

***CITY OF WEST COVINA
AIR QUALITY IMPROVEMENT
SPECIAL REVENUE FUND***

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

Year Ended June 30, 2023

**City of West Covina
Air Quality Improvement Special Revenue Fund
Year Ended June 30, 2023**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
City Council of the City of West Covina
West Covina, California

Report on 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 West Covina, 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 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, as of June 30, 2023, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Fund 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.

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 error or fraud.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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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 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 Fund'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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Funds's ability to continue as a going concern for a reasonable period of time.

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

Management has omitted the management's discussion and analysis information 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 the missing information.

Accounting principles generally accepted in the United States of America require that the budgetary schedule, as listed in the table of contents, 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.

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated January 22, 2024 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 related to the 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 Fund's internal control over financial reporting and on compliance.

Van Lant & Fankhaed, LLP

January 22, 2024

BASIC FINANCIAL STATEMENTS

**City of West Covina
Air Quality Improvement Special Revenue Fund
Balance Sheet
June 30, 2023**

ASSETS		
Cash and Investments	\$	331,124
Other Receivables		36,101
Total Assets	\$	367,225
LIABILITIES		
Accounts Payable	\$	-
Total Liabilities		-
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenues		-
Total Liabilities		-
FUND BALANCES		
Restricted for Public Works		367,225
Total Fund Balances		367,225
Total Liabilities and Fund Balances	\$	367,225

The accompanying notes are an integral part of this statement.

City of West Covina
Air Quality Improvement Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2023

REVENUES	
Investment Income	\$ 6,468
Revenue from Other Agencies	177,616
Other Revenues	<u>17,000</u>
Total Revenues	<u>201,084</u>
 EXPENDITURES	
Current:	
Public Works	<u>423,321</u>
Total Expenditures	<u>423,321</u>
Net Change in Fund Balances	(222,237)
Fund Balance, Beginning of Year	<u>589,462</u>
Fund Balance, End of Year	<u><u>\$ 367,225</u></u>

The accompanying notes are an integral part of this statement.

**City of West Covina
Air Quality Improvement Special Revenue Fund
Notes to Financial Statements
Year Ended June 30, 2023**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

California Assembly Bill 2766 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 (SCAQMD) 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 District proportionately based upon population. The amounts attributable to the City of West Covina (the City), are maintained in the City's Air Quality Improvement Special Revenue Fund (the Fund).

The following is a summary of the significant accounting policies of the City as they pertain to the Fund. Only the Fund information is included herein and these financial statements, therefore, do not purport to represent the financial position or results of operations of the City.

The accounts of the City 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 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 and Measurement Focus

The Fund is accounted for using the modified-accrual basis of accounting. Under the modified-accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are both measurable and available). "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Expenditures are generally recognized in the accounting period in which the liability is incurred, if measurable.

Use of Estimates in the Preparation of the Financial Statements

The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

Deferred Outflows and Deferred Inflows of Resources

Deferred outflows of resources are transactions that result in the consumption of assets in one period that are applicable to future periods and are not considered assets as described by the statement. Deferred outflows of resources are required to be presented separately after assets on the statement of net position. Deferred inflows of resources are transactions that result in the acquisition of assets in one period that are applicable to future periods and are not considered to be liabilities as described by the statement. Deferred inflows of resources are required to be presented separately after liabilities on the statement of net position.

City of West Covina
Air Quality Improvement Special Revenue Fund
Notes to Financial Statements
Year Ended June 30, 2023

2) CASH AND INVESTMENTS

Cash at June 30, 2023 consisted of the following:

Equity in City Cash and Investment Pool	\$	331,124
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The City follows the practice of pooling cash and investments for all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures.

For more information on the City's cash and investments as of June 30, 2023, please see the City's Annual Comprehensive Financial Report.

3) FUND BALANCE

Fund balances in governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the Fund is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The Fund considers restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Fund considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts. A City's Council Ordinance or Resolution is the formal action that would effectively commit fund balances for a particular purpose.

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance - Amounts that cannot be spent either because they are in nonspendable form or are required to be maintained intact.

Restricted Fund Balance - Amounts that are constrained to specific purposes by state or federal laws, or externally imposed conditions by grantors or creditors.

Committed Fund Balance - Amounts that may be specified by a government itself, using the highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned Fund Balance - Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the fund.

Unassigned Fund Balance - These are either residual positive net resources of the Fund in excess of what can properly be classified in one of the other four categories, or negative balances.

City of West Covina
Air Quality Improvement Special Revenue Fund
Notes to Financial Statements
Year Ended June 30, 2023

3) FUND BALANCE - Continued

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the City's policy is to apply restricted fund balance first. When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the City's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

As of June 30, 2023, the fund balance of the Fund of \$367,225 is restricted for Public Works purposes.

REQUIRED SUPPLEMENTARY INFORMATION

**City of West Covina
Air Quality Improvement Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2023**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive/ (Negative)
REVENUES				
Investment Income	\$ 410	\$ 410	\$ 6,468	\$ 6,058
Revenue from Other Agencies	138,500	138,500	177,616	39,116
Other Revenues	-	17,000	17,000	-
Total Revenues	<u>138,910</u>	<u>155,910</u>	<u>201,084</u>	<u>45,174</u>
EXPENDITURES				
Public Works	<u>402,000</u>	<u>602,000</u>	<u>423,321</u>	<u>178,679</u>
Total Expenditures	<u>402,000</u>	<u>602,000</u>	<u>423,321</u>	<u>178,679</u>
Net Change in Fund Balance	(263,090)	(446,090)	(222,237)	223,853
Fund Balance, Beginning of Year	<u>589,462</u>	<u>589,462</u>	<u>589,462</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 326,372</u></u>	<u><u>\$ 143,372</u></u>	<u><u>\$ 367,225</u></u>	<u><u>\$ 223,853</u></u>

City of West Covina
Air Quality Improvement Special Revenue Fund
Notes to Required Supplementary Information
Year Ended June 30, 2023

Budgetary Data

The annual budget adopted by the City Council provides for the general operation of the Fund. The annual budget is adopted in summary by the City Council in June of each year. The resolution sets a combined appropriation of the Fund for the operation of the City.

The City Manager is authorized to transfer budgeted amounts between departments to ensure adequate and proper standards of service. Budgetary revisions, including supplemental appropriations which increase appropriations, must be approved by the City Council. The budgetary level of control is at the fund level. The budgeted figures used in the financial statements' budget to actual comparisons are the final amended amounts.

The budget is formally integrated into the accounting system and employed as a management control device during the year.

Budgets for governmental fund types are adopted on a basis consistent with generally accepted accounting principles. Operating appropriations lapse at the end of the fiscal year.

**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 *Government Auditing Standards***

The Honorable Mayor and
City Council of the City of West Covina
West Covina, 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 West Covina, California (the City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements, and have issued our report thereon dated January 22, 2024. The financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City.

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 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 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.

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

Van Lant & Fankhaenel, LLP

January 22, 2024