

CITY OF IRVINE, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL
REVENUE FUND
FINANCIAL STATEMENTS
JUNE 30, 2012

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

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- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
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INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements of the City of Irvine, California, Air Quality Improvement Special Revenue Fund as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the City of Irvine's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Irvine, California, Air Quality Improvement Special Revenue Fund as of June 30, 2012, and the changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2012, on our consideration of the City of Irvine, California's, internal control over financial reporting related to the Air Quality Improvement Special Revenue Fund and 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 the 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.

Lance, Soll & Lunghard, LLP

Brea, California
September 23, 2012

CITY OF IRVINE
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

BALANCE SHEET / STATEMENT OF NET ASSETS
JUNE 30, 2012

Assets:

Cash and investments (Note 2)	\$	717,039
Interest receivable		938
Due from other governments		<u>67,851</u>

Total Assets	\$	<u>785,828</u>
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Liabilities:

Accrued payroll	\$	<u>107</u>
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Total Liabilities		<u>107</u>
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Fund Balance/Net Assets:

Restricted for air pollution reduction		<u>785,721</u>
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Total Fund Balance/Net Assets		<u>785,721</u>
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Total Liabilities and Fund Balance/Net Assets	\$	<u>785,828</u>
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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, 2012

Revenues:

Motor vehicle fees	\$ 274,863
Interest income	<u>8,957</u>

Total Revenues	<u>283,820</u>
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Expenditures:

Direct program	<u>197,952</u>
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Total Expenditures	<u>197,952</u>
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Excess (Deficiency) of Revenues and Other Sources	
Over (Under) Expenditures and Other Uses	85,868

Fund Balance:

Beginning of Fiscal Year	<u>699,853</u>
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End of Fiscal Year	<u>\$ 785,721</u>
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**CITY OF IRVINE
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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. The statement of revenues, expenditures and changes in fund balance 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, 2012

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

The City has implemented the provisions of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", for the year ended June 30, 2012. Fund balance must now be classified 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 of the Air Quality Improvement Special Revenue Fund has been classified as restricted fund balance since the external resource provider, SCAQMD, requires the motor vehicle fees to be used only to reduce air pollution.

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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 Irvine, California

Compliance

We have audited the compliance of the Air Quality Improvement Special Revenue Fund of the City of Irvine, California with the types of compliance requirements described in Assembly Bill 2766, Chapter 1705 (44220 through 44247) for the year ended June 30, 2012. Compliance with the requirements of Assembly Bill 2766, Chapter 1705 (44220 through 44247), is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 *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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to the Air Quality Improvement Special Revenue Fund for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit, we considered the City's internal control over compliance to determine our auditing procedures for the purpose of expressing our 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 does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement will not be prevented, or detected and corrected on timely basis.



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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in the internal control over compliance that we consider material weaknesses as defined above.

This report is intended solely for the information and use of the City Council, City Management and the South Coast Air Quality Management District and is not intended to be, and should not be, used by anyone other than these specified parties.

Lance, Soll & Loughard, LLP

Brea, California
September, 23 2012

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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 the 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, 2012 and have issued our report thereon dated September 23, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Irvine's Air Quality Improvement Special Revenue Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



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

This report is intended solely for the information and use of the City Council, City Management and the South Coast Air Quality Management District and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Soll & Lughard, LLP

Brea, California
September 23, 2012

CITY OF IRVINE, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR FISCAL YEAR ENDED JUNE 30, 2012

Findings/Recommendations

Questioned Costs

Findings: None

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