



City of Torrance
Audited Financial Statements
Air Quality Management District Fund
of the City of Torrance, California
As of and for the Year Ended June 30, 2025
with Independent Auditor's Report



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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 Basic Fund Financial Statements

Opinion

We have audited the basic fund financial statements of the Air Quality Management District Special Revenue Fund (the AQMD Fund) of the City of Torrance, California (the City), as of and for the year ended June 30, 2025, and the related notes to the basic fund financial statements, as listed in the table of contents.

In our opinion, the accompanying basic fund financial statements referred to above present fairly, in all material respects, the financial position of the Air Quality Management District Special Revenue Fund of the City of Torrance, California as of June 30, 2025, 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 basic fund financial statements present only the Air Quality Management District Special Revenue 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, 2025, 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 Basic Fund Financial Statements

Management is responsible for the preparation and fair presentation of the basic fund 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 the basic fund financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Basic Fund Financial Statements

Our objectives are to obtain reasonable assurance about whether the basic fund 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 basic fund 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 basic fund 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 basic fund 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

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic fund financial statements. Such information is the responsibility of management and, although not a part of the basic fund 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 fund financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with GAAS, 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 fund financial statements, and other knowledge we obtained during the audit of the basic fund 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.

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 fund financial statements. Such missing information, although not a part of the basic fund 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 fund financial statements in an appropriate operational, economic or historical context. Our opinion on the AQMD Fund's basic fund 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 30, 2025 on our consideration of the City's internal control over the AQMD 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 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 AQMD 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 AQMD Fund's financial reporting and compliance.

**Glendale, California
December 30, 2025**



**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Basic Fund 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 Air Quality Management District Special Revenue Fund (the AQMD Fund) of the City of Torrance, California (the City) as of and for the year ended June 30, 2025, and the related notes to the basic fund financial statements, which collectively comprise the AQMD Fund's basic fund financial statements, and have issued our report thereon dated December 30, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the AQMD Fund's financial statements, we considered the City's internal control over AQMD 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 AQMD 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 AQMD 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 AQMD 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, and grant agreements, noncompliance with which could have a direct and material effect on AQMD 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 City of Torrance, California's internal control over AQMD Fund or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Torrance, California's internal control over AQMD Fund and compliance. Accordingly, this communication is not suitable for any other purpose.

**Glendale, California
December 30, 2025**



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Independent Auditor's Report on Internal Control Over Compliance and on Compliance with Applicable Provisions of Assembly Bill 2766 (AB2766) and Chapter 1705 (Health and Safety Code Sections 44220 through 44247)

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

Report on Compliance

Opinion

We have audited the City of Torrance, California's (the City) compliance with the applicable provisions of Assembly Bill 2766 (AB2766) and Chapter 1705 (Health and Safety Code Sections 44220 through 44247) (collectively, AQMD Program requirements) for the year ended June 30, 2025.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2025.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)* issued by the Comptroller General of the United States; and the AQMD Program requirements. Our responsibilities under those standards and AQMD Program requirements are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance with the AQMD Program requirements. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for the City's compliance with requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's AQMD Program requirements.



Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. 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, *Government Auditing Standards*, and AQMD Program requirements will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of the AQMD program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and AQMD Program requirements, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with AQMD Program requirements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the AQMD Program requirements and which is described in the accompanying schedule of finding and response as Finding 2025-001. Our opinion on compliance is not modified with respect to this matter.

Government Auditing Standards require the auditor to perform limited procedures on the City's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of finding and response. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



Report on 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 on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with the 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 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 AQMD Program. Accordingly, this report is not suitable for any other purpose.

Glendale, California
December 30, 2025

City of Torrance
Air Quality Management District Fund
Balance Sheet
June 30, 2025

ASSETS		
Pooled cash and investments		\$ 476,211
Accrued interest receivable		<u>1,991</u>
	Total assets	\$ <u>478,202</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accrued salaries and benefits		\$ <u>2,295</u>
	Total liabilities	<u>2,295</u>
Fund Balance		
Restricted for air quality initiatives		<u>475,907</u>
	Total fund balance	<u>475,907</u>
	Total liabilities and fund balance	\$ <u>478,202</u>

See notes to the basic fund financial statements

City of Torrance
Air Quality Management District Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2025

REVENUES

Motor vehicle fees	\$	188,874
Investment earnings		13,753
Total revenues		<u>202,627</u>

EXPENDITURES

Salaries and employee benefits		100,821
Capital outlay		98,202
Materials and supplies		27,538
Professional services and contracts		4,332
Total expenditures		<u>230,893</u>

CHANGE IN FUND BALANCE (28,266)

FUND BALANCE

Beginning of year		504,173
End of year	\$	<u><u>475,907</u></u>

See notes to the basic fund financial statements

NOTE 1 GENERAL

California Assembly Bill 2766 (AB2766) authorizes air pollution control districts to levy fees on motor vehicles. Fees are to be used to reduce air pollution. Under this program, the Department of Motor Vehicles collects resulting fees and transfers appropriate amounts to the South Coast Air Quality Management District (SCAQMD) for vehicles registered in the South Coast District. Forty cents of every dollar collected by the SCAQMD is distributed to cities and counties within the jurisdiction of the SCAQMD based upon their prorated share of population to implement projects that reduce emissions from mobile sources. The amounts attributable to the City of Torrance, California (the City), are maintained in a Special Revenue Fund, a governmental fund administered by the City.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying basic fund financial statements for the Air Quality Management District Fund (the AQMD 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. Motor vehicle fee receipts are considered susceptible to accrual, if received within 60 days of year-end. Expenditures are recorded when liability is incurred.

