YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

Audited Financial Statements
and Other Report

For the Fiscal Years Ended June 30, 2013 and 2012

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

BASIC FINANCIAL STATEMENTS

For the Fiscal Years Ended June 30, 2013 and 2012

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' 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 and each major fund of the Yolo-Solano Air Quality Management District (the District) as of and for the years ended June 30, 2013 and June 30, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of June 30, 2013 and June 30, 2012, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* effective July 1, 2011. 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 funding progress, and budgetary comparison information as listed in the 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 November 13, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
November 13, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013 and June 30, 2012

The following discussion and analysis of the Yolo-Solano Air Quality Management District's financial performance provides an overview of the District's financial activities for the fiscal year ending June 30, 2013. This information is presented in conjunction with the audited financial statements and the accompanying notes that follow this section.

Financial Highlights

- The total assets of the District exceeded its total liabilities by $2,359,314 (net position). Of this amount $1,987,270 is restricted due to legislation under AB2766 and AB923, and Solano County property tax received under AB8 which under a Joint Powers Agreement with Solano County is restricted for use through the District's Clean Air Funds grant program.

- As of the close of the 2013 fiscal year, the District's combined fund balance (Fund 420, 421, 422, and 423) reported an ending balance of $2,853,887 a decrease of $161,380 in comparison with 2012 fiscal year. The restricted portion of the total fund balance is 70% of the combined balance. The decrease is due to a small portion of fund balance that was used in fiscal year 2013, as the expenditures exceeded revenue in the General Fund.

- In November 2012 the District established an additional special revenue fund to allow separate accounting for DMV funds received under AB2766 and AB923 to better account for the tracking of monies received and expenditures as the two assembly bills have different legislative restrictions.

- In April 2013 the District began using a third party payroll service provider, Infinisource (formerly Qqest) and no longer is using the County of Yolo as its payroll service provider.

- In January 2013 the District paid $121,100 to CalPERS to pay down the District's pension side fund. This resulted in a reduction of the employer rate by just under 1% for the last half of the fiscal year.

- Other Post-Employment Benefits (OPEB): The District covers a portion of the healthcare premium as required by law for retirees and dependents. The District starting prefunding in January 2013 of $105,000 into the California Employer Retirement Benefit Trust. The monthly premiums for retirees known as "pay-as-you-go" was paid directory to CalPERS and the District did not take a disbursement from the trust for fiscal year 2013. Total pay-as-you-go for fiscal year 2013 was at $67,160 for retiree health premiums.

- Starting in fiscal year 2013 the District capped healthcare benefits for active employees which in turn capped benefits for retirees. An actuarial valuation report was done for fiscal year ending June 30, 2012, and due to the cap the unfunded liability has been reduced for OPEB from fiscal years 2012 to 2013 by $664,000 (amortized over 27 years), and it is projected to be reduced in fiscal year 2013-14 by $872,000 (amortization period of 26 years).

- The District received a Federal grant totaling $79,923 during FY 2013 for a second year as part of a pilot Environmental Protection Agency (the EPA) 105 program. This grant was used to supplement the District's permit and air monitoring programs.

- Another grant received as a pass-through from California Air Pollution Control Officers Association (CAPCOA) from the EPA for the District's PM 2.5 air monitoring program was increased in 2013 by $23,450 and was used to purchase three (3) dataloggers.

- The District's Clean Air Funds competitive grant program provided funds to the community totaling $351,200 in fiscal year 2013 using AB2766 and AB8 revenue. This amount includes one encumbered project of $30,000 from the prior year.

- The District replaced school buses through the use of AB923 funds under the Lower Emission School Bus Program totaling $662,956, which includes encumbered funds from the prior year of $465,156.

- In Solano County Solano Property Tax Mobile Source Fund 423 the District received $141,184 in redevelopment statutory pass-through payments. The Redevelopment Agencies (RDA) statutory pass-through funds are required to be distributed to the District due to legislative action as we are an entity that receives tax proceeds from Solano County. Normally the District has received small increments directly from the Redevelopment Agencies (RDA), however now that Solano County is handling the pass-through, the District received the money in larger increments than prior years. The RDA pass-through received is earmarked for use in the Clean Air Funds program for future years.

Overview of the Basic Financial Statements

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

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

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to commercial enterprises or a private sector business. These financial statements include the *Statement of Net 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 and liabilities, with the difference between the two 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 14 and 15.

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 program, agricultural burning, asbestos, and mutual settlement programs. The District also receives a small subvention grant and Portable Equipment Registration (PERP) fees from the State of California Air Resources Board. The District also received small pass-through grants from the EPA to assist in the stationary source and air monitoring programs. The revenue supports the staff that works within the programs.

- Mobile Source Program - Dept. of Motor Vehicle Fees, Funds (AB2766 and AB923): In fiscal year 2013 the District split the restricted Fund 422 to separate the AB2766 and AB923 revenue and expenses. Both funds are considered special revenue funds that track restricted revenue received from the Department of Motor Vehicles (DMV). The DMV collects and provides to the District $6.00 for each vehicle registered within the District's jurisdiction. A portion of the revenue ($4.00 per vehicle) is used to support Clean Air Funds Projects and also supports the staff that works within the mobile source program under AB2766 and remains in Fund 422. The District Board approved an additional $2.00 under AB923 in November 2004. This allows the DMV to collect an additional $2.00 per vehicle, starting in April 2005. The use of the extra $2.00 is restricted and as the revenue received under AB2766, is set by legislation. The funds under AB923 are now being accounted for in Fund 420. Revenue received under AB923 sunsets on January 1, 2015.

- Mobile Source Program-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 Clean Air Funds program except for an administrative fee, which is reimbursed to the General Fund. Also included in this fund is RDA 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. Since different accounting bases are used to prepare the above statements, reconciliation is required to facilitate the comparison between the fund statements and government-wide statements. The reconciliation between the total fund balances can be found on pages 18 and 19. The reconciliation of the total change in fund balances for all governmental funds to the change in net position can be found on pages 22 and 23.

Statements of Revenues, Expenditures, and Changes in Fund Balance

Budgeted and actual amounts by fund are provided on pages 46 through 52.

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 24 through 43 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 exceeded liabilities by $2,359,314 as of June 30, 2013 and $2,370,629 as of June 30, 2012.

The following schedule lists a condensed Statement of Net Position as of June 30, 2013 compared with 2012 and 2011.

