



**Audited Financial Statements
(Primary Government)
*As of and for the Year Ended June 30, 2018
with Report of Independent Auditors***

San Gabriel Valley Council of Governments
Audited Financial Statements
(Primary Government)
As of and for the Year Ended June 30, 2018
with Report of Independent Auditors

**San Gabriel Valley Council of Governments
(Primary Government)
Table of Contents**

	<u>PAGE</u>
REPORT OF INDEPENDENT AUDITORS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Proportionate Share of the Net Pension Liability	25
Schedule of Pension Contributions	26
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 <i>GOVERNMENT AUDITING STANDARDS</i>	27

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, 2018, 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, 2018, 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, 2018, 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, 2018, and our report thereon, dated March 29, 2019, 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.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2019 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.

Vaughan & Company LLP

**Glendale, California
March 29, 2019**

**San Gabriel Valley Council of Governments
(Primary Government)
Management's Discussion and Analysis
Year ended June 30, 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 fiscal year ended June 30, 2018. 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 2018, operating revenues increased by 109% from the previous year. The increase was mainly attributable to the new Homelessness and MTA Open Streets grant revenues earned in 2018.

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

The statement of net position and the statement of revenues, expenses and changes in net position report the SGVCOG's net position and related changes. Net position is the difference between the recorded assets and deferred outflows of resources and liabilities and deferred inflows of resources. The recorded activities include all revenues from dues and operating expenses related to the operation of the SGVCOG. In addition, all of the SGVCOG's revenues and expenses related to its 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, 2018**

Financial Analysis

Statements of Net Position

The following table summarizes the assets and deferred outflows of resources, liabilities and deferred inflows of resources and net position of the SGVCOG as of June 30, 2018 and 2017:

	June 30		Variance	
	2018	2017	Amount	%
Current assets	\$ 1,729,391	\$ 866,566	\$ 862,825	100%
Deferred outflows of resources	<u>226,431</u>	148,753	<u>77,678</u>	52%
Total assets and deferred outflows of resources	<u>1,955,822</u>	<u>1,015,319</u>	<u>940,503</u>	93%
Liabilities	<u>823,220</u>	149,908	673,312	449%
Deferred inflows of resources	<u>72,904</u>	49,731	<u>23,173</u>	47%
Total liabilities and deferred inflows of resources	<u>896,124</u>	<u>199,639</u>	<u>696,485</u>	349%
Net position				
Restricted	<u>110,469</u>	110,358	111	0%
Unrestricted	<u>949,229</u>	<u>705,322</u>	<u>243,907</u>	35%
Total net position	<u>\$ 1,059,698</u>	<u>\$ 815,680</u>	<u>\$ 244,018</u>	30%

Current assets increased this year by \$862,825 or 100%, and liabilities increased by \$673,312 or 449%. Increase in current assets was largely due to higher cash and cash equivalents and grants receivable balances in 2018. The increase in current assets was offset by the higher balance in liabilities from the new Homelessness program.

As previously discussed, net position can serve as an indicator of financial health. The SGVCOG's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,059,698 and \$815,680 as of June 30, 2018 and 2017, respectively.

**San Gabriel Valley Council of Governments
(Primary Government)
Management's Discussion and Analysis
Year ended June 30, 2018**

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, 2018 and 2017:

	Years ended June 30,		Variance	
	2018	2017	Amount	%
Operating revenues				
Dues:				
General Fund	\$ 414,757	\$ 564,716	\$ (149,959)	-27%
Transportation	346,041	180,394	165,647	92%
	<u>760,798</u>	<u>745,110</u>	<u>15,688</u>	<u>2%</u>
Sponsorships	56,676	12,551	44,125	100%
Grants and matches from other governments:				
Los Angeles County Metropolitan Transportation Authority	93,569	90,844	2,725	3%
Southern California Edison - Energywise	132,566	139,384	(6,818)	-5%
California Energy Efficiency Strategic Plan Implementation	26,272	44,291	(18,019)	-41%
Southern California Gas - Energywise	131,206	128,342	2,864	100%
LACPACE Program	37,022	14,202	22,820	161%
Homelessness Program	644,400	-	644,400	100%
MTA Open Street Program	548,705	-	548,705	100%
Western Riverside Council of Governments - California HERO	14,374	-	14,374	100%
MTA Measure M Program	4,303	-	4,303	100%
Others	196	-	196	100%
Total operating revenues	<u>2,450,087</u>	<u>1,174,724</u>	<u>1,275,363</u>	<u>109%</u>
Operating expenses				
Administrative	811,104	738,108	72,996	10%
Energywise	101,407	267,726	(166,319)	-62%
Transportation	122,947	105,832	17,115	16%
California Energy Efficiency Strategic Plan Implementation	9,755	44,291	(34,536)	-78%
LACPACE Program	37,427	-	37,427	100%
Homelessness Program	573,823	-	573,823	100%
MTA Open Street Program	548,705	-	548,705	100%
Measure M Program	4,303	-	4,303	100%
Total operating expenses	<u>2,209,471</u>	<u>1,155,957</u>	<u>1,053,514</u>	<u>91%</u>
Operating income	<u>240,616</u>	<u>18,767</u>	<u>221,849</u>	<u>1182%</u>
Nonoperating income				
Interest income	3,402	1,818	1,584	87%
Total nonoperating income	<u>3,402</u>	<u>1,818</u>	<u>1,584</u>	<u>87%</u>
Change in net position	244,018	20,585	223,433	1085%
Net position, beginning of year	815,680	795,095	20,585	3%
Net position, end of year	<u>\$ 1,059,698</u>	<u>\$ 815,680</u>	<u>\$ 244,018</u>	<u>30%</u>

**San Gabriel Valley Council of Governments
(Primary Government)
Management's Discussion and Analysis
Year ended June 30, 2018**

During fiscal year 2018, total operating revenues increased by 109% from the previous year. The increase was mainly attributable to the new Homelessness and MTA Open Streets grant revenues earned in 2018.

