

*CITY OF LOS ANGELES  
ANNUAL FINANCIAL REPORT OF THE*

*TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 3 FUND  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 2018 AND 2017*



**Metro<sup>®</sup>**



Simpson & Simpson, LLP  
Certified Public Accountants

***CITY OF LOS ANGELES***  
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***FINANCIAL SECTION***

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SIMPSON & SIMPSON

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act Article 3 Fund (TDAA3F), of the City of Los Angeles, California (the City) as of and for the years ended June 30, 2018 and 2017, 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 an 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 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 City'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 City'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.



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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the TDAA3F of the City of Los Angeles, California, as of June 30, 2018 and 2017, and the changes in its 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 TDAA3F of the City and do not purport to, and do not, present fairly the financial position of the City of Los Angeles, California, as of June 30, 2018 and 2017, and the changes in its 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 audit was conducted for the purpose of forming an opinion on the Fund's 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 Fund's 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 Fund's financial statements or to the Fund's 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 the Fund's financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have issued our report dated January 31, 2019, on our consideration of the City's internal control over the 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 to describe the scope of our testing of internal control over the Fund's financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over the 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 Fund's financial reporting and compliance.

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

Los Angeles, California  
January 31, 2019

**CITY OF LOS ANGELES**  
**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND**  
**BALANCE SHEETS**  
June 30

	2018	2017
<b>ASSETS</b>		
Cash and investments	\$ 7,829,232	\$ 3,876,685
Accounts receivable	91,862	91,862
Investment income receivable	35,434	9,740
Due from General Fund	17,550	-
Total assets	\$ 7,974,078	\$ 3,978,287
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts and contracts payable	\$ 490,410	\$ 117,266
Obligations under securities lending transactions	141,021	28,809
Due to other government entities	2,376	-
Other liabilities	42,860	231,520
Total liabilities	676,667	377,595
 <b>Deferred Inflows of Resources</b>		
Revenue from other government agencies (Note 6)	98,458	94,327
Total deferred inflows of resources	98,458	94,327
 <b>Fund Balance</b>		
Restricted	7,198,953	3,506,365
Total fund balance	7,198,953	3,506,365
Total liabilities, deferred inflows of resources and fund balance	\$ 7,974,078	\$ 3,978,287

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

**CITY OF LOS ANGELES**  
**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
For the Fiscal Years Ended June 30

	2018	2017
<b>REVENUES</b>		
TDA3 (Note 7)	\$ 8,335,640	\$ 1,816,304
Other government grants - CICLAVIA	131,853	-
Other revenues	3,017	-
Unrealized (loss) gain on investment	(39,038)	10,260
Total revenues	8,431,472	1,826,564
 <b>EXPENDITURES</b>		
Construction/maintenance	4,738,884	3,323,255
Total expenditures	4,738,884	3,323,255
 Excess (deficiency) of revenues over (under) expenditures	3,692,588	(1,496,691)
 Fund balance at beginning of year	3,506,365	5,003,056
 Fund balance at end of year	\$ 7,198,953	\$ 3,506,365

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

**CITY OF LOS ANGELES**  
**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND**  
**SUPPLEMENTARY INFORMATION**

**SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT**  
**ALLOCATION FOR SPECIFIC PROJECTS**

For the Fiscal Year Ended June 30, 2018

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
<b>Local allocations</b>					
ATP Cycle 1 Safe Routes to School					
Bike & Ped Improvements	2017-18	\$ 2,247,385	\$ 118,359	\$ 2,129,026	On-going
Sidewalk Engineering/Repair Program	2017-18	4,070,047	2,033,495	2,036,552	On-going
Various Projects	2017-18	617,000	2,188,944	(1,571,944)	On-going
CicLAvia	2017-18	1,401,208	398,086	1,003,122	On-going
Total		<u>\$ 8,335,640</u>	<u>\$ 4,738,884</u>	3,596,756	
Unexpended interest and investment income				(39,038)	
Other government grants and other revenue				134,870	
Fund balance at beginning of year				<u>3,506,365</u>	
Fund balance at end of year				<u>\$ 7,198,953</u>	*

\* The City has encumbered the remaining fund balance of \$7,198,953 as of June 30, 2018.

See accompanying independent auditor's report.



**CITY OF LOS ANGELES**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2018 and 2017

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

*Fund Accounting*

Transportation Development Act Article 3 Fund (TDAA3F) is a Special Revenue Fund that accounts for the City's share of the Transportation Development Act Article 3 allocations which are legally restricted for specific purposes.

*Basis of Accounting and Measurement Focus*

TDAA3F is 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.

Special Revenue Funds 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. Statement of revenue, expenditures and changes in fund balance for Special Revenue Funds generally presents 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.

*Fair Value Measurement*

In accordance with Government Accounting Standard Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which became effective for the fiscal year ended June 30, 2016, the City categorizes its fair value measurement within the fair value hierarchy that is based on the valuation inputs used to measure the fair value of the investment. Level 1 inputs are quoted prices in active markets for identical investments; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Accordingly, the City reports its investment at fair value and recognizes unrealized gain (loss) on investments.

Refer to City's 2018 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investments policy and fair value measurement.

**CITY OF LOS ANGELES**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2018 and 2017  
(Continued)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Fund Balance Reporting*

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 resources reported in governmental funds.