	Year ended June 30,		
	2013	2012	2011
Assets:			
Current assets	$ 3,079,970	$ 3,122,117	$ 3,042,362
Capital assets, net	92,281	74,526	92,161
Total assets	3,172,251	3,196,643	3,134,523
Liabilities:			
Current liabilities	263,861	218,281	292,758
Noncurrent liabilities	549,076	607,733	440,786
Total liabilities	812,937	826,014	733,544
Net Position:			
Net investment in capital assets	73,982	49,791	61,759
Restricted	1,987,270	1,844,232	1,953,980
Unrestricted	298,062	476,606	385,240
Total net Position	$ 2,359,314	$ 2,370,629	$ 2,400,979

Total net position decreased from 2012 to 2013 by 0.5% or $11,315, compared to a 1% decrease or $30,350 from 2011 to 2012.

The largest portion of the District's net position, 84% for 2013, 78% for 2012, and 81% for 2011, represents resources that are subject to external restrictions on how they may be used (AB2766, AB923, and Solano Property Tax). The remaining portion of the District's net position is unrestricted which may be used to meet the District's ongoing operations and obligations. At the end of the fiscal year, the District is able to report positive balances as in the prior fiscal years.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013 and June 30, 2012

The following lists the Statement of Activities as of June 30, 2013, 2012, and 2011:

	Year ended June 30,		
	2013	2012	2011
Program Revenues:			
Charges for services	$ 1,787,471	$ 1,747,928	$ 1,730,957
Operating grants and contributions	2,230,741	2,188,171	1,958,369
Total program revenues	4,018,212	3,936,099	3,689,326
Program Expenses:			
Public health	4,209,206	4,226,507	4,149,563
Interest on long term debt	2,781	3,539	3,103
Total program expenses	4,211,987	4,230,046	4,152,666
General Revenues:			
Settlements and penalties	158,576	212,409	241,526
Investment income	8,437	16,405	18,734
Other	15,447	34,783	43,064
Total general revenues	182,460	263,597	303,324
Change in net position	(11,315)	(30,350)	(160,016)
Net Position - July 1	2,370,629	2,400,979	2,560,995
Net Position - June 30	$ 2,359,314	$ 2,370,629	$ 2,400,979

Governmental Activities

Below are explanations of the significant revenue variances from fiscal years 2012 to 2013:

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 a slight increase in revenue that falls within this category from 2012 to 2013 of 2% or $39,543. A large portion of this is from State mandated Air Toxics Hot Spots Program which the District charges applicable business/industry sources that fall within the program which amounted to $32,787.

- Operating Grants and Contributions: This is revenue received from the DMV, Solano County under Solano property tax proceeds and redevelopment pass-through dollars; and state or federal grants and/or pass-through funds. There is a 2% or $45,570 increase from 2012 to 2013. The variance from 2011 to 2012 was an increase of 12% or $229,802. Special note there is one grant from the Air Resources Board (ARB) for the Lawn Equipment and Garden Replacement (LGER) that has been delayed by the ARB.

Program Expenses:

- Public Health: Expenses under this category shows a increase from fiscal year 2012 to 2013 of 0.4% or $17,699 and an increase of 2% or $76,944 from fiscal year 2011 to 2012. 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 decreased $53,833 in FY 2013 compared to FY 2012 and $29,117 from FY 2011 to FY 2012. 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. Other decreases include investment income which earned $8,437, which is a decrease from 2012 by $7,968. The District maintains all of its cash and investments with the Yolo County Treasurer in a cash and investment pool.

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, 2013 was $2,853,887. This was a decrease of 6% or $161,380 from fiscal year 2012 to 2013. For 2013 the fund balance classification of restricted for AB2766 and AB923 are separated for the first year as the District split the DMV Fund into two separate funds. The following table shows the fund balance by classifications for the last three years ending June 30. Classifications include Restricted (AB2766, AB923 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 $259,146).

Fund Balance	2013	2012	2011
General Fund	$ 866,617	$ 1,171,035	$ 914,035
AB2766	147,272	1,454,887	1,668,560
AB923	1,318,311	*	*
Solano Property Tax	521,687	389,345	285,420
Total Fund Balance	$ 2,853,887	$ 3,015,267	$ 2,868,015

*Combined in fund 422 in 2012 and 2011. In 2013 the District separated the Fund to better track the use of the more restrictive AB923 money.
Variances of 15% in the fund balances by classification within the last three years are explained as follows:

- General Fund fund balance decreased by 29% or $304,418 from 2012 to 2013. The decrease of $105,000 in OPEB, no prepaid expenses and a decrease of $158,960 in unassigned fund balance were the significant factors. The District made a contribution to the OPEB trust fund of $105,000 in 2013. The District did not exceed revenue projections as what did occur in 2012.

  From 2011 to 2012 the General Fund's increased by 28% or $256,803. The District received the EPA 105 pass-through grant for $79,923 that was not budgeted, and also over realized revenue related to the stationary source program.

- Restricted Solano Property Tax increased by 34% or $132,342 from fiscal year 2012 to 2013 was due to RDA funds received of $140,000 that was not budgeted. Also, ending the year in 2013 with contingency of $337,000 that led to the higher fund balance in 2013. There was also an increase of 36% or $103,925 from fiscal year 2011 to 2012 which was due to an additional $60,000 in revenue that what wasn't projected in which $29,000 was RDA pass-through, and contingency of $291,000 that became part of the fund balance to move forward to 2012.

