

**YOLO-SOLANO AIR QUALITY
MANAGEMENT DISTRICT**

Audited Financial Statements
and Other Report

For the Fiscal Years Ended June 30, 2012 and 2011

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

BASIC FINANCIAL STATEMENTS

For the Fiscal Years Ended June 30, 2012 and 2011

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YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

BASIC FINANCIAL STATEMENTS

For the Fiscal Years Ended June 30, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Yolo-Solano Air Quality Management District
Davis, California

We have audited the accompanying financial statements of the governmental activities and each major fund of Yolo-Solano Air Quality Management District (the District) as of and for the years ended June 30, 2012 and June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of June 30, 2012 and June 30, 2011, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated November 14, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress, and budgetary comparison information on pages 3 through 11, 42, and 43 through 49 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California
November 14, 2012

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

The following discussion and analysis of the Yolo-Solano Air Quality Management District's financial performance provides an overview of the District's financial activities for the fiscal year ending June 30, 2012. This information is presented in conjunction with the audited financial statements and the accompanying notes that follow this section.

Financial Highlights

- The assets of the District exceeded its liabilities by \$2,370,629 (net assets). Of this amount \$1,844,232 is restricted due to legislation under AB2766 and AB923, and Solano County property tax received under AB8 which under a Joint Powers Agreement with Solano County is restricted for use through the District's Clean Air Funds grant program.
- As of the close of the 2012 fiscal year, the District's combined fund balance (Fund 421, 422, and 423) reported an ending balance of \$3,015,267, an increase of \$147,055 in comparison with 2010-11 fiscal year. The restricted portion of the fund balance is 61% of the combined balance.
- Other Post-Employment Benefits (OPEB): The District covers a portion of the healthcare premium as required by law for retirees and dependents. For fiscal year 2012 the District's unfunded liability was at \$1,101,000 (28 years amortization period and based on assets in the District's investment fund at 4.25% and no prefunding). The District did not prefund but paid the premiums when due for retiree health, which is known as "pay-as-you-go". Total pay-as-you-go for fiscal year 2012 was at \$51,871 for retiree health premiums. The District was also able to transfer from contingency in the General Fund \$105,000 to an OPEB reserve account to use in the future for prefunding of the District's OPEB obligations.
- Starting in fiscal year 2013 the District has capped healthcare benefits for active employees and retirees. Also, the District staff will be presenting a plan to the District Board in 2013 to begin prefunding an OPEB trust in fiscal year 2013. An actuarial valuation report was done for fiscal year ending June 30, 2012, and due to the cap the unfunded liability has been reduced for OPEB from fiscal years 2012 to 2013 by \$664,000 (amortized over 27 years), and it is projected to be reduced in fiscal year 2013-14 with the unfunded accrued liability to \$872,000 (amortization period of 26 years).
- The District received a Federal grant as a pilot Environmental Protection Agency (the EPA) 105 program of \$79,923 in fiscal year 2012. This grant was used to supplement the District's permit and air monitoring programs.
- The District's Clean Air Funds competitive grant program provided funds to the community totaling \$271,773 in fiscal year 2012 using AB2766 and AB8 revenue.
- The District replaced school buses through the use of AB923 funds under the Lower Emission School Bus Program totaling \$861,843.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to District's basic financial statements. The District's basic financial statements have three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the basic financial statements. This report also contains supplementary information in addition to the basic financial statements.

In general, the purpose of financial reporting is to provide the external parties that read financial statements with information that will help them make decisions or draw conclusions about an entity. In order to address the needs of as many parties as reasonably possible, the District, in accordance with required reporting standards, presents government-wide financial statements, and fund financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to commercial enterprises or a private sector business. These financial statements include the *Statement of Net Assets* and the *Statement of Activities*.

The government-wide financial statements are reported using the economic resources measurement focus and the full 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 flow takes place.

Statement of Net Assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) 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 are presented as general revenues.

The government-wide financial statements are presented on pages 11 and 12.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. The District's fund financial statements are divided into three funds:

- **General Fund:** This fund is used for the stationary source program, agricultural burning, asbestos, and mutual settlement programs. The District also receives a small subvention grant and Portable Equipment Registration (PERP) fees from the State of California Air Resources Board. The District also received small pass-through grants from the EPA to assist in the stationary source and air monitoring programs. The revenue supports the staff that works within the programs.
- **Mobile Source Program - Dept. of Motor Vehicle Fees, Fund (AB2766 and AB923):** This fund is considered a special revenue fund that tracks restricted revenue received from the Department of Motor Vehicles (DMV). The DMV collects and provides to the District \$6.00 for each vehicle registered within the District's jurisdiction. A portion of the revenue (\$4.00 per vehicle) is used to support Clean Air Funds Projects and also supports the staff that works within the mobile source program under AB2766. The District Board approved an additional \$2.00 under AB923 in November 2004. This allows the DMV to collect an additional \$2.00 per vehicle, starting in April 2005. The use of the extra \$2.00 is restricted and as the revenue received under AB2766, is set by legislation. AB923 sunsets on January 1, 2015.
- **AB8 Fund (Mobile Source Program-Solano County Property Tax):** This fund is considered a special revenue fund. Restricted revenue received from Solano County is granted back to the Solano County community through the District's Clean Air Funds program except for an administrative fee, which is reimbursed to the General Fund.

Government Funds

The fund financial statements consist of the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances. These are prepared on the modified accrual basis of accounting. The government-wide statements are prepared on the full accrual basis.

In general, these financial statements under the modified accrual basis have a short-term emphasis and for the most part, measure and account for cash and other assets that can easily be converted to cash. Specifically, cash and receivables collectible within a very short period of time are reported on the balance sheet.

Fund liabilities include amounts that are to be paid within a very short period of time after the end of the fiscal year. The long-term liabilities are not included. The difference between a fund's total assets and total liabilities represent the fund balance. This portion indicates the amount available to finance future activities.

The focus of the fund financial statements is narrower than that of the government-wide financial statements. Since different accounting bases are used to prepare the above statements, reconciliation is required to facilitate the comparison between the fund statements and government-wide statements. The reconciliation between the total fund balances can be found on pages 16 and 17. The reconciliation of the total change in fund balances for all governmental funds to the change in net assets can be found on pages 20 and 21.

Statements of Revenues, Expenditures, and Changes in Fund Balance

Budgeted and actual amounts by fund are provided on pages 43 through 48.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes to the basic financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 22 through 40 of this report.

Government-Wide Financial Analysis

Net assets of the District's governmental activities may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,370,629 as of June 30, 2012.

The following schedule lists a condensed Statement of Net Assets as of June 30, 2012 compared with 2011 and 2010.

| | June 30, | | |
|--|---------------------|---------------------|---------------------|
| | 2012 | 2011 | 2010 |
| Assets: | | | |
| Current assets | \$ 3,122,117 | \$ 3,042,362 | \$ 2,961,900 |
| Noncurrent assets | 74,526 | 92,161 | 66,663 |
| Total assets | <u>3,196,643</u> | <u>3,134,523</u> | <u>3,028,563</u> |
| Liabilities: | | | |
| Current liabilities | 218,281 | 292,758 | 249,023 |
| Noncurrent liabilities | 607,733 | 440,786 | 218,545 |
| Total liabilities | <u>826,014</u> | <u>733,544</u> | <u>467,568</u> |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | 49,791 | 61,759 | 59,534 |
| Restricted | 1,844,232 | 1,953,980 | 1,943,992 |
| Unrestricted | 476,606 | 385,240 | 557,469 |
| Total net assets | <u>\$ 2,370,629</u> | <u>\$ 2,400,979</u> | <u>\$ 2,560,995</u> |

Total net assets decreased from 2011 to 2012 by 1% or \$30,350, compared to a 6% decrease or \$160,016 from 2010 to 2011.

The largest portion of the District's net assets, 78% for 2012, 81% for 2011, and 76% for 2010, represents resources that are subject to external restrictions on how they may be used (AB2766, AB923, and AB8). The remaining portion of the District's net assets is unrestricted which may be used to meet the District's ongoing operations and obligations. At the end of the fiscal year, the District is able to report positive balances as in the prior fiscal years.

The following lists the Statement of Activities as of June 30, 2012, 2011, and 2010:

| | Year ended June 30, | | |
|------------------------------------|---------------------|---------------------|---------------------|
| | 2012 | 2011 | 2010 |
| Program Revenues: | | | |
| Charges for services | \$ 1,747,928 | \$ 1,730,957 | \$ 1,633,628 |
| Operating grants and contributions | 2,188,171 | 1,958,369 | 1,960,084 |
| Total program revenues | <u>3,936,099</u> | <u>3,689,326</u> | <u>3,593,712</u> |
| Program Expenses: | | | |
| Public health | 4,226,507 | 4,149,563 | 4,357,310 |
| Interest on long term debt | 3,539 | 3,103 | 2,164 |
| Total program expenses | <u>4,230,046</u> | <u>4,152,666</u> | <u>4,359,474</u> |
| General Revenues: | | | |
| Settlements and penalties | 212,409 | 241,526 | 162,141 |
| Investment income | 16,405 | 18,734 | 33,379 |
| Other | 34,783 | 43,064 | 41,793 |
| Total general revenues | <u>263,597</u> | <u>303,324</u> | <u>237,313</u> |
| Change in net assets | (30,350) | (160,016) | (528,449) |
| Net Assets - July 1 | <u>2,400,979</u> | <u>2,560,995</u> | <u>3,089,444</u> |
| Net Assets - June 30 | <u>\$ 2,370,629</u> | <u>\$ 2,400,979</u> | <u>\$ 2,560,995</u> |

Governmental Activities

The objective of the Statement of Activities is to report the full cost of providing government services for that year. The format also permits the reader to ascertain the extent to which each function is self-financing or draws from the general funds of the government.

