YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

Audited Financial Statements
and Other Reports

June 30, 2018

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

BASIC FINANCIAL STATEMENTS

June 30, 2018

TABLE OF CONTENTS

RICHARDSON & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

550 Howe Avenue, Suite 210
Sacramento, California 95825
Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Yolo–Solano Air Quality Management District (the District) as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2018 and the respective changes in financial position, and the budgetary comparison for the General and Major Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note N to the financial statement, during the year ended June 30, 2018, the District adopted a new accounting standard, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Richardson & Company, LLP

December 21, 2018

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 years ending June 30, 2018 and 2017. This information is presented in conjunction with the audited financial statements and the accompanying notes that follow this section.

Financial Highlights

- As of June 30, 2018, the total assets and deferred outflows of the District exceeded its total liabilities and deferred inflows by $1,067,666 (net position). Of this amount, $1,762,220 is restricted due to legislation under AB 2766 and AB 923, and $659,080 is restricted under Solano County property tax based on Board approval for public awareness programs, equipment and/or projects.

- As of the close of FY 2018 the District's combined fund balances reported an ending balance of $4,550,605, an increase of $1,401,549 in comparison with FY 2017. The restricted portion of the total fund balance is 53% of the combined balance.

- Other Post-Employment Benefits (OPEB): The District continues to prefund health care premiums for eligible retirees and dependents and contributed $342,855 in FY 2018. Due to the implementation of GASB 75 this year, the OPEB liability has increased to $1,867,809.

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 required 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 Position 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 Position presents information on all the District's assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position 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 12 and 13.

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 four funds:

- General Fund: This fund is used for the stationary source, agricultural burning, asbestos, and mutual settlement programs. The District receives a small subvention grant and Portable Equipment Registration (PERP) fees from the State of California Air Resources Board (ARB). 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, Funds (AB 2766 and AB 923): Both funds are considered special revenue funds that track restricted revenue received from the 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 Fund (CAF) projects and supports the staff that works within the mobile source program under AB 2766. The District Board approved an additional $2.00 and this allows the DMV to collect an additional $2.00 per vehicle. The use of the extra $2.00 is restricted and is included with the revenue received under AB 2766.

- Solano 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 CAF program and a small percentage is used toward public health awareness programs, special projects and equipment. An administrative fee is charged to this restricted fund, and is reimbursed to the General Fund. Also included in this fund is pass-through from successor agencies to former Redevelopment Agencies (RDA's) collected tax.

Governmental 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. The governmental fund financial statements can be found on pages 14 and 16. 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 page 15. The reconciliation of the total change in fund balances for all governmental funds to the change in net position can be found on page 17.

Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual

Budgeted and actual amounts by fund are provided on pages 18 through 21.

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 42 of this report.

Government-Wide Financial Analysis

Net position 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 and deferred outflows of resources exceeded liabilities and deferred inflow of resources by $1,067,666 as of June 30, 2018 and $1,262,638 as of June 30, 2017.

The following schedule lists a condensed Statement of Net Position as of June 30, 2018 compared with 2017 and 2016.

	Year ended June 30,		
	2018	2017	2016
Assets:			
Current assets	$ 4,768,896	$ 3,371,317	$ 3,173,442
Capital assets, net	134,414	150,341	140,586
Total assets	4,903,310	3,521,658	3,314,028
Deferred outflows of resources	1,267,140	605,511	221,159
Liabilities:			
Current liabilities	195,368	119,132	98,772
Noncurrent liabilities	4,578,380	2,527,657	2,082,442
Total liabilities	4,773,748	2,646,789	2,181,214
Deferred inflows of resources	329,036	217,742	378,793
Net Position:			
Net investment in capital assets	117,337	134,855	123,276
Restricted	2,421,300	1,999,004	2,027,544
Unrestricted	(1,470,971)	(871,221)	(1,175,640)
Total net positoin	$ 1,067,666	$ 1,262,638	$ 975,180

Total net position increased from 2017 to 2018 by 119% or $1,265,871 (not including the restatement), compared to an increase of 29% or $287,458 from 2016 to 2017. The restatement to net position of $1,460,843 was the result of the implementation of GASB No. 75 that required the full unfunded OPEB liability be recorded. Explanations for changes in net position are discussed below.

The most significant variances of total Net Position are related to cash and investments, which is covered in detail in Note B on pages 27 and 28, restricted cash and investments, which is covered in detail in Note C on pages 28 and 29, and the OPEB and pension liability which is covered in detail in Notes G and H on pages 31 through 39. The District is allocated its proportionate share of the CalPERS' net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. Decisions regarding the allocations are made by the administrators of the pension plan, not by District management.

In addition, there is an increase in FY 2018 from prior year in 'Current liabilities' of $76,236, which consists of a combined total for accounts payable, due to other funds, due to other agencies, accrued payroll and unearned income.

The following lists the Statement of Activities for the years ended June 30, 2018, 2017 and 2016:

	Year ended June 30,		
	2018	2017	2016
Program Revenues:			
Charges for services	$ 2,104,759	$ 1,988,131	$ 1,916,178
Operating grants and contributions	2,606,213	2,479,404	2,364,196
Total program revenues	4,710,972	4,467,535	4,280,374
Program Expenses:			
Public health	4,419,025	4,435,590	4,905,675
Interest on long term debt	3,982	7,494	8,836
Total program expenses	4,423,007	4,443,084	4,914,511
General Revenues			
Settlements and penalties	902,346	165,493	238,212
Investment income	43,490	16,582	29,246
Other	32,070	80,932	38,103
Total genreal revenues	977,906	263,007	305,561
Change in net position	1,265,871	287,458	(328,576)
Net Position - July 1 (as restated 2017)	(198,205)	975,180	1,303,756
Net Position - June 30	$ 1,067,666	$ 1,262,638	$ 975,180

Governmental Activities

Below are explanations of the significant revenue variances from fiscal years 2017 to 2018.

Program Revenue

- Charges for Services: This is the District's General Fund revenue and is considered the main operating fund of the District. There was an increase in revenue that falls within this category from 2017 to 2018 of 6% or $116,628 in comparison to 2016 to 2017 which was an increase of 4% or $71,953. This revenue category can fluctuate based on permit activity.

