



City of Torrance
Audited Financial Statements
Air Quality Management District Fund
of the City of Torrance, California
As of and for the Year Ended June 30, 2022
With Independent Auditor's Report



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Independent Auditor's Report

The Honorable City Council of the City of Torrance
Torrance, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Air Quality Management District Special Revenue Fund (AQMD Fund) of the City of Torrance, California (the City), as of and for the year ended June 30, 2022, and the related notes to financial statements, which collectively comprise AQMD Fund's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Air Quality Management District Special Revenue Fund of the City of Torrance, California as of June 30, 2022, 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 (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 2, the financial statements present only the Air Quality Management District Special Revenue Fund and do not purport to, and do not present fairly the financial position of the City of Torrance, California, as of June 30, 2022, 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. 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 opinion. 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 GAAS 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, identified as Required Supplementary Information (RSI) in the accompanying 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 RSI in accordance with GAAS, 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 the 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 AQMD Fund's basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2023 on our consideration of the City's internal control over the AQMD 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 AQMD 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 AQMD Fund's financial reporting and compliance.

**Glendale, California
January 19, 2023**



**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 City Council of the City of Torrance
Torrance, 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 Management District Special Revenue Fund (AQMD Fund) of the City of Torrance, 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 AQMD Fund's financial statements, and have issued our report thereon dated January 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 AQMD Fund's financial reporting (AQMD Fund's internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the AQMD Fund's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the AQMD Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the AQMD Fund's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AQMD Fund's financial statements are free from material misstatements, we performed tests of its compliance with applicable provisions of Assembly Bill 2766 (AB2766), Chapter 1705 (Health and Safety Code Sections 44220 through 44247), and certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the AQMD's 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 AQMD 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 AQMD Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Glendale, California
January 19, 2023**

City of Torrance
Air Quality Management District Fund
Balance Sheet
June 30, 2022

ASSETS

Pooled cash and investments	\$ 444,852
Accrued interest receivable	<u>238</u>
Total assets	\$ <u><u>445,090</u></u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 5,561
Accrued liabilities	<u>72</u>
Total liabilities	<u><u>5,633</u></u>

Fund Balance

Restricted for air quality initiatives	<u>439,457</u>
Total fund balance	<u><u>439,457</u></u>
Total liabilities and fund balance	\$ <u><u>445,090</u></u>

See notes to financial statements

City of Torrance
Air Quality Management District Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Year ended June 30, 2022

REVENUES

Motor vehicle fees	\$	139,538
Investment earnings		2,075
Total revenues		<u>141,613</u>

EXPENDITURES

Salaries and employee benefits		22,795
Materials and supplies		16,689
Professional services and contracts		68,478
Others		198
Total expenditures		<u>108,160</u>

CHANGES IN FUND BALANCE

33,453

FUND BALANCE

Beginning of year		406,004
End of year	\$	<u><u>439,457</u></u>

See notes to financial statements

NOTE 1 GENERAL

California Assembly Bill 2766 (AB2766) 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 resulting fees and transfers appropriate amounts to the South Coast Air Quality Management District (SCAQMD) for vehicles registered in the South Coast District. Forty cents of every dollar collected by the SCAQMD is distributed to cities and counties within the jurisdiction of the SCAQMD based upon their prorated share of population to implement projects that reduce emissions from mobile sources. The amounts attributable to the City of Torrance, California (the City), are maintained in a Special Revenue Fund, a governmental fund administered by the City.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying fund financial statements for the Air Quality Management District Special Revenue Fund (AQMD Fund) of the City of Torrance, California, have been prepared on the modified-accrual basis of accounting. Revenues are recognized when they become “susceptible to accrual,” that is, measurable and available to finance expenditures of the current period. Motor vehicle fee receipts are considered susceptible to accrual, if received within 60 days of year-end. Expenditures are recorded when the liability is incurred.

Measurement Focus

Governmental funds are accounted for on a spending or “financial flow” measurement focus. This means that generally only current assets and current liabilities are included on their balance sheet. Statement of revenues, expenditures, and changes in fund balance for governmental funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financial uses) in net current assets.

Fund Equity

The accounts of the City of Torrance 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 AB2766 are recorded in a Special Revenue Fund, the AQMD Fund, that is used to account for the proceeds of revenue to be used for the purpose of implementing the California Clean Air Act. The accompanying financial statements are not intended to present the financial position and results of the operations of the City nor the City as a whole in conformity with accounting principles generally accepted in the United States of America. The City’s AQMD Fund includes a rideshare project funded by AB2766 subvention funds and discretionary grant projects funded by the Mobile Source Air Pollution Reduction Review Committee (MSRC).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Newly Implemented Accounting Pronouncements

GASB 87, “Leases”, effective for periods beginning after June 15, 2021. During the fiscal year ended June 30, 2022, the City implemented GASB Statement No. 87 – Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The implementation of this new accounting standards did not have an impact on AQMD Fund’s June 30, 2022 financial statements.

GASB 89, “Accounting for Interest Cost Incurred before the End of a Construction Period”, effective for periods beginning after December 15, 2020. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The implementation of this standard did not have an impact on the AQMD Fund’s financial statements.

GASB 98, “The Annual Comprehensive Financial Report”, effective for fiscal years ending after December 15, 2021. This Statement establishes the term *annual comprehensive financial report* and its acronym *ACFR*, and replaces instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments.

NOTE 3 CASH AND INVESTMENTS

Unspent funds received for the AQMD Fund are pooled with the City’s other cash and investments. The AQMD Fund’s share of interest earned from the cash and investment pool is allocated on a monthly basis based on each fund’s respective average monthly cash balance. Detailed information regarding the City’s pooled cash and investments program can be found in the City’s Annual Comprehensive Financial Report. Such report is available from the City of Torrance Department of Finance, 3031 Torrance Blvd., Torrance, California 90503.

NOTE 4 DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This represents an acquisition of fund balance that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

Deferred inflows from *unavailable revenues* arises only under a modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

NOTE 5 SUBSEQUENT EVENTS

The City and AQMD Fund has evaluated and determined that no subsequent events occurred through January 19, 2023, the date on which the AQMD Fund's financial statements were available to be issued, that require recognition or disclosure in the financial statements.

City of Torrance
Air Quality Management District Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Year ended June 30, 2022

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Motor vehicle fees	\$ 189,000	\$ 189,000	\$ 139,538	\$ (49,462)
Investment earnings	2,000	2,000	2,075	75
Total revenues	<u>191,000</u>	<u>191,000</u>	<u>141,613</u>	<u>(49,387)</u>
EXPENDITURES				
Salaries and employee benefits	52,818	52,818	22,795	30,023
Materials and supplies	64,402	63,402	16,689	46,713
Professional services and contracts	67,720	68,720	68,478	242
Others	1,000	1,000	198	802
Total expenditures	<u>185,940</u>	<u>185,940</u>	<u>108,160</u>	<u>77,780</u>
CHANGES IN FUND BALANCE	5,060	5,060	33,453	28,393
FUND BALANCE				
Beginning of year	406,004	406,004	406,004	-
End of year	<u>\$ 411,064</u>	<u>\$ 411,064</u>	<u>\$ 439,457</u>	<u>\$ 28,393</u>



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