



City of Hawthorne
Air Quality Improvement Special Revenue Fund
Audited Financial Statements
For the Years Ended June 30, 2015 and 2014
with Report of Independent Auditors

An Independently Owned Member
McGLADREY ALLIANCE



M&C Vasquez
& Company LLP
Certified Public Accountants and Business Consultants

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Air Quality Improvement Special Revenue Fund of the City of Hawthorne, California, as of and for the years ended June 30, 2015 and 2014, and the related notes to these financial statements, which collectively comprise the Air Quality Improvement Special Revenue Fund's 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 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 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, 2015 and 2014, and the changes in financial position thereof for the years then ended, in accordance 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, 2015 and 2014, and the changes in its financial position for the years then ended in conformity 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 our report dated December 30, 2015, 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.

Vargay + Company LLP

**Los Angeles, California
December 30, 2015**

City of Hawthorne
Air Quality Improvement Special Revenue Fund
Balance Sheets

		June 30	
		2015	2014
ASSETS			
Cash and investments (Note 3)	\$	179,158	\$ 175,154
Accounts receivable		28,208	27,536
Interest receivable		29	17
	\$	207,395	\$ 202,707
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable and accrued liabilities	\$	520	\$ 310
Total liabilities		520	310
Fund balance			
Restricted for special fund purposes		206,875	202,397
Total fund balance		206,875	202,397
Total liabilities and fund balance	\$	207,395	\$ 202,707

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 year ended June 30, 2015)

	Years ended June 30			
	2015	2014		
	Budget	Actual Amounts	Variance with Budget - Positive (Negative)	Actual Amounts
Revenues				
Intergovernmental	\$ 104,000	\$ 107,501	\$ 3,501	\$ 105,947
Use of money and property	-	107	107	110
Total revenues	104,000	107,608	3,608	106,057
Expenditures				
Current:				
Community development	106,640	103,130	3,510	102,841
Total expenditures	106,640	103,130	3,510	102,841
Change in fund balance	(2,640)	4,478	7,118	3,216
Fund balances, beginning of year	202,397	202,397	-	199,181
Fund balances, end of year	\$ 199,757	\$ 206,875	\$ 7,118	\$ 202,397

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.

Measurement Focus

The Air Quality Improvement Special Revenue Fund is accounted for on a spending or "financial flow" measurement focus. This means that generally, only current assets and current liabilities are included on its balance sheets. Statements of revenues, expenditures and changes in fund balance for the Air Quality Improvement Fund generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in available spendable resources.

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.

Cash and Investments

The Air Quality Improvement Fund's cash and investments were pooled with various other City funds for deposit and investment purposes. The net change in fair value and interest earnings were apportioned to the participating funds based on the ratio of their monthly ending balances to the total of the pooled cash and investments balance.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Budgetary Accounting

For the fiscal year ended June 30, 2015, an annual budget was adopted for all special revenue funds of the City including the Air Quality Improvement Special Revenue Fund, on a basis consistent with accounting principles generally accepted in the United States of America.

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 Carson's Comprehensive Annual Financial Report.

The Air Quality Improvement Fund's fund balance as of June 30, 2015 and 2014 is restricted for programs initiated for the purpose of implementing the California Clean Air Act.

NOTE 3 CASH AND INVESTMENTS

The City Treasurer 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.

Cash and investments held by Air Quality Improvement Fund at June 30, 2015 and 2014 consisted of the following:

	2015	2014
Equity in the City of Hawthorne's investment portfolio \$	179,158	\$ 175,154

NOTE 4 SUBSEQUENT EVENTS

The City has evaluated events subsequent to June 30, 2015 to assess the need for potential recognition or disclosure in the financial statements of the Air Quality Improvement Fund. Such events were evaluated through December 30, 2015, 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, 2015 are available at the Hawthorne City Hall at 4455 W. 126th 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
Carson, 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, 2015, and the related notes to the financial statements, as listed in the table of contents, and have issued our report thereon dated December 30, 2015.

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.

Vargus + Company LLP

**Los Angeles, California
December 30, 2015**

City of Hawthorne
Air Quality Improvement Special Revenue Fund
Schedule of Findings and Recommendations
June 30, 2015

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, 2015.

City of Carson
Air Quality Improvement Special Revenue Fund
Status of Prior Year Audit Findings
June 30, 2015

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, 2014.



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