

AGENDA ITEM 2



REQUEST FOR FINANCE COMMISSION ACTION

MEETING DATE: NOVEMBER 16, 2020

TITLE: AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

A handwritten signature in cursive script, appearing to read "K. Griffith".

Director of Financial Management and
Strategic Planning

RECOMMENDED ACTION

Recommend the City Council receive and file.

EXECUTIVE SUMMARY

The City's independent auditors, White Nelson Diehl Evans, LLP, have completed the Air Quality Improvement Special Revenue Fund audit for the fiscal year ended June 30, 2020 (Attachment). In the auditor's opinion, the Air Quality Improvement Special Revenue Fund's (Fund), financial statements fairly present the financial position of the Fund, meaning the financial statements are materially correct in presenting the Fund's financial condition and operating results and conform to generally accepted accounting principles. The opinion enables the City to continue receiving the motor vehicle fee revenue through the South Coast Air Quality Management District.

ANALYSIS

Under the provisions of Assembly Bill 2766, 40 percent of the South Coast Air Quality Management District (SCAQMD) motor vehicle fees are allocated to the cities and counties within the SCAQMD proportionately, based on population. Expenditures of these funds must be used to reduce air pollution from motor vehicles or for related activities necessary for the implementation of the California Clean Air Act of 1988.

On July 1, 2019, this fund had a beginning fund balance of \$528,802 and during the fiscal year \$355,419 in SCAQMD motor vehicle fees was received. Program costs totaled \$347,828. Of this amount \$16,416 was for administration and \$331,412 was for qualifying expenditures related to infrastructure improvement encouraging alternative modes of transportation, and increased security efforts at the Irvine Station. These qualifying expenditures represent part of the City's ongoing commitment to improve and encourage the traveling public to seek alternative modes of transportation.

The City continues its effort to reduce its carbon footprint on the environment, at June 30, 2020, revenues exceeded expenditures by \$30,558, increasing the City's available AQMD fund balance to \$559,360.

The SCAQMD funds are an important resource for the City to fund projects that help reduce air pollution from motor vehicles and related activities necessary for the implementation of the California Clean Air Act of 1988. The audit report allows the City to continue receiving the motor vehicle fee revenue through the SCAQMD.

ALTERNATIVES CONSIDERED

No alternatives were considered, as Health and Safety Code Section 44244.1 requires an audit by an independent auditor.

FINANCIAL IMPACT

The audit results will allow the City to continue receiving SCAQMD motor vehicle fees. The cost of the audit, \$1,586 is included in the program's budget.

REPORT PREPARED BY Teri Washle, Finance Officer

ATTACHMENT: Air Quality Improvement Special Revenue Fund
Financial Statements for the Fiscal Year Ended June
30, 2020

**CITY OF IRVINE, CALIFORNIA
AIR QUALITY IMPROVEMENT
SPECIAL REVENUE FUND**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

ATTACHMENT

CITY OF IRVINE, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

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For the year ended June 30, 2020

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
of the City of Irvine
Irvine, California

We have audited the accompanying financial statements of the Air Quality Improvement Special Revenue Fund of the City of Irvine, California (the City), as of and for the year ended June 30, 2020, and the related notes to the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the City's preparation and fair presentation of the Air Quality Improvement Special Revenue Fund's 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 of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Air Quality Improvement Special Revenue Fund of the City, as of June 30, 2020, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Air Quality Improvement Special Revenue Fund and do not purport, to and do not, present fairly the financial position of the City as of June 30, 2020, or the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report date October 30, 2020, on our consideration of the Air Quality Improvement Special Revenue Fund'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 and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

White Nelson Dick Evans LLP

Irvine, California
October 30, 2020

CITY OF IRVINE
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

BALANCE SHEET

June 30, 2020

ASSETS

Cash and investments	\$ 485,170
Interest receivable	1,275
Due from other governments	<u>87,694</u>

TOTAL ASSETS	<u>\$ 574,139</u>
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LIABILITIES

Accounts Payable	\$ 14,687
Accrued Payroll	<u>92</u>

TOTAL LIABILITIES	14,779
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FUND BALANCE

Restricted for air pollution reduction	<u>559,360</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 574,139</u>
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See accompanying notes to financial statements.

