER) Program provides a streamlined approach for replacing older, high-polluting heavy-duty log trucks earlier than required. The TIMBER program helps reduce some of the costs associated with replacing a log truck with a new (not used) log truck. The District disbursed \$24,720 during FY 17/18.

EPA's Target Grant (for the Plumas PM2.5 Nonattainment area)

The District received a \$2.48 million grant from the Targeted Air Shed Grant for a wood stove change-out program. The grant is intended to improve air quality in areas of the U. S. with the highest levels of pollution. During fiscal year 17/18 the District expended \$214,337 on this grant.

H & S Woodstove Mitigation

The District had a one-time revenue of \$400,000 as a result of a settlement between H & S and the Environmental Protection Agency. These funds are to be used for a woodstove change-out program. The District disbursed \$84,600 during FY 17/18.

Financial Highlights – Operating Budget

The operating fund reported an excess of revenues over expenditures this year of \$264,799. During the year, the District's non-grant expenses were \$692,786, while revenue for the unrestricted fund was \$957,585.

Operating Budget - Revenue

Revenues were \$957,585 which exceeded expected revenue by \$86,495. This was largely due to greater than expected permit fees.

For Fiscal Year 18/19, the District expects revenue to be \$931,407.

Operating Budget - Expenditures

During FY 17-18, approximately 75% of expenditures (\$522,542) were utilized for Salaries and Benefits. During FY 18/19, the District expects \$583,847 (77% of total expenditures) for Salaries and Benefits.

Financial Highlights - Restricted Budget

The restricted fund reported an excess of expenditures over revenues this year of \$2,287. During the year, the District's restricted revenue was \$833,620 while expenditures for the restricted fund were \$835,907.

Restricted Revenue

Total revenue for FY 17/18 was \$833,620. This revenue is from five government grant programs; AB2766, AB 923, EPA Target Grant, TIMBER and the Woodstove change-out.

Restricted Expenditures

Total amount disbursed in FY 17/18 was \$835,907. Major disbursements were as follows: \$332,600 for the AB2766 program, \$179,761 for the Carl Moyer Heavy Duty Diesel program, \$24,720 for the TIMBER Program, \$84,600 for the H & S Mitigation Program and \$214,437 for the EPA Target Grant.

FINANCIAL HIGHLIGHTS

- Total net position was \$69,709 at June 30, 2018. This was an decrease of \$296,663 over the prior year.
- Overall revenues were \$1,791,205, which were more than expenses of \$1,675,281 by \$115,924. In addition, there was a restatement decreasing beginning fund balance by \$412,587 reflecting increased OPEB liability.
- The General Fund reported a fund balance this year of \$1,013,444.
- The Restricted Fund reported a fund balance this year of \$667,553.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity’s overall financial position.
- **Fund financial statements** focus on reporting the individual parts of the District operations in more detail. The fund financial statements comprise the remaining statements.
 - **Governmental funds** statements tell how general government services were financed in the short term as well as what remains for future spending.
 - **Fiduciary fund** statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required supplementary information that further explains and supports the financial statements. A comparison of the district’s budget for the year is included.

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District’s net position and how it has changed. Net position, the difference between assets and liabilities, is one way to measure the District’s financial health or position.

- Over time, increases or decreases in the District’s net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the tax base, and changes in program funding by the Federal and State governments, and the condition of the District’s facilities.

The government-wide financial statements of the District include governmental activities. Most of the District’s basic services are included here, such as air monitoring.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds-not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The Board of Directors establishes other funds to control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain revenues. The District has one kind of funds:

- o Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the government funds statements that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position was \$69,709 at June 30, 2018. See Table 1.

Table 1:
Net Position

	Governmental Activities		Total Percentage
	2018	2017	Change 2018-2017
Assets			
Cash	\$ 2,018,564	\$ 1,653,463	22.08%
Accounts Receivable	172,535	193,431	-10.80%
Prepaid Expenses	9,254		100.00%
Capital Assets, Net of Accumulated Depreciation	119,906	139,173	-13.84%
Total Assets	2,320,259	1,986,067	16.83%
Deferred Outflows			
Pension Plan Contributions	250,083	250,083	100.00%
OPEB Contributions	23,776		100.00%
Total Deferred Outflows	273,859	250,083	
Liabilities			
Accounts Payable	9,651	17,028	-43.32%
Unearned Revenue	509,705	411,381	23.90%
Long-Term Debt	1,997,501	1,398,642	42.82%
Total Liabilities	2,516,857	1,827,051	37.76%
Deferred Inflows			
Pension Plan Income	31,393	42,727	100.00%
Net Position			
Net Investment In Capital Assets	119,906	139,173	-13.84%
Restricted	667,553	669,840	-0.34%
Unrestricted	(717,750)	(442,641)	62.15%
TOTAL NET POSITION	\$ 69,709	\$ 366,372	-80.97%

Changes in Net Position

The District's total revenues were \$1,791,205. A majority of the revenue comes from Federal and State aid for specific programs (87%) of total revenues.

The total cost of all programs and services was \$1,675,281. This reflects an increase of \$959 in expenditures from the prior year.

