



# SGVCOG

San Gabriel Valley Council of Governments

**Audited Financial Statements  
(Primary Government)  
*As of and for the Year Ended June 30, 2019  
with Report of Independent Auditors***

An independently owned member  
**RSM US Alliance**



 **Vasquez  
& Company LLP**  
Certified Public Accountants and Business Consultants

**San Gabriel Valley Council of Governments**  
**Audited Financial Statements**  
**(Primary Government)**  
*As of and for the Year Ended June 30, 2019*  
*with Report of Independent Auditors*

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

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

#### Report on the Financial Statements

We have audited the accompanying financial statements of the primary government of San Gabriel Valley Council of Governments (SGVCOG), which comprise the statement of net position as of June 30, 2019, 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. 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, 2019, 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 Project, 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, 2019, 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, 2019, and our report thereon, dated May 28, 2020, 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 3 through 6 and the required supplementary information on pages 24 through 25 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.

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

**Glendale, California  
May 28, 2020**

**San Gabriel Valley Council of Governments  
(Primary Government)  
Management's Discussion and Analysis  
Year ended June 30, 2019**

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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, 2019. We encourage readers to consider information presented here in conjunction with the financial statements (beginning on page 7). 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 2019, operating revenues increased by 16% from the previous year. The increase was mainly attributable to the new Bike Share and Stormwater grant revenues earned in 2019.

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 10-23.

**San Gabriel Valley Council of Governments  
(Primary Government)  
Management's Discussion and Analysis  
Year ended June 30, 2019**

**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, 2019 and 2018:

|   | June 30             |                     | Variance          |      |
|---|---------------------|---------------------|-------------------|------|
|   | 2019                | 2018                | Amount            | %    |
| Assets  | \$ 2,990,009        | \$ 1,729,391        | \$ 1,260,618      | 73%  |
| Deferred outflows of resources                      | 133,634             | 226,431             | (92,797)          | -41% |
| Total assets and deferred outflows of resources     | <u>3,123,643</u>    | <u>1,955,822</u>    | <u>1,167,821</u>  | 60%  |
| Liabilities   | 1,722,720           | 823,220             | 899,500           | 109% |
| Deferred inflows of resources                       | 38,618              | 72,904              | (34,286)          | -47% |
| Total liabilities and deferred inflows of resources | <u>1,761,338</u>    | <u>896,124</u>      | <u>865,214</u>    | 97%  |
| Net position  |                     |                     |                   |      |
| Restricted  | 110,578             | 110,469             | 109               | 0%   |
| Unrestricted  | 1,251,727           | 949,229             | 302,498           | 32%  |
| Total net position                                  | <u>\$ 1,362,305</u> | <u>\$ 1,059,698</u> | <u>\$ 302,607</u> | 29%  |

Assets increased this year by \$1,260,618 or 73%, and liabilities increased by \$899,500 or 109%. Increase in assets was largely due to higher cash and cash equivalents and grants receivable balances in 2019. The increase in assets was offset by the higher balance in liabilities from the new Bike Share program whose payment was advanced by SGVCOG's component unit ACE.

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 \$1,362,305 and \$1,059,698 as of June 30, 2019 and 2018, respectively.

**San Gabriel Valley Council of Governments  
(Primary Government)  
Management's Discussion and Analysis  
Year ended June 30, 2019**

*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, 2019 and 2018:

