



SGVCOG

San Gabriel Valley Council of Governments

**Audited Financial Statements
(Primary Government)
*As of and for the Year Ended June 30, 2017
with Report of Independent Auditors***

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(Primary Government)
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**San Gabriel Valley Council of Governments
(Primary Government)
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Report of Independent Auditors

Members of the Governing Board San Gabriel Valley Council of Governments

Report on the Financial Statements

We have audited the accompanying financial statements of the primary government of San Gabriel Valley Council of Governments (SGVCOG), which comprise the statement of net position as of June 30, 2017, 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.

Management's Responsibility on 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.

Auditors' 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 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 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 that 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 the primary government of San Gabriel Valley Council of Governments as of June 30, 2017, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements referred to above include only the primary government of the San Gabriel Valley Council of Governments, which consists of all funds and departments that comprise San Gabriel Valley Council of Governments' legal entity. These primary government financial statements do not include financial data for the San Gabriel Valley Council of Governments' component unit, the Alameda Corridor - East Construction Authority, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the SGVCOG's primary government. As a result, the primary government's financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the San Gabriel Valley Council of Governments as of June 30, 2017, the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

We have audited in accordance with auditing standards generally accepted in the United States of America, the financial statements of the reporting entity of San Gabriel Valley Council of Governments as of and for the year ended June 30, 2017, and our report thereon, dated January 31, 2018, expressed an unmodified opinion on those financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and the required supplementary information on pages 25 through 26 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 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.



Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SGVCOG's basic financial statements. The schedule of functional revenues, expenses, and changes in net position is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of functional revenues, expenses and changes in net position on page 27 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statement of functional revenues, expenses and changes in net position is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018 on our consideration of SGVCOG's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SGVCOG's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SGVCOG's internal control over financial reporting and compliance.

Vasquez + Company LLP

**Los Angeles, California
January 31, 2018**

**San Gabriel Valley Council of Governments
(Primary Government)
Management's Discussion and Analysis
Year ended June 30, 2017**

Our discussion and analysis of the San Gabriel Valley Council of Governments (the "SGVCOG") financial performance presents an overview of the SGVCOG's financial activities during the fiscal year ended June 30, 2017. We encourage readers to consider information presented here in conjunction with the financial statements (beginning on page 8). The financial statements, notes and this discussion and analysis were prepared by management and are the responsibility of management.

Background

The 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, the 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.

Overview of Financial Statements

In FY 2017, operating revenues increased by 1% from the previous year. The increase was mainly attributable to higher Energywise grant revenues earned in 2017.

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 liabilities. 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 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 11-24.

**San Gabriel Valley Council of Governments
(Primary Government)
Management's Discussion and Analysis
Year ended June 30, 2017**

Financial Analysis

Statements of Net Position

The following table summarizes the assets, liabilities and net position of the SGVCOG as of June 30, 2017 and 2016:

	June 30		Variance	
	2017	2016	Amount	%
Current assets	\$ 866,566	\$ 917,083	\$ (50,517)	-6%
Deferred outflows of resources	148,753	48,112	100,641	209%
Total assets and deferred outflows of resources	<u>1,015,319</u>	<u>965,195</u>	<u>50,124</u>	5%
Liabilities	149,908	146,522	3,386	2%
Deferred inflows of resources	49,731	23,578	26,153	111%
Total liabilities and deferred inflows of resources	<u>199,639</u>	<u>170,100</u>	<u>29,539</u>	17%
Net position				
Restricted	110,358	110,248	110	0%
Unrestricted	705,322	684,847	20,475	3%
Total net position	\$ <u>815,680</u>	<u>\$ 795,095</u>	<u>\$ 20,585</u>	3%

Current assets decreased this year by \$50,517 or 6%, and liabilities increased by \$3,386 or 2%. Decrease in current assets was largely due lower grants receivable balance in 2017 and collection of 2016 other receivables. Increase in liabilities was primarily due to the recognition of SGVCOG's share in the net pension liability.

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 \$815,680 and \$795,095 as of June 30, 2017 and 2016, respectively.

**San Gabriel Valley Council of Governments
(Primary Government)
Management's Discussion and Analysis
Year ended June 30, 2017**

Statements of Revenues, Expenses and Changes in Net Position

The following table presents the SGVCOG's revenues, expenses and changes in net position for the years ended June 30, 2017 and 2016:

	Year ended June 30,		Variance	
	2017	2016	Amount	%
Operating revenues				
Dues:				
General Fund	\$ 564,716	\$ 566,734	\$ (2,018)	0%
Transportation	180,394	200,196	(19,802)	-10%
	<u>745,110</u>	<u>766,930</u>	<u>(21,820)</u>	<u>-3%</u>
Sponsorships	12,551	-	12,551	100%
Grants and matches from other governments:				
Los Angeles County Metropolitan Transportation Authority	90,844	89,378	1,466	2%
Southern California Edison - Energywise	139,384	173,822	(34,438)	-20%
Southern California Edison - California Energy Efficiency Strategic Plan Implementation	44,291	115,946	(71,655)	-62%
Southern California Gas - Energywise	128,342	-	128,342	100%
Western Riverside Council of Governments - California HERO	14,202	20,334	(6,132)	-30%
	<u>1,174,724</u>	<u>1,166,410</u>	<u>8,314</u>	<u>1%</u>
Operating expenses				
Administrative	738,108	570,248	167,860	29%
Energywise	267,726	173,822	93,904	54%
Transportation	105,832	120,060	(14,228)	-12%
California Energy Efficiency Strategic Plan Implementation	44,291	115,947	(71,656)	-62%
	<u>1,155,957</u>	<u>980,077</u>	<u>175,880</u>	<u>18%</u>
Operating income	<u>18,767</u>	<u>186,333</u>	<u>(167,566)</u>	<u>-90%</u>
Nonoperating income				
Other income	-	50,933	(50,933)	100%
Interest income	1,818	1,080	738	68%
	<u>1,818</u>	<u>52,013</u>	<u>(50,195)</u>	<u>-97%</u>
Change in net position	20,585	238,346	(217,761)	-91%
Net position, beginning of year	795,095	556,749	238,346	43%
Net position, end of year	<u>\$ 815,680</u>	<u>\$ 795,095</u>	<u>\$ 20,585</u>	<u>3%</u>

**San Gabriel Valley Council of Governments
(Primary Government)
Management's Discussion and Analysis
Year ended June 30, 2017**

During fiscal year 2017, total operating revenues increased by 1% from the previous year. The increase was mainly attributable to higher Energywise grant revenues earned in 2017.

Revenues for SGVCOG consist primarily of dues from 31 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 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 \$429,614 in FY2017 compared to \$399,480 in FY2016, an increase of \$30,134 or 8%. The increase was mostly due to higher Energywise grant revenues earned in FY2017, reduced by lower California Energy Efficiency Strategic Plan Implementation - Phase 3 grant. This program was completed in September 2016.

Operating expenses were \$1,155,957 in FY2017 compared to \$980,077 in FY 2016, an increase of \$175,880 or 18%. The increase is primarily attributable to higher administrative salaries and wages, and fringe benefits, transportation technical support, administration, accounting, and finance support services provided by ACE staff, and an increase in grant writing services for new grants being pursued by the SGVCOG.

Non-operating income, consisting of investment income, increased by \$738 or 68% in FY2017 from FY2016, primarily due to higher yield on investments with the State's Local Agency Investment Fund. During FY2016, SGVCOG was awarded a legal settlement of \$50,933.

Next Year's Budget

The budget for fiscal year 2018 assumes that the on-hand net position as of June 30, 2017 will be required and available to fulfill the program and administrative expense requirements.

Further Information

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

San Gabriel Valley Council of Governments
 (Primary Government)
 Statement of Net Position
 June 30, 2017

ASSETS		
Current assets		
Cash and cash equivalents	\$	764,843
Grants receivable		75,782
Other receivables		14,109
Prepaid expenses		11,832
	Total current assets	<u>866,566</u>
Capital assets		
Office equipment		8,645
Less accumulated depreciation		<u>(8,645)</u>
	Capital assets, net	<u>-</u>
	Total assets	<u>866,566</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pension		<u>148,753</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses		39,600
Compensated absences, current portion		17,761
	Total current liabilities	<u>57,361</u>
Noncurrent liabilities		
Compensated absences		6,849
Net pension liability		85,698
	Total noncurrent liabilities	<u>92,547</u>
	Total liabilities	<u>149,908</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension		<u>49,731</u>
NET POSITION		
Restricted for :		
Water Quality Improvement		55,562
MS4-National Pollutant Discharge Elimination System		54,796
Unrestricted		705,322
	Net position \$	<u><u>815,680</u></u>

See notes to financial statements.

**San Gabriel Valley Council of Governments
(Primary Government)
Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2017**

Operating revenues

Dues:

General Fund	\$ 564,716
Transportation	180,394
	745,110

Sponsorships

12,551

Grants and matches

Los Angeles County Metropolitan Transportation Authority	90,844
Southern California Edison - Energywise	139,384
Southern California Edison - California Energy Efficiency Strategic Plan Implementation	44,291
Southern California Gas - Energywise	128,342
Western Riverside Council of Governments - California HERO	14,202
	1,174,724

Total operating revenues

1,174,724

Operating expenses

Administrative	738,108
Energywise	267,726
Transportation	105,832
California Energy Efficiency Strategic Plan Implementation	44,291
	1,155,957

Total operating expenses

1,155,957

Operating income

18,767

Nonoperating income

Interest income	1,818
	<u>1,818</u>

Total nonoperating income

1,818

Change in net position

20,585

Net position, beginning of year

795,095

Net position, end of year

\$ 815,680

See notes to financial statements.

San Gabriel Valley Council of Governments
(Primary Government)
Statement of Cash Flows
Year ended June 30, 2017

Cash flows from operating activities

Cash receipts from cities	\$	696,751
Cash receipts from all other services		536,203
Cash paid for operating expenses		(599,304)
Cash paid for employee compensation and related costs		(574,914)
Net cash provided by operating activities		<u>58,736</u>

Cash flows from investing activities

Cash receipts from interest		1,600
Cash provided by investing activities		<u>1,600</u>

Change in cash and cash equivalents 60,336

Cash and cash equivalents - beginning of year		<u>704,507</u>
Cash and cash equivalents - end of year	\$	<u><u>764,843</u></u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$	18,767
Adjustment to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Member dues receivable		800
Other receivables		44,391
Grants receivable		62,198
Prepaid expenses		2,275
Deferred outflows of resources		(100,641)
Accounts payable and accrued expenses		(57,763)
Unearned revenues		(49,159)
Compensated absences		24,610
Net pension liability		87,105
Deferred inflows of resources		26,153
Net cash provided by operating activities	\$	<u><u>58,736</u></u>

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.

The Reporting Entity

These financial statements do not include funds of a component unit, the Alameda Corridor - East Construction Authority (ACE) and do not purport to, and do not, present the financial position of the reporting entity of San Gabriel Valley Council of Governments as of June 30, 2017, 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.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

The following are SGVCOG's major revenue components:

California Energy Efficiency Strategic Plan Implementation - Funds for the implementation of certain energy efficiency programs under the Decision 09-09-47 and 12-11-015 of the California Public Utilities Commission including the Energy Leader Partnership Program.

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.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Cash and Cash Equivalents

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.

Grants Receivable

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

Office Equipment

Office equipment is carried at historical cost. Depreciation is provided using the straight-line method over the individual assets' estimated useful life, usually five years for computers, copiers and other electronic equipment, ten years for cabinets, desks and furniture.

Pension

SGVCOG adopted GASB Statement No, 68, *Accounting and Financial Reporting for Pensions* during the fiscal year ended June 30, 2015. 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 presentation of financial statements in conformity with generally accepted accounting principles (GAAP) requires the use of estimates in many areas. Estimates used in these financial statements relate primarily to fixing estimated useful lives to depreciable assets. Based upon the preceding information, estimates do not have a material effect on these financial statements.

San Gabriel Valley Council of Governments
 (Primary Government)
 Notes to Financial Statements
 Year ended June 30, 2017

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2017 consist of the following:

Deposits with financial institution	\$ 534,924
Short-term investments	229,919
Total cash and cash equivalents	<u>\$ 764,843</u>

Investments Authorized by the California Government Code and San Gabriel Valley Council of Governments' 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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 SCE	None	20%	10%
State of CA Local Agency Investment Fund (LAIF)	None	None	None
Mortgage-backed Securities	5 years	15%	None

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

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 due over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of 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.

Investment Type	Total	12 Months or less
LAIF	\$ 229,919	\$ 229,919
Total	\$ 229,919	\$ 229,919

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

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	Amount	Minimum Legal Rating	Rating as of Year End Not Rated
LAIF	\$ 229,919	N/A	\$ 229,919
Total	\$ 229,919		\$ 229,919

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

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, 2017, the SGVCOG had no investments in any one issuer (other than U.S. external investment pools) that represent 5% or more of total SGVCOG investments.

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, 2017, the SGVCOG's cash in bank balance of \$556,461 exceeded the \$250,000 deposit insurance of the Federal Depository Insurance Corporation (FDIC) by \$306,461.

The SGVCOG is a voluntary participant 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, 2017, the total market value of LAIF, including accrued interest was approximately \$77.6 billion. The fair value of the SGVCOG's investment in this pool is \$229,675 at June 30, 2017 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.

