

***CITY OF TORRANCE  
ANNUAL FINANCIAL REPORT OF THE  
MEASURE R 20% BUS OPERATIONS FUND  
MEASURE R REGIONAL CLEAN FUEL BUS FUND  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 2019 AND 2018***



**Metro<sup>®</sup>**



Simpson & Simpson, LLP  
Certified Public Accountants

***CITY OF TORRANCE***  
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*FINANCIAL SECTION*

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FOUNDING PARTNERS  
BRAINARD C. SIMPSON, CPA  
MELBA W. SIMPSON, CPA

## **Independent Auditor's Report**

To the Honorable Members of the City Council of the  
City of Torrance, California and the  
Los Angeles County Metropolitan Transportation Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Measure R 20 % Bus Operations Fund and the Measure R Regional Clean Fuel Bus Fund (collectively, the Funds) of the City of Torrance, California (the City) as of and for the years ended June 30, 2019, and 2018, 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 opinions 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 opinions.



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***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure R 20 % Bus Operations Fund and the Measure R Regional Clean Fuel Bus Fund of the City of Torrance, California, as of June 30, 2019 and 2018, and the respective changes in their financial position 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 Measure R 20 % Bus Operations Fund and the Measure R Regional Clean Fuel Bus Fund of the City and do not purport to, and do not, present fairly the financial position of the City of Torrance, California, as of June 30, 2019 and 2018, and the changes in 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.

***Supplementary Information***

Our audits were conducted for the purpose of forming opinions on each of the Funds' financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Funds' financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Funds' financial statements or to the Funds' financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to each of the Funds' financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2018, on our consideration of the City's internal control over the Funds' 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 the Funds' financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over the Funds' 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 financial reporting and compliance.

A handwritten signature in cursive script, appearing to read 'Simpson &amp; Simpson'.

Los Angeles, California  
December 16, 2018

**CITY OF TORRANCE**  
**MEASURE R 20% BUS OPERATIONS FUND**  
**BALANCE SHEETS**  
June 30

	2019	2018
<b>ASSETS</b>		
Cash and investments	\$ -	\$ -
Total assets	\$ -	\$ -
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
 <b>Fund Balance</b>		
Restricted	-	-
Total fund balance	-	-
Total liabilities and fund balance	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

**CITY OF TORRANCE**  
**MEASURE R 20% BUS OPERATIONS FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
For the Fiscal Years Ended June 30

	2019	2018
<b>REVENUES</b>		
Measure R 20% Bus Operations	\$ 2,591,096	\$ 2,484,959
Total revenues	2,591,096	2,484,959
 <b>EXPENDITURES</b>		
Transit Operating Costs	2,591,096	2,484,959
Total expenditures	2,591,096	2,484,959
 Excess of revenue over expenditures	-	-
 Fund balance at beginning of year	-	-
 Fund balance at end of year	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

**CITY OF TORRANCE**  
**MEASURE R 20% BUS OPERATIONS FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES**  
**ACTUAL AND METRO APPROVED PROJECT BUDGET**  
**For the Fiscal Year Ended June 30, 2019**  
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2018)

Project Code	Project Name	2019			2018 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
N/A	Transit Operating Costs	\$ 2,591,096	\$ 2,591,096	\$ -	\$ 2,484,959
	Total expenditures	\$ 2,591,096	\$ 2,591,096	\$ -	\$ 2,484,959

See accompanying independent auditor's report.



**CITY OF TORRANCE**  
**MEASURE R REGIONAL CLEAN FUEL BUS FUND**  
**BALANCE SHEETS**  
June 30

	2019	2018
<b>ASSETS</b>		
Cash and investments	\$ 137,208	\$ 137,208
Total assets	137,208	137,208
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Unearned revenues	137,208	137,208
Total liabilities	137,208	137,208
 <b>Fund Balance</b>		
Restricted	-	-
Total fund balance	-	-
Total liabilities and fund balance	\$ 137,208	\$ 137,208

The accompanying notes are an integral part of the financial statements.

**CITY OF TORRANCE**  
**MEASURE R REGIONAL CLEAN FUEL BUS FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
For the Fiscal Years Ended June 30

	2019	2018
<b>REVENUES</b>		
Measure R 20% Regional Clean Fuel Bus	\$ -	\$ -
Total revenues	-	-
 <b>EXPENDITURES</b>		
Transit Operating Costs	-	-
Total expenditures	-	-
 Excess of revenues over expenditures	-	-
 Fund balance at beginning of year	-	-
 Fund balance at end of year	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

**CITY OF TORRANCE**  
**MEASURE R REGIONAL CLEAN FUEL BUS FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES**  
**ACTUAL AND METRO APPROVED PROJECT BUDGET**  
For the Fiscal Year Ended June 30, 2019  
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2018)

Project Code	Project Name	2019			2018 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
N/A	Transit Operating Costs	\$ 134,498	\$ -	\$ 134,498	\$ -
	Total expenditures	\$ <u>134,498</u>	\$ <u>-</u>	\$ <u>134,498</u>	\$ <u>-</u>

See accompanying independent auditor's report.