|  | <u>Years ended June 30,</u> |                     | <u>Variance</u>   |            |
|--|-----------------------------|---------------------|-------------------|------------|
|  | <u>2019</u>                 | <u>2018</u>         | <u>Amount</u>     | <u>%</u>   |
| <b>Operating revenues</b>                                  |                             |                     |                   |            |
| Dues:  |                             |                     |                   |            |
| General Fund   | \$ 443,814                  | \$ 414,757          | \$ 29,057         | 7%         |
| Transportation   | 310,193                     | 346,041             | (35,848)          | -10%       |
|  | <u>754,007</u>              | <u>760,798</u>      | <u>(6,791)</u>    | <u>-1%</u> |
| Sponsorships   | 35,075                      | 56,676              | (21,601)          | -38%       |
| Grants and matches from other governments:                 |                             |                     |                   |            |
| Los Angeles County Metropolitan Transportation Authority   | 97,549                      | 93,569              | 3,980             | 4%         |
| Southern California Edison - Energywise                    | 68,989                      | 132,566             | (63,577)          | -48%       |
| California Energy Efficiency Strategic Plan Implementation | 54,897                      | 26,272              | 28,625            | 109%       |
| Southern California Gas - Energywise                       | 50,361                      | 131,206             | (80,845)          | -62%       |
| Bike Share Program   | 1,265,014                   | -                   | 1,265,014         | 100%       |
| Homelessness Program                                       | 158,000                     | 644,400             | (486,400)         | -75%       |
| MTA Open Street Program                                    | -                           | 548,705             | (548,705)         | -100%      |
| Stormwater Program   | 224,150                     | -                   | 224,150           | 100%       |
| Cost Comparison / Joint Study Program                      | 94,500                      | -                   | 94,500            | 100%       |
| Others   | 36,244                      | 55,895              | (19,651)          | -35%       |
| <b>Total operating revenues</b>                            | <u>2,838,786</u>            | <u>2,450,087</u>    | <u>388,699</u>    | <u>16%</u> |
| <b>Operating expenses</b>                                  |                             |                     |                   |            |
| Administrative   | 761,890                     | 811,104             | (49,214)          | -6%        |
| Energywise   | 50,663                      | 101,407             | (50,744)          | -50%       |
| Transportation   | 131,040                     | 122,947             | 8,093             | 7%         |
| California Energy Efficiency Strategic Plan Implementation | 21,523                      | 9,755               | 11,768            | 121%       |
| Bike Share Program   | 1,265,014                   | -                   | 1,265,014         | 100%       |
| Homelessness Program                                       | 132,635                     | 573,823             | (441,188)         | -77%       |
| MTA Open Street Program                                    | 4,991                       | 548,705             | (543,714)         | -99%       |
| Stormwater Program   | 124,868                     | -                   | 124,868           | 100%       |
| Cost Comparison / Joint Study Program                      | 18,173                      | -                   | 18,173            | 100%       |
| Others   | 31,185                      | 41,730              | (10,545)          | -25%       |
| <b>Total operating expenses</b>                            | <u>2,541,982</u>            | <u>2,209,471</u>    | <u>332,511</u>    | <u>15%</u> |
| <b>Operating income</b>                                    | <u>296,804</u>              | <u>240,616</u>      | <u>56,188</u>     | <u>23%</u> |
| <b>Nonoperating income</b>                                 |                             |                     |                   |            |
| Interest income  | 5,803                       | 3,402               | 2,401             | 71%        |
| <b>Total nonoperating income</b>                           | <u>5,803</u>                | <u>3,402</u>        | <u>2,401</u>      | <u>71%</u> |
| <b>Change in net position</b>                              | <u>302,607</u>              | <u>244,018</u>      | <u>58,589</u>     | <u>24%</u> |
| <b>Net position, beginning of year</b>                     | <u>1,059,698</u>            | <u>815,680</u>      | <u>244,018</u>    | <u>30%</u> |
| <b>Net position, end of year</b>                           | <u>\$ 1,362,305</u>         | <u>\$ 1,059,698</u> | <u>\$ 302,607</u> | <u>29%</u> |



**San Gabriel Valley Council of Governments  
(Primary Government)  
Management's Discussion and Analysis  
Year ended June 30, 2019**

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During fiscal year 2019, total operating revenues increased by 16% from the previous year. The increase was mainly attributable to the new Bike Share and Stormwater grant revenues earned in 2019.

Revenues for SGVCOG consist primarily of dues from 30 member cities, three Los Angeles County supervisorial districts, and a Joint Power Authority of the water agencies, which represents three municipal water districts, cost reimbursable grants from the Bike Share program, Stormwater program, Homelessness program, 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 \$2,084,779 in FY2019 compared to \$1,689,289 in FY2018, an increase of \$395,490 or 23%. The increase was mostly due to the new Bike Share and Stormwater grant revenues earned in FY2019.

Operating expenses were \$2,541,982 in FY2019 compared to \$2,209,471 in FY 2018, an increase of \$332,511 or 15%. The increase is primarily attributable to program expenses from the new Bike Share and Stormwater programs.