- Operating Grants and Contributions: This is revenue received from the DMV and Solano County under property tax proceeds and redevelopment pass-through dollars; and state or federal grants and/or pass-through funds. There was an increase of 5% or $126,809 from 2017 to 2018 in comparison to 2016 to 2017 which was an increase of 5% or $115,208.

Program Expenses

- Public Health: Expenses in this category show a decrease of $16,565 or approximately 0.40% from fiscal year 2017 to 2018, compared to a decrease of $470,085 or almost 10% from fiscal year 2016 to 2017.
- 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: Settlement revenues increased by 445% or $736,853 from 2017 to 2018, which compares to a decrease of 31% or $72,719 from 2016 to 2017. This revenue is received due to violation of District rules and regulations, and federal and/or state law, and can vary from year to year.

Financial Analysis of the Governmental 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, 2018 was $4,550,605 which is an increase of $1,401,549 in comparison with FY 2017.

The following table shows the fund balance by classifications for the last three years ending June 30. Classifications include Restricted (AB 2766, AB 923 and Solano Property Tax), Assigned (General Fund's Equipment Replacement and Special Programs reserve accounts) and Unassigned (which also includes the General Fund's "General Reserves" of $299,146.

	Year ended June 30,		
Fund Balance	2018	2017	2016
General Fund	$ 2,129,305	$ 1,150,052	$ 1,066,951
AB2766	429,983	348,370	262,237
AB923	1,332,237	1,097,047	1,219,525
Solano Property Tax	659,080	553,587	545,782
Total program fund balance	$ 4,550,605	$ 3,149,056	$ 3,094,495

Variances of 45% in the fund balances by classification within the last two years are explained as follows.

- General Fund: The fund balance increased by 85% or $979,253 in FY 2018. The District received unanticipated revenue and had an overall savings in expenses in FY 2018 including salary and benefits, and services and supplies.

- AB2766: The fund balance increased by 23% or $81,613 in FY 2018. The District received about $12,000 more in revenues than originally budgeted, and had savings in expenses of about $170,000.

- AB923: The fund balance increased by 21% or $235,190 in FY 2018. The District received about $22,000 more in revenues than originally budgeted, and had savings in expenses of approximately $384,000.

- Solano Property Tax: The fund balance increased by 19% or $105,493 in FY 2018. The District received about $245,000 more in revenues than originally budgeted.

Analysis of General Fund Budget

Significant variances from the Final Budget to the Actual amounts as shown on pages 18 through 21 for FY 2018 are:

General Fund

- Revenue received from licenses and permits show a $329,693 increase from final to actual.

- Settlements and penalties increased by $783,346 from final to actual. This revenue received is based on violations of District Rules and Regulations and settlement of violations.

- Expenditures in the Public Health category decreased from the final to the actual spent by $270,394. There was savings in salaries and benefits and the reduction of anticipated database work.

Capital Assets and Long-Term Debt

<u>Capital Assets</u>:

As of June 30, 2018, and June 30, 2017, the District's investment in capital assets amounted to $134,414 and $150,341 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 D to the Financial Statements.

<u>Long-Term Liabilities</u>:

As of June 30, 2018, and 2017, the District's long-term liabilities that are not due and payable in the current period total $4,578,380 and $2,527,657, respectively, which includes the District's accrued compensated absences (accrued leave), capital lease obligations (photocopiers), pension and other post-employment benefits. As of June 30, 2018, and 2017, the District's net pension liability totaled

$2,637,270 and $2,215,008, respectively. As of June 30, 2018 and 2017, the District's other post-employment benefits (OPEB) liability was $1,867,809 and $195,602 respectively. The increase in the OPEB liability is due to the implementation of a new accounting pronouncement, GASB 75. Additional information on the District's long-term liabilities can be found in Note E, Note G and Note H to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

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 has the revenue to support operations. For FY 2018 the District projected a 79 percent cost recovery in the stationary source program. By year's end the District ended 2018 with 84 percent cost recovery in the stationary source program. For fiscal year 2019, the District is projecting a cost recovery of the stationary source program of 75 percent. To avoid larger increases to fees in the future, the Executive Director did recommend and the Board approved a 3 percent CPI adjustment effective July 1, 2018.

The DMV revenue is received from vehicle registration fees within the District's jurisdiction. The DMV revenue received under AB 2766 supports employees working within the Mobile Source program, which includes salaries and benefits, and operating costs; and a portion supports the Clean Air Funds (CAF) program. The District has budgeted $100,000 toward the CAF Program using AB 2766 money for FY 2018. AB 923 supported the District's Lower Emission School Bus Program, replacing one bus in FY 2018. The District expects to grant $1,000,000 under this program in FY 2019.

Solano County property tax proceeds are allocated to the District through the Solano County Auditor-Controller's Office. This revenue has been used exclusively for the District's CAF program, and the District granted $300,000 for the 2018 CAF program. In FY 2019 the District plans to release $350,000.

The following factors were considered in preparing the fiscal year 2019 approved final budget. The District's overall budget is projected as a 33 percent increase, which includes the General Fund, three restricted funds, and the addition of FARMER, a fourth restricted fund.

- General Fund is projected to increase by about 15 percent. For revenue, the District is projecting an increase of $88,000 in the Stationary Source Program, and an increase of $367,000 for two new programs, Oil and Gas and Woodsmoke reduction programs. On the expenditure side is a payment to the CERBT OPEB Trust to meet the District's ARC of $228,000 for FY 2019 and funding for other operating expenses.

- Mobile Source DMV AB 2766 Fund is projected for FY 2019 to increase by $6,600. The expenditures cover operating costs including salaries and benefits for those employees that are designated to work within the restricted program.

- Mobile Source DMV AB 923 Fund is projecting a minimal increase. This fund is used exclusively for grant programs that are allowed under AB 923 legislation. In FY 2019 the District Board has allocated $550,000 toward replacing school buses.

- Solano County Property Tax Fund is projected to increase by $5,000 for FY 2019. Available grant funds released through the CAF grant program remain consistent with FY 2018.

- FARMER Fund is new for FY 2019. It is anticipated to receive $1,800,000 in funding and to allocate $1,577,000 in grant incentives for the replacement of agricultural equipment.

