SGVCOG

San Gabriel Valley Council of Governments

Audited Financial Statements

As of and For the Year Ended June 30, 2020

with Independent Auditor's Report

An independently owned member
RSM US Alliance

RSM

Vasquez & Company LLP
Certified Public Accountants and Business Consultants

San Gabriel Valley Council of Governments
Audited Financial Statements
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Vasquez & Company LLP
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Independent Auditor's Report

Members of the Governing Board
San Gabriel Valley Council of Governments

Report on the Financial Statements

We have audited the accompanying financial statements of San Gabriel Valley Council of Governments (SGVCOG), which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise SGVCOG's basic 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Gabriel Valley Council of Governments as of June 30, 2020, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and the required supplementary information on pages 37 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management discussion and analysis and the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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 financial statements, and other knowledge we obtained during our audit of the basic 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.

Vasquez & Company LLP

Glendale, California
April 21, 2021

Our discussion and analysis of the San Gabriel Valley Council of Governments (SGVCOG) financial performance presents an overview of SGVCOG's financial activities during the year ended June 30, 2020. We encourage readers to consider information presented here in conjunction with the financial statements (beginning on page 11). The financial statements, notes and this discussion and analysis were prepared by management and are the responsibility of management.

Background

SGVCOG was created on March 17, 1994 by a Joint Powers Agreement (JPA) among various member San Gabriel Valley Cities to promote cooperation, exchange ideas, coordinate regional government programs and to provide recommendations and solutions to common problems and to general concern of member governments.

In 1998, SGVCOG created the Alameda Corridor - East Construction Authority (ACE) to mitigate the effects of increasing Union Pacific Railroad (UPRR) train traffic in the San Gabriel Valley (Valley). There were 55 "at-grade" crossings in the Valley where vehicular and pedestrian traffic cross directly over railroad tracks and must stop while trains pass by. This creates congestion, degrades the local environment, and compromises safety. The ACE Project will separate 20 crossings at the busiest intersections – by either raising or lowering the railroad or the intersecting street – along the 35-mile freight rail corridor from East Los Angeles to Pomona.

On August 17, 2017, the SGVCOG governing board approved the integration of ACE into SGVCOG. Full integration of ACE (now called ACE Project) into SGVCOG was completed during the fiscal year ended June 30, 2019.

The accompanying financial statements present the combined financial position and changes in financial position of SGVCOG and ACE. However, the following sections present analysis and discussions of each of the entity's financial statements.

Financial Highlights

Primary Government

SGVCOG's financial highlights as of and for the year ended June 30, 2020 are as follows:

- Net position increased by $314 thousand, an increase of 23% from previous year.

- Operating revenues and expenses decreased by $457 thousand (16%) and $470 thousand (18%), respectively, from the previous year. This was mainly attributable to the decrease in the Bike Share Program grant received in 2020.

Component Unit

ACE's financial highlights as of and for the year ended June 30, 2020 are as follows:

- Net position decreased by $233 thousand, a decrease of 1.6% from previous year.
- Construction in progress increased by $86.3 million, an increase of 9.8% from previous year.
- Total revenues decreased by $3.6 million, an increase of 4.3% from previous year.
- Total project expenses decreased by $3.6 million, an increase of 4.3% from previous year.

Overview of Financial Statements

The financial statements present the financial picture of the SGVCOG from the economic resources measurement focus using the accrual basis of accounting. These statements include all recordable position of the SGVCOG as well as all liabilities. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statement of cash flows provides information about the SGVCOG's cash receipts, cash payments, and net changes in cash resulting from operating, capital and related investing activities during the reporting period.

The statement of net position and the statement of revenues, expenses and changes in net position report the SGVCOG's net position and related changes. Net position is the difference between the recorded assets and deferred outflows of resources and liabilities and deferred inflows of resources. The recorded activities include all revenues from dues and operating expenses related to the operation of the SGVCOG. In addition, all of the SGVCOG's revenues and expenses related to its construction activities and other programs and services are reflected in the statements.

Various disclosures accompany the financial statements in order to provide a full picture of the SGVCOG's finances. The notes to the financial statements are on pages 14-36.

Financial Analysis

Primary Government

Condensed Statements of Net Position

The following table summarizes the assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position of SGVCOG's primary government as of June 30, 2020 and 2019:

	June 30		Variance	
	2020	2019	Amount	%
Assets	**$ 8,572,013**	$ 2,990,009	$ 5,582,004	187%
Deferred outflows of resources	**223,901**	133,634	90,267	68%
Total assets and deferred outflows of resources	**8,795,914**	3,123,643	5,672,271	182%
Liabilities	**7,070,874**	1,722,720	5,348,154	310%
Deferred inflows of resources	**48,277**	38,618	9,659	25%
Total liabilities and deferred inflows of resources	**7,119,151**	1,761,338	5,357,813	304%
Net position				
Restricted	**110,691**	110,578	113	0%
Unrestricted	**1,566,072**	1,251,727	314,345	25%
Total net position	**$ 1,676,763**	$ 1,362,305	$ 314,458	23%

Assets increased in 2020 by $5,582,004 or 187%, and liabilities increased by $5,348,154 or 310%. Increase in assets and liabilities was largely due to the $5.6 million funds received from the State of California for the Regional Housing Trust which were mostly unspent as of June 30, 2020 increasing the cash and cash equivalents balance in 2020. The increase in assets was offset by the higher balance in liabilities, particularly the unearned revenue account, due to the unspent funds for the Regional Housing Trust homelessness program.

As previously discussed, net position can serve as an indicator of financial health. The SGVCOG's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $1,676,763 and $1,362,305 as of June 30, 2020 and 2019, respectively.

Condensed Statements of Activities

The following table presents the SGVCOG's revenues, expenses, and changes in net position for the years ended June 30, 2020 and 2019:

	Years ended June 30,		Variance	
	2020	2019	Amount	%
Operating revenues				
Dues:				
General Fund	**$ 484,929**	$ 443,814	$ 41,115	9%
Transportation	**294,971**	310,193	(15,222)	-5%
	779,900	754,007	25,893	3%
Sponsorships	**1,098**	35,075	(33,977)	-97%
Grants and matches from other governments:				
Bike Share Program	**489,328**	1,265,014	(775,686)	-61%
Stormwater Program	**262,956**	224,150	38,806	17%
Open Streets - El Monte	**262,234**	-	262,234	100%
Vehicle Miles Traveled Study	**223,393**	-	223,393	100%
Los Angeles County Metropolitan Transportation Authority	**101,451**	97,549	3,902	4%
Southern California Gas - Energywise	**67,891**	50,361	17,530	35%
Coyote Management	**66,667**	-	66,667	100%
Homelessness Program	**39,500**	158,000	(118,500)	-75%
Housing Homeless	**34,284**	-	34,284	100%
Southern California Edison - Energywise	**24,834**	68,989	(44,155)	-64%
Measure M Program	**22,246**	31,185	(8,939)	-29%
Others	**6,418**	154,456	(148,038)	-96%
Total operating revenues	**2,382,200**	2,838,786	(456,586)	-16%
Operating expenses				
Administrative	**386,079**	761,890	(375,811)	-49%
Bike Share Program	**493,340**	1,265,014	(771,674)	-61%
Vehicle Miles Traveled Study	**223,393**	-	223,393	100%
Open Streets - El Monte	**170,899**	-	170,899	100%
Stormwater Program	**168,584**	124,868	43,716	35%
Homelessness Program	**143,201**	132,635	10,566	8%
Transportation	**136,823**	131,040	5,783	4%
MTA Open Street Program	**89,749**	4,991	84,758	1698%
Cost Comparison / Joint Study Program	**76,229**	18,173	58,056	319%
Energywise	**56,023**	50,663	5,360	11%
Coyote Management	**53,455**	-	53,455	100%
Housing Homeless	**45,422**	-	45,422	100%
Measure M Program	**22,245**	31,185	(8,940)	-29%
Others	**6,490**	21,523	(15,033)	-70%
Total operating expenses	**2,071,932**	2,541,982	(470,050)	-18%
Operating income	**310,268**	296,804	13,464	5%
Nonoperating income				
Interest income	**4,190**	5,803	(1,613)	-28%
Total nonoperating income	**4,190**	5,803	(1,613)	-28%
Change in net position	**314,458**	302,607	11,851	4%
Net position, beginning of year	**1,362,305**	1,059,698	302,607	29%
Net position, end of year	**$ 1,676,763**	$ 1,362,305	$ 314,458	23%

During fiscal year 2020, total operating revenues decreased by 16% from the previous year. The decrease was mainly attributable to the lower Bike Share grant revenues earned in 2020.

Revenues for SGVCOG consist primarily of dues from 30 member cities, three Los Angeles County supervisorial districts, and a Joint Power Authority of the water agencies, which represents three municipal water districts, cost reimbursable grants from the Bike Share program, Stormwater program, Homelessness program, Vehicle Miles Traveled Study program, Southern California Edison (SCE), a local utility, grant matching funds from Los Angeles County MTA, and fees on the aggregate cost for the bonds issued to fund installation of renewable energy efficiency improvements from the Home Energy Renovation Opportunity (HERO) program. Grants and matches from other governments and Sponsorships were $1,602,300 in FY2020 compared to $2,084,779 in FY2019, a decrease of $482,479 or 23%. The decrease was mostly due to the lower Bike Share grant revenues earned in FY2020.

Operating expenses were $2,071,932 in FY2020 compared to $2,541,982 in FY 2019, a decrease of $470,050 or 18%. The decrease is primarily attributable to lower program expenses from the Bike Share program.

Component Unit (ACE)

Condensed Statements of Net Position

The following table summarizes the assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position of ACE as of June 30, 2020 and 2019:

	June 30		Variance	
	2020	2019	Amount	%
Current and other assets	**$ 117,142,993**	$ 117,466,759	$ (323,766)	-0.3%
Capital assets	**9,404**	15,456	(6,052)	-39.2%
Construction in progress	**966,161,089**	879,874,869	86,286,220	9.8%
Less: Due to member cities and Union Pacific Railroad	**(966,161,089)**	(879,874,869)	(86,286,220)	-9.8%
Total assets	**117,152,397**	117,482,215	(329,818)	-0.3%
Deferred outflows of resources	**996,452**	1,414,919	(418,467)	-29.6%
Net pension assets	**413,225**	629,837	(216,612)	-34.4%
Liabilities	**(103,802,002)**	(104,340,139)	538,137	0.5%
Deferred inflows of resources	**(214,850)**	(408,883)	194,033	47.5%
Net position	**$ 14,545,222**	$ 14,777,949	$ (232,727)	-1.6%

Organizations are normally required to report construction in progress (that is, the sum of prior and current year's construction expense) on the statement of net position as an asset. This would normally be done by treating each year's construction as a capital expense, which would be excluded from the statement of revenues, expenses and changes in net position. However, the grant reimbursements generated by construction would be included in the statement of revenues, expenses and changes in net position as revenue. ACE is obligated to transfer components of completed projects to the Union Pacific Railroad (UPRR) and the cities so that they can be included in their financial statements. The resulting reduction in assets would flow through the statement of revenues, expenses and changes in net position as a loss. The net effect would be to produce widely fluctuating net position depending on whether ACE was constructing (surplus) or transferring assets to member cities (deficit).

Therefore, ACE elected to treat construction in progress as an asset and recognize a liability to member cities and UPRR. This shows the total cost of ACE's projects and the resulting liability to transfer the assets upon completion while not unduly affecting the statement of revenues, expenses and changes in net position.

Total assets slightly decreased by 0.3% to $117.2 million, mainly due to reduction in intercompany receivable balance from SGVCOG.

Construction in progress increased by 9.8% to $966.2 million, primarily because of increased construction activities on Fairway Drive and Durfee projects.

Unbilled receivables increased 139% to $37.2 million due to increased construction activities on Fairway Drive and Durfee projects.

Condensed Statements of Revenues, Expenses and Changes in Net Position

The following table shows the condensed statements of revenues, expenses and changes in net position for the years ended June 30, 2020 and 2019.

Total net position decreased by $233 thousand or 1.6% for the year ended June 30, 2020. The decrease was due to adjustment of retirement expenses resulting from the change in the valuation of pension-related accounts.

	Years ended June 30		Variance	
	2020	2019	Amount	%
Project expenses				
Direct (Construction)	$ **85,527,868**	$ 82,090,370	$ 3,437,498	4.2%
Indirect expenses charged to operations	**2,114,871**	1,951,846	163,025	8.4%
Total project expenses	**87,642,739**	84,042,216	3,600,523	4.3%
Operating revenues				
Grant reimbursements	**83,179,490**	83,138,616	40,874	0.0%
Other operating revenues	**4,016,151**	499,443	3,516,708	704.1%
Total revenues	**87,195,641**	83,638,059	3,557,582	4.3%
Loss from operations	**(447,098)**	(404,157)	(42,941)	-10.6%
Nonoperating income (expense)				
Investment income	**1,090,726**	1,286,186	(195,460)	-15.2%
Interest expense	**(876,355)**	(1,242,661)	366,306	29.5%
Net nonoperating income	**214,371**	43,525	170,846	392.5%
Change in net position	**(232,727)**	(360,632)	127,905	35.5%
Net position at beginning of year	**14,777,949**	15,138,581	(360,632)	-2.4%
Net position at end of year	$ **14,545,222**	$ 14,777,949	$ (232,727)	-1.6%

Capital Assets

Primary Government
The SGVCOG had $0 invested in capital assets, net of depreciation, as of June 30, 2020 and 2019. The capital assets are fully depreciated as of June 30, 2020 and 2019.