**CITY OF TORRANCE**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2019 and 2018

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Fund Accounting*

The operations of the Measure R 20% Operations Fund (MROF) and Measure R Regional Clean Fuel Bus Fund (MRRCFBF) are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures.

The MROF represents 20% of a half-cent sales tax which is allocated among the eligible municipal operators according to the shares calculated by the Formula Allocation Procedure (FAP) for the year in which funds are allocated. Funds are distributed to the jurisdictions within Los Angeles County that have submitted a Los Angeles County Metropolitan Transportation Authority (Metro) approved Measure R 20% Improvement Plan that includes a description of how these funds will be spent. Eligible projects include operating expenses for county-wide bus service operations, maintenance and expansion, and any other operating expenses that will contribute to meet the program’s purpose and objectives.

The MRRCFBF represents a total of \$150 million which is set aside for the total life of the Measure R Regional Clean Fuel Bus Capital Facilities and Rolling Stock Program to cover Metro and municipal regional clean fuel bus capital facilities and rolling stock which is allocated among the included and eligible municipal operators according to the shares calculated by the Capital Allocation Procedure (CAP). The purpose of the Measure R Regional Clean Fuel Bus Capital Program and Rolling Stock Program is to construct transit facilities and/or repairs, procure rolling stock and fund related components.

*Basis of Accounting and Measurement Focus*

MROF and MRRCFBF are accounted for using the modified accrual basis of accounting whereby revenues are recognized when they become both measurable and available to finance expenditures of the current period and expenditures are generally recognized when the related fund liabilities are incurred.

MROF and MRRCFBF are reported on spending or “financial flow” measurement focus. This means that generally only current assets, current liabilities and deferred inflows and outflows of resources are included on their balance sheets. Statements of revenues, expenditures and changes in fund balance for MROF and MRRCFBF generally present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

*Budgets and Budgetary Accounting*

The budgeted amounts presented in this report for comparison to the actual amounts are presented in accordance with accounting principles generally accepted in the United States of America.

**CITY OF TORRANCE**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2019 and 2018  
(Continued)

**NOTE 2 – ANNUAL FINANCIAL STATEMENTS**

The financial statements reflect only the financial position and results of operations of the MROF and MRRCFBF and their compliance with the Measure R 20% Program Guidelines for Bus Operations, Measure R Program Guidelines to Municipal Operators for Regional Clean Fuel Bus Capital Facilities and Rolling Stock Program, and the City’s Memorandum of Understanding (MOU) for both programs.

**NOTE 3 – MEASURE R 20% LOCAL RETURN COMPLIANCE REQUIREMENTS**

In accordance with Measure R 20% Program Guidelines for Bus Operations, funds received pursuant to these guidelines may only be used for eligible operating expenses that include bus operation for countywide bus service operations, maintenance, and expansion and any other operating expenses that will contribute to meet the program purpose and/or objective. See accompanying Compliance Matrix.

**NOTE 4 – MEASURE R REGIONAL CLEAN FUEL BUS COMPLIANCE REQUIREMENTS**

In accordance with Measure R Program Guidelines to Municipal Operators for Regional Clean Fuel Bus Capital Facilities and Rolling Stock Program, funds received pursuant to these guidelines can be used for cost associated with transit facilities construction and/or repairs, procurement of rolling stock and related components. See accompanying Compliance Matrix.

**NOTE 5 – SUBSEQUENT EVENTS**

The City has evaluated events or transactions that occurred subsequent to June 30, 2019 through December 11, 2019, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.



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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 Financial Statements Performed in  
Accordance with *Government Auditing Standards***

To the Honorable Members of the City Council of the  
City of Torrance, California and the  
Los Angeles County Metropolitan Transit Authority

We have audited, 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, the financial statements of the Measure R 20% Bus Operations Fund and Measure R Regional Clean Fuel Bus Fund (collectively, the Funds) of the City of Torrance, California (City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the Funds' 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 opinions on the Funds' 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 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.



