

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2022



**CITY OF SANTA ANA, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND
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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Air Quality Improvement Special Revenue Fund of the City of Santa Ana, California (the City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

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, as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Santa Ana, City of, California, as of June 30, 2022, 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 required supplementary information in accordance with GAAS, 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Honorable Mayor and Members
City Council
City of Santa Ana

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 financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the 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 28, 2022 on our consideration of the Air Quality Improvement Special Revenue 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 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Santa Ana, California
December 28, 2022

**CITY OF SANTA ANA, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND
BALANCE SHEET
JUNE 30, 2022**

ASSETS

Cash and Investments	\$ 1,676,260
Intergovernmental Receivable	108,986
Interest Receivable	<u>3,479</u>
Total Assets	<u><u>\$ 1,788,725</u></u>

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

LIABILITIES

Accounts Payable	\$ -
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DEFERRED INFLOWS OF RESOURCES

Unavailable Revenues	110,415
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FUND BALANCE

Restricted for Air Quality Improvement	<u>1,678,310</u>
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Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u><u>\$ 1,788,725</u></u>
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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, 2022**

REVENUES

Motor Vehicle Fees	\$ 319,256
Investment Income	12,347
Miscellaneous	165
Total Revenues	<u>331,768</u>

EXPENDITURES

Direct Program	350,924
Administrative	21,222
Total Expenditures	<u>372,146</u>

Excess of Revenues Over Expenditures	(40,378)
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OTHER FINANCING SOURCES (USES)

Transfers Out	<u>(1,810)</u>
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CHANGES IN FUND BALANCE

(42,188)

Fund Balance - Beginning of Year

1,720,498

FUND BALANCE - END OF YEAR

\$ 1,678,310

See accompanying Notes to Financial Statements.

CITY OF SANTA ANA, CALIFORNIA
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

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, 2022**

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 15th 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 31st 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, in the 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, 2022**

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, 2022**

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, 2022

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Motor Vehicle Fees	\$ 640,000	\$ 640,000	\$ 319,256	\$ (320,744)
Investment Income	3,000	3,000	12,347	9,347
Miscellaneous	2,000	2,000	165	(1,835)
Total Revenues	645,000	645,000	331,768	(313,232)
EXPENDITURES				
Direct Program	605,180	1,712,099	350,924	1,361,175
Administrative	23,600	23,600	21,222	2,378
Total Expenditures	628,780	1,735,699	372,146	1,363,553
Excess of Revenues Over Expenditures	16,220	(1,090,699)	(40,378)	1,050,321
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	(1,812)	(1,810)	2
CHANGES IN FUND BALANCE	16,220	(1,092,511)	(42,188)	1,050,323
Fund Balance - Beginning of Year	1,720,498	1,720,498	1,720,498	-
FUND BALANCE - END OF YEAR	<u>\$ 1,736,718</u>	<u>\$ 627,987</u>	<u>\$ 1,678,310</u>	<u>\$ 1,050,323</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, 2022, 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 28, 2022.

Report on 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 or significant deficiencies may exist that were not identified.

Honorable Mayor and Members
City Council
City of Santa Ana

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AQMD's financial statements are free from material misstatements, 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 the 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 entity'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 black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Santa Ana, California
December 28, 2022



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