

**Audited Financial Statements**  
**City of Hawthorne**  
**Air Quality Improvement Special Revenue Fund**  
***Years ended June 30, 2013 and 2012***  
***with Report of Independent Auditors***

**City of Hawthorne**  
**Air Quality Improvement Special Revenue Fund**  
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## **Report of Independent Auditors**

### **The Honorable City Council City of Hawthorne, California**

We have audited the accompanying financial statements of the Air Quality Improvement Special Revenue Fund of the City of Hawthorne, California, as of June 30, 2013 and 2012, and for the years then ended, and the related notes to the 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.

### **Auditor's 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. 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 auditor's 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 auditor considers internal control relevant to the entity'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 entity'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 opinions.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Air Quality Improvement Special Revenue Fund of the City of Hawthorne, California as of June 30, 2013 and 2012, the changes in its financial position for the years then ended and the budgetary comparison for the year ended June 30, 2013, in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 2, the financial statements present only the Air Quality Improvement Special Revenue Fund of the City of Hawthorne California and do not purport to, and do not, present fairly the financial position of the City of Hawthorne, California, as of June 30, 2013 and 2012, the changes in its financial position for the years then ended, and the budgetary comparison for the year ended June 30, 2013 in conformity 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 January 30, 2014, 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. 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 Fund's internal control over financial reporting and compliance.

*Vargus + Company LLP*

**Los Angeles, California  
January 30, 2014**

City of Hawthorne  
 Air Quality Improvement Special Revenue Fund  
 Balance Sheets  
 June 30, 2013

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	June 30	
	2013	2012
<b>ASSETS</b>		
Cash and investments (Note 3)	\$ 172,483	\$ 174,843
Accounts receivable	26,864	26,275
Interest receivable	34	61
<b>Total assets</b>	<b>\$ 199,381</b>	<b>\$ 201,179</b>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 200	\$ 430
<b>Total liabilities</b>	<b>200</b>	<b>430</b>
<b>Fund balance</b>		
Restricted for future projects	199,181	200,749
<b>Total fund balance</b>	<b>199,181</b>	<b>200,749</b>
<b>Total liabilities and fund balance</b>	<b>\$ 199,381</b>	<b>\$ 201,179</b>

*See notes to financial statements.*

**City of Hawthorne**  
**Air Quality Improvement Special Revenue Fund**  
**Statements of Revenues, Expenditures and Changes in Fund Balance**  
**(With budget and actual information for the year ended June 30, 2013)**

	Years ended June 30		Variance with Budget - Positive (Negative)	Actual Amounts
	2013	2012		
	Budget	Actual Amounts		Actual Amounts
<b>Revenues</b>				
Intergovernmental	\$ 103,000	\$ 102,594	\$ (406)	\$ 106,441
Use of money and property	-	198	198	320
<b>Total revenues</b>	<b>103,000</b>	<b>102,792</b>	<b>(208)</b>	<b>106,761</b>
<b>Expenditures</b>				
Current:				
Community development	103,540	104,360	(820)	104,679
<b>Total expenditures</b>	<b>103,540</b>	<b>104,360</b>	<b>(820)</b>	<b>104,679</b>
<b>Change in fund balance</b>	<b>(540)</b>	<b>(1,568)</b>	<b>(1,028)</b>	<b>2,082</b>
<b>Fund balances, beginning of year</b>	<b>200,749</b>	<b>200,749</b>	<b>-</b>	<b>198,667</b>
<b>Fund balances, end of year</b>	<b>\$ 200,209</b>	<b>\$ 199,181</b>	<b>\$ (1,028)</b>	<b>\$ 200,749</b>

*See notes to financial statements.*

**NOTE 1      GENERAL**

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.

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Fund Accounting**

The accounts of the City of Hawthorne 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 (AB 2766) are recorded in a Special Revenue Fund, the Air Quality Improvement 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**

Special Revenue Funds are accounted for using 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. Expenditures are recorded when the liability is incurred.

**Implementation of New Accounting Pronouncements**

During the fiscal year ended June 30, 2013, the City adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Refer to the City's Comprehensive Annual Financial Report for more details.

**Measurement Focus**

Special Revenue 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 sheets. Statements of revenues, expenditures and changes in fund balances for Special Revenue Funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

**Scope of Reporting**

The accompanying financial statements are intended to reflect the financial position and results of operations for the Air Quality Improvement Fund relating to AB 2766 and do not present the financial position or the change in financial position of the City of Hawthorne or any of its funds other than the Air Quality Improvement Special Revenue Fund.

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgetary Accounting**

Budgets for the Special Revenue Funds are adopted on a basis substantially consistent with accounting principles generally accepted in the United States of America.

**Cash and Investments**

The Air Quality Improvement Fund cash balance was pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average monthly balances to the total of the pooled cash and investments.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Fund Balance Reporting**

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes the fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Information regarding the fund balance reporting policy adopted by the City is described in Note 1 to the City of Hawthorne's Comprehensive Annual Financial Report.

The Air Quality Improvement Fund's fund balance as of June 30, 2013 and 2012 is restricted for programs initiated for the purpose of implementing the California Clean Air Act.

**NOTE 3      CASH AND INVESTMENTS**

The City maintains a cash and investment pool used by all funds of the City of Hawthorne, including the Air Quality Improvement Fund. The Air Quality Improvement Fund does not own specifically identifiable securities of the City's pool. The Air Quality Improvement Fund's portion of this pool is reported in the accompanying balance sheet as "cash and investments." Investment policies and associated risk factors applicable to the Air Quality Improvement Special Revenue Fund are those of the City of Hawthorne and are disclosed in the City's comprehensive annual financial report.



**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

Cash and investments held by Air Quality Improvement Fund at June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Equity in the City of Hawthorne's investment portfolio \$	<u>172,483</u>	<u>\$ 174,843</u>

**NOTE 4 SUBSEQUENT EVENTS**

The Air Quality Improvement Fund has evaluated events subsequent to June 30, 2013 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through January 30, 2014, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the notes to financial statements.

**NOTE 5 AVAILABILITY OF OTHER INFORMATION**

Copies of separate unaudited progress reports filed with the SCAQMD Board which detail the accomplishments during the fiscal year ended June 30, 2013 are available at the Hawthorne City Hall at 4455 W. 126<sup>th</sup> Street, Hawthorne, California 90250.

**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  
Hawthorne, 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 Hawthorne, California (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents, and have issued our report thereon dated January 30, 2014.

**Internal Control Over Financial Reporting**

Management of City of Hawthorne is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 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 Hawthorne are free of material misstatements, 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. Such provisions included applicable provisions of Assembly Bill 2766 (AB2766), 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 instance 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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Vargay + Company LLP*

**Los Angeles, California  
January 30, 2014**

**City of Hawthorne**  
**Air Quality Improvement Special Revenue Fund**  
**Schedule of Findings and Recommendations**  
**June 30, 2013**

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There were no audit findings or questioned costs noted during the audit of the City of Hawthorne's Air Quality Improvement Special Revenue Fund for the year ended June 30, 2013.

**City of Hawthorne**  
**Air Quality Improvement Special Revenue Fund**  
**Status of Prior Year Audit Findings**  
**June 30, 2013**

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There were no audit findings or questioned costs noted during the audit of the City of Hawthorne's Air Quality Improvement Special Revenue Fund for the year ended June 30, 2012.