NOTE 3 EMPLOYEE BENEFIT PLAN

A. General Information about the Pension Plans

Plan Description

SGVCOG's employee benefit plan was assigned to its component unit, ACE. SGVCOG does not have employees enrolled under the Classic Plan and currently represent 85% share of the PEPRA Plan. 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 plans 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 contributes 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 3 EMPLOYEE BENEFIT PLAN (CONTINUED)

Benefits Provided (Continued)

The Plans' provisions and benefits in effect at June 30, 2017 for PEPRA to which SGVCOG participates, are summarized as follows:

	Miscellaneous Plan
	PEPRA
Hire date	On or after Jan. 1, 2013
Benefit formula	2% @ 62
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	52 - 67
Monthly benefits , as a % of eligible compensation	1.0% to 2.5%
Required employee contribution rates	6.25%
Required employer contribution rates	6.25%

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 is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

	Miscellaneous Plan
	PEPRA
Contributions - employer	\$ 48,112

NOTE 3 EMPLOYEE BENEFIT PLAN (CONTINUED)

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

As of June 30, 2017, SGVCOG reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

		Proportionate Share of Net Pension Liability <hr style="width: 100%;"/>
Miscellaneous (PEPRA)	\$	<u>85,698</u>
Total Net Pension Liability	\$	<u>85,698</u>

SGVCOG's net pension liability for the Plan is measured as the proportionate share of the net pension liability (asset). The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. SGVCOG's proportion of the net pension liability was based on a projection of the SGVCOG's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, which is actuarially determined.

NOTE 3 EMPLOYEE BENEFIT PLAN (CONTINUED)

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 three ratios. It includes 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 is allocated based on the Actuarial Accrued Liability from the most recent Actuarial Valuation Report as of June 30, 2015 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, 2015 used for funding purposes plus supplemental payments made by employers during the current measurement period to reduce their unfunded actuarial accrued liabilities. All other pension amounts (deferred outflows/inflows of resources and pension expense) are allocated based on the legally or statutorily required employer contributions for the fiscal year ended June 30, 2016, including reported contribution adjustments and suspended payroll information.

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

	2017
	<u>Miscellaneous</u>
Total pension liability	0.0005212
Plan fiduciary net position	0.0005978
All other pension amounts (deferred outflows/inflows of resources and pension expense)	0.0007990

At June 30, 2017, SGVCOG reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

San Gabriel Valley Council of Governments
 (Primary Government)
 Notes to Financial Statements
 Year ended June 30, 2017

NOTE 3 EMPLOYEE BENEFIT PLAN (CONTINUED)

	2017	
	Miscellaneous Plan	
	PEPRA	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 66,429	\$ -
Differences between actual and expected experience	1,155	(195)
Changes in assumption	-	(10,927)
Differences in proportions	-	(2,602)
Changes in employer's proportion	4,677	(32,271)
Differences between the employer's contribution and the employer's proportionate share of contributions	15,701	(3,736)
Net differences between projected and actual earnings on pension plan investments	<u>60,791</u>	<u>-</u>
Total	<u>\$ 148,753</u>	<u>\$ (49,731)</u>

\$66,429 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018.

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

<u>Year ending June 30</u>	<u>Amount</u>
2018	\$ 2,217
2019	2,857
2020	16,651
2021	10,868
2022	-

NOTE 3 EMPLOYEE BENEFIT PLAN (CONTINUED)

Actuarial Assumptions

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
 Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)
Post-Retirement Benefit Increase	(4)

- (1) Varies by entry age and service
- (2) Net of pension plan investment and administrative expenses, including inflation
- (3) Derived using CalPERS' Membership Data for all funds
- (4) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2015 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

NOTE 3 EMPLOYEE BENEFIT PLAN (CONTINUED)

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statement Nos. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	Assumed Asset Allocation	Real Return Years 1 - 10 ^(a)	Real Return Years 11+ ^(b)
Global Equity	51.00%	5.25%	5.71%
Global Debt Securities	20.00%	0.99%	2.43%
Inflation Assets	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100.00%		

^(a) An expected inflation of 2.5% used for this period.

^(b) An expected inflation of 3.0% used for this period.

NOTE 3 EMPLOYEE BENEFIT PLAN (CONTINUED)

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

The following presents SGVCOG'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 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:

		Miscellaenous Plan	
		PEPRA	
1% Decrease		6.65%	
Net Pension Liability	\$	174,601	
Current Discount Rate		7.65%	
Net Pension Liability	\$	85,698	
1% Increase		8.65%	
Net Pension Liability	\$	12,225	

C. Pension Plan Fiduciary Net Position

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

D. Payable to the Pension Plan

At June 30, 2017, SGVCOG did not have outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

Other Postemployment Benefits

SGVCOG did not incur any other liabilities during the year 2017 related to other postemployment benefits.

NOTE 4 RELATED PARTY TRANSACTIONS

For the year ended June 30, 2017, SGVCOG paid ACE a total of \$95,928 for transportation technical support, administrative support, and accounting support, and travel expenses.

NOTE 5 CONTINGENCIES

The SGVCOG is involved in claims 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.

NOTE 6 COMMITMENTS

The SGVCOG has entered into an office space lease agreement covering the period from January 1, 2013 to December 31, 2017.

Future minimum rental payments including tenant improvements are as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2018	\$ <u>32,936</u>
Total	\$ <u><u>32,936</u></u>

NOTE 7 SUBSEQUENT EVENTS

SGVCOG has evaluated events subsequent to June 30, 2017, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through January 31, 2018, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**San Gabriel Valley Council of Governments
(Primary Government)
Schedule of Proportionate Share of the Net Pension Liability
Last Ten Years***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<u>Miscellaneous Plan</u>	<u>Miscellaneous Plan</u>	<u>Miscellaneous Plan</u>
		<u>PEPRA</u>	<u>PEPRA</u>
Proportion of the net pension liability	0.028030%	0.000158%	0.00001%
Proportionate share of the net pension liability (asset)	\$ 85,698	\$ (1,407)	\$ 538
Covered - employee payroll ⁽¹⁾	\$ 358,859	\$ 164,916	\$ 155,191
Proportionate share of the net pension liability as percentage of covered-employee payroll	23.88%	-0.85%	0.35%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	12.98%	108.71%	83.02%
Plan's proportionate share of aggregate employer contributions ⁽²⁾	\$ 243,174	\$ 15,076	\$ 88

Notes to Schedule

¹ Covered-Employee Payroll represented 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 three years are shown.

**San Gabriel Valley Council of Governments
(Primary Government)
Schedule of Pension Contributions
Last Ten Years***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<u>Miscellaneous Plan</u>	<u>Miscellaneous Plan</u>	<u>Miscellaneous Plan</u>
	<u>PEPRA</u>	<u>PEPRA</u>	<u>PEPRA</u>
Actuarially determined contributions	\$ 66,429	\$ 8,824	\$ 8,214
Contributions in relation to the actuarially determined contributions	(66,429)	(8,824)	(8,214)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered-Employee Payroll	\$ 358,859	\$ 164,916	\$ 155,191
Contributions as a percentage of covered-employee payroll	18.51%	5.35%	5.29%

Notes to Schedule:

Valuation date

June 30, 2015

Methods and assumptions used to determine contribution rates:

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

2.75%

Salary increases

Varies by Entry Age and Service

Investment rate of return

7.50%, net of pension plan investment expense and administrative expenses including inflation.

Retirement age

55 years

Mortality

Derived using CalPERS Membership Data for all funds

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

SUPPLEMENTARY INFORMATION

**San Gabriel Valley Council of Governments
(Primary Government)
Schedule of Functional Revenues, Expenses and Changes in Net Position
Year ended June 30, 2017**

	G & A	LACMTA	Energy Wise		Strategic Plan	CEESP	Total
			SCE	SCG	SCE	SCE	
Operating revenues							
Dues							
General fund	\$564,716	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 564,716
Transportation	165,406	14,988	-	-	-	-	180,394
LACMTA - Transportation	-	90,844	-	-	-	-	90,844
General assembly ticket sales	12,551	-	-	-	-	-	12,551
California HERO program	14,202	-	-	-	-	-	14,202
Energy efficient grants							
Administration	-	-	10,854	8,980	1,641	217	21,692
Marketing	-	-	31,264	35,851	-	-	67,115
Direct implementation	-	-	97,266	83,511	26,803	15,630	223,210
Total Operating revenues	756,875	105,832	139,384	128,342	28,444	15,847	1,174,724
Direct expense							
Salaries & wages							
Administration	-	-	3,549	2,941	408	100	6,998
Marketing	-	-	7,713	11,993	-	-	19,706
Direct implementation	-	-	34,266	29,298	9,927	4,492	77,983
Program management	-	-	14,930	6,422	67	2,475	23,894
Total direct expense	-	-	60,458	50,654	10,402	7,067	128,581
Administrative expense							
Salaries & wages	264,533	-	46,335	45,609	10,592	5,154	372,223
Fringe benefits - allocated	90,244	-	14,344	14,119	3,279	1,595	123,581
Rent - Other	45,648	-	8,435	8,303	1,929	938	65,253
Utilities	3,366	-	622	612	142	69	4,811
Postage	737	-	80	78	18	9	922
Office Supplies	2,297	-	424	418	97	47	3,283
Printing/Publications	7,171	-	1,325	1,304	303	148	10,251
Insurance	3,767	-	696	685	159	77	5,384
Dues & Subscriptions	1,246	-	230	226	53	25	1,780
Meetings/Travel	21,453	-	3,440	3,386	786	382	29,447
Administrative Fees	2,743	-	507	499	116	56	3,921
Office Expense	6,191	-	1,144	1,126	261	128	8,850
Storage	1,803	-	333	328	76	38	2,578
Equipment & Soft Acquisition	3,844	-	710	699	162	80	5,495
Webpage/Software Services	1,631	-	301	296	69	34	2,331
General Assembly Expense	11,815	-	-	-	-	-	11,815
Grant Writing Services	47,041	-	-	-	-	-	47,041
Professiona services	190,940	105,832	-	-	-	-	296,772
Legal	31,638	-	-	-	-	-	31,638
Total administrative expense	738,108	105,832	78,926	77,688	18,042	8,780	1,027,376
Operating income	18,767	-	-	-	-	-	18,767
Nonoperating income							
Interest income	1,818	-	-	-	-	-	1,818
Change in net position	20,585	-	-	-	-	-	20,585
Net position, beginning of the year	795,095	-	-	-	-	-	795,095
Net position, end of year	\$815,680	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 815,680

**Report of Independent Auditors 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***

**Members of the Governing Board
San Gabriel Valley Council of Governments**

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 San Gabriel Valley Council of Governments (the SGVCOG), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise SGVCOG's basic financial statements, and have issued our report thereon dated January 31, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SGVCOG'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SGVCOG's internal control. Accordingly, we do not express an opinion on the effectiveness of SGVCOG'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 weakness. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether SGVCOG's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results 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.

Vasquez + Company LLP

**Los Angeles, California
January 31, 2018**

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Alameda Corridor – East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Audited Financial Statements
and Supplementary Information
As of and for the Year Ended June 30, 2017
with Report of Independent Auditors

Alameda Corridor – East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Audited Financial Statements
and Supplementary Information
As of and for the Year Ended June 30, 2017
with Report of Independent Auditors

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
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Report of Independent Auditors

The Honorable Members of the Board of Directors Alameda Corridor – East Construction Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Alameda Corridor - East Construction Authority (ACE), a component unit of San Gabriel Valley Council of Governments (SGVCOG), which comprise the statement of net position as of June 30, 2017, and the related statement of activities for the year then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alameda Corridor – East Construction Authority as of June 30, 2017, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 11 and the required supplementary information on pages 33 – 35 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise ACE's basic financial statements. The schedule of revenues, expenditures, and changes in fund balance – budget to actual is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2018, on our consideration of ACE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ACE's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ACE's internal control over financial reporting and compliance.

Vacques & Company LLP

Los Angeles, California
January 15, 2018

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2017

The management's discussion and analysis (MD&A) of the financial performance and activity of the Alameda Corridor – East Construction Authority (ACE) provides an overview of ACE financial statements for the year ended June 30, 2017. This discussion was prepared by management and should be read in conjunction with the accompanying financial statements and notes, which follow this section.

Background

The San Gabriel Valley Council of Governments (SGVCOG) created ACE in 1998. ACE is a single purpose construction authority established to implement a construction program intended to mitigate the adverse impacts at rail-roadway crossings in the San Gabriel Valley of increasing rail traffic along the nationally significant Alameda Corridor East Trade Corridor. Train counts through the Valley are projected to nearly double by the year 2035 as increasing numbers of freight trains carry freight to and from the nation's busiest container ports in San Pedro Bay.