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 the LACPACE program, Homelessness program, Southern California Edison (SCE), a local utility, grant matching funds from Los Angeles County MTA, and fees on the aggregate cost for the bonds issued to fund installation of renewable energy efficiency improvements from the Home Energy Renovation Opportunity (HERO) program. Grants and matches from other governments and Sponsorships were \$1,689,289 in FY2018 compared to \$429,614 in FY2017, an increase of \$1,259,675 or 293%. The increase was mostly due to the new Homelessness and MTA Open Streets grant revenues earned in FY2018.

Operating expenses were \$2,209,471 in FY2018 compared to \$1,155,957 in FY 2017, an increase of \$1,053,514 or 91%. The increase is primarily attributable to program expenses from the new Homelessness and MTA Open Streets programs.

Next Year's Budget

The budget for fiscal year 2019 assumes that the on-hand net position as of June 30, 2018 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 Maritza Ramos, 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, 2018

ASSETS

Current assets

Cash and cash equivalents	\$	1,348,391
Grants receivable		356,896
Other receivables		13,811
Prepaid expenses		10,293
		Total current assets
		1,729,391

Capital assets

Office equipment		8,645
Less accumulated depreciation		(8,645)
		Capital assets, net
		-

Total assets 1,729,391

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pension		<u>226,431</u>
---	--	----------------

LIABILITIES

Current liabilities

Accounts payable and accrued expenses		680,383
Unearned revenues		76,530
		Total current liabilities
		756,913

Noncurrent liabilities

Compensated absences		27,374
Net pension liability		38,933
		Total noncurrent liabilities
		66,307

Total liabilities 823,220

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pension		<u>72,904</u>
--	--	---------------

NET POSITION

Restricted for :

Water Quality Improvement		55,618
MS4-National Pollutant Discharge Elimination System		54,851
Unrestricted		949,229
		Net position \$
		<u>1,059,698</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, 2018**

Operating revenues		
Dues:		
General Fund	\$	414,757
Transportation		346,041
		760,798
Sponsorships		56,676
Grants and matches from other governments:		
Los Angeles County Metropolitan Transportation Authority		93,569
Southern California Edison - Energywise		132,566
California Energy Efficiency Strategic Plan Implementation		26,272
Southern California Gas - Energywise		131,206
LACPACE Program		37,022
Homelessness Program		644,400
MTA Open Street Program		548,705
Western Riverside Council of Governments - California HERO		14,374
MTA Measure M Program		4,303
Others		196
	Total operating revenues	2,450,087
Operating expenses		
Administrative		811,104
Energywise		101,407
Transportation		122,947
California Energy Efficiency Strategic Plan Implementation		9,755
LACPACE Program		37,427
Homelessness Program		573,823
MTA Open Street Program		548,705
Measure M Program		4,303
	Total operating expenses	2,209,471
	Operating income	240,616
Nonoperating income		
Interest income		3,402
	Total nonoperating income	3,402
Change in net position		244,018
Net position, beginning of year		815,680
Net position, end of year	\$	1,059,698

See notes to financial statements.

San Gabriel Valley Council of Governments
(Primary Government)
Statement of Cash Flows
Year ended June 30, 2018

Cash flows from operating activities

Cash receipts from cities	\$	837,328
Cash receipts from all other services		1,409,047
Cash paid for operating expenses		(1,206,077)
Cash paid for employee compensation and related costs		(459,578)
Net cash provided by operating activities		<u>580,720</u>

Cash flows from investing activities

Cash receipts from interest		2,828
Cash provided by investing activities		<u>2,828</u>
Change in cash and cash equivalents		583,548
Cash and cash equivalents - beginning of year		<u>764,843</u>
Cash and cash equivalents - end of year	\$	<u>1,348,391</u>

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

Operating income	\$	240,616
Adjustment to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Other receivables		872
Grants receivable		(281,114)
Prepaid expenses		1,539
Deferred outflows of resources		(77,678)
Accounts payable and accrued expenses		640,783
Unearned revenues		76,530
Compensated absences		2,764
Net pension liability (asset)		(46,765)
Deferred inflows of resources		23,173
Net cash provided by operating activities	\$	<u>580,720</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

The accompanying financial statements do not include the financial statements 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, 2018, 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.

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

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

As of June 30, 2018, completion of certain actions necessary to implement the full integration of ACE into SGVCOG is underway.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

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.

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

MTA Open Streets – Funds to provide a series of regional car-free events. It aims to provide: (a) opportunities for riding transit, walking, and riding a bike possibly for the first time; (b) encourage future mode shift to more sustainable transportation modes; and, (c) for civic engagement to foster the development of multi-modal policies and infrastructure at the city/community level.

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.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Pension

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

Use of Estimates

The 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.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2018 consist of the following:

Deposits with financial institution	\$ 1,115,755
Short-term investments	<u>232,636</u>
Total cash and cash equivalents	<u>\$ 1,348,391</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	\$ 232,636	\$ 232,636
Total	\$ 232,636	\$ 232,636

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	\$ 232,636	N/A	\$ 232,636
Total	\$ 232,636		\$ 232,636

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, 2018, 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, 2018, the SGVCOG's cash in bank balance of \$1,025,115 exceeded the \$250,000 deposit insurance of the Federal Depository Insurance Corporation (FDIC) by \$775,115.

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, 2018, the total market value of LAIF, including accrued interest was approximately \$89 billion. The fair value of the SGVCOG's investment in this pool is \$232,636 at June 30, 2018 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 but 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.

Certain information presented in the accompanying financial statements and under this note disclosure represent amounts paid by and allocated to SGVCOG only.