The Statement of Activities presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

Governmental functions of the District are predominately supported by the stationary source program (permits to operate, source testing, agricultural engine registrations, portable equipment registrations) permit fees (charges for services), the DMV vehicle surcharge revenue (operating grants and contributions), agricultural burning, asbestos, air toxics, and mutual settlement programs.

Below are explanations of the significant revenue variances from fiscal years 2011 to 2012:

Program Revenue:

- Charges for Services: This is the General Fund and is considered the main operating fund of the District. Variances from 2011 to 2012 show an increase of 1% or \$16,971 and from 2010 to 2011 an increase of 6% or \$97,329. Stationary source revenue is included this category. The most significant variance is revenue from new permits and source testing ending 2011. New permits and source testing revenue is projected conservatively since this revenue is affected by the economy, modification to existing equipment, expedite requests, and permit cancellation due to equipment shutdown or business closure, in which we cannot predict. Actual for new permit fees increased approximately 11% and source testing by 37% ending June 30, 2011.
- Operating Grants and Contributions: Revenue received from the DMV and Solano County under AB property tax proceeds and redevelopment pass-through dollars. There is a 12% or \$229,802 increase from 2011 to 2012. The variance from 2010 to 2011 is at less than 1% or \$1,715.
- DMV: There was a slight reduction of DMV revenue in 2011 due to the state legislature holding back the DMV registration renewal notices until the legislators were able to vote in June 2011 on extending the additional vehicle tax levied on renewals. This extra revenue was received in 2012 and added 3% to 5% to the 2012 revenue received.
- Solano County AB8: The District received an extra 14% in tax proceeds (\$31,241), and an extra \$29,184 in redevelopment statutory pass-through dollars.

Program Expenses:

- Public Health: Expenses under this category shows an increase from fiscal year 2011 to 2012 of 2% or \$76,944 and a decrease of 5% or \$207,747 from fiscal year 2010 to 2011. The District considers the role of the District as a public health agency, with our goal to protect human health and property from the harmful effects of air pollution. Included in the role of a public health agency is staffing to ensure the goals are met. This involves meeting state and federal air quality rules and regulations and mandates. Other expenditures to effectively run the District consist of services and supplies including rent of office space, utilities, insurance, training, travel and professional services such as legal, accounting, payroll, computer network support, etc.

General Revenues:

- General Revenue: Includes the mutual settlement program with a decrease of 12% or \$29,117 from 2011 to 2012, and 5% or \$79,385 increase from 2010 to 2011. This is revenue received by violations of District rules and regulations and/or State or Federal law. This can vary from year to year depending on violations. Other revenue that also show a slight decrease includes interest earned and late penalties on past due invoices, and sale of fixed assets totaling a reduction of 17% or \$10,610 from 2011 to 2012, and decrease of 18% or \$13,374 from 2010 to 2011.

Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide financial statements. The governmental funds provide information on near-term inflows, outflows and balances of spending resources. Total governmental fund balance at June 30, 2012 was \$3,015,267. This was an increase of 5% or \$147,055 from fiscal year 2011 to 2012. The fund balances are shown by fund and classification:

| | Special Revenue Funds | | | Total Governmental Funds |
|--------------------------------|-----------------------|---|-------------------|--------------------------------|
| | General Fund | Mobile Source DMV (AB2766 and AB923) Fund | (AB8) Fund | |
| FUND BALANCES | | | | |
| Nonspendable: | | | | |
| Prepaid expenses | \$ 40,491 | \$ - | \$ - | \$ 40,491 |
| Restricted for: | | | | |
| AB2766, AB923 | - | 1,454,887 | - | 1,454,887 |
| AB8 | - | - | 389,345 | 389,345 |
| Assigned to: | | | | |
| Other post employment benefits | 105,000 | - | - | 105,000 |
| Equipment replacement | 13,022 | - | - | 13,022 |
| Special programs | 14,780 | - | - | 14,780 |
| Unassigned | 997,742 | - | - | 997,742 |
| TOTAL FUND BALANCES | \$ 1,171,035 | \$ 1,454,887 | \$ 389,345 | \$ 3,015,267 |

Fund balance of the General Fund increased from \$914,232 in fiscal year 2011 to \$1,171,035 in fiscal year 2012, which is a 28% or \$256,803 increase. This is primarily a result of additional revenue received in 2012 of approximately \$286,000 including \$79,923 from an EPA 105 pilot program, additional settlement revenue of \$62,400, source testing excess revenue of \$22,000, and an additional \$51,900 in renewal revenue. Also, expenditures decreased approximately \$456,000, the majority (\$326,000) in salaries and benefits from staff vacancies, and unspent contingency of \$62,828.

The Mobile Source DMV Fund balance decreased from \$1,688,560 in 2010-11 to \$1,454,887 in 2012, which is 13% or \$213,673 reduction. Additionally, in 2011 revenues exceeded expenditures by \$230,000, where in 2012 there was only a \$2,591 difference between total revenues and expenditures.

Mobile Source Program AB8 funds increased from \$285,420 in 2011 to \$389,345 in 2012, which is a 36% or \$103,925 increase. Funds from Solano County vary from year to year depending on property tax proceeds. Also included in 2012 was an increase in Redevelopment (RDA) pass-through revenue from Solano County. The District received \$29,184 in 2012, and in 2011 the District received less than \$10,000 in RDA pass-through.

Capital Assets and Long-Term Debt

Capital Assets: As of June 30, 2012 and June 30, 2011, the District's investment in capital assets amounted to \$74,526 and \$92,161 respectively, net of accumulated depreciation. This investment in capital assets includes air monitoring equipment, vehicles, office equipment, and furniture. Additional information on the District's capital assets can be found in Note 4 on page 29.

Long-Term Liabilities: At June 30, 2012 and June 30, 2011, the District's long-term liabilities that are not due and payable in the current period total \$607,733 and \$440,786, respectively, which accounts for the District's accrued compensated absences (accrued leave), capital lease obligations (photocopiers), and other post-employment benefits on the books as of June 30, 2012 and June 30 2011. Additional information on the District's long-term debt can be found in Note 5 on page 30 and 31.

Economic Factors, Rates, and the 2012-2013 Budget

The District's policies include taking a conservative approach to budgeting and careful forecasting for future revenue and expenses.

The General Fund's main support is from fees received from permit holders under the stationary source permit program. As the General Fund supports salaries and benefits, and service and supplies to support the employees funded through the General Fund, the District looks closely at cost recovery in the stationary source program. This determines future cost recovery adjustments in permit fees to ensure the District have the revenue to support operations. For fiscal year 2012 the District projected an 82% cost recovery in the stationary source program. Based on this analysis, the Executive Director recommended a 1.8% consumer price index (CPI) adjustment based on the California CPI prior year April 2009 to April 2010, as allowed by District Rule 4.1, Section 402. By year's end, due to cost savings from open positions and extra revenue received from the EPA 105 pilot grant (\$79,923), the District ended 2012 with 100% cost recovery in the stationary source program. For fiscal year 2013 the District is projecting a cost recovery of the stationary source program of 85%, and as such recommended and the Board approved a 3.1% CPI adjustment to permit fees in the budget for fiscal year 2013.

The DMV revenue is received from vehicle registration fees within the District's jurisdiction. The DMV revenue received under AB2766 supports employees working within the Mobile Source program and a portion supports the Clean Air Funds program, and AB923 supports the District's Lower Emission School Bus Program (AB923) in fiscal year 2012. In 2012 the District did receive approximately 11% more in registration revenue, in which the District contribute 3% to 5% because of the legislative delay. The District is projecting a 1.5% increase in revenue for fiscal year 2013.

Solano County AB8 property tax proceeds are allocated to the District through the Solano County Auditor-Controller's Office. This revenue is used exclusively for the District's Clean Air Funds program. The District received 14% more than what was projected for 2012 in property tax. Also included in 2012 was receipt of redevelopment pass-through of \$29,184. The District is projecting no increase in revenue from 2012 to 2013 from Solano County.

The following factors were considered in preparing the fiscal year 2013 approved final budget. The District's overall budgeted expenditures increased by 9% which includes the General Fund and the two Mobile Source Funds which are restricted in use.

- General Fund revenue is projected to increase slightly due to the District receiving an EPA 105 grant in the amount of approximately \$79,923. This will be used to offset stationary source program expenditures. Expenditures are expected to increase slightly due to the first time funding of other post employment benefits (OPEB) for retirees' health care benefits. Also, equipment purchasing is projected to increase by \$53,100 to cover replacement of air monitoring equipment and one replacement fleet vehicle.