**Table 2:
Changes in Net Position**

	Governmental Activities		Total Percentage
	2018	2017	Change 2018-2017
Revenues			
Permits & Fees	\$ 222,067	\$ 129,747	71.15%
Government Funding	1,544,815	1,662,608	-7.08%
Interest Income	24,323	21,953	10.80%
Other Income	-	4,001	-100.00%
TOTAL REVENUES	<u>1,791,205</u>	<u>1,818,309</u>	-1.49%
Expenses:			
Air Quality Management	1,675,281	1,674,372	0.05%
TOTAL EXPENSES	<u>1,675,281</u>	<u>1,674,372</u>	0.05%
INCREASE/(DECREASE) IN NET POSITION	<u>\$ 115,924</u>	<u>\$ 143,937</u>	-19.46%

Governmental Activities

Table 3 presents the cost of each of the District's functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by charges for services, operating grants and capital grants and contributions.

The total cost of all governmental activities this year was \$1,675,281

**Table 3
Net Cost of Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Air Quality Management	\$ 1,675,281	\$ 1,674,322	\$ 91,601	\$ 122,015
TOTAL	<u>\$ 1,675,281</u>	<u>\$ 1,674,322</u>	<u>\$ 91,601</u>	<u>\$ 137,785</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The overall financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,680,997 which is above last year's ending fund balance of \$1,418,485.

General Fund Budgetary Highlights

Before each year the District budgets for that year operation. The District's budget was revised during the year. A schedule of the District's original and final budget amounts compared with actual revenues and expenses is provided in the supplemental section of the audited financial report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had invested \$119,906 in a broad range of capital assets, including furniture, equipment and vehicles. See Table 4.

Table 4
Capital Assets

	Governmental Activities		Total Percentage
	2018	2017	Change 2018-2017
Furniture	\$ 72,665	\$ 72,665	0.00%
Equipment	271,952	259,349	4.86%
Vehicles	101,662	101,662	0.00%
Totals at Historical Cost	446,279	433,676	2.91%
Total Accumulated Depreciation	(326,373)	(294,503)	10.82%
NET CAPITAL ASSETS	\$ 119,906	\$ 139,173	-13.84%

The District expects to spend \$23,053 in capital expenditures for the 2018/19 fiscal year for office and field equipment.

Long-Term Debt

At year end, the District had \$1,997,501 in debt, consisting of compensated absences, other post-employment benefits and net pension liability as shown in Table 5. More detailed information about the District's debt is presented in the notes to the financial statements.

Table 5
Long-Term Debt

	Governmental Activities		Change
	2018	2017	2018-2017
Compensated Absences	\$ 56,065	\$ 56,065	0.00%
Other Postemployment Benefit Obligation	884,064	416,993	112.01%
Net Pension Liability	1,057,372	925,584	14.24%
TOTAL LONG-TERM DEBT	\$ 1,997,501	\$ 1,398,642	42.82%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health:

- The uncertainty of state funding can have a profound impact on the financial health of the District. Although no changes are currently anticipated, the state government could implement mid-year budget cuts and further cash deferrals.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact:

Gretchen Bennett, Air Pollution Control Officer
Northern Sierra Air Quality Management District
200 Litton Drive, Suite 320
Grass Valley, CA 95945
530-274-9360

**NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018**

	<u>Governmental Activities</u>
Assets	
Cash on Hand and in Banks	\$ 142,191
Cash in County Treasury	1,876,373
Accounts Receivable	172,535
Prepaid Expenses	9,254
Capital Assets:	
Furniture, Equipment, Vehicles, Net	119,906
Total assets	<u><u>\$ 2,320,259</u></u>
 Deferred Outflows of Resources	
Deferred Recognition of Contributions to Pension Plan	\$ 273,924
Deferred Outflows- OPEB Contributions	23,776
Total Deferred Outflows of Resources	<u><u>\$ 297,700</u></u>
 Liabilities	
Accounts Payable	\$ 9,651
Unearned Revenue	509,705
Noncurrent Liabilities	
Due within one year	56,065
Due within more than one year	884,064
Net Pension Liability	1,057,372
Total liabilities	<u><u>\$ 2,516,857</u></u>
 Deferred Inflows of Resources	
Deferred Recognition of Pension Plan Earnings	<u><u>\$ 31,393</u></u>
 Net Position	
Net Investment in Capital Assets	\$ 119,906
Restricted	667,553
Unrestricted	(717,750)
Total Net Position	<u><u>\$ 69,709</u></u>

The accompanying notes are an integral part of this statement.

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

Governmental Activities	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Total Governmental Activities
Air Quality Management	\$ 1,675,281	\$ 222,067	\$ 1,544,815	91,601
Total Governmental Activities	\$ 1,675,281	\$ 222,067	\$ 1,544,815	91,601
General Revenues:				
Interest				24,323
Total General Revenue				24,323
Change in net position				115,924
Net position, beginning, as restated (See Note 10)				(46,215)
Net position, ending				\$ 69,709

The accompanying notes are an integral part of this statement.

**NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
BALANCE SHEET
JUNE 30, 2018**

	<u>General Fund</u>	<u>Restricted Fund</u>	<u>Total</u>
Assets			
Cash on Hand and in Banks	\$ 142,191	\$ -	\$ 142,191
Cash in County Treasury	802,055	1,074,318	1,876,373
Accounts receivable	73,587	98,948	172,535
Prepaid Expenses	9,254	-	9,254
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,027,087</u>	<u>\$ 1,173,266</u>	<u>\$ 2,200,353</u>
Liabilities and Fund Balance			
Liabilities:			
Accounts Payable	\$ 6,976	\$ 2,675	\$ 9,651
Unearned Revenue	6,667	503,038	509,705
Total Liabilities	<u>13,643</u>	<u>505,713</u>	<u>519,356</u>
Fund Balance:			
Restricted		667,553	667,553
Committed	633,000	-	633,000
Unassigned	380,444	-	380,444
Total Fund Balance	<u>1,013,444</u>	<u>667,553</u>	<u>1,680,997</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balance	<u>\$ 1,027,087</u>	<u>\$ 1,173,266</u>	<u>\$ 2,200,353</u>

The accompanying notes are an integral part of this statement.

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

Total Fund Balances - Governmental Funds	\$ 1,680,997
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds	119,906
Payables for compensated absences which are not due in the current period are not reported in the funds	(56,065)
Deferred Outflows of resources in governmental activities are reported as expenditures in the funds	297,700
Deferred Inflows of resources in governmental activities are not reported in the funds	(31,848)
Payables for Pension Benefits which are not due in the current period are not reported in the funds	(1,057,372)
Payables for Other Post-Employment Benefits which are not due in the current period are not reported in the funds.	<u>(884,064)</u>
Total Net Position - Governmental Activities	<u><u>\$ 69,254</u></u>

The accompanying notes are an integral part of this statement

**NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	Restricted Fund	Total
Revenue:			
Permits & Fees	\$ 222,067	\$ -	\$ 222,067
Intergovernmental Revenue	711,195	833,620	1,544,815
Interest Income	24,323	-	24,323
Total Revenue	957,585	833,620	1,791,205
Expenditures:			
Air Quality Management			
Salaries	348,849	-	348,849
Benefits	173,693	-	173,693
Air Monitoring	932		932
H & S Mitigation	-	84,600	84,600
AB 2776 Grants	-	332,600	332,600
Carl Moyer Diesel	-	179,761	179,761
Timber Program	-	24,720	24,720
EPA Target Grant - Wood St.		214,437	214,437
Professional Fees	65,276	-	65,276
Communications	17,290	-	17,290
Travel	12,214	-	12,214
Office	8,033	-	8,033
Rent and Utilities	42,746	-	42,746
Repairs and Maintenance	-	-	-
Dues and Subscriptions	3,258	-	3,258
Insurance	1,509	-	1,509
Capital Outlay	12,603	-	12,603
Miscellaneous	6,383	(211)	6,172
Total Expenditures	692,786	835,907	1,528,693
Revenue Over (Under) Expenditures	264,799	(2,287)	262,512
Fund Balance, July 1	748,645	669,840	1,418,485
Fund Balance, June 30	\$ 1,013,444	\$ 667,553	\$ 1,680,997

The accompanying notes are an integral part of this statement.

NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUE AND EXPENDITURES
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2018

Net Changes in fund balances - total governmental funds	\$ 262,512
<p>Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:</p>	
The depreciation of capital assets used in governmental activities is not reported in the funds.	(31,870)
Other Post-Employment Benefits are reported as the amount earned in the SOA but as the amount paid in the funds.	(30,708)
Capital Outlays are not reported as expenses in the SOA	12,603
Pension Expenditures used in governmental activities are not reported in the funds	(97,068)
Changes in net position of governmental activities - statement of activities	<u>\$ 115,469</u>

The accompanying notes are an integral part of this statement

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**NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Northern Sierra Air Quality Management District (District) was founded on November 20, 1986 by an agreement between Nevada, Plumas and Sierra Counties and their corresponding Air Pollution Control Districts under provisions of Chapter 3 Part 3 Division 26 of the California Health and Safety Code. The District is responsible for attaining and maintaining the federal and state ambient air quality standards, and is therefore engaged in activities such as air monitoring, planning, enforcement, permitting, public education, and complaint investigation. Substantial funding for the District is from County established surcharges on vehicle registrations. These monies are collected by the California Department of Motor Vehicles and subsequently remitted to the District. Other sources of revenues include state subvention funding and fees from various permits, fines, and County general fund contributions. Over 50% of the District's revenue originates from or passes through departments of the State of California.

The District accounts for its financial transactions in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14 "The Financial Reporting Entity" and GASB Statement No. 39 "Determining Whether Certain Organizations Are Component Units," include whether:

- The organization is legally separate (can sue and be sued in its name)
- The District holds the corporate powers of the organization
- The District appoints a voting majority of the organization's board
- The District is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the District
- There is fiscal dependency by the organization on the District
- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government
- The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization
- The economic resources received or held by an individual organization that the specific primary government is entitled to, or has the ability to otherwise access, are significant to that primary government

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB Statement.

NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the district except those required to be accounted for in another fund.