Component Unit
ACE had $9,404 invested in capital assets, net of depreciation, as of June 30, 2020.

Economic Factors and Next Year's Budget

Primary Government
The budget for fiscal year 2021 assumes that the on-hand net position as of June 30, 2020 will be required and available to fulfill the program and administrative expense requirements.

Component Unit
Budget expenses in fiscal year 2021 decreased 27% over 2020 due to completion of the San Gabriel Trench Project in 2020. Based on 2021 third quarter expenditures, it is anticipated the 2021 budget will be 11% less of budgeted expenditures due to suspension of construction in the Fullerton Road project.

Further Information

This report has been designed to provide SGVCOG's stakeholders a general overview of the SGVCOG's financial condition and related issues. Inquiries should be directed to the Director of Finance, 4900 Rivergrade Road, Suite A120 Irwindale, CA 91706.

	SGVCOG	ACE	Total
ASSETS			
Current assets			
Cash and investments	$ 2,257,907	$ 55,399,144	$ 57,657,051
Restricted cash	5,637,896	-	5,637,896
Grants receivable	359,906	7,547,158	7,907,064
Unbilled receivables	209,846	37,212,986	37,422,832
Notes receivables	-	150,000	150,000
Internal balances	(247,768)	247,768	-
Retention receivable	-	2,587,393	2,587,393
Interest receivable	-	6,158	6,158
Prepaid expenses	13,607	183,188	196,795
Property held for sale	-	11,100,036	11,100,036
Under-recovery of indirect costs	-	2,709,162	2,709,162
Total current assets	8,231,394	117,142,993	125,374,387
Noncurrent assets			
Leasehold improvements and equipment, net	-	9,404	9,404
Construction in progress	-	966,161,089	966,161,089
Less due to member cities and Union Pacific Railroad	-	(966,161,089)	(966,161,089)
Net pension asset	92,851	413,225	506,076
Total noncurrent assets	92,851	422,629	515,480
Total assets	8,324,245	117,565,622	125,889,867
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pension	223,901	996,452	1,220,353
LIABILITIES			
Current liabilities			
Accounts payable and accrued expense	381,988	16,157,118	16,539,106
Accrued retention payable	-	1,479,962	1,479,962
Unearned revenue	6,404,804	41,011,906	47,416,710
Total current liabilities	6,786,792	58,648,986	65,435,778
Noncurrent liabilities			
Compensated absences	36,314	153,016	189,330
MTA promissory note payable	-	45,000,000	45,000,000
Total noncurrent liabilities	36,314	45,153,016	45,189,330
Total liabilities	6,823,106	103,802,002	110,625,108
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension	48,277	214,850	263,127
NET POSITION			
Net position			
Invested in capital assets	-	9,404	9,404
Restricted	110,691	-	110,691
Unrestricted	1,566,072	14,535,818	16,101,890
Total net position	$ 1,676,763	$ 14,545,222	$ 16,221,985

See notes to financial statements.

	SGVCOG	ACE	Total
Operating revenues			
Dues:			
Membership	$ 484,929	$ -	$ 484,929
Transportation	294,971	-	294,971
	779,900	-	779,900
Sponsorships	1,098	-	1,098
Grants and matches from other governments:			
Bike Share Program	489,328	-	489,328
Stormwater Program	262,956	-	262,956
Open Streets - El Monte	262,234	-	262,234
Vehicle Miles Traveled Study	223,393	-	223,393
Los Angeles County Metropolitan Transportation Authority	101,451	-	101,451
Southern California Gas - Energywise	67,891	-	67,891
Coyote Management	66,667	-	66,667
Homelessness Program	39,500	-	39,500
Housing Homeless	34,284	-	34,284
Southern California Edison - Energywise	24,834	-	24,834
Measure M Program	22,246	-	22,246
Others	6,418	-	6,418
Construction project reimbursements	-	83,179,490	83,179,490
Other operating construction revenues	-	4,016,151	4,016,151
Total operating revenues	2,382,200	87,195,641	89,577,841
Operating expenses			
Administrative	386,079	-	386,079
Bike Share Program	493,340	-	493,340
Vehicle Miles Traveled Study	223,393	-	223,393
Open Streets - El Monte	170,899	-	170,899
Stormwater Program	168,584	-	168,584
Homelessness Program	143,201	-	143,201
Transportation	136,823	-	136,823
MTA Open Street Program	89,749	-	89,749
Cost Comparison / Joint Study Program	76,229	-	76,229
Energywise	56,023	-	56,023
Coyote Management	53,455	-	53,455
Housing Homeless	45,422	-	45,422
Measure M Program	22,245	-	22,245
Others	6,490	-	6,490
Direct construction project expenses	-	85,527,868	85,527,868
Indirect construction project expenses charged to operations	-	2,114,871	2,114,871
Total operating expenses	2,071,932	87,642,739	89,714,671
Operating income (loss)	310,268	(447,098)	(136,830)
Nonoperating income (expense)			
Investment income	4,190	1,090,726	1,094,916
Interest expense	-	(876,355)	(876,355)
Net nonoperating income	4,190	214,371	218,561
Change in net position	314,458	(232,727)	81,731
Net position, beginning of year	1,362,305	14,777,949	16,140,254
Net position, end of year	$ 1,676,763	$ 14,545,222	$ 16,221,985

See notes to financial statements.