The TDAA3F report the following fund balance classification as of June 30, 2018:

- Restricted – Amounts that are constrained for specific purpose, which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The uses of the funds' remaining fund balances are restricted for projects approved by Los Angeles County Metropolitan Transportation Authority (Metro).

Information regarding the fund balance reporting policy adopted by the City is described in Note 1 to the City's Comprehensive Annual Financial Report.

**NOTE 2 – ANNUAL FINANCIAL STATEMENTS**

The financial statements reflect only the financial position and results of operations of the TDAA3F and their compliance with the Transportation Development Act Article 3 and the Los Angeles County Metropolitan Transportation Authority Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds.

**NOTE 3 – TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS**

In accordance with Public Utilities Code Section 99234, funds received pursuant to this Code's section may only be used for activities relating to pedestrians and bicycle facilities. See accompanying Compliance Matrix.

**NOTE 4 – CASH AND INVESTMENTS**

The TDAA3F's cash balances were pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash and investments account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average quarterly balances to the total of the pooled cash and investments.

**CITY OF LOS ANGELES**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2018 and 2017  
(Continued)

**NOTE 5 – SECURITIES LENDING TRANSACTIONS**

TDAA3F participate in the City’s securities lending program (SLP), through the pooled investment fund. Each fund recognizes its proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool.

Please refer to the City’s CAFR for a full description of risks relating to securities lending transactions.

**NOTE 6 – DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources as of June 30, 2018 and 2017 consisted of the following:

**TDAA3F**

	<u>2018</u>	<u>2017</u>
Los Angeles County Metropolitan Transit Authority (LACMTA)	\$ 6,596	\$ 2,465
Others	91,862	91,862
Total	<u>\$ 98,458</u>	<u>\$ 94,327</u>

**NOTE 7 – TRANSPORTATION DEVELOPMENT ACT FUND REVENUE ALLOCATION**

The revenue allocation for the years ended June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
FY 2012-13 allocation	\$ -	\$ 1,816,304
FY 2013-14 allocation	2,757,604	-
FY 2014-15 allocation	2,897,028	-
FY 2015-16 allocation	2,681,008	-
Total payment requested	<u>\$ 8,335,640</u>	<u>\$ 1,816,304</u>

**CITY OF LOS ANGELES**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2018 and 2017  
(Continued)

**NOTE 8 – TRANSPORTATION DEVELOPMENT ACT FUNDS RESERVED**

In accordance with TDA Article 3 (SB821) Guidelines, funds not spent during the fiscal year have been placed on reserve in the Local Transportation Fund (LTF) account with the County Auditor-Controller to be drawn down whenever the funds become eligible for a specific project and an approved drawdown request is received by Metro. As of June 30, 2018, and 2017, the City has funds on reserve as follows:

	2018	2017
FY 2013-14 allocation	\$ -	\$ 2,757,604
FY 2014-15 allocation	-	2,897,028
FY 2015-16 allocation	144,866	2,825,874
FY 2016-17 allocation	2,976,578	2,976,578
FY 2017-18 allocation	2,977,318	-
Available reserve balance	\$ 6,098,762	\$ 11,457,084

**NOTE 9 – SUBSEQUENT EVENTS**

The City has evaluated events or transactions that occurred subsequent to June 30, 2018 through January 31, 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 Los Angeles, 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 Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of Los Angeles, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated January 31, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the Fund’s 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 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 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.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's Transportation Development Act Article 3 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 audits, 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  
January 31, 2019

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*COMPLIANCE SECTION*

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SIMPSON & SIMPSON

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FOUNDING PARTNERS  
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## **Independent Auditor's Report On Compliance**

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

### **Report on Compliance**

We have audited the compliance of the City of Los Angeles, California (the City) with the Transportation Development Act Article 3, and the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for the Transportation Development Act Article 3 Bicycle and Pedestrian Funds (collectively, the Guidelines) for the year ended June 30, 2018.

### ***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 Transportation Development Act Article 3 Program 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 audit provides a reasonable basis for our opinion on compliance with the Guidelines. However, our audit does not provide a legal determination of the City's compliance with the Guidelines.

### ***Opinion on Transportation Development Act Article 3***

In our opinion, the City complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2018.





## 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  
January 31, 2019

**CITY OF LOS ANGELES**  
**COMPLIANCE MATRIX**  
 Year Ended June 30, 2018

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
<b>D. Transportation Development Act Article 3 Fund</b>						
1.	Timely use of funds.	X			None	
2.	Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	X			None	

*CITY OF LOS ANGELES*  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
June 30, 2018

No findings were noted.

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*EXIT CONFERENCE*

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**CITY OF LOS ANGELES**  
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND  
EXIT CONFERENCE  
June 30, 2018

An exit conference was held on February 5, 2019 with the City of Los Angeles. Those in attendance were:

***Simpson & Simpson Representative:***

Mark Frishwasser, Senior Auditor

***City's Representative:***

Baljit Soni, Principal Accountant II  
Uma Vyas, Senior Accountant II

***Matters Discussed:***

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

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

Baljit Soni, Principal Accountant II  
Uma Vyas, Senior Accountant II

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

RE: CITY OF LOS ANGELES ANNUAL FINANCIAL REPORT OF THE TRANSPORTATION  
DEVELOPMENT ACT ARTICLE 3 FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2018  
AND 2017

I have received the annual financial report of the Transportation Development Act Article 3 Fund for the fiscal years ended June 30, 2018 and 2017 for the City of Los Angeles 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