

**CITY OF SANTA ANA, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2021



WEALTH ADVISORY | OUTSOURCING
AUDIT, TAX, AND CONSULTING

**CITY OF SANTA ANA, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND
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YEAR ENDED JUNE 30, 2021**

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
City Council
City of Santa Ana
Santa Ana, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Air Quality Improvement Special Revenue Fund (AQMD) of the City of Santa Ana, California (the City), as of and for the year ended June 30, 2021, and the related notes to the 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 Quality Improvement Special Revenue Fund of the City of Santa Ana, California as of June 30, 2021, 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 Quality Improvement Special Revenue Fund and do not purport to, and do not present fairly the financial position of the City of Santa Ana, California, as of June 30, 2021, 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 Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual, 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 our 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.

Honorable Mayor and Members
City Council
City of Santa Ana

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report December 8, 2021, on our consideration of the internal control over the financial reporting of the AQMD 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 solely 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 effectiveness of the City's internal control over financial reporting the AQMD 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 financial reporting and compliance of the AQMD.



CliftonLarsonAllen LLP

Irvine, California
December 8, 2021

**CITY OF SANTA ANA, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND
BALANCE SHEET
JUNE 30, 2021**

ASSETS

| | |
|------------------------------|----------------------------|
| Cash and Investments | \$ 1,506,763 |
| Intergovernmental Receivable | 223,433 |
| Interest Receivable | <u>2,267</u> |
| Total Assets | <u><u>\$ 1,732,463</u></u> |

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES,
AND FUND BALANCE**

LIABILITIES

| | |
|------------------|-----------|
| Accounts Payable | \$ 11,174 |
|------------------|-----------|

DEFERRED INFLOWS OF RESOURCES

| | |
|----------------------|-----|
| Unavailable Revenues | 791 |
|----------------------|-----|

FUND BALANCE

| | |
|--|------------------|
| Restricted for Air Quality Improvement | <u>1,720,498</u> |
|--|------------------|

| | |
|---|----------------------------|
| Total Liabilities, Deferred Inflows of Resources, and Fund Balance | <u><u>\$ 1,732,463</u></u> |
|---|----------------------------|

See accompanying Notes to Financial Statements.

**CITY OF SANTA ANA, CALIFORNIA
 AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 YEAR ENDED JUNE 30, 2021**

REVENUES

| | |
|--------------------|------------|
| Motor Vehicle Fees | \$ 543,198 |
| Investment Income | 12,654 |
| Miscellaneous | 495 |
| Total Revenues | 556,347 |

EXPENDITURES

| | |
|--------------------|---------|
| Direct Program | 230,671 |
| Administrative | 5,423 |
| Total Expenditures | 236,094 |

CHANGES IN FUND BALANCE

320,253

Fund Balance - Beginning of Year

1,400,245

FUND BALANCE - END OF YEAR

\$ 1,720,498

See accompanying Notes to Financial Statements.

CITY OF SANTA ANA, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 GENERAL

The financial statements are intended to reflect the financial position and changes in the financial position attributable to the Air Quality Improvement Special Revenue Fund (AQMD) of the City of Santa Ana, 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.

The South Coast Air Quality Management District (SCAQMD) is authorized under *Assembly Bill 2766 (AB 2766) Chapter 1705 [California Health and Safety Code (CHSC) Sections 44220 through 44247]* to impose a motor vehicle registration fee to be used by the SCAQMD and local governments specifically for programs to reduce air pollution from mobile sources and related planning, monitoring, enforcement, and technical studies necessary for the implementation of the California Clean Air Act of 1988.

The California Department of Motor Vehicles collects the vehicle registration fee and subvenes it to SCAQMD. Upon receipt, the vehicle registration fee is split into segments with 40% of the revenue placed in a special revenue fund designated as the Air Quality Improvement Trust Fund for quarterly distribution to local governments.

CHSC Section 44243 requires cities and counties receiving the AB 2766 funds to separately account for the revenues and to expend the revenues for air pollution reduction measures pursuant to the California Clean Air Act of 1988 or the SCAQMD's Air Quality Management Plan pursuant to Article 5 of Chapter 5.5 of Part 3 of the CHSC.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Accounting

The financial activity of the City is accounted for on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts. Monies under AB 2766 are accounted for in the Air Quality Improvement Special Revenue Fund, which is a special revenue fund.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

CITY OF SANTA ANA, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus and Basis of Accounting (Continued)

AQMD's financial statements are reported using the current financial resources measurement focus and 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

