

Air Quality Improvement Special Revenue Fund of the City of Santa Clarita

Santa Clarita, California

Financial Statements and Independent Auditors' Reports

For the Year Ended June 30, 2022



**Air Quality Improvement Special Revenue Fund
of the City of Santa Clarita
For the Year Ended June 30, 2022**

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INDEPENDENT AUDITORS' REPORT



To the Honorable Mayor and the Members of the City Council
of the City of Santa Clarita
Santa Clarita, 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 (the "Fund") of the City of Santa Clarita, 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 accompanying 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 change in financial position 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 ("*Government Auditing Standards*"). Our responsibilities under those standards are further described in the Auditor's 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 Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2022, the changes in its financial position, or, where applicable, its cash flows 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 these 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' Responsibility 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 auditor's report that includes our opinions. 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 generally accepted auditing standards 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 the 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinion on the Fund 's financial statements. The Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual is fairly stated, in all material respects, in relation to the financial statements as a whole.

To the Honorable Mayor and the Members of the City Council
of the City of Santa Clarita
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2022, on our consideration of the City's internal control 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 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 the City's internal control over financial reporting and compliance.

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

Santa Ana, California
December 21, 2022

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditors' Report

To the Honorable Mayor and the 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 ("*Government Auditing Standards*"), the financial statements of the Air Quality Improvement Special Revenue Fund of the City of Santa Clarita, California (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, and have issued our report thereon dated December 21, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over the Air Quality Improvement Special Revenue Fund's financial reporting ("internal control") 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of City'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 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.

To the Honorable Mayor and the Members of the City Council
of the City of Santa Clarita
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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Air Quality Improvement Special Revenue Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The PwC Group, LLP

Santa Ana, California
December 21, 2022



REPORT ON COMPLIANCE FOR AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditors' Report

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

Report on Compliance for the Air Quality Improvement Special Revenue Fund

Opinion on Compliance

We have audited the City of Santa Clarita, California's (the "City") compliance with the type of compliance requirements described in the Assembly Bill 2766, Chapter 1705 (44220 through 44247) ("AB 2766") for the year ended June 30, 2022.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that are applicable to Air Quality Improvement Special Revenue Fund for the year ended June 30, 2022.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* ("*Government Auditing Standards*") issued by the Comptroller General of the United States; and AB 2766. Our responsibilities under those standards and AB 2766 are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with 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 opinion. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's government programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. 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, *Government Auditing Standards*, and AB 2766 will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of the government program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the AB 2766, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with AB 2766, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the “Auditors’ Responsibilities for the Audit of Compliance” section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

To the Honorable Mayor and the Members of the City Council
of the City of Santa Clarita
Santa Clarita, California
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Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the AB 2766. Accordingly, this report is not suitable for any other purpose.

The Pen Group, LLP

Santa Ana, California
December 21, 2022

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FINANCIAL STATEMENTS

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**Air Quality Improvement Special Revenue Fund
of the City of Santa Clarita
Balance Sheet
June 30, 2022**

ASSETS

Cash and investments	\$ 226,637
Interest receivable	417
Due from South Coast Air Quality Management District	<u>72,874</u>
Total assets	<u><u>\$ 299,928</u></u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable and accrued liabilities	<u>14,406</u>
Total liabilities	<u><u>14,406</u></u>

Fund Balance:

Restricted	<u>285,522</u>
Total fund balance	<u><u>285,522</u></u>
Total liabilities and fund balance	<u><u>\$ 299,928</u></u>

**Air Quality Improvement Special Revenue Fund
of the City of Santa Clarita**
Statements of Revenues, Expenditures, and Change in Fund Balance
For the Year Ended June 30, 2022

Revenues:

Assembly Bill 2766 revenues	\$	286,347
Investment income (loss)		(4,021)
Total revenues		282,326

Expenditures:

Current:

Administrative		6,431
Air quality improvement program		168,751
Total expenditures		175,182

Excess of revenues over expenditures		107,144
Net change in fund balance		107,144

Fund Balance:

Beginning of year		178,378
End of year	\$	285,522

**Air Quality Improvement Special Revenue Fund
of the City of Santa Clarita
Notes to the Financial Statements
For the Year Ended June 30, 2022**

Note 1 – Financial Reporting Entity and Summary of Significant Accounting Policies

A. Financial Reporting Entity

The financial statements of the Air Quality Improvement Special Revenue Fund (the “Fund”) of the City of Santa Clarita, California (the “City”) are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). 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. Accordingly, the financial statements do not purport to, and do not, present fairly the financial position of the City and changes in financial position thereof.

B. Fund Accounting

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 (the “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.

C. Financial Statements Presentation, Basis of Accounting and Measurement Focus

The fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Change in fund balance. Special Revenue 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.

**Air Quality Improvement Special Revenue Fund
of the City of Santa Clarita
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2022**

Note 1 – Organization and Summary of Significant Accounting Policies (Continued)

D. Cash and Investments

The Fund's cash balance was pooled with various other City funds for deposit and investment purposes. The City's Treasurer 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.

E. Fund Balance

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 resources.

F. Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates and assumptions.

Note 2 – Cash and Investments

The Fund's share of the City's pooled cash and investments at June 30, 2022 is \$226,637.

Cash is deposited in the City's internal investment pool, which is reported at the amortized cost. The Fund does not own specifically identifiable securities in the City's pool. Interest income is allocated based on average cash balances. Investment policies and associated risk factors applicable to the Fund are those of the City and are included in the City's basic financial statements. Please refer to the City's Annual Comprehensive Financial Report for related disclosures for cash and investments.

Note 3 – Due from South Coast Air Quality Management District

The SCAQMD collects revenues from annual vehicle registration fees and allocates a percentage of the revenues collected to the City. As of June 30, 2022, the Fund's due from SCAQMD totaled \$72,874.

**Air Quality Improvement Special Revenue Fund
of the City of Santa Clarita
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2022**

Note 4 – Commitments and 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.

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SUPPLEMENTARY INFORMATION

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**Air Quality Improvement Special Revenue Fund
of the City of Santa Clarita**
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
For the Year Ended June 30, 2022

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Assembly Bill 2766 revenues	\$ 280,957	\$ 280,957	\$ 286,347	\$ 5,390
Investment income (loss)	1,941	1,941	(4,021)	(5,962)
Total revenues	<u>282,898</u>	<u>282,898</u>	<u>282,326</u>	<u>(572)</u>
Expenditures:				
Current:				
Administrative	8,801	8,801	6,431	2,370
Air Quality Improvement Program	13,300	190,895	168,751	22,144
Total expenditures	<u>22,101</u>	<u>199,696</u>	<u>175,182</u>	<u>24,514</u>
Net change in fund balance	<u>\$ 260,797</u>	<u>\$ 83,202</u>	107,144	<u>\$ 23,942</u>
Fund Balance:				
Beginning of year			<u>178,378</u>	
End of year			<u>\$ 285,522</u>	

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