

**CITY OF DOWNEY
AIR QUALITY IMPROVEMENT
SPECIAL REVENUE FUND**

FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

JUNE 30, 2013

CITY OF DOWNEY
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

TABLE OF CONTENTS

June 30, 2013

	<u>Page Number</u>
Independent Auditors' Report	1 - 2
Balance Sheet	3
Statement of Revenues, Expenditures and Changes in Fund Balance	4
Notes to Financial Statements	5 - 6
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 <i>Government Auditing Standards</i>	7 - 8

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of City Council
City of Downey
Downey, California

We have audited the financial statements of the City of Downey's (the City) Air Quality Improvement Special Revenue Fund as of and for the year ended June 30, 2013, and the related notes to the basic financial statements, which collectively comprise the City of Downey Air Quality Improvement Special Revenue Fund's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the City's preparation and fair presentation of the Air Quality Improvement Special Revenue Fund's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting related to the Air Quality Improvement Special Revenue Fund. 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.

Auditors' Responsibility (Continued)

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 City of Downey Air Quality Improvement Special Revenue Fund as of June 30, 2013, and the changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of Downey Air Quality Improvement Special Revenue Fund and do not purport to, and do not, present fairly the financial position of the City of Downey, California, as of June 30, 2013, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2013 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters related to the Air Quality Improvement Special Revenue Fund. 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 the 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 related to the Air Quality Improvement Special Revenue Fund.

White Nelson Dick Evans LLP

Irvine, California
December 30, 2013

CITY OF DOWNEY
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

BALANCE SHEET

June 30, 2013

ASSETS

Cash and investments	\$ 591,494
Motor vehicle fees receivable	35,441
Interest receivable	935
Due from City of Downey	<u>31,583</u>
 TOTAL ASSETS	 <u>\$ 659,453</u>

LIABILITIES AND FUND BALANCE

LIABILITIES:

Accounts payable and accrued liabilities	\$ 1,194
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FUND BALANCE:

Restricted for AQMD Purpose	<u>658,259</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 659,453</u>
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See independent auditors' report and notes to financial statements.

CITY OF DOWNEY
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE

For the year ended June 30, 2013

REVENUES:	
Motor vehicle fees	\$ 135,350
Investment loss	<u>(2,626)</u>
TOTAL REVENUES	<u>132,724</u>
EXPENDITURES:	
Administration	5,500
Direct program	<u>132,595</u>
TOTAL EXPENDITURES	<u>138,095</u>
EXCESS OF EXPENDITURES OVER REVENUES	5,371
FUND BALANCE - JULY 1, 2012	<u>663,630</u>
FUND BALANCE - JUNE 30, 2013	<u>\$ 658,259</u>

See independent auditors' report and notes to financial statements.

CITY OF DOWNEY
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. GENERAL

California Assembly Bill 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. The amounts attributable to the City of Downey, California (the City) are maintained in the City's Air Quality Improvement Special Revenue Fund. These financial statements are intended to present fairly the financial position and changes in financial position of only the Air Quality Improvement Special Revenue Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Fund Accounting

The accounts of the City of Downey are organized on the basis of funds and account groups, each of which is considered a separate accounting entity with a self-balancing set of accounts. Monies received under Assembly Bill 2766 (AB2766) are recorded in the Air Quality Improvement Special Revenue Fund, that is used to account for the proceeds of revenue to be used for the purpose of implementing the California Clean Air Act.

Basis of Accounting

The accompanying financial statements for the Air Quality Improvement Special Revenue Fund of the City of Downey, 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.

Measurement Focus

The Air Quality Improvement Special Revenue 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. The statement of revenues, expenditures and changes in fund balance for the Air Quality Improvement Special Revenue Fund generally presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance.

See independent auditors' report.

CITY OF DOWNEY
AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Cash and Investments

The Air Quality Improvement Special Revenue Fund's cash and investments 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 monthly 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 Comprehensive Annual Financial Report. This report can be obtained from the City of Downey.

Estimates

The preparation of financial statements in conformity 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.

See independent auditors' report.

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*

The Honorable Mayor and
Members of City Council
City of Downey
Downey, 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 Downey's (the City) Air Quality Improvement Special Revenue Fund as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Downey Air Quality Improvement Special Revenue Fund's basic financial statements, and have issued our report thereon dated December 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the Air Quality Improvement Special Revenue Fund's financial statements, we considered the City's internal control over financial reporting (internal control) related to the Air Quality Improvement Special Revenue Fund to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements of the Air Quality Improvement Special Revenue Fund of the City of Downey, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control related to the Air Quality Improvement Special Revenue Fund. Accordingly, we do not express an opinion on the effectiveness of the City's internal control related to the Air Quality Improvement Special Revenue Fund.

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 Air Quality Improvement Special Revenue 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.

Internal Control Over Financial Reporting (Continued)

Our consideration of the 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 financial statements of the Air Quality Improvement Special Revenue Fund of the City of Downey 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 (AB 2766) Chapter 1705 (Health and Safety Code Sections 44220 through 44247), 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 City's internal control or on compliance related to the Air Quality Improvement Special Revenue Fund. 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 Air Quality Improvement Special Revenue Fund. Accordingly, this communication is not suitable for any other purpose.

White Nelson Dick Evans LLP

Irvine, California
December 30, 2013