#### **Next Year's Budget**

The budget for fiscal year 2020 assumes that the on-hand net position as of June 30, 2019 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 the 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, 2019**

**ASSETS**

**Current assets**

|                           |    |                             |
|---------------------------|----|-----------------------------|
| Cash and cash equivalents | \$ | 1,471,827                   |
| Grants receivable         |    | 1,342,618                   |
| Other receivables         |    | 104,056                     |
| Prepaid expenses          |    | 12,022                      |
|                           |    | <b>Total current assets</b> |
|                           |    | 2,930,523                   |

**Noncurrent assets**

|                   |  |                                |
|-------------------|--|--------------------------------|
| Net pension asset |  | 59,486                         |
|                   |  | <b>Total noncurrent assets</b> |
|                   |  | 59,486                         |

**Total assets** 2,990,009

**DEFERRED OUTFLOWS OF RESOURCES**

|   |  |                |
|---|--|----------------|
| Deferred outflows of resources related to pension |  | 133,634        |
|   |  | <u>133,634</u> |

**LIABILITIES**

**Current liabilities**

|                                       |  |                                  |
|---------------------------------------|--|----------------------------------|
| Accounts payable and accrued expenses |  | 68,536                           |
| Unearned revenues                     |  | 395,160                          |
| Due to ACE                            |  | 1,224,048                        |
|                                       |  | <b>Total current liabilities</b> |
|                                       |  | 1,687,744                        |

**Noncurrent liabilities**

|                      |  |                                     |
|----------------------|--|-------------------------------------|
| Compensated absences |  | 34,976                              |
|                      |  | <b>Total noncurrent liabilities</b> |
|                      |  | 34,976                              |

**Total liabilities** 1,722,720

**DEFERRED INFLOWS OF RESOURCES**

|  |  |               |
|--|--|---------------|
| Deferred inflows of resources related to pension |  | 38,618        |
|  |  | <u>38,618</u> |

**NET POSITION**

Restricted for :

|   |  |                        |
|---|--|------------------------|
| Water Quality Improvement                           |  | 55,673                 |
| MS4-National Pollutant Discharge Elimination System |  | 54,905                 |
| Unrestricted  |  | 1,251,727              |
|   |  | <b>Net position</b> \$ |
|   |  | 1,362,305              |

*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, 2019**

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**Operating revenues**

|  |                  |
|--|------------------|
| Dues:  |                  |
| General Fund   | \$ 443,814       |
| Transportation   | 310,193          |
|  | 754,007          |
| Sponsorships   | 35,075           |
| Grants and matches from other governments:                 |                  |
| Los Angeles County Metropolitan Transportation Authority   | 97,549           |
| Southern California Edison - Energywise                    | 68,989           |
| California Energy Efficiency Strategic Plan Implementation | 54,897           |
| Southern California Gas - Energywise                       | 50,361           |
| Homelessness Program                                       | 158,000          |
| Western Riverside Council of Governments - California HERO | 5,059            |
| Measure M Program  | 31,185           |
| Bike Share Program   | 1,265,014        |
| Stormwater Program   | 224,150          |
| Cost Comparison / Joint Study                              | 94,500           |
| <b>Total operating revenues</b>                            | <b>2,838,786</b> |

**Operating expenses**

|  |                  |
|--|------------------|
| Administrative   | 761,890          |
| Energywise   | 50,663           |
| Transportation   | 131,040          |
| California Energy Efficiency Strategic Plan Implementation | 21,523           |
| Homelessness Program                                       | 132,635          |
| MTA Open Street Program                                    | 4,991            |
| Measure M Program  | 31,185           |
| Bike Share Program   | 1,265,014        |
| Stormwater Program   | 124,868          |
| Cost Comparison / Joint Study Program                      | 18,173           |
| <b>Total operating expenses</b>                            | <b>2,541,982</b> |

**Operating income** 296,804

**Nonoperating income**

|                                  |              |
|----------------------------------|--------------|
| Interest income                  | 5,803        |
| <b>Total nonoperating income</b> | <b>5,803</b> |

**Change in net position** 302,607

**Net position, beginning of year** 1,059,698

**Net position, end of year** \$ 1,362,305

*See notes to financial statements.*

**San Gabriel Valley Council of Governments**  
**(Primary Government)**  
**Statement of Cash Flows**  
**Year ended June 30, 2019**

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|  |                     |
|--|---------------------|
| <b>Cash flows from operating activities</b>                |                     |
| Cash receipts from cities                                  | \$ 1,072,637        |
| Cash receipts from all other services                      | 1,009,386           |
| Cash paid for operating expenses                           | (2,887,676)         |
| Cash paid for employee compensation and related costs      | (298,964)           |
| <b>Net cash used in operating activities</b>               | <u>(1,104,617)</u>  |
| <br><b>Cash flows from noncapital financing activities</b> |                     |
| Advances from ACE  | <u>1,222,824</u>    |
| <b>Cash provided by noncapital financing activities</b>    | <u>1,222,824</u>    |
| <br><b>Cash flows from investing activities</b>            |                     |
| Interest received  | <u>5,229</u>        |
| <b>Cash provided by investing activities</b>               | <u>5,229</u>        |
| <b>Change in cash and cash equivalents</b>                 | 123,436             |
| <b>Cash and cash equivalents - beginning of year</b>       | <u>1,348,391</u>    |
| <b>Cash and cash equivalents - end of year</b>             | <u>\$ 1,471,827</u> |

