



# CITY OF FULLERTON, CALIFORNIA AIR QUALITY IMPROVEMENT TRUST FUND

FOR THE YEAR ENDED JUNE 30, 2023

AUDIT REPORT

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on YOU



CITY OF FULLERTON, CALIFORNIA

Air Quality Improvement Trust Fund

Audit Report

For The Year Ended June 30, 2023

CITY OF FULLERTON, CALIFORNIA

Air Quality Improvement Trust Fund

Audit Report

For The Year Ended June 30, 2023

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
City of Fullerton, California

### Report on the Audit of the Financial Statements

#### **Opinion**

We have audited the accompanying financial statements of the Air Quality Improvement Trust Fund (the "Fund"), a special revenue fund of the City of Fullerton (the "City"), as of and for the year ended June 30, 2023, 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 Fund of the City as of June 30, 2023, 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.

#### **Basis for Opinion**

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. 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 opinions.

#### **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, 2023, 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 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.

#### **Auditor's 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 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 generally accepted auditing standards 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



To the Honorable Mayor and Members of the City Council  
City of Fullerton, California

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.

#### ***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 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.



To the Honorable Mayor and Members of the City Council  
City of Fullerton, California

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2023, on our consideration of the City's internal control over the Fund's financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the Fund's 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 the Fund's financial reporting and compliance.

A handwritten signature in black ink that reads "Lance, Soll &amp; Lughard, LLP". The signature is written in a cursive, flowing style.

Brea, California  
December 19, 2023

CITY OF FULLERTON  
AIR QUALITY IMPROVEMENT TRUST FUND  
Balance Sheet / Statement of Net Position  
June 30, 2023

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|   | Governmental<br>Funds | Reclassification<br>and<br>Eliminations | Statement<br>of Net Position |
|---|-----------------------|---|------------------------------|
| <b>Assets:</b>                            |                       |   |                              |
| Cash                                      | \$ 984,207            | \$ -                                    | \$ 984,207                   |
| Accrued interest                          | 5,506                 | -                                       | 5,506                        |
| Capital assets, net of depreciation       | -                     | 47,114                                  | 47,114                       |
| <b>Total Assets</b>                       | <b>\$ 989,713</b>     | <b>\$ 47,114</b>                        | <b>\$ 1,036,827</b>          |
| <b>Fund Balance/Net Position:</b>         |                       |   |                              |
| Invested in Capital Assets                | \$ -                  | 47,114                                  | \$ 47,114                    |
| Restricted for AQMD activities            | 989,713               | -                                       | 989,713                      |
| <b>Total Fund Balance/Net Position</b>    | <b>989,713</b>        | <b>\$ 47,114</b>                        | <b>\$ 1,036,827</b>          |
| <b>Total Liabilities and Fund Balance</b> | <b>\$ 989,713</b>     |   |                              |

**CITY OF FULLERTON**  
**AIR QUALITY IMPROVEMENT TRUST FUND**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance / Statement of Activities**  
**For the Year Ended June 30, 2023**

|  | <b>Governmental<br/>Funds</b> | <b>Adjustments</b> | <b>Statement<br/>of Activities</b> |
|--|-------------------------------|--------------------|------------------------------------|
| <b>Revenues:</b>   |                               |                    |                                    |
| Intergovernmental  | \$ 137,942                    | \$ -               | \$ 137,942                         |
| Use of money and property                                    | 12,739                        | -                  | 12,739                             |
| <b>Total Revenues</b>  | <b>150,681</b>                | <b>-</b>           | <b>150,681</b>                     |
| <b>Expenditures:</b>   |                               |                    |                                    |
| Current:   |                               |                    |                                    |
| Community development  | 5,026                         | 13,801             | 18,827                             |
| <b>Total Expenditures</b>                                    | <b>5,026</b>                  | <b>13,801</b>      | <b>18,827</b>                      |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | 145,655                       | (13,801)           | 131,854                            |
| <b>Other Financing Sources (Uses):</b>                       |                               |                    |                                    |
| Transfers out  | (200,000)                     | -                  | (200,000)                          |
| <b>Total Other Financing Sources (Uses)</b>                  | <b>(200,000)</b>              | <b>-</b>           | <b>(200,000)</b>                   |
| Net Change in Fund Balance/Net Position                      | (54,345)                      | (13,801)           | (68,146)                           |
| Fund Balance/Net Position - Beginning                        | 1,044,058                     | 60,915             | 1,104,973                          |
| <b>Fund Balance/Net Position - Ending</b>                    | <b>\$ 989,713</b>             | <b>\$ 47,114</b>   | <b>\$ 1,036,827</b>                |