Analysis of General Fund Budget

Significant variances from the Final Budget to the Actual amounts as shown on page 46 are:

- Revenue received in the Licenses and Permits category increased from final to actual by $98,641. The increase is a combination several revenue accounts in the General Fund, Air Toxics AB2588 Hot Spots (Air Toxics) program, renewal fees and new permit fees related to stationary source permits. Air Toxics revenue was budgeted at $5,600 and the District received $32,787, an increase of $27,187 due to under estimating the affected facilities for 2013. Also, the District received an additional $53,000 in the new and renewal permit programs.
- Revenue received in the Intergovernmental category is revenue from other government agencies and shows $97,990 was not received based on the actual receipts. The variance is due to the California Air Resources Board's (ARB) Portable Equipment Registration Program (PERP) delay in releasing the revenue to the District. The ARB collects renewal and inspection fees on behalf the home District as part of the program, and passes a percentage back to each participating District. The District budgeted $88,000 under the final budget, and the ARB notified the District in June that the pass-through was $67,000 for the 2012 calendar year. However, as it was not received within the 60 day period from the close of 2013 and as such the $67,000 is reported as deferred revenue in the financial statements.
- Expenditures in the Public Health category was originally budgeted at $2,944,859 in the original (proposed) budget for 2013. In the final budget it was increased by $191,152. Also, the District allocated additional funding toward the OPEB obligation which increased salaries and benefits by $53,000, and the contingency account was increased in the General Fund by $125,000.
- As to the variance of actual expenditures there is a savings overall under the Public Health category of $532,061. The significant factors are as follows in the General Fund: $168,000 savings in salaries and benefits as the District didn't fill two positions (one full-time and one extra-help), and the contribution toward OPEB was reduced based on the Actuarial Valuation Report to $105,000; and $286,900 savings in unspent contingency. In the Mobile Source DMV AB2766 salaries and benefits there was a savings of $69,900 directly related to not using AB2766 funds toward the District's OPEB obligations.

Capital Assets and Long-Term Debt

Capital Assets:
As of June 30, 2013 and June 30, 2012, the District's investment in capital assets amounted to $92,281 and $74,526 respectively, net of accumulated depreciation. This investment in capital assets includes air monitoring equipment, vehicles, office equipment, and furniture. Additional information on the District's capital assets can be found in Note 4 to the Financial Statements.

Long-Term Liabilities:
As of June 30, 2013 and June 30, 2012, the District's long-term liabilities that are not due and payable in the current period total $696,282 and $719,164, respectively, which includes the District's accrued compensated absences (accrued leave), capital lease obligations (photocopiers), and other post-employment benefits. Additional information on the District's long-term liabilities can be found in Note 5 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 have the revenue to support operations. For fiscal year 2013 the District projected an 85% cost recovery in the stationary source program. Based on this analysis, the Executive Director recommended a 3.1% consumer price index (CPI) adjustment based on the California CPI prior year April 2010 to April 2011, as allowed by District Rule 4.1, Section 402. By year's end, due to cost savings from open positions the District ended 2013 with 96% cost recovery in the stationary source program. For fiscal year 2014 the District is projecting a cost recovery of the stationary source program of 86%, however, with the 1.7% CPI the District decided to forgo the adjustment for 2014.

The DMV revenue is received from vehicle registration fees within the District's jurisdiction. The DMV revenue received under AB2766 supports employees working within the Mobile Source program which includes salaries and benefits, and operating costs; and a portion supports the Clean Air Funds program. AB923 supported the District's Lower Emission School Bus Program (AB923) in fiscal year 2013. As of June 30, 2013, all school buses in the District have been replaced and/or retrofitted under the Clean School Bus Program.

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 Clean Air Funds program. In 2013, the Board approved with the use of matching funds for the LGER lawnmower exchange program.

The following factors were considered in preparing the fiscal year 2014 approved final budget. The District's overall budget increased by 2% which includes the General Fund and the three Mobile Source Funds which are restricted in use.

- General Fund is projected to decrease expenditures by 6% due to the District eliminating one full-time position. The budget includes paying $100,000 toward the District’s pension side-fund thus reducing the employer contributions to CalPERS from 12.3% to 11.5% in 2014. Also, planned is the continued contribution to the CalPERS trust of $110,000.

- Mobile Source DMV funds were segregated into two separate funds in 2013 and now are accounted for in separate funds. In 2014, the District continues operation in AB2766 fund with $110,000 being available for the Clean Air Funds Program. For AB923 District staff is recommending to the Board a grant program that follows the compliance requirements of the Carl Moyer state program with approximately $900,000 being available for future grants. AB923 sunsets on January 1, 2015, however, under AB8 approved by the Governor on September 28, 2013, the $2.00 the District receives for vehicles registered within the District boundaries extends to January 1, 2024.

- Mobile Source Solano County Property Tax fund has approximately 45% more available fund balance for FY 2014 compared to FY 2013. In FY 2013 the District received $141,000 from RDA pass-through taxes which was not budgeted, resulting in an increase in available fund balance for FY 2014. In 2014, the Board approved additional funding for public outreach of approximately $16,000, and $250,000 toward the Clean Air Funds program. The District is projecting no increase in revenue from FY 2013 to FY 2014 from Solano County except in RDA pass-through funds in which $25,000 was projected.

Requests for Information

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

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

STATEMENTS OF NET POSITION – GOVERNMENTAL ACTIVITIES

JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash and investments	$ 936,196	$ 1,060,996
Restricted cash	1,714,586	1,562,881
Accounts receivable	74,203	45,876
Due from other agencies	354,985	411,873
Prepaid expenses	-	40,491
Capital assets, net	92,281	74,526
TOTAL ASSETS	3,172,251	3,196,643
LIABILITIES		
Accounts payable	36,121	23,893
Due to other agencies	1,094	-
Accrued payroll	37,622	72,177
Unearned revenue	76,818	10,780
Noncurrent liabilities:		
Due within one year	112,206	111,431
Due in more than one year	549,076	607,733
TOTAL LIABILITIES	812,937	826,014
NET POSITION		
Net investment in capital assets	73,982	49,791
Restricted for:		
Mobile Source DMV (AB2766)	147,272	1,454,887
Mobile Source DMV (AB923)	1,318,311	-
Mobile Source (AB8)	521,687	389,345
Unrestricted	298,062	476,606
TOTAL NET POSITION	$ 2,359,314	$ 2,370,629

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

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

STATEMENTS OF ACTIVITIES – GOVERNMENTAL ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
PROGRAM EXPENSES		
Governmental activities:		
Public health	$ 4,209,206	$ 4,226,507
Interest on long-term debt	2,781	3,539
TOTAL PROGRAM EXPENSES	4,211,987	4,230,046
PROGRAM REVENUES		
Charges for services	1,787,471	1,747,928
Operating grants and contributions	2,230,741	2,188,171
TOTAL PROGRAM REVENUES	4,018,212	3,936,099
NET PROGRAM REVENUE (EXPENSE)	(193,775)	(293,947)
GENERAL REVENUES		
Settlements and penalties	158,576	212,409
Investment income	8,437	16,405
Other	15,447	34,783
TOTAL GENERAL REVENUES	182,460	263,597
CHANGES IN NET POSITION	(11,315)	(30,350)
Net Position at Beginning of Year	2,370,629	2,400,979
Net Position at End of Year	$ 2,359,314	$ 2,370,629