Reconciliation of operating income to net cash used in operating activities:

|  |                       |
|--|-----------------------|
| Operating income   | \$ 296,804            |
| Adjustment to reconcile operating income to net cash used in operating activities: |                       |
| Changes in operating assets and liabilities:                                       |                       |
| Other receivables  | (89,671)              |
| Grants receivable  | (985,722)             |
| Prepaid expenses   | (1,729)               |
| Deferred outflows of resources   | 92,797                |
| Accounts payable and accrued expenses  | (610,623)             |
| Unearned revenues  | 318,630               |
| Compensated absences   | 7,602                 |
| Net pension liability (asset)  | (98,419)              |
| Deferred inflows of resources  | (34,286)              |
| <b>Net cash used in operating activities</b>                                       | <u>\$ (1,104,617)</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 Project (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, 2019, 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.

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

**NOTE 1      SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)**

**Basis of Accounting**

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

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

**NOTE 1      SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)**

**Basis of Accounting (Continued)**

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

**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. As of June 30, 2019, the cost of the office equipment has been fully depreciated.

**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.

**NOTE 1      SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)**

**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.

**Implementation of New Accounting Pronouncements**

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

GASB statement No. 83

In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, "*Certain Asset Retirement Obligations.*" This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement is effective for financial statements for the fiscal year beginning after June 15, 2018, and did not impact SGVCOG.

GASB statement No. 88

In March 2018, the Governmental Accounting Standards Board (GASB) issued Statement No. 88, "*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.*" The Statement's objective is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement is effective for financial statements for the fiscal year beginning after June 15, 2018, and did not impact SGVCOG.

**NOTE 2      CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of June 30, 2019 consist of the following:

|                                     |    |                  |
|-------------------------------------|----|------------------|
| Deposits with financial institution | \$ | 1,233,916        |
| Short-term investments              |    | 237,911          |
| Total cash and cash equivalents     | \$ | <u>1,471,827</u> |



**NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)**

**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                                    |

**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.

| <u>Investment Type</u> | <u>Total</u> | <u>12 Months or less</u> |
|------------------------|--------------|--------------------------|
| LAIF                   | \$ 237,911   | \$ 237,911               |
| Total                  | \$ 237,911   | \$ 237,911               |

**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).

**NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)**

**Credit Risk**

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

| Investment Type | Amount     | Minimum<br>Legal<br>Rating | Rating<br>as of<br>Year End<br>Not<br>Rated |
|-----------------|------------|----------------------------|---|
| LAIF            | \$ 237,911 | N/A                        | \$ 237,911                                  |
| Total           | \$ 237,911 |                            | \$ 237,911                                  |

**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, 2019, 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, 2019, the SGVCOG's cash in bank balance of \$1,243,141 exceeded the \$250,000 deposit insurance of the Federal Depository Insurance Corporation (FDIC) by \$993,141.

**NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)**

**Custodial Credit Risk (Continued)**

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, 2019, the total market value of LAIF, including accrued interest was approximately \$106 billion. The fair value of the SGVCOG's investment in this pool is \$237,911 at June 30, 2019 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.

**Fair Value Measurement**

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

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

SGVCOG's investments in LAIF are not measured within the fair value hierarchy.

**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 has employees enrolled under the Classic and PEPRA Plans. SGVCOG currently contributes about 4% to the Classic Plan and about 73% to 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.

**NOTE 3      EMPLOYEE BENEFIT PLAN (CONTINUED)**

***Plan Description (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. 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.

The Plans' provisions and benefits in effect at June 30, 2019 are summarized as follows:

|  | <b>Miscellaneous Plan</b> |                  |
|--|---------------------------|------------------|
|  | Classic                   | PEPRA            |
|  | Prior to                  | On or after      |
|  | Jan. 1, 2013              | Jan. 1, 2013     |
| Hire date  | Jan. 1, 2013              | Jan. 1, 2013     |
| Benefit formula                                    | 2% @ 55                   | 2% @ 62          |
| Benefit vesting schedule                           | 5 years service           | 5 years service  |
| Benefit payments                                   | monthly for life          | monthly for life |
| Retirement age                                     | 50 - 55                   | 52 - 67          |
| Monthly benefits , as a % of eligible compensation | 2.0% to 2.7%              | 1.0% to 2.5%     |
| Required employee contribution rates               | 6.90%                     | 6.25%            |
| Required employer contribution rates               | 8.89%                     | 6.84%            |