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 Manager, 1947 Galileo Court, Suite 103, Davis, California 95618.

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

STATEMENT OF NET ASSETS

June 30, 2018

		2018
ASSETS		
Cash and investments		$ 2,397,902
Restricted cash and investments		1,884,841
Accounts receivable		78,634
Due from other agencies		392,175
Prepaid expenses		15,344
Capital assets, net		134,414
	TOTAL ASSETS	4,903,310
DEFERRED OUTFLOWS OF RESOURCES		
Pensions		924,285
OPEB		342,855
	TOTAL DEFERRED OUTFLOWS	1,267,140
LIABILITIES		
Accounts payable		76,063
Accrued payroll		49,652
Unearned revenue		2,576
Noncurrent liabilities:		
Due within one year		67,077
Compensated absences		64,117
Capital lease		9,184
Net OPEB liability		1,867,809
Net pension liability		2,637,270
	TOTAL LIABILITIES	4,773,748
DEFERRED INFLOWS OF RESOURCES		
Pensions		317,528
OPEB		11,508
		329,036
NET POSITION		
Net investment in capital assets		117,337
Restricted for:		
Mobile Source DMV (AB 2766)		429,983
Mobile Source DMV (AB 923)		1,332,237
Solano property tax		659,080
Unrestricted		(1,470,971)
	TOTAL NET POSITION	$ 1,067,666

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

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

STATEMENT OF ACTIVITIES

For the Years Ended June 30, 2018

		2018
PROGRAM EXPENSES		
Governmental activities:		
Public health		$ 4,419,025
Interest on long-term debt		3,982
	TOTAL PROGRAM EXPENSES	4,423,007
PROGRAM REVENUES		
Charges for services		3,007,105
Operating grants and contributions		2,606,213
	TOTAL PROGRAM REVENUES	5,613,318
	NET PROGRAM REVENUE (EXPENSE)	1,190,311
GENERAL REVENUES		
Investment income		43,490
Other		32,070
	TOTAL GENERAL REVENUES	75,560
	CHANGE IN NET ASSETS	1,265,871
Net position at beginning of year, as previously reported		1,262,638
Restatement for change in accounting principle		(1,460,843)
Net position at beginning of year, as restated		(198,205)
	NET POSITION AT END OF YEAR	$ 1,067,666

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

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

BALANCE SHEETS – GOVERNMENTAL FUNDS

June 30, 2018

		Special Revenue Funds			
	General Fund	Mobile Source DMV (AB 2766) Fund	Mobile Source DMV (AB 923) Fund	Solano Property Tax Fund	Total Governmental Funds
ASSETS					
Cash and investments	$ 2,152,002				$ 2,152,002
Restricted cash and investments		$ 245,900	$ 1,236,887	$ 647,954	2,130,741
Accounts receivable	78,634				78,634
Due from other governments	90,000	195,699	95,350	11,126	392,175
Prepaid expenditures	15,344				15,344
TOTAL ASSETS	$ 2,335,980	$ 441,599	$ 1,332,237	$ 659,080	$ 4,768,896
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 76,063				$ 76,063
Accrued payroll	38,036	$ 11,616			49,652
Unearned revenue	2,576				2,576
TOTAL LIABILITIES	116,675	11,616			128,291
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	90,000				90,000
TOTAL DEFERRED INFLOWS OF RESOURCES	90,000				90,000
FUND BALANCES					
Nonspendable:					
Prepaid expenditures	15,344				15,344
Restricted for:					
Mobile Source DMV (AB 2766		429,983			429,983
Mobile Source DMV (AB 923)			$ 1,332,237		1,332,237
Solano property tax				$ 659,080	659,080
Assigned to:					
Equipment replacement	28,281				28,281
Unassigned	2,085,680				2,085,680
TOTAL FUND BALANCES	2,129,305	429,983	1,332,237	659,080	4,550,605
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	$ 2,335,980	$ 441,599	$ 1,332,237	$ 659,080	$ 4,768,896

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

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

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

June 30, 2018

Fund balances – total governmental funds		$ 4,550,605
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Revenues that are earned but are not available or received within the period of availability are not recognized as inflows in the fund statements but are reported as revenue in the Government-Wide statement of activities		90,000
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds:		
Governmental capital assets	$ 638,885	
Less: accumulated depreciation	(504,471)	134,414
Deferred outflows of resources related to pensions and OPEB		1,267,140
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Other post-employment benefits (OPEB)	(1,867,809)	
Net pension liability	(2,637,270)	
Capitalized lease obligations	(17,077)	
Accrued compensated absences	(123,301)	(4,645,457)
Deferred inflows of resources related to pensions and OPEB		(329,036)
Net assets – governmental activities		$ 1,067,666

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

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

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

For the Year Ended June 30, 2018

	General Fund	Special Revenue Funds: Mobile Source DMV (AB 2766) Fund	Special Revenue Funds: Mobile Source DMV (AB 923) Fund	Special Revenue Funds: Solano Property Tax Fund	Total Governmental Funds
REVENUES					
Licenses and permits	$ 2,228,843				$ 2,228,843
Intergovernmental	277,380	$ 1,167,578	$ 581,323	$ 489,932	2,516,213
Settlements and penalties	902,346				902,346
Use of money	35,948	(7,404)	14,946		43,490
Other revenues	32,070				32,070
TOTAL REVENUES	3,476,587	1,160,174	596,269	489,932	5,722,962
EXPENDITURES					
Current:					
Public health	2,834,921	825,080	325,201	300,000	4,285,202
Capital outlay	25,446				25,446
Debt service:					
Principal	6,783				6,783
Interest	3,982				3,982
TOTAL EXPENDITURES	2,871,132	825,080	325,201	300,000	4,321,413
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	605,455	335,094	271,068	189,932	1,401,549
OTHER FINANCING SOURCES (USES)					
Transfers in	373,798				373,798
Transfers out		(253,481)	(35,878)	(84,439)	(373,798)
TOTAL OTHER FINANCING SOURCES (USES)	373,798	(253,481)	(35,878)	(84,439)	
NET CHANGE IN FUND BALANCES	979,253	81,613	235,190	105,493	1,401,549
Fund balances at beginning of year	1,150,052	348,370	1,097,047	553,587	3,149,056
FUND BALANCES AT END OF YEAR	$ 2,129,305	$ 429,983	$ 1,332,237	$ 659,080	$ 4,550,605