	SGVCOG	ACE	Total
Cash flows from operating activities			
Cash receipts from construction activities	$ -	$ 86,070,133	$ 86,070,133
Cash receipts from cities	779,900	-	779,900
Cash receipts from all other services	2,849,450	-	2,849,450
Cash paid for operating expenses	(1,510,880)	(84,190,152)	(85,701,032)
Cash paid for employee compensation and related costs	(361,820)	(2,628,028)	(2,989,848)
Net cash provided by (used in) operating activities	1,756,650	(748,047)	1,008,603
Cash flows from noncapital financing activities			
Interfund advances	(976,280)	976,280	-
Interest paid on MTA promissory note payable	-	(822,225)	(822,225)
Net cash provided by (used in) noncapital financing activities	(976,280)	154,055	(822,225)
Cash flows from investing activity			
Interest received	5,710	1,040,975	1,046,685
Cash provided by investing activity	5,710	1,040,975	1,046,685
Change in cash and investments	786,080	446,983	1,233,063
Cash and investments - beginning of year	1,471,827	54,952,161	56,423,988
Cash and investments - end of year	$ 2,257,907	$ 55,399,144	$ 57,657,051

	SGVCOG	ACE	Total
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income (loss)	$ 310,268	$ (447,098)	$ (136,830)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	-	6,052	6,052
Changes in operating assets and liabilities:			
(Increase) decrease in:			
Grants receivable	982,712	21,907,414	22,890,126
Unbilled receivable	-	(21,634,097)	(21,634,097)
Retention receivable	-	(579,548)	(579,548)
Other receivables	(107,310)	542,593	435,283
Prepaid expenses	(1,585)	60,686	59,101
Property held for sale	-	(7,793)	(7,793)
Under-recovery of indirect cost	-	(499,165)	(499,165)
Net pension asset	(33,365)	216,612	183,247
Deferred outflows of resources related to pension	(90,267)	418,467	328,200
Increase (decrease) in:			
Accounts payable and accrued expense	313,452	713,068	1,026,520
Accrued retention payable	-	(414,884)	(414,884)
Unearned revenue	371,748	(854,912)	(483,164)
Compensated absences	1,338	18,591	19,929
Deferred inflows of resources related to pension	9,659	(194,033)	(184,374)
Net cash provided by (used in) operating activities	$ 1,756,650	$ (748,047)	$ 1,008,603

See notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES

Organization and activities

The San Gabriel Valley Council of Governments (the "SGVCOG") was created effective March 17, 1994 by a Joint Powers Agreement (JPA) among various San Gabriel Valley cities to promote cooperation, exchange ideas, coordinate regional government programs and to provide recommendations and solutions to common problems and to general concern of member governments. It is the immediate successor to the San Gabriel Valley Association of Cities, an unincorporated association. Its members organized the SGVCOG because they recognized a need for a more permanent and formalized structure.

The SGVCOG is supported by contributions from its members and also receives grant funds to conduct regional studies on Transportation, Air Quality, Environmental Matters, as a sub-grantee of other governmental entities. The SGVCOG is a non-profit California Public Agency and it is tax exempt.

Reporting entity

The accompanying financial statements present the SGVCOG (the primary government) and its component unit, the Alameda Corridor - East Construction Authority (ACE). As defined by GASB Statement No. 14, component units are legally separate entities that are included in the primary government's reporting entity because of the significance of their operating or financial relationships with the primary government. SGVCOG and its component unit are together referred to herein as the *reporting entity*.

ACE is a single purpose construction authority created by the SGVCOG in 1998 to mitigate the effects of increasing Union Pacific Railroad train traffic in the San Gabriel Valley. ACE is reported as a blended component unit of SGVCOG. Separate financial statements for ACE are also issued.

On August 17, 2017, the SGVCOG governing board approved the integration of ACE into SGVCOG to accomplish the following objectives:

- Restructure ACE so it will be an ongoing operation as a division of SGVCOG, and not expire at the end of its mission (currently estimated to be in fiscal year 2022-23).
- Expand the jurisdiction of ACE as a construction and projects entity that can serve all of the San Gabriel Valley.
- Restructure the ACE Board so that it has representation from the entire San Gabriel Valley and revise its role so it is no longer a separate Board with management control over ACE but instead will be a standing committee advisory to the Governing Board regarding the ACE operation.
- Integrate SGVCOG and ACE staff under a single personnel system reporting to the Executive Director of SGVCOG.

Full integration of ACE into SGVCOG was completed during the fiscal year ended June 30, 2019.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Basis of accounting
The government-wide financial statements (i.e., the statement of net position, the statement of revenues, expenses and changes in net position, and cash flows) report information about the primary government (the SGVCOG) and its component unit (ACE). The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

The financial statements are presented in accordance with the provisions of GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and *Audits of State and Local Governmental Units* issued by the Governmental Accounting Standards Board. Statement No. 34 established standards for external financial reporting for all state and local governmental entities. Statement No. 63 requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- <u>Net investment in capital assets</u> – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- <u>Restricted</u> – This component of net position consists of constraints placed on resources through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- <u>Unrestricted</u> – This component of net position consists of resources that do not meet the definition of "restricted" or "net investment in capital assets."

The following are the major revenue components of the SGVCOG:

<u>Vehicle Miles Traveled Study</u> - Funds for the implementation of the San Gabriel Valley Regional Vehicle Miles Traveled Analysis Model to assist member-agencies with compliance to Senate Bill No. 743 mandates.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Description of funds (Continued)

Energywise - Funds to implement a program to reduce energy usage in the region by providing enhanced rebates for installing energy efficiency measures in municipal facilities, technical assistance, and various training and educational opportunities.

Homelessness – Funds to provide coordination services among the San Gabriel Valley cities, homeless providers, and community stakeholders relative to the implementation of the Homeless Initiative and the delivery of homeless services within the San Gabriel Valley.

MTA Open Streets – Funded by the Los Angeles County Metropolitan Transportation Authority (MTA) to provide a series of regional car-free events. It aims to provide: (a) opportunities for riding transit, walking, and riding a bike possibly for the first time; (b) encourage future mode shift to more sustainable transportation modes; and, (c) for civic engagement to foster the development of multi-modal policies and infrastructure at the city/community level. In September 2018, MTA approved funding for SGVCOG to host two open streets events, including an event in the cities of El Monte and South El Monte on October 26, 2019 and another event in the cities of San Dimas, La Verne and Pomona on April 19, 2020 (postponed to 2021 due to COVID-19). This funding will cover planning, event production, public safety, traffic controls and other support services related to these events. This funding will be used as the local match requirement for the Bike Share Program by hosting bike share launch events in conjunction with the open streets events.

Bike Share Program – The Bike Share Program is an effort by the SGVCOG to bring cost effective transportation alternatives to the region. In partnership with 15 member agencies, the SGVCOG has entered into an agreement for the purchase and implementation of pedal-assist bicycles. The program is being funded through a Statewide Active Transportation Program (ATP) grant.

Stormwater Project/ULAR Project – The Los Angeles Regional Water Quality Control Board (Regional Board) established a Coordinated Integrated Monitoring Program (CIMP) to monitor the Upper Los Angeles River (ULAR) Enhanced Watershed Management Program (EWMP) progress toward meeting clean water goals. In 2015, all ULAR permittees voluntarily entered into a Memorandum of Agreement (MOA) with the City of Los Angeles to perform CIMP functions on behalf of the EWMP. The City of Los Angeles and all eleven SGVCOG cities in the ULAR have tasked the SGVCOG to take over the billing portion of the MOA. As a component of the ULAR CIMP management, the SGVCOG anticipates executing contracts with 3rd party consultants, as needed, to support special studies and other identified tasks. All staff costs associated with managing this project are also covered by the administration fee.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Budgetary reporting
It is the ACE's policy not to start any phase of a project (i.e., design, right-of-way acquisition, or construction), unless there are sufficient funds to complete that phase. All project related expenses are reimbursable from existing grants and, as such, budgeted revenues are not budgeted separately, but derived from budgeted expenditures.