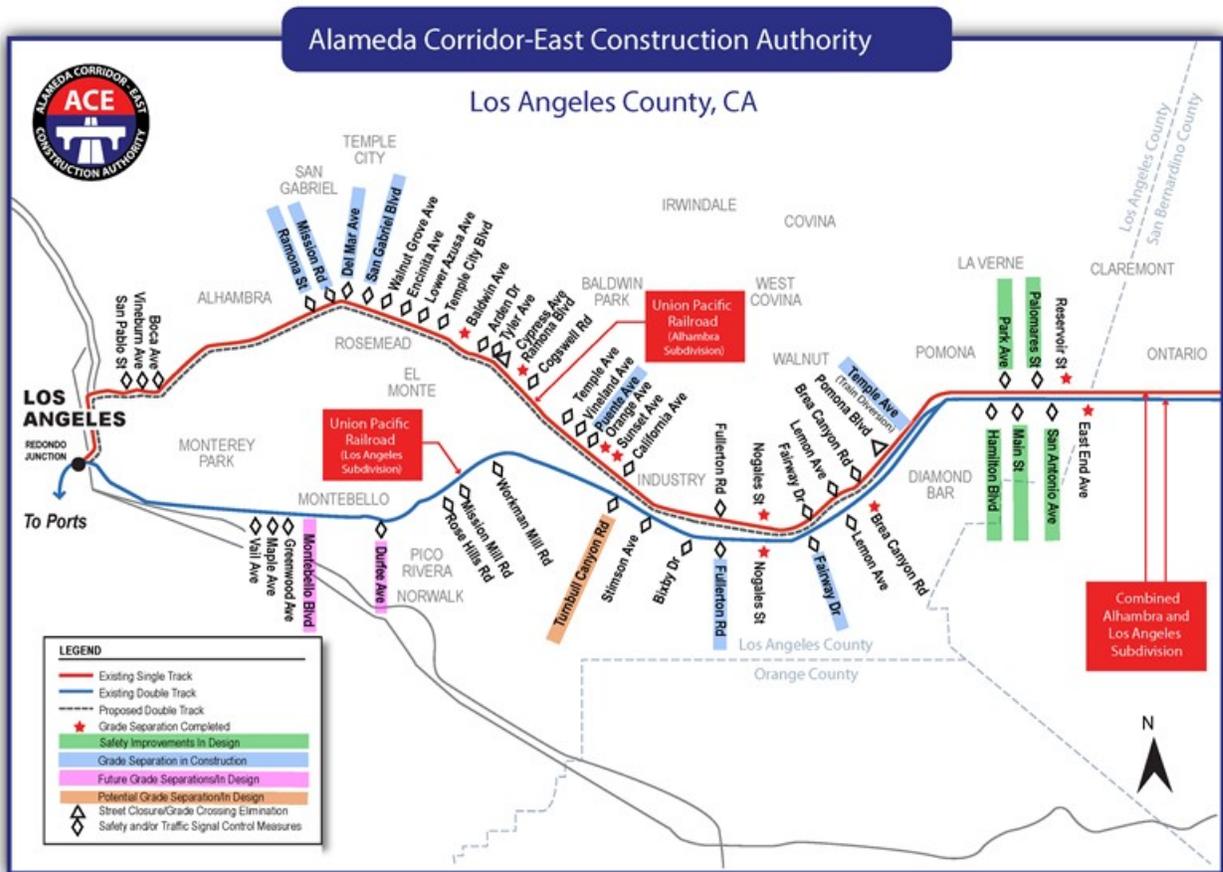
The ACE Project is a comprehensive program of constructing grade separations, where the road goes over or under the railroad, and safety and mobility upgrades at fifty-two crossings in the San Gabriel Valley. Construction has been completed on nine rail-roadway grade separations. Seven additional grade separations and a rail diversion project are under construction. Three grade separation projects are in design along with improved pedestrian and vehicle safety gate at another eight crossings. Safety improvements have been completed at 39 at-grade crossings.

The cost estimate as of June 30, 2017 for the completed safety improvements and 14 grade separations either completed or going into construction is \$1.662 billion.

Projects under construction include the Fullerton Road, Fairway Drive, and Puente Avenue grade separations; the San Gabriel Trench; and the Temple Avenue rail diversion project. Going to construction in 2018 will be the Durfee Avenue grade separation project. Currently in design is the Montebello Corridor Project, the Turnbull Canyon Road Grade Separation Project, and the At-Grade Crossing Safety Improvements.

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Project Progress During FY 2017						
Project	06/16	09/16	12/16	03/17	06/17	
At-Grade Crossing (212)	Design					
Durfee (208)	Design / ROW Acquisitions					
Fairway Drive (204)	ROW Acquisitions / Construction					
Fullerton (207)	ROW Acquisitions / Construction					
Montebello (209)	ROW Acquisitions / Construction					
Puente Avenue (202)	ROW Acquisitions / Construction					
Nogales - LA (250)	Construction					
S.G. Trench (201)	Construction					
Temple/Pomona (119)	Construction					
Turnbull Canyon (212)	Design					



Alameda Corridor-East Project Area

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As of June 30, 2017, the following funding had been committed to the ACE project:

<u>Federal</u>	ACE Funding Commitments	
	(\$ millions)	
TEA-21 Earmark	\$ 132.6	
Annual Appropriations (FY 2000-10)	21.5	
SAFETEA-LU Earmark	67.3	
Rail-Highway Crossing Program	10.0	
ISTEA (Nogales LA)	6.9	
CMAQ (Nogales LA)	6.3	
Total Federal		\$ 244.7
<u>State</u>		
Trans. Imp. Program (FY 2000-04)	39.0	
PUC Grade Separation Fund	10.0	
Trans. Cong. Relief Prog. (TCRP)	130.3	
Trade Corr. Impr. Fund (TCIF)	420.5	
Hwy. Rail Crossing Safety Act (HRCSA)	46.6	
Total State		\$ 646.4
<u>L.A. County MTA</u>		
17% - Match	259.9	
FY 2007 Call-for-projects	28.8	
Measure R	400.0	
Total L.A. County MTA		\$ 688.7
City/County Funds/MWD Funds	12.1	
Railroad Contributions	40.6	
City/Railroad/Betterments/Property Sales	29.5	
Total ACE Project Funding		<u>\$1,662.0</u>

The committed/pledged amounts may differ slightly from authorized funding due to budgetary holdbacks on multi-year grants, and reflect management's best estimate as to the amount that will be available. Railroad contributions reflect a regulatory ceiling of 5% of construction cost pro-rated over the construction phase of the various projects.

ACE manages its projects to avoid risk wherever possible. All projects are designed to be within the scope allowed by federal, state and local guidelines. The project host city is responsible for paying for any "betterments" not needed for the basic grade separation. In addition, the California Department of Transportation (CalTRANS) must approve each phase - design, right-of-way acquisition and utility relocation, and construction - for reimbursement in advance.

ACE must pay contractors and vendors first before invoicing grantors for reimbursement. Reimbursements are currently running between two to four weeks for CalTRANS (Federal and State funding) and the Los Angeles County Metropolitan Transportation Authority ("Metro") (local funding). Working capital therefore remains a major consideration. ACE and Metro entered into an agreement to provide ACE \$45M subordinate Proposition C Sales Tax Revenue

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Revolving Obligation Construction Fund, which replaced the Grants Anticipation Notes as the primary bridge funding.

Financial Highlights

For the year ended June 30, 2017:

- Net position increased by \$0.9 million, an increase of 6.7%.
- Construction in progress increased by \$103.5 million, an increase of 17.5%.
- Total revenues decreased by \$31.9 million, a decrease of 23.4%.
- Total project expenses decreased by \$31.0 million, a decrease of 23.1%.

Overview of Basic Financial Statements

ACE's basic financial statements consist of three components: (1) Government-wide Financial Statements, (2) Fund Financial Statements and (3) Notes to the Basic Financial Statements.

Governmental entities are required to report information on a government-wide basis and on a fund basis (with emphasis placed on major funds of the entity). The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. The governmental fund financial statements (i.e., the balance sheet and the statement of revenues, expenditures and changes in fund balance) report information on individual funds of the government. A fund is considered to be a separate accounting entity with a self-balancing set of accounts.

Since ACE is engaged in a single governmental activity and it has no component units, the government-wide and governmental fund financial statements have been combined with a reconciliation of the individual line items in a separate column entitled "Adjustments" on the financial statements. The government-wide financial statements are reported in the "Statement of Net Position" and "Statement of Activities" columns. The governmental fund financial statements are reported in the "Capital Projects Fund" column.

Government-wide Financial Statements

The government-wide financial statements are designed to give readers a broad overview of ACE's financial position. These include all of ACE's assets and liabilities, deferred inflows/outflows of resources, revenues and expenses. The accounting basis is full accrual (similar to private sector companies) where ACE's revenues and expenses are reported as the causal event occurs, instead of when the revenue was received or expense paid.

The "Statement of Net Position" is the basic government-wide statement of financial position. It presents information on all of ACE's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position (or equity in the private sector). While large net position might indicate that a governmental agency has not spent all available revenues and other resources, negative net position indicates that the

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agency has overspent. It is management's position to maintain sufficient net position to compensate for any disallowed costs, but to allocate any surplus to construction activities.

The "Statement of Activities" presents ACE's revenues and expenses for the year ended on June 30, 2017. The statement has four primary areas: *project expenses*, *operating revenues*, *nonoperating income (expense)*, and *change in net position*. Expenses are broken out into direct (those expenses that can be identified directly to individual projects) and indirect. The financing income is the interest earned on cash balances less interest and fees paid on the corresponding debt.

Fund Financial Statements

The fund financial statements report information on Capital Projects Fund of ACE. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

ACE, unlike cities, county or state governments, has one activity – construction. All of ACE's activities are classified as a Construction Fund (Capital Projects) with the exception of the amount invested in a deferred compensation plan funded solely by the employees.

Differences between the two sets of financial statements are normally determined by the complexity of the reporting agency and usually revolve around different treatments for fixed assets and depreciation, debt issuance and repayment, and pension-related account balances. ACE's focus on a single activity results in the two statements being very similar.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the governmental funds financial statements. The notes can be found on pages 14 through 32 of this report.

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Condensed Statements of Net Position

The following table shows the condensed statements of net position for the past two years:

	June 30		Variance	
	2017	2016	Amount	%
Current and other assets	\$ 100,343,185	\$ 93,669,646	\$ 6,673,539	7.1%
Capital assets	12,335	24,923	(12,588)	-50.5%
Construction in progress	695,912,451	592,444,003	103,468,448	17.5%
Less due to member cities and Union Pacific Railroad	(695,912,451)	(592,444,003)	(103,468,448)	17.5%
Total assets	100,355,520	93,694,569	6,660,951	7.1%
Deferred outflows of resources	2,214,048	1,000,636	1,213,412	121.3%
Liabilities	87,223,814	79,965,009	7,258,805	9.1%
Deferred inflow of resources	515,398	827,531	(312,133)	-37.7%
Net position	\$ 14,830,356	\$ 13,902,665	\$ 927,691	6.7%

All organizations are 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 activities. However, the grant reimbursements generated by construction would be included in the statement of activities as revenue. ACE is obligated to transfer components of completed projects to the 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 activities as a loss. The net effect would be to produce widely fluctuating net position and fund balances depending on whether ACE was constructing (surplus) or transferring assets to member cities (deficit).

Therefore, ACE elected to treat construction in progress as a matching asset and liability. 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 activities.

Total assets increased by 7.1% to \$100.4 million, mainly due to increases in cash and investments, as one participating city funded future betterment work.

Construction in progress increased by 17.5% to \$695.9 million, primarily because of increased construction activity on San Gabriel Trench, Puente Avenue, Fairway Drive, and Fullerton Road projects.

Unearned revenue increased by 38.6% to \$22.3 million, mainly because of betterment funds received in advance for the Fullerton Road project.

Due to delay in funding from previously approved federal grant, unbilled receivables increased 29.7% to \$31.5 million.

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Condensed Statements of Activities

The following table shows the condensed statements of activities for the years ended June 30, 2017 and 2016.

Total net position increased by \$0.9 million or 6.7% for the year ended June 30, 2017. The increase was due to an adjustment to construction expenses that were incurred in the prior year.

	Years ended June 30		Variance	
	2017	2016	Amount	%
Project Expenses				
Direct (Construction)	\$ 99,658,490	\$ 132,103,266	\$ (32,444,776)	-24.6%
Indirect expenses charged to operations	3,465,867	2,025,888	1,439,979	71.1%
Total project expenses	103,124,357	134,129,154	(31,004,797)	-23.1%
Operating revenues				
Grant reimbursements	104,116,255	133,732,844	(29,616,589)	-22.1%
Other operating revenues	467,489	2,763,634	(2,296,145)	-83.1%
Total revenues	104,583,744	136,496,478	(31,912,734)	-23.4%
Income/(loss) from operations	1,459,387	2,367,324	(907,937)	-38.4%
Nonoperating income (expense)				
Financing income	597,423	499,752	97,671	19.5%
Financing expense	(1,129,119)	(394,603)	(734,516)	186.1%
Net financing income (loss)	(531,696)	105,149	(636,845)	-605.7%
Change in net position	927,691	2,472,473	(1,544,782)	-62.5%
Net position at beginning of year	13,902,665	11,430,192	2,472,473	21.6%
Net position at end of year	\$ 14,830,356	\$ 13,902,665	\$ 927,691	6.7%

Capital Assets

ACE had \$12,335 invested in capital assets, net of depreciation, as of June 30, 2017.

Economic Factors and New Year's Budget

Budget expenditures in fiscal year 2018 increased 10.9% over 2017, as increases in construction were offset by reductions in right-of-way acquisitions. Based on 2018 first quarter expenditures, it is anticipated the 2018 budget will be within 5% of budgeted expenditures.

Requests for Information:

These financial statements are designed to provide citizens, taxpayers, customers, and creditors with a general overview of ACE's finances and to demonstrate accountability for the money it receives. If there are any questions about this report or a need for additional information, please contact ACE, 4900 Rivergrade Road, Suite A120, Irwindale, CA 91706, or call (626) 962-9292.