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

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

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

For the Year Ended June 30, 2018

Net changes in fund balances – total governmental funds		$ 1,401,549
Amounts reported for governmental activities in the Statement of Activities are different because:		
Certain nonexchange revenues will not be collected up to 60 days after the year end, and therefore are not considered "available" and are deferred in the governmental funds. Unavailable revenues increased by this amount during the year.		(34,084)
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	$ 25,446	
Depreciation expense	(41,373)	(15,927)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal repayments on long-term liabilities		6,783
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 and related amounts		119,983
Change in pension related amounts		(203,274)
Change in accrual for compensated absences		(785)
Other		(8,374)
Change in net assets – governmental activities		$ 1,265,871

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 BALANCE
BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Licenses and permits	$ 1,899,150	$ 1,899,150	$ 2,228,843	$ 329,693
Intergovernmental	249,611	249,611	277,380	27,769
Settlements and penalties	119,000	119,000	902,346	783,346
Use of money	2,500	2,500	35,948	33,448
Other revenues	13,000	13,000	32,070	19,070
TOTAL REVENUES	2,283,261	2,283,261	3,476,587	1,193,326
EXPENDITURES				
Current				
Public health	3,105,315	3,105,315	2,834,921	270,394
Capital outlay	30,000	30,000	25,446	4,554
Debt service				
Principal	10,800	10,800	6,783	4,017
Interest			3,982	(3,982)
TOTAL EXPENDITURES	3,146,115	3,146,115	2,871,132	274,983
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(862,854)	(862,854)	605,455	1,468,309
OTHER FINANCING SOURCES (USES)				
Transfers in	330,000	330,000	373,798	43,798
TOTAL OTHER FINANCING SOURCES (USES)	330,000	330,000	373,798	43,798
NET CHANGE IN FUND BALANCES	(532,854)	(532,854)	979,253	1,512,107
Fund balances at beginning of year	1,150,052	1,150,052	1,150,052	
FUND BALANCES AT END OF YEAR	$ 617,198	$ 617,198	$ 2,129,305	$ 1,512,107

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 BALANCE
BUDGET AND ACTUAL – MOBILE SOURCE DMV (AB 2766) SPECIAL REVENUE FUND

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Intergovernmental	$ 1,148,350	$ 1,148,350	$ 1,167,578	$ 19,228
Use of money	250	250	(7,404)	(7,654)
TOTAL REVENUES	1,148,600	1,148,600	1,160,174	11,574
EXPENDITURES				
Current				
Public health	995,390	995,390	825,080	170,310
TOTAL EXPENDITURES	995,390	995,390	825,080	170,310
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	153,210	153,210	335,094	181,884
OTHER FINANCING SOURCES (USES)				
Transfers out	(227,720)	(227,720)	(253,481)	25,761
TOTAL OTHER FINANCING SOURCES (USES)	(227,720)	(227,720)	(253,481)	25,761
NET CHANGE IN FUND BALANCES	(74,510)	(74,510)	81,613	207,645
Fund balances at beginning of year	348,370	348,370	348,370	
FUND BALANCES AT END OF YEAR	$ 273,860	$ 273,860	$ 429,983	$ 207,645

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 BALANCE
BUDGET AND ACTUAL – MOBILE SOURCE DMV (AB 923) SPECIAL REVENUE FUND

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Intergovernmental	$ 573,800	$ 573,800	$ 581,323	$ 7,523
Use of money	250	250	14,946	14,696
TOTAL REVENUES	574,050	574,050	596,269	22,219
EXPENDITURES				
Current				
Public health	709,200	709,200	325,201	383,999
TOTAL EXPENDITURES	709,200	709,200	325,201	383,999
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(135,150)	(135,150)	271,068	406,218
OTHER FINANCING SOURCES (USES)				
Transfers out	(35,861)	(35,861)	(35,878)	(17)
TOTAL OTHER FINANCING SOURCES (USES)	(35,861)	(35,861)	(35,878)	(17)
NET CHANGE IN FUND BALANCES	(171,011)	(171,011)	235,190	406,201
Fund balances at beginning of year	1,097,047	1,097,047	1,097,047	
FUND BALANCES AT END OF YEAR	$ 926,036	$ 926,036	$ 1,332,237	$ 406,201

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 BALANCE
BUDGET AND ACTUAL – SOLANO PROPERTY TAX SPECIAL REVENUE FUND

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Intergovernmental	$ 245,000	$ 245,000	$ 489,932	$ 244,932
TOTAL REVENUES	245,000	245,000	489,932	244,932
EXPENDITURES				
Current				
Public health	310,000	310,000	300,000	10,000
TOTAL EXPENDITURES	310,000	310,000	300,000	10,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(65,000)	(65,000)	189,932	254,932
OTHER FINANCING SOURCES (USES)				
Transfers out	(66,000)	(66,000)	(84,439)	(18,439)
TOTAL OTHER FINANCING SOURCES (USES)	(66,000)	(66,000)	(84,439)	(18,439)
NET CHANGE IN FUND BALANCES	(131,000)	(131,000)	105,493	236,493
Fund balances at beginning of year	553,587	553,587	553,587	
FUND BALANCES AT END OF YEAR	$ 422,587	$ 422,587	$ 659,080	$ 236,493

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

NOTE A – 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.

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 Treasurer of Yolo County serves as the District's treasurer.

Basis of Presentation – Government-wide Financial Statements: The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. 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 District has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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 other items not properly included among program revenues 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 government's policy to use restricted resources first, then unrestricted resources as they are needed.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Expenditure reimbursement grants are available if received within 180 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.

Licenses and permits, intergovernmental revenues, settlements and penalties and investment earnings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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 (AB 2766) – This special revenue fund is used to account for the restricted revenues received from the State under Assembly Bill 2766 (AB 2766) for implementation of the California Clean Air Act to reduce air pollution from motor vehicles and related studies.