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, 2018 are summarized as follows:

	<u>Miscellaneous Plan</u>	
	<u>Classic</u>	<u>PEPRA</u>
	Prior to	On or after
	Jan. 1, 2013	Jan. 1, 2013
Hire date		
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits , as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	6.90%	6.25%
Required employer contribution rates	8.42%	6.53%

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, 2018, the contributions recognized as part of pension expense for the Plan were as follows:

	Miscellaneous
	Plan
Contributions - employer	\$ <u>58,845</u>

NOTE 3 EMPLOYEE BENEFIT PLAN (CONTINUED)

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

As of June 30, 2018, SGVCOG reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous Plan	\$ <u>38,933</u>
Total Net Pension Liability	\$ <u>38,933</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, 2017, 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, 2016 rolled forward to June 30, 2017 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 allocation for the Total Pension Liability, Plan Fiduciary Net Position and all other pension amounts (e.g. deferred outflows/inflows of resources and pension expense). The Total Pension Liability and other pension amounts are allocated based on the Actuarial Accrued Liability from the most recent Actuarial Valuation Report as of June 30, 2016 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, 2016 used for funding purposes plus supplemental payments made by employers during the current measurement period to reduce their unfunded actuarial accrued liabilities.

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

	2018
Total pension liability	0.0005530
Plan fiduciary net position	0.0007050

At June 30, 2018, 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, 2018

NOTE 3 EMPLOYEE BENEFIT PLAN (CONTINUED)

	2018	
	Miscellaneous Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 58,845	\$ -
Differences between actual and expected experience	336	(4,821)
Changes in assumption	41,753	(3,184)
Changes in employer's proportion	2,047	(64,899)
Differences between the employer's contribution and the employer's proportionate share of contributions	114,007	-
Net differences between projected and actual earnings on pension plan investments	9,443	-
Total	\$ 226,431	\$ (72,904)

\$58,845 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, 2019.

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	Amount
2019	\$ 36,008
2020	37,448
2021	26,833
2022	(5,607)

NOTE 3 EMPLOYEE BENEFIT PLAN (CONTINUED)

Actuarial Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
 Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	(1)
Mortality	(2)
Post-Retirement Benefit Increase	(3)

(1) Varies by entry age and service

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

(3) Contract COLA up to 2.75% 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, 2016 valuation were based on the results of an 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 7.15 percent and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses.

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

NOTE 3 EMPLOYEE BENEFIT PLAN (CONTINUED)

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

The expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017.

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:

		<u>Miscellaneous Plan</u>
1% Decrease		6.15%
Net Pension Liability	\$	176,562
Current Discount Rate		7.15%
Net Pension Liability	\$	38,933
1% Increase		8.15%
Net Pension Liability	\$	(75,054)

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.

NOTE 3 EMPLOYEE BENEFIT PLAN (CONTINUED)

D. Payable to the Pension Plan

At June 30, 2018, SGVCOG did not have outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

Other Postemployment Benefits

SGVCOG did not incur any other liabilities during the year 2018 related to other postemployment benefits.

NOTE 4 RELATED PARTY TRANSACTIONS

For the year ended June 30, 2018, SGVCOG paid ACE a total of \$39,424 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 July 1, 2018 to April 30, 2021.

Future minimum rental payments including tenant improvements are as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2019	\$ 67,826
2020	69,780
2021	60,011
Total	\$ <u>197,617</u>

NOTE 7 SUBSEQUENT EVENTS

SGVCOG has evaluated events subsequent to June 30, 2018, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through March 29, 2019, 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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<u>Miscellaneous Plan</u>	<u>Miscellaneous Plan</u>	<u>Miscellaneous Plan</u>	<u>Miscellaneous Plan</u>
Proportion of the net pension liability	0.00874%	0.02803%	0.03744%	0.00001%
Proportionate share of the net pension liability	\$ 38,933	\$ 85,698	\$ (1,407)	\$ 538
Covered - employee payroll ⁽¹⁾	\$ 586,768	\$ 358,859	\$ 164,916	\$ 155,191
Proportionate share of the net pension liability as percentage of covered-employee payroll	6.64%	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	96.11%	87.02%	87.61%	83.02%
Plan's proportionate share of aggregate employer contributions ⁽²⁾	\$ 36,386	\$ 21,399	\$ 15,076	\$ 88

Notes to Schedule

Certain information presented above and in the financial statements represent amounts allocated to SGVCOG.

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 four years are shown.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<u>Miscellaneous Plan</u>	<u>Miscellaneous Plan</u>	<u>Miscellaneous Plan</u>	<u>Miscellaneous Plan</u>
Actuarially determined contributions	\$ 58,845	\$ 66,429	\$ 8,824	\$ 8,214
Contributions in relation to the actuarially determined contributions	(58,845)	(66,429)	(8,824)	(8,214)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	<u>\$ 586,768</u>	<u>\$ 358,859</u>	<u>\$ 164,916</u>	<u>\$ 155,191</u>
Contributions as a percentage of covered-employee payroll	<u>10.03%</u>	<u>18.51%</u>	<u>5.35%</u>	<u>5.29%</u>

Notes to Schedule:

Valuation date June 30, 2016

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	7.15%, net of pension plan investment expense
Retirement age	55 years
Mortality	Derived using CalPERS Membership Data for all funds

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

**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 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 the San Gabriel Valley Council of Governments (the SGVCOG), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise SGVCOG's basic financial statements, and have issued our report thereon dated March 29, 2019.

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.

A handwritten signature in black ink that reads "Vagness & Company LLP". The signature is written in a cursive, flowing style.

**Glendale, California
March 29, 2019**

(This page left intentionally blank.)



www.vasquezcpa.com

Vasquez & Company LLP has over 45 years of experience in performing audit, accounting & consulting services for all types of nonprofit organizations, for-profit companies, governmental entities and publicly traded companies. Vasquez is a member of the RSM US Alliance. RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit rsmus.com/about-us for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.



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, 2018
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, 2018
with Report of Independent Auditors

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Table of Contents

	<u>PAGE</u>
REPORT OF INDEPENDENT AUDITORS	1
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)	4
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet	12
Statement of Revenues, Expenditures and Changes in Fund Balance	13
Notes to Financial Statements	14
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Proportionate Share of the Net Pension Liability	33
Schedule of Pension Contributions	34
SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance	
Capital Projects Fund - Budget to Actual	35
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 <i>GOVERNMENT AUDITING STANDARDS</i>	36

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 and balance sheet as of June 30, 2018, and the related statements of activities and revenues, expenditures and changes in fund balance 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, 2018, 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 – 34 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 opinions 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 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 March 29, 2019, 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.