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

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2013

		Special Revenue Funds			
	General Fund	Mobile Source DMV (AB2766) Fund	Mobile Source DMV (AB923) Fund	Mobile Source (Solano Property Tax) Fund	Total Governmental Funds
ASSETS					
Cash and investments	$ 928,091	$ 8,105	$ -	$ -	$ 936,196
Restricted cash	-	514,392	686,628	513,566	1,714,586
Accounts receivable	74,203	-	-	-	74,203
Due from other governments	74,427	181,624	90,813	8,121	354,985
Due from other funds	-	-	540,870	-	540,870
TOTAL ASSETS	$ 1,076,721	$ 704,121	$ 1,318,311	$ 521,687	$ 3,620,840
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 27,642	$ 8,479	$ -	$ -	$ 36,121
Due to other governments	1,094	-	-	-	1,094
Due to other funds	-	540,870	-	-	540,870
Accrued payroll	30,122	7,500	-	-	37,622
Deferred revenue	151,246	-	-	-	151,246
TOTAL LIABILITIES	210,104	556,849	-	-	766,953
FUND BALANCES					
Restricted for:					
AB2766	-	147,272	-	-	147,272
AB923	-	-	1,318,311	-	1,318,311
Solano Property Tax	-	-	-	521,687	521,687
Assigned to:					
Equipment replacement	14,774	-	-	-	14,774
Special programs	13,061	-	-	-	13,061
Unassigned	838,782	-	-	-	838,782
TOTAL FUND BALANCES	866,617	147,272	1,318,311	521,687	2,853,887
TOTAL LIABILITIES AND FUND BALANCES	$ 1,076,721	$ 704,121	$ 1,318,311	$ 521,687	$ 3,620,840

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

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2012

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

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

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

RECONCILIATION OF THE BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENTS OF NET POSITION – GOVERNMENTAL FUNDS

JUNE 30, 2013

Fund balances – total governmental funds		$ 2,853,887
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Revenues that are earned but are not available or received within the period of availability are not recognized as revenues in the fund statements but are reported as revenue in the Government-Wide statement of activities		74,428
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds:		
Governmental capital assets	$ 627,992	
Less: accumulated depreciation	(535,711)	92,281
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Accrual for other post-employment benefits (OPEB)	(499,391)	
Capitalized lease obligations	(18,299)	
Accrued compensated absences	(143,592)	(661,282)
Net position – governmental activities		$ 2,359,314

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

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

RECONCILIATION OF THE BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENTS OF NET POSITION – GOVERNMENTAL FUNDS

JUNE 30, 2012

Fund balances – total governmental funds		$ 3,015,267
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds:		
Governmental capital assets	$ 599,579	
Less: accumulated depreciation	(525,053)	74,526
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Accrual for other post-employment benefits (OPEB)	(560,887)	
Capitalized lease obligations	(24,735)	
Accrued compensated absences	(133,542)	(719,164)
Net position – governmental activities		$ 2,370,629

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

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2013

		Special Revenue Funds			
	General Fund	Mobile Source DMV (AB2766) Fund	Mobile Source DMV (AB923) Fund	Mobile Source (Solano Property Tax) Fund	Total Governmental Funds
REVENUES					
Licenses and permits	$ 1,787,471	$ -	$ -	$ -	$ 1,787,471
Intergovernmental	203,483	1,035,062	517,532	400,236	2,156,313
Settlements and penalties	158,576	-	-	-	158,576
Use of money	4,330	2,289	1,818	-	8,437
Other revenues	15,417	30	-	-	15,447
TOTAL REVENUES	2,169,277	1,037,381	519,350	400,236	4,126,244
EXPENDITURES					
Current:					
Public health	2,603,950	761,679	622,956	242,701	4,231,286
Capital outlay	47,121	-	-	-	47,121
Debt service:					
Principal	6,436	-	-	-	6,436
Interest	2,781	-	-	-	2,781
TOTAL EXPENDITURES	2,660,288	761,679	622,956	242,701	4,287,624
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(491,011)	275,702	(103,606)	157,535	(161,380)
OTHER FINANCING SOURCES (USES)					
Transfers in	186,593	-	1,447,105	-	1,633,698
Transfers out	-	(1,583,317)	(25,188)	(25,193)	(1,633,698)
TOTAL OTHER FINANCING SOURCES (USES)	186,593	(1,583,317)	1,421,917	(25,193)	-
NET CHANGE IN FUND BALANCES	(304,418)	(1,307,615)	1,318,311	132,342	(161,380)
Fund Balances at Beginning of Year	1,171,035	1,454,887	-	389,345	3,015,267
Fund Balances at End of Year	$ 866,617	$ 147,272	$ 1,318,311	$ 521,687	$ 2,853,887

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

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2012

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

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

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2013

Net changes in fund balances – total governmental funds		$ (161,380)
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. Deferred revenues increased by this amount durring the year.		74,428
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	$ 47,121	
Depreciation expense	(29,366)	17,755
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Principal repayments on long-term liabilities		6,436
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		61,496
Change in accrual for compensated absences		(10,050)
Change in net position – governmental activities		$ (11,315)

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

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2012

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Background:

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Fund Financial Statements:

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

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

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

The District reports the following major governmental fund types:

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

Mobile Source DMV (AB2766) – This special revenue fund is used to account for the restricted revenues received from the State under Assembly Bill 2766 (AB2766) for implementation of the California Clean Air Act to reduce air pollution from motor vehicles and related studies.

Mobile Source DMV (AB923) – This special revenue fund was opened in FY 2012/2013 to account for separately the restricted revenues received from the State under Assembly Bill 923 (AB923), whereby the Board of Directors approved the addition of $2.00 for each vehicle registration for various projects as established by legislation, which are legally restricted to expenditures for specific purposes.