Alameda Corridor - East Construction Authority
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Governmental Fund Balance Sheet/
Statement of Net Position
June 30, 2017

	Capital Projects Fund	Adjustments	Government Activities Statement of Net Position
ASSETS			
Current assets			
Cash and investments	\$ 47,737,803	\$ -	\$ 47,737,803
Grants receivable	14,383,963	-	14,383,963
Unbilled receivable	31,530,596	-	31,530,596
Notes receivable	150,000	-	150,000
Interest receivable	3,670	-	3,670
Retention receivable	873,136	-	873,136
Prepaid expenses	387,056	-	387,056
Property held for sale	4,260,128	-	4,260,128
Under-recovery of indirect cost	1,016,833	-	1,016,833
Total current assets	100,343,185	-	100,343,185
Noncurrent assets			
Capital assets - Leasehold improvement and equipment	-	12,335	12,335
Construction in progress	-	695,912,451	695,912,451
Less due to member cities and Union Pacific Railroad	-	(695,912,451)	(695,912,451)
Total noncurrent assets	-	12,335	12,335
Total assets	100,343,185	12,335	100,355,520
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	-	2,214,048	2,214,048
Total deferred outflows of resources	-	2,214,048	2,214,048
Total assets and deferred outflows of resources	\$ 100,343,185		
LIABILITIES			
Current liabilities			
Accounts payable and accrued expense	\$ 17,732,271	-	17,732,271
Accrued retention payable	1,131,110	-	1,131,110
Unearned revenue	22,254,454	-	22,254,454
Compensated absences	217,831	-	217,831
MTA promissory note loan	45,000,000	-	45,000,000
Net pension liability	-	888,148	888,148
Total current liabilities	86,335,666	888,148	87,223,814
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	-	515,398	515,398
Total deferred inflows of resources	-	515,398	515,398
FUND BALANCES/NET POSITION			
Fund balance			
Nonspendable for:			
Prepaid expenses	387,056		
Committed:			
CalPERS unfunded termination liability	6,347,036		
Assigned:			
Capital project fund	7,273,427		
Total fund balance	14,007,519		
Total liabilities, deferred inflows of resources and fund balance	\$ 100,343,185		
Net position			
Net investment in capital assets		12,335	12,335
Unrestricted		810,502	14,818,021
Total net position		\$ 822,837	\$ 14,830,356

See notes to financial statements.

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance/Statement of Activities
Year Ended June 30, 2017

	Capital Projects Fund	Adjustments	Statement of Activities
Project Expenses			
Direct (Construction)	\$ 101,105,289	\$ (1,446,799)	\$ 99,658,490
Indirect expenses charged to operations	3,478,455	(12,588)	3,465,867
Total project expenses	<u>104,583,744</u>	<u>(1,459,387)</u>	<u>103,124,357</u>
Operating revenues			
Grant reimbursements	104,116,255	-	104,116,255
Other operating revenues	467,489	-	467,489
Total revenues	<u>104,583,744</u>	<u>-</u>	<u>104,583,744</u>
Income from operations	-	1,459,387	1,459,387
Nonoperating income (expense)			
Financing income	597,423	-	597,423
Financing expense	(1,129,119)	-	(1,129,119)
Net nonoperating income (expense)	<u>(531,696)</u>	<u>-</u>	<u>(531,696)</u>
Excess of revenues over expenditures/Change in net position	(531,696)	1,459,387	927,691
Fund balance/Net Position at beginning of year	<u>14,539,215</u>	<u>(636,550)</u>	<u>13,902,665</u>
Fund balance/Net Position at end of year	<u>\$ 14,007,519</u>	<u>\$ 822,837</u>	<u>\$ 14,830,356</u>

See notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The Alameda Corridor - East Construction Authority (ACE) is a component unit of the San Gabriel Valley Council of Governments (SGVCOG).

SGVCOG created ACE in 1998. ACE is a single purpose construction authority established to implement a construction program intended to mitigate the adverse impacts at rail-roadway crossings in the San Gabriel Valley of increasing rail traffic along the nationally significant Alameda Corridor East Trade Corridor. The ACE Project is a comprehensive program of constructing grade separations, where the road goes over or under the railroad, and safety and mobility upgrades at fifty-two crossings in the San Gabriel Valley.

Basis of Accounting

Government-wide financial statements are reported using the full accrual basis of accounting. The statement of activities presents changes in net position (This is equivalent to a statement of income and statement of changes in equity in for-profit entities). Revenues are recorded when earned and expenses are recognized at the time of the causal event.

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Expenditures are generally recorded when a liability is incurred.

ACE recognizes grant revenues to the extent reimbursable obligations are earned on or before June 30, 2017, and are therefore the same under both modified accrual and full accrual basis.

Description of Funds

ACE uses funds and account groups to report on its financial position and results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Governmental Fund

The Capital Projects Fund accounts for the activity of obtaining support from governmental groups, determining funding and specifications for structures needed and to fund the contracts for the grade crossing improvements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Reporting

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes the following fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds:

Nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples are inventories, prepaid expenses, long-term receivables, or non-financial assets held for resale unless the proceeds are restricted, committed or assigned.

Restricted fund balance includes resources that are subject to externally enforceable legal restrictions. It includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Directors ("Board"), ACE's highest level of decision-making authority. The Board may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken. Committed amounts cannot be used for any other purpose unless the Board removes or changes the specific use through the same type of formal action taken to establish the commitment. The ACE Board of Directors committed \$6,347,036 of its fund balance for CalPERS unfunded termination liability as of June 30, 2017.

Assigned fund balance consists of funds that are set aside for specific purposes by ACE's Board or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance.

Unassigned fund balance is the residual classification for all spendable amounts not contained in the other classifications. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

The Board delegates the authority to assign fund balance to the Chief Executive Officer for purposes of reporting in the annual financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACE considers the restricted fund balances to have been spent when expenditure is incurred for purposes for which both unrestricted and restricted fund balance is available. ACE considers unrestricted fund balances to have been spent when expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of ACE to reduce the committed amounts first, followed by assigned amounts, and then unassigned amounts.

Budgetary Reporting

It is 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, revenues are not budgeted separately, but derived from budgeted expenditures.

Cash Equivalents

Cash equivalents are those short-term investments readily converted into cash. Deposits with the State of California's Local Agency Investment Fund (LAIF) Operating Fund and the bond portfolio managed by Citizens' Business Bank are considered cash equivalents.

Grant Revenues and Expenditures

All grant agreements are between the SGVCOG and the granting authorities. 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 are therefore administered by ACE.

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

Capital assets - Leasehold Improvements and Equipment

Equipment and other improvements that can be capitalized in the government-wide financial statements are recorded as expenditures in the Capital Projects Fund. The threshold for capitalization is \$5,000 in accordance with federal guidelines. On the government-wide financial statements, such items that meet the capitalization threshold are recorded as capital assets and are depreciated based upon their estimated useful lives on a straight-line basis. Useful lives of capital assets are as follows:

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasehold Improvements and Equipment (Continued)

Under GASB Statement No. 34, construction in progress is prepared on the statement of net position as an asset. Therefore, construction costs would normally be capitalized and excluded from the statement of activities. However, the grant reimbursements generated by construction would be included in the statement of activities 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 activities as a loss. The net effect would be to produce widely fluctuating net position and fund balances depending on whether ACE was constructing (surplus) or transferring assets to member cities (deficit). Therefore, ACE elected to treat construction in progress as a matching asset and liability. 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 activities.

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 revenues 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, 2017, property held for resale was \$4,260,128.

Pensions

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 the Agency's California Public Employees' Retirement System (CalPERS) plans and additions to/deductions from the Plans' 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.

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Notes to Financial Statements
Year Ended June 30, 2017

NOTE 2 CAPITAL ASSETS

Capital assets are recorded at cost and consist of the following:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
Cost:				
Leasehold Improvements	\$ 19,762	\$ -	\$ -	\$ 19,762
Computer Equipment:				
Hardware	214,141	-	-	214,141
Software	114,483	-	-	114,483
Website	3,393	-	-	3,393
Telephone Equipment	12,086	-	-	12,086
Office Furniture	31,972	-	-	31,972
Total cost	<u>395,837</u>	<u>-</u>	<u>-</u>	<u>395,837</u>
Less accumulated depreciation for:				
Leasehold Improvements	19,762	-	-	19,762
Computer Equipment:				
Hardware	191,416	10,830	-	202,246
Software	112,285	1,758	-	114,043
Website	3,393	-	-	3,393
Telephone Equipment	12,086	-	-	12,086
Office Furniture	31,972	-	-	31,972
Total accumulated depreciation	<u>370,914</u>	<u>12,588</u>	<u>-</u>	<u>383,502</u>
Capital assets, net \$	<u>\$ 24,923</u>	<u>\$ (12,588)</u>	<u>\$ -</u>	<u>\$ 12,335</u>

Depreciation expense included in indirect expenses for the year ended June 30, 2017 amounted to \$12,588.

NOTE 3 CASH AND INVESTMENTS

Cash and investments at June 30, 2017 consist of the following:

Cash in bank	\$ 2,713,338
Pooled funds	1,593,497
Money market funds	12,696,181
Investments	30,734,787
Total cash and investments	<u>\$ 47,737,803</u>

Alameda Corridor - East Construction Authority
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Notes to Financial Statements
Year Ended June 30, 2017

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by the California Government Code and ACE's Investment Policy

The table below identifies the investment types that are authorized for ACE by the California Government Code ("Code") or ACE's investment policy ("Policy"), which is more restrictive. The table also identifies certain provisions of the Code (or the Policy) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements, rather than the general provisions of the Code or the Policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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

Alameda Corridor - East Construction Authority
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Notes to Financial Statements
Year Ended June 30, 2017

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees is governed by provisions of the debt agreements, rather than the general provisions of the Code or the Policy.

The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed in</u>	<u>Maximum Investment One Issuer</u>
U.S Government Agencies	5 years	42%	15%
Medium-term Notes (Corporate Bonds)	5 years	28%	10%
Mortgage-backed Securities	5 years	7%	None
Certificate of Deposits	5 years	13%	10%
Money Market Funds	None	2%	None
State's Local Agency Investment Fund (LAIF)	None	5%	None
Municipals	None	2%	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 ACE manages its exposure to interest rate risk is by purchasing a combination of short-term and long-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. Information about the sensitivity of the fair values of ACE's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of ACE's investments by maturity:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>
LAIF	\$ 1,593,497	\$ 1,517,010	\$ 46,211	\$ 30,276	\$ -
Money Market Funds	12,696,181	12,696,181	-	-	-
Fidelity Government Portfolio	744,080	744,080	-	-	-
Government Agencies	13,630,070	-	-	13,630,070	-
Certificates of Deposit	4,337,044	-	-	4,337,044	-
Corporate Bonds	9,273,853	-	-	9,273,853	-
Government Mortgages	2,026,852	-	-	2,026,852	-
Municipals	722,888	-	-	722,888	-
Total	<u>\$ 45,024,465</u>	<u>\$ 14,957,271</u>	<u>\$ 46,211</u>	<u>\$ 30,020,983</u>	<u>\$ -</u>

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NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

ACE has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

Disclosures Relating to 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 Code, the Policy, or debt agreements, and the actual rating at the end of the year for each investment type.

Investment Type	Total	Minimum Legal Rating	Rating As of June 30, 2017			
			AAA	AA	A	Not Rated
LAIF	\$ 1,593,497	N/A	\$ -	\$ -	\$ -	\$ 1,593,497
Money Market Funds	12,696,181	A	12,696,181	-	-	-
Fidelity Government Portfolio	744,080	N/A	-	-	-	744,080
Government Agencies	13,630,070	A	-	13,630,070	-	-
Certificates of Deposit	4,337,044	N/A	-	-	-	4,337,044
Corporate Bonds	9,273,853	A	-	-	9,273,853	-
Government Mortgages	2,026,852	A	-	2,026,852	-	-
Municipals	722,888	A	258,310	-	464,578	-
Total	\$ 45,024,465		\$ 12,954,491	\$ 15,656,922	\$ 9,738,431	\$ 6,674,621

Concentration of Credit Risk

ACE's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Code. As of June 30, 2017, ACE had no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of ACE's total investments other than funds held by the trustees.

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.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk (Continued)

The Code and the 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 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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2017, ACE's deposit of \$15,447,370 with financial institutions is in excess of federal depository insurance limits but are held in collateralized accounts.

As of June 30, 2017, the following investment types were held by the same broker-dealer (counterparty) that was used by ACE to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Money Market Funds	\$ <u><u>12,696,181</u></u>

Investments in State Investment Pool

ACE is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the Code under the oversight of the Treasurer of the State of California. At June 30, 2017, the total fair value of LAIF, including accrued interest was approximately \$77.617 billion. The fair value of ACE's investment in this pool is \$1,593,497 at June 30, 2017 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 4 METRO 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, 2017 amounted to \$45,000,000. Interest rates vary according to market conditions and have ranged from 1.26% to 1.60%. Proceeds from the note payable have been used to pay for construction activities.

NOTE 4 METRO PROMISSORY NOTE PAYABLE (CONTINUED)

The principal amount of the loan is to be 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 CP costs and any fees are unsecured and due on September 9, 2023, ten years after the first drawdown date. Because this is a revolving construction fund provided by Metro to facilitate the payment to the project contractors of ACE, this loan is not considered as a long-term debt.

NOTE 5 GRANTS RECEIVABLE PROJECTS

During the year ended June 30, 2017, 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 Metro. 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, 2017 are shown net of disallowed costs. CalTRANS approved, under Uniform Guidance section 2 CFR 200.516, an indirect overhead allocation formula of 157.2% of total direct salaries and fringe benefit costs. Indirect costs incurred charged to grants for the year ended June 30, 2017 were \$3,108,165.

NOTE 6 EMPLOYEE BENEFIT PLANS

A. General Information about the Pension Plans

Plan Description

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

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NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

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. ACE contributes 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.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous Plan	
	<u>Classic</u>	<u>PEPRA</u>
	Prior to	On or after
	Jan. 1, 2013	Jan. 1, 2013
Hire date	2% @ 55	2% @ 62
Benefit formula	5 years service	5 years service
Benefit vesting schedule	monthly for life	monthly for life
Benefit payments	50 - 55	52 - 67
Retirement age	2.0% to 2.7%	1.0% to 2.5%
Monthly benefits , as a % of eligible compensation	7.00%	6.25%
Required employee contribution rates	8.38%	6.55%
Required employer contribution rates		

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NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

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. ACE is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017, the contributions made by ACE recognized as part of pension expense for the Plan were as follows:

		<u>Miscellaneous Plan</u>
Contributions - employer	\$	<u>421,250</u>

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

As a component unit of SGVCOG, ACE was allocated pension liability, pension expense and deferred inflows and outflows of resources based on ACE's share of the pension contribution during the fiscal year 2017.