Vaughan & Company LLP

**Glendale, California
March 29, 2019**

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, 2018

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, 2018. 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.

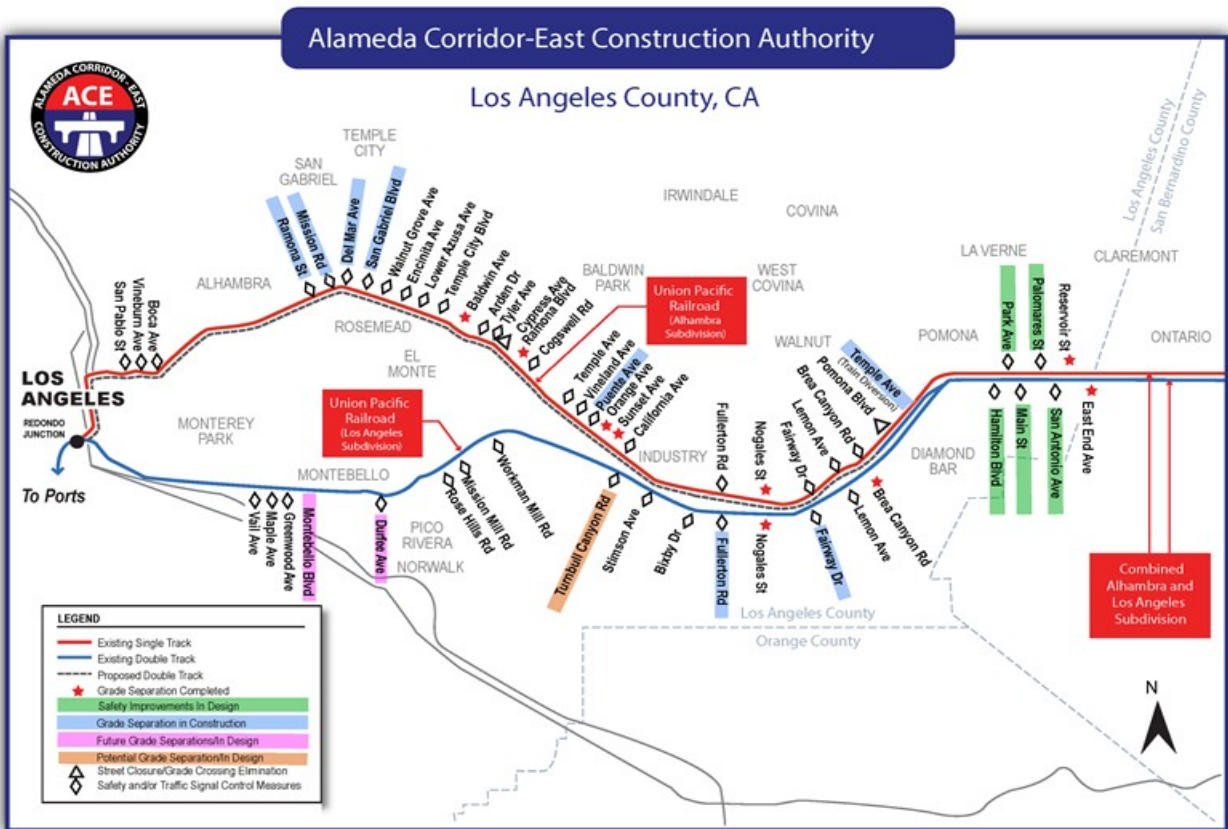
The ACE Project is a comprehensive program of constructing grade separations, where the road goes over or under the railroad, and safety and mobility upgrades at fifty-two crossings in the San Gabriel Valley. Construction has been completed on nine rail-roadway grade separations. Seven additional grade 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, 2018 for the completed safety improvements and 14 grade separations either completed or going into construction is \$1.677 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 2019 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.

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, 2018

Project Progress During FY 2018					
Project	06/17	09/17	12/17	03/18	06/18
Rio Hondo (220)	Design				
Maple Ave (214)	Design				
At-Grade Crossing (212)	Design				
Turnbull Canyon (210)	Design				
Durfee (208)	Design / ROW Acquisitions				
Montebello (209)	Design / ROW Acquisitions				
Fairway Drive (204)	ROW Acquisitions / Construction				
Fullerton (207)	ROW Acquisitions / Construction				
Puente Avenue (202)	ROW Acquisitions / Construction				
Nogales - LA (250)	ROW Acquisitions / Construction				
S.G. Trench (201)	Construction				
Temple/Pomona (119)	Construction				



Alameda Corridor-East Project Area

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, 2018

As of June 30, 2018, the following funding had been committed to the ACE project:

Federal	ACE Funding Commitments (\$ millions)	
TEA-21 Earmark	\$ 132.6	
Annual Appropriations (FY 2000-10)	21.5	
SAFETEA-LU Earmark	66.9	
Rail-Highway Crossing Program	10.0	
ISTEA (Nogales LA)	6.9	
CMAQ (Nogales LA)	6.3	
Total Federal		\$ 244.2
State		
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)	422.2	
Hwy. Rail Crossing Safety Act (HRCSA)	46.6	
Total State		648.1
L.A. County MTA		
17% - Match	269.9	
FY 2007 Call-for-projects	28.8	
Measure R	400.0	
Total L.A. County MTA		698.7
City/County Funds/MWD Funds	12.1	
Railroad Contributions	36.4	
City/Railroad/Betterments/Property Sales	57.5	
Total ACE Project Funding		<u>\$ 1,697.0</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

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, 2018

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

Financial Highlights

For the year ended June 30, 2018:

- Net position increased by \$0.3 million, an increase of 2.1%.
- Construction in progress increased by \$101.1 million, an increase of 14.5%.
- Total revenues decreased by \$3.4 million, a decrease of 3.2%.
- Total project expenses decreased by \$2.2 million, a decrease of 2.1%.