Mobile Source DMV (AB 923) – This special revenue fund was created in FY 2012/13 to separately account for the restricted revenues received from the State under Assembly Bill 923 (AB 923), 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 for the reduction of air pollution by providing funding for cleaner than required engines and equipment.

Mobile Source (Solano Property Tax) – 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 Assembly Bill 8 (AB 8), 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 Solano property tax funds as part of the Clean Air Funds Program. These taxes are restricted for specified purposes within the County of Solano.

Budgets: Budgets are adopted on a basis consistent with generally accepted accounting principles 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.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

District are stated at historical cost or estimated historical cost, if actual historical cost is not available. Contributed capital assets are recorded at their acquisition 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, except assets costing less 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.

Unearned Revenues: Unearned revenues arise when resources are received before the District has legal claim to them, such as when fees are received for the following fiscal year.

Compensated Absences: The District's personnel policy allows employees to accumulate earned but unused vacation. Unused accrued vacation time will be paid to employees upon separation from the District's service, subject to a vesting policy. The cost of vacation is recorded in the period accrued.

Amounts that are expected to be liquidated with expendable available financial resources, for example, as a result of employee resignations or retirements that are currently payable are reported as expenditures and fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources represent a reconciling item between the fund and government-wide presentation. No expenditure is reported in the governmental fund financial statements for these amounts. Compensated absences are liquidated by the General Fund.

Deferred Outflows/Inflows of Resources: In addition to assets, the Statement of Net Assets may report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an expense/expenditure until then. In addition to liabilities, the balance sheet of the governmental funds reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as revenue until that time. Deferred outflows and inflows of resources represent amounts deferred related to the District's pension and OPEB plans as described in Notes G and H.

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

Postemployment Benefits Other Than Pensions (OPEB): For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance: In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned and unassigned balances.

Nonspendable Funds – Fund balance should be reported as nonspendable when the amounts cannot be spent because they are either not in spendable form, or are legally or contractually required to be maintained intact. Nonspendable balances are not expected to be converted to cash within the next operating cycle, which include prepaid expenses.

Restricted Funds – Fund balance should be reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. The purpose of each restriction is listed on the face of the balance sheet.

Committed Funds – Fund balance should be reported as committed when the amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which is by resolution of the District. These amounts cannot be used for any other purpose unless the governing body modifies or removes the fund commitment.

Assigned Funds – Fund balance should be reported as assigned when self-imposed limitations are placed on resources that do not require approval by the highest level of decision making authority or the same level of formal action to remove or modify limitations. The District Board has the authority to assign fund balance through the budget process which is recommended by staff and approved by the Board each year.

Unassigned Funds – Unassigned fund balance is the residual classification of the District's funds and includes all spendable amounts that have not been restricted, committed, or assigned to specific purposes.

Net Position: The government-wide financial statements present net position. Net position is categorized as the net investment in capital assets, restricted, committed and unrestricted.

Net Investment in Capital Assets – This category groups all capital assets into one component of net position. 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 Position – This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

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

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. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District has provided otherwise in its commitment or assignment actions.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Transfers: Operating transfers are for the allocation of overhead costs and for administrative costs attributable to the AB 2766, AB 923 and Solano Property Tax programs.

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.

New Pronouncement: In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). Topics that may be applicable include criteria for an enterprise fund to blend a component unit, measuring certain money market investments at amortized cost, timing of pension and OPEB liabilities and expenditures under the current financial resources measurement focus, presenting payroll related measures in RSI for OPEB plans, classifying employer paid member contributions for OPEB plans, accounting and financial reporting for multiple-employer defined benefit OPEB Plans. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

In June 2017, the GASB issued Statement No. 87, *Leases.* This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

NOTE B – CASH AND INVESTMENTS

The District's cash and cash equivalents at June 30, 2018 is classified in the accompanying financial statements as follows:

Cash and cash equivalents	$ 2,397,902
Restricted cash and cash equivalents	1,884,841
Total cash and investments	$ 4,282,743

Cash and cash equivalents as of June 30, 2018 consisted of the following:

Cash on hand	$ 50
Deposits with financial institutions	349,879
Investment in Yolo County Pooled Investment Fund	3,932,814
Total cash and investments	$ 4,282,743

Investment in the County of Yolo Investment Pool: Most of the District's cash is held in the County of Yolo Treasury. The County maintains an investment pool and allocates interest to the various funds based upon the average daily cash balances. Investments held in the County's investment pool are available on demand to the District and are stated at cost, which approximates fair value.

Investment Policy: California statutes authorize governmental agencies to invest surplus funds in a variety of credit instruments as provided in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. The District follows the investment policy of the County of Yolo.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2018, the weighted average maturity of the investments contained in the County of Yolo investment pool was approximately 507 days.

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County of Yolo investment pool does not have a rating provided by a nationally recognized statistical rating organization.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Custodial credit risk does not apply to a local government's indirect deposits or investment in securities through the use of government investment pools (such as the County of Yolo investment pool).

NOTE B – CASH AND INVESTMENTS (Continued)

At June 30, 208, the carrying amount of the District's deposits was $349,879, and the balance in financial institutions was $317,193. Of the balance in financial institutions, $250,000 was covered by federal depository insurance and $67,193 at June 30, 2018 was covered by the pledging financial institution with assets held in a common pool for the District and other governmental agencies, but not in the name of the District.

NOTE C – RESTRICTED CASH

Revenues received under AB 2766 and AB 923 are restricted from cash available for current operations in accordance with that legislation. As of June 30, 2018, the restricted cash balance in the AB 2766 special revenue fund, which totaled $245,900, and the AB 923 special revenue fund, which totaled $1,236,887, is restricted for clean air projects as approved by the Board. Expenditures under AB 2766 for the year ended June 30, 2018 were made in accordance with the District's Board of Directors' authorizations and were as follows:

