

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

**FINANCIAL STATEMENTS**

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

**JUNE 30, 2018**

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

TABLE OF CONTENTS

June 30, 2018

	<u>Page Number</u>
Independent Auditors' Report	1 - 3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements:	
Balance Sheet - Governmental Fund	6
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	8
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	9
Notes to the Basic Financial Statements	10 - 16
Required Supplementary Information:	
Budgetary Comparison Schedule	17
Note to Required Supplementary Information	18
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19 - 20

## 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, California (the City), as of and for the year ended June 30, 2018 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 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 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 opinions.

## **Opinions**

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, 2018 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 Matters**

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, 2018 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.

As discussed in Note 7 to the financial statements, the AQMD adopted Governmental Accounting Standards Board's Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which required retrospective application resulting in a \$50,480 reduction of previously reported net position. 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 December 10, 2018, 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  
December 10, 2018

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

STATEMENT OF NET POSITION

June 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 103,240
Receivables:	
Accounts	46,382
Interest	<u>257</u>
TOTAL ASSETS	<u>149,879</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension related items	34,662
Deferred OPEB related items	<u>2,010</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>36,672</u>
LIABILITIES	
Accounts payable	1,081
Noncurrent liabilities:	
Net pension liability	167,094
Total OPEB liability	<u>52,579</u>
TOTAL LIABILITIES	<u>220,754</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred pension related items	<u>5,143</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>5,143</u>
NET POSITION	
Restricted for air pollution reduction projects	<u>(39,346)</u>
TOTAL NET POSITION	<u><u>\$ (39,346)</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, 2018

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	\$ 118,376	\$ -	\$ -	\$ -	\$ (118,376)
Public safety	6,234	-	221,013	-	214,779
Public works	160,077	-	-	-	(160,077)
	<u>\$ 284,687</u>	<u>\$ -</u>	<u>\$ 221,013</u>	<u>\$ -</u>	<u>(63,674)</u>
General Revenues					
					1,051
					1,051
					(62,623)
					73,757
					(50,480)
					23,277
					\$ (39,346)

See accompanying notes to the basic financial statements.

CITY OF ORANGE  
AIR POLLUTION REDUCTION FUND

BALANCE SHEET  
GOVERNMENTAL FUND

June 30, 2018

ASSETS	
Cash and investments	\$ 103,240
Receivables:	
Accounts	46,382
Interest	<u>257</u>
 TOTAL ASSETS	 <u>\$ 149,879</u>
 LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable	<u>\$ 1,081</u>
 TOTAL LIABILITIES	 <u>1,081</u>
 FUND BALANCE	
Restricted for air pollution reduction projects	<u>148,798</u>
 TOTAL FUND BALANCE	 <u>148,798</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 149,879</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, 2018

Fund balances for governmental funds	\$ 148,798
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Pension-related debt applicable to governmental activities is not due and payable in the current period and accordingly is 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.</p>	
Deferred outflows of resources	34,662
Deferred inflows of resources	(5,143)
Pension liability	(167,094)
<p>OPEB-related debt applicable to the governmental activities is not due and payable in the current period and accordingly is not reported as fund liabilities. Deferred outflows of resources related to OPEB are only reported in the statement of net position, as the changes in these amounts affect only the government-wide statements for governmental activities.</p>	
Deferred outflows of resources	2,010
Total OPEB liability	<u>(52,579)</u>
Net position of governmental activities	<u><u>\$ (39,346)</u></u>

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, 2018

REVENUES	
Intergovernmental	\$ 221,013
Interest income	<u>1,051</u>
TOTAL REVENUES	<u>222,064</u>
EXPENDITURES	
Current:	
General government	105,305
Public safety	6,234
Capital outlay	<u>160,077</u>
TOTAL EXPENDITURES	<u>271,616</u>
EXCESS OF REVENUES OVER EXPENDITURES	(49,552)
FUND BALANCE AT BEGINNING OF YEAR	<u>198,350</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 148,798</u></u>

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, 2018

Net change in fund balance - total governmental fund	\$ (49,552)
Amounts reported for governmental activities in the statement of activities are different because:	
Pension obligation reduction reported in the statement of activities does not result in the use of current financial resources and, therefore, is not reported as a reduction of expenditures in the governmental fund.	(12,982)
OPEB expense reported in the governmental funds includes the premium payments made to the plan. In the statement of activities, OPEB expense includes the change in the net OPEB liability and related change in OPEB amounts for deferred outflows of resources.	<u>(89)</u>
Change in net position of governmental activities	<u>\$ (62,623)</u>

See accompanying notes to the basic financial statements.

**CITY OF ORANGE**  
**AIR POLLUTION REDUCTION FUND**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

---

---

**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 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 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 California Clean Air Act.

b. Basis of Presentation

The Air Pollution Reduction Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) 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.

## 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.

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Intergovernmental and interest revenues associated with the current fiscal period are all considered to be susceptible to accrual and 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.

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 funds for investment purposes, with interest being allocated monthly to various funds 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 will not be recognized as an outflow of resources (expense/expenditure) until that time. The AQMD has items related to the pension and OPEB plans that qualify for reporting in this category.

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 items related to the pension plan that qualify for reporting in this category.

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.

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

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.

h. Fund Equity

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

Nonspendable 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. The Air Pollution Reduction Fund did not have a nonspendable fund balance as of June 30, 2018.

Restricted includes 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 includes 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, 2018.

Assigned includes 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, 2018.