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 (AB8), which have been restricted for the reduction of air pollution from motor vehicles and related studies. The District signed an agreement with the County of Solano in 1992 whereby the District would administer the Solano property tax funds as part of the Clean Air Funds Program. These taxes are restricted for specified purposes within the County of Solano.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgets:

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

E. Capital Assets:

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

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

F. Deferred Revenue/Unearned Revenues:

Under both the accrual and modified accrual basis of accounting, revenue may be recognized only when earned. Therefore, the government-wide statements of net position as well as governmental funds defer revenue recognition in connection with resources that have been received as of year-end, but not yet earned. For the District this is primarily composed of revenue for renewal fees billed in advance of the service year and revenues collected outside of the Districts period of availability (60 days). If fees are collected before year-end, unearned revenue is recorded for all revenue related to services provided in the next fiscal year. If revenue is collected outside of the period of availability, deferred revenue is recorded, as it is recognized as revenue in the next fiscal year. For the fiscal years ended June 30, 2013 and June 30, 2012, unearned revenue had balances of $151,246 and $10,780, respectively. For the fiscal year ended June 30, 2013, the District deferred revenue in the amount of $76,818.

G. Net Position:

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Net Position (Continued):

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. For fiscal years ending June 30, 2013 and June 30, 2012 respectively: restricted amounts for Mobile Source DMV AB2766 $147,272 and $1,454,887 (combined AB2766 and AB923); Mobile Source DMV AB923 $1,318,311 (2013 only); Mobile Source Solano Property Tax $521,687 and $389,345.

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

I. Fund Equity:

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

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

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

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

Assigned – Resources with self-imposed limitations but do not require approval by the highest level of decision making authority or the same level of formal action to remove or modify limitations. 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 – Resources that cannot be reported in any other classification.

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

J. Operating Transfers:

Operating transfers are for the allocation of overhead costs and for administrative costs attributable to the AB2766, AB923, and Solano Property Tax programs. The District separated the two funding sources in 2013 that previously were reported in Fund 422, Mobile Source DMV (AB2766 and AB923) due to the more restrictive use of AB923. The balance of $540,870 will be transferred to AB923 in 2014.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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.

L. New Effective Accounting Pronouncements:

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

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

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

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

GASB Statement No. 63 – In June 2011, GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Positions*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and the resulting net position. This Statement is effective for the year ending June 30, 2013 and 2012 and has been implemented by the District.

M. Future Accounting Pronouncements:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Future Accounting Pronouncements (Continued):

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

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

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

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

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to improve accounting and financial reporting by State and local governments for government combinations and disposals of government operations. The Statement provides authoritative guidance on a variety of government combinations including mergers, acquisitions, and transfers of operations. This Statement is not effective until the fiscal year ending June 30, 2015. The District has not determined the effect of this Statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Future Accounting Pronouncements (Continued):

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by State and local governments that extend and receive nonexchange financial guarantees. The Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement is not effective until the fiscal year ending June 30, 2014. The District has not determined the effect of this Statement.

NOTE 2 – CASH AND INVESTMENTS

Cash in County Treasury:

The District maintains all of its cash and investments with the Yolo County Treasurer in a cash and investment pool. On a quarterly basis, the Treasurer allocates interest to participants based upon their average daily balances. Required disclosure information regarding the classification of investments and other deposit and investment risk disclosures can be found in the County's Comprehensive Annual Financial Report (CAFR). The County of Yolo's financial statements may be obtained by contacting the County of Yolo's Auditor-Controller's Office at 625 Court Street, Room 103, Woodland, California 95695. The Yolo County Treasury Oversight Committee oversees the Treasurer's investments and policies.

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

The total amounts held in the County pool are as follows: $936,196 is held in the county pool as investments, $514,392 is restricted for AB2766, $686,628 is restricted for AB923, and $513,566 is restricted for Solano Property Tax.

Cash in Bank:
The District opened an outside bank account at a local bank, First Northern Bank, in February 2013 with approval of the Board. The District utilizes the account to be accessed by ACH transfer from the District to the third party provider (Qqest/Infinisource) bi-weekly for payroll, which includes salaries and benefits.

The District maintains a separate checking account in the name of the District. At June 30, 2013, the reported amount of the Districts deposits was $132,961. Of the bank balance, $132,961 was covered by Federal depository insurance. The total balance of the cash in bank for the fiscal year ended June 30, 2013 is included in cash and investments.

NOTE 2 – CASH AND INVESTMENTS (Continued)

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

	2013	2012
Cash and investments	$ 936,196	$ 1,060,996
Restricted cash	1,714,586	1,562,881
Total Cash and Investments	$ 2,650,782	$ 2,623,877

NOTE 3 – RESTRICTED CASH/PROGRAM EXPENDITURES

Revenues received under AB2766 and AB923 are restricted from cash available for current operations in accordance with that legislation. As of June 30, 2013 and 2012, the restricted cash balance in the AB2766 and AB923 special revenue funds, which totaled $514,392 and $686,628, and $1,201,856, respectively, is restricted for clean air projects as approved by the Board. Expenditures under AB2766 for the years ended June 30, 2013 and 2012, were made in accordance with the District's Board of Directors' authorizations and were as follows:

	2013	2012
Public health:		
Salaries and benefits	$ 580,183	$ 566,425
Professional services:		
Discretional external projects/programs	15,325	11,546
Other services and supplies	55,971	50,400
Program expenditures:		
024u Educational Campaign	14,863	19,726
Bike Rack for Buses	-	7,184
Bridge to Beach Multi-Use Pathway	-	10,000
Climate change compact	1,500	-
Low Speed EV Upgrade	8,801	-
Purchase CNG Honda Civic	-	9,529
Purchase Neighborhood Electric Vehicle	-	12,000
Replace Diesel Tractor	21,063	-
Replace Heavy Duty Truck	21,063	-
Replace Rescue Vehicle	28,000	-
Replace utility tractor	-	33,934
Retrofit of Weights & Measures Truck	13,060	-
Search for King Carbon	1,850	-
Spare the Air Program	-	14,400
Yolobus Summer Special	-	15,000
Total public health expenditures	761,679	750,144
Capital outlay	-	4,101
Transfers out:		
Overhead allocation *	85,836	139,014
Administrative fee *	50,376	51,500
Total transfers out	136,212	190,514
Total AB2766 Expenditures	$ 897,891	$ 944,759

* Administrative fees and overhead allocation transferred from the Special Revenue Funds to the General Fund to support operations. Transfers out net of transfers to Mobile Source DMV (AB923) Fund.