C. Budgetary Accounting

The City's fiscal year begins on July 1 of each year and ends June 30 the following year. On or before the fifteenth of June of each year, the City Manager recommends and submits to the City Council a proposed budget for the next ensuing fiscal year based on a detailed financial plan prepared by the heads of the various offices, agencies and departments of the City and its component units. Upon receipt of the proposed budget, the Council holds a public hearing wherein the public is given an opportunity to be heard, after which the Council may make any revisions deemed advisable. After the conclusion of the public hearing, the Council may make modifications with the affirmative vote of at least a majority of its members. On or before the thirty-first day of July, the City Council adopts the budget as amended by the affirmative vote of at least a majority of its members. Upon final adoption, the budget is in effect for the ensuing fiscal year and becomes the authority for the various offices, agencies, and departments to expend subject to controls established by the City Charter. At any meeting after the adoption of the budget, the City Council may amend or supplement the budget by affirmative vote of at least two-thirds of the members so as to authorize the transfer of unused balances appropriated for one purpose to another purpose, or to appropriate available revenue not included in the budget. Where appropriations are made to offices, departments, or agencies for more than one activity or program, "appropriations" are considered in the aggregate with respect to total expenditures authorized for that office, department, or agency within each fund, limited to purposes for which the revenues of such funds are to be spent. The City Manager is authorized to make revisions among the items included in such appropriations if, City Manager's opinion, such revisions are necessary and proper. Budgetary control exists at the department level. Council action is necessary for transfers between departments/agencies or transfers between funds. During the fiscal year, all budget and supplemental amendments were necessary and made in a legally permissible manner.

**CITY OF SANTA ANA, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Budgetary Accounting (Continued)

The City legally adopts annual budgets for the Special Revenue Funds including the Air Quality Improvement Special Revenue Fund. The budgetary control for the Special Revenue Funds is under the department in charge. The Air Quality Improvement Special Revenue Fund is managed by the Public Works Agency. Monthly budgetary reports are prepared to effect control through fiscal management. The City Council approved supplemental appropriations during the year, but they were not considered material.

Budgets are prepared on a modified accrual basis. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restrictions of fund balances since they do not constitute expenditures or liabilities. All other annual appropriations lapse at fiscal year-end to the extent that they have not been expended or lawfully encumbered. During the fiscal year, the total Fund's expenditures were within the legal prescribed limits as approved by the City Council.

D. Deferred Inflows of Resources

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of fund balance that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The AQMD fund has one item that qualifies for reporting in this category, which is unavailable revenues from intergovernmental revenues and interest receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

E. Fund Balance

AQMD's fund balance is reported based on the extent to which the City is bound to observe constraints on the use of the AQMD's resources. AQMD's fund balance is classified under restricted, which include amounts which are constrained for specific purposes that are 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through enabling legislation. AQMD's fund balance is restricted for programs initiated for the purpose of implementing the California Clean Air Act. Information regarding the fund balance reporting policy adopted by the City is described in Note 1 to the City of Santa Ana's Annual Comprehensive Financial Report.

**CITY OF SANTA ANA, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. 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 effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 CASH AND INVESTMENTS

AQMD's cash and investments balances are pooled with various other City funds for deposit and investment purposes. Each fund's share of the pooled cash account is separately accounted for, and investment income is apportioned to the participating funds based on the relationship of their average daily balances to the total of the pooled cash and investments. Information regarding the credit risk and authorized types of deposits and investments in the City's pooled cash and investments is included in the City's Annual Comprehensive Financial Report. This report can be obtained from the City of Santa Ana.

**CITY OF SANTA ANA, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2021**

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-----------------------------------|-------------------|-------------------|---------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Motor Vehicle Fees | \$ 640,000 | \$ 640,000 | \$ 543,198 | \$ (96,802) |
| Investment Income | 3,000 | 3,000 | 12,654 | 9,654 |
| Miscellaneous | 2,000 | 2,000 | 495 | (1,505) |
| Total Revenues | <u>645,000</u> | <u>645,000</u> | <u>556,347</u> | <u>(88,653)</u> |
| EXPENDITURES: | | | | |
| Direct Program | 1,448,460 | 1,448,460 | 230,671 | 1,217,789 |
| Administrative | 18,800 | 18,800 | 5,423 | 13,377 |
| Total Expenditures | <u>1,467,260</u> | <u>1,467,260</u> | <u>236,094</u> | <u>1,231,166</u> |
| CHANGES IN FUND BALANCE | (822,260) | (822,260) | 320,253 | 1,142,513 |
| Fund Balance - Beginning of Year | <u>1,400,245</u> | <u>1,400,245</u> | <u>1,400,245</u> | <u>-</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 577,985</u> | <u>\$ 577,985</u> | <u>\$ 1,720,498</u> | <u>\$ 1,142,513</u> |



**INDEPENDENT AUDITORS' 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***

Honorable Mayor and Members
City Council
City of Santa Ana
Santa Ana, 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 City of Santa Ana, California (the City), including the Air Quality Improvement Special Revenue Fund (the AQMD), as of and for the year ended June 30, 2021, 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 8, 2021.

Internal Control over Financial Reporting

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

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.

Honorable Mayor and Members
City Council
City of Santa Ana

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AQMD's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Assembly Bill 2766 Chapter 1705 (Health and Safety Code Sections 44220 through 44247), noncompliance with which could have a direct and material effect on AQMD's financial statements. 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance related to the AQMD. 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 related to the AQMD. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Irvine, California
December 8, 2021

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