**CITY OF FULLERTON**  
**AIR QUALITY IMPROVEMENT TRUST FUND**  
**Notes to Financial Statements**  
**For the Fiscal Year Ended June 30, 2023**

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**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

The accompanying financial statements for the Air Quality Improvement Trust Fund of the City of Fullerton, California have been prepared on the modified accrual basis of accounting. Generally, revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Revenues susceptible to accrual include motor vehicle fees and interest earnings on investments received within 60 days of year end. Expenditures are recognized when the fund liability is incurred, if measurable.

**B. Measurement Focus**

The Air Quality Improvement Trust Fund is accounted for on a spending or "financial flow" measurement focus. This means that generally only current assets and current liabilities are included on the balance sheet/statement of net position. The statement of revenues, expenditures and changes in fund balance/statement of activities for the Air Quality Improvement Trust Fund generally presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

**C. Air Quality Improvement Trust Fund**

California Assembly Bill 2766 (SHER) authorizes air pollution control districts to levy fees on motor vehicles. Fees are to be used to reduce air pollution. Under this program, the Department of Motor Vehicles collects the fees and subvenes the amounts to the South Coast Air Quality Management District for vehicles registered in the South Coast District. Forty cents of every dollar subvented to SCAQMD is allocated to the cities and counties in the South Coast Air District proportionately based upon population. The amounts attributable to the City of Fullerton are maintained in a special revenue fund administered by the City of Fullerton.

The accompanying financial statements present only the Air Quality Improvement Trust Fund of the City and do not include any other funds of the City. The City has issued its Basic Financial Statements under a separate cover and are available at City Hall.

**D. Fund Balance**

Fund balance is reported by the following fund balance classifications:

Nonspendable include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted include amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws of regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest authority, City Council. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is resolution or ordinance.

**CITY OF FULLERTON**  
**AIR QUALITY IMPROVEMENT TRUST FUND**  
**Notes to Financial Statements**  
**For the Fiscal Year Ended June 30, 2023**

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**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Assigned include amounts that are constrained by the government's intent to be used for specific purposes but are neither restricted nor committed. The Director of Administrative Services is authorized to assign amounts to a specific purpose, which was established by the governing body in resolution.

Unassigned include the residual amounts that have not been restricted, committed, or assigned to specific purposes.

The entire fund balance/net position of the Air Quality Improvement Trust Fund has been classified as restricted fund balance since the external resource provider, SCAQMD, requires the motor vehicle fees to be used only to reduce air pollution.

**NOTE 2: CASH AND INVESTMENTS**

The Air Quality Improvement Trust Fund cash balance is pooled with the City of Fullerton's cash and investment in order to generate optimum interest income. Each fund's share of the pooled cash account is separately accounted for, and investment income is allocated to all participating funds based on the relationship of their average daily cash balances to the total of the pooled cash and investments. Information regarding the authorized types of deposits and investments, the type of risks (i.e. credit, interest rate, custodial, etc.) and other disclosures associated with the City's pooled cash and investments is included in the City's basic financial statements.

**NOTE 3: CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2023, was as follows:

|  | Beginning<br>Balance | Increase    | Decrease | Ending<br>Balance |
|--|----------------------|-------------|----------|-------------------|
| Capital assets being depreciated:              |                      |             |          |                   |
| Improvements other than buildings              | \$ 152,287           | \$ -        | \$ -     | \$ 152,287        |
| Total Capital Assets<br>Being Depreciated      | 152,287              | -           | -        | 152,287           |
| Less accumulated depreciation for:             |                      |             |          |                   |
| Improvements other than buildings              | 91,372               | 13,801      | -        | 105,173           |
| Total Accumulated<br>Depreciation              | 91,372               | 13,801      | -        | 105,173           |
| Governmental Activities<br>Capital Assets, Net | \$ 60,915            | \$ (13,801) | \$ -     | \$ 47,114         |