Unassigned includes 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, 2018.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

j. Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts 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 its equity in the cash and investment pool managed by the City. 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. The AQMD has not adopted an investment policy separate from that of the City. 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.

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 accounting principles generally accepted in the United States of America. 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 the number of employees covered, benefit provisions, assumptions (for funding, but no accounting purposes) and membership information is listed in the CalPERS June 30, 2016 Annual Actuarial Valuation Report. Details on the benefits provided can be obtained in Appendix B of the Actuarial Valuation Report. This report and CalPERS's audited financial statements are publicly available reports that can be obtained at the CalPERS's 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, 2017. This report is available from the City.

The plan provides benefits for two membership classifications, Miscellaneous and Safety, and those benefits are tiered based upon the 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 contribution 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.

City employees involved with the AQMD program are covered under the City's Miscellaneous Plan. As such, related pension balances and activities have been allocated proportionately to the AQMD in relation to salaries paid. Additional details related to the pension plans deferred outflows, deferred inflows, net pension liability, and required supplementary information can be found in the City's Comprehensive Annual Financial Report for the year ended June 30, 2018.

**5. *OTHER POST EMPLOYMENT BENEFITS (OPEB)***

a. Plan Description and Benefits Provided

The City administers an agent multiple-employer defined benefit post-employment healthcare plan for eligible City retirees and their dependents through California Public Employees' Retirement System (CalPERS). Retirees from the City enrolled in the Public Employees Medical and Hospital Insurance Program (PEMHCA), is an agent multiple -employer post-employment benefits plan through CalPERS, are eligible for these benefits.

These health insurance benefits are authorized through City resolution/memoranda's of understanding defining health care benefits and contribution levels and through the contractual agreement between the City and CalPERS. The City currently contributes \$133 per month for each retiree and the retiree is responsible for the balance of the premium amount.

City employees involved with the AQMD program are covered under the City's OPEB plan As such, related OPEB balances and activities have been allocated proportionately to the AQMD in relation to salaries paid. Additional details related to the OPEB plans deferred outflows, total OPEB liability, and required supplementary information can be found in the City's Comprehensive Annual Financial Report for the year ended June 30, 2018.

**6. *AVAILABILITY OF OTHER INFORMATION***

Copies of separate progress reports filed with the SCAQMD Board of Directors, which detail the accomplishments during the fiscal year ended June 30, 2018 are available at the Orange City Hall.

**7. *RESTATEMENT OF PRIOR-YEAR FINANCIAL STATEMENTS***

The implementation of GASB Statement No. 75 requires reporting the OPEB liability of the City's agent multiple-employer other post-employment benefit plan in the financial statements, which is applied retroactively by restating the net pension as the beginning of the fiscal year. The implementation of GASB Statement No. 75 resulted in a decrease of net position of \$50,480 as of July 1, 2017.

**8. *SUBSEQUENT EVENTS***

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through December 10, 2018, 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, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
RESOURCES (INFLOWS)				
Intergovernmental	\$ 180,300	\$ 180,300	\$ 221,013	\$ 40,713
Investment income	1,628	1,628	1,051	(577)
AMOUNTS AVAILABLE FOR APPROPRIATIONS	<u>181,928</u>	<u>181,928</u>	<u>222,064</u>	<u>40,136</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Salaries and benefits	41,076	41,076	42,367	(1,291)
Capital projects	69,300	161,367	160,077	1,290
Trip reduction program	49,750	49,750	51,631	(1,881)
Professional costs	7,600	7,600	5,828	1,772
Printing costs	2,700	2,700	-	2,700
Bike team usage	14,000	14,000	6,234	7,766
Association dues	700	700	-	700
Training costs	900	900	70	830
Administrative and general overhead	5,409	5,409	5,409	-
TOTAL CHARGES TO APPROPRIATIONS	<u>191,435</u>	<u>283,502</u>	<u>271,616</u>	<u>11,886</u>
NET CHANGE IN FUND BALANCE	(9,507)	(101,574)	(49,552)	52,022
FUND BALANCE AT BEGINNING OF YEAR	<u>198,350</u>	<u>198,350</u>	<u>198,350</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 188,843</u>	<u>\$ 96,776</u>	<u>\$ 148,798</u>	<u>\$ 52,022</u>

See accompanying note to required supplementary information.

**CITY OF ORANGE**  
**AIR POLLUTION REDUCTION FUND**  
**Note to Required Supplementary Information**  
**June 30, 2018**

---

---

***1. BUDGETARY ACCOUNTING***

The budget for the Air Pollution Reduction Special Revenue Fund is formally adopted annually and is prepared in accordance 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, 2018 and the related notes to the financial statements, which collectively comprise the AQMD's basic financial statements, and have issued our report thereon dated December 10, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City'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, 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.

### **Compliance with Assembly Bill 2766**

#### Auditors' Comment and Recommendation

The City must comply with Assembly Bill 2766 (AB2766), Chapter 1705 (Health and Safety Code Sections 44220 through 44247) as it relates to the Air Pollution Reduction Special Revenue Fund (AQMD). The City operates a trip reduction program which requires documentation of compliance with program requirements for each employee that participates. The City did not have proper support for one employee that participated in the program during fiscal year 2017-2018. We recommend that the City implement policies and procedures to ensure all participating employees submit the required documentation.

#### Management's Response

The City has established monthly internal auditing procedures to specifically address participants' eligibility and the required documentation to support trip reduction payments.

### **City's Response to Finding**

The City's response to the finding identified in our audit is described above. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

### **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.



Irvine, California  
December 10, 2018