

Honorable Chair and Members
of the Measure SST Citizens' Oversight Committee
City Hall
Torrance, California

Members of the Committee:

SUBJECT: Accept and File Fiscal Year 2022-23 Measure SST Fund Audited Financial Statements.

RECOMMENDATION

Recommendation of the Finance Director that the Measure SST Citizens' Oversight Committee accept and file the Fiscal Year 2022-23 Measure SST Fund Audited Financial Statements.

BACKGROUND

On June 7, 2022, Torrance voters approved Measure SST, a 0.50% transaction and use tax (sales tax), which included the appointment of a citizens' oversight committee, public disclosure of all spending and an annual independent financial audit to ensure funds are used effectively as promised, and only to the benefit of the Torrance community. On July 12, 2022, City Council approved the creation of the Measure SST Fund, a sub-fund of the City's General Fund, to separately track all revenues and expenditures in compliance with the annual independent financial audit provision outlined in the ballot measure.

The City Charter requires an annual audit of the records and accounts of the City by independent Certified Public Accountants. On December 27, 2023, an independent auditor, Vasquez & Company, LLP (Auditor) completed the audit of the [City's Annual Comprehensive Financial Report for the fiscal year ended June 30, 2023](#). Additionally, the Auditor performed the audit of the Measure SST Fund's stand-alone financial statements and issued an unmodified audit opinion on December 28, 2023. The committee is being presented the Measure SST Fund's audited financial statements as of and for the year ended June 30, 2023.

ANALYSIS

Financial Highlights for Fiscal Year 2022-23 Year-End Results

As shown in the subsequent table, the Measure SST Fund recognized the revenues of \$18.1 million in fiscal year 2022-23, substantially all of which were the Measure SST Transactions and Use Tax collected from October 1, 2022, through June 30, 2023. Due to the timing of when revenues are collected and expenditures are incurred, this fund typically operates at a negative cash position during the year, which resulted in a negative Use of Money and Property amount of \$55,800.

	2022-23 Amended	June		
Revenues	Budget	2022-23 Actuals	Surplus/(Deficit)	
Taxes	\$ 17,550,521	\$ 18,120,402	\$ 569,881	
Use of Money and Property	\$ -	\$ (55,807)	\$ (55,807)	
Total Revenues	\$ 17,550,521	\$ 18,064,595	\$ 514,074	
Expenses	2022-23 Amended	June		
	Budget	2022-23 Actuals	Surplus/(Deficit)	
City Manager (41)	\$ -	\$ -	\$ -	
CIT (50)	\$ 158,705	\$ 158,705	\$ -	
Non-Departmental (63)	\$ 17,391,816	\$ 17,391,816	\$ -	
Total Expenses	\$ 17,550,521	\$ 17,550,521	\$ -	
Revenues Less Expenditures	\$ -	\$ 514,074	\$ 514,074	

On the expenditure side, the Measure SST Fund recognized expenditures of \$17.6 million in fiscal year 2022-2023. The CIT (Communications and Information Technology) Department spent \$159,000 to implement cybersecurity upgrades. Expenditures in the Non-Departmental section represent transfer out to the General Fund, as broken down below:


Operating Transfers Out to:	Priority Category:	Expended through
		June 30, 2023:
Reserve Fund	Fiscal Sustainability	\$ 6,996,436
General Fund - Police Department	Quality of Life	\$ 8,587,595
General Fund - Fire Department	Quality of Life	\$ 1,807,785
		<u>\$ 17,391,816</u>

Respectfully submitted,



Sheila Poisson
Finance Director

CONCUR:

for 
Aram Chaparyan
City Manager

Attachment: A) Measure SST Fund Audited Financial Statements for the Fiscal Year Ended June 30, 2023



City of Torrance
Audited Financial Statements
Measure SST Fund
of the City of Torrance, California
As of and for the Year Ended June 30, 2023
With Independent Auditor's Report

City of Torrance
Audited Financial Statements
Measure SST Fund of the City of Torrance, California
As of and for the Year Ended June 30, 2023
With Independent Auditor's Report

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655 N. Central Avenue
Suite 1550
Glendale, CA 91203

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Independent Auditor's Report

**The Honorable Mayor and the Members of the City Council
City of Torrance, California**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Measure SST Fund of the City of Torrance, California (the City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Measure SST Fund's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Measure SST Fund of the City of Torrance, California 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 (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 Measure SST Fund of the City of Torrance, California and do not purport to, and do not present fairly the financial position 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. 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

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 Measure SST 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 December 28, 2023 on our consideration of the City’s internal control over the Measure SST 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 Measure SST Fund’s 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 Measure SST 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 Measure SST Fund’s financial reporting and compliance.

**Glendale, California
December 28, 2023**



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**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 the Members of the City Council
City of 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 Measure SST Fund of the City of Torrance, 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 Measure SST Fund’s basic financial statements, and have issued our report thereon dated December 28, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of Measure SST Fund’s financial statements, we considered the City’s internal control over Measure SST 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 opinion on the Measure SST Fund’s 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 Measure SST 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 Measure SST Fund of the City of Torrance, California's financial statements are free from material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and applicable provisions of the City's Measure SST, that was approved by the people of the City at a general election held on June 7, 2022, noncompliance with which could have a direct and material effect on the Measure SST Fund'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 Measure SST 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 Measure SST Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Glendale, California
December 28, 2023**

City of Torrance
Measure SST Fund
Balance Sheet
June 30, 2023

ASSETS

Pooled cash and investments	\$	-
Due from other government		<u>4,335,436</u>
Total assets	\$	<u>4,335,436</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$	158,705
Due to the General Fund		<u>3,662,657</u>
Total liabilities		<u>3,821,362</u>

