

CITY OF HAWTHORNE, CALIFORNIA
AIR QUALITY IMPROVEMENT FUND
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORTS
For the Years Ended June 30, 2017 and 2016



**CITY OF HAWTHORNE, CALIFORNIA
AIR QUALITY IMPROVEMENT FUND**

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Balance Sheets	4
Statements of Revenues, Expenditures and Changes in Fund Balance	5
Notes to Financial Statements	6
Required Supplementary Information	
Statements of Revenues, Expenditures and Changes In Fund Balance – Budget and Actual	11
Independent Auditor's Report on Compliance and on Internal Control Over Compliance Required by AB 2766	12
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15



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INDEPENDENT AUDITOR'S REPORT

The Governing Board of
The South Coast Air Quality Management District

We have audited the accompanying financial statements of the Air Quality Improvement Fund (Fund) of the City of Hawthorne, California (City) as of and for the years ended June 30, 2017 and 2016, 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 opinion on these financial statements based on our audits. We conducted our audits 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 of 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 opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Air Quality Improvement Fund of the City of Hawthorne, California, as of June 30, 2017 and 2016, and the changes in financial position thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the accompanying financial statements of the Fund are intended to present the financial position and the changes in the financial position attributable to the Fund. They do not purport to, and do not, present fairly the financial position of the City of Hawthorne, California, as of June 30, 2017 and 2016, and the changes in its financial position for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed in the 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 required supplementary information 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 our 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.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2019, 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, 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 City of Hawthorne, California’s internal control over financial reporting and compliance of the Fund.

A handwritten signature in black ink that reads "Simpson & Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California
July 8, 2019

**CITY OF HAWTHORNE, CALIFORNIA
AIR QUALITY IMPROVEMENT FUND**

**BALANCE SHEETS
June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Assets		
Cash and Investments	\$ 196,732	\$ 186,075
Accounts Receivable	28,567	29,991
Interest Receivable	<u>97</u>	<u>52</u>
Total Assets	<u><u>\$ 225,396</u></u>	<u><u>\$ 216,118</u></u>
Liabilities		
Accounts Payable	<u>\$ 650</u>	<u>\$ 180</u>
Total Liabilities	<u>650</u>	<u>180</u>
Fund Balance		
Restricted for Air Quality Improvement	<u>224,746</u>	<u>215,938</u>
Total Liabilities	<u><u>\$ 225,396</u></u>	<u><u>\$ 216,118</u></u>

See accompanying notes to the financial statements.

**CITY OF HAWTHORNE, CALIFORNIA
AIR QUALITY IMPROVEMENT FUND**

**STATEMENTS OF REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Years Ended June 30, 2017 and 2016**

	2017	2016
Revenues		
Motor Vehicle Fees	\$ 112,379	\$ 111,684
Use of Money and Property	404	209
Total Revenues	112,783	111,893
 Expenditures		
Direct Program	103,135	101,990
Administrative	840	840
Total Expenditures	103,975	102,830
 Excess of Revenues over Expenditures	8,808	9,063
 Other Financing Sources (Uses)		
Transfers In	-	-
 Net Change in Fund Balance	8,808	9,063
 Fund Balance, Beginning of Year	215,938	206,875
 Fund Balance, End of Year	\$ 224,746	\$ 215,938

See accompanying notes to the financial statements.

**CITY OF HAWTHORNE, CALIFORNIA
AIR QUALITY IMPROVEMENT FUND**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

1. GENERAL INFORMATION

The financial statements are intended to reflect the financial position and changes in the financial position attributable to the Air Quality Improvement Fund (Fund) of the City of Hawthorne, California (City). These financial statements are exclusively for the Fund and do not purport to, and do not present fairly the financial position and changes in the financial position for the City.

The South Coast Air Quality Management District (SCAQMD) is authorized under *Assembly Bill 2766 (AB 2766) Chapter 1705 [California Health and Safety Code (CHSC) Sections 44220 through 44247]* to impose a motor vehicle registration fee to be used by the SCAQMD and local governments specifically for programs to reduce air pollution from mobile sources and related planning, monitoring, enforcement, and technical studies necessary for the implementation of the California Clean Air Act of 1988.

The California Department of Motor Vehicles collects the vehicle registration fee and subvenes it to SCAQMD. Upon receipt, the vehicle registration fee is split into segments with 40% of the revenue placed in a special revenue fund designated as the Air Quality Improvement Trust Fund for quarterly distribution to local governments.

CHSC Section 44243 requires cities and counties receiving the AB 2766 funds to separately account for the revenues and to expend the revenues for air pollution reduction measures pursuant to the California Clean Air Act of 1988 or the SCAQMD's Air Quality Management Plan pursuant to Article 5 of Chapter 5.5 of Part 3 of the CHSC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The financial activity of the City is accounted for on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts. Monies under AB 2766 are accounted for in the Air Quality Fund (Fund), which is a special revenue fund.

**CITY OF HAWTHORNE, CALIFORNIA
AIR QUALITY IMPROVEMENT FUND**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The Fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Budgetary Accounting

The City Council approves each year's budget submitted by the City Manager prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the Council. Supplemental appropriations, where required during the period, are also approved by the Council. Intradepartmental budget changes are approved by the City Manager. At fiscal year-end, all operating budget appropriations lapse.