As of June 30, 2017, ACE reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

		<u>Miscellaneous Plan</u>
Net Pension Liability	\$	<u>888,148</u>

ACE's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. ACE's proportion of the net pension liability was based on a projection of the ACE's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, which is actuarially determined.

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NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

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 three ratios. It includes 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 is allocated based on the Actuarial Accrued Liability from the most recent Actuarial Valuation Report as of June 30, 2015 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, 2015 used for funding purposes plus supplemental payments made by employers during the current measurement period to reduce their unfunded actuarial accrued liabilities. All other pension amounts (deferred outflows/inflows of resources and pension expense) are allocated based on the legally or statutorily required employer contributions for the fiscal year ended June 30, 2016, including reported contribution adjustments and suspended payroll information.

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

	2017
Total pension liability	0.0005212
Plan fiduciary net position	0.0005978
All other pension amounts (deferred outflows/inflows of resources and pension expense)	0.0007990

At June 30, 2017, ACE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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Notes to Financial Statements
Year Ended June 30, 2017

NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

	2017	
	Miscellaneous Plan	
	Classic	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 1,360,867	\$ -
Differences between actual and expected experience	11,970	(2,024)
Changes in assumption	-	(113,244)
Differences in proportions	-	(26,968)
Changes in employer's proportion	48,468	(334,448)
Differences between the employer's contribution and the employer's proportionate share of contributions	162,724	(38,714)
Net differences between projected and actual earnings on pension plan investments	<u>630,019</u>	<u>-</u>
Total	\$ <u>2,214,048</u>	\$ <u>(515,398)</u>

\$1,360,867 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018.

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

<u>Year Ending June 30</u>	<u>Amount</u>
2018	\$ 22,978
2019	29,608
2020	172,562
2021	112,635
2022	-
Thereafter	-

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NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

Actuarial Assumptions

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Salary Increases	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)
Post-Retirement Benefit Increase	(4)

(1) Varies by entry age and service

(2) Net of pension plan investment and administrative expenses, including inflation

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

(4) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2015 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statement Nos. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	Assumed Asset Allocation	Real Return Years 1 - 10 ^(a)	Real Return Years 11+ ^(b)
Global Equity	51.00%	5.25%	5.71%
Global Debt Securities	20.00%	0.99%	2.43%
Inflation Assets	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrast ructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100%		

^(a) An expected inflation of 2.5% used for this period.

^(b) An expected inflation of 3.0% used for this period.

NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

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

The following presents ACE's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what 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:

		<u>Miscellaneous Plan</u>
1% Decrease		6.65%
Net Pension Liability	\$	1,809,504
Current Discount Rate		7.65%
Net Pension Liability	\$	888,148
1% Increase		8.65%
Net Pension Liability	\$	126,693

C. Pension Plan Fiduciary Net Position

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

D. Payable to the Pension Plan

At June 30, 2017, ACE did not have outstanding balance for contributions to the pension plan required for the Year Ended June 30, 2017.

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, 2017, plan assets with a total fair value of \$1,578,809 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).

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NOTE 7 COMMITMENTS AND CONTINGENCIES

As discussed in Note 5, ACE receives reimbursement type grants from federal, state and local sources. Certain expenditures 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.

In the ordinary course of operations, ACE is the subject of claims and litigations from outside parties. In the opinion of management, there is no pending litigation or unasserted claims, the outcome of which would materially affect ACE's financial position.

Lease

ACE occupies its office from Metropolitan Life Insurance Company subject to a lease expiring April 30, 2018. The monthly base rent, as defined in the lease agreement, follows:

Period from / to	Monthly Rent	Annual Amount
May 1, 2017 to April 30, 2018	\$ 20,834	\$ 250,009
May 1, 2018 to April 30, 2019 ++	21,188	254,259
May 1, 2019 to April 30, 2020 ++	21,824	261,887
May 1, 2020 to April 30, 2021 ++	22,479	269,743
Total lease commitments	\$	<u>1,035,898</u>

++ Proposed

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 funds 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 expenditures related to contract retention payments totaling \$14,890,552 for fiscal year ended June 30, 2017. Funds are deposited in several escrow accounts until release to the contractor is authorized.

NOTE 8 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, 2017, \$695,912,451 of costs was accumulated on projects in process and \$463,758,906 had been transferred to UPRR and impacted cities.

Under the modified accrual basis of accounting project expenditures would be reported as expenditures in the year incurred. On the government-wide financial statements conforming to GASB 34 reporting on these transactions would result in (accumulating such costs as construction in progress (i.e., treated as a cash flow expenditure 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. In both cases, 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 9 SUBSEQUENT EVENTS

ACE has evaluated events subsequent to June 30, 2017 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through January 15, 2018, the date the financial statements were available to be issued. Based upon this evaluation, there were no subsequent events occurred that require recognition or additional disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**Alameda Corridor - East Construction Authority
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Schedule of Proportionate Share of the Net Pension Liability
Last Ten Years***

	2017		2016		2015	
	Miscellaneous Plan		Miscellaneous Plan		Miscellaneous Plan	
			Classic	PEPRA	Classic	PEPRA
Proportion of the net pension liability	0.02803%	**	0.04943%	0.000158%	0.01668%	0.00001%
Proportionate share of the net pension liability	\$ 973,847	**	\$ 835,047	\$ (469)	\$ 1,038,037	\$ 126
Covered - employee payroll ⁽¹⁾	\$ 3,422,438	**	\$ 2,769,467	\$ 55,122	\$ 2,764,711	\$ 176,748
Proportionate share of the net pension liability as percentage of covered-employee payroll	28.45%	**	30.15%	-0.85%	37.55%	0.07%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	12.98%	**	87.61%	108.71%	83.03%	83.02%
Plan's proportionate share of aggregate employer contributions ⁽²⁾	\$ 243,174	**	\$ 393,080	\$ 15,076	\$ 137,329	\$ 88
ACE proportionate share of the net pension liability	\$ 888,148					

** Plan pertains to the Miscellaneous Plan of ACE and SGVCOG

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

Notes to Schedule

- ¹ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB Statement No. 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 first year of implementation, therefore only three years are shown.

See report of independent auditors.

**Alameda Corridor - East Construction Authority
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Schedule of Pension Contributions
Last Ten Years***

	2017		2016		2015					
	Miscellaneous Plan*		Miscellaneous Plan		Miscellaneous Plan					
			Classic	PEPRA	Classic	PEPRA				
Actuarially determined contributions	\$	527,296	\$	306,775	\$	11,765	\$	286,167	\$	10,141
Contributions in relation to the actuarially determined contributions		(527,296) **		(306,775)		(11,765)		(286,167)		(10,141)
Contribution deficiency (excess)	\$	-	\$	-	\$	-	\$	-	\$	-
Covered-Employee Payroll	\$	3,422,438	\$	2,769,467	\$	55,122	\$	2,764,711	\$	176,748
Contributions as a percentage of covered-employee payroll		15.41%		11.08%		21.34%		10.35%		5.74%

** Contributions in relation to the actuarially determined contributions exclude payments made toward the unfunded liability of \$900,000 during the fiscal year 2017.

* Plan pertains to the Miscellaneous Plan of ACE and SGVCOG

Notes to Schedule:

Valuation date June 30, 2015

Methods and assumptions used to determine contribution rates:

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	2.75%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.50%, net of pension plan investment expense and administrative expenses including inflation.
Retirement age	55 years
Mortality	Derived using CalPERS Membership Data for all funds

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

See report of independent auditors.

Alameda Corridor - East Construction Authority
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Schedule of Revenues, Expenditures and Changes in Fund Balance
Capital Project Fund - Budget to Actual
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Amended Final</u>		
Revenues				
Reimbursements				
Federal grants	\$ 3,684,740	\$ 3,700,945	\$ 6,026,263	\$ 2,325,318
State grants	101,321,172	101,766,761	56,234,202	(45,532,559)
Local grants	22,446,639	22,545,354	23,912,324	1,366,970
Betterment - Other	4,986,912	5,008,844	17,943,467	12,934,623
Total revenues	<u>132,439,463</u>	<u>133,021,904</u>	<u>104,116,255</u>	<u>(28,905,649)</u>
Operating expenditures				
Construction				
Design	7,569,842	7,569,842	1,915,373	(5,654,469)
Right-of-way acquisition	19,052,985	19,052,985	77,654,948	58,601,963
Construction management	15,533,366	15,533,366	16,598,338	1,064,972
Construction	82,976,627	82,976,627	1,619,056	(81,357,571)
Betterments	4,247,586	4,247,586	3,317,574	(930,012)
Total construction	<u>129,380,406</u>	<u>129,380,406</u>	<u>101,105,289</u>	<u>(28,275,118)</u>
Indirect				
Personnel				
Salaries and wages	1,476,847	1,476,847	1,542,894	66,047
Fringe benefits	766,027	1,348,468	1,332,772	(15,696)
Employee related expenses	37,300	37,300	32,172	(5,128)
Professional services				
Auditing/accounting	41,504	41,504	48,724	7,220
Legal	25,000	25,000	23,498	(1,502)
Brokerage	65,000	65,000	51,271	(13,729)
Insurance	230,000	230,000	170,984	(59,016)
Equipment expense	112,628	112,628	69,409	(43,219)
Office rental expense	244,451	244,451	246,902	2,451
Office operations	52,500	52,500	39,328	(13,172)
Other	7,800	7,800	11,007	3,207
Applied (under) indirect expense	-	-	(557,995)	(557,995)
Total indirect	<u>3,059,057</u>	<u>3,641,499</u>	<u>3,010,967</u>	<u>(630,532)</u>
Total operating expenditures	<u>132,439,463</u>	<u>133,021,905</u>	<u>104,116,255</u>	<u>(28,905,649)</u>
Excess revenues over expenditures	-	-	-	-
Other financing sources (uses)				
Investment revenue	466,300	466,300	597,423	131,123
Interest and related expenses	(421,000)	(421,000)	(1,129,119)	(708,119)
Non-project reimbursable funds	352,436	352,436	371,342	18,906
Non-project reimbursable expense	(352,436)	(352,436)	(371,342)	(18,906)
Intercompany revenue	51,246	51,246	96,147	44,901
Intercompany expense	(51,246)	(51,246)	(96,147)	(44,901)
Net other financing sources (uses)	<u>45,300</u>	<u>45,300</u>	<u>(531,696)</u>	<u>(576,996)</u>
Change in fund balance	<u>45,300</u>	<u>45,300</u>	<u>(531,696)</u>	<u>(576,996)</u>
Fund balance at beginning of year	14,539,215	14,539,215	14,539,215	-
Fund balance at end of year	<u>\$ 14,584,515</u>	<u>\$ 14,584,515</u>	<u>\$ 14,007,519</u>	<u>\$ (576,996)</u>

See report of independent auditors.

**Report of Independent Auditors on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

**The Honorable Members of the Board of Directors
Alameda Corridor – East Construction Authority**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Alameda Corridor – East Construction Authority (ACE), a component unit of San Gabriel Valley Council of Governments, as of and for the Year Ended June 30, 2017, and the related notes to the financial statements, which collectively comprise ACE's basic financial statements, and have issued our report thereon dated January 15, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered ACE'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of ACE's internal control. Accordingly, we do not express an opinion on the effectiveness of ACE's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 weakness. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether ACE's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results 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 black ink that reads "Vazquez & Company LLP". The signature is written in a cursive, flowing style.

Los Angeles, California

January 15, 2018



www.vasquezcpa.com

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**Audited Financial Statements
and Supplementary Information
Year Ended June 30, 2017
*with Report of Independent Auditors***

San Gabriel Valley Council of Governments
Audited Financial Statements
and Supplementary Information
Year Ended June 30, 2017
with Report of Independent Auditors

San Gabriel Valley Council of Governments
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Report of Independent Auditors

Members of the Governing Board San Gabriel Valley Council of Governments

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of San Gabriel Valley Council of Governments (SGVCOG), as of and for the year ended June 30, 2017, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of San Gabriel Valley Council of Governments as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 and the required supplementary information on pages 38-39 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SGVCOG's basic financial statements. SGVCOG's discretely presented component unit's statement of revenues, expenditures and changes in fund balance – budget to actual on page 40, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018, on our consideration of San Gabriel Valley Council of Governments' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SGVCOG's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Gabriel Valley Council of Governments' internal control over financial reporting and compliance.

Vasquez + Company LLP

**Los Angeles, California
January 31, 2018**

Our discussion and analysis of the San Gabriel Valley Council of Governments (the SGVCOG) financial performance presents an overview of the SGVCOG's financial activities during the year ended June 30, 2017. We encourage readers to consider information presented here in conjunction with the financial statements (beginning on page 12). The financial statements, notes and this discussion and analysis were prepared by management and are the responsibility of management.

Background

The 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, the SGVCOG created the Alameda Corridor - East Construction Authority (ACE) (discretely presented component unit) 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.

Financial Highlights

In FY 2017, SGVCOG's operating revenues increased by 1% from the previous year. The increase was mainly attributable to higher Energywise grant revenues earned in 2017.