Restricted Fund: This is the program fund of the District. It represents resources restricted to support of District air quality improvement and monitoring grants funded by AB 2766, Carl Moyer, Wood Stove Replacement Project, EPA PM2.5 Grant, and other government funding programs.

b. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include county assessments, grants, entitlements, and

**NORTHERN SEIRRA AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Investment earnings are recorded as earned, since they are both measurable and available. Revenue from permits is not considered measurable until they are received and are recognized as revenue at that time because the renewal amount is based partially on actual emissions for the preceding period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. Assets, Liabilities, and Equity

a. Deposits & Investments

Cash is composed of the following amounts as of June 30, 2018:

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Cash on hand and in banks	\$ -	\$ 142,191	\$ 142,191
Cash in Nevada County Treasury	1,074,318	802,055	1,876,373
Total Cash and Investments	\$ 1,074,318	\$ 944,246	\$ 2,018,564

Cash balances held in banks are insured to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

**NORTHERN SEIRRA AIR QUALITY MANAGEMENT DISTRICT
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JUNE 30, 2018**

Nearly all cash at June 30, 2018 is pooled for investment purposes and held by Nevada County. Interest is apportioned quarterly to the District based on the average daily balances on deposit with the County of Nevada. The Nevada County Treasury is an external investment pool for the District and the District is considered an involuntary participant. The investments made by the Treasurer are regulated by the California Government Code and by the County's investment policy, however, the County's investment pool is not rated by a nationally recognized rating agency. By limiting its investments to the Nevada County Treasurers' investment pool, managed in accordance with the California Government Code, the District minimizes its exposure to custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Cash deposits are reported at carrying value which reasonably estimates fair value.

b. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$1,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Vehicles	5
Office Equipment	7
Field Equipment	5-7

Gain or loss is recognized when assets are retired from service or are otherwise disposed.

c. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

d. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the District has only two items that qualify for reporting in this category, deferred amounts from District pension contributions and deferred amounts from District OPEB contributions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category, unavailable amounts from the District portion of PERS pension earnings.

e. Compensated Absences

Accrued compensated absences for accumulated unpaid leave that is payable to employees upon termination include 100% of all employees' vacation time and compensated time off earned. In addition, 35% of sick time earned for employees who have been employed by the district for five years are also included. This liability is accrued in the Government-Wide financial statements but not on the Governmental Fund financial statements. The current portion of the liabilities is recognized in the General Fund at year end.

f. Budgetary Accounting

The District adopts its budget by July 1st of each year. Supplemental appropriations are adopted throughout the year as necessary.

g. Use of Estimates

The preparation of financial statements in conformity with Accounting Principles Generally Accepted in the United States of America requires the use of management's estimates. Actual results could differ from those estimates.

NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

h. Components of Net Position

For Government-Wide Financial Statements, equity is classified in three components as follows:

Net Investment in Capital Assets consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of debt borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position consists of net assets with restrictions placed on the use either by external groups such as contributors, grantors or regulations of other governments, or law through constitutional provisions or enabling legislation.

Unrestricted Net Position consists of all other net assets that do not meet the definition of "restricted" or "net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The District can assign balances for specific future uses; however, these assignments are not disclosed on the Statement of Net Position.

i. Equity Classifications

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spend because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

**NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018**

Assigned Fund Balance -- represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debts service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District.

Unassigned Fund Balance -- represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

k. Subsequent Event Evaluation

Management has evaluated subsequent events through January 18, 2019, the date the financial statements were available to be issued.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Net Assets of Individual Funds

Following are funds having deficit fund net assets at year end, if any, along with remarks which address such deficits

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
Unrestricted Net Position	\$718,205	The deficit is largely due to OPEB and Pension liabilities.

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**NORTHERN SEIRRA AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 -- CAPITAL ASSETS

A summary of changes in fixed assets follows:

	Balance <u>06/30/17</u>	<u>Additions</u>	<u>Dispositions</u>	Balance <u>06/30/18</u>
Furniture	\$ 72,665			\$ 72,665
Equipment	259,349	12,603		271,952
Vehicles	101,662			101,662
	<u>433,676</u>	<u>12,603</u>	-	<u>446,279</u>
Accumulated Depreciation	<u>(294,503)</u>	<u>(31,870)</u>		<u>(326,373)</u>
Property, Plant and Equipment, Net	<u>\$ 139,173</u>	<u>\$ (19,267)</u>	<u>\$ -</u>	<u>\$ 119,906</u>

Depreciation was charged to functions as follows:

Air Quality Management \$31,870

NOTE 4 -- LONG TERM DEBT

Long Term Debt is summarized as follows:

	Balance <u>06/30/17</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>06/30/18</u>
Other Post Employment Benefits	\$ 416,993	\$ 467,071	-	\$ 884,064
Compensated Absences	56,065			56,065
Net Pension Liability	925,584	131,788		1,057,372
Total Debt Payable	<u>\$ 1,398,642</u>	<u>\$ 598,859</u>	<u>\$ -</u>	<u>1,997,501</u>
Less Current Portion				-
Long Term Portion of Debt Payable				<u>\$ 1,997,501</u>

**NORTHERN SEIRRA AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018'**

NOTE 5 – EXCESS OF EXPENSES OVER APPROPRIATIONS

<u>Appropriations Category</u>	<u>Amount</u>
General Fund:	
Travel	\$ 714
Office	\$ 333

Travel and office exceeded budget due to unanticipated expenditures.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Litigation

The District is not currently involved in litigation. In the opinion of management and legal council, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

NOTE 7 – RISK MANAGEMENT AND LITIGATION

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and customers; and natural disasters. The District has managed these risks by obtaining coverage from commercial insurance companies as well as providing employee education and prevention programs. All risk management activities are accounted for in the General Fund. Expenses and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported are considered.