Cash and investments
The SGVCOG considers money market funds and all equivalent liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Deposits with the State of California's Local Agency Investment Fund (LAIF) Operating Fund and the investments portfolio managed by financial institutions are considered cash equivalents.

Grants receivable
Grants receivable relate to expense reimbursements due from governmental and other agencies and are expected to be fully collectible. Accordingly, an allowance for doubtful accounts is not provided.

Grant revenues and expenditures
All grants agreements are between the SGVCOG and the granting authority. ACE has been given authority to obtain and administer funding in the name of SGVCOG. The Los Angeles County Metropolitan Transportation Authority (Metro) grant was in existence when ACE was created and all subsequent grants therefore are administered by ACE.

Historically, all grants with the exception of the Union Pacific Rail Road (UPRR) contributions are, and are anticipated to be in the future, cost reimbursable. That is, ACE must first incur the expense and then bill for reimbursement from the grantors.

Capital assets - leasehold improvements and equipment
The threshold for capitalization is $5,000 in accordance with federal guidelines. Items that meet the capitalized threshold are recorded as capital assets and are depreciated based upon their estimated useful lives on a straight-line basis. Useful lives of assets categories are as follows:

Leasehold improvements	10 years
Office furniture	10 years
Computer, office and telephone equipment	5 years

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Construction in Progress

Under GASB Statement No. 34, construction in progress is reported on the statement of net position as an asset. Therefore, construction costs would normally be capitalized and excluded from the statement of revenues, expenses and changes in net position. However, the grant reimbursements generated by construction would be included in the statement of revenues, expenses and changes in net position as program revenue. ACE is obligated to transfer components of completed projects to the UPRR and the member cities so that they can be included in their financial statements. The resulting reduction in assets would flow through the statement of revenues, expenses and changes in net position as a loss. The net effect would be to produce widely fluctuating net position depending on whether ACE was constructing (surplus) or transferring assets to member cities (deficit). Therefore, ACE elected to treat construction in progress as an asset and recognize a liability to member cities and UPRR. This shows the total cost of ACE's projects and the resulting liability to transfer the assets upon completion while not unduly impacting the statement of revenues, expenses and changes in net position.

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and 65, Items Previously Reported as Assets and Liabilities*, SGVCOG and ACE recognize deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. Refer to Note 9 for the list of deferred outflows and deferred inflows of resources that SGVCOG and ACE have recognized as of June 30, 2020.

Pension

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of SGVCOG's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of estimates

The process of presenting financial information requires the use of estimates and assumptions regarding certain assets and liabilities and their related income and expense items. Grant reimbursements and construction costs are especially vulnerable to such assumptions and accordingly actual results may differ from estimated amounts.

Property held for sale

The property held for sale is recorded at the lower of acquisition cost or estimated net realizable value. At June 30, 2020, property held for resale was $11,100,036.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Implementation of New Accounting Pronouncements
During the fiscal year ended June 30, 2019, SGVCOG adopted the following new Statement of the Governmental Accounting Standards Board (GASB):

GASB statement No. 95
In May 2020, the Governmental Accounting Standards Board (GASB) issued Statement No. 95, *"Postponement of the Effective Dates of Certain Authoritative Guidance."* This Statement postponed the effective dates of certain Statements to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic.

NOTE 2 CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, 2020 are as follows:

SGVCOG		
Deposits with financial institution	$	2,014,400
Short-term investments		243,507
Sub-total		2,257,907
ACE		
Cash in bank		5,566,016
Pooled funds		1,687,703
Money market funds		18,858,387
Investments		29,287,038
Sub-total		55,399,144
Total Cash and Investments	$	57,657,051
SGVCOG		
Restricted cash - money market funds	$	5,637,896

Restricted cash represents funds sent by the State of California in October 2019 to SGVCOG as administrator of the Regional Housing Trust Fund. This fund will be used for the homelessness program of the state.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by the California Government Code and San Gabriel Valley Council of Governments and its component unit's Investment Policy

The table below identifies the investment types that are authorized for SGVCOG by the California Government Code (or SGVCOG's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or SGVCOG's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Primary government and component unit:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Notes	5 years	100%	None
Treasury Notes of the State of California	5 years	25%	None
Indebtness of Any Local Agency within CA	5 years	25%	None
U.S. Government Agencies	5 years	50%	15%
Banker's Acceptances	180 days	40%	10%
Commercial Paper	270 days	10%	10%
Negotiable Certificates of Deposit	5 years	30%	10%
Repurchase Agreements	90 days	20%	None
Medium-Term Notes	5 years	30%	10%
Shares of Beneficial Interest Issued by Diversified Companies Registered with the SEC	None	20%	10%
State of CA Local Agency Investment Fund (LAIF)	None	None	None
Mortgage-backed Securities	5 years	15%	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the SGVCOG manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity over time as necessary to provide the cash flow and liquidity needed for operations.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of the SGVCOG's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the SGVCOG's investments by maturity.

		Remaining Maturity (in Months)		
Investment Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months
SGVCOG				
LAIF	$ 243,507	$ 243,507	$ -	$ -
Money Market Funds	5,637,896	5,637,896	-	-
	5,881,403	5,881,403	-	-
ACE				
LAIF	1,687,703	1,687,703	-	-
Money Market Funds	18,858,387	18,858,387	-	-
Fidelity Government Portfolio	1,841,618	1,841,618	-	-
Government Agencies	20,582,992	1,776,057	1,404,594	17,402,341
Certificates of Deposit	706,273	706,273	-	-
Corporate Bonds	5,900,615	1,283,963	3,240,693	1,375,959
Municipal Bonds	255,540	101,673	153,867	-
	49,833,128	26,255,674	4,799,154	18,778,300
	$ 55,714,531	$ 32,137,077	$ 4,799,154	$ 18,778,300