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

**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, 2018**

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, 2018. 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 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

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.

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, 2018

Condensed Statements of Net Position

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

	<u>June 30</u>		<u>Variance</u>	
	<u>2018</u>	<u>2017</u>	<u>Amount</u>	<u>%</u>
Current and other assets	\$ 120,419,495	\$ 100,343,185	\$ 20,076,310	20.0%
Capital assets	21,667	12,335	9,332	75.7%
Construction in progress	796,965,084	695,912,451	101,052,633	14.5%
Less due to member cities and Union Pacific Railroad	<u>(796,965,084)</u>	<u>(695,912,451)</u>	<u>(101,052,633)</u>	14.5%
Total assets	120,441,162	100,355,520	20,085,642	20.0%
Deferred outflows of resources	2,591,612	2,214,048	377,564	17.1%
Liabilities	(107,321,766)	(87,223,814)	(20,097,952)	23.0%
Deferred inflows of resources	<u>(572,427)</u>	<u>(515,398)</u>	<u>(57,029)</u>	11.1%
Net position	\$ 15,138,581	\$ 14,830,356	\$ 308,225	2.1%

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 Union Pacific Railroad (UPRR) and the cities so that they can be included in their financial statements. The resulting reduction in assets would flow through the statement of 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 20.0% to \$120.4 million, mainly due to increases in surplus properties held for sale.

Construction in progress increased by 14.5% to \$797.0 million, primarily because of increased construction activity on San Gabriel Trench, Puente Avenue, Fairway Drive, and Fullerton Road projects.

Unearned revenue increased by 92.0% to \$42.8 million, mainly because of recognition of surplus properties from the San Gabriel Trench, Puente Avenue and Fairway Drive projects.

Unbilled receivables decreased 8.4% to \$28.9 million.

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, 2018

Condensed Statements of Activities

The following table shows the condensed statements of activities for the years ended June 30, 2018 and 2017.

Total net position increased by \$0.3 million or 2.1% for the year ended June 30, 2018. The increase was due to an adjustment to construction expenses that were incurred in the prior year.

	Years ended June 30		Variance	
	2018	2017	Amount	%
Project expenses				
Direct (Construction)	\$ 97,781,428	\$ 99,658,490	\$ (1,877,062)	-1.9%
Indirect expenses charged to operations	<u>3,145,443</u>	<u>3,465,867</u>	<u>(320,425)</u>	-9.2%
Total project expenses	<u>100,926,871</u>	<u>103,124,357</u>	<u>(2,197,487)</u>	-2.1%
Operating revenues				
Grant reimbursements	99,591,251	104,116,255	(4,525,004)	-4.3%
Other operating revenues	<u>1,627,977</u>	<u>467,489</u>	<u>1,160,488</u>	248.2%
Total revenues	<u>101,219,228</u>	<u>104,583,744</u>	<u>(3,364,516)</u>	-3.2%
Income from operations	<u>292,357</u>	<u>1,459,387</u>	<u>(1,167,030)</u>	-80.0%
Nonoperating income (expense)				
Other income	1,488,456	597,423	891,033	149.1%
Financing expense	<u>(1,472,588)</u>	<u>(1,129,119)</u>	<u>(343,469)</u>	30.4%
Net financing income (loss)	<u>15,868</u>	<u>(531,696)</u>	<u>547,564</u>	-103.0%
Change in net position	308,225	927,691	(619,466)	-66.8%
Net position at beginning of year	<u>14,830,356</u>	<u>13,902,665</u>	<u>927,691</u>	6.7%
Net position at end of year	<u>\$ 15,138,581</u>	<u>\$ 14,830,356</u>	<u>\$ 308,225</u>	2.1%

**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, 2018**

Capital Assets

ACE had \$21,667 invested in capital assets, net of depreciation, as of June 30, 2018.

Economic Factors and New Year's Budget

Budget expenditures in fiscal year 2019 decreased 20.8% over 2018, as decreases in construction were offset by increases in right-of-way acquisitions. Based on 2019 first quarter expenditures, it is anticipated the 2019 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
(A Component Unit of San Gabriel Valley Council of Governments)
Governmental Fund Balance Sheet/
Statement of Net Position
June 30, 2018

	<u>Capital Projects Fund</u>	<u>Adjustments</u>	<u>Government Activities Statement of Net Position</u>
ASSETS			
Current assets			
Cash and investments	\$ 41,805,950	\$ -	\$ 41,805,950
Grants receivable	18,231,137	-	18,231,137
Unbilled receivable	28,867,154	-	28,867,154
Notes receivable	150,000	-	150,000
Interest receivable	7,651	-	7,651
Retention receivable	1,372,157	-	1,372,157
Other receivables	1,028,284	-	1,028,284
Prepaid expenses	268,466	-	268,466
Property held for sale	27,267,391	-	27,267,391
Under-recovery of indirect cost	1,421,305	-	1,421,305
Total current assets	<u>120,419,495</u>	<u>-</u>	<u>120,419,495</u>
Noncurrent assets			
Capital assets - Leasehold improvement and equipment	-	21,667	21,667
Construction in progress	-	796,965,084	796,965,084
Less due to member cities and Union Pacific Railroad	-	<u>(796,965,084)</u>	<u>(796,965,084)</u>
Total noncurrent assets	<u>-</u>	<u>21,667</u>	<u>21,667</u>
Total assets	<u>120,419,495</u>	<u>21,667</u>	<u>120,441,162</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	-	<u>2,591,612</u>	<u>2,591,612</u>
Total deferred outflows of resources	<u>-</u>	<u>2,591,612</u>	<u>2,591,612</u>
Total assets and deferred outflows of resources \$	<u>120,419,495</u>		
LIABILITIES			
Current liabilities			
Accounts payable and accrued expense	\$ 17,607,939	-	17,607,939
Accrued retention payable	1,433,790	-	1,433,790
Unearned revenue	42,800,209	-	42,800,209
Compensated absences	174,133	-	174,133
MTA promissory note payable	45,000,000	-	45,000,000
Net pension liability	-	<u>305,695</u>	<u>305,695</u>
	<u>107,016,071</u>	<u>305,695</u>	<u>107,321,766</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	-	<u>572,427</u>	<u>572,427</u>
Total deferred outflows of resources	<u>-</u>	<u>572,427</u>	<u>572,427</u>
FUND BALANCES/NET POSITION			
Fund balance			
Nonspendable for:			
Prepaid expenses	268,466		
Committed:			
CalPERS unfunded termination liability	6,347,036		
Assigned:			
Capital project fund	<u>6,787,922</u>		
Total fund balance	<u>13,403,424</u>		
Total liabilities, deferred inflows of resources and fund balance	\$ <u>120,419,495</u>		
Net position			
Net investment in capital assets		21,667	21,667
Unrestricted		<u>1,713,490</u>	<u>15,116,914</u>
Total net position	<u>\$ 1,735,157</u>	<u>\$ 15,138,581</u>	