The District's attorney estimates that the amount of actual or potential claims against the District as of June 30, 2018 will not materially affect the financial condition of the District. Therefore, the funds contain no provision for estimated claims. Information relating to an analysis of claims activities for the year was not available.

NORTHERN SEIRRA AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 – PENSION PLAN

Plan Description

The District, as the employer, participates in the cost-sharing, multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members, and beneficiaries. A full description of the pension plan benefit provisions and assumptions for funding purposes can be obtained in Appendix B of the June 30, 2013 CalPERS actuarial evaluation report available at <https://www.calpers.ca.gov/page/forms-publications>.

Contributions

The contribution requirements of the Plan are established by Section 20814(c) of the California Public Employees' Retirement Law, which requires that employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. For the measurement period ended June 30, 2018 the active employee contribution rate was 7% of annual pay, and the District's contribution rate was 9.58%. Contributions to the pension plan from the District were \$73,545 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a net pension liability of \$1,057,372 for its proportionate share of the total net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The District's proportion of the net pension liability was based on the District's contributions received by the pension plan relative to the total contributions received by the pension plan for all participating employers as of June 30, 2018. Based upon this information, the District's proportion was .02682%.

For the year ended June 30, 2018, the District recognized pension expense of \$108,089. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NORTHERN SEIRRA AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in Assumptions	\$ 149,713	\$
Differences between Expected and Actual Experience		(17,408)
Differences between Projected and Actual Investment Earnings	36,654	
Differences between Employer's Contributions & Proportionate Share of Contributions		(13,985)
Change in Employer's Proportion	14,012	
Pension Contributions made Subsequent to Measurement Date	73,545	
Total	\$ 273,924	\$ (31,393)

\$73,545 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Period Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	40,400
2020	94,537
2021	55,812
2022	(21,762)
Total	\$ 168,987

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**NORTHERN SEIRRA AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all prior periods included in the measurement

Discount Rate:	7.15%
Inflation:	2.75%
Salary Increases:	Varies by Entry Age and Service
Investment Rate of Return:	7.50% net of Pension Plan Investment and Administrative Expenses
 Mortality Rate Table:	 Derived using CalPERS Membership Data for all Funds
 Post Retirement Benefit Increase	 Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The table below reflects long-term expected real rates of return by asset class. The rate of return was calculated using the capital marked assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10¹</u>	<u>Real Return years 11 +²</u>
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	12.00	6.83	6.95
Real Estate	11.00	4.50	5.13
Infrastructure and Forestland	3.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period

**NORTHERN SEIRRA AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9- POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The District provides certain postretirement healthcare benefits, as established by board policy, to eligible employees through a single-employer plan governed by the Public Employees' medical & Hospital Care Act (PEMHCA) and administered by the District. The Plan is a single-employer defined benefit OPEB plan. Employees may receive this benefit until they reach Medicare age. Employees are eligible for this benefits after attaining the age of 55 with at least 10 years of service to the District. Benefits are provided by CalPERS in exchange for premiums paid by the District up to \$9,600 per year. Employees hired after July 1, 2014 are not eligible for District paid premiums. The plan does not issue a standalone report.

Authority to establish and amend the benefit terms and financing requirements lies with the District board of directors. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement NO. 75.

All contracts with District employees will be renegotiated periodically in the future, thus costs and benefits are subject to change. Benefits and contribution requirements for the OPEB plan are established by various labor agreements.

a. Funding Policy

The District currently pays for post-employment healthcare benefits on a pay-as-you-go basis. The District has not set aside any funds to accumulate assets for future retiree obligations. Due to the requirements of GASB No. 75, assets intended to fund future obligations are not considered to offset the unfunded benefit obligation until the assets are transferred to an irrevocable trust designed to pay for future OPEB obligations.

At June 30, 2018, the following retirees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	3
Active Employees	<u>4</u>
Total Number of Participants	<u>7</u>

b. Total OPEB Liability

The District's total OPEB liability of \$884,064 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

**NORTHERN SEIRRA AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Actuarial Assumption and Other Inputs

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumption and other inputs, applied to all periods including in the measurement unless otherwise specified.

Percent Married	50%
Salary Increases	3.00%
Discount Rate	3.13%
Healthcare Cost Trend Rates	6% for 2017, 5% for every year thereafter
Dental + Vision Cost Trend Rate	4.00%
Age Adjustment Factor	3.00%

Discount Rate

GASB 75 requires a discount rate that reflects the following:

- a) The long-term expected rate of return on OPEB plan investments – to the extent that the OPEB plan’s fiduciary net position (if any) is projected to be sufficient to make projected benefit payment and assets are expected to be invested using a strategy to achieve to be invested using a strategy to achieve that return;
- b) A yield or index rate for 20-years, tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher – to the extent that the conditions in (a) are not met.