Measurement Focus

Governmental 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 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 AB2766 are recorded in a Special Revenue Fund, the AQMD Fund, used to account for the proceeds of revenue to be used for the purpose of implementing the California Clean Air Act. The accompanying financial statements reflect only the financial position and results of operations of the AQMD 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. The City's AQMD Fund includes a rideshare project funded by AB2766 subvention funds and discretionary grant projects funded by the Mobile Source Air Pollution Reduction Review Committee (MSRC).

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 AQMD's financial reporting process. The implementation of the following new standards did not have an impact on AQMD's basic fund financial statements.

GASB Statement No. 101 – *Compensated Absences*. This Statement establishes recognition and measurement guidance for liabilities related to compensated absences, such as vacation and sick leave. The requirements of this statement are effective for reporting periods beginning after December 15, 2023.

GASB Statement No. 102 – *Certain Risk Disclosures*. This Statement requires disclosure of certain risks that could significantly affect a government's financial position or operations, including concentration and contingency risks. The requirements of this statement are effective for reporting periods beginning after June 15, 2024.

NOTE 3 CASH AND INVESTMENTS

Unspent funds received for the AQMD Fund are pooled with the City's other cash and investments. The AQMD Fund's share of 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 SUBSEQUENT EVENTS

The City and AQMD Fund has evaluated and determined that no subsequent events occurred through December 30, 2025, the date on which the basic fund financial statements were available to be issued, that require recognition or disclosure in the basic fund financial statements.

City of Torrance
Air Quality Management District Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Year Ended June 30, 2025

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Motor vehicle fees	\$ 196,390	\$ 196,390	\$ 188,874	\$ (7,516)
Investment earnings	11,906	11,906	13,753	1,847
Total revenues	<u>208,296</u>	<u>208,296</u>	<u>202,627</u>	<u>(5,669)</u>
EXPENDITURES				
Salaries and employee benefits	123,639	123,639	100,821	22,818
Capital outlay	-	98,202	98,202	-
Materials and supplies	47,000	47,000	27,538	19,462
Professional services and contracts	8,300	8,300	4,332	3,968
Total expenditures	<u>178,939</u>	<u>277,141</u>	<u>230,893</u>	<u>46,248</u>
CHANGES IN FUND BALANCE	(68,845)	(68,845)	(28,266)	40,579
FUND BALANCE				
Beginning of year	504,173	504,173	504,173	-
End of year	<u>\$ 435,328</u>	<u>\$ 435,328</u>	<u>\$ 475,907</u>	<u>\$ 40,579</u>

Finding 2025-001 Reporting

Criteria:

AQMD Program requirements describe the financial and program reporting requirements for local governments. The AB 2766 program guidelines require that each agency receiving motor vehicle registration fee revenues must submit:

- an annual report on program activities; and
- an annual audited financial statement of AB 2766 funds

These reports must be received by the South Coast AQMD no later than the first Friday in February of each year. If audited financial statements have not been completed by the first Friday of February, local governments can request an extension until April 1st by submitting an interim statement of program receipts and expenditures certified by the local government’s finance director. Local governments that do not comply with the financial reporting requirements will be subject to an audit conducted by an independent auditor selected by the South Coast AQMD. The cost of the audit will be deducted from the amount distributed to the non-compliant local governments.

Condition:

During our audit for the fiscal year ended June 30, 2025, we noted the following late submission of required reports:

<u>Required Report</u>	<u>Frequency</u>	<u>Fiscal Year End</u>	<u>Due Date</u>	<u>Date Submitted</u>	<u>Lag in Days</u>
Annual Report on Program Activities	Annual	June 30, 2024	February 7, 2025	February 13, 2025	6
Annual Audited Financial Statements	Annual	June 30, 2024	February 7, 2025	February 13, 2025	6

Cause and Effect:

The City explained that all required information was entered into the AQMD reporting system within the established deadline. However, the submission was not completed because the submit function in the system was inadvertently not executed. South Coast AQMD subsequently notified the City of the incomplete submission and has assisted in completing and finalizing the filing.

Questioned Costs:

None.

Recommendation:

The City should enhance its submission process to ensure all required filings in the AQMD reporting system are fully completed and verified before the deadline.

City of Torrance’s Response:

The City agrees with the finding. The City will review and improve its procedures to strengthen verification and prevent incomplete submissions.



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