

City of Santa Clarita Air Quality Improvement Fund

Financial and Compliance Report
Year Ended June 30, 2015

Contents

Independent Auditor's Report	1-2
Basic Financial Statements	
Balance sheet	3
Statement of revenues, expenditures, and changes in fund balance	4
Notes to financial statements	5-6
Required Supplementary Information	
Budgetary information	7
Independent Auditor's 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>	8-9



Independent Auditor's Report

RSM US LLP

To the Honorable Mayor and Members of the City Council
of the City of Santa Clarita
Santa Clarita, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Air Quality Improvement Special Revenue Fund (the Fund) of the City of Santa Clarita (the City) as of and for the year ended June 30, 2015, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund'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 Fund as of June 30, 2015, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2015, and the changes in 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 budgetary comparison information as listed in the 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 financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2015, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

RSM US LLP

Irvine, California
December 24, 2015

Basic Financial Statements

City of Santa Clarita Air Quality Improvement Fund

Balance Sheet

June 30, 2015

Assets

Pooled Cash and Investments	\$	444,480
Interest Receivable		886
Due From South Coast Air Quality Management District		67,000
Total assets	\$	512,366

Liabilities and Fund Balance

Liabilities		
Accounts payable and accrued liabilities	\$	180
Total liabilities		180
Fund Balance		
Restricted		512,186
Total fund balance		512,186
Total liabilities and fund balance	\$	512,366

See Notes to Financial Statements.

City of Santa Clarita Air Quality Improvement Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2015

Revenues	
Assembly Bill 2766 revenues	\$ 258,386
Investment income	2,765
Total revenues	<u>261,151</u>
Expenditures	
Administrative	6,081
Air quality improvement program	10,700
Total expenditures	<u>16,781</u>
Net change in fund balances	<u>244,370</u>
Fund balances, beginning of year	267,816
Fund balances, end of year	<u>\$ 512,186</u>

See Notes to Financial Statements.

City of Santa Clarita Air Quality Improvement Fund

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Basis of presentation: The Air Quality Improvement Fund's (the Fund) financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The Fund is presented as a Special Revenue Fund of the City of Santa Clarita (the City). 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. The financial statements were prepared from only the accounts of the Fund and, therefore, do not present the financial position or results of operations of the City.

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 (AB 2766) are recorded in the Fund. AB 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.

Fund financial statements: Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures, and changes in fund balance.

The Fund is accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

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. The primary revenue sources are revenues associated with AB 2766 and interest revenue, which are measurable and considered to be available if they are collected within 90 days of the end of the current fiscal period.

The Fund recognizes assets of non-exchange transactions in the period when the underlying transaction occurs when all eligibility requirements are met. Non-exchange transactions occur when one government provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return. The AB 2766 revenue is an example of a non-exchange transaction.

Expenditures are recorded in the accounting period in which the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

Pooled cash and investments: The Fund's cash balance was pooled with various other City funds for deposit and investment purposes. The City's treasury is responsible for the cash management of the Fund's cash balance, which pools available cash for investment purposes. The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Each City fund owns a share of pooled cash and investments, which are separately maintained, and interest income was apportioned based on its average month-end cash balances to the total of the pooled cash and investments.

City of Santa Clarita Air Quality Improvement Fund

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Fund balance and spending policy: In the Fund's financial statements, fund balance is classified as follows:

Restricted: Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation. Expenditures as they are incurred are applied against these restricted net assets.

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

Note 2. Pooled Cash and Investments

The Fund's pooled cash and investments at June 30, 2015 is \$444,480.

The deposit and investment disclosures required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are reported in the annual report of the City. The City's pooled cash and investments is unrated, and average maturity is 30 days or less.

As of June 30, 2015, none of the Fund's pooled cash was subject to concentration of credit risk or custodial credit risk.

Note 3. Contingencies

The Fund receives monies from the SCAQMD that are subject to review and audit by the SCAQMD. Although such audits could result in disallowed expenditures under terms of the program's guidelines, it is believed that any repayments resulting from disallowances will not be material. Any identified amounts as a result of these audits would be required to be remitted back to the SCAQMD or having future remittances from the SCAQMD deducted accordingly.

Required Supplementary Information

City of Santa Clarita Air Quality Improvement Fund

Required Supplementary Information

Budgetary Information

The City adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America and utilizes an encumbrance system as a management control technique to assist in controlling expenditures and enforcing revenue provisions. The appropriated budget is prepared by function and department. The City's department heads, with the approval of the City Manager, may make transfers of appropriations within a department and between functions within a fund.

The following is the budget comparison schedule for the Fund for the year ended June 30, 2015:

City of Santa Clarita Air Quality Improvement Fund

**Required Supplementary Information
For the Year Ended June 30, 2015**

	Original	Final	Actual Amounts	Variance With Final Budget Positive (Negative)
Revenues				
Assembly Bill 2766 revenues	\$ 237,322	\$ 244,000	\$ 258,386	\$ 14,386
Investment income	656	656	2,765	2,109
Total revenues	<u>237,978</u>	<u>244,656</u>	<u>261,151</u>	<u>16,495</u>
Expenditures				
Administrative	6,570	8,263	6,081	2,182
Air quality improvement program	451,929	500,954	10,700	490,254
Total expenditures	<u>458,499</u>	<u>509,217</u>	<u>16,781</u>	<u>492,436</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(220,521)</u>	<u>(264,561)</u>	<u>244,370</u>	<u>508,931</u>
Net change in fund balances	<u>\$ (220,521)</u>	<u>\$ (264,561)</u>	<u>244,370</u>	<u>\$ 508,931</u>
Fund balances, beginning of year			<u>267,816</u>	
Fund balances, end of year			<u>\$ 512,186</u>	

**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***

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
of the City of Santa Clarita
Santa Clarita, 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 Quality Improvement Special Revenue Fund (the Fund) of the City of Santa Clarita (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated December 24, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 Fund'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 Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including certain provisions of Assembly Bill 2766, Chapter 1705 (Health and Safety Code Sections 44220 through 44246), 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*.

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

RSM US LLP

Irvine, California
December 24, 2015