To determine a resulting single (blended) rate, the amount of the pan’s projected fiduciary net position (if any) and the amount of projected benefit payments is compared in each period of projected benefit payment. The discount rate used to measure the District’s Total OPEB liability is based on these requirements and the following information:

Long-Term Expected Return of Plan Investments	4.00 %
Municipal Bond 20- Year High Grade Rate Index	3.13%

Pre-retirement mortality rates were bases on the RP- 2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were bases on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

**NORTHERN SEIRRA AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Schedule of changes in Net OPEB Liability

Total OPEB Liability	
Service Cost	\$ 28,250
Interest	26,337
Changes of benefit terms	0
Difference between expected and actual experience	0
Changes of assumptions	0
Benefit Payments	(23,776)
Net Change in total OPEB liability	<u>30,811</u>
Total OPEB liability- beginning (a)	<u>853,253</u>
Total OPEB liability- ending (b)	<u>\$ 884,064</u>
 Plan Fiduciary Net Position	
Contributions – employer *	\$ 23,776
Net Investment Income	0
Benefit Payments	(23,776)
Administrative expenses	0
Net Change in plan fiduciary net positions	<u>0</u>
Plan fiduciary net position – Beginning (c)	<u>0</u>
Plan fiduciary net position – ending (d)	<u>\$ 0</u>
 Net OPEB liability- beginning (c) – (a)	 \$ 853,253
Net OPEB liability- ending (d) – (b)	\$ 884,064

*Amount includes implicit subsidy associated with benefits paid.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presets the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1- percent point lower (2.13 percent) or 1- percentage- point higher (4.13 percent) than the current discount rate:

	1% Decrease <u>(2.13%)</u>	Discount Rate <u>(3.13%)</u>	1% Increase <u>(4.13)</u>
Net OPEB Liability (asset)	\$ 1,001,038	\$ 884,064	\$ 787,233

Sensitivity of the net OPEB liability to change in the healthcare cost trend rates. The following presents the net OPEB liability, as well as what net OPEB liability would be if it were calculated

**NORTHERN SEIRRA AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

using healthcare cost trend that are 1- percentage-point lower (5.300 percent decreasing to 4.0 percent) or 1- percentage- point higher (7.00 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

	1% Decrease (5.0% Decreasing to <u>4.00%</u>)	Trend Rate (6.00% decreasing To <u>5.00%</u>)	1% Increase (7.00% decreasing to <u>6.00%</u>)
Net OPEB liability (assets)	\$ 783,255	\$ 884,064	\$ 1,005,184

c. OPEB Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of 78,260. At June 30, 2018 the District report deferred outflows of resources related to the following sources:

Contributions made subsequent to measurement date	<u>Deferred outflow of Resources</u> \$ 23,776
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At June 30, 2018, the District did not report any deferred inflows of resources relating to OPEB. Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense during the fiscal year ending June 30, 2019.

d. Changing in Accounting Principle and Prior Period Adjustment

In June 2015 The GASB Issued Statement NO. 75 Accounting and Reporting for Postemployment Benefits Other Than Pensions (OPEB) which is effective for fiscal year beginning after June 15, 2017. The District has Implemented the provisions of this of this Statement for the year ended June 30, 2018.

The Statement requires numerous new OPEB disclosures in the notes to the financial statements and three new 10-year schedules as required supplementary information. Also, for the first time the District is required to recognize OPEB expense, report deferred outflows of resources and deferred inflows of resources related to OPEB and a net OPEB liability for its proportionate shares of the collective OPEB expense. The reporting of these new amounts on the government-wide financial statements, along with the effect of the restatement of the beginning net position will affect the District's government- wide net position as follows:

**NORTHERN SEIRRA AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

	June 30,2017 Net Position as Previously <u>Stated</u>	<u>GASB 75 Restatement</u>	June 30, 2017 Net Position as Restated
Government Activities	\$ 366,372	\$ 412,587	\$ (46,215)
Total Net Position			

NOTE 10 – COMMITTED FUND BALANCE

As of June 30, 2018, the District through action by its board of Directors has internally committed portions of the unrestricted fund balance as follows:

Detail of Committed Fund Balance

Other Post-Employment Benefits	\$ 150,000
Equipment Replacements / Depreciation	102,000
Leave Liability	52,000
Air Monitoring Program	60,000
Public Education Program	5,000
Contingencies	264,000
Total	<u>\$ 633,000</u>

NOTE 11 – RELATED PARTY TRANSACTIONS

The District's Board is made up of members of the Board of Supervisors of Nevada, Plumas, and Sierra Counties. During the fiscal year ended June 30, 2018, Nevada County contributed \$48,439, Plumas County contributed \$9,893 and Sierra County contributed \$1,602 to support the District's operations.

NOTE 12 – JOINT POWERS AGREEMENT

The District participates in one joint venture under joint powers agreements (JPA's) with the Special District Risk Management Authority (SDRMA), a public entity risk pool established to provide health, liability, property, and workers' compensation insurance to its members. The boards control the operations of the JPA's including the selection of management and approval of the operating budget, independent of any influence my the member districts beyond their representation on the boards.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
GENERAL FUND BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive / (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenue:				
Permits & Fees	\$ 154,000	\$ 154,000	\$ 222,067	\$ 68,067
Intergovernmental Revenue	710,490	710,490	711,195	705
Interest Income	5,000	5,000	24,323	19,323
Other Income	1,600	1,600	-	(1,600)
Total Revenue	<u>871,090</u>	<u>871,090</u>	<u>957,585</u>	<u>86,495</u>
Expenditures:				
Air Quality Management				
Salaries	413,798	377,298	348,849	28,449
Benefits	182,381	182,381	173,693	8,688
Air Monitoring	15,000	15,000	932	14,068
Professional Fees	43,000	65,500	65,276	224
Communications	15,000	17,500	17,290	210
Travel	8,500	11,500	12,214	(714)
Office	7,700	7,700	8,033	(333)
Rent and Utilities	35,540	43,540	42,746	794
Repairs and Maintenance	3,500	3,500	-	3,500
Dues and Subscriptions	3,450	3,450	3,258	192
Insurance	8,000	8,000	1,509	6,491
Capital Outlay	35,430	27,000	12,603	14,397
Miscellaneous	10,520	11,020	6,383	4,637
Total Expenditures	<u>781,819</u>	<u>773,389</u>	<u>692,786</u>	<u>80,603</u>
Revenue Over (Under) Expenditures	<u>\$ 89,271</u>	<u>\$ 97,701</u>	264,799	<u>\$ 5,892</u>
Fund Balance, July 1			<u>748,645</u>	
Fund Balance, June 30			<u>\$ 1,013,444</u>	

**NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
RESTRICTED FUND BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
	<u>Budget</u>	<u>Budget</u>		<u>Positive / (Negative)</u>
Revenue:				
Intergovernmental Revenue	\$ 828,275	\$ 828,275	\$ 833,620	\$ 5,345
Interest Income	4,299	4,299	-	(4,299)
Total Revenue	<u>832,574</u>	<u>832,574</u>	<u>833,620</u>	<u>1,046</u>
Expenditures:				
Air Quality Management				
AB-2014	21,207	21,207		21,207
AB-2015	86,721	86,721		86,721
AB-2016	230,635	230,635		230,635
H & S Mitigation			84,600	(84,600)
AB 2776 Grants	225,895	225,895	332,600	(106,705)
Carl Moyer Diesel	179,584	179,584	179,761	(177)
Timber Program	24,531	24,531	24,720	(189)
AB 923	168,580	168,580	-	168,580
EPA Target Grant- Woodstove	398,400	398,400	214,437	183,963
Miscellaneous	470	470	(211)	681
Total Expenditures	<u>1,336,023</u>	<u>1,336,023</u>	<u>835,907</u>	<u>161,553</u>
Revenue Over (Under) Expenditures	<u>\$ (503,449)</u>	<u>\$ (503,449)</u>	<u>(2,287)</u>	<u>\$ (160,507)</u>
Fund Balance, July 1			<u>669,840</u>	
Fund Balance, June 30			<u>\$ 667,553</u>	

**SCHEDULE OF THE NORTHERN SIERRA AIR QUALITY MANAGEMENT'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's Proportion of the Net Pension Liability/(As:	0.010662%	0.010697%	0.010831%	0.01162%
Districts Proportionate Share of the Net Pension Liability (Asset)	\$ 1,057,372	\$ 925,584	\$ 751,272	\$ 722,829
District's Covered-Employee Payroll	\$ 364,341	\$ 390,896	\$ 369,089	\$ 396,315
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Employee Payroll	290.21%	236.79%	203.55%	182.39%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's total Net Pension Liability	71.71%	75.87%	78.00%	76.79%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 73,545	\$ 84,594	\$ 77,441	\$ 64,684

Notes to Schedule:

Only the four fiscal years are presented because 10-year data is not yet available.

**NORTHERN SIERRA AIR QUALITY MANAGEMENT'S
SCHEDULE OF DISTRICT CONTRIBUTIONS
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM**

	Fiscal Year 2017-18	Fiscal Year 2016-17	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially Determined Contribution	\$ 106,950	\$ 95,065	\$ 60,900	\$ 65,837
Contributions in Relation to the Actuarially Determined Contribution	<u>(94,835)</u>	<u>\$ (88,034)</u>	<u>(84,594)</u>	<u>\$ (77,441)</u>
Contribution Deficiency (Excess)	<u>\$ 12,115</u>	<u>\$ 7,031</u>	<u>\$ (23,694)</u>	<u>\$ (11,604)</u>
Covered Employee Payroll	\$ 364,341	\$ 390,896	\$ 369,089	\$ 396,315
Contributions as a Percentage of Covered-employee Payroll	26.03%	22.52%	22.92%	19.54%

Notes to Schedule:
Only the four fiscal years are presented because 10-year data is not yet available.

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**NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET OPEB LIABILITY**

	<u>Measurement Year Ended 2017</u>
District's proportion of the collective net OPEB liability	100%
District's proportionate share of the collective net OPEB liability	<u>\$ 884,064</u>
Total	<u>\$ 884,064</u>
District's covered-employee payroll	\$ 364,341
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	41.21%
Plan fiduciary net position as a percentage of the total OPEB liability	N/A

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the schedule provides the information for those years for which information is available.

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**NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS**

	Measurement Year Ended 2017
Statutorily or contractually required District contribution	\$ 54,587
Contributions recognized by OPEB in relation to statutorily or contractually required contribution	23,776
Contribution deficiency (excess)	\$ 30,811
District's covered-employee payroll	\$ 364,341
Contributions as a percentage of covered-employee payroll	14.98%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the schedule provides the information for those years for which information is available.

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OTHER SUPPLEMENTARY INFORMATION

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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**

Board of Directors
Northern Sierra Air Quality Management District
Grass Valley CA, 95945

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 the major funds of the Northern Sierra Air Quality Management 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 January 18, 2019.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design of operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We found no deficiencies that we considered to be material weaknesses.