**NOTE 3      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. SGVCOG is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2019, the contributions made to the Plan were as follows:

|                          |               |        |
|--------------------------|---------------|--------|
|                          | Miscellaneous |        |
|                          | Plan          |        |
| Contributions - employer | \$            | 35,496 |

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

As of June 30, 2019, SGVCOG reported net pension liabilities (assets) for its proportionate share of the net pension liabilities (assets) of the Plan as follows:

|  |    |   |
|--|----|---|
|  |    | Proportionate<br>Share of Net<br>Pension<br>Liabilities<br>(Assets) |
|  |    | (59,486)  |
| Miscellaneous Plan                     | \$ | (59,486)  |
| Total Net Pension Liabilities (Assets) | \$ | (59,486)  |

SGVCOG's net pension liabilities (assets) for the Plan is measured as the proportionate share of the net pension liability (asset). The net pension liabilities (assets) of the Plan are measured as of June 30, 2018, and the total pension liabilities (assets) for the Plan used to calculate the net pension liabilities (assets) were determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. SGVCOG's proportion of the net pension liabilities (assets) 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)**

**B. Pension Liabilities (Assets), Pension Expenses and Deferred Outflows / Inflows of Resources Related to Pensions (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, 2017 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, 2017 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:

|   | 2019      |
|---|-----------|
| Total pension liability and other pension amounts | 0.0005967 |
| Plan fiduciary net position                       | 0.0008206 |

At June 30, 2019, SGVCOG reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <b>Miscellaneous Plan</b>            |                                     |
|---|--------------------------------------|-------------------------------------|
|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
| Pension contributions subsequent to measurement date  | \$      35,496                       | \$      -                           |
| Differences between actual and expected experience  | (2,282)                              | 777                                 |
| Changes in assumption   | (6,782)                              | 1,662                               |
| Changes in employer's proportion  | -                                    | (40,763)                            |
| Differences between the employer's contribution and the employer's proportionate share of contributions | 107,202                              | -                                   |
| Net differences between projected and actual earnings on pension plan investments                       | -                                    | (294)                               |
| Total   | \$      133,634                      | \$      (38,618)                    |

**NOTE 3      EMPLOYEE BENEFIT PLAN (CONTINUED)**

**B. Pension Liabilities (Assets), Pension Expenses and Deferred Outflows / Inflows of Resources Related to Pensions (continued)**

\$35,496 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, 2020.

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    | Amount            |
|----------------|-------------------|
| <u>June 30</u> | <u>          </u> |
| 2020           | \$ 20,975         |
| 2021           | 22,769            |
| 2022           | 15,241            |
| 2023           | 535               |

***Actuarial Assumptions***

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

|                                  | Miscellaneous                   |
|----------------------------------|---------------------------------|
| Valuation Date                   | June 30, 2017                   |
| Measurement Date                 | June 30, 2018                   |
| Actuarial Cost Method            | Entry-Age Normal<br>Cost Method |
| <br>Actuarial Assumptions:       |                                 |
| Investment rate of return        | 7.15%                           |
| Inflation                        | 2.50%                           |
| Salary Increases                 | (1)                             |
| Mortality (4)                    | (2)                             |
| Post-Retirement Benefit Increase | (3)                             |

(1) Varies by entry age and service

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

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

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

**NOTE 3      EMPLOYEE BENEFIT PLAN (CONTINUED)**

***Long-term Expected Rate of Return***

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

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

The expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018.

***Discount Rate***

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



**NOTE 3      EMPLOYEE BENEFIT PLAN (CONTINUED)**

***Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate***

The following presents SGVCOG's proportionate share of the collective 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         | \$ | 58,169                    |
|                               |    |                           |
| Current Discount Rate         |    | 7.15%                     |
| Net Pension Liability (Asset) | \$ | (59,486)                  |
|                               |    |                           |
| 1% Increase                   |    | 8.15%                     |
| Net Pension Liability (Asset) | \$ | (156,608)                 |

**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, 2019, SGVCOG did not have outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

**NOTE 4      RELATED PARTY TRANSACTIONS**

For the year ended June 30, 2019, SGVCOG paid ACE a total of \$70,458 for transportation technical, administrative, and accounting support, and travel expenses. As of June 30, 2019, SGVCOG owed ACE \$1,224,048.