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, 2018

	Capital Projects Fund	Adjustments	Statement of Activities
Project expenses			
Direct (Construction)	\$ 98,684,416	\$ (902,988)	\$ 97,781,428
Indirect expenses charged to operations	3,154,775	(9,332)	3,145,443
Total project expenses	<u>101,839,191</u>	<u>(912,320)</u>	<u>100,926,871</u>
Operating revenues			
Grant reimbursements	99,591,251	-	99,591,251
Other operating revenues	1,627,977	-	1,627,977
Total revenues	<u>101,219,228</u>	<u>-</u>	<u>101,219,228</u>
Excess (deficiency) of revenues over expenditures / Income from operations	(619,963)	912,320	292,357
Nonoperating income (expense)			
Other income	1,488,456	-	1,488,456
Financing expense	(1,472,588)	-	(1,472,588)
Net nonoperating income (expense)	<u>15,868</u>	<u>-</u>	<u>15,868</u>
Change in fund balance / Change in net position	(604,095)	912,320	308,225
Fund balance/Net Position at beginning of year	<u>14,007,519</u>	<u>822,837</u>	<u>14,830,356</u>
Fund balance/Net Position at end of year	<u>\$ 13,403,424</u>	<u>\$ 1,735,157</u>	<u>\$ 15,138,581</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.

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

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

As of June 30, 2018, completion of certain actions necessary to implement the full integration of ACE into SGVCOG is underway.

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, 2018 and are therefore the same under both modified accrual and full accrual basis.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2018.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Leasehold Improvements and Equipment (Continued)

Under GASB Statement No. 34, construction in progress is reported on the statement of net position as an asset. Therefore, construction costs would normally be capitalized and excluded from the statement of 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, 2018, property held for resale was \$27,267,391.

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Notes to Financial Statements
Year Ended June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NOTE 2 CAPITAL ASSETS

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

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Cost:				
Leasehold improvements	\$ 19,762	\$ -	-	\$ 19,762
Computer equipment:				
Hardware	214,141	-	-	214,141
Software	114,483	17,799	-	132,282
Website	3,393	-	-	3,393
Telephone equipment	12,086	-	-	12,086
Office furniture	31,972	-	-	31,972
Total cost	395,837	17,799	-	413,636
Less accumulated depreciation for:				
Leasehold improvements	19,762	-	-	19,762
Computer equipment:				
Hardware	202,246	6,544	-	208,790
Software	114,043	1,923	-	115,966
Website	3,393	-	-	3,393
Telephone equipment	12,086	-	-	12,086
Office furniture	31,972	-	-	31,972
Total accumulated depreciation	383,502	8,467	-	391,969
Capital assets, net \$	12,335	9,332	-	21,667

Depreciation expense included in indirect expenses for the year ended June 30, 2018 amounted to \$8,467.

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Notes to Financial Statements
Year Ended June 30, 2018

NOTE 3 CASH AND INVESTMENTS

Cash and investments at June 30, 2018 consist of the following:

Petty cash	\$	400
Cash in bank		2,932,687
Pooled funds		1,612,328
Money market funds		11,556,846
Investments		25,703,689
Total cash and investments	\$	41,805,950

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.

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

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Notes to Financial Statements
Year Ended June 30, 2018

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	\$ 1,612,328	\$ 1,612,328	\$ -	\$ -	\$ -
Money Market Funds	11,556,846	11,556,846	-	-	-
Fidelity Government Portfolio	766,812	766,812	-	-	-
Government Agencies	12,823,027	-	147,443	12,675,584	-
Certificates of Deposit	3,452,629	349,450	1,261,388	1,841,791	-
Corporate Bonds	7,312,825	1,999,840	102,908	5,210,077	-
Municipals	1,348,396	1,004,863	99,709	243,824	-
Total	<u>\$ 38,872,863</u>	<u>\$ 17,290,139</u>	<u>\$ 1,611,448</u>	<u>\$ 19,971,276</u>	<u>\$ -</u>

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Notes to Financial Statements
Year Ended June 30, 2018

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, 2018			
			AAA	AA	A	Not Rated
LAIF	\$ 1,612,328	N/A	\$ -	\$ -	\$ -	\$ 1,612,328
Money Market Funds	11,556,846	A	11,556,846	-	-	-
Fidelity Government Portfolio	766,812	N/A	-	-	-	766,812
Government Agencies	12,823,027	A	-	12,823,027	-	-
Certificates of Deposit	3,452,629	N/A	-	-	884,494	2,568,135
Corporate Bonds	7,312,825	A	-	360,987	6,951,838	-
Municipals	1,348,396	A	250,550	1,097,846	-	-
Total	\$ 38,872,863		\$ 11,807,396	\$ 14,281,860	\$ 7,836,332	\$ 4,947,275

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, 2018, ACE had no investments in any one issuer (other than 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, 2018, ACE's deposit of \$3,000,000 with financial institutions is in excess of federal depository insurance limits but are held in collateralized accounts.