	Mobile Service DMV (AB 2766) Fund
Salaries and benefits	$ 669,879
Professional services:	
Discretional external projects/programs	29,508
Other services and supplies	33,340
Program expenditures:	
Breathe California of Sacramento- Yolo County	8,000
Breathe California of Sacramento- Solano County	6,782
Yolo County Transportation District- Transportation Management Association Incentives	12,000
City of Davis Lights in a Pinch	5,000
Efficient Drivetrans, Inc Electrical Vehicle Charging Stations in Dixon	10,159
City of Davis Community Bike	3,000
City of Winters Dual Car Charger	5,000
Yolo County Transportation District- Route 220 Expansion	11,000
University of California, Davis Electrical Vehical Infrastructure Improv	5,000
Solano Transporation Authority Vaca Valley Parkway Bus Shelter	15,412
Cool Davis Foundation Community Education	5,000
City of Woodland Vehicle Replacement	6,000
Total current expenditures	825,080
Transfers out:	
Overhead allocation*	181,693
Administrative fee*	71,788
Total AB 2766 Expenditures and Transfers	$ 1,078,561

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

NOTE C – RESTRICTED CASH (Continued)

Expenditures under AB 923 for the year ended June 30, 2018 were made in accordance with the District's Board of Directors' authorizations and were as follows:

	Mobile Service DMV (AB 923) Fund
Program expenditures:	
Clean School Bus Program	
Woodland Joint Unified School District	$ 165,000
Winters Joint Unified School District	160,201
Total current expenditures	325,201
Transfers out:	
Administrative fee*	35,878
Total AB 923 Expenditures and Transfers	$ 361,079

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

As of June 30, 2018, the cash balance in the Solano Property Tax special revenue fund, which totaled $647,954, is restricted for clean air projects in Solano County as approved by the Board of Directors. Expenditures and transfers under Solano Property Tax for the fiscal year ended June 30, 2018 were made in accordance with the District's Board of Directors' authorizations and were as follows:

	Solano Property Tax Fund
Program expenditures:	
Breathe California of Sacramento- Solano County	$ 10,174
Efficient Drivetraains, Inc. Electrical Vehicle Charging Stations in Dixon	15,238
City of Rio Vista- Front Street Improvements	195,000
Solano Transporation Authority - Vaca Valley Parkway Bus Shelter	59,588
City of Rio Vista- Pick-up Truck Replacement	20,000
Total current expenditures	300,000
Transfers out:	
Administrative fee*	84,439
Total Solano Property Tax Expenditures	$ 384,439

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

NOTE D – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018
Capital assets being depreciated:				
Office equipment	$ 115,045		$ (9,739)	$ 105,306
Office furniture	139,574		(21,109)	118,465
Air monitoring equipment	224,319		(46,262)	178,057
Vehicles	211,611	$ 25,446		237,057
Total capital assets, being depreciated	690,549	25,446	(77,110)	638,885
Less accumulated depreciation for:				
Office equipment	(91,543)	(12,330)	9,739	(94,134)
Office furniture	(139,572)		21,107	(118,465)
Air monitoring equipment	(217,799)	(4,155)	46,264	(175,690)
Vehicles	(91,294)	(24,888)		(116,182)
Total accumulated depreciation	(540,208)	(41,373)	77,110	(504,471)
Capital assets, net	$ 150,341	$ (15,927)	$ -	$ 134,414

NOTE E – LONG-TERM LIABILITIES

The following is a summary of long-term liabilities activity of the District for the year ended June 30, 2018:

	Restated Balance July 1, 2017	Additions	Adjustments	Repayments	Balance June 30, 2018	Due Within One Year
Capital lease	$ 15,486		$ 8,374	$ (6,783)	$ 17,077	$ 7,893
Compensated absences	122,516	$ 785			123,301	59,184
Other post-employment benefits	1,982,945			(115,136)	1,867,809	
Net pension liability	2,215,008	422,262			2,637,270	
	$ 4,335,955	$ 423,047	$ 8,374	$ (121,919)	$ 4,645,457	$ 67,077

NOTE E – LONG-TERM LIABILITIES (Continued)

The following is a description of the composition of long-term liabilities at June 30, 2018:

Capital Lease Obligation: The District leases equipment under capital leases which have monthly payments of $830, incorporating current sales tax, through June 1, 2020. Capital assets acquired under the capital lease consist of office equipment totaling $34,699, and accumulated depreciation at June 30, 2018 of $27,760. As of June 30, 2018, future minimum lease payments under the capital lease obligation are as follows:

Fiscal Year Ending June, 30:	
2019	$ 9,960
2020	9,960
Total payments	19,920
Less: amounts representing interest	(2,843)
Net present value of future minimum lease payments	$ 17,077

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.

NOTE F – INTERFUND TRANSACTIONS

Interfund transfers are used to allocate overhead expenses and administrative fees from the General Fund to the other funds. Interfund transfers for the years ended June 30, 2018 were as follows:

Transfers from	Transfers to	
General Fund	Mobile Source DMV (AB 2766) Fund	$ 253,481
	Mobile Source (AB 923) Fund	35,878
	Solano Property Tax	84,439
Total		$ 373,798

NOTE G – DEFINED BENEFIT PENSION PLANS

Plan Description: All qualified employees are eligible to participate in the District's Miscellaneous Plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS) which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues a publicly available report that includes a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

NOTE G – DEFINED BENEFIT PENSION PLANS (Continued)

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 (52 for PERRA Miscellaneous Plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after ten years of service. The death benefit is the Basic Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect for the year ended June 30, 2018 is summarized as follows for each rate plan:

Hire date	Miscellaneous Plan (Prior to January 1, 2013)	Miscellaneous Plan (On or after January 1, 2013)
Benefit formula (at full retirement)	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.000%	6.250%
Required employer contribution rates	8.921%	6.533%

In addition to the contribution rates above, the District was also required to make payments of $96,903 toward its unfunded actuarial liability during the year ended June 30, 2018.

The Classic Miscellaneous Plan is closed to new members that are not already CalPERS eligible participants.

Contributions: Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The contributions recognized as part of pension expense for the Plan was $258,810 for the year ended June 30, 2018.

Net Pension Liability: As of June 30, 2018, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of $2,637,270.

The District's net pension liability for the Plan is measured as the total pension liability, less the plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017.