**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>     |
|----------------------------|-------------------|
| 2020                       | \$ 69,780         |
| 2021                       | <u>60,011</u>     |
| Total                      | <u>\$ 129,791</u> |

**NOTE 7      SUBSEQUENT EVENTS**

SGVCOG has evaluated events or transactions that occurred subsequent to the balance sheet date through May 28, 2020, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined that, except as noted below, no other subsequent matters required disclosure or adjustment to the accompanying financial statements.

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

To date, it is unknown how long these conditions will last and what the complete financial effect will be to businesses and other affected organizations, including local governmental entities. Management believes that financial impact, if any, will not materially affect the June 30, 2019 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\***

| Reporting Year   | <u>2019</u>                   | <u>2018</u>                   | <u>2017</u>                   | <u>2016</u>                   | <u>2015</u>                   |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|  | <u>Miscellaneous<br/>Plan</u> | <u>Miscellaneous<br/>Plan</u> | <u>Miscellaneous<br/>Plan</u> | <u>Miscellaneous<br/>Plan</u> | <u>Miscellaneous<br/>Plan</u> |
| Proportion of the net pension liability (asset)  | -0.01829%                     | 0.00874%                      | 0.02803%                      | 0.03744%                      | 0.00001%                      |
| Proportionate share of the net pension liability (asset)**   | \$ (59,486)                   | \$ 38,933                     | \$ 85,698                     | \$ (1,407)                    | \$ 538                        |
| Covered - employee payroll <sup>(1)**</sup>  | \$ 294,201                    | \$ 586,768                    | \$ 358,859                    | \$ 164,916                    | \$ 155,191                    |
| Proportionate share of the net pension liability (asset) as percentage of covered-employee payroll**           | -20.22%                       | 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 | 105.77%                       | 96.11%                        | 87.02%                        | 87.61%                        | 83.02%                        |
| Plan's proportionate share of aggregate employer contributions <sup>(2)**</sup>                                | \$ 35,496                     | \$ 27,794                     | \$ 21,399                     | \$ 15,076                     | \$ 88                         |

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

**Notes to Schedule**

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

<sup>1</sup> 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.

<sup>2</sup> 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 five years are shown.

*See report of independent auditors.*

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

| Reporting Year  | <u>2019</u><br><u>Miscellaneous</u><br><u>Plan</u> | <u>2018</u><br><u>Miscellaneous</u><br><u>Plan</u> | <u>2017</u><br><u>Miscellaneous</u><br><u>Plan</u> | <u>2016</u><br><u>Miscellaneous</u><br><u>Plan</u> | <u>2015</u><br><u>Miscellaneous</u><br><u>Plan</u> |
|---|--|--|--|--|--|
| Actuarially determined contributions                                  | \$ 59,706  | \$ 58,845  | \$ 66,429  | \$ 8,824   | \$ 8,214   |
| Contributions in relation to the actuarially determined contributions | (59,706)   | (58,845)   | (66,429)   | (8,824)  | (8,214)  |
| Contribution deficiency (excess)                                      | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   |
| Covered-Employee Payroll  | \$ 294,201   | \$ 586,768   | \$ 358,859   | \$ 164,916   | \$ 155,191   |
| Contributions as a percentage of covered-employee payroll             | 20.29%   | 10.03%   | 18.51%   | 5.35%  | 5.29%  |

**Notes to Schedule:**

Valuation date June 30, 2017

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                     | 2.50%   |
| Salary increases              | Varies by Entry Age and Service                     |
| Investment rate of return     | 7.15%, net of pension plan investment expense       |
| Retirement age                | 55 years  |
| Mortality                     | Derived using CalPERS Membership Data for all funds |

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

*See report of independent auditors.*



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**Alameda Corridor – East Project**  
**(A Component Unit of San Gabriel Valley Council of Governments)**  
**Audited Financial Statements**  
*As of and for the Year Ended June 30, 2019*  
*with Report of Independent Auditors*

**Alameda Corridor – East Project**  
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***As of and for the Year Ended June 30, 2019***  
***with Report of Independent Auditors***



**Alameda Corridor - East Project**  
**(A Component Unit of San Gabriel Valley Council of Governments)**  
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## Report of Independent Auditors

### The Honorable Members of the Board of Directors Alameda Corridor – East Project

#### Report on the Financial Statements

We have audited the accompanying financial statements of Alameda Corridor - East Project (ACE), a component unit of San Gabriel Valley Council of Governments (SGVCOG), which comprise the statement of net position as of June 30, 2019, 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 ACE's basic 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.



**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alameda Corridor – East Project as of June 30, 2019, and 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.

