

CITY OF ORANGE, CALIFORNIA
AIR POLLUTION REDUCTION FUND
AUDIT REPORT
JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Air Pollution Reduction Fund of the City of Orange as of and for the year ended June 30, 2013, and the notes to the financial statements, which collectively comprise the Air Pollution Reduction Fund of the City of Orange'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 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 *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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Air Pollution Reduction Fund of the City of Orange at June 30, 2013, and the respective financial position and budgetary comparison information 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 Orange, California

Other Matters

Required Supplementary Information

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.

Emphasis of Matters

As discussed in Note 2e, the financial statements present only the Air Pollution Reduction Fund and do not purport to, and do not, present fairly the financial position of the City of Orange, California as of June 30, 2013 and changes in financial position and budgetary comparison for the year then ended in accordance 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 December 11, 2013, on our consideration of the Air Pollution Reduction 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* in considering the Air Pollution Reduction Fund's internal control over financial reporting and compliance.

Brea, California
December 11, 2013

CITY OF ORANGE
AIR POLLUTION REDUCTION FUND

BALANCE SHEET / STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Governmental Funds</u>
Assets:	
Cash	\$ 35,930
Accounts receivable	82,073
Interest receivable	<u>28</u>
Total Assets	<u>\$ 118,031</u>
Liabilities:	
Accounts payable	<u>\$ 24,243</u>
Total Liabilities	<u>24,243</u>
Fund Balance/Net Position:	
Restricted for special revenue projects	<u>93,788</u>
Total Fund Balance/Net Position	<u>93,788</u>
Total Liabilities and Fund Balance/Net Position	<u>\$ 118,031</u>

CITY OF ORANGE
AIR POLLUTION REDUCTION FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE / STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	Governmental Funds
Revenues:	
Intergovernmental	\$ 166,484
Interest income	(6)
Total Revenues	166,478
Expenditures:	
General government	123,919
Public safety	2,979
Capital outlay	23,169
Total Expenditures	150,067
Excess (Deficiency) Revenue Over (Under) Expenditures	16,411
Fund Balance/Net Position:	
Beginning of Fiscal Year	77,377
End of Fiscal Year	\$ 93,788

CITY OF ORANGE
AIR POLLUTION REDUCTION FUND

BUDGETARY COMPARISON STATEMENT
FOR THE YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Resources (Inflows):				
Intergovernmental	\$ 161,000	\$ 161,000	\$ 166,484	\$ 5,484
Investment income	30	30	(6)	(36)
Amounts Available for Appropriation	161,030	161,030	166,478	5,448
Charges to Appropriation (Outflow):				
Salaries and benefits	60,665	60,665	57,991	2,674
Capital projects	13,000	36,169	23,169	13,000
Trip reduction program	52,560	52,560	53,789	(1,229)
Professional costs	7,600	7,600	6,569	1,031
Printing costs	2,700	2,700	-	2,700
Bike team usage	5,000	5,000	2,979	2,021
Association dues	700	700	-	700
Training costs	900	900	-	900
Administrative and general overhead	5,570	5,570	5,570	-
Total Charges to Appropriations	148,695	171,864	150,067	21,797
Net change in fund balances	12,335	(10,834)	16,411	27,245
Fund balances, beginning of year	77,377	77,377	77,377	-
Fund balances, end of year	\$ 89,712	\$ 66,543	\$ 93,788	\$ 27,245

**CITY OF ORANGE
AIR POLLUTION REDUCTION FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 1 General

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.

Note 2 Summary of Significant Accounting Policies

a. Fund Accounting

The accounts of the City of Orange (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, 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 Accounting

Special Revenue Funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Expenditures are recorded when the liability is incurred.

c. Measurement Focus

Special Revenue Funds are accounted for on a spending or "financial flow" measurement focus. This means that generally only current assets and current liabilities are included on their balance sheets. Statements of revenues, expenditures and changes in fund balances for Special Revenue Funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

d. 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 department and 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.

e. Annual Financial Statements

The accompanying financial statements are intended to reflect the financial position and results of operations for the Air Pollution Reduction Fund (AB 2766) only.

**CITY OF ORANGE
AIR POLLUTION REDUCTION FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Note 2 Summary of Significant Accounting Policies (Continued)

f. Cash and Investments

The Air Pollution Reduction Fund's cash and investment balance was pooled with various other City funds for deposit and investment purposes. The net change in fair value and interest earnings were apportioned to the participating funds based on the relationship of their average daily balances to the total of the pooled cash and investments.

g. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 3 Cash and Investments

The City Treasurer maintains a cash and investment pool used by all funds of the City of Orange, including the Air Pollution Reduction Fund. The Air Pollution Reduction Fund does not own specifically identifiable securities of the City's pool. The Air Pollution Reduction Fund's portion of this pool is reported in the accompanying balance sheet as "cash and investments." Investment policies and associated risk factors applicable to the Air Pollution Reduction Fund are those of the City of Orange and are disclosed in the City's comprehensive annual financial report.

Cash and investments held by Air Pollution Reduction Fund at June 30, 2013, consisted of the following:

Equity in the City of Orange's investment portfolio	<u>\$ 35,930</u>
Total	<u><u>\$ 35,930</u></u>

Note 4 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, 2013, are available at Orange City Hall.

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 Orange, California

We have audited, in accordance with the auditing standards of generally accepted in the United States of American and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Air Pollution Reduction Fund financial statements of the City of Orange, California, (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 11, 2013.

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

Lance, Soll & Loughard, LLP

Brea California
December 11, 2013

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

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

Report on Compliance of the Air Pollution Reduction Fund

We have audited the compliance of the Air Pollution Reduction Fund of the City of Orange, 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, 2013.

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 an opinion on compliance for the Air Pollution Reduction Fund of the City of Orange, California based on our audit of the types of compliance requirements referred to above. 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 direct and material effect on the Air Pollution Reduction 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 for the Air Pollution Reduction Fund. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Air Pollution Reduction 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 Pollution Reduction Fund for the year ended June 30, 2013.

**Report on Internal Control Over Compliance of the
Air Pollution Reduction 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 Pollution Reduction Fund to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Air Pollution Reduction Fund and to test and report on internal control over compliance in accordance



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

with Assembly Bill 2766, Chapter 1705 (44220 through 44247), 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 requirements of Assembly Bill 2766, Chapter 1705 (44220 through 44247) 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 requirements of Assembly Bill 2766, Chapter 1705 (44220 through 44247) 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 requirements of Assembly Bill 2766, Chapter 1705 (44220 through 44247) 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 report is not suitable for any other purpose.

Lance, Soll & Loughard, LLP

Brea, California
December 11, 2013