Fund Balance

Unassigned		<u>514,074</u>
Total fund balance		<u>514,074</u>
Total liabilities and fund balance	\$	<u>4,335,436</u>

See notes to the financial statements

City of Torrance
Measure SST Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Year ended June 30, 2023

REVENUES

Revenue from sales and use tax	\$	18,120,402
Investment losses		<u>(55,807)</u>
Total revenues		<u>18,064,595</u>

EXPENDITURES

Computer software		<u>158,705</u>
Total expenditures		<u>158,705</u>

Excess of revenues over expenditures 17,905,890

OTHER FINANCING USES

Transfer out		<u>(17,391,816)</u>
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Net change in fund balance 514,074

FUND BALANCE

Beginning of year		<u>-</u>
End of year	\$	<u><u>514,074</u></u>

See notes to the financial statements

NOTE 1 GENERAL

On June 7, 2022, the people of the City of Torrance, California (City) voted to approve a ballot measure, known as Measure SST, imposing a half percent (0.50%) transactions and use tax to fund general municipal services to be administered by the California Department of Tax and Fee Administration. Funds from the Measure SST shall be used to maintain city services such as fire/paramedic/public safety/9-11 response, safe schools; protect local drinking water sources/coastal waters from pollution; keep parks/public areas safe/clean; repair streets/potholes; prevent thefts/property crime; maintain senior services; and address homelessness.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying fund financial statements for the Measure SST Fund of the City, have been prepared on the modified-accrual basis of accounting. The Measure SST Fund is recorded in a separate fund within the General Fund of the City. Revenues are recognized when they become "susceptible to accrual," that is, measurable and available to finance expenditures of the current period. Expenditures are recorded when the liability is incurred.

Measurement Focus

Governmental funds are accounted for on 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 Balance Reporting

The accounts of the City 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 Measure SST Fund are recorded in a separate fund within the General Fund, the Measure SST Fund, that is used to account for the proceeds of Measure SST tax. Measure SST sales tax proceeds should be used in funding the general municipal services of the City including public safety, community and social services, public works and administration and only to the benefit of the community of the City of Torrance. The accompanying financial statements reflect only the financial position and results of operations of the Measure SST Fund, and do not purport to, and do not 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Principles

The City uses the modified accrual plus encumbrances as its budgetary basis of accounting. The City is required by its Charter to adopt an annual budget. On or before the first day of June each year, the City Manager shall submit to City Council a proposed budget for all departments. The said budget shall include estimates for all revenues and expenditures for the ensuing year. From the effective date of the budget, the amounts stated therein, as proposed expenditures become appropriations to various City departments. Budget for the Measure SST Fund is included in the General Fund. Below is a comparison between the budget and actual revenues and expenditures of the Measure SST Fund during the year ended June 30, 2023.

	Budget	Actual	Variance with Budget
REVENUES			
Sales and use taxes	\$ 17,550,521	\$ 18,120,402	\$ 569,881
Investment losses	-	(55,807)	(55,807)
Total revenues	17,550,521	18,064,595	514,074
EXPENDITURES			
Computer software	158,705	158,705	-
Total expenditures	158,705	158,705	-
Excess revenues over expenditures	17,391,816	17,905,890	514,074
OTHER FINANCING USES			
Transfer out	(17,391,816)	(17,391,816)	-
Net change in fund balance	-	514,074	514,074
Fund balance, beginning	-	-	-
Fund balance, ending	\$ -	\$ 514,074	\$ 514,074

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the Measure SST Fund's financial reporting process. Current and future new standards which may impact the Measure SST Fund include the following:

Recently Adopted

GASB 91, "*Conduit Debt Obligations*", effective for periods beginning after December 15, 2021. The objectives of this Statement are to provide a single method in reporting conduit debt obligations by issuers and eliminating diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. The implementation of this standard did not have an impact on the Measure SST Fund's financial statements.

GASB 94, "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*", effective for fiscal years beginning after June 15, 2022. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The implementation of this standard did not have an impact on the Measure SST Fund's financial statements.

GASB 96, "*Subscription-Based Information Technology Arrangements (SBITA)*", effective for fiscal years beginning after June 15, 2022. This Statement provides guidance on the accounting and financial reporting for SBITAs for governments. It defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments, and requires note disclosures regarding a SBITA. The implementation of this standard did not have an impact on the Measure SST Fund's financial statements.

Not Yet Adopted

GASB 99, "*Omnibus 2022*", effective upon issuance for requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63. This statement is effective for fiscal years beginning after June 15, 2022 for requirements related to leases, PPPs, and SBITAs. This statement is also effective for fiscal years beginning after June 15, 2023 for requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53.

GASB 100, "*Accounting Changes and Error Corrections*", effective for fiscal years beginning after June 15, 2023. This statement enhances the accounting and financial reporting requirements for accounting changes and error corrections.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

Not Yet Adopted (Continued)

GASB 101, “*Compensated Absences*”, effective for fiscal years beginning after December 15, 2023. This statement updates the recognition and measurement guidance for compensated absences through aligning the guidance under a unified model and by amending certain previously required disclosures.

NOTE 3 CASH AND INVESTMENTS

Unspent funds received for the Measure SST Fund are pooled with the City’s other cash and investments. The Measure SST Fund’s share of the 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 TRANSFER OUT

Presented below is the list of transactions showing how the funds transferred to the General Fund during the fiscal year ended June 30, 2023 were spent.

Public safety salaries and benefits	\$ 10,395,380
Rebuild unassigned fund balance of the General Fund	6,996,436
	\$ 17,391,816

NOTE 5 SUBSEQUENT EVENTS

The City and Measure SST Fund has evaluated and determined that no subsequent events occurred through December 28, 2023, the date on which the financial statements were available to be issued, that require recognition or disclosure in the financial statements.



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