**Emphasis of a Matter**

As discussed in Note 1 to the financial statements, the financial statements present only the Alameda Corridor – East Project (ACE), a component unit of San Gabriel Valley Council of Governments (SGVCOG) and do not purport to, and do not, present fairly the financial position of the reporting entity of SGVCOG as of June 30, 2019, and 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.

**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 3–9 and the required supplementary information on pages 31–32 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.

A handwritten signature in black ink that reads "Vasquez &amp; Company LLP".

**Glendale, California  
May 28, 2020**

**Alameda Corridor - East Project  
(A Component Unit of San Gabriel Valley Council of Governments)  
Management's Discussion and Analysis (Unaudited)  
Year Ended June 30, 2019**

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The management's discussion and analysis (MD&A) of the financial performance and activity of the Alameda Corridor – East Project (ACE) provides an overview of ACE financial statements for the year ended June 30, 2019. 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.

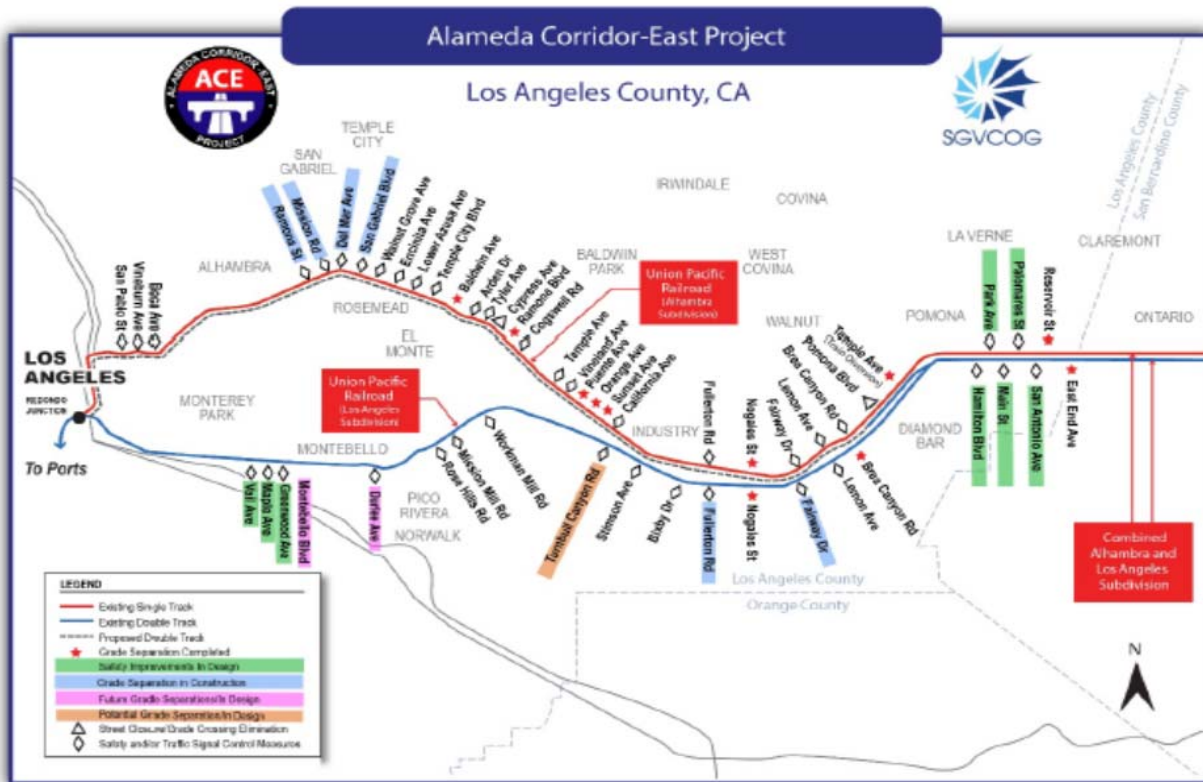
The ACE Project is a comprehensive program of constructing grade separations, where the road goes over or under the railroad, and safety and mobility upgrades at fifty-two crossings in the San Gabriel Valley. Construction has been completed on nine rail-roadway grade separations. Seven additional grade 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, 2019 for the completed safety improvements and 14 grade separations either completed or going into construction is \$1.781 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 2020 will be the Durfee Avenue grade separation project. Currently in design is the Rio Hondo Project, Montebello Corridor Project, the Turnbull Canyon Road Grade Separation Project, and the At-Grade Crossing Safety Improvements.