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

The SGVCOG and its component unit have no investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, SGVCOG's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Investment Type		Minimum Legal Rating	Rating as of June 30, 2020 AAA	AA	A	Not Rated
SGVCOG						
LAIF	$ 243,507	N/A	$ -	$ -	$ -	$ 243,507
Money Market Funds	5,637,896		5,637,896	-	-	-
	5,881,403		5,637,896	-	-	243,507
ACE						
LAIF	1,687,703	N/A	-	-	-	1,687,703
Money Market Funds	18,858,387	A	18,858,387	-	-	-
Fidelity Government Portfolio	1,841,618	N/A	-	-	-	1,841,618
Government Agencies	20,582,992	A	77,568	10,180,951	-	10,324,473
Certificates of Deposit	706,273	N/A	-	-	253,315	452,958
Corporate Bonds	5,900,615	A	-	899,855	5,000,760	-
Municipals	255,540	A	-	255,540	-	-
	49,833,128		18,935,955	11,336,346	5,254,075	14,306,752
	$ 55,714,531		$ 24,573,851	$ 11,336,346	$ 5,254,075	$ 14,550,259

Concentrations of Credit Risk

The investment policy of the SGVCOG contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2020, the SGVCOG and its component unit have no investments in any one issuer (other than money market funds and external investment pools) that represent 10% or more of total SGVCOG and its component unit's investments.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The California Government Code and SGVCOG's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure local government units' deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2020, the SGVCOG's cash in bank balances of $2,014,400 exceeded the $250,000 deposit insurance of the Federal Deposit Insurance Corporation (FDIC) by $1,764,400. ACE's deposit of $6,000,000 with financial institutions is in excess of federal depository insurance limits but are held in collateralized accounts.

Investments in State Investment Pool

The SGVCOG and ACE are voluntary participants in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. At June 30, 2020, the total market value of LAIF, including accrued interest was approximately $102 billion.

The fair value of the SGVCOG's investment in this pool is $243,507 at June 30, 2020 based upon the SGVCOG's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the portfolio). LAIF's (and the SGVCOG's) exposure to risk (credit, market or legal) is not currently available.

The fair value of ACE's investment in this pool is $1,687,703 at June 30, 2020 based upon ACE's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the portfolio). LAIF's (and ACE's) exposure to risk (credit, market or legal) is not currently available.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

As of June 30, 2020, the following investment types were held by the same broker-dealer (counterparty) that was used by ACE to buy the securities:

Investment Type		Reported Amount
Money market funds	$	18,858,387

Fair Value Measurement
GASB 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. SGVCOG categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices for identical assets or liabilities in active markets that government can access at the measurement date.
- Level 2 inputs are other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The following table presents the fair value hierarchy for SGVCOG and ACE's financial assets measured at fair value on a recurring basis:

	June 30, 2020				
Investment Type	Investments That Are Not Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
SGVCOG					
LAIF	$ 243,507	$ -	$ -	$ -	$ 243,507
Money Market Funds	-		5,637,896		5,637,896
	243,507	-	5,637,896	-	5,881,403
ACE					
LAIF	1,687,703	-	-	-	1,687,703
Money Market Funds	-	-	18,858,387	-	18,858,387
Fidelity Government Portfolio	-	-	1,841,618	-	1,841,618
Government Agencies	-	-	20,582,992	-	20,582,992
Certificates of Deposit	-	-	706,273	-	706,273
Corporate Bonds	-	-	5,900,615	-	5,900,615
Municipals	-	-	255,540	-	255,540
	1,687,703	-	48,145,425	-	49,833,128
	$ 1,931,210	$ -	$ 53,783,321	$ -	$ 55,714,531

NOTE 3 LEASEHOLD IMPROVEMENTS AND EQUIPMENT

The leasehold improvement and equipment of the component unit are recorded at cost and consist of the following:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020
Cost:				
Leasehold improvements	$ 19,762	$ -	$ -	$ 19,762
Computer equipment	349,816	-	-	349,816
Telephone equipment	12,086	-	-	12,086
Office furniture	31,972	-	-	31,972
Total cost	413,636	-	-	413,636
Less Accumulated depreciation and amortization for:				
Leasehold improvements	19,762	-	-	19,762
Computer equipment	334,360	6,052	-	340,412
Telephone equipment	12,086	-	-	12,086
Office furniture	31,972	-	-	31,972
Total accumulated depreciation and amortization	398,180	6,052	-	404,232
Capital assets, net	$ 15,456	$ (6,052)	$ -	$ 9,404

Depreciation expense included in indirect expenses for the year ended June 30, 2020 amounted to $6,052.

NOTE 4 RECEIVABLES

Receivables as of June 30, 2020, in the aggregate, including retention, are as follows:

Receivables	SGVCOG	ACE	Total
Grants	$ 359,906	$ 7,547,158	$ 7,907,064
Notes	-	150,000	150,000
Unbilled	209,846	37,212,986	37,422,832
Retention	-	2,587,393	2,587,393
Interest	-	6,158	6,158
Others	-	-	-
	$ 569,752	$ 47,503,695	$ 48,073,447

NOTE 5 LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY (LACMTA) PROMISSORY NOTE PAYABLE

In June 2013, ACE entered into a promissory note to borrow up to $45,000,000, in variable rate, from the Metro to be used as working capital. The note payable balance outstanding at June 30, 2020 amounted to $45,000,000. Interest rates vary according to market conditions and have ranged from 1.38% to 2.25%.

The proceeds of the loan is used as working capital pursuant to the terms of the *Alameda Corridor East Phase II Grade Separations Master Funding Agreement* ("Master Agreement"), dated June 14, 2013. Except as otherwise provided in the Master Agreement and the promissory note, including, but not limited to, Metro's right to set off against the Measure R and/or Proposition C funds reimbursement due borrower, the entire unpaid balance of the working capital loan, all accrued and outstanding Commercial Paper costs and any fees are unsecured and due on September 9, 2023, ten years after the first drawdown date.

NOTE 6 GRANTS RECEIVABLE

During the year ended June 30, 2020, ACE was the recipient, primarily from the U.S. Department of Transportation through California Department of Transportation (CalTRANS), of cost reimbursement type grants. Local matching share funds are also received from LACMTA. These grants are expenditure driven; funds must be expended before reimbursement is received. Certain amounts have been held back by the grantor agency pending completion of certain phases of contracted work and certain costs incurred may be subject to disallowance. Grants receivable and unbilled grants receivable at June 30, 2020 are shown net of disallowed costs. CalTRANS approved, under Uniform Guidance section 2 CFR 200.516, an indirect overhead allocation formula of 194.1% of total direct salaries and fringe benefit costs. Indirect costs incurred charged to grants for the year ended June 30, 2020 were $2,193,967.

In June 2019, CalTRANS auditors did not allow one-time reimbursement for the payments made to unfunded pension liability for the fiscal years 2015 through 2019 totaling $3,039,392 because the payments were not supported by CalPERS billing. The CalTRANS auditors allowed ACE to deduct these payments using a 20-year amortization schedule. With this disallowance, previously approved indirect cost rates for fiscal years 2017-2018 and 2018-2019 were reduced from 184.6% to 132.2% and from 282.2% to 151.4%, respectively.