NOTE 3 – RESTRICTED CASH/PROGRAM EXPENDITURES (Continued)

Expenditures under AB923 for the year ended June 30, 2013 and June 30, 2012, were made in accordance with the District's Board of Directors' authorizations and were as follows:

	2013	2012
Public health:		
Program expenditures:		
Bus replacement	$ 622,956	$ 861,843
Transfers out:		
Administrative fee *	25,188	25,750
Total AB923 Expenditures	$ 648,144	$ 887,593

As of June 30, 2013 and 2012, the cash balance in the Solano Property Tax Special Revenue Fund, which totaled $513,566 and $361,025, respectively, is restricted for clean air projects in Solano County as approved by the Board of Directors. Expenditures and transfers under AB8 for the fiscal years ended June 30, 2013 and 2012, were made in accordance with the District's Board of Directors' authorizations and were as follows:

	2013	2012
Public health:		
Professional expenditures:		
Discretionary external projects/programs	$ 1,701	$ 4,500
Program expenditures:		
Mower Replacement Project	36,000	-
Vacaville-Dixon Bikeway	75,000	-
Motor Grader Replacement Project	100,000	-
Bridge to beach multi-use pathway	-	50,000
Vacaville–Dixon Bikeway	-	100,000
Safe Routes to School	30,000	
Total public health expenditures:	242,701	154,500
Transfers out:		
Administrative fee *	25,193	22,000
Total AB8 Expenditures	$ 267,894	$ 176,500

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

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2013 and 2012 was as follows:

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
Capital assets being depreciated:				
Office equipment	$ 109,169	$ -	$ -	$ 109,169
Office furniture	139,574	-	-	139,574
Air monitoring equipment	195,237	29,082	-	224,319
Vehicles	155,599	18,039	(18,708)	154,930
Total capital assets, being depreciated	599,579	47,121	(18,708)	627,992
Less accumulated depreciation for:				
Office equipment	(58,587)	(17,538)	-	(76,125)
Office furniture	(132,244)	(1,832)	-	(134,076)
Air monitoring equipment	(195,273)	(4,998)	-	(200,271)
Vehicles	(138,949)	(4,998)	18,708	(125,239)
Total accumulated depreciation	(525,053)	(29,366)	18,708	(535,711)
Total capital assets being depreciated, net	74,526	17,755	-	92,281
Capital assets, net	$ 74,526	$ 17,755	$ -	$ 92,281

	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012
Capital assets being depreciated:				
Office equipment	$ 97,573	$ 11,596	$ -	$ 109,169
Office furniture	139,574	-	-	139,574
Air monitoring equipment	195,237	-	-	195,237
Vehicles	173,858	-	(18,259)	155,599
Total capital assets, being depreciated	606,242	11,596	(18,259)	599,579
Less accumulated depreciation for:				
Office equipment	(40,084)	(18,503)	-	(58,587)
Office furniture	(130,412)	(1,832)	-	(132,244)
Air monitoring equipment	(189,707)	(5,566)	-	(195,273)
Vehicles	(153,878)	(3,330)	18,259	(138,949)
Total accumulated depreciation	(514,081)	(29,231)	18,259	(525,053)
Total capital assets being depreciated, net	92,161	(17,635)	-	74,526
Capital assets, net	$ 92,161	$ (17,635)	$ -	$ 74,526

Depreciation expense of $29,366 and $29,231 is charged to Public Health for the fiscal years ended June 30, 2013 and 2012, respectively.

NOTE 5 – LONG-TERM LIABILITIES

The following is a summary of long-term liabilities activity of the District for the years ended June 30, 2013 and 2012:

	Balance July 1, 2012	Additions	Repayments	Balance June 30, 2013	Due Within One Year
Liability for other post-employment benefits	$ 560,887	$ -	$ (61,496)	$ 499,391	$ -
Capital lease obligations	24,735	-	(6,436)	18,299	9,206
Compensated absences	133,542	106,291	(96,241)	143,592	103,000
	$ 719,164	$ 106,291	$ (164,173)	$ 661,282	$ 112,206

	Balance July 1, 2011	Additions	Repayments	Balance June 30, 2012	Due Within One Year
Liability for other post-employment benefits	$ 369,072	$ 191,815	$ -	$ 560,887	$ -
Capital lease obligations	30,402	-	(5,667)	24,735	6,431
Compensated absences	159,920	100,054	(126,432)	133,542	105,000
	$ 559,394	$ 291,869	$ (132,099)	$ 719,164	$ 111,431

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

The following is a description of the composition of long-term liabilities at June 30, 2013 and 2012:

Capital Lease Obligation: The District leases equipment (photocopiers) under capital leases which has monthly payments of $760, incorporating current sales tax, through October 15, 2015. Fixed assets acquired under the capital lease consist of office equipment totaling $34,261, and accumulated depreciation at June 30, 2013 and 2012, of $20,556 and $13,704, respectively. As of June 30, 2013, future minimum lease payments under capital lease obligations are as follows:

Fiscal Year Ending June, 30:	
2014	$ 9,206
2015	9,206
2016	3,119
Total payments	21,531
Less: amounts representing interest	(3,232)
Net present value of future minimum lease payments	$ 18,299

NOTE 5 – LONG-TERM LIABILITIES (Continued)

Accrued Compensated Absences:

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

NOTE 6 – INTERFUND TRANSACTIONS

Interfund Transfers:
Interfund transfers for the years ended June 30, 2013 and 2012, were as follows:

Transfers from	Transfers to	2013	2012
General Fund	Mobile Source DMV (AB2766) Fund	$ 136,212	$ 190,514
	Mobile Source DMV (AB923) Fund	25,188	25,750
	Mobile Source (Solano Property Tax) Fund	25,193	22,000
		186,593	238,264
Mobile Source DMV (AB923) Fund	Mobile Source DMV (AB2766) Fund	1,447,105	-
		1,447,105	-
	Total	$ 1,633,698	$ 238,264

Transfers are used to allocate overhead expenses and administrative fees from the General Fund to the other funds. During the fiscal year 2012-13, the District separated the AB2766 and AB923 funding sources that were previously recorded in Fund 422. The Mobile Source DMV (AB2766) transferred $1,447,105 which was applicable to Fund 420 (AB923).

Due To/Due From Other Funds:

Receivable Fund	Payable Fund	2013	2012
Mobile Source DMV (AB923) Fund	Mobile Source DMV (AB2766) Fund	$ 540,870	$ -
		$ 540,870	$ -

During the fiscal year 2012-13, the Mobile Source DMV (AB2766) Fund owed the Mobile Source DMV (AB923) Fund $540,870 as a result of the separation of the two funds.