As of June 30, 2018, the following investment types were held by the same broker-dealer (counterparty) that was used by ACE to buy the securities:

Investment Type	Reported Amount
Money market funds	\$ <u><u>11,556,846</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, 2018, the total fair value of LAIF, including accrued interest was approximately \$89 billion. The fair value of ACE's investment in this pool is \$1,612,328 at June 30, 2018 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, 2018 amounted to \$45,000,000. Interest rates vary according to market conditions and have ranged from 1.23% to 2.57%. 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

During the year ended June 30, 2018, 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, 2018 are shown net of disallowed costs. CalTRANS approved, under Uniform Guidance section 2 CFR 200.516, an indirect overhead allocation formula of 184.6% of total direct salaries and fringe benefit costs. Indirect costs incurred charged to grants for the year ended June 30, 2018 were \$3,559,690.

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.

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Notes to Financial Statements
Year Ended June 30, 2018

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, 2018, are summarized as follows:

	Miscellaneous Plan	
	Classic	PEPRA
Hire date	Prior to Jan. 1, 2013	On or after Jan. 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits , as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	6.90%	6.25%
Required employer contribution rates	8.42%	6.53%

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Notes to Financial Statements
Year Ended June 30, 2018

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, 2018, the contributions made by ACE recognized as part of pension expense for the Plan were as follows:

		<u>Miscellaneous Plan</u>
Contributions - employer	\$	<u>450,749</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 2018.

As of June 30, 2018, 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>305,695</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, 2017, 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, 2016 rolled forward to June 30, 2017 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.

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Notes to Financial Statements
Year Ended June 30, 2018

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 allocation for the Total Pension Liability, Plan Fiduciary Net Position and all other pension amounts (e.g. deferred outflows/inflows of resources and pension expense). The Total Pension Liability and other pension amounts are allocated based on the Actuarial Accrued Liability from the most recent Actuarial Valuation Report as of June 30, 2016 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, 2016 used for funding purposes plus supplemental payments made by employers during the current measurement period to reduce their unfunded actuarial accrued liabilities.

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

	<u>2018</u>
Total pension liability and other pension amounts	0.0005530
Plan fiduciary net position	0.0007050

At June 30, 2018, ACE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Notes to Financial Statements
Year Ended June 30, 2018

NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

	2018	
	Miscellaneous Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,275,749	\$ -
Differences between actual and expected experience	2,642	(37,855)
Changes in assumption	327,837	(24,998)
Changes in employer's proportion	16,076	(509,574)
Differences between the employer's contribution and the employer's proportionate share of contributions	895,164	-
Net differences between projected and actual earnings on pension plan investments	74,143	-
Total	\$ 2,591,612	\$ (572,427)

\$1,275,749 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, 2019.

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	Amount
2019	\$ 282,733
2020	294,033
2021	210,690
2022	(44,021)

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Notes to Financial Statements
Year Ended June 30, 2018

NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

Actuarial Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
 Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	(1)
Mortality	(2)
Post-Retirement Benefit Increase	(3)

(1) Varies by entry age and service

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

(3) Contract COLA up to 2.75% 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, 2016 valuation were based on the results of an 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 7.15 percent and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses.

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

NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

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

The expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017.

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		6.15%
Net Pension Liability	\$	1,386,340
Current Discount Rate		7.15%
Net Pension Liability	\$	305,695
1% Increase		8.15%
Net Pension Liability	\$	(589,314)

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, 2018, ACE did not have outstanding balance for contributions to the pension plan required for the year ended June 30, 2018.

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Notes to Financial Statements
Year Ended June 30, 2018

NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

E. Deferred Compensation Plan

ACE has entered into a salary reduction deferred compensation plan for its employees. The plan allows employees to defer a portion of their current income from state and federal taxation. Employees may withdraw their participation at any time by giving written notice at least a week in advance prior to the effective date of the withdrawal. At June 30, 2018, plan assets with a total fair value of \$1,724,044 were held by independent trustees. Accordingly, such amounts are not reflected in the accompanying basic financial statements.

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

NOTE 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, 2021. The monthly base rent, as defined in the lease agreement, follows:

Period from / to	Monthly Rent	Annual Amount
May 1, 2018 to April 30, 2019	\$ 21,413	\$ 256,959
May 1, 2019 to April 30, 2020	22,056	264,668
May 1, 2020 to April 30, 2021	22,717	272,608
Total lease commitments	\$	794,235

NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Escrow Agreements for Contract Retention

Pursuant to contracts entered into between ACE and several of its contractors, funds are deposited with an Escrow Agent. The Escrow Agent holds the 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 \$15,426,034 for fiscal year ended June 30, 2018. 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, 2018, \$796,965,084 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, 2018 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through March 29, 2019, 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
(A Component Unit of San Gabriel Valley Council of Governments)
Schedule of Proportionate Share of the Net Pension Liability
Last Ten Years***

	<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>	
	<u>Miscellaneous Plan</u>		<u>Miscellaneous Plan</u>		<u>Miscellaneous Plan</u>		<u>Miscellaneous Plan</u>	
							<u>Classic</u>	<u>PEPRA</u>
Proportion of the net pension liability	0.00874%	**	0.02803%		0.03744%		0.01668%	0.00001%
Proportionate share of the net pension liability	\$ 344,628	**	\$ 973,847		\$ 835,047		\$ 1,038,037	\$ 664
Covered - employee payroll ⁽¹⁾	\$ 3,464,229	**	\$ 3,422,438		\$ 2,824,589		\$ 2,764,711	\$ 176,748
Proportionate share of the net pension liability as percentage of covered-employee payroll	9.95%	**	28.45%		29.56%		37.55%	0.38%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	96.11%	**	87.02%		87.61%		83.03%	83.02%
Plan's proportionate share of aggregate employer contributions ⁽²⁾	\$ 322,083	**	\$ 243,174		\$ 408,156		\$ 137,329	\$ 88
ACE proportionate share of the net pension liability	\$ 305,695		\$ 888,148		\$ 834,578		\$ 1,038,037	\$ 126

** Plan pertains to the Miscellaneous Plan of ACE and SGVCOG. Information presented in the financial statements represent amounts allocated to ACE.

