

**Audited Financial Statements**  
**City of Hawthorne**  
**Air Quality Improvement Special Revenue Fund**  
***Year ended June 30, 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 and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the City of Hawthorne's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the City of Hawthorne Air Quality Improvement Special Revenue Fund and do not purport to, and do not, present fairly the financial position of the City of Hawthorne, California, as of June 30, 2012, and the change in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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, 2012, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2013 on our consideration of the Air Quality Improvement Special Revenue Fund of the City of Hawthorne, California's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

*Vasquez + Company LLP*

**Los Angeles, California  
January 28, 2013**

**City of Hawthorne**  
**Air Quality Improvement Special Revenue Fund**  
**Balance Sheet**  
**June 30, 2012**

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**ASSETS**

Cash and investments (Note 3)	\$	174,843
Accounts receivable		26,275
Interest receivable		61
<b>Total assets</b>	<b>\$</b>	<u><u>201,179</u></u>

**LIABILITIES AND FUND BALANCE**

**Liabilities**

Accounts payable and accrued liabilities	\$	430
<b>Total liabilities</b>		<u>430</u>

**Fund balance**

Restricted for future projects		200,749
<b>Total fund balance</b>		<u>200,749</u>
<b>Total liabilities and fund balance</b>	<b>\$</b>	<u><u>201,179</u></u>

*See notes to financial statements.*

**City of Hawthorne**  
**Air Quality Improvement Special Revenue Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**Year ended June 30, 2012**

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	Budget	Actual Amounts	Variance with Budget - Positive (Negative)
<b>Revenues</b>			
Intergovernmental	\$ 102,000	\$ 106,441	\$ 4,441
Use of money and property	1,000	320	(680)
<b>Total revenues</b>	103,000	106,761	3,761
<b>Expenditures</b>			
Current:			
Community development	103,840	104,679	(839)
<b>Total expenditures</b>	103,840	104,679	(839)
<b>Change in fund balance</b>	(840)	2,082	2,922
<b>Fund balances, beginning of year</b>	198,667	198,667	-
<b>Fund balances, end of year</b>	\$ 197,827	\$ 200,749	\$ 2,922

*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**

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.

**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.

**Annual Financial Statements**

The financial statements are intended to reflect the financial position and results of operations for the Air Quality Improvement Fund relating to AB 2766 only.

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

**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 fund balance of \$200,749 as of June 30, 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.

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

Equity in the City of Hawthorne's investment portfolio \$ 174,843

**NOTE 4      SUBSEQUENT EVENTS**

The Air Quality Improvement Fund has evaluated events subsequent to June 30, 2012 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through January 28, 2013, 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.

**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 the financial statement of the Air Quality Improvement Special Revenue Fund (the fund) of the City of Hawthorne, California (the City), as of and for the year ended June 30, 2012, and have issued our report thereon dated January 28, 2013. 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.

Internal Control Over Financial Reporting

Management of the City of Hawthorne is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting, with respect to the Air Quality Improvement Special Revenue Fund, that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Air Quality Improvement Special Revenue Fund of the City of Hawthorne, California's financial statements are free of material misstatements, we performed tests of its compliance with 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the City Council and management of the City of Hawthorne, California and the South Coast Air Quality Management District and is not intended to be, and should not be, used by anyone other than these specified parties.

*Vargus + Company LLP*

**Los Angeles, California**  
**January 28, 2013**

**City of Hawthorne**  
**Air Quality Improvement Special Revenue Fund**  
**Schedule of Findings and Recommendations**  
**June 30, 2012**

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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.

