

**CITY OF ORANGE, CALIFORNIA  
AIR POLLUTION REDUCTION FUND**

**FINANCIAL STATEMENTS**

**WITH REPORT ON AUDIT  
BY INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**JUNE 30, 2016**

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

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## INDEPENDENT AUDITORS' REPORT

To the Honorable City Council  
of the City of Orange  
Orange, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Air Pollution Reduction Special Revenue Fund (AQMD) of the City of Orange (the City), as of and for the year ended June 30, 2016, and the related notes to the basic financial statements, which collectively comprise the AQMD'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 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 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 AQMD'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 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 Pollution Reduction Special Revenue Fund of the City of Orange, California as of June 30, 2016, 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 Pollution Reduction Special Revenue Fund and do not purport to, and do not present fairly the financial position of the City of Orange, California, as of June 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. 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 Budgetary Comparison Schedule, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the RSI 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not presented 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 AQMD's basic 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 dated January 4, 2017, on our consideration of the internal control over the AQMD's 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 internal control over the AQMD's financial reporting and compliance.

*White Nelson Dick Evans LLP*

Irvine, California  
January 4, 2017

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
ASSETS:	
Cash and investments	\$ 110,989
Receivables:	
Accounts	47,933
Interest	<u>138</u>
TOTAL ASSETS	<u>159,060</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred pension related items	<u>10,686</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES:	<u>10,686</u>
LIABILITIES:	
Accounts payable	25
Noncurrent liabilities:	
Net pension liability	<u>125,356</u>
TOTAL LIABILITIES	<u>125,381</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred pension related items	<u>15,090</u>
TOTAL DEFERRED INFLOWS OF RESOURCES:	<u>15,090</u>
NET POSITION:	
Restricted for air pollution reduction projects	<u>29,275</u>
TOTAL NET POSITION	<u><u>\$ 29,275</u></u>

See accompanying notes to the basic financial statements.

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

STATEMENT OF ACTIVITIES

For the year ended June 30, 2016

Functions/programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	\$ 109,884	\$ -	\$ -	\$ -	\$ (109,884)
Public safety	4,791	-	178,495	-	173,704
Public works	15,407	-	-	-	(15,407)
Total Governmental Activities	\$ 130,082	\$ -	\$ 178,495	\$ -	48,413
		General Revenues:			
					888
					888
					49,301
		NET POSITION AT BEGINNING OF YEAR			(20,026)
		NET POSITION AT END OF YEAR			\$ 29,275

See accompanying notes to the basic financial statements.

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

BALANCE SHEET  
GOVERNMENTAL FUND

June 30, 2016

ASSETS:

Cash and investments	\$ 110,989
Receivables:	
Accounts	47,933
Interest	<u>138</u>
 TOTAL ASSETS	 <u><u>\$ 159,060</u></u>

LIABILITIES AND FUND BALANCE:

LIABILITIES:

Accounts payable	<u>\$ 25</u>
 TOTAL LIABILITIES	 <u>25</u>

FUND BALANCE:

Restricted for air pollution reduction projects	<u>159,035</u>
 TOTAL FUND BALANCE	 <u>159,035</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 159,060</u></u>

See accompanying notes to the basic financial statements.

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION

June 30, 2016

Fund balances for governmental funds	\$ 159,035
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Pension related debt applicable to governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities. Deferred outflows of resources and deferred inflows of resources related to pensions are only reported in the Statement of Net Position as the changes in these amounts effects only the government-wide statements for governmental activities.

Deferred outflows of resources	10,686
Deferred inflows of resources	(15,090)
Pension liability	<u>(125,356)</u>

Net position of governmental activities	<u><u>\$ 29,275</u></u>
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See accompanying notes to the basic financial statements.