- Mobile Source DMV Fund revenues are anticipated to increase due to a large carryover of AB923 revenue. AB923 has been Board approved to be used toward the California Lower Emission School Bus Program. Recommendations for future use of the funds will be presented to the Board in fiscal year 2013. The District has approximately \$800,000 of AB923 funding to expend in 2013. In addition, included in the fiscal year 2013 budget is the utilization of AB2766 revenue for OPEB payments.
- The Mobile Source Solano County Property Tax fund has a budgeted expenditure increase of \$359,345 anticipated to be covered by fund balance rolled over from fiscal year 2012. This fund is used in the District's Clean Air Funds program and a small amount toward the District's lawnmower exchange program.
- Negotiated labor cost reductions of approximately 2% are included in the fiscal year 2013 approved final budget. This includes the employees paying 1% of the 7% employer paid member contribution, and the capping of the District's contribution toward healthcare premiums at the 2012 Kaiser rates, which lowers the future OPEB liability.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for readers of the financial statements. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Administrative Services Officer, 1947 Galileo Court, Suite 103, Davis, CA 95618.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

STATEMENTS OF NET ASSETS – GOVERNMENTAL ACTIVITIES

JUNE 30, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|---|-----------------------------------|-----------------------------------|
| ASSETS | | |
| Cash and investments | \$ 1,060,996 | \$ 839,364 |
| Restricted cash | 1,562,881 | 1,824,068 |
| Accounts receivable | 45,876 | 57,735 |
| Due from other agencies | 411,873 | 281,925 |
| Prepaid expenses | 40,491 | 39,270 |
| Capital assets, net | <u>74,526</u> | <u>92,161</u> |
| TOTAL ASSETS | <u>3,196,643</u> | <u>3,134,523</u> |
| LIABILITIES | | |
| Accounts payable | 23,893 | 60,890 |
| Accrued payroll | 72,177 | 81,169 |
| Deferred revenue | 10,780 | 32,091 |
| Noncurrent liabilities: | | |
| Due within one year | 111,431 | 118,608 |
| Due in more than one year | <u>607,733</u> | <u>440,786</u> |
| TOTAL LIABILITIES | <u>826,014</u> | <u>733,544</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 49,791 | 61,759 |
| Restricted for: | | |
| Mobile Source DMV (AB2766 and AB923) | 1,454,887 | 1,668,560 |
| Mobile Source (AB8) | 389,345 | 285,420 |
| Unrestricted | <u>476,606</u> | <u>385,240</u> |
| TOTAL NET ASSETS | <u><u>\$ 2,370,629</u></u> | <u><u>\$ 2,400,979</u></u> |

The accompanying notes are an integral part of these financial statements.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT
STATEMENTS OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|--------------------------------------|----------------------------|----------------------------|
| PROGRAM EXPENSES | | |
| Governmental activities: | | |
| Public health | \$ 4,226,507 | \$ 4,149,563 |
| Interest on long-term debt | 3,539 | 3,103 |
| TOTAL PROGRAM EXPENSES | <u>4,230,046</u> | <u>4,152,666</u> |
| PROGRAM REVENUES | | |
| Charges for services | 1,747,928 | 1,730,957 |
| Operating grants and contributions | <u>2,188,171</u> | <u>1,958,369</u> |
| TOTAL PROGRAM REVENUES | <u>3,936,099</u> | <u>3,689,326</u> |
| | | |
| NET PROGRAM REVENUE (EXPENSE) | (293,947) | (463,340) |
| | | |
| GENERAL REVENUES | | |
| Settlements and penalties | 212,409 | 241,526 |
| Investment income | 16,405 | 18,734 |
| Other | <u>34,783</u> | <u>43,064</u> |
| TOTAL GENERAL REVENUES | <u>263,597</u> | <u>303,324</u> |
| | | |
| CHANGE IN NET ASSETS | (30,350) | (160,016) |
| | | |
| Net Assets at Beginning of Year | <u>2,400,979</u> | <u>2,560,995</u> |
| | | |
| Net Assets at End of Year | <u><u>\$ 2,370,629</u></u> | <u><u>\$ 2,400,979</u></u> |

The accompanying notes are an integral part of these financial statements.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2012

| | Special Revenue Funds | | | Total Governmental Funds |
|--|-----------------------|--------------------------------------|-------------------|--------------------------------|
| | General Fund | DMV (AB2766 and AB923) Fund | (AB8) Fund | |
| ASSETS | | | | |
| Cash and investments | \$ 1,060,996 | \$ - | \$ - | \$ 1,060,996 |
| Restricted cash | - | 1,201,856 | 361,025 | 1,562,881 |
| Accounts receivable | 45,876 | - | - | 45,876 |
| Due from other governments | 106,075 | 272,978 | 32,820 | 411,873 |
| Prepaid expenses | 40,491 | - | - | 40,491 |
| TOTAL ASSETS | \$ 1,253,438 | \$ 1,474,834 | \$ 393,845 | \$ 3,122,117 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 18,498 | \$ 895 | \$ 4,500 | \$ 23,893 |
| Accrued payroll | 53,125 | 19,052 | - | 72,177 |
| Deferred revenue | 10,780 | - | - | 10,780 |
| TOTAL LIABILITIES | 82,403 | 19,947 | 4,500 | 106,850 |
| FUND BALANCES | | | | |
| Nonspendable: | | | | |
| Prepaid expenses | 40,491 | - | - | 40,491 |
| Restricted for: | | | | |
| AB2766, AB923 | - | 1,454,887 | - | 1,454,887 |
| AB8 | - | - | 389,345 | 389,345 |
| Assigned to: | | | | |
| Other post employment benefits | 105,000 | - | - | 105,000 |
| Equipment replacement | 13,022 | - | - | 13,022 |
| Special programs | 14,780 | - | - | 14,780 |
| Unassigned | 997,742 | - | - | 997,742 |
| TOTAL FUND BALANCES | 1,171,035 | 1,454,887 | 389,345 | 3,015,267 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 1,253,438 | \$ 1,474,834 | \$ 393,845 | \$ 3,122,117 |

The accompanying notes are an integral part of these financial statements.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2011

| | Special Revenue Funds | | | Total Governmental Funds |
|--|-----------------------|--------------------------------------|-------------------|--------------------------------|
| | General Fund | Mobile Source: | | |
| | | DMV (AB2766 and AB923) Fund | (AB8) Fund | |
| ASSETS | | | | |
| Cash and investments | \$ 839,364 | \$ - | \$ - | \$ 839,364 |
| Restricted cash | - | 1,545,995 | 278,073 | 1,824,068 |
| Accounts receivable | 57,735 | - | - | 57,735 |
| Due from other governments | 76,599 | 197,979 | 7,347 | 281,925 |
| Prepaid expenditures | 39,270 | - | - | 39,270 |
| TOTAL ASSETS | \$ 1,012,968 | \$ 1,743,974 | \$ 285,420 | \$ 3,042,362 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 4,678 | \$ 56,212 | \$ - | \$ 60,890 |
| Accrued payroll | 61,967 | 19,202 | - | 81,169 |
| Deferred revenue | 32,091 | - | - | 32,091 |
| TOTAL LIABILITIES | 98,736 | 75,414 | - | 174,150 |
| NET ASSETS: | | | | |
| Nonspendable: | | | | |
| Prepaid expenses | 39,270 | - | - | 39,270 |
| Restricted for: | | | | |
| AB2766, AB923 | - | 1,668,560 | - | 1,668,560 |
| AB8 | - | - | 285,420 | 285,420 |
| Assigned to: | | | | |
| Equipment replacement | 12,944 | - | - | 12,944 |
| Special programs | 14,641 | - | - | 14,641 |
| Unassigned | 847,377 | - | - | 847,377 |
| TOTAL FUND BALANCE | \$ 914,232 | \$ 1,668,560 | \$ 285,420 | \$ 2,868,212 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 1,012,968 | \$ 1,743,974 | \$ 285,420 | \$ 3,042,362 |

The accompanying notes are an integral part of these financial statements.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

**RECONCILIATION OF THE BALANCE SHEET TO THE GOVERNMENT-WIDE
STATEMENT OF NET ASSETS – GOVERNMENTAL FUNDS**

JUNE 30, 2012

Fund balances – total governmental funds \$ 3,015,267

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

Capital assets used in governmental activities are not current
financial resources and therefore are not reported in the funds:

| | | |
|--------------------------------|------------------|--------|
| Governmental capital assets | \$ 599,579 | |
| Less: accumulated depreciation | <u>(525,053)</u> | 74,526 |

Long-term liabilities are not due and payable in the current
period and therefore are not reported in the funds. Those
liabilities consist of:

| | | |
|---|------------------|------------------|
| Accrual for other post-employment benefits (OPEB) | (560,887) | |
| Capitalized lease obligations | (24,735) | |
| Accrued compensated absences | <u>(133,542)</u> | <u>(719,164)</u> |

Net assets – governmental activities \$ 2,370,629

The accompanying notes are an integral part of these financial statements.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

**RECONCILIATION OF THE BALANCE SHEET TO THE GOVERNMENT-WIDE
STATEMENT OF NET ASSETS – GOVERNMENTAL FUNDS**

JUNE 30, 2011

Fund balances – total governmental funds \$ 2,868,212

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

Capital assets used in governmental activities are not current
financial resources and therefore are not reported in the funds:

| | | |
|--------------------------------|------------------|--------|
| Governmental capital assets | \$ 606,242 | |
| Less: accumulated depreciation | <u>(514,081)</u> | 92,161 |

Long-term liabilities are not due and payable in the current
period and therefore are not reported in the funds. Those
liabilities consist of:

| | | |
|---|------------------|------------------|
| Accrual for other post-employment benefits (OPEB) | (369,072) | |
| Capitalized lease obligations | (30,402) | |
| Accrued compensated absences | <u>(159,920)</u> | <u>(559,394)</u> |