Component Unit

ACE's financial highlights for the year ended June 30, 2017:

- Net position increased by \$0.9 million, an increase of 6.7%.
- Construction in progress increased by \$103.5 million, an increase of 17.5%.
- Total revenues decreased by \$31.9 million, a decrease of 23.4%.
- Total project expenses decreased by \$31.0 million, a decrease of 23.1%.

Overview of Financial Statements

The SGVCOG's basic financial statements consist of three components: (1) Government-wide Financial Statements, (2) Fund Financial Statements and (3) Notes to the Basic Financial Statements.

Government-wide Financial Statements

The government-wide financial statements found on pages 12 and 13 are designed to give readers a broad overview of the SGVCOG and its discretely presented component unit's financial position. These include all of the SGVCOG and its discretely presented component unit's assets and liabilities, deferred inflows/outflows of resources, revenues and expenses. The accounting basis is full accrual (similar to private sector companies) where the SGVCOG and its discretely presented component unit's revenues and expenses are reported as the causal event occurs, instead of when the revenue was received or expense paid.

The "Statement of Net Position" presents all of the SGVCOG and its discretely presented component unit's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position (or equity in the private sector). While large net position might indicate that a governmental agency has not spent all available revenues and other resources, negative net position indicates that the agency has overspent. It is management's position to maintain sufficient net position to compensate for any disallowed costs, but to allocate any surplus to construction activities.

The "Statement of Activities" presents the SGVCOG and its discretely presented component unit's revenues and expenses for the year ended on June 30, 2017.

Fund Financial Statements

The fund financial statements can be found on pages 12 and 13 of this report. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

ACE, unlike cities, county or State governments, has one activity – construction. All of ACE's activities are classified as a Construction (Capital Projects) Fund with the exception of the amount invested in a deferred compensation plan funded solely by staff.

Differences between the two sets of financial statements are normally determined by the complexity of the reporting agency and usually revolve around different treatments for capital assets and depreciation, debt issuance and repayment, and pension-related account balances. ACE's focus on a single activity results in the two statements being very similar.

Notes to the Basic Financial Statements

This report includes notes to the basic financial statements. They provide additional information that is important to a complete understanding of the data contained in the government-wide and fund financial statements. The notes can be found on pages 15 through 37 of this report.

**San Gabriel Valley Council of Governments
Management's Discussion and Analysis
Year ended June 30, 2017**

Financial Analysis

Primary Government

Condensed Statements of Net Position

The following table summarizes the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of SGVCOG's primary government as of June 30, 2017 and 2016:

	June 30		Variance	
	<u>2017</u>	<u>2016</u>	<u>Amount</u>	<u>%</u>
Current assets	\$ 866,566	\$ 917,083	\$ (50,517)	-6%
Deferred outflows of resources	148,753	48,112	100,641	209%
Total assets and deferred outflows of resources	<u>1,015,319</u>	<u>965,195</u>	<u>50,124</u>	5%
Liabilities	149,908	146,522	3,386	2%
Deferred inflows of resources	49,731	23,578	26,153	111%
Total liabilities and deferred inflows of resources	<u>199,639</u>	<u>170,100</u>	<u>29,539</u>	17%
Net position				
Restricted	110,358	110,248	110	0%
Unrestricted	705,322	684,847	20,475	3%
Total net position	<u>\$ 815,680</u>	<u>\$ 795,095</u>	<u>\$ 20,585</u>	3%

Current assets decreased this year by \$50,517, or 6%, and liabilities increased by \$3,386 or 2%. Decrease in current assets was largely due to lower grants receivable balance in 2017 and collection of 2016 other receivables. Increase in liabilities was primarily due to the recognition of SGVCOG's share in the net pension liability.

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 \$815,680 and \$795,095 as of June 30, 2017 and 2016, respectively.

**San Gabriel Valley Council of Governments
Management's Discussion and Analysis
Year ended June 30, 2017**

Condensed Statements of Activities

The following table presents the SGVCOG's revenues, expenses, and changes in net position for the years ended June 30, 2017 and 2016:

	Year ended June 30,		Variance	
	2017	2016	Amount	%
Operating revenues				
Dues:				
General Fund	\$ 564,716	\$ 566,734	\$ (2,018)	0%
Transportation	180,394	200,196	(19,802)	-10%
	<u>745,110</u>	<u>766,930</u>	<u>(21,820)</u>	-3%
Sponsorships	12,551	-	12,551	100%
Grants and matches from other governments:				
Los Angeles County Metropolitan Transportation Authority	90,844	89,378	1,466	2%
Southern California Edison - Energywise	139,384	173,822	(34,438)	-20%
Southern California Edison - California Energy Efficiency Strategic Plan Implementation	44,291	115,946	(71,655)	-62%
Southern California Gas - Energywise	128,342	-	128,342	100%
Western Riverside Council of Governments - California HERO	14,202	20,334	(6,132)	-30%
	<u>1,174,724</u>	<u>1,166,410</u>	<u>8,314</u>	1%
Operating expenses				
Administrative	738,108	570,248	167,860	29%
Energywise	267,726	173,822	93,904	54%
Transportation	105,832	120,060	(14,228)	-12%
California Energy Efficiency Strategic Plan Implementation	44,291	115,947	(71,656)	-62%
	<u>1,155,957</u>	<u>980,077</u>	<u>175,880</u>	18%
Operating income	<u>18,767</u>	<u>186,333</u>	<u>(167,566)</u>	-90%
Nonoperating income				
Other income	-	50,933	(50,933)	100%
Interest income	1,818	1,080	738	68%
	<u>1,818</u>	<u>52,013</u>	<u>(50,195)</u>	-97%
Change in net position	20,585	238,346	(217,761)	-91%
Net position, beginning of year	795,095	556,749	238,346	43%
Net position, end of year	<u>\$ 815,680</u>	<u>\$ 795,095</u>	<u>\$ 20,585</u>	3%

**San Gabriel Valley Council of Governments
Management's Discussion and Analysis
Year ended June 30, 2017**

During fiscal year 2017, total operating revenues increased by 1% from the previous year. The increase was mainly attributable to higher Energywise grant revenues earned in 2017.

Revenues for SGVCOG consist primarily of dues from 31 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 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 \$429,614 in FY2017 compared to \$399,480 in FY2016, an increase of \$30,134 or 8%. The increase was mostly due to higher Energywise grant revenues earned in FY2017, reduced by lower California Energy Efficiency Strategic Plan Implementation - Phase 3 grant. This program was completed in September 2016.

Operating expenses were \$1,155,957 in FY2017 compared to \$980,077 in FY 2016, an increase of \$175,880 or 18%. The increase is primarily attributable to higher administrative salaries and wages, and fringe benefits, transportation technical support, administration, accounting, and finance support services provided by ACE staff, and an increase in grant writing services for new grants being pursued by the SGVCOG.

Non-operating income, consisting of investment income, increased by \$738 or 68% in FY2017 from FY2016, primarily due to higher yield on investments with the State's Local Agency Investment Fund. During FY2016, SGVCOG was awarded a legal settlement of \$50,933.

Component Unit

Condensed Statements of Net Position

	June 30		Variance	
	2017	2016	Amount	%
Current and other assets	\$ 100,343,185	\$ 93,669,646	\$ 6,673,539	7.1%
Capital assets	12,335	24,923	(12,588)	-50.5%
Construction in progress	695,912,451	592,444,003	103,468,448	17.5%
Less due to member cities and Union Pacific Railroad	(695,912,451)	(592,444,003)	(103,468,448)	17.5%
Total assets	100,355,520	93,694,569	6,660,951	7.1%
Deferred outflows of resources	2,214,048	1,000,636	1,213,412	121.3%
Liabilities	87,223,814	79,965,009	7,258,805	9.1%
Deferred inflow of resources	515,398	827,531	(312,133)	-37.7%
Net position	\$ 14,830,356	\$ 13,902,665	\$ 927,691	6.7%

All organizations are 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 activities. However, the grant reimbursements generated by construction would be included in the statement of activities as revenue. ACE is obligated to transfer components of completed projects to the 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 activities as a loss. The net effect would be to produce widely fluctuating net position and fund balances depending on whether ACE was constructing (surplus) or transferring assets to member cities (deficit).

Therefore, ACE elected to treat construction in progress as a matching asset and liability. 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 activities.

Total assets increased by 7.1% to \$100.4 million, mainly due to increases in cash and investments, as one participating city funded future betterment work.

Construction in progress increased by 17.5% to \$695.9 million, primarily because of increased construction activity on San Gabriel Trench, Puente Avenue, Fairway Drive, and Fullerton Road projects.

Unearned revenue increased 38.6% to \$22.3 million, mainly because of betterment funds received in advance for the Fullerton Road project.

Due to delay in funding from previously approved federal grant, unbilled receivables increased 29.7% to \$31.5 million.

**San Gabriel Valley Council of Governments
Management's Discussion and Analysis
Year ended June 30, 2017**

Condensed Statements of Activities

The following table shows the condensed statements of activities for the years ended June 30, 2017 and 2016.

Total net position increased by \$0.9 million or 6.7% for the year ended June 30, 2017. The increase was due to an adjustment to construction expenses that were incurred in the prior year.

	Years ended June 30		Variance	
	2017	2016	Amount	%
Project Expenses				
Direct (Construction)	\$ 99,658,490	\$ 132,103,266	\$ (32,444,776)	-24.6%
Indirect expenses charged to operations	3,465,867	2,025,888	1,439,979	71.1%
Total project expenses	103,124,357	134,129,154	(31,004,797)	-23.1%
Operating revenues				
Grant reimbursements	104,116,255	133,732,844	(29,616,589)	-22.1%
Other operating revenues	467,489	2,763,634	(2,296,145)	-83.1%
Total revenues	104,583,744	136,496,478	(31,912,734)	-23.4%
Income/(loss) from operations	1,459,387	2,367,324	(907,937)	-38.4%
Nonoperating income (expense)				
Financing income	597,423	499,752	97,671	19.5%
Financing expense	(1,129,119)	(394,603)	(734,516)	186.1%
Net financing income (loss)	(531,696)	105,149	(636,845)	-605.7%
Change in net position	927,691	2,472,473	(1,544,782)	-62.5%
Net position at beginning of year	13,902,665	11,430,192	2,472,473	21.6%
Net position at end of year	\$ 14,830,356	\$ 13,902,665	\$ 927,691	6.7%

Capital Assets

Primary Government

The SGVCOG had \$0 invested in capital assets, net of depreciation, as of June 30, 2017 and 2016. The capital assets are fully depreciated as of June 30, 2017 and 2016.

The SGVCOG's capital assets consist of office equipment only. Capital assets are purchased with governmental resources.

Component Unit

ACE had \$12,335 invested in capital assets, net of depreciation, as of June 30, 2017 consisting of leasehold improvements and equipment.

Economic Factors and Next Year's Budget

Primary Government

The budget for fiscal year 2018 assumes that the on-hand net position as of June 30, 2017 will be required and available to fulfill the program and administrative expense requirements.

Component Unit

Budgeted expenditures in fiscal year 2018 increased 10.9% over 2017, as increases in construction were offset by reductions in right-of-way acquisitions. Based on 2018 first quarter expenditures, it is anticipated the 2018 budget will be within 5% of budgeted expenditures.

Further Information

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

San Gabriel Valley Council of Governments
Governmental Fund Balance Sheet /
Statement of Net Position
June 30, 2017

	Primary Government		Component Unit	
	Business-type Activities	Capital Projects Fund	Adjustment	Total
ASSETS				
Current assets				
Cash and investments	\$ 764,843	\$ 47,737,803	\$ -	\$ 47,737,803
Member receivable	-	-	-	-
Grants receivable	75,782	14,383,963	-	14,383,963
Unbilled receivables	-	31,530,596	-	31,530,596
Notes receivables	-	150,000	-	150,000
Other receivable	14,109	3,670	-	3,670
Retention receivable	-	873,136	-	873,136
Prepaid expenses	11,832	387,056	-	387,056
Property held for sale	-	4,260,128	-	4,260,128
Under-recovery of indirect costs	-	1,016,833	-	1,016,833
Total current assets	<u>866,566</u>	<u>100,343,185</u>	<u>-</u>	<u>100,343,185</u>
Noncurrent assets				
Leasehold improvements and equipment	8,645	-	395,837	395,837
Less accumulated depreciation and amortization	(8,645)	-	(383,502)	(383,502)
Construction in progress	-	-	695,912,451	695,912,451
Less due to member cities and Union Pacific Railroad	-	-	(695,912,451)	(695,912,451)
Total assets	<u>866,566</u>	<u>100,343,185</u>	<u>12,335</u>	<u>100,355,520</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources relatead to pension	148,753	-	2,214,048	2,214,048
Total assets and deferred outflows of resources		<u>\$ 100,343,185</u>		
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	39,600	\$ 17,732,271	-	17,732,271
Accrued retention payable	-	1,131,110	-	1,131,110
Unearned revenue	-	22,254,454	-	22,254,454
Compensated absences, current portion	17,761	217,831	-	217,831
Metro promissory note loan	-	45,000,000	-	45,000,000
Total current liabilities	<u>57,361</u>	<u>86,335,666</u>	<u>-</u>	<u>86,335,666</u>
Noncurrent liabilities				
Compensated absences	6,849	-	-	-
Net pension liability	85,698	-	888,148	888,148
Total noncurrent liabilities	<u>92,547</u>	<u>-</u>	<u>888,148</u>	<u>888,148</u>
Total liabilities	<u>149,908</u>	<u>86,335,666</u>	<u>888,148</u>	<u>87,223,814</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pension	49,731	-	515,398	515,398
FUND BALANCES/NET POSITION				
Fund balance				
Nonspendable for:				
Prepaid expenses		387,056		
Committed				
CalPERS unfunded termination liability		6,347,036		
Assigned:				
Capital project fund		<u>7,273,427</u>		
Total fund balance		<u>14,007,519</u>		
Total liabilities, deferred inflows of resources and fund balance		<u>\$ 100,343,185</u>		
Net position				
Invested in capital assets	-		12,335	12,335
Restricted	110,358		-	-
Unrestricted	<u>705,322</u>		<u>810,502</u>	<u>14,818,021</u>
Total net position	<u>\$ 815,680</u>		<u>\$ 822,837</u>	<u>\$ 14,830,356</u>

See notes to financial statements.