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND

For the year ended June 30, 2016

REVENUES:	
Intergovernmental	\$ 178,495
Interest income	888
	<hr/>
TOTAL REVENUES	179,383
	<hr/>
EXPENDITURES:	
Current:	
General government	120,385
Public safety	4,791
Capital outlay	15,407
	<hr/>
TOTAL EXPENDITURES	140,583
	<hr/>
EXCESS OF REVENUES OVER EXPENDITURES	38,800
FUND BALANCE AT BEGINNING OF YEAR	<hr/> 120,235
FUND BALANCE AT END OF YEAR	<hr/> <hr/> \$ 159,035

See accompanying notes to the basic financial statements.

CITY OF ORANGE

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2016

Net change in fund balance - total governmental fund	\$	38,800
Amounts reported for governmental activities in the Statement of Activities are different because:		
Pension obligation expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.		
		<u>10,501</u>
Change in net position of governmental activities	\$	<u><u>49,301</u></u>

See accompanying notes to the basic financial statements.

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2016

1. GENERAL:

The financial statements are intended to reflect the financial position and changes in the financial position attributable to the Air Pollution Reduction Special Revenue Fund (AQMD) of the City of Orange, California (the City). These financial statements are exclusively for AQMD and do not purport to, and do not, present fairly the financial position and changes in the financial position for the City.

Assembly Bill 2766 authorizes the South Coast Air Quality Management District (SCAQMD) to impose an annual vehicle registration fee and to distribute a portion of the collected revenues to all local jurisdictions within the South Coast Air Basin. These revenues are to be used solely to reduce air pollution from motor vehicles by implementing new programs and studies necessary for the implementation of the California Clean Air Act.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Description of the Reporting Entity:

The accounts of the City of Orange, California (the City), are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts. Monies received under Assembly Bill 2766 (AB2766) are recorded in a Special Revenue Fund, the Air Pollution Reduction Fund (AQMD), which is used to account for the proceeds of revenue to be used for the purpose of implementing the Clean Air Act.

b. Basis of Presentation:

The Air Pollution Reduction Fund's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the fund. The AQMD has no fiduciary activities.

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.

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Basis of Presentation (Continued):

Program revenues include: 1) charges to customers or applicants 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. Taxes and other items not properly included among program revenues are reported instead as general revenues.

While separate government-wide and fund financial statements are presented, they are interrelated.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the *economic resources measurement focus*, all (both current and long-term) economic resources and obligations are included in the accompanying Statement of Net Position. Under 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the *current financial resources measurement focus*, only current assets and liabilities are generally included on the balance sheet. Under 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 City considers revenues relating to grants to be available if they are collected within 120 days of the end of the current fiscal period, and within 60 days for all other revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Intergovernmental and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the AQMD.

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. Cash and Investments:

Investments are reported in the accompanying financial statements at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Changes in fair value that occur during a fiscal year are recognized as interest income for that fiscal year. Interest income includes interest earnings, changes in fair value (realized/unrealized), gains or losses realized upon the liquidation, maturity, or sale of investments, and rental income.

Cash and investments are pooled with other City of Orange funds for investment purposes, with interest being allocated monthly to various fund's based on each fund's prior month-end cash and investment balance.

e. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The AQMD has the following item that qualifies for reporting in this category:

- Deferred outflow related to pensions equal to employer contributions made after the measurement date of the net pension liability.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The AQMD has the following items that qualify for reporting in this category:

- Deferred inflows from pensions resulting from changes in assumptions. These amounts are amortized over a closed period equal to the average expecting remaining service lives of all employees that are provided with pensions through the plans, which is 2.2 years.

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. Deferred Outflows/Inflows of Resources (Continued):

- Deferred inflows related to pensions for differences between actual and expected experiences. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans, which is 2.2 years.
- Deferred inflows related to pensions resulting from the differences between projected and actual earnings on investments of the pension plans fiduciary net position. These amounts are amortized over five years.

f. Net Position Flow Assumption:

Sometimes the AQMD will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the AQMD's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

g. Fund Balance Flow Assumptions:

Sometimes the AQMD will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the AQMD's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

h. Fund Equity:

In the fund financial statements, government funds report the following fund balance classification:

Nonspendable include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The Air Pollution Reduction Fund did not have any nonspendable fund balance as of June 30, 2016.