NOTE 7 – DEFINED BENEFIT PENSION PLANS

Plan Description:

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

Funding Policy:

Participants are required to contribute 6% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account, which amounted to $99,479 and $108,602, for the years ended June 30, 2013 and 2012. The District is required to contribute at an actuarially determined rate; the rate for the years ended June 30, 2013 and 2012, was 11.632% and 12.346% of annual covered payroll, respectively. In addition to the fiscal year 2012-13 annual required contribution, on December 12, 2012, the Board entered into an agreement with CalPERS to pay down the District's pension side fund in the amount of $121,100, which resulted in a reduction to the fiscal year 2012-13 required contribution percentage of 0.864%. The contribution requirements of plan members and the District are established and may be amended by CalPERS. The District's contributions to CalPERS for the years ending June 30, 2013, 2012 and 2011 were $201,041, $191,543, and $205,916, respectively.

Fiscal Year Ending	Annual Required Contributions (ARC)	Percentage of ARC Contributed
6/30/2013	$ 201,041	100%
6/30/2012	191,543	100%
6/30/2011	205,916	100%

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description:

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

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

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

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

As such, the District's maximum contribution in 2012 for active employees for employee and family was $1,428 which was 90% PEMHCA under the Kaiser Bay Area basic plan. On June 13, 2012, the District entered into an agreement with active employees that caps the employer paid portion of the healthcare premium. Effective January 1, 2013 the District contributes the maximum of $550 for employee only, $1,110 for employee plus one, and $1,430 for employee and family within the PEMHCA system.

Starting in January 2013 employer contributions for retirees are at the same cap as active. The amount the retiree's actually contribute is based on the year they retired, insurance plan, and status of employee (employee only, employee + one, or employee + family) but only up to the capped amount. Also another considering factor is if the retiree is eligible for Medicare, the employer contribution is reduced based on the coordination of Medicare and PEMHCA.

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

Funding Policy:

The contribution requirements of the District's participants and the District are established by and may be amended by the District pursuant to agreements with its employees. Contributions to the OPEB plan for the years ended June 30, 2013 and 2012, totaled $67,160 and $51,871, respectively, on the pay-as-you-go method. Retired plan members and their beneficiaries pay the annual premium cost not paid by the employer. In addition to the fiscal year 2012-13 annual required contribution, on December 12, 2012, the Board entered into an agreement with the California Employers' Retirement Benefit Trust Program (CERBT) for prefunding of Other Post Employment Benefits in the amount of $105,000.

Annual OPEB Cost and Net OPEB Obligation:

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

The following table shows the components of the District's annual required contribution for the year, the interest on OPEB obligation, adjustments to the ARC, the amount actually contributed to the Plan, and changes in the District's Net OPEB obligation:

	2013	2012
Annual required contribution	$ 105,000	$ 228,000
Interest on OPEB obligation	40,664	15,686
Adjustment to ARC	(35,000)	-
Annual OPEB cost (expense)	110,664	243,686
Contributions made:		
Premium payments made	(67,160)	(51,871)
Prefunding CERBT contribution	(105,000)	-
Increase/(Decrease) in net OPEB obligation	(61,496)	191,815
Net OPEB obligation, beginning of year	560,887	369,072
Net OPEB obligation, end of year	$ 499,391	$ 560,887

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

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the OPEB obligation for fiscal years 2013, 2012, and 2011, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	$ 110,664	155.57%	$ 499,391
6/30/2012	243,686	21.29%	560,887
6/30/2011	221,628	14.45%	369,072

Funded Status and Funding Progress:

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

Actuarial accrued liability (AAL)	$ 1,274,000
Actuarial value of Plan assets	(108,000)
Underfunded actuarial accrued liability (UAAL)	$ 1,166,000
Funded ratio (actuarial value of Plan assets/AAL)	-8.48%
Covered payroll (active Plan participants)	$ 1,698,000
UAAL as a percentage of covered payroll	68.67%

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

Actuarial Methods and Assumptions:

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

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

For the June 30, 2012, actuarial valuation, the entry age normal actuarial cost level of pay method was used. The actuarial assumptions included a 4.25% investment rate of return, a 3.25% salary increase, and a 3% general inflation rate. Premiums were assumed to increase with a CalPERS minimum medical plan premium decrease rate of 8.5% for 2014 grading down to 5% for 2021 and thereafter. The initial UAAL was amortized as a level percentage of projected payroll on a closed basis over fixed 27-year period as of the year ended June 30, 2013.

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

NOTE 9 – RISK MANAGEMENT

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

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

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

During the years ending June 30, 2013 and June 30, 2012, the District has no settlements exceeding insurance coverage for these categories of risk. For the past three years, settlements or judgment amounts have not exceeded insurance provided for District. During the year ended June 30, 2013, the District discontinued its pollution legal liability insurance coverage.

NOTE 10 – RELATED PARTY TRANSACTIONS

Under the District's clean air funds programs (AB2766 and AB8) the District contracts with certain other local agencies that are considered to be related parties due to District Board members holding positions of potentially significant influence with the contracted parties. The County of Yolo (the County) provides certain legal, accounting, and other professional services to the District. Although the District was created in part by the County, it is not a part of the County's financial reporting entity. Legal, payroll and accounting services are billed separately and at amounts that will approximately recover the County's full cost of providing such services. The District's Board of Directors receives a $100 fee per meeting and other administrative reimbursements. In addition, the District’s hearing Board receives stipends that equal $60 per hearing board meeting. Expenditures for services provided by related parties during the fiscal year ended June 30, 2013, are summarized as follows:

Related Party	Fiscal Year 2012-2013 Expenses
City of Davis:	
Replace Diesel Tractor	$ 21,063
City of Dixon:	
Mower Replacement Project	36000
City of Rio Vista:	
Replace Rescue Vehicle	28,000
City of Winters:	
Low Speed Electric Vehicle Upgrade	8,801
Solano County:	
Vacaville-Dixon Bikeway	75,000
Motor Grade Replacement Project	100,000
Yolo County:	
Retrofit of Weights & Measures Truck for Ag Department	13,060
Climate Change Compact	1,500
Legal and accounting services	53,573
District Directors	
Board meeting stipends and reimbursements	11,204
Hearing Board members	
Meeting stipends	1,020
Total	$ 349,221

NOTE 10 – RELATED PARTY TRANSACTIONS (Continued)