San Gabriel Valley Council of Governments
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance /
Statement of Activities
Year ended June 30, 2017

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues			Primary Government Business-type Activities	Component Unit		Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	Deficiency of Revenues over Expenditures	Adjustments	
Primary government:									
Business-type activities:									
General government	\$ 738,108	\$ -	\$ 564,716	\$ -	\$ -	\$ (173,392)			
Transportation	105,832	-	180,394	-	-	74,562			
Los Angeles County Metropolitan Transportation Authority	-	-	-	90,844	-	90,844			
California Energy Efficiency Strategic Plan Implementation	44,291	-	-	44,291	-	-			
Southern California - Energywise	267,726	-	-	267,726	-	-			
Others	-	-	-	26,753	-	26,753			
Total business-type activities	\$ 1,155,957	\$ -	\$ 745,110	\$ 429,614	\$ -	18,767			
Component unit:									
Project expenses	\$ 101,105,289	\$ 3,478,455	\$ -	\$ -	\$ 104,583,744	\$ -	\$ 1,459,387	\$ 1,459,387	
Financing expense	1,129,119	-	-	-	-	(1,129,119)	-	(1,129,119)	
Total component unit	\$ 102,234,408	\$ 3,478,455	\$ -	\$ -	\$ 104,583,744	(1,129,119)	1,459,387	330,268	
General revenues:									
Interest and other income						1,818	597,423	-	597,423
Change in net position						20,585	(531,696)	1,459,387	927,691
Fund balance/Net position, beginning of year						795,095	14,539,215	(636,550)	13,902,665
Fund balance/Net position, end of year						\$ 815,680	\$ 14,007,519	\$ 822,837	\$ 14,830,356

See notes to financial statements.

San Gabriel Valley Council of Governments
Statement of Cash Flows
Year ended June 30, 2017

Cash flows from operating activities

Cash receipts from cities	\$	696,751
Cash receipts from all other services		536,203
Cash paid for operating expenses		(599,304)
Cash paid for employee compensation and related costs		(574,914)
Net cash provided by operating activities		<u>58,736</u>

Cash flows from investing activities

Cash receipts from interest		1,600
Cash provided by investing activities		<u>1,600</u>

Change in cash and cash equivalents 60,336

Cash and cash equivalents - beginning of year		<u>704,507</u>
Cash and cash equivalents - end of year	\$	<u><u>764,843</u></u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$	18,767
Adjustment to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Member dues receivable		800
Other receivables		44,391
Grants receivable		62,198
Prepaid expenses		2,275
Deferred outflows of resources		(100,641)
Accounts payable and accrued expenses		(57,763)
Unearned revenues		(49,159)
Compensated absences		24,610
Net pension liability		87,105
Deferred inflows of resources		26,153
Net cash provided by operating activities	\$	<u><u>58,736</u></u>

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 does not meet the criteria for a blended component because it is a legally separate entity having its own set of Board of Directors, independent of SGVCOG's Governing Board. ACE's Board is responsible for approving its own budget and accounting and finance related activities. SGVCOG has no fiscal responsibility over ACE and there is no financial burden or benefit relationship between the two entities. Accordingly, ACE is reported as a discretely presented component unit in a separate column in the government-wide financial statements to emphasize that it is legally separate from the SGVCOG. Separate financial statements for ACE are issued.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information about the primary government (the SGVCOG) and its discretely presented component unit (ACE). The financial statements are prepared using the accrual basis of accounting.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement presentation

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The Statement of Activities presents changes in Net Position. (This is equivalent to an Income and Changes in Equity Statement in private sector companies.) Revenues are recorded when earned and expenses are recognized at the time of the causal event.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. ACE recognizes reimbursements from grants as revenues to the extent reimbursing obligations are earned on or before June 30, 2017 and are therefore the same under both modified accrual and full accrual basis. Major interest bearing debt is short-term in nature so there is no difference relating to accrued interest owed.

Based upon the nature of the operations of ACE, only a capital projects fund is utilized (a governmental fund type). Amounts reflected in the adjustment column in the financial statements of ACE represents capital assets and construction in progress (less due to member cities and Union Pacific Railroad) used in governmental activities that are not current financial resources and therefore are not reported as assets in the governmental fund balance and the related depreciation expense on the capital assets reported in the government-wide statement of activities that do not require the use of current financial resources and therefore not reported as an expenditure in the governmental funds.

Description of funds

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following are revenue components of the SGVCOG:

California Energy Efficiency Strategic Plan Implementation - Funds for the implementation of certain energy efficiency programs under the Decision 09-09-47 and 12-11-015 of the California Public Utilities Commission including the Energy Leader Partnership Program.

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.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Description of funds (Continued)

Governmental Fund

Capital Projects Fund - Accounts for the activity of obtaining support from governmental groups, determining funding and specifications for structures needed and to fund the contracts for the grade crossing improvements. This fund accounts for all of the activities of ACE.

Fund balance reporting

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes the following fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds:

Nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples are inventories, prepaid expenses, long-term receivables, or non-financial assets held for resale unless the proceeds are restricted, committed or assigned.

Restricted fund balance includes resources that are subject to externally enforceable legal restrictions. It includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the highest level of decision-making authority (Board of Directors).

Assigned fund balance consists of funds that are set aside for specific purposes by ACE Construction Authority's highest level of decision making authority or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance.

Unassigned fund balance is the residual classification for ACE's general fund and includes all spendable amounts not contained in the other classifications. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Fund balance reporting (Continued)

The Board of Directors, as ACE's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken. Committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specific use through the same type of formal action taken to establish the commitment. The ACE Board of Directors committed \$6,347,036 of its fund balance for CalPERS unfunded termination liability as of June 30, 2017.

The Board of Directors delegates the authority to assign fund balance to the Chief Executive Officer for purposes of reporting in the annual financial statements.

ACE considers the restricted fund balances to have been spent when expenditure is incurred for purposes for which both unrestricted and restricted fund balance is available. ACE considers unrestricted fund balances to have been spent when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of ACE to reduce the committed amounts first, followed by assigned amounts, and then unassigned amounts.

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 bond portfolio managed by Citizens' Business Bank are considered cash equivalents.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

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.

To-date, 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 expend the money and then bill for reimbursement from the grantors.

Capital assets - leasehold improvements and equipment

Equipment and other improvements that can be capitalized in the government-wide financial statements are recorded as expenditures in the Capital Projects Fund. The threshold for capitalization is \$5,000 in accordance with federal guidelines. On the government-wide financial statements such 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

Pension

SGVCOG and ACE adopted GASB Statement No, 68, *Accounting and Financial Reporting for Pensions* during the fiscal year ended June 30, 2015. 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.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

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, 2017, property held for resale was \$4,260,128.

NOTE 2 CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, 2017 are as follows:

Primary government:

Deposits with financial institution	\$	534,924
Short-term investments		229,919
Total cash and investments	\$	764,843

Component unit:

Cash in bank	\$	2,713,338
Pooled funds		1,593,497
Money market funds		12,696,181
Investments		30,734,787
Total cash and investments	\$	47,737,803

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 the *reporting entity* by the California Government Code (or *reporting entity's* investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or *reporting entity's* investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Primary government and component unit:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the reporting entity's investment policy.

The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed in</u>	<u>Maximum Investment One Issuer</u>
U.S. Government Agencies	5 years	42%	15%
Medium-term Notes (Corporate Bonds)	5 years	28%	10%
Mortgage-backed Securities	5 years	7%	None
Certificate of Deposits	5 years	13%	10%
Money Market Funds	None	2%	None
State's Local Agency Investment Fund (LAIF)	None	5%	None
Municipals	None	2%	None

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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 *reporting entity* 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.

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

Primary government:

Investment Type	Remaining maturity in months	
	Total	12 Months or less
LAIF	\$ 229,919	\$ 229,919
Total \$	229,919	229,919

Component unit:

Investment Type	Total	Remaining maturity in months		
		12 Months or less	13 to 24 Months	25 to 60 Months
LAIF	\$ 1,593,497	\$ 1,517,010	\$ 46,211	\$ 30,276
Money market funds	12,696,181	12,696,181	-	-
Fidelity government portfolio	744,080	744,080	-	-
Government agencies	13,630,070	-	-	13,630,070
Certificates of deposit	4,337,044	-	-	4,337,044
Corporate bonds	9,273,853	-	-	9,273,853
Government mortgages	2,026,852	-	-	2,026,852
Municipals	722,888	-	-	722,888
Total \$	45,024,465	14,957,271	46,211	30,020,983

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).

San Gabriel Valley Council of Governments
Notes to Financial Statements
Year ended June 30, 2017

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, *reporting entity's* investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Primary government:

Investment Type	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year End		
			AAA	AA	Not Rated
LAIF	\$ 229,919	N/A	\$ -	\$ -	\$ 229,919
Total	\$ 229,919		\$ -	\$ -	\$ 229,919

Component unit:

Investment Type	Minimum Legal Rating	Rating as of Year End			
		AAA	AA	A	Not rated
LAIF	\$ 1,593,497	N/A	\$ -	\$ -	\$ 1,593,497
Money market funds	12,696,181	A	12,696,181	-	-
Fidelity government portfolio	744,080	N/A	-	-	744,080
Government agencies	13,630,070	A	-	13,630,070	-
Certificates of deposit	4,337,044	N/A	-	-	4,337,044
Corporate bonds	9,273,853	A	-	9,273,853	-
Government mortgages	2,026,852	A	-	2,026,852	-
Municipals	722,888	A	258,310	-	464,578
Total	\$ 45,024,465		\$ 12,954,491	\$ 15,656,922	\$ 9,738,431
			\$ -	\$ -	\$ 6,674,621

Concentrations of Credit Risk

The investment policy of the SGVCOG and ACE 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, 2017, the SGVCOG and its component unit have no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% 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 the *reporting entity'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, 2017, the SGVCOG's cash in bank balances of \$556,461 exceeded the \$250,000 deposit insurance of the Federal Deposit Insurance Corporation (FDIC) by \$306,461. ACE's deposit of \$15,447,370 with financial institutions is in excess of federal depository insurance limits but are held in collateralized accounts.

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, 2017, the total market value of LAIF, including accrued interest was approximately \$77.617 billion.

The fair value of the SGVCOG's investment in this pool is \$229,675 at June 30, 2017 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 \$1,593,497 at June 30, 2017 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.

San Gabriel Valley Council of Governments
Notes to Financial Statements
Year ended June 30, 2017

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

As of June 30, 2017, the following investment types were held by the same broker-dealer (counterparty) that was used by ACE to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Money Market Funds	\$ <u>12,696,181</u>

NOTE 3 LEASEHOLD IMPROVEMENTS AND EQUIPMENT

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

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
Cost:				
Leasehold Improvements	\$ 19,762	\$ -	\$ -	\$ 19,762
Computer Equipment:				
Hardware	214,141	-	-	214,141
Software	114,483	-	-	114,483
Website	3,393	-	-	3,393
Telephone Equipment	12,086	-	-	12,086
Office Furniture	31,972	-	-	31,972
Total cost	<u>395,837</u>	<u>-</u>	<u>-</u>	<u>395,837</u>
Less accumulated depreciation for:				
Leasehold Improvements	19,762	-	-	19,762
Computer Equipment:				
Hardware	191,416	10,830	-	202,246
Software	112,285	1,758	-	114,043
Website	3,393	-	-	3,393
Telephone Equipment	12,086	-	-	12,086
Office Furniture	31,972	-	-	31,972
Total accumulated depreciation	<u>370,914</u>	<u>12,588</u>	<u>-</u>	<u>383,502</u>
Capital assets, net	<u>\$ 24,923</u>	<u>\$ (12,588)</u>	<u>\$ -</u>	<u>\$ 12,335</u>

Depreciation expense included in indirect expenses for the year ended June 30, 2017 amounted to \$12,588.

NOTE 4 RECEIVABLES

Receivables of the component unit as of June 30, 2017, as shown in the government-wide financial statements, in the aggregate, including retention, are as follows:

Receivables	\$	Amount
Grants	\$	14,383,963
Notes		150,000
Unbilled		31,530,596
Retention		873,136
Interest		3,670
	\$	46,941,365

NOTE 5 METRO 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, 2017 amounted to \$45,000,000. Interest rates vary according to market conditions and have ranged from 1.26% to 1.60%. Proceeds from the note payable have been used to pay for construction activities.

The principal amount of the loan is to be 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 CP costs and any fees are unsecured and due on September 9, 2023, ten years after the first drawdown date. Because this is a revolving construction fund provided by Metro to facilitate the payment to the project contractors of ACE, this loan is not considered as a long-term debt.

NOTE 6 GRANT ACCOUNTING

During the year ended June 30, 2017, ACE was the recipient, primarily from the Federal Department of Transportation through the California Department of Transportation (Caltrans), of cost reimbursement type grants. There were also California transportation programs paid through Caltrans. Local share was received from Metro. All of 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 some costs incurred are subject to disallowance.