Restricted include amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws of regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest authority, the City Council. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution. The AQMD did not have any committed fund balance as of June 30, 2016.

Assigned include amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The AQMD did not have any assigned fund balance as of June 30, 2016.

Unassigned include the residual amounts that have not been restricted, committed, or assigned to specific purposes. The AQMD did not have any unassigned fund balance as of June 30, 2016.

i. Pensions:

The accompanying financial statements reflect the implementation of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27", accounting for pensions by state and local government employers. The intent of the statement is to enhance accountability by requiring recognition of the entire net pension liability and provide a more comprehensive measure of pension expense.

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

i. Pensions (Continued):

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

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following time frames are used.

Valuation Date (VD)	June 30, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	July 1, 2014 to June 30, 2015

j. Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the reporting date. Accordingly, actual results could differ from those estimates.

3. CASH AND INVESTMENTS:

a. Equity in the Cash and Investment Pool of the City of Orange

The AQMD has no separate bank accounts or investments other than in its equity in the cash and investment pool managed by the City of Orange. The AQMD is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Orange. The AQMD has not adopted an investment policy separate from that of the City of Orange. The fair value of the AQMD's investment in this pool is reported in the accompanying financial statements at amounts based upon the AQMD's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded at the estimated fair value.

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

3. CASH AND INVESTMENTS (CONTINUED):

b. Disclosures Relating to the Investment Policy, Interest Rate Risk, Credit Risk and Custodial Credit Risk

Additional disclosures related to the investment policy, interest rate risk, credit risk and custodial credit risk are available in the City of Orange's Comprehensive Annual Financial Report.

c. Fair Value Measurements

The AQMD categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The AQMD's investment in the City investment pool is not subject to the fair value hierarchy.

4. RETIREMENT PLAN:

a. Plan Description, Benefits Provided and Employees Covered:

The City contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan (the Plan). CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provision and all other requirements are established by state statute and memoranda of understanding with employee bargaining units. A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but no accounting purposes), and membership information are listed in the CalPERS June 30, 2013 Annual Actuarial Valuation Report. Details on the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Employers. Also, for accounting purposes, the GASB 68 Accounting Valuation Report is available for the City of Orange Miscellaneous Plan as of the measurement date June 30, 2015. This report is available from the City.

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2016

4. RETIREMENT PLAN (CONTINUED):

a. Plan Description, Benefits Provided and Employees Covered (Continued):

The plan provides benefits for two membership classifications, Miscellaneous and Safety, and those benefits are tiered based upon date of CalPERS membership. Safety membership is extended to those in active law enforcement and fire suppression, while all others are classified as Miscellaneous members. Assembly Bill (AB) 340, also known as the Public Employees' Pension Reform Act (PEPRA), created new benefit formulas and a final compensation period as well as new contributions requirements for new employees. For the purpose of PEPRA, "new employees" are those hired on or after January 1, 2013, and had never been a member of CalPERS previously. CalPERS refers to members prior to January 1, 2013, as Classic members.

Employees of the AQMD are covered under the City's Miscellaneous Plan. As such, relating pension balances and activities have been allocated proportionately to the AQMD in relation to salaries paid. Further details of the City's retirement plans can be found in the City's Comprehensive Annual Financial Report for the Year Ended June 30, 2016.

5. AVAILABILITY OF OTHER INFORMATION:

Copies of separate progress reports filed with the SCAQMD Board, which detail the accomplishments during the fiscal year ended June 30, 2016, are available at Orange City Hall.

6. SUBSEQUENT EVENTS:

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through January 4, 2017, the date the financial statements were available to be issued.