Net assets – governmental activities \$ 2,400,979

The accompanying notes are an integral part of these financial statements.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2012

| | General Fund | Special Revenue Funds | | Total Governmental Funds |
|--|---------------------|--------------------------------------|-------------------|--------------------------------|
| | | Mobile Source | | |
| | | DMV (AB2766 and AB923) Fund | (AB8) Fund | |
| REVENUES | | | | |
| Licenses and permits | \$ 1,747,928 | \$ - | \$ - | \$ 1,747,928 |
| Intergovernmental | 298,677 | 1,609,069 | 280,425 | 2,188,171 |
| Settlements and penalties | 212,409 | - | - | 212,409 |
| Use of money | 6,795 | 9,610 | - | 16,405 |
| Other revenues | 34,783 | - | - | 34,783 |
| TOTAL REVENUES | <u>2,300,592</u> | <u>1,618,679</u> | <u>280,425</u> | <u>4,199,696</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public health | 2,265,352 | 1,611,987 | 154,500 | 4,031,839 |
| Capital outlay | 7,495 | 4,101 | - | 11,596 |
| Debt service: | | | | |
| Principal | 5,667 | - | - | 5,667 |
| Interest | 3,539 | - | - | 3,539 |
| TOTAL EXPENDITURES | <u>2,282,053</u> | <u>1,616,088</u> | <u>154,500</u> | <u>4,052,641</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 18,539 | 2,591 | 125,925 | 147,055 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 238,264 | - | - | 238,264 |
| Transfers out | - | (216,264) | (22,000) | (238,264) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>238,264</u> | <u>(216,264)</u> | <u>(22,000)</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | 256,803 | (213,673) | 103,925 | 147,055 |
| Fund Balances at Beginning of Year | 914,232 | 1,668,560 | 285,420 | 2,868,212 |
| Fund Balances at End of Year | <u>\$ 1,171,035</u> | <u>\$ 1,454,887</u> | <u>\$ 389,345</u> | <u>\$ 3,015,267</u> |

The accompanying notes are an integral part of these financial statements.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2011

| | General Fund | Special Revenue Funds | | Total Governmental Funds |
|--|------------------|--------------------------------------|-----------------|--------------------------------|
| | | Mobile Source | | |
| | | DMV (AB2766 and AB923) Fund | (AB8) Fund | |
| REVENUES | | | | |
| Licenses and permits | \$ 1,730,957 | \$ - | \$ - | \$ 1,730,957 |
| Intergovernmental | 209,512 | 1,482,442 | 266,415 | 1,958,369 |
| Settlements and penalties | 241,526 | - | - | 241,526 |
| Use of money | 7,513 | 11,221 | - | 18,734 |
| Other revenues | 43,064 | - | - | 43,064 |
| TOTAL REVENUES | 2,232,572 | 1,493,663 | 266,415 | 3,992,650 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public health | 2,426,115 | 1,267,567 | 235,500 | 3,929,182 |
| Capital outlay | 57,571 | - | - | 57,571 |
| Debt service: | | | | |
| Principal | 6,665 | - | - | 6,665 |
| Interest | 3,103 | - | - | 3,103 |
| TOTAL EXPENDITURES | 2,493,454 | 1,267,567 | 235,500 | 3,996,521 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (260,882) | 226,096 | 30,915 | (3,871) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 247,023 | - | - | 247,023 |
| Transfers out | - | (222,056) | (24,967) | (247,023) |
| Capital leases | 34,261 | - | - | 34,261 |
| TOTAL OTHER FINANCING SOURCES (USES) | 281,284 | (222,056) | (24,967) | 34,261 |
| NET CHANGE IN FUND BALANCES | 20,402 | 4,040 | 5,948 | 30,390 |
| Fund Balances at Beginning of Year | 893,830 | 1,664,520 | 279,472 | 2,837,822 |
| Fund Balances at End of Year | \$ 914,232 | \$ 1,668,560 | \$ 285,420 | \$ 2,868,212 |

The accompanying notes are an integral part of these financial statements.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

**RECONCILIATION OF THE STATEMENT REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES –
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2012

| | | |
|--|-----------------|---------------------------|
| Net changes in fund balances – total governmental funds | | \$ 147,055 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Governmental funds report capital outlay as expenditures. In the Statement of Activities, however, the cost of those assets is allocated over their estimated useful lives as depreciation expense. | | |
| Capital outlay | \$ 11,596 | |
| Depreciation expense | <u>(29,231)</u> | (17,635) |
| Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. | | |
| Principal repayments on long-term liabilities | | 5,667 |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | |
| Change in OPEB liability | | (191,815) |
| Change in accrual for compensated absences | | <u>26,378</u> |
| Change in net assets – governmental activities | | <u><u>\$ (30,350)</u></u> |

The accompanying notes are an integral part of these financial statements.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

**RECONCILIATION OF THE STATEMENT REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES –
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2011

| | | | |
|---|----|-----------------|-------------------------|
| Net changes in fund balances – total governmental funds | | \$ | 30,390 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | | |
| Governmental funds report capital outlay as expenditures. In the Statement of Activities, however, the cost of those assets is allocated over their estimated useful lives as depreciation expense. | | | |
| Capital outlay | \$ | 57,571 | |
| Depreciation expense | | <u>(32,073)</u> | 25,498 |
| Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. | | | |
| Proceeds from capital lease obligation | | | (34,261) |
| Principal repayments on long-term liabilities | | | <u>10,988</u> |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | | |
| Change in OPEB liability | | | (189,597) |
| Change in accrual for compensated absences | | | <u>(3,034)</u> |
| Change in net assets – governmental activities | | \$ | <u><u>(160,016)</u></u> |

The accompanying notes are an integral part of these financial statements.

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Yolo–Solano Air Quality Management District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The most significant accounting policies of the District are described below.

A. Background:

The Yolo–Solano Air Quality Management District (the District), was formed June 18, 1971, by ratification of the Boards of Supervisors of Yolo and Solano Counties, under the name, "Yolo–Solano Air Pollution Control District", under the provisions of Article 7, Chapter 2, of the Health and Safety Code of California. The District is empowered to maintain a program of air pollution control under the provisions of Article XI, Section 7, of the Constitution of the State of California, and under the Joint Powers Agreement between the two counties, effective February 10, 1992. On July 17, 1993, the Board of Directors adopted their resolution renaming the District to Yolo–Solano Air Quality Management District.

The District includes all of Yolo County and the northeast portion of Solano County which lies within the Sacramento Valley Air Basin. The District is governed by a Board of Directors, which is comprised of four members from the Board of Supervisors of Yolo County, three members from the Board of Supervisors of Solano County and seven city representatives. The Auditor-Controller/Treasurer/Tax Collector of Yolo County serves as the District's Treasurer.

B. Basis of Presentation – Government-Wide Financial Statements:

The government-wide financial statements (e.g., the *Statement of Net Assets* and the *Statement of Activities*) report information on all of the non-fiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest and settlements and penalties are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Fund Financial Statements:

The accounts of the District are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions, or limitations. Separate financial statements are provided for each governmental fund. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period, or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues, other than expenditure reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Payable balances consist primarily of payables to vendors and employees.

Licenses and permits, intergovernmental revenues, settlement and penalties, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The District reports the following major governmental fund types:

General Fund – The General Fund is the general operating fund of the District and accounts for revenues collected to provide legislative mandated services and used to finance the fundamental operations of the District. The fund is charged with all costs of operations, for which a specialized fund has not been established.

Mobile Source DMV (AB2766 and AB923) – This special revenue fund is used to account for the restricted revenues received from the State under Assembly Bill (AB) No. 2766 for implementation of the California Clean Air Act to reduce air pollution from motor vehicles and related studies and from AB923 whereby the Board of Directors approved the addition of \$2.00 for each vehicle registration for various projects as established by legislation, which are legally restricted to expenditures for specified purposes.

Mobile Source (AB8) – This special revenue fund is used to account for the restricted tax revenues collected by the County of Solano from the northeast portion of the County under AB8, which have been restricted for the reduction of air pollution from motor vehicles and related studies. The District signed an agreement with the County of Solano in 1992 whereby the District would administer the AB8 tax funds as part of the Clean Air Funds Program. These taxes are restricted for specified purposes within the County of Solano.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgets:

Budgets are adopted on a budgetary basis and in accordance with the District's policy and procedure. Budgetary control is exercised by major object. All budgetary changes during the fiscal year require the approval of the District's Board of Directors. Unencumbered budget appropriations lapse at the end of the fiscal year.

E. Capital Assets:

Capital assets for governmental fund types are not capitalized in the funds used to acquire or construct them. Capital acquisitions are reflected as an expenditure in the governmental fund, and the related assets are reported in the government-wide financial statements. Capital assets owned by the District are stated at historical cost or estimated historical cost, if actual historical cost is not available. Contributed capital assets are recorded at their estimated fair market value at the time received. Capital assets are depreciated using the straight-line method over the estimated useful lives, which is generally seven years.

It is the District's policy to capitalize all land, structures and improvements, and equipment, with historical cost greater than \$3,000. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement. The proceeds from the sale of capital assets is included in the statement of revenues, expenditures and changes in fund balances of the related fund. The proceeds reported in the governmental fund are eliminated and the gain or loss on sale is reported in the government-wide presentation.

F. Deferred Revenue:

Under both the accrual and modified accrual basis of accounting, revenue may be recognized only when earned. Therefore, the government-wide statements of net assets as well as governmental funds defer revenue recognition in connection with resources that have been received as of year-end, but not yet earned. For the District this is primarily composed of revenue for renewal fees billed in advance of the service year. If fees are collected before year-end, deferred revenue is recorded for all revenue related to services provided in the next fiscal year. For the fiscal years ended June 30, 2012 and June 30, 2011, deferred revenue had balances of \$10,780 and \$32,091, respectively.