NOTE 6 GRANT ACCOUNTING (CONTINUED)

Receivable amounts at June 30, 2017, are shown net of disallowed costs. CalTRANS approved, under Uniform Guidance Section 2 CFR 200.516, an indirect overhead allocation formula of 157.2% of total direct salaries and fringe benefit costs. Indirect costs incurred in the fiscal year ended June 30, 2017 were \$3,108,165.

NOTE 7 ADMINISTRATIVE EXPENSES

The following were the administrative expenses of the primary government for the year ended June 30, 2017:

Administrative Expenses	Amount
Salaries & wages	\$ 264,533
Fringe benefits - allocated	90,244
Rent - other	45,648
Utilities	3,366
Postage	737
Office supplies	2,297
Printing/publications	7,171
Insurance	3,767
Dues and subscriptions	1,246
Meetings/travel	21,453
Administrative fees	2,743
Office expense	6,191
Storage	1,803
Equipment and soft acquisition	3,844
Webpage/software services	1,631
General assembly expense	11,815
Grant writing services	47,041
Professional services	190,940
Legal	31,638
	\$ 738,108

NOTE 8 RELATED PARTY TRANSACTIONS

The ACE billed SGVCOG a total of \$95,928 for transportation technical support, administrative and accounting support, and travel expenses.

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. SGVCOG does not have employees enrolled under the Classic Plan and currently represent 85% share of the PEPRA Plan.

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. ACE contributes 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, 2017, are summarized as follows:

	Miscellaneous Plan	
	Classic	PEPRA
	Prior to	On or after
Hire date	Jan. 1, 2013	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	7.00%	6.25%
Required employer contribution rates	8.38%	6.25%

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. ACE is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

	Miscellaneous Plan
Contributions - employer	\$ 469,362

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

As of June 30, 2017, SGVCOG and ACE reported net pension liabilities for their proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability	
	SGVCOG	ACE
	Miscellaneous Plan	\$ 85,698

NOTE 9 EMPLOYEE BENEFIT PLAN (CONTINUED)

The net pension liability (asset) for the Plan is measured as the proportionate share of the net pension liability (asset). The net pension liability (asset) of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. SGVCOG's and ACE's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, 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 three ratios. It includes 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 is allocated based on the Actuarial Accrued Liability from the most recent Actuarial Valuation Report as of June 30, 2015 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, 2015 used for funding purposes plus supplemental payments made by employers during the current measurement period to reduce their unfunded actuarial accrued liabilities. All other pension amounts (deferred outflows/inflows of resources and pension expense) are allocated based on the legally or statutorily required employer contributions for the fiscal year ended June 30, 2016, including reported contribution adjustments and suspended payroll information.

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

	2017
	<u>Miscellaneous</u>
Total pension liability	0.0005212
Plan fiduciary net position	0.0005978
All other pension amounts (deferred outflows/inflows of resources and pension expense)	0.0007990

San Gabriel Valley Council of Governments
Notes to Financial Statements
Year ended June 30, 2017

NOTE 9 EMPLOYEE BENEFIT PLAN (CONTINUED)

At June 30, 2017, SGVCOG and ACE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous Plan			
	SGVCOG		ACE	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 66,429	\$ -	\$ 1,360,867	\$ -
Differences between actual and expected experience	1,155	(195)	11,970	(2,024)
Changes in assumption	-	(10,927)	-	(113,244)
Changes in proportions	-	(2,602)	-	(26,968)
Differences in employer's proportion	4,677	(32,271)	48,468	(334,448)
Differences between the employer's contribution and the employer's proportionate share of contributions	15,701	(3,736)	162,724	(38,714)
Net differences between projected and actual earnings on pension plan investments	60,791	-	630,019	-
	\$ 148,753	\$ (49,731)	\$ 2,214,048	\$ (515,398)

SGVCOG and ACE reported \$66,429 and \$1,360,867, 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, 2018.

NOTE 9 EMPLOYEE BENEFIT PLAN (CONTINUED)

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
2018	\$ 2,217	\$ 22,978
2019	2,857	29,608
2020	16,651	172,562
2021	10,868	112,635

Actuarial Assumptions

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)
Post-Retirement Benefit Increase	(4)

(1) Varies by entry age and service

(2) Net of pension plan investment and administrative expenses, including inflation

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

(4) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2015 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

NOTE 9 EMPLOYEE BENEFIT PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	New Strategic Allocation	Real Return Years 1 - 10 ^(a)	Real Return Years 11+ ^(b)
Global Equity	51%	5.25%	5.71%
Global Fixed Income	20%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	1%	-0.55%	-1.05%
Total	<u>100%</u>		

^(a) An expected inflation of 2.5% used for this period.

^(b) An expected inflation of 3.0% used for this period.

NOTE 9 EMPLOYEE BENEFIT PLAN (CONTINUED)

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 its 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:

	Miscellaenous Plan	
	SGVCOG	ACE
1% Decrease	6.65%	6.65%
Net Pension Liability	\$ 174,601	\$ 1,809,504
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$ 85,698	\$ 888,148
1% Increase	8.65%	8.65%
Net Pension Liability	\$ 12,225	\$ 126,693

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, 2017, SGVCOG and ACE did not have outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

Other Postemployment Benefits

SGVCOG and ACE did not incur any other liabilities during the year 2017 related to other postemployment benefits.

NOTE 9 EMPLOYEE BENEFIT PLAN (CONTINUED)

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, 2017, plan assets totaling \$1,578,809 were held by independent trustees and, as such, 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

Primary government:

The SGVCOG is involved in claims 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.

The SGVCOG has entered into an office space lease agreement covering the period from January 1, 2013 to December 31, 2017.

Future minimum rental payments including tenant improvements are as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2018	\$ <u>32,936</u>
Total	\$ <u><u>32,936</u></u>

Component unit:

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

NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)

In the ordinary course of its operations, ACE is the subject of claims and litigations from outside parties. In the opinion of management, there is no pending litigation or unasserted claims, the outcome of which would materially affect ACE's financial position.

ACE leases its office from Metropolitan Life Insurance Company subject to a lease expiring April 30, 2018. The monthly base rent, as defined in the lease agreement, follows:

Period from / to	Monthly Rent	Annual Amount
May 1, 2017 to April 30, 2018	\$ 20,834	\$ 250,009
May 1, 2018 to April 30, 2019 ++	21,188	254,259
May 1, 2019 to April 30, 2020 ++	21,824	261,887
May 1, 2020 to April 30, 2021 ++	22,479	269,743
Total lease commitments	\$	1,035,898

++ Proposed

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 expenditures related to contract retention payments totaling \$14,890,552 for the fiscal year ended June 30, 2017. 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 to the UPRR and the cities in which they are located at no cost to the acquirer. At June 30, 2017, \$695,912,451 of costs was accumulated on projects in process and \$463,758,906 had been transferred to UPRR and impacted cities.

Under the modified accrual basis of accounting project expenditures would be reported as expenditures in the year incurred. On the government-wide financial statements conforming to GASB 34 reporting on these transactions presents a challenge. Accumulating those costs as construction in progress (i.e., treated as a cash flow expenditure and not a current year expense) would substantially overstate income while reporting the disposal and expensing the accumulated costs would distort the cost of operations. In both cases, 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. 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 SUBSEQUENT EVENTS

The SGVCOG has evaluated events subsequent to June 30, 2017, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through January 31, 2018, the date the financial statements were available to be issued. Based upon this evaluation, there were no subsequent events that require recognition or additional disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

San Gabriel Valley Council of Governments
Schedule of Proportionate Share of the Net Pension Liability
Last Ten Years*

	June 30, 2017		June 30, 2016		June 30, 2015	
	Miscellaneous Plan		Miscellaneous Plan		Miscellaneous Plan	
	SGVCOG	ACE	SGVCOG	ACE	SGVCOG	ACE
Proportion of the net pension liability	0.02803%	0.02803%	0.000158%	0.04943%	0.00001%	0.01668%
Proportionate share of the net pension liability (asset)	\$ 85,698	\$ 888,148	\$ (1,407)	\$ 834,578	\$ 538	\$ 1,038,163
Covered - employee payroll ⁽¹⁾	\$ 250,677	\$ 3,422,438	\$ 164,916	\$ 2,824,589	\$ 155,191	\$ 2,786,268
Proportionate share of the net pension liability as percentage of covered-employee payroll	34.19%	25.95%	-0.85%	29.55%	0.35%	37.26%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	12.98%	12.98%	108.71%	87.61%	83.02%	83.03%
Plan's proportionate share of aggregate employer contributions ⁽²⁾	\$ 243,174	\$ 243,174	\$ 15,076	\$ 393,080	\$ 88	\$ 137,329

Notes to Schedule

1. Covered-Employee Payroll represented 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 three years are shown.

**San Gabriel Valley Council of Governments
Schedule of Pension Contributions
Last Ten Years***

	2017		2016		2015	
	Miscellaneous Plan		Miscellaneous Plan		Miscellaneous Plan	
	SGVCOG	ACE	SGVCOG	ACE	SGVCOG	ACE
Actuarially determined contributions	\$ 66,429	\$ 527,296	\$ 8,824	\$ 318,540	\$ 8,214	\$ 288,094
Contributions in relation to the actuarially determined contributions	(66,429)	(527,296)	(8,824)	(318,540)	(8,214)	(288,094)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-Employee Payroll	\$ 358,859	\$ 3,422,438	\$ 164,916	\$ 2,824,589	\$ 155,191	\$ 2,786,268
Contributions as a percentage of covered-employee payroll	18.51%	15.41%	5.35%	11.28%	5.29%	10.34%

Notes to Schedule:

Valuation date

June 30, 2015

Methods and assumptions used to determine contribution rates:

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	2.75%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.50%, net of pension plan investment expense and administrative expenses including inflation
Retirement age	55 years
Mortality	Derived using CalPERS Membership Data for all funds

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

SUPPLEMENTARY INFORMATION

San Gabriel Valley Council of Governments
Statement of Revenues, Expenditures, and Changes in Fund Balances – Component Unit
Budget to Actual
Year ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Amended</u> <u>Final</u>		
Revenues				
Reimbursements				
Federal grants	\$ 3,684,740	\$ 3,700,945	\$ 6,026,263	\$ 2,325,318
State grants	101,321,172	101,766,761	56,234,202	(45,532,559)
Local grants	22,446,639	22,545,354	23,912,324	1,366,970
Betterment - Other	4,986,912	5,008,844	17,943,466	12,934,622
Total revenues	<u>132,439,463</u>	<u>133,021,904</u>	<u>104,116,255</u>	<u>(28,905,649)</u>
Operating expenditures				
Construction				
Design	7,569,842	7,569,842	3,683,461	(3,886,381)
Right-of-way acquisition	19,052,985	19,052,985	9,074,042	(9,978,943)
Construction management	15,533,366	15,533,366	15,059,411	(473,955)
Construction	82,976,627	82,976,627	60,726,190	(22,250,437)
Betterments	4,247,586	4,247,586	12,562,185	8,314,599
Total construction	<u>129,380,406</u>	<u>129,380,406</u>	<u>101,105,289</u>	<u>(28,275,117)</u>
Indirect				
Personnel				
Salaries and wages	1,476,847	1,476,847	1,542,894	66,047
Fringe benefits	766,027	1,348,468	1,332,772	(15,696)
Employee related expenses	37,300	37,300	32,172	(5,128)
Professional services				
Auditing/accounting	41,504	41,504	48,724	7,220
Legal	25,000	25,000	23,498	(1,502)
Brokerage	65,000	65,000	51,271	(13,729)
Insurance	230,000	230,000	170,984	(59,016)
Equipment expense	112,628	112,628	69,409	(43,219)
Office rental expense	244,451	244,451	246,902	2,451
Office operations	52,500	52,500	39,328	(13,172)
Other	7,800	7,800	11,007	3,207
Applied (under) indirect expense	-	-	(557,995)	(557,995)
Total indirect	<u>3,059,057</u>	<u>3,641,498</u>	<u>3,010,966</u>	<u>(630,532)</u>
Total operating expenditures	<u>132,439,463</u>	<u>133,021,904</u>	<u>104,116,255</u>	<u>(28,905,649)</u>
Excess revenues over expenditures	-	-	-	-
Other financing sources (uses)				
Investment revenue	466,300	466,300	597,423	131,123
Interest and related expenses	(421,000)	(421,000)	(1,129,119)	(708,119)
Non-project reimbursable funds	352,436	352,436	371,342	18,906
Non-project reimbursable expense	(352,436)	(352,436)	(371,342)	(18,906)
Intercompany revenue	51,246	51,246	96,147	44,901
Intercompany expense	(51,246)	(51,246)	(96,147)	(44,901)
Net other financing sources (uses)	<u>45,300</u>	<u>45,300</u>	<u>(531,696)</u>	<u>(576,996)</u>
Change in fund balance	<u>45,300</u>	<u>45,300</u>	<u>(531,696)</u>	<u>(576,996)</u>
Fund balance at beginning of year	14,539,215	14,539,215	14,539,215	-
Fund balance at end of year	<u>\$ 14,584,515</u>	<u>\$ 14,584,515</u>	<u>\$ 14,007,519</u>	<u>\$ (576,996)</u>

**Report of Independent Auditors on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Basic Financial Statements
Performed in Accordance with *Government Auditing Standards***

**Members of the Governing Board
San Gabriel Valley Council of Governments**

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 business-type activities and the discretely presented component unit of the San Gabriel Valley Council of Governments (the SGVCOG) as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the SGVCOG's basic financial statements and have issued our report thereon dated January 31, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the SGVCOG'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SGVCOG's internal control. Accordingly, we do not express an opinion on the effectiveness of the SGVCOG's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 weakness. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SGVCOG's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results 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.

Vasquez + Company LLP

**Los Angeles, California
January 31, 2018**



www.vasquezcpa.com

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