**CITY OF FULLERTON**  
**AIR QUALITY IMPROVEMENT TRUST FUND**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2023**

|   | <b>Budget Amounts</b> |                  | <b>Actual</b>     | <b>Variance with</b> |
|---|-----------------------|------------------|-------------------|----------------------|
|   | <b>Original</b>       | <b>Final</b>     | <b>Amounts</b>    | <b>Final Budget</b>  |
|   |                       |                  |                   | <b>Positive</b>      |
|   |                       |                  |                   | <b>(Negative)</b>    |
| <b>Revenues:</b>                            |                       |                  |                   |                      |
| Intergovernmental                           | \$ 181,000            | \$ 181,000       | \$ 137,942        | \$ (43,058)          |
| Use of money and property                   | 15,600                | 15,600           | 12,739            | (2,861)              |
| <b>Total Revenues</b>                       | <b>196,600</b>        | <b>196,600</b>   | <b>150,681</b>    | <b>(45,919)</b>      |
| <b>Expenditures:</b>                        |                       |                  |                   |                      |
| Current:                                    |                       |                  |                   |                      |
| Community development                       | 38,050                | 38,050           | 5,026             | 33,024               |
| Capital outlay                              | 265,000               | 265,000          | -                 | 265,000              |
| <b>Total Expenditures</b>                   | <b>303,050</b>        | <b>303,050</b>   | <b>5,026</b>      | <b>298,024</b>       |
| Excess (Deficiency) of Revenues             |                       |                  |                   |                      |
| Over (Under) Expenditures                   | (106,450)             | (106,450)        | 145,655           | 252,105              |
| <b>Other Financing Sources (Uses):</b>      |                       |                  |                   |                      |
| Transfers out                               | -                     | (208,748)        | (200,000)         | 8,748                |
| <b>Total Other Financing Sources (Uses)</b> | <b>-</b>              | <b>(208,748)</b> | <b>(200,000)</b>  | <b>8,748</b>         |
| Net Change in Fund Balance                  | \$ (106,450)          | \$ (315,198)     | (54,345)          | \$ 260,853           |
| Fund Balance - Beginning                    |                       |                  | 1,044,058         |                      |
| <b>Fund Balance - Ending</b>                |                       |                  | <b>\$ 989,713</b> |                      |



## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE

To the Honorable Mayor and Members of the City Council  
City of Fullerton, California

### Report on Compliance

#### *Opinion*

We have audited the Air Quality Improvement Trust Fund (the "Fund") of the City of Fullerton, California (the "City")'s compliance with the types of compliance requirements identified as subject to audit in California Assembly Bill 2766, Chapter 1705 (44220 through 44247) ("AB 2766") that could have a direct and material effect on the City's AB 2766 Subvention Fund Program (the "Program") for the year ended June 30, 2023.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Program for the year ended June 30, 2023.

#### *Basis for Opinion*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of AB 2766. Our responsibilities under those standards and AB 2766 are further described in the Auditor's 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 on compliance for the Program. 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 Program.

#### *Auditor's 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 generally accepted auditing standards, *Government Auditing Standards*, and AB2766 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 the Program as a whole.





To the Honorable Mayor and Members of the City Council  
City of Fullerton, California

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and 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 with a type of compliance requirement of the Program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the Program 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 with a type of compliance requirement of the Program 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 Auditor's 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 were not identified.

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 requirements of AB 2766. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Lance, Soll &amp; Lughard, LLP".

Brea, California  
December 19, 2023



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*

To the Honorable Mayor and Members of the City Council  
City of Fullerton, 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 Trust Fund special revenue fund of the City of Fullerton, California (the "City"), as of and for the year ended June 30, 2023, 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 19, 2023.

### 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 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 or significant deficiencies may exist that were not identified.

### Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, including the requirements of California Assembly Bill 2766, Chapter 1705 (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*.



To the Honorable Mayor and Members of the City Council  
City of Fullerton, California

### **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. 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. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Lance, Soll &amp; Lughard, LLP". The signature is written in a cursive, flowing style.

Brea, California  
December 19, 2023