G. Net Assets:

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted, and unrestricted.

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

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

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Net Assets (Continued):

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

H. Fund Equity:

Fund Equity – In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. With the implementation of GASB No. 54 as of June 30, 2011, the District established the following classifications and definitions of fund balance:

Nonspendable – Resources that cannot be spent because they are not in an expendable form (e.g. prepaid asset, inventory) or must be maintained intact (e.g. endowment principal).

Restricted – Resources that are constrained to specific purposes by an external provider (e.g. grantors, contributors, governmental laws and regulations) or by constitutional provisions or enabling legislation.

Committed – Resources with self-imposed limitations, evidenced by the District's formal action (resolution), and require both the approval of the highest level of decision making authority (District Board) and the same formal action to remove or modify the limitations.

Assigned – Resources with self-imposed limitations but do not require approval by the highest level of decision making authority or the same level of formal action to remove or modify limitations.

Unassigned – Resources that cannot be reported in any other classification.

The District's spending priority is to spend restricted fund balance first, followed by committed, assigned, and unassigned fund balance.

I. Operating Transfers:

Operating transfers are for the allocation of overhead costs and for administrative costs attributable to the AB2766, AB923, and AB8 programs.

J. 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.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 2 – CASH AND INVESTMENTS

Cash in County Treasury:

The District maintains all of its cash and investments with the Yolo County Treasurer in a cash and investment pool. On a quarterly basis, the Treasurer allocates interest to participants based upon their average daily balances. Required disclosure information regarding the classification of investments and other deposit and investment risk disclosures can be found in the County's Comprehensive Annual Financial Report (CAFR). The County of Yolo's financial statements may be obtained by contacting the County of Yolo's Auditor-Controller's Office at 625 Court Street, Room 103, Woodland, California 95776. The Yolo County Treasury Oversight Committee oversees the Treasurer's investments and policies.

The District had no deposit or investment policy that addressed a specific type of risk. Investments held in the County's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value.

Cash and investments are classified in the financial statements as follows:

| | <u>2012</u> | <u>2011</u> |
|----------------------------|---------------------|---------------------|
| Cash and investments | \$ 1,060,996 | \$ 839,364 |
| Restricted cash | <u>1,562,881</u> | <u>1,824,068</u> |
| Total Cash and Investments | <u>\$ 2,623,877</u> | <u>\$ 2,663,432</u> |

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 3 – RESTRICTED CASH/PROGRAM EXPENDITURES

Revenues received under AB2766 and AB923 are restricted from cash available for current operations in accordance with that legislation. As of June 30, 2012 and 2011, the cash balance in the AB2766 and AB923 special revenue fund, which totaled \$1,201,856 and \$1,545,995, respectively, is restricted for clean air projects as approved by the Board. Expenditures under AB2766 for the years ended June 30, 2012 and 2011, were made in accordance with the District's Board of Directors' authorizations and were as follows:

| | 2012 | 2011 |
|---|-------------------|---------------------|
| Public health: | | |
| Salaries and benefits | \$ 566,425 | \$ 617,967 |
| Professional services: | | |
| Discretionary external projects/programs | 11,546 | 25,146 |
| Other services and supplies | 50,400 | 83,065 |
| Program expenditures: | | |
| Alternative Public Education Transportation Program | - | 3,500 |
| 024u Educational Campaign | 19,726 | 5,000 |
| Bike Rack for Buses | 7,184 | - |
| Bridge to Beach Multi-Use Pathway | 10,000 | - |
| City of Davis work bikes | - | 7,714 |
| Climate change compact | - | 9,500 |
| Diesel particulate traps for city vehicles | - | 15,000 |
| Installation of bike racks at Yolo bus stops | - | 8,150 |
| Purchase CNG Honda Civic | 9,529 | - |
| Purchase Neighborhood Electric Vehicle | 12,000 | - |
| Replace 2 back hoes and retrofit one loader | - | 17,500 |
| Replace 2 dump truck w/ new truck | - | 2,500 |
| Replace 6 gas carts with electric vehicles | - | - |
| Replace gas-powered truck with human power | - | - |
| Replace older maintenance vehicle with electric | - | 20,000 |
| Replace utility compactor | - | 11,980 |
| Replace utility tractor | 33,934 | - |
| Safe Route to School | - | 30,000 |
| Spare the Air Days | - | - |
| Spare the Air Program | 14,400 | - |
| Steve Larson Memorial Bike Plaza | - | 8,150 |
| Summer Sizzler Bus Program | - | 15,000 |
| Transportation, Exhibition Clean Air Component | - | 5,000 |
| Yolobus Summer Special | 15,000 | - |
| Total public health expenditures | <u>750,144</u> | <u>885,172</u> |
| Capital outlay | 4,101 | - |
| Transfers out: | | |
| Overhead allocation * | 139,014 | 147,934 |
| Administrative fee * | 51,500 | 49,381 |
| Total transfers out | <u>190,514</u> | <u>197,315</u> |
| Total AB2766 Expenditures | <u>\$ 944,759</u> | <u>\$ 1,082,487</u> |

* Administrative fees and overhead allocation transferred from the Special Revenue Funds to the General Fund to support operations.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 3 – RESTRICTED CASH/PROGRAM EXPENDITURES (Continued)

Expenditures under AB923 for the year ended June 30, 2012 and June 30, 2011, were made in accordance with the District's Board of Directors' authorizations and were as follows:

| | <u>2012</u> | <u>2011</u> |
|--------------------------|--------------------------|--------------------------|
| Public health: | | |
| Program expenditures: | | |
| Bus replacement | \$ 861,843 | \$ 382,395 |
| Transfers out: | | |
| Administrative fee * | <u>25,750</u> | <u>24,741</u> |
| Total AB923 Expenditures | <u><u>\$ 861,843</u></u> | <u><u>\$ 382,395</u></u> |

As of June 30, 2012 and 2011, the cash balance in the AB8 Special Revenue Fund, which totaled \$361,025 and \$278,073, respectively, is restricted for clean air projects in Solano County as approved by the Board of Directors. Expenditures and transfers under AB8 for the fiscal years ended June 30, 2012 and 2011, were made in accordance with the District's Board of Directors' authorizations and were as follows:

| | <u>2012</u> | <u>2011</u> |
|---|--------------------------|--------------------------|
| Public health: | | |
| Professional expenditures: | | |
| Discretionary external projects/programs | \$ 4,500 | \$ 8,500 |
| Program expenditures: | | |
| 024u Educational Campaign | - | 5,000 |
| Bridge to beach multi-use pathway | 50,000 | - |
| Climate Change | - | 20,000 |
| Replace 1990 diesel yard truck w/ new yard truck | - | 45,500 |
| Replace 1990 street sweeper w/ new sweeper | - | 83,000 |
| Replace two older dump trucks with two new trucks | - | 18,500 |
| Solano Napa Commuter Information | - | 55,000 |
| Vacaville–Dixon Bikeway | <u>100,000</u> | - |
| Total public health: | <u><u>154,500</u></u> | <u><u>235,500</u></u> |
| Transfers out: | | |
| Administrative fee * | <u>22,000</u> | <u>24,967</u> |
| Total AB8 Expenditures | <u><u>\$ 176,500</u></u> | <u><u>\$ 260,467</u></u> |

* Administrative fees and overhead allocation transferred from the Special Revenue Funds to the General Fund to support operations.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2012 and 2011 was as follows:

| | Balance at July 1, 2011 | Additions | Deletions | Balance at June 30, 2012 |
|---|----------------------------|--------------------|-----------------|-----------------------------|
| Capital assets being depreciated: | | | | |
| Office equipment | \$ 97,573 | \$ 11,596 | \$ - | \$ 109,169 |
| Office furniture | 139,574 | - | - | 139,574 |
| Air monitoring equipment | 195,237 | - | - | 195,237 |
| Vehicles | 173,858 | - | (18,259) | 155,599 |
| Total capital assets, being depreciated | <u>606,242</u> | <u>11,596</u> | <u>(18,259)</u> | <u>599,579</u> |
| Less accumulated depreciation for: | | | | |
| Office equipment | (40,084) | (18,503) | - | (58,587) |
| Office furniture | (130,412) | (1,832) | - | (132,244) |
| Air monitoring equipment | (189,707) | (5,566) | - | (195,273) |
| Vehicles | (153,878) | (3,330) | 18,259 | (138,949) |
| Total accumulated depreciation | <u>(514,081)</u> | <u>(29,231)</u> | <u>18,259</u> | <u>(525,053)</u> |
| Total capital assets being depreciated, net | <u>92,161</u> | <u>(17,635)</u> | <u>-</u> | <u>74,526</u> |
| Capital assets, net | <u>\$ 92,161</u> | <u>\$ (17,635)</u> | <u>\$ -</u> | <u>\$ 74,526</u> |
| | | | | |
| | Balance at July 1, 2010 | Additions | Deletions | Balance at June 30, 2011 |
| Capital assets being depreciated: | | | | |
| Office equipment | \$ 91,803 | \$ 34,261 | \$ (28,491) | \$ 97,573 |
| Office furniture | 139,574 | - | - | 139,574 |
| Air monitoring equipment | 195,237 | - | - | 195,237 |
| Vehicles | 175,360 | 23,310 | (24,812) | 173,858 |
| Total capital assets, being depreciated | <u>601,974</u> | <u>57,571</u> | <u>(53,303)</u> | <u>606,242</u> |
| Less accumulated depreciation for: | | | | |
| Office equipment | (52,441) | (16,134) | 28,491 | (40,084) |
| Office furniture | (128,580) | (1,832) | - | (130,412) |
| Air monitoring equipment | (181,979) | (7,728) | - | (189,707) |
| Vehicles | (172,311) | (6,379) | 24,812 | (153,878) |
| Total accumulated depreciation | <u>(535,311)</u> | <u>(32,073)</u> | <u>53,303</u> | <u>(514,081)</u> |
| Total capital assets being depreciated, net | <u>66,663</u> | <u>25,498</u> | <u>-</u> | <u>92,161</u> |
| Capital assets, net | <u>\$ 66,663</u> | <u>\$ 25,498</u> | <u>\$ -</u> | <u>\$ 92,161</u> |