NOTE G – DEFINED BENEFIT PENSION PLANS (Continued)

The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2018 and 2017 was as follows:

Proportion - June 30, 2017	0.06376%
Proportion - June 30, 2018	0.06690%
Change - Increase (Decrease)	0.00314%

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions: For the year ended June 30, 2018, the District recognized pension expense of $203,274. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 258,810	
Changes in assumptions	482,539	$ (36,794)
Differences between actual and expected experience	3,889	(55,718)
Net differences between projected and actual earnings on plan investments	109,130	
Change in employer's proportion	69,917	(82,318)
Differences between the employer's contribution and the employer's proportionate share of contributions		(142,698)
Total	$ 924,285	$ (317,528)

The $258,810 reported as deferred outflows of resources related to contributions subsequent to the measurement date of June 30, 2017 will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as net deferred inflows of resources related to pensions will be recognized as pension expense as follows as of June 30, 2018:

Year Ended June 30	
2019	$ (5,538)
2020	261,523
2021	156,755
2022	(64,793)
	$ 347,947

NOTE G – DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions: The total pension liability at the June 30, 2017 measurement date was determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.20% (1)
Investment Rate of Return	7.15% (2)
Mortality	Derived using CalPERS Membership Data for all Funds

(1) Depending on entry age and service

(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used at the June 30, 2017 measurement date were based on the 2010 CalPERS experience study for the period from 1997 to 2007. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate: The discount rate used to measure the total pension liability was 7.15% at the June 30, 2017 measurement date. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

In fiscal year 2016-2017, the financial reporting discount rate for the Plan was lowered from 7.65% to 7.15%. Deferred outflows of resources for changes of assumptions represent the unamortized portion of this assumption change.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived

NOTE G – DEFINED BENEFIT PENSION PLANS (Continued)

at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class for the Plan as of the measurement date of June 30, 2017. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	(0.40)%	(0.90)%
Total	100.0%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

<u>Sensitivity of the Net Pension Liability to Changes in the Discount Rate</u>: The following presents the net pension liability of the District, calculated using the discount rate for the Plan, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.15%
Net Pension Liability	$ 4,227,855
Current Discount Rate	7.15%
Net Pension Liability	$ 2,637,270
1% Increase	8.15%
Net Pension Liability	$ 1,319,918

NOTE H – 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 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 contributes 100% of the monthly medical premiums for the retiree and eligible dependents. The District's current monthly maximum contribution for active employees are: Employee only $550, employee plus one $1,100 and employee and family $1,430. The District's monthly contribution for retirees are capped at the same amounts; however, once the retiree and/or dependent reaches Medicare eligibility, the employer contribution can be 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. In December 2013, the Board entered into an agreement with the California Employers' Retirement Benefit Trust Program (CERBT) for prefunding of Other Post-Employment Benefits. The Trust is administered by CalPERS as an agent multiple-employer plan. During the year ended June 30, 2018, the District's cash contributions to the trust were $207,000, benefit payments were $110,855 and the estimated implicit subsidy was $25,000 resulting in total payments of $342,855.

Employees Covered by Benefit Terms: As of the June 30, 2018 actuarial valuation, the following current and former employees were covered by the benefit terms under the Plan:

Inactive employees or beneficiaries currently receiving benefit payments	15
Active employees	22
Inactive plan members entitled to but not receiving benefits	1
Total	38

Net OPEB Liability: The District's total OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. This liability was rolled back to determine the June 30, 2016 total OPEB liability.

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

Actuarial Assumptions and Other Inputs: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	June 30, 2017
Measurement date	June 30, 2017
Actuarial cost method	Entry-age normal cost method
Actuarial assumptions:	
Investment rate of return	7.25%
Discount rate	7.25%
Inflation	2.75%
Salary increases	3.25% per year
Assumed wage inflation	3.0% per year
Mortality rate	Derived using CalPERS membership data
Mortality Improvement	Mac Leod Watts Scale 2017 applied generationally
Healthcare trend rate	Start at 7.50%. Grade down to 5.0% for years after 2023

Demographic actuarial assumptions used in this valuation are based on the 2014 experience study of the California Public Employees Retirement System using data from 1997 to 2011, except for a different basis used to project future mortality improvements. Mortality rates used were those published by CalPERS, adjusted to back out 20 years of Scale Bb to central year 2008.

The assumed gross return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Percentage of Portfolio	Assumed Gross Return
Global Equity	57.0%	4.82%
Fixed Income	27.0%	1.47%
Tresaury Inflation Protected Securities	5.0%	1.29%
Real Estate Investment Trusts	8.0%	3.76%
Commodities	3.0%	0.84%
	100.0%	

Discount Rate: The discount rate used to measure the total OPEB liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

Changes in the Net OPEB Liability: The changes in the net OPEB liability for the plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Balance at June 30, 2017	$ 2,236,322	$ 253,377	$ 1,982,945
Changes in the year:			
Service cost	87,263		87,263
Interest	163,911		163,911
Contributions - employer		326,500	(326,500)
Expected investment income		25,648	(25,648)
Investment experience		14,385	(14,385)
Administrative expenses		(223)	223
Benefit payments	(125,500)	(125,500)	
Net changes	125,674	240,810	(115,136)
Balance at June 30, 2018 (measurement date June 30, 2017)	$ 2,361,996	$ 494,187	$ 1,867,809

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate: The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Net OPEB liability	$ 2,097,762	$ 1,867,809	$ 1,669,279

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease (7% Medical decreasing to 4%)	Current Healthcare Cost Trend Rates (8% Medical decreasing to 5%)	1% Increase (9% Medical decreasing to 6%)
Net OPEB liability	$ 1,778,221	$ 1,867,809	$ 1,990,564

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

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the District recognized OPEB expense of $222,872. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 342,855	
Net differences between projected and actual earnings on plan investments		$ (11,508)
Total	$ 342,855	$ (11,508)

The $342,855 reported as deferred outflows of resources related to contributions after the measurement date will be recognized as a reduction of the net OPEB liability in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	
2019	$ (2,877)
2020	(2,877)
2021	(2,877)
2022	(2,877)
	$ (11,508)

Recognition of Deferred Outflows and Deferred Inflows of Resources: Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss. The net difference between projected and actual earnings on OPEB plan investments is recognized over 5 years. All other amounts are recognized over the expected average remaining service lifetime (EARSL), which was 6.78 years at June 30, 2018.