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

For the year ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
RESOURCES (INFLOWS):				
Intergovernmental	\$ 213,300	\$ 213,300	\$ 178,495	\$ (34,805)
Investment income	337	337	888	551
AMOUNTS AVAILABLE FOR APPROPRIATIONS	<u>213,637</u>	<u>213,637</u>	<u>179,383</u>	<u>(34,254)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Salaries and benefits	66,115	67,032	54,097	12,935
Capital projects	30,000	50,071	15,407	34,664
Trip reduction program	58,494	58,494	54,006	4,488
Professional costs	7,600	7,600	6,953	647
Printing costs	2,700	2,700	-	2,700
Bike team usage	11,000	11,000	4,791	6,209
Association dues	700	700	-	700
Training costs	900	900	-	900
Administrative and general overhead	5,329	5,329	5,329	-
TOTAL CHARGES TO APPROPRIATIONS	<u>182,838</u>	<u>203,826</u>	<u>140,583</u>	<u>63,243</u>
NET CHANGE IN FUND BALANCE	30,799	9,811	38,800	28,989
FUND BALANCE AT BEGINNING OF YEAR	<u>120,235</u>	<u>120,235</u>	<u>120,235</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 151,034</u></u>	<u><u>\$ 130,046</u></u>	<u><u>\$ 159,035</u></u>	<u><u>\$ 28,989</u></u>

See accompanying note to required supplementary information.

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

1. BUDGETARY ACCOUNTING:

The budget for the Air Pollution Reduction Special Revenue Fund is formally adopted annually and is prepared in conformity with accounting principles generally accepted in the United States of America. The budget is monitored to ensure compliance with legal provisions embodied in the appropriated budget as approved or amended by the City Council throughout the year. Department heads are responsible for monitoring their department's appropriated budget. The legal level of budgetary control is at the fund level. The City's management may transfer resources between operating line items within a department in the same fund as they see appropriate. Encumbrances (e.g. purchase orders, contracts) outstanding at year-end are reported as restriction of fund balance since they do not constitute expenditures or liabilities.

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 City Council  
of the City of Orange  
Orange, 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 Air Pollution Reduction Special Revenue Fund (AQMD) of the City of Orange, California, (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the AQMD's basic financial statements, and have issued our report thereon dated January 4, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Orange, California's internal control over AQMD financial reporting (AQMD's internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the AQMD's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the AQMD's internal control. Accordingly, we do not express an opinion on the effectiveness of the AQMD'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 AQMD'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 Air Pollution Reduction Special Revenue Fund of the City of Orange, California's financial statements are free from material misstatement, we performed tests of its compliance with applicable provisions of Assembly Bill 2766 (AB2766), Chapter 1705 (Health and Safety Code Sections 44220 through 44247), and certain provisions of laws, regulations, contracts, and grant agreements, 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described below.

### Payroll Costs

#### Auditors' Comment and Recommendation

The AB 2766 Subvention Fund Program Resource Guide, March 2013, published by South Coast Air Quality Management District, page 31, states the following: "Direct labor must be documented on time sheets. If time sheets do not permit the level of detail required to document direct labor hours to be charged to AB 2766 projects specifically, then a detailed log of time spent on projects, the activities performed and the outcome or product generated must be maintained. Direct labor costs must identify the project to establish a clear audit trail. Allocating a fixed or budgeted amount of staff time and associated salary expense each pay period will not meet the requirements for the audit."

During our review of salaries and benefits charged to the AQMD, we noted that the City is charging employees' salaries and benefits based on a budgeted percentage instead of actual hours. The actual hours for these employees were not tracked and documented on timesheets. Total salaries and benefits charged to AQMD for the fiscal year ended June 30, 2016 totals \$54,097.

#### Management's Response

Effective with the fiscal year beginning July 1, 2016, actual staff time incurred on AQMD projects has been tracked and charged directly to these projects. In addition, the City has been in contact with AQMD directly and they are aware of our change in salary and benefit tracking.

### 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 AQMD'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 AQMD's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*White Nelson Dick Evans LLP*

Irvine, California  
January 4, 2017