



City of Torrance
Audited Financial Statements
Measure W Fund
of the City of Torrance, California
As of and for the Year Ended June 30, 2022
With Independent Auditor's Report

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Measure W Special Revenue Fund (Measure W Fund) of the City of Torrance, California (the City), as of and for the year ended June 30, 2022, and the related notes to financial statements, which collectively comprise Measure W'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 respective financial position of the Measure W Special Revenue Fund of the City of Torrance, California as of June 30, 2022, and the respective changes in 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. 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 W 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, 2022, 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 W'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 26, 2023 on our consideration of the City's internal control over the Measure W 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 W 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 W 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 W's financial reporting and compliance.

Vaughan & Company LLP

**Glendale, California
January 26, 2023**



**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 Members of the City Council
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 Measure W Special Revenue Fund (Measure W Fund) of the City of Torrance, California (the City) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Measure W Fund's financial statements, and have issued our report thereon dated January 26, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of Measure W Fund's financial statements, we considered the City's internal control over Measure W Fund's financial reporting (Measure W Fund's internal control) as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Measure W 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 W 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 W 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 Los Angeles County Flood Control District Code, Chapters 16 and 18, and certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the Measure W 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 W 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 W Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Glendale, California
January 26, 2023**

**City of Torrance
Measure W Fund
Balance Sheet
June 30, 2022**

ASSETS

Pooled cash and investments	\$ 9,226,189
Total assets	<u>\$ 9,226,189</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 43,855
Accrued expenses	<u>34,060</u>
Total liabilities	<u>77,915</u>

Fund Balance

Restricted for public works	<u>9,148,274</u>
Total fund balance	<u>9,148,274</u>
Total liabilities and fund balance	<u>\$ 9,226,189</u>

See notes to financial statements

City of Torrance
Measure W Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Year ended June 30, 2022

REVENUES

Revenue from other governmental agencies	\$	6,561,409
Revenue from use of money and property		30,941
	Total revenues	<u>6,592,350</u>

EXPENDITURES

Salaries and employee benefits		23,341
Professional services and contracts		194,446
	Total expenditures	<u>217,787</u>

CHANGES IN FUND BALANCE

6,374,563

FUND BALANCE

Beginning of year		2,773,711
End of year	\$	<u>9,148,274</u>

See notes to financial statements

NOTE 1 GENERAL

In November 2018, the Los Angeles County (LA County) voters approved Measure W, the Safe Clean Water Program, which is a parcel tax of 2.5 cents per square foot of impermeable areas within the LA County. This would raise approximately \$300 million in tax revenues annually. The Measure W would increase the LA County's local water supply, improve water quality, and invest in making the communities greener and more livable.

The Los Angeles County Flood Control District (District), pursuant to the Los Angeles Region Safe, Clean Water (SCW) Program Ordinance (Chapter 16 of the District Code) and the SCW Program Implementation Ordinance (Chapter 18 of the District Code), administers the SCW Program for the purpose of funding projects and programs to increase stormwater and urban runoff capture and reduce stormwater and urban runoff pollution in the District.

Pursuant to Section 16.04.A.2 of the District Code, forty percent (40%) of annual SCW program tax revenues shall be allocated to municipalities within the District, in the same proportion as the amount of revenues collected within each municipality, to be expended by those cities within the cities' respective jurisdictions and by the County within the unincorporated areas that are within the boundaries of the District, for implementation, operation and maintenance, and administration of projects and programs, in accordance with the criteria and procedures established in Chapters 16 and 18 of the District Code.

The City of Torrance (City) is located within the LA County and receives its share of the Measure W fund.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying fund financial statements for the Measure W Special Revenue Fund (Measure W 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. 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Equity

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 W are recorded in a Special Revenue Fund, the Measure W Fund, that is used to account for the proceeds of revenue to be used for the purpose of implementing the Safe Clean Water Program. 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.

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 W Fund, as a Special Revenue Capital Project Fund, is long-term in nature. Therefore, no budgetary comparison is presented in the accompanying financial statements.

Newly Implemented Accounting Pronouncements

GASB 87, "Leases", effective for periods beginning after June 15, 2021. During the fiscal year ended June 30, 2022, the City implemented GASB Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The implementation of this new accounting standards did not have an impact on Measure W Fund's June 30, 2022 financial statements.

GASB 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*", effective for periods beginning after December 15, 2020. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The implementation of this standard did not have an impact on Measure W Fund's financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Newly Implemented Accounting Pronouncements (Continued)

GASB 98, "*The Annual Comprehensive Financial Report*", effective for fiscal years ending after December 15, 2021. This Statement establishes the term annual comprehensive financial report and its acronym ACFR, and replaces instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

NOTE 3 CASH AND INVESTMENTS

Unspent funds received for the Measure W Fund are pooled with the City's other cash and investments. The Measure W 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 ACFR. Such report is available from the City of Torrance, Department of Finance, 3031 Torrance Blvd., Torrance, California 90503.

NOTE 4 DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This represents an acquisition of fund balance that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

Deferred inflows from *unavailable revenues* arises only under a modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

NOTE 5 SUBSEQUENT EVENTS

The City and Measure W Fund has evaluated and determined that no subsequent events occurred through January 26, 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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