The Fund's adopted budget is prepared on a basis consistent with generally accepted accounting principles. Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items.

Fund Balance

The Fund reports fund balance based on the extent to which the City is bound to observe constraints on the use of the Funds' resources. The Fund's fund balance is classified under restricted, which include amounts which are constrained for specific purposes that are 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through enabling legislation.

**CITY OF HAWTHORNE, CALIFORNIA
AIR QUALITY IMPROVEMENT FUND**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Adoption of New Accounting Standards

The City implemented GASB Statement No. 72, Fair Value Measurement and Application in fiscal year 2016. The objective of this statement is to address accounting and financial reporting issues related to fair value measurement. The statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants. This statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement has no material impact on the Fund's financial statements.

The City implemented GASB Statement No. 82, Pension Issues in fiscal year 2016. The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The statement addresses the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement has no material impact on the Fund's financial statements.

3. CASH

Cash is pooled with other City funds to maximize investment opportunities and yields. Investment income resulting from this pooling is allocated to the respective funds of the City, including the Fund, based on average monthly cash and investment balances on a quarterly basis.

**CITY OF HAWTHORNE, CALIFORNIA
AIR QUALITY IMPROVEMENT FUND**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

4. ACCOUNTS RECEIVABLE

The accounts receivable amount represents the AB 2766 fourth quarter funds distributed by the SCAQMD to the City, but not yet received by the City.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HAWTHORNE, CALIFORNIA
AIR QUALITY IMPROVEMENT FUND**

**STATEMENTS OF REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Years Ended June 30, 2017 and 2016
(Unaudited)**

	2017				2016			
	Budget Amounts		Actual	Variance with Final Budget Positive/ (Negative)	Budget Amounts		Actual	Variance with Final Budget Positive/ (Negative)
Original	Final	Original			Final			
Revenues								
Motor Vehicle Fees	\$ 100,000	\$ 100,000	\$ 112,379	\$ 12,379	\$ 106,640	\$ 106,640	\$ 111,684	\$ 5,044
Use of Money and Property	110	110	404	294	-	-	209	209
Total Revenues	<u>100,110</u>	<u>100,110</u>	<u>112,783</u>	<u>12,673</u>	<u>106,640</u>	<u>106,640</u>	<u>111,893</u>	<u>5,253</u>
Expenditures								
Community Development	106,840	106,840	103,975	2,865	106,640	106,640	102,830	3,810
Total Expenditures	<u>106,840</u>	<u>106,840</u>	<u>103,975</u>	<u>2,865</u>	<u>106,640</u>	<u>106,640</u>	<u>102,830</u>	<u>3,810</u>
Excess of Revenues over Expenditures	(6,730)	(6,730)	8,808	15,538	-	-	9,063	9,063
Other Financing Sources (Uses)								
Transfers In	-	-	-	-	-	-	-	-
Net Change in Fund Balance	(6,730)	(6,730)	8,808	15,538	-	-	9,063	9,063
Fund Balance, Beginning of Year	215,938	215,938	215,938	-	206,875	206,875	206,875	-
Fund Balance, End of Year	<u>\$ 209,208</u>	<u>\$ 209,208</u>	<u>\$ 224,746</u>	<u>\$ 15,538</u>	<u>\$ 206,875</u>	<u>\$ 206,875</u>	<u>\$ 215,938</u>	<u>\$ 9,063</u>

Note to Required Supplementary Information:

The Fund's adopted budget is prepared on a basis consistent with generally accepted accounting principles. Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items.

See Independent Auditor's Report.



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY AB 2766

The Governing Board of
The South Coast Air Quality Management District

Report on Compliance with AB 2766

We have audited the City of Hawthorne, California's (City) compliance with the compliance requirements described in *Assembly Bill 2766 (AB 2766) Chapter 1705 [Health and Safety Code Sections 44220 through 44247]*, adopted by the South Coast Air Quality Management District (SCAQMD) for the years ended June 30, 2017 and 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of laws and regulations as described in AB 2766 that are applicable to the City's Air Quality Management Improvement Fund (Fund).

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with the requirements of AB 2766 based on our audits. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and AB 2766. Those standards and AB2766 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Fund occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audits provide a reasonable basis for our opinion on compliance with those requirements. However, our audits do not provide a legal determination on the City's compliance with those requirements.



Opinion

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Fund for the years ended June 30, 2017 and 2016.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with requirements that could have a direct and material effect on the Fund to determine the auditing procedures that are appropriate in circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with AB 2766, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the AB 2766 compliance requirement on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with the AB 2766 compliance requirement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with the AB 2766 compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of AB 2766. Accordingly, this report is not suitable for any other purpose.

Simpson & Simpson

Los Angeles, California
July 8, 2019



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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 THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Governing Board of
The South Coast Air Quality Management District

We have audited the financial statements of the Air Quality Improvement Fund (Fund) of the City of Hawthorne, California (City) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, and have issued our report thereon dated July 8, 2019. We conducted our audits 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.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 audits 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 Fund's financial statements are free of material misstatement, 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. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion.

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. 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. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Simpson & Simpson".

Los Angeles, California
July 8, 2019