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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's Measure R 20% Bus Operations Fund and Measure R Regional Clean Fuel Bus Fund financial statements are free from 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 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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Los Angeles, California  
December 16, 2018

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*COMPLIANCE SECTION*

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SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS  
FOUNDING PARTNERS  
BRAINARD C. SIMPSON, CPA  
MELBA W. SIMPSON, CPA

## **Independent Auditor's Report on Compliance**

To the Honorable Members of the City Council of the  
City of Torrance, California and the  
Los Angeles County Metropolitan Transit Authority

### **Report on Compliance**

We have audited the compliance of the City of Torrance, California (City) with the Measure R 20% Program Guidelines for Bus Operations, Measure R Program Guidelines to Municipal Operators for Regional Clean Fuel Bus Capital Facilities and Rolling Stock Program, and the City's Memorandum of Understanding with the Los Angeles Metropolitan Transit Authority (collectively, the Guidelines) for the year ended June 30, 2019.

### ***Management's Responsibility***

Management is responsible for the City's compliance with the Guidelines.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the City's compliance based on our audit. 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 the Guidelines referred to in the preceding paragraph. Those standards and the Guidelines 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 Measure R 20% Bus Operations Program and Measure R Regional Clean Fuel Bus Capital Facilities and Rolling Stock Program occurred. An audit includes examining, on a test basis, evidence about City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the Guidelines. However, our audit does not provide a legal determination of City's compliance with the Guidelines.

### ***Opinion on Measure R 20% Bus Operations and Measure R Regional Clean Fuel Bus***

In our opinion, the City complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2019.





## Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the Guidelines referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, 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 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 under the Guidelines 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 Guidelines 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 we consider to 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 the Guidelines. Accordingly, this report is not suitable for any other purpose.

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

Los Angeles, California  
December 16, 2018

**CITY OF TORRANCE**  
**COMPLIANCE MATRIX**  
For the Fiscal Year Ended June 30, 2019

Compliance Requirement		In Compliance		Questioned Costs	If no, provide details and management response.
		Yes	No		
<b>Measure R 20% Bus Operations Fund</b>					
1.	Timely use of funds.	X		None	
2.	Measure R 20% Improvement Plan (Expenditure Plan) was submitted to Metro.	X		None	
3.	Expenditures were approved before being incurred.	X		None	
4.	Funds were used on approved projects only.	X		None	
5.	Funds were not used to supplant any funds authorized by other provisions of law and allocated by Metro for public transit.	X		None	
6.	The Federal National Transit Database report has been provided to Metro.	X		None	
7.	A completed Transportation Performance Measurement (TPM) form was submitted to Metro on time.	X		None	
8.	An Annual Report has been provided to Metro.	X		None	
9.	Accounting procedures, record keeping and documentation are adequate.	X		None	

**CITY OF TORRANCE**  
**COMPLIANCE MATRIX**  
For the Fiscal Year Ended June 30, 2019  
(Continued)

Compliance Requirement		In Compliance		Questioned Costs	If no, provide details and management response.
		Yes	No		
<b>Measure R Regional Clean Fuel Bus Fund</b>					
1.	Timely use of funds.	X		None	
2.	Expenditure Plan was submitted to Metro.	X		None	
3.	Expenditures were approved before being incurred.	X		None	
4.	Funds were used on approved projects only.	X		None	
5.	An annual financial audit report was submitted on time.	X		None	
6.	An Annual Report has been provided to Metro.	X		None	
7.	Accounting procedures, record keeping, and documentation are adequate.	X		None	

***CITY OF TORRANCE***  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
For the Fiscal Year Ended June 30, 2019

No findings were noted.

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*EXIT CONFERENCE*

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**CITY OF TORRANCE**  
MEASURE R 20% BUS OPERATIONS AND  
MEASURE R REGIONAL CLEAN FUEL BUS FUNDS  
EXIT CONFERENCE  
June 30, 2019

An exit conference was held on December 16, 2019 with the City of Torrance. Those in attendance were:

***Simpson & Simpson Representative:***

Austine Cho, Audit Senior

***City's Representative:***

Joyce Reyes – Accounting Manager

***Matters Discussed:***

Results of the audit disclosed no significant deficiencies and no non-compliance issues with Metro Guidelines.

A copy of this report was forwarded to the following City representative for their comments prior to the issuance of the final report:

Joyce Reyes – Accounting Manager  
James Lee – Transit Administration Manager  
Christine Canlas – Senior Accountant

Simpson & Simpson, CPAs  
633 West 5<sup>th</sup> Street, Suite 3320  
Los Angeles, CA 90071

RE: CITY OF TORRANCE ANNUAL FINANCIAL REPORT OF THE MEASURE R 20% BUS OPERATIONS FUND AND MEASURE R REGIONAL CLEAN FUEL BUS FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

I have received the annual financial report of the Measure R 20% Bus Operations Fund and Measure R Regional Clean Fuel Bus Fund for the years ended June 30, 2019 and 2018 for the City of Torrance and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

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Name

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Title

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Date