Depreciation expense of \$29,231 and \$32,073 is charged to Public Health for the fiscal years ended June 30, 2012 and 2011, respectively.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 5 – LONG-TERM LIABILITIES

The following is a summary of long-term liabilities activity of the District for the years ended June 30, 2012 and 2011:

| | Balance July 1, 2011 | Additions | Repayments | Balance June 30, 2012 | Due Within One Year |
|---------------------------|-------------------------|-------------------|---------------------|--------------------------|------------------------|
| Liability for other | | | | | |
| post-employment benefits | \$ 369,072 | \$ 191,815 | \$ - | \$ 560,887 | \$ - |
| Capital lease obligations | 30,402 | - | (5,667) | 24,735 | 6,431 |
| Compensated absences | 159,920 | 100,054 | (126,432) | 133,542 | 105,000 |
| | <u>\$ 559,394</u> | <u>\$ 291,869</u> | <u>\$ (132,099)</u> | <u>\$ 719,164</u> | <u>\$ 111,431</u> |
| | | | | | |
| | Balance July 1, 2010 | Additions | Repayments | Balance June 30, 2011 | Due Within One Year |
| Liability for other | | | | | |
| post-employment benefits | \$ 179,475 | \$ 189,597 | \$ - | \$ 369,072 | \$ - |
| Capital lease obligations | 7,129 | 34,261 | (10,988) | 30,402 | 5,608 |
| Compensated absences | 156,886 | 114,000 | (110,966) | 159,920 | 113,000 |
| | <u>\$ 343,490</u> | <u>\$ 337,858</u> | <u>\$ (121,954)</u> | <u>\$ 559,394</u> | <u>\$ 118,608</u> |

The General Fund is utilized to liquidate all long-term liabilities.

The following is a description of the composition of long-term liabilities at June 30, 2012 and 2011:

Capital Lease Obligation: The District leases equipment (photocopiers) under capital leases which has monthly payments of \$774 through October 15, 2015. Fixed assets acquired under the capital lease consist of office equipment totaling \$34,261, and accumulated depreciation at June 30, 2012 and 2011, of \$13,704 and \$6,194, respectively. As of June 30, 2012, future minimum lease payments under capital lease obligations are as follows:

Fiscal Year Ending June, 30:

| | |
|--|------------------|
| 2013 | \$ 9,206 |
| 2014 | 9,206 |
| 2015 | 9,206 |
| 2016 | 3,119 |
| Total payments | <u>30,737</u> |
| Less: amounts representing interest | <u>(6,002)</u> |
| Net present value of future minimum lease payments | <u>\$ 24,735</u> |

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 5 – LONG-TERM LIABILITIES (Continued)

Accrued Compensated Absences:

Accumulated unpaid employee vacation and compensated hours, are recognized as liabilities of the District to the extent they vest. Sick leave has not been included as employees only receive accumulated sick leave upon death, layoff, and/or retirement. Also, in the event of retirement, employees have the option to either convert unused sick leave into additional service credits or be paid at one half of any accumulated sick leave in excess of 200 hours. It is management's belief and estimate that all employees will take the service credit. The General Fund is utilized to liquidate liabilities related to compensated absences.

NOTE 6 – INTERFUND TRANSACTIONS

Interfund transfers for the years ended June 30, 2012 and 2011, were as follows:

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| Transfers to General Fund from: | | |
| Mobile Source DMV (AB2766 and AB923) Fund | \$ 216,264 | \$ 222,056 |
| Mobile Source (AB8) Fund | <u>22,000</u> | <u>24,967</u> |
| Total Transfers to General Fund | <u>\$ 238,264</u> | <u>\$ 247,023</u> |

Transfers are used to allocate overhead expenses and administrative fees from the General Fund to the other funds.

NOTE 7 – DEFINED BENEFIT PENSION PLANS

Plan Description:

The District contributes to the California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS requires employers with less than 100 active members in the plan to participate in the risk pool. All permanent full and part time District employees working at least 1,000 hours per year are eligible to participate in CalPERS. Under CalPERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor times their highest average monthly salary over twelve consecutive months of employment. Benefit provisions and all other requirements are established by state statute. The establishment and amendment of specific benefit provisions of the plan is authorized by resolution of the District's Board. Copies of CalPERS annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, California 95814.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy:

Participants are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account, which amounted to \$108,602 and \$124,163, for the years ended June 30, 2012 and 2011. The District is required to contribute at an actuarially determined rate; the rate for the years ended June 30, 2012 and 2011, was 12.346% and 11.609% of annual covered payroll, respectively. The contribution requirements of plan members and the District are established and may be amended by CalPERS. The District's contributions for the years ended June 30, 2012, 2011, and 2010, were \$191,543, \$205,916, and \$199,617 respectively, which were equal to the required contributions each year.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description:

The District provides healthcare benefits to eligible retirees and their dependents through the California Public Employees' Retirement System healthcare program (PEMHCA). Benefit provisions are established and may be amended through agreements and memorandums of understanding between the District and its employees.

The District provides a retiree medical contribution for employees who retire directly from the District under CalPERS. The retiree is covered as well as dependents. The District's employer contribution is a formula set through a contract with CalPERS.

The "uneven formula" contribution for each retiree was set in 1989 by Resolution No. 89-03 which had a minimum contribution of \$12.50 per month. Each year, thereafter, the monthly retiree contribution increased monthly by not less than five percent of the monthly employer contribution for active employees. Resolution No. 89-03 also stated that increases would occur under the employer contribution for retirees until such time the contributions are equal between active and retirees.

Over time CalPERS realized that retiree health care contributions under this approach did not achieve parity with active employee's contributions. In 2007 AB2544 was passed to change the computation for annual increases under the uneven plan formula effective January 1, 2008. Under the new provisions, the District has to annually increase the total monthly retiree health care contribution to equal an amount not less than the number of years the agency has been in PEMHCA, multiplied by five percent of the current monthly employer contributions for employees, until the time that the employer contribution for retirees equals the employer contribution paid for active employees. This annual adjustment to the monthly employer contribution for a retiree cannot exceed \$100 per retiree per month. The District, based on years in PEMHCA, has increased the employer contribution for retirees by \$100 per retiree per month annually since 2008. The District is required to do so until the employer contribution for retirees reaches the amount the District contributes for active employees. This increase takes effect in January of each calendar year.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

As such, the District's maximum contribution in 2011 for active employees for 2011 employee and family was \$1,331, and for 2012 for employee and family is \$1,428. The Districts pays 90% PEMHCA under the Kaiser Sacramento/Bay Area basic plan. For retirees the contribution is based on the year they retired, insurance plan and status of employee (employee only, employee + one, or employee + family). Also another considering factor is if the retiree is eligible for Medicare, the employer contribution is reduced based on the coordination of Medicare and PEMHCA.

Funding Policy:

The contribution requirements of the District's participants and the District are established by and may be amended by the District pursuant to agreements with its employees. Contributions to the OPEB plan for the years ended June 30, 2012 and 2011, totaled \$51,871 and \$ 32,031, respectively, on the pay-as-you-go method. Retired plan members and their beneficiaries pay the annual premium cost not paid by the employer.

Annual OPEB Cost and Net OPEB Obligation:

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's Net OPEB obligation:

| | <u>2012</u> | <u>2011</u> |
|--|--------------------------|--------------------------|
| Annual required contribution: | | |
| Normal cost | \$ 153,000 | \$ 144,000 |
| Amortization of UAAL | 75,000 | 70,000 |
| Interest on OPEB obligation | 15,686 | 7,628 |
| Annual OPEB cost (expense) | <u>243,686</u> | <u>221,628</u> |
| Contributions made (premium payments made) | <u>(51,871)</u> | <u>(32,031)</u> |
| Increase in net OPEB obligation | 191,815 | 189,597 |
| Net OPEB obligation, beginning of year | <u>369,072</u> | <u>179,475</u> |
| Net OPEB obligation, end of year | <u><u>\$ 560,887</u></u> | <u><u>\$ 369,072</u></u> |

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the OPEB obligation for fiscal years 2012, 2011, and 2010, were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------------|---------------------|--|---------------------------|
| 6/30/2010 | \$ 214,000 | 16.13% | \$ 179,475 |
| 6/30/2011 | 221,628 | 14.45% | 369,072 |
| 6/30/2012 | 243,686 | 21.29% | 560,887 |

Funded Status and Funding Progress:

The funded status of the Plan as of June 30, 2012, the Plan's most recent actuarial valuation date, was as follows:

| | |
|---|--------------|
| Actuarial accrued liability (AAL) | \$ 1,765,000 |
| Actuarial value of Plan assets | - |
| Underfunded actuarial accrued liability (UAAL) | \$ 1,765,000 |
| Funded ratio (actuarial value of Plan assets/AAL) | 0.00% |
| Covered payroll (active Plan participants) | \$ 1,544,000 |
| UAAL as a percentage of covered payroll | 114.31% |

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan participants to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

For the June 30, 2012, actuarial valuation, the entry age normal actuarial cost level of pay method was used. The actuarial assumptions included a 4.25% investment rate of return, a 3.25% salary increase, and a 3% general inflation rate. Premiums were assumed to increase with a CalPERS minimum medical plan premium decrease rate of 8.5% for 2014 grading down to 5% for 2021 and thereafter. The initial UAAL was amortized as a level percentage of projected payroll on a closed basis over fixed 27-year period as of the year ended June 30, 2012.