CITY OF IRVINE
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE

For the year ended June 30, 2020

REVENUES	
Motor vehicle fees	\$ 355,419
Investment income	<u>22,967</u>
TOTAL REVENUES	<u>378,386</u>
EXPENDITURES	
Direct program	<u>347,828</u>
TOTAL EXPENDITURES	<u>347,828</u>
EXCESS OF REVENUES OVER EXPENDITURES	30,558
FUND BALANCE	
Beginning	<u>528,802</u>
Ending	<u>\$ 559,360</u>

See accompanying notes to financial statements.

CITY OF IRVINE
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present only the Air Quality Improvement Special Revenue Fund (the AQMD) of the City of Irvine, California (the City), and do not include any other funds of the City. The City's basic financial statements are available at City Hall.

Basis of Accounting

The accompanying financial statements for the AQMD of the City, have been prepared on the modified accrual basis of accounting. Generally, revenues are recognized when they become susceptible to accrual (that is, measurable and available to finance expenditures of the current period). Revenues susceptible to accrual include motor vehicle fees and interest earnings on investments received within 60 days of year-end. Expenditures are recognized when the fund liability is incurred, if measurable.

Measurement Focus

The AQMD is accounted for on a spending or financial flow measurement focus. This means that generally only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance for the AQMD generally presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Air Quality Improvement Special Revenue Fund

California Assembly Bill 2766 authorizes air pollution control districts to levy fees on motor vehicles. Fees are to be used to reduce air pollution. Under this program, the Department of Motor Vehicles collects the fees and subvenes the amounts to the South Coast Air Quality Management District (SCAQMD) for vehicles registered in the South Coast District. Forty cents of every dollar subvented to SCAQMD is proportionately allocated to the cities and counties in the South Coast District based upon population. The amounts attributable to the City, are maintained in the City's AQMD.

Estimates

The preparation of financial statements in accordance 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.

CITY OF IRVINE
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2020

2. CASH AND INVESTMENTS

The AQMD cash balance is pooled with various other City funds for deposit and investment purposes. Each fund's share of the pooled cash account is separately accounted for, and investment income is allocated to all participating funds based on the relationship of their average daily cash balances to the total of the pooled cash and investments. Information regarding the authorized types of deposits and investments, the type of risks (i.e., credit, interest rate, custodial, etc.), and other disclosures associated with the City's pooled cash and investments is included in the City's basic financial statements, which are available at City Hall.

3. FUND BALANCE

The entire fund balance of the AQMD is classified as restricted fund balance since the external resource provider, SCAQMD, requires that the motor vehicle fees be used only to reduce air pollution.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF IRVINE
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

For the year ended June 30, 2020

	Budgeted Amount		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Motor vehicle fees	\$ 310,000	\$ 310,000	\$ 355,419	\$ 45,419
Investment income	-	-	22,967	22,967
TOTAL REVENUES	<u>310,000</u>	<u>310,000</u>	<u>378,386</u>	<u>68,386</u>
EXPENDITURES				
Direct program	<u>558,195</u>	<u>525,195</u>	<u>347,828</u>	<u>177,367</u>
TOTAL EXPENDITURES	<u>558,195</u>	<u>525,195</u>	<u>347,828</u>	<u>177,367</u>
NET CHANGE IN FUND BALANCE	(248,195)	(215,195)	30,558	245,753
FUND BALANCE AT BEGINNING OF YEAR	<u>528,802</u>	<u>528,802</u>	<u>528,802</u>	-
FUND BALANCE AT END OF YEAR	<u><u>\$ 280,607</u></u>	<u><u>\$ 313,607</u></u>	<u><u>\$ 559,360</u></u>	<u><u>\$ 245,753</u></u>

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*

To the Honorable Mayor and
Members of the City Council
of the City of Irvine
Irvine, 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 *Governmental Auditing Standards*, issued by Comptroller General of the United States, the financial statements of the City of Irvine, California (the City), including the Air Quality Improvement Special Revenue Fund (the AQMD), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the AQMD's basic financial statements, and have issued our report thereon dated October 30, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AQMD's financial statements are free from material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Assembly Bill 2766 Chapter 1705 (Health and Safety Code Sections 44220 through 44247), noncompliance with which could have a direct and material effect on the determination of the AQMD's 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 City's internal control or on compliance related to the AQMD. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance related to the AQMD. Accordingly, this communication is not suitable for any other purpose.

White Nelson Dick Evans LLP

Irvine, California
October 30, 2020