

**AIR QUALITY MANAGEMENT DISTRICT FUND
OF THE CITY OF TORRANCE, CALIFORNIA**

Annual Financial Report

Year ended June 30, 2019

(With Independent Auditor's Report Thereon)

**AIR QUALITY MANAGEMENT DISTRICT FUND
OF THE CITY OF TORRANCE, CALIFORNIA**

Annual Financial Report
Year ended June 30, 2019

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INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the Air Quality Management District Fund of the City of Torrance, California (a State of California Clean Air Act grant program accounted for as a Special Revenue Fund of the City of Torrance) (AQMD), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Air Quality Management District 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 the standards applicable to financial audits contained in 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 AQMD's preparation and fair presentation of the 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 AQMD's internal control. 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.

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 Air Quality Management District Special Revenue Fund of the City of Torrance, California as of June 30, 2019 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.

Emphasis of a Matter

As discussed in Note 1, 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, 2019, 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.

Prior Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with AQMD's financial statements for the year ended June 30, 2018, from which such partial information was derived.

Other Matter

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, 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 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 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 not presented 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'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 27, 2020 on our consideration of the AQMD'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. 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 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 AQMD's internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

Irvine, California
January 27, 2020

**AIR QUALITY MANAGEMENT DISTRICT FUND
OF THE CITY OF TORRANCE, CALIFORNIA**

Balance Sheet

June 30, 2019

(With comparative totals for prior year)

	2019	2018
Assets		
Pooled cash and investments	\$ 354,347	308,932
Due from other governments	50,186	48,430
Accrued interest receivable	468	265
Total assets	\$ 405,001	357,627
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$ 5,783	5,804
Accrued salaries & benefits	428	444
Total liabilities	6,211	6,248
Fund balance:		
Restricted for air quality initiatives	398,790	351,379
Total liabilities and fund balance	\$ 405,001	357,627

See accompanying notes to the financial statements.

**AIR QUALITY MANAGEMENT DISTRICT FUND
OF THE CITY OF TORRANCE, CALIFORNIA**

Statement of Revenues, Expenditures
and Changes in Fund Balance

Year ended June 30, 2019

(With comparative totals for prior year)

	<u>2019</u>	<u>2018</u>
Revenues:		
Motor vehicle fees – AB 2766 Subvention Funds	\$ 193,579	189,007
Investment earnings	2,658	3,275
Total revenues	<u>196,237</u>	<u>192,282</u>
Expenditures:		
Salaries and employee benefits	50,945	49,136
Materials and supplies	30,363	31,044
Professional services and contracts	67,519	67,459
Total expenditures	<u>148,826</u>	<u>147,639</u>
Excess (deficiency) of revenues over expenditures	47,411	44,643
Fund balance at beginning of year	<u>351,379</u>	<u>306,736</u>
Fund balance at end of year	<u>\$ 398,790</u>	<u>351,379</u>

See accompanying notes to the financial statements.

**AIR QUALITY MANAGEMENT DISTRICT FUND
OF THE CITY OF TORRANCE, CALIFORNIA**

Notes to the Financial Statements

Year ended June 30, 2019

(1) General

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 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 government fund administered by the City.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying fund financial statements for the Air Quality Management District 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.

(b) 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.

(c) 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 Air Quality Management District (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).

(d) Comparative Data

The AQMD Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance shows comparative data for the fiscal year ended June 30, 2018 for comparative purposes only.

**AIR QUALITY MANAGEMENT DISTRICT FUND
OF THE CITY OF TORRANCE, CALIFORNIA**

Notes to the Financial Statements

Year ended June 30, 2019

(3) Cash and Investments

Unspent funds received for the Air Quality Management District Fund are pooled with the City's other cash and investments. The Air Quality Management District 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 Comprehensive Annual Financial Report. Such report is available from the City of Torrance Department of Finance, 3031 Torrance Blvd., Torrance, California 90503.

**AIR QUALITY MANAGEMENT DISTRICT FUND
OF THE CITY OF TORRANCE, CALIFORNIA**
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
For the Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Motor vehicle fees – AB 2766 Subvention Funds	\$ 183,000	\$ 193,579	\$ 10,579
Investment earnings	2,000	2,658	658
Total revenues	<u>185,000</u>	<u>196,237</u>	<u>11,237</u>
EXPENDITURES			
Salaries and employee benefits	53,700	50,945	2,755
Materials and supplies	64,402	30,363	34,039
Professional services and contracts	67,720	67,519	201
Other	1,000	-	1,000
Total expenditures	<u>186,822</u>	<u>148,826</u>	<u>37,996</u>
Excess (deficiency) of revenues over expenditures	<u>(1,822)</u>	<u>47,411</u>	<u>49,233</u>
Fund balance at beginning of year	351,379	351,379	-
Fund balance at end of year	<u>\$ 349,557</u>	<u>\$ 398,790</u>	<u>\$ 49,233</u>

See accompanying notes to the financial statements.

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 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), of the City of Torrance, California (the City) as of and for the year ended June 30, 2019, and have issued our report thereon dated January 27, 2020.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Torrance's internal control over financial reporting as it relates to the AQMD as a basis for designing our auditing procedures for the purpose of expressing our opinion on the AQMD's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over AQMD financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting related to the AQMD.

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'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Air Quality Management District Special Revenue Fund of the City of Torrance, California'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 determination of the AQMD's 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 AQMD. 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 AQMD. Accordingly, this communication is not suitable for any other purpose.

White Nelson Dick Evans LLP

Irvine, California
January 27, 2020