For the June 30, 2009, actuarial valuation, the entry age normal actuarial cost level of pay method was used. The actuarial assumptions included a 4.25% investment rate of return, a 3.25% salary increase, and a 3% general inflation rate. Premiums were assumed to increase with a CalPERS minimum medical plan premium increase rate of 9.05% for 2010 grading down to 4.5% for 2017 and thereafter. The initial UAAL was amortized as a level percentage of projected payroll on a closed basis over a fixed 30-year period as of the year ended June 30, 2011.

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss related to the loss of, damage to and destruction of assets caused by accidents, forces of nature, and the requirements of the California Labor Code.

The District participates in the Yolo County Public Agency Risk Management Insurance Authority (YCPARMIA), a public entity risk pool of governmental entities within Yolo County, for comprehensive general and auto liability, including errors and omissions, workers' compensation, property, and fidelity (dishonest acts, forgery) insurance. Through the District's membership in the YCPARMIA, the District is provided with excess coverage through the California State Association of Counties–Excess Insurance for catastrophic liability losses. Loss contingency reserves established by YCPARMIA are funded by contributions from member agencies.

The District pays an annual premium to YCPARMIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the YCPARMIA.

During the years ending June 30, 2012 and June 30, 2011, the District has no settlements exceeding insurance coverage for these categories of risk. For the past three years, settlements or judgment amounts have not exceeded insurance provided for District. During the year ended June 30, 2012, the District discontinued its pollution legal liability insurance coverage.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 10 – RELATED PARTY TRANSACTIONS

Under the District's clean air funds programs (AB2766 and AB8) the District contracts with certain other local agencies that are considered to be related parties due to District Board members holding positions of potentially significant influence with the contracted parties. The County of Yolo (the County) provides certain legal, accounting, and other professional services to the District. Although the District was created in part by the County, it is not a part of the County's financial reporting entity. Legal, payroll and accounting services are billed separately and at amounts that will approximately recover the County's full cost of providing such services. The District's Board of Directors receives a \$100 fee per meeting and other administrative reimbursements. Expenditures for services provided by related parties during the fiscal year ended June 30, 2012, are summarized as follows:

| Related Party | Fiscal Year 2011-2012 Expenses |
|--|--------------------------------------|
| City of Dixon: | |
| Replace utility tractor project - AB2766 funded | \$ 33,934 |
| Bike Rack for Buses - AB2766 funded | 7,184 |
| City of Rio Vista: | |
| Bridge to Beach Multi-Use Pathway project - AB2766 funded | 10,000 |
| Bridge to Beach Multi-Use Pathway project - AB8 funded | 50,000 |
| Purchase Neighborhood Electric Vehicle project - AB2766 funded | 12,000 |
| City of Vacaville: | |
| Purchase CNG Honda Civic project - AB2766 funded | 9,529 |
| Solano County: | |
| Vacaville-Dixon Bikeway project - AB8 funded | 100,000 |
| Yolo County Transportation District | |
| Spare the Air Program | 14,400 |
| Yolobus Summer Special | 15,000 |
| Yolo County: | |
| Legal and accounting services | 62,664 |
| District directors: | |
| Board meeting stipends and reimbursements | 11,828 |
| Total | <u>\$ 326,539</u> |

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 10 – RELATED PARTY TRANSACTIONS (Continued)

Expenditures for services provided by related parties during the fiscal year ended June 30, 2011, are summarized as follows:

| Related Party | Fiscal Year 2010-2011 Expenses |
|---|--------------------------------------|
| City of Davis: | |
| City of Davis work bikes - AB2766 funded | \$ 7,714 |
| Diesel particulate traps for city vehicles - AB2766 funded | 15,000 |
| City of Rio Vista: | |
| Replace 1990 street sweeper w/ new sweeper - AB8 funded | 83,000 |
| Solano Transportation Authority | |
| Solano Napa Commuter Information - AB8 funded | 55,000 |
| Safe Route to School - AB2766 | 30,000 |
| Yolo County Transportation District | |
| Installation of bike racks at Yolo bus stops - AB2766 funded | 8,150 |
| Summer Sizzler Bus Program - AB2766 funded | 15,000 |
| City of Vacaville: | |
| Replace two older dump trucks with two new trucks - AB8 funded | 18,500 |
| Replace two older dump trucks with two new trucks - AB2766 funded | 2,500 |
| City of Woodland: | |
| Replace utility compactor - AB2766 funded | 11,980 |
| Solano County: | |
| Replace 2 back hoes and retrofit one loader - AB2766 funded | 17,500 |
| Yolo County: | |
| Climate change compact - AB2766 funded | 9,500 |
| Legal and accounting services | 61,069 |
| District directors: | |
| Board meeting stipends and reimbursements | 11,118 |
| Total | <u>\$ 346,031</u> |

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 11 – LEASE COMMITMENTS

The District amended its office space lease agreement effective November 1, 2009, which includes an expansion of the existing office space, first right of refusal for additional office space as it becomes available, and a liquidating damages clause should the District terminate the lease agreement before its amended expiration date of August 31, 2019. Rent expense under all operating lease agreements was \$159,803 and \$159,968, for the years ended June 30, 2012 and 2011, respectively. As of June 30, 2012, future minimum lease payments under operating leases are as follows:

| | |
|---------------------------------|---------------------|
| Fiscal year ending June 30, | |
| 2013 | \$ 155,220 |
| 2014 | 155,220 |
| 2015 | 155,220 |
| 2016 | 155,220 |
| 2017 | 155,220 |
| Thereafter | <u>336,310</u> |
| Total minimum lease commitments | <u>\$ 1,112,410</u> |

NOTE 12 – CONTINGENCIES

The District is a party to claims and legal proceedings arising in the ordinary course of business. After taking into consideration information furnished by legal counsel to the District as to the current status of various claims and proceedings to which the District is a party, management is of the opinion that the ultimate aggregate liability represented thereby, if any, will not have a material adverse effect on the financial position or results of operations of the District.

The District receives funding for specific purposes that are subject to review and audit by the funding source. Such audits could result in a request for reimbursement for expenditures disallowed under the terms and conditions of the contracts. Management is of the opinion that no material liabilities will result from such potential audits.

NOTE 13 – NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the District's financial reporting process. Future new standards which may impact the District include the following:

GASB Statement No. 60 – In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement is to improve financial reporting by addressing issues related to service concession arrangements. This statement is not effective until June 30, 2013. The District has not determined the effect of this Statement.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 13 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

GASB Statement No. 61 – In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. The objective of this Statement is to improve financial reporting for governmental financial reporting entities. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were a part of the primary government in certain circumstances. This Statement is not effective until June 30, 2013. The District has not determined the effect of this Statement.

GASB Statement No. 62 – In June 2011, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989 which does not conflict with our contradict GASB pronouncements. This Statement is not effective until June 30, 2013. The District has not determined the effect of this Statement.

GASB Statement No. 63 – In June 2011, GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Positions*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and the resulting net position. This Statement is not effective until June 30, 2013. The District has not determined the effect of this Statement.

GASB Statement No. 64 – In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This Statement was effective June 30, 2012. This Statement is not applicable to the District.

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement is not effective until June 30, 2014. The District has not determined the effect of this Statement.

GASB Statement No. 66 – In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 – and amendment of GASB Statements No. 10 and 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement is not effective until June 30, 2014. The District has not determined the effect of this Statement.

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 AND 2011

NOTE 13 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

GASB Statement No. 67 – In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by State and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This Statement is not effective until June 30, 2014. The District has not determined the effect of this Statement.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement is not effective until June 30, 2015. The District has not determined the effect of this Statement.