NOTE 7 ADMINISTRATIVE EXPENSES

The following were the administrative expenses of the primary government for the year ended June 30, 2020:

Salaries and wages	$	271,777
Fringe benefits		29,574
GASB 68 pension valuation adjustment		(58,698)
Professional services		101,593
Legal		92,781
Rent - other		75,469
Meetings / travel		21,933
Grant writing services		4,095
Printing / publications		6,577
Insurance		5,395
Webpage / software services		3,725
Utilities		5,111
Administrative fees		6,416
Office supplies		2,158
Equipment and soft acquisition		8,708
Dues and subscriptions		3,915
Storage		2,578
Recruitment		928
Postage		402
Miscellaneous		174
Administrative expenses charged to grants		(198,532)
	$	386,079

NOTE 8 RELATED PARTY TRANSACTIONS

For the year ended June 30, 2020, SGVCOG paid ACE a total of $18,804 for transportation technical, administrative, and accounting support, and travel expenses. As of June 30, 2020, SGVCOG owed ACE $247,768.

NOTE 9 EMPLOYEE BENEFIT PLAN

A. General Information about the Pension Plans

Plan Description

SGVCOG's employee benefit plan was assigned to its component unit, ACE.

All qualified permanent and probationary employees are eligible to participate in ACE's Miscellaneous Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and ACE resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Classic participants (defined as eligible participants prior to January 1, 2013) are required to contribute 7% of their annual covered salary. New participants (defined as eligible employees brought into CalPERS membership for the first time on or after January 1, 2013 PEPRA) contribute at least half the normal cost rate as determined by CalPERS. SGVCOG and ACE contribute the remaining amounts necessary to fund the benefits for its employees, using the actuarial basis adopted by the CalPERS Board of Administration.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

NOTE 9 EMPLOYEE BENEFIT PLAN (CONTINUED)

The Plan's provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Miscellaneous Plan	
	Classic	PEPRA
Hire date	Prior to Jan. 1, 2013	On or after Jan. 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits , as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	6.91%	6.75%
Required employer contribution rates	9.68%	6.99%

Contributions
Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. SGVCOG and ACE are required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2020, the contributions made to the Plan were as follows:

	Miscellaneous Plan		
	SGVCOG	ACE	Total
Contributions- employer	$ 83,663	$ 372,335	$ 455,998

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2020, SGVCOG and ACE reported net pension liabilities (assets) for their proportionate shares of the net pension liabilities (assets) of the Plan as follows:

	Proportionate Share of Net Pension Liabilities (Assets)		
	SGVCOG	ACE	Total
Miscellaneous Plan	$ (92,851)	$ (413,225)	$ (506,076)

NOTE 9 EMPLOYEE BENEFIT PLAN (CONTINUED)

The net pension liabilities (assets) for the Plan are measured as the proportionate share of the net pension liabilities (assets). The net pension liabilities (assets) of the Plan are measured as of June 30, 2019, and the total pension liabilities (assets) for the Plan used to calculate the net pension liabilities (assets) were determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. SGVCOG's and ACE's proportion of the net pension liabilities (assets) were based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, which are actuarially determined.

Effective for measurement period 2015, CalPERS provides the GASB Statement No. 68 Accounting Valuation Report for the miscellaneous risk pool and allocation methodology to be used by participants in the risk pool. The schedules of employer allocation include allocation for the Total Pension Liability, Plan Fiduciary Net Position and all other pension amounts (e.g. deferred outflows/inflows of resources and pension expense). The Total Pension Liability and other pension amounts are allocated based on the Actuarial Accrued Liability from the most recent Actuarial Valuation Report as of June 30, 2018 used for funding purposes. The Plan Fiduciary Net Position is allocated based on the sum of the Plan's Market Value of Assets from the most recent Actuarial Valuation as of June 30, 2018 used for funding purposes plus supplemental payments made by employers during the current measurement period to reduce their unfunded actuarial accrued liabilities.

The SGVCOG's and ACE's proportionate share for pension items as provided by CalPERS are as follows:

	2020
Total pension liability and other pension amounts	0.0006385
Plan fiduciary net position	0.0008576

NOTE 9 EMPLOYEE BENEFIT PLAN (CONTINUED)

At June 30, 2020, SGVCOG and ACE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous Plan					
	SGVCOG		ACE		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 83,663	$ -	$ 372,335	$ -	$ 455,998	$ -
Differences between actual and expected experience	(6,449)	(500)	(28,700)	(2,223)	(35,149)	(2,723)
Changes in assumption	(4,428)	(1,570)	(19,704)	(6,985)	(24,132)	(8,555)
Changes in employer's proportion	26,462	38,794	117,767	172,649	144,229	211,443
Differences between the employer's contribution and the employer's proportionate share of contributions	123,030	11,553	547,529	51,409	670,559	62,962
Net differences between projected and actual earnings on pension plan investments	1,623	-	7,225	-	8,848	-
	$ 223,901	$ 48,277	$ 996,452	$ 214,850	$ 1,220,353	$ 263,127

SGVCOG and ACE reported $83,663 and $372,335, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30	SGVCOG	ACE	Total
2021	$ 54,096	$ 240,750	$ 294,846
2022	34,702	154,438	189,140
2023	3,491	15,538	19,029
2024	(328)	(1,459)	(1,787)

NOTE 9 EMPLOYEE BENEFIT PLAN (CONTINUED)

Actuarial Assumptions

The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Investment rate of return	7.15%
Inflation	2.50%
Salary increases	(1)
Mortality (4)	(2)
Post-Retirement Benefit Increase	(3)

(1) Varies by entry age and service

(2) Derived using CalPERS' Membership Data for all funds

(3) Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies.

(4) The mortality table used was developed based on CalPERS-specific data. The includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set to equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2019.

NOTE 9 EMPLOYEE BENEFIT PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability for PERF C was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents SGVCOG's and ACE's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what SGVCOG's and ACE's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous Plan		
	SGVCOG	ACE	Total
1% Decrease	6.15%	6.15%	6.15%
Net Pension Liability	$ 190,519	$ 847,891	$ 1,038,410
Current Discount Rate	7.15%	7.15%	7.15%
Net Pension Liability (Asset)	$ (92,851)	$ (413,225)	$ (506,076)
1% Increase	8.15%	8.15%	8.15%
Net Pension Liability (Asset)	$ (326,752)	$ (1,454,187)	$ (1,780,939)

C. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

D. Payable to the Pension Plan

At June 30, 2020, SGVCOG and ACE did not have outstanding balance for contribution to the pension plan required for the year ended June 30, 2020.