Expenditures for services provided by related parties during the fiscal year ended June 30, 2012, are summarized as follows:

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

NOTE 11 – LEASE COMMITMENTS

The District amended its office space lease agreement effective November 1, 2009, which includes an expansion of the existing office space, first right of refusal for additional office space as it becomes available, and a liquidating damages clause should the District terminate the lease agreement before its amended expiration date of August 31, 2019. Rent expense under all operating lease agreements was $164,330 and $159,968, for the years ended June 30, 2013 and 2012, respectively. As of June 30, 2013, future minimum lease payments under operating leases are as follows:

Fiscal year ending June 30,	
2014	$ 155,220
2015	155,220
2016	155,220
2017	155,220
Thereafter	336,310
Total minimum lease commitments	$ 957,190

NOTE 12 – CONTINGENCIES

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

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

REQUIRED SUPPLEMENTARY INFORMATION

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

OTHER POSTEMPLOYMENT BENEFITS – SCHEDULE OF FUNDING PROGRESS

FOR THE YEAR ENDED JUNE 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2012	$ 108,000	$ 1,274,000	$ 1,166,000	8.48%	$ 1,698,000	68.67%
6/30/2009	$ -	$ 1,758,000	$ 1,758,000	0%	$ 1,727,000	101.80%

See accompanying note to required supplementary information.

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Licenses and permits	1,688,830	$ 1,688,830	$ 1,787,471	$ 98,641
Intergovernmental	221,550	301,473	203,483	(97,990)
Settlements and penalties	155,000	155,000	158,576	3,576
Use of money	10,000	10,000	4,330	(5,670)
Other revenues	21,000	14,000	15,417	1,417
TOTAL REVENUES	2,096,380	2,169,303	2,169,277	(26)
EXPENDITURES				
Current:				
Public health	2,944,859	3,136,011	2,603,950	532,061
Capital outlay	53,100	53,100	47,121	5,979
Debt service:				
Principal	9,600	9,600	6,436	3,164
Interest	-	-	2,781	(2,781)
TOTAL EXPENDITURES	3,007,559	3,198,711	2,660,288	538,423
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(911,179)	(1,029,408)	(491,011)	538,397
OTHER FINANCING SOURCES (USES)				
Transfers in	252,000	183,400	186,593	3,193
TOTAL OTHER FINANCING SOURCES (USES)	252,000	183,400	186,593	3,193
NET CHANGE IN FUND BALANCE	(659,179)	(846,008)	(304,418)	541,590
Fund Balance at Beginning of Year	1,171,035	1,171,035	1,171,035	-
Fund Balance at End of Year	$ 511,856	$ 325,027	$ 866,617	$ 541,590

See accompanying note to required supplementary information.

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2012

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

See accompanying note to required supplementary information.

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION – 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, 2013

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Intergovernmental	$ 1,545,000	$ 1,029,804	$ 1,035,062	$ 5,258
Use of money	10,000	6,000	2,289	(3,711)
TOTAL REVENUES	1,555,000	1,035,804	1,037,351	1,547
EXPENDITURES				
Current:				
Public health	2,261,730	900,149	761,679	138,470
TOTAL EXPENDITURES	2,261,730	900,149	761,679	138,470
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(706,730)	135,655	275,672	140,017
OTHER FINANCING SOURCES (USES)				
Transfers out	(232,000)	(135,655)	(1,583,317)	(1,447,662)
TOTAL OTHER FINANCING SOURCES (USES)	(232,000)	(135,655)	(1,583,317)	(1,447,662)
NET CHANGE IN FUND BALANCE	(938,730)	-	(1,307,645)	(1,307,645)
Fund Balance at Beginning of Year	1,454,887	1,454,887	1,454,887	-
Fund Balance at End of Year	$ 516,157	$ 1,454,887	$ 147,242	$ (1,307,645)

See accompanying note to required supplementary information.

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION – 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, 2013

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

See accompanying note to required supplementary information.

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – MOBILE SOURCE DMV (AB 2766 AND AB 923) SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Intergovernmental	$ -	514,902	$ 517,532	$ 2,630
Use of money	-	4,000	1,818	(2,182)
TOTAL REVENUES	-	518,902	519,350	448
EXPENDITURES				
Current:				
Public health	-	1,399,392	622,956	776,436
TOTAL EXPENDITURES	-	1,399,392	622,956	776,436
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(880,490)	(103,606)	(776,884)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	1,447,105	(1,447,105)
Transfers out	-	-	(25,188)	(25,188)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	1,421,917	(1,421,917)
NET CHANGE IN FUND BALANCE	-	(880,490)	1,318,311	2,198,801
Fund Balance at Beginning of Year	-	-	-	-
Fund Balance at End of Year	$ -	$ (880,490)	$ 1,318,311	$ 2,198,801

See accompanying note to required supplementary information.

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Intergovernmental	$ 200,000	$ 220,000	$ 400,236	$ 180,236
TOTAL REVENUES	200,000	220,000	400,236	180,236
EXPENDITURES				
Current				
Public health	502,025	557,345	242,701	314,644
TOTAL EXPENDITURES	502,025	557,345	242,701	314,644
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(302,025)	(337,345)	157,535	494,880
OTHER FINANCING SOURCES (USES)				
Transfers out	(20,000)	(22,000)	(25,193)	3,193
TOTAL OTHER FINANCING SOURCES (USES)	(20,000)	(22,000)	(25,193)	3,193
NET CHANGE IN FUND BALANCE	(322,025)	(359,345)	132,342	491,687
Fund Balance at Beginning of Year	389,345	389,345	389,345	-
Fund Balance at End of Year	$ 67,320	$ 30,000	$ 521,687	$ 491,687

See accompanying note to required supplementary information.

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – MOBILE SOURCE (AB 8) SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2012

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

See accompanying note to required supplementary information.

YOLO–SOLANO AIR QUALITY MANAGEMENT DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2013 AND JUNE 30, 2012

NOTE 1 – BUDGETARY DATA

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

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Yolo-Solano Air Quality Management District (the District), as of and for the years ended June 30, 2013 and June 30, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 13, 2013. Our report includes an emphasis of a matter for the District's adoption of new accounting guidance GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 13, 2013. Our report includes an emphasis of a matter for the District's adoption of the new accounting guidance GASB Statement 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, material weaknesses may exist that have not been identified.

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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.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
November 13, 2013