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 four years are shown.

See report of independent auditors.

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Schedule of Pension Contributions
Last Ten Years*

	<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>	
	<u>Miscellaneous Plan**</u>		<u>Miscellaneous Plan**</u>		<u>Miscellaneous Plan**</u>		<u>Miscellaneous Plan</u>	
							<u>Classic**</u>	<u>PEPRA**</u>
Actuarially determined contributions	\$ 450,749	\$	527,296	\$	318,540	\$	286,167	10,141
Contributions in relation to the actuarially determined contributions	(450,749) ***		(527,296)		(318,540)		(286,167)	(10,141)
Contribution deficiency (excess)	<u>\$ -</u>	\$	<u>-</u>	\$	<u>-</u>	\$	<u>-</u>	<u>-</u>
Covered-Employee Payroll	<u>\$ 3,464,229</u>	\$	<u>3,422,438</u>	\$	<u>2,824,589</u>	\$	<u>2,764,711</u>	<u>176,748</u>
Contributions as a percentage of covered-employee payroll	<u>13.01%</u>		<u>15.41%</u>		<u>11.28%</u>		<u>10.35%</u>	<u>5.74%</u>

*** Contributions in relation to the actuarially determined contributions exclude payments made toward the unfunded liability of \$825,000 during the fiscal year 2018.

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

Notes to Schedule:

Valuation date June 30, 2016

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	7.15%, net of pension plan investment expense
Retirement age	55 years
Mortality	Derived using CalPERS Membership Data for all funds

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

See report of independent auditors.

SUPPLEMENTARY INFORMATION

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Schedule of Revenues, Expenditures and Changes in Fund Balance
Capital Project Fund - Budget to Actual
Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Amended Final</u>		
Revenues				
Reimbursements				
Federal grants	\$ 2,766,000	\$ 2,766,000	\$ 1,564,190	\$ (1,201,810)
State grants	71,430,000	71,430,000	58,815,305	(12,614,695)
Local grants	50,417,000	50,417,000	27,527,682	(22,889,318)
Betterment - Other	23,388,000	23,388,000	13,585,988	(9,802,012)
Total revenues	<u>148,001,000</u>	<u>148,001,000</u>	<u>101,493,165</u>	<u>(46,507,835)</u>
Operating expenditures				
Construction				
Design	8,921,000	8,921,000	5,273,596	(3,647,404)
Right-of-way acquisition	11,814,000	11,814,000	9,291,612	(2,522,388)
Construction management	12,408,000	12,408,000	14,774,997	2,366,997
Construction	88,900,000	88,900,000	59,186,934	(29,713,066)
Betterments	21,885,000	21,885,000	13,585,988	(8,299,012)
Total construction	<u>143,928,000</u>	<u>143,928,000</u>	<u>102,113,128</u>	<u>(41,814,872)</u>
Indirect				
Personnel				
Salaries and wages	1,547,000	1,547,000	1,566,257	19,257
Fringe benefits	1,334,000	1,334,000	1,773,373	439,373
Employee related expenses	75,000	75,000	25,272	(49,728)
Professional services				
Auditing/accounting	42,000	42,000	41,514	(486)
Legal	25,000	25,000	29,002	4,002
Brokerage	317,000	317,000	51,906	(265,095)
Insurance	250,000	250,000	130,357	(119,643)
Equipment expense	174,000	174,000	130,680	(43,320)
Office expense	251,000	251,000	255,353	4,353
Office operations	51,000	51,000	52,271	1,271
Other	7,000	7,000	11,840	4,840
Applied (under) indirect expense	-	-	(4,067,824)	(4,067,824)
Total indirect	<u>4,073,000</u>	<u>4,073,000</u>	<u>-</u>	<u>(4,073,000)</u>
Total operating expenditures	<u>148,001,000</u>	<u>148,001,000</u>	<u>102,113,128</u>	<u>(45,887,872)</u>
Excess (deficiency) of revenues over expenditures	-	-	(619,963)	(619,963)
Other financing sources (uses)				
Investment and other revenue	775,000	775,000	1,488,456	713,456
Interest and related expenses	(697,000)	(697,000)	(1,472,588)	(775,588)
Non-project reimbursable funds	-	-	306,832	306,832
Non-project reimbursable expense	-	-	(306,832)	(306,832)
Intercompany revenue	-	-	39,201	39,201
Intercompany expense	-	-	(39,201)	(39,201)
Net other financing sources (uses)	<u>78,000</u>	<u>78,000</u>	<u>15,868</u>	<u>(62,132)</u>
Change in fund balance	<u>78,000</u>	<u>78,000</u>	<u>(604,095)</u>	<u>(682,095)</u>
Fund balance at beginning of year	14,007,519	14,007,519	14,007,519	-
Fund balance at end of year	<u>\$ 14,085,519</u>	<u>\$ 14,085,519</u>	<u>\$ 13,403,424</u>	<u>\$ (682,095)</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, 2018, and the related notes to the financial statements, which collectively comprise ACE’s basic financial statements, and have issued our report thereon dated March 29, 2019.

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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 "Vaguez & Company LLP". The signature is written in a cursive, flowing style.

Glendale, California
March 29, 2019



www.vasquezcpa.com

Vasquez & Company LLP has over 45 years of experience in performing audit, accounting & consulting services for all types of nonprofit organizations, for-profit companies, governmental entities and publicly traded companies. Vasquez is a member of the RSM US Alliance. RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit [rsmus.com/about us](http://rsmus.com/about-us) for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.

655 N Central Avenue, Suite 1550 • Glendale, California 91203-1437 • Ph. (213) 873-1700 • Fax (213) 873-1777