NOTE I – INSURANCE

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. The District's deductibles and maximum coverage are as follows:

Coverage	YCPARMIA	Excess	Deductible
Cyber liability	$ -	$ 1,000,000	$ -
General and Auto Liability	500,000	40,000,000	1,000
Worker's Compensation	500,000	Statutory limit	1,000
Pollution Legal Liability	100,000	10,000,000	-
Property Damage	25,000	959,357,100	1,000
Fidelity	25,000	2,000,000	1,000

During the year ended June 30, 2018, 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.

NOTE J – RELATED PARTY TRANSACTIONS

Under the District's clean air funds programs 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 (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 receive a $100 fee per meeting and other administrative reimbursements. In addition, the District's Hearing Board receives stipends that equal $60 per hearing board meeting.

NOTE J – RELATED PARTY TRANSACTIONS (Continued)

Expenses for services provided by related parties and payments to related parties under clean air programs during the fiscal year ended June 30, 2018 are summarized as follows:

Related Party	Fiscal Year 2017-2018 Expenses
City of Rio Vista	
Pick-up Truck Replacement	$ 20,000
Front St Improvments	195,000
City of Woodland Vehicle Replacement	6,000
City of Winters Dual Car Charger	5,000
City of Davis	
Community Bike	3,000
Foundation Community Education	5,000
Yolo County	
Legal services	43,200
Accounting services	11,379
District Directors and Hearing Board Members	
Board meeting stipends	8,560
Milage Reimbursements	443
Total	$ 297,582

NOTE K – LEASE COMMITMENTS

The District amended its office space lease agreement effective approximately 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 approximately $185,309 for the year ended June 30, 2018. As of June 30, 2018, future minimum lease payments under operating leases are as follows:

Fiscal year ending June 30,	
2018	$ 155,220
2019	25,870
Total minimum lease commitments	$ 181,090

NOTE L – 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 M – SUBSEQUENT EVENTS

The District was awarded a grant from the State of California in the amount of $1,830,900 for the replacement of agricultural equipment for emissions reduction. The grant performance period is June 30, 2018 to June 30, 2031.

NOTE N – CHANGES IN ACCOUNTING PRINCIPLES

During the year ended June 30, 2018, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement required the District to recognize in its financial statements the net OPEB liability, deferred outflows of resources and deferred inflows of resources for the District's OPEB plan. Due to implementation of this Statement, the OPEB liability increased by $1,787,343, deferred outflows of resources increased by $326,500 and net position decreased by $1,460,843 as of July 1, 2017.

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (UNAUDITED)
Last 10 Years

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Proportion of the net pension liability	0.06690%	0.02560%	0.02360%	0.02660%
Proportionate share of the net pension liability	$ 2,637,270	$ 2,215,008	$ 1,619,296	$ 1,656,926
Covered payroll - measurement period	$ 1,807,348	$ 1,780,319	$ 1,800,152	$ 1,794,933
Proportionate share of the net pension liability as a percentage of covered payroll	145.92%	124.42%	89.95%	92.31%
Plan fiduciary net position as a percentage of the total pension liability	77.19%	74.06%	78.40%	79.82%

Notes to Schedule:
Change in Benefit Terms: None.

Changes in assumptions: The discount rate was changed from 7.50% in 2015 to 7.65% in 2016 and 2017 and to 7.15% in 2018.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN (UNAUDITED)
Last 10 Years

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	$ 258,810	$ 226,957	$ 208,597	$ 285,922
Contributions in relation to the actuarially determined contributions	(258,810)	(226,957)	(208,597)	(285,922)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll - fiscal year	$ 1,988,330	$ 1,807,348	$ 1,780,319	$ 1,800,152
Contributions as a percentage of covered payroll	13.02%	12.56%	11.72%	15.88%

Notes to Schedule:

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Valuation date:	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012

Methods and assumptions used to determine contribution rates:

Valuation cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	3.0%, average, including inflation of 2.75%
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	50 years

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015, thus information prior to this date was not presented.

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

For the measurement periods ended June 30

	2017
Total OPEB liability:	
Service cost	$ 87,263
Interest	163,911
Benefit payments	(125,500)
Net change in total OPEB liability	125,674
Total OPEB liability - beginning	2,236,322
Total OPEB liability - ending	$ 2,361,996
Plan fiduciary net position:	
Contributions - employer	$ 326,500
Net investment income	40,033
Administrative expenses	(223)
Benefit payments	(125,500)
Net change in plan fiduciary net position	240,810
Plan fiduciary net position - beginning	253,377
Plan fiduciary net position - ending (b)	$ 494,187
Net OPEB liability - ending (a)-(b)	$ 1,867,809
Plan fiduciary net position as a percentage of the total OPEB liability	20.92%
Covered-employee payroll - measurement period	$ 1,780,314
Total OPEB liability as percentage of covered-employee payroll	104.91%

Notes to schedule:	
Valuation date	June 30, 2017
Measurement period - calendar year ended	June 30, 2017
Discount Rate	7.25%

Benefit changes. None since June 30, 2017.

Changes in assumptions. None since June 30, 2017.

Omitted years: GASB Statement No. 75 was implemented during the year ended June 30, 2017. No information was available prior to this date. Information will be added prospectively as it becomes available until 10 years are reported.

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2018

SCHEDULE OF CONTRIBUTIONS TO THE OPEB PLAN (UNAUDITED)

	2018
Statutorily required contribution - employer fiscal year	$ 207,000
Contributions in relation to the actuarially determined contributions	(342,855)
Contribution deficiency (excess)	$ (135,855)
Covered-employee payroll - employer fiscal year	$ 1,914,724
Contributions as a percentage of covered-employee payroll	17.91%

Notes to Schedule:

Valuation date	June 30, 2017
Measurement period - fiscal year ended	June 30, 2017

Omitted years: GASB Statement No. 75 was implemented during the year ended June 30, 2018. No information was available prior to this date. Information will be added prospectively as it becomes available until 10 years are reported.

RICHARDSON
& COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

550 Howe Avenue, Suite 210
Sacramento, California 95825
Telephone: (916) 564-8727
FAX: (916) 564-8728

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, 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, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Yolo–Solano Air Quality Management District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 21, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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.*

Purpose of this Report

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

Richardson & Company, LLP

December 21, 2018