REQUIRED SUPPLEMENTARY INFORMATION

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

OTHER POSTEMPLOYMENT BENEFITS – SCHEDULE OF FUNDING PROGRESS

FOR THE YEAR ENDED JUNE 30, 2012

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|--|--------------------------|---------------------------|---|
| 6/30/2012 | \$ - | \$ 1,765,000 | \$ 1,765,000 | 0% | \$ 1,544,000 | 114.31% |
| 6/30/2009 | \$ - | \$ 1,758,000 | \$ 1,758,000 | 0% | \$ 1,727,000 | 101.80% |

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | Variance With Final Budget Positive (Negative) |
|--|-------------------------|------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Licenses and permits | \$ 1,656,490 | \$ 1,656,490 | \$ 1,747,928 | \$ 91,438 |
| Intergovernmental | 198,100 | 198,100 | 298,677 | 100,577 |
| Settlements and penalties | 150,000 | 150,000 | 212,409 | 62,409 |
| Use of money | 8,000 | 8,000 | 6,795 | (1,205) |
| Other revenues | 12,400 | 12,400 | 34,783 | 22,383 |
| TOTAL REVENUES | 2,024,990 | 2,024,990 | 2,300,592 | 275,602 |
| EXPENDITURES | | | | |
| Current | | | | |
| Public health | 2,653,420 | 2,658,420 | 2,265,352 | 393,068 |
| Capital outlay | 7,720 | 7,720 | 7,495 | 225 |
| Debt service | | | | |
| Principal | 5,910 | 5,910 | 5,667 | 243 |
| Interest | 3,690 | 3,690 | 3,539 | 151 |
| TOTAL EXPENDITURES | 2,670,740 | 2,675,740 | 2,282,053 | 393,687 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (645,750) | (650,750) | 18,539 | 669,289 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 248,000 | 247,000 | 238,264 | (8,736) |
| TOTAL OTHER FINANCING SOURCES (USES) | 248,000 | 247,000 | 238,264 | (8,736) |
| NET CHANGE IN FUND BALANCES | (397,750) | (403,750) | 256,803 | 660,553 |
| Fund Balances at Beginning of Year | 914,232 | 914,232 | 914,232 | |
| Fund Balances at End of Year | \$ 516,482 | \$ 510,482 | \$ 1,171,035 | \$ 660,553 |

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2011

| | Budgeted Amounts | | Actual Amounts | Final Budget Positive (Negative) |
|--|------------------|------------------|-------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Licenses and permits | \$ 1,569,770 | \$ 1,569,770 | \$ 1,730,957 | \$ 161,187 |
| Intergovernmental | 180,350 | 180,350 | 209,512 | 29,162 |
| Settlements and penalties | 147,500 | 147,500 | 241,526 | 94,026 |
| Use of money | 25,000 | 25,000 | 7,513 | (17,487) |
| Other revenues | 31,000 | 31,000 | 43,064 | 12,064 |
| TOTAL REVENUES | 1,953,620 | 1,953,620 | 2,232,572 | 278,952 |
| EXPENDITURES | | | | |
| Current | | | | |
| Public health | 2,659,265 | 2,659,265 | 2,426,115 | 233,150 |
| Capital outlay | | 24,000 | 57,571 | (33,571) |
| Debt service | | | | |
| Principal | 6,665 | 6,665 | 6,665 | - |
| Interest | 2,635 | 2,635 | 3,103 | (468) |
| TOTAL EXPENDITURES | 2,668,565 | 2,692,565 | 2,493,454 | 199,111 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (714,945) | (738,945) | (260,882) | 478,063 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from long-term debt | - | - | 34,261 | 34,261 |
| Transfers in | 245,000 | 245,000 | 247,023 | 2,023 |
| TOTAL OTHER FINANCING SOURCES (USES) | 245,000 | 245,000 | 281,284 | 36,284 |
| NET CHANGE IN FUND BALANCES | (469,945) | (493,945) | 20,402 | 514,347 |
| Fund Balances at Beginning of Year | 893,830 | 893,830 | 893,830 | - |
| Fund Balances at End of Year | \$ 423,885 | \$ 399,885 | \$ 914,232 | \$ 514,347 |

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – MOBILE SOURCE
DMV (AB2766 AND AB923)**

FOR THE YEAR ENDED JUNE 30, 2012

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget Positive (Negative) |
|--|------------------|------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental | \$ 1,538,195 | \$ 1,522,500 | \$ 1,609,069 | \$ 86,569 |
| Use of money | 8,000 | 8,000 | 9,610 | 1,610 |
| TOTAL REVENUES | 1,546,195 | 1,530,500 | 1,618,679 | 88,179 |
| EXPENDITURES | | | | |
| Current | | | | |
| Public health | 1,588,678 | 1,568,760 | 1,611,987 | (43,227) |
| Capital outlay | 4,300 | 4,300 | 4,101 | 199 |
| TOTAL EXPENDITURES | 1,592,978 | 1,573,060 | 1,616,088 | (43,028) |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | | | | |
| | (46,783) | (42,560) | 2,591 | (45,151) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (226,000) | (225,000) | (216,264) | 8,736 |
| TOTAL OTHER FINANCING SOURCES (USES) | (226,000) | (225,000) | (216,264) | (8,736) |
| NET CHANGE IN FUND BALANCES | | | | |
| | (272,783) | (267,560) | (213,673) | 53,887 |
| Fund Balances at Beginning of Year | 1,668,560 | 1,668,560 | 1,668,560 | - |
| Fund Balances at End of Year | \$ 1,395,777 | \$ 1,401,000 | \$ 1,454,887 | \$ 53,887 |

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – MOBILE SOURCE
DMV (AB2766 AND AB923)**

FOR THE YEAR ENDED JUNE 30, 2011

| | Budgeted Amounts | | Actual Amounts | Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental | \$ 1,522,500 | \$ 1,522,500 | \$ 1,482,442 | \$ (40,058) |
| Use of money | 15,000 | 15,000 | 11,221 | (3,779) |
| TOTAL REVENUES | 1,537,500 | 1,537,500 | 1,493,663 | (43,837) |
| EXPENDITURES | | | | |
| Current | | | | |
| Public health | 1,809,445 | 1,809,445 | 1,267,567 | 541,878 |
| TOTAL EXPENDITURES | 1,809,445 | 1,809,445 | 1,267,567 | 541,878 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (271,945) | (271,945) | 226,096 | 498,041 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (225,000) | (225,000) | (222,056) | 2,944 |
| TOTAL OTHER FINANCING SOURCES (USES) | (225,000) | (225,000) | (222,056) | 2,944 |
| NET CHANGE IN FUND BALANCES | (496,945) | (496,945) | 4,040 | 500,985 |
| Fund Balances at Beginning of Year | 1,664,520 | 1,664,520 | 1,664,520 | - |
| Fund Balances at End of Year | \$ 1,167,575 | \$ 1,167,575 | \$ 1,668,560 | \$ 500,985 |

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – MOBILE SOURCE (AB8)**

FOR THE YEAR ENDED JUNE 30, 2012

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental | \$ 220,000 | \$ 220,000 | \$ 280,425 | \$ 60,425 |
| TOTAL REVENUES | <u>220,000</u> | <u>220,000</u> | <u>280,425</u> | <u>60,425</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Public health | 189,000 | 189,000 | 154,500 | 34,500 |
| TOTAL EXPENDITURES | <u>189,000</u> | <u>189,000</u> | <u>154,500</u> | <u>34,500</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 31,000 | 31,000 | 125,925 | 94,925 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (22,000) | (22,000) | (22,000) | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(22,000)</u> | <u>(22,000)</u> | <u>(22,000)</u> | |
| NET CHANGE IN FUND BALANCES | 9,000 | 9,000 | 103,925 | 94,925 |
| Fund Balances at Beginning of Year | <u>285,420</u> | <u>285,420</u> | <u>285,420</u> | <u>-</u> |
| Fund Balances at End of Year | <u>\$ 294,420</u> | <u>\$ 294,420</u> | <u>\$ 389,345</u> | <u>\$ 94,925</u> |

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – MOBILE SOURCE (AB8)**

FOR THE YEAR ENDED JUNE 30, 2011

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental | \$ 200,000 | \$ 200,000 | \$ 266,415 | \$ 66,415 |
| TOTAL REVENUES | <u>200,000</u> | <u>200,000</u> | <u>266,415</u> | <u>66,415</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Public health | 218,500 | 218,500 | 235,500 | (17,000) |
| TOTAL EXPENDITURES | <u>218,500</u> | <u>218,500</u> | <u>235,500</u> | <u>(17,000)</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (18,500) | (18,500) | 30,915 | 49,415 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (20,000) | (24,967) | (24,967) | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(20,000)</u> | <u>(24,967)</u> | <u>(24,967)</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | (38,500) | (43,467) | 5,948 | 49,415 |
| Fund Balances at Beginning of Year | <u>279,472</u> | <u>279,472</u> | <u>279,472</u> | <u>-</u> |
| Fund Balances at End of Year | <u>\$ 240,972</u> | <u>\$ 236,005</u> | <u>\$ 285,420</u> | <u>\$ 49,415</u> |

YOLO-SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2012 AND JUNE 30, 2011

NOTE 1 – BUDGETARY DATA

The District is required to prepare a budget each fiscal year for its General Fund, Mobile Source DMV (AB2766 and AB923) Special Revenue Fund, and Mobile Source (AB8) Special Revenue Fund based on estimates of revenues and expected expenditures. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. All changes to the budget during the year are reflected in these financial statements and require the approval of the governing board. All unencumbered annual appropriations lapse at the end of each fiscal year.

For the year ended June 30, 2012, the total expenditures of the Mobile Source DMV (AB2766 and AB923) fund exceeded total appropriations by \$34,292. This was primarily a result of an increase in public health expenditures due to use of AB923 fund balance toward the 2012 Lower Emission School Bus Program. This deficit was funded with available beginning fund balance in the District's adopted budget for the year ended June 30, 2012.

For the year ended June 30, 2011, the total expenditures of the Mobile Source (AB8) fund exceeded total appropriations by \$17,000. This was primarily a result of an increase in public health expenditures due to use of AB8 fund balance toward the 2012 Clean Air Funds grant program. This deficit was funded with available beginning fund balance in the District's adopted budget for the year ended June 30, 2011.



**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
Yolo-Solano Air Quality Management District
Davis, California

We have audited the financial statements of the governmental activities and each major fund of Yolo-Solano Air Quality Management District (the District), as of and for the years ended June 30, 2012 and June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 14, 2012. 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.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

Vavrinik, Trine, Day & Co. LLP

Sacramento, California
November 14, 2012