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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. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. See findings 2018-1 and 2018-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

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

Purpose of the Report

This 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully Submitted,



Singleton Auman PC
Susanville, CA
January 18, 2019

**NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
COMBINED SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018**

EXECUTIVE SUMMARY

The Northern Sierra Air Quality Management District (District) was founded on November 20, 1986 by an agreement between Nevada, Plumas and Sierra Counties and their corresponding Air Pollution Control Districts under provisions of Chapter 3 Part 3 Division 26 of the California Health and Safety Code. The District is responsible for attaining and maintaining the federal and state ambient air quality standards, and is therefore engaged in activities such as air monitoring, planning, enforcement, permitting, public education, and complaint investigation.

The quality of the District's internal controls is highly dependent upon involvement in the day to day operations by the District employees. Also, due to the limited number of employees of the District, there is an inability to segregate the custody of and accountability for District assets in the manner generally required for model systems of internal accounting controls. A summary of the auditors' results follows:

1. **Type of Auditors' Report on Financial Statements: Unmodified**
2. **Internal Control Findings: 2 Significant Deficiencies**
3. **Material Noncompliance Noted: None.**

**NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018**

**YELLOW BOOK SECTION
Internal Control – Significant Deficiency**

Finding 2018-1: Financial Statement Preparation

Criteria upon which audit finding is based (Legal Citation):

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

Finding (Condition):

The District does not have policies and procedures in place to ensure that complete and accurate financial statements, footnote disclosures, and management's discussion and analysis are prepared in accordance with GAAP prior to the annual audit for the newest GASB pronouncements, GASB 68 & GASB 75. Management relies upon the auditor to recommend footnote disclosures and required supplementary information schedules, for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Amount of Questioned Cost, How Computed and Prevalence:

None

Effect:

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

Cause:

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

Recommendation:

We recommend that the District hire a professional in governmental accounting on an ongoing basis, to assist in the preparation of accounting records that are accurate and in accordance with Governmental GAAP.

District's Response:

The District concurs with this finding.

NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
COMBINED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018

YELLOW BOOK SECTION
Internal Control – Significant Deficiency

Finding 2018-2: Lack of Segregation of Duties

Criteria upon which audit finding is based (Legal Citation):

Yellow Book paragraphs 5.11 – 5.15 and Appendix I, SAS No. 122.

Finding (Condition):

An inadequate segregation of duties exists.

Amount of Questioned Cost, How Computed and Prevalence:

None.

Effect:

The Northern Sierra Air Quality Management District has exposure to risk of financial statement misstatement and the potential risk for fraud.

Cause:

Due to the number of personnel assigned to duties that involve access to the general ledger and other accounting records and who also have custody of and responsibility for handling cash and other assets, an inadequate segregation of duties exists.

Recommendation:

We recommend that the Northern Sierra Air Quality Management District engage an individual to report to the board and serve in a Treasurer capacity.

The control system should be designed so that one person cannot do any two of the following:

- 1) Record transactions to the general ledger
- 2) Have custody of cash (sign checks).
- 3) Authorize transactions.

District's Response:

The District concurs with this finding.

**NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
(FINDINGS FROM THE JUNE 30, 2017 AUDIT REPORT)
JUNE 30, 2018**

Finding 2017-1

The District does not have policies and procedures in place to ensure that complete and accurate financial statements, and footnote disclosures prepared in accordance with GAAP prior to the annual audit. Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Status

Partially Implemented See current year finding 2018-1.

Finding 2017-2

Due to the number of personnel assigned to duties that involve access to the general ledger and other accounting records and who also have custody of and responsibility for handling cash and other assets, an inadequate segregation of duties exists.

Status

Partially implemented. See current year finding 2018-2

**NORTHERN SIERRA AIR QUALITY MANAGEMENT DISTRICT
CORRECTIVE ACTION PLAN
JUNE 30, 2018**

Person Monitoring Corrective Action Plan
Gretchen Bennett, Air Pollution Control Officer

Finding 2018-1: Financial Statement Preparation

Finding (Condition)

The District does not have policies and procedures in place to ensure that complete and accurate financial statements, footnote disclosures, and management's discussion and analysis are prepared in accordance with GAAP prior to the annual audit for the newest GASB pronouncements, GASB 68 & GASB 75. Management relies upon the auditor to recommend footnote disclosures and required supplementary information schedules, for the financial statements and to prepare adjusting journal entries for approval in order to report financial information in accordance with GAAP.

Corrective Action Planned

The District has determined that the costs of correcting this control weakness outweigh the benefits to be received. The District will continue to rely on the independent auditor to prepare its annual financial statements.

Expected Completion Date

Ongoing.

Finding 2018-2: Lack of Segregation of Duties

Finding (Condition)

Due to the number of employees an inadequate segregation of duties exists.

Corrective Action Planned

The District will consider supplementing policies and procedures to mitigate this deficiency.

Expected Completion Date

Ongoing.

WINNER: Kenneth Erwin (285~~5~~ Snowberry, Portola)

PHONE: 832-5866

Signature of receipt: K. Erwin Date: 7-26-19

Paid by NSAQMD to Jose Arevalo:

Amount: \$200.00 Date: 10/01/19

Signature: [Signature]



LODGEPOLE (TO BE DELIVERED AUGUST/SEPT.)

PINE (TO BE DELIVERED MAY/JUNE)

WHITE FIR (TO BE DELIVERED MAY/JUNE)