NOTE 9 EMPLOYEE BENEFIT PLAN (CONTINUED)

E. Deferred Compensation Plan

ACE has entered into a salary reduction deferred compensation plan for its employees. The plan allows employees to defer a portion of their current income from state and federal taxation. Employees may withdraw their participation at any time by giving written notice at least a week in advance prior to the effective date of the withdrawal. At June 30, 2020, plan assets totaling $1,955,321 were held by independent trustees. Accordingly, such amounts are not reflected in the accompanying basic financial statements.

All amounts of compensation deferred under the plans are solely the property and rights of each beneficiary (pursuant to legislative changes effective 1998 to the Internal Revenue Code Section 457, this includes all property and rights purchased and income attributable to these amounts until paid or made available to the employee or other beneficiary).

NOTE 10 COMMITMENTS AND CONTINGENCIES

As discussed in Note 6, ACE receives reimbursement type grants from federal, state and local sources. Certain expenses are not subject to reimbursement. Also, there may be disallowed costs. Management's experience in this regard indicates disallowances, if any, will not be material.

The SGVCOG is involved in claims and litigations arising from the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material effect on the SGVCOG’s financial position.

Lease
The SGVCOG and ACE entered into office space lease agreements expiring on April 30, 2021. Future minimum rental payments including tenant improvements are as follows:

Year ending June 30	SGVCOG	ACE	Total
2021	$ 60,011	$ 272,608	$ 332,619

NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Escrow Agreements for Contract Retention
Pursuant to contracts entered into between ACE and several of its contractors, funds are deposited with an Escrow Agent. The Escrow Agent holds the fund for the benefit of the contractors until the escrow is terminated. The Escrow Agent, contractor or ACE may terminate this Escrow Agreement, with or without cause, by providing 30 days prior written notice to the other parties. In the event of termination of this Escrow Agreement, all the funds on deposit shall be paid to ACE and any accrued interest less escrow fees shall be paid to the contractor. ACE has recognized expenses related to contract retention payments totaling $502,509 for the fiscal year ended June 30, 2020. Funds are deposited in several escrow accounts until release to the contractor is authorized.

NOTE 11 CONSTRUCTION IN PROGRESS AND TRANSFER OF COMPLETED PROJECTS

Except for minor acquisitions that may be sold by ACE when no longer needed, all of the construction projects, when completed, will be deeded and transferred to the UPRR and the cities in which they are located at no cost to the acquirer. At June 30, 2020, $966,161,089 of costs was accumulated on projects in process and $463,758,906 had been transferred to UPRR and impacted cities.

Under the full accrual basis of accounting, project expenses would be reported under the construction in progress account (i.e., treated as a cash flow expense and not a current year expense). This would substantially overstate income while reporting the disposal and expensing the accumulated costs would distort the cost of operations at the time of transfer of the completed projects to the member cities. In this case, net position would greatly fluctuate, depending on the timing of construction and transfer of the completed projects.

To alleviate this situation, management has elected to record a liability (same amount as the construction in progress) to UPRR and governments likely to be the eventual owner of the improvements/grade separations upon project completion. This approach will minimize the effects both the acquisition of property for construction and the accumulation of construction costs and their eventual disposal.

NOTE 12 IMPACT OF COVID-19 PANDEMIC ON SGVCOG'S and ACE'S OPERATIONS

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries.

To date, it is unknown how long these conditions will last and what the complete financial effect will be to businesses and other affected organizations, including local governmental entities. Management believes that financial impact, if any, will not materially affect the June 30, 2020 financial statements.

NOTE 13 SUBSEQUENT EVENTS

SGVCOG and ACE have evaluated events or transactions that occurred subsequent to the balance sheet date through April 21, 2021, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined that no subsequent matters required disclosure or adjustment to the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability
Last Ten Years*

	Measurement Period						
	2019	2018	2017	2016	2015	2014	
	Miscellaneous Plan	Miscellaneous Plan	Miscellaneous Plan	Miscellaneous Plan	Miscellaneous Plan	Miscellaneous Plan	
						Classic	PEPRA
Proportion of the net pension liability (asset)	-0.01829%	-0.01829%	0.00874%	0.02803%	0.03744%	0.01668%	0.00001%
Proportionate share of the net pension liability (asset)**	$ (506,076)	$ (689,323)	$ 383,561	$ 1,059,545	$ 833,640	$ 1,038,575	$ 664
Covered - employee payroll [(1)]**	$ 3,409,212	$ 4,050,997	$ 3,781,297	$ 2,989,505	$ 2,919,902	$ 2,286,552	$ 128,351
Proportionate share of the net pension liability as percentage of covered-employee payroll**	-14.84%	-17.02%	10.14%	35.44%	28.55%	45.42%	0.52%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability**	104.41%	105.77%	96.11%	87.02%	87.61%	83.03%	83.02%
Plan's proportionate share of aggregate employer contributions [(2)]**	$ 455,998	$ 411,327	$ 333,489	$ 909,547	$ 849,654	$ 1,038,125	$ 83

Notes to Schedule

1. Covered-Employee Payroll presented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

2. The plan's proportionate share of aggregate employer contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

* Fiscal year 2015 was the 1st year of implementation, therefore, only six years are shown.

	Reporting Year						
	2020	2019	2018	2017	2016	2015	
	Miscellaneous Plan	Miscellaneous Plan	Miscellaneous Plan	Miscellaneous Plan	Miscellaneous Plan	Miscellaneous Plan	
						Classic	PEPRA
Actuarially determined contributions	$ 455,998	$ 423,392	$ 509,594	$ 593,725	$ 327,364	$ 294,381	$ 10,141
Contributions in relation to the actuarially determined contributions	(455,998)	(423,392)	(509,594)	(593,725)	(327,364)	(294,381)	(10,141)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$ 3,114,693	$ 3,409,212	$ 4,050,997	$ 3,781,297	$ 2,989,505	$ 2,919,902	$ 176,748
Contributions as a percentage of covered-employee payroll	14.64%	12.42%	12.58%	15.70%	10.95%	10.08%	5.74%

Notes to Schedule:

Valuation date	June 30, 2018
<u>Methods and assumptions used to determine contribution rates:</u>	
Actuarial Cost Method	Entry age normal
Amortization method / Period	Level percent of payroll
Remaining amortization period	15 years as of valuation date
Asset valuation method	5 year Smoothed Market
Inflation	2.50%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.15%, net of pension plan investment expense
Retirement age	55 years
Mortality	Derived using CalPERS Membership Data for all funds

* Fiscal year 2015 was the first year of implementation, therefore only six years are shown.

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