

CITY OF IRVINE, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL
REVENUE FUND
FINANCIAL STATEMENTS
JUNE 30, 2015

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CITY OF IRVINE, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

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INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the Air Quality Improvement Special Revenue Fund of the City of Irvine, California as of and for the year ended June 30, 2015, and the notes to the financial statements, which collectively comprise the Air Quality Improvement Special Revenue Fund of the City of Irvine's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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 of Irvine, California at June 30, 2015, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.



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

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 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

As discussed in Note 1, the financial statements present only the Air Quality Improvement Special Revenue Fund and are not intended to present fairly the financial position and results of operations of the City of Irvine in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2015, 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Lance, Soll & Loughard, LLP". The signature is written in a cursive, flowing style.

Brea, California
August 26, 2015

CITY OF IRVINE
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

BALANCE SHEET / STATEMENT OF NET POSITION
JUNE 30, 2015

Assets:

Cash and investments (Note 2)	\$	913,783
Interest receivable		971
Due from other governments		<u>78,998</u>

Total Assets **\$ 993,752**

Liabilities:

Accounts payable	\$	13,580
Accrued payroll		<u>108</u>

Total Liabilities **13,688**

Fund Balance/Net Position:

Restricted for air pollution reduction		<u>980,064</u>
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Total Fund Balance/Net Position **980,064**

Total Liabilities and Fund Balance/Net Position **\$ 993,752**

CITY OF IRVINE
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE / STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Revenues:

Motor vehicle fees	\$ 300,887
Interest income	7,655

Total Revenues	308,542
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Expenditures:

Direct program	279,477
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Total Expenditures	279,477
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Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	29,065
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Fund Balance/Net Position:

Beginning of Fiscal Year	950,999
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End of Fiscal Year	\$ 980,064
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**CITY OF IRVINE
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 1: Organization and Summary of Significant Accounting Policies

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

a. Basis of Accounting

The accompanying financial statements for the Air Quality Improvement Special Revenue Fund of the City of Irvine, California, 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.

b. Measurement Focus

The Air Quality Improvement Special Revenue Fund 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/statement of net position. The statement of revenues, expenditures and changes in fund balance/statement of activities for the Air Quality Improvement Special Revenue Fund generally presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

c. 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 of Irvine, California, are maintained in the City's Air Quality Improvement Special Revenue Fund.

d. 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.

Note 2: Cash and Investments

The Air Quality Improvement Special Revenue Fund cash balance is pooled with various other City of Irvine, California, 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

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Note 2: Cash and Investments (Continued)

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.

Note 3: Fund Balance

Fund balance is classified, per Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", by the following categories:

Nonspendable Fund Balance - This includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance - This includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed Fund Balance - This includes amounts that can be used only for the specific purposes determined by a formal action of the city council.

Assigned Fund Balance - This includes amounts that are designated by the city council for specific purposes.

Unassigned Fund Balance - This is the residual classification that includes all spendable amounts not contained in the other classifications.

The entire fund balance/net position of the Air Quality Improvement Special Revenue Fund is classified as restricted fund balance since the external resource provider, SCAQMD, requires the motor vehicle fees to be used only to reduce air pollution.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH APPLICABLE
REQUIREMENTS AND ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance of the Air Quality Improvement Special Revenue Fund

We have audited the compliance of the Air Quality Improvement Special Revenue Fund of the City of Irvine, California (the "City") with the types of compliance requirements described in Assembly Bill 2766, Chapter 1705 (44220 through 44247) for the year ended June 30, 2015.

Management's Responsibility for the Financial Statements

Management is responsible for compliance with the requirements of Assembly Bill 2766, Chapter 1705 (44220 through 44247).

Auditor's Responsibility

Our responsibility is to express opinions on compliance with the requirements of Assembly Bill 2766, Chapter 1705 (44220 through 44247). We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, and Assembly Bill 2766, Chapter 1705 (44220 through 44247). Those standards and Assembly Bill 2766, Chapter 1705 (44220 through 44247) require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a material effect on the Air Quality Improvement Special Revenue Fund occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Air Quality Improvement Special Revenue Fund

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Air Quality Improvement Special Revenue Fund for the year ended June 30, 2015.

Report on Internal Control Over Compliance of the Air Quality Improvement Special Revenue Fund

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the Air Quality Improvement Special Revenue Fund to determine the



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

auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or, significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Assembly Bill 2766, Chapter 1705 (44220 through 44247). Accordingly, this communication is not suitable for any other purpose.

August 26, 2015

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
City of 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 *Government Auditing Standards* issued by the Comptroller General of the United States, the Air Quality Improvement Special Revenue Fund financial statements of the City of Irvine, California, (the "City") as of and for the year ended June 30, 2015, and the related notes to the financial statements and have issued our report thereon dated August 26, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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



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

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. 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. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lingham, LLP

Brea California
August 26, 2015

CITY OF IRVINE, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR FISCAL YEAR ENDED JUNE 30, 2015

Findings/Recommendations

Questioned Costs

Findings: None

\$ _____ -