**Alameda Corridor - East Project**  
**(A Component Unit of San Gabriel Valley Council of Governments)**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2019**

| <b>Project Progress During FY 2019</b> |  |       |       |       |       |       |
|--|--|-------|-------|-------|-------|-------|
| Project                                | 06/18                                    | 09/18 | 12/18 | 03/19 | 06/19 | 09/19 |
| Rio Hondo (220)                        | Design (25% complete)                    |       |       |       |       |       |
| Maple Ave (214)                        | Design (35% complete)                    |       |       |       |       |       |
| At-Grade Crossing (212)                | Design (35% complete)                    |       |       |       |       |       |
| Turnbull Canyon (210)                  | Design (65 complete)                     |       |       |       |       |       |
| Montebello (209)                       | Design (65% complete) / ROW Acquisitions |       |       |       |       |       |
| Durfee (208)                           | ROW Acquisitions / Construction          |       |       |       |       |       |
| 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 Completed                   |       |       |       |       |       |
| Temple/Pomona (119)                    | Construction Completed                   |       |       |       |       |       |



**Alameda Corridor - East Project  
(A Component Unit of San Gabriel Valley Council of Governments)  
Management's Discussion and Analysis (Unaudited)  
Year Ended June 30, 2019**

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As of June 30, 2019, the following funding had been committed to the ACE project:

|  | <b>ACE Funding<br/>Commitments<br/>(\$ millions)</b> |                          |
|--|--|--------------------------|
| <b><u>Federal</u></b>                    |  |                          |
| TEA-21 Earmark                           | \$ 132.6   |                          |
| Annual Appropriations (FY 2000-10)       | 21.5   |                          |
| SAFETEA-LU Earmark                       | 67.4   |                          |
| Rail-Highway Crossing Program            | 10.0   |                          |
| ISTEA (Nogales LA)                       | 6.9  |                          |
| CMAQ (Nogales LA)                        | 6.3  |                          |
| <b>Total Federal</b>                     |  | <b>\$ 244.7</b>          |
| <b><u>State</u></b>                      |  |                          |
| Trans. Imp. Program (FY 2000-04)         | 39.0   |                          |
| PUC Grade Separation Fund                | 25.0   |                          |
| Trans. Cong. Relief Prog. (TCRP)         | 130.3  |                          |
| Trade Corr. Impr. Fund (TCIF)            | 422.2  |                          |
| Hwy. Rail Crossing Safety Act (HRCSA)    | 46.6   |                          |
| SB1                                      | 78.0   |                          |
| <b>Total State</b>                       |  | <b>741.1</b>             |
| <b><u>L.A. County MTA</u></b>            |  |                          |
| 17% - Match                              | 269.9  |                          |
| FY 2007 Call-for-projects                | 28.8   |                          |
| Measure R                                | 400.0  |                          |
| <b>Total L.A. County MTA</b>             |  | <b>698.7</b>             |
| City/County Funds/MWD Funds              | 12.1   |                          |
| Railroad Contributions                   | 36.4   |                          |
| City/Railroad/Betterments/Property Sales | 57.5   |                          |
| <b>Total ACE Project Funding</b>         |  | <b><u>\$ 1,790.5</u></b> |

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 ("LACMTA") (local funding). Working capital therefore remains a major consideration. ACE and LACMTA entered into an agreement to provide ACE \$45M subordinate Proposition C Sales Tax Revenue Revolving Obligation Construction Fund, which replaced the Grants Anticipation Notes as the primary bridge funding.

### **Financial Highlights**

For the year ended June 30, 2019:

- Net position decreased by \$361 thousand, a decrease of 2.4%.
- Construction in progress increased by \$82.9 million, an increase of 10.4%.
- Total revenues decreased by \$17.6 million, a decrease of 17.4%.
- Total project expenses decreased by \$16.9 million, a decrease of 16.7%.

### **Overview of Basic Financial Statements**

The financial statements present the financial picture of ACE from the economic resources measurement focus using the accrual basis of accounting. These statements include all recordable position of ACE 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 ACE'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 ACE'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 and operating expenses related to the construction activities of ACE.

Various disclosures accompany the financial statements in order to provide a full picture of ACE's finances. The notes to the financial statements are on pages 13-30.

**Alameda Corridor - East Project  
(A Component Unit of San Gabriel Valley Council of Governments)  
Management's Discussion and Analysis (Unaudited)  
Year Ended June 30, 2019**

**Condensed Statements of Net Position**

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

|   | June 30              |                      | Variance            |        |
|---|----------------------|----------------------|---------------------|--------|
|   | 2019                 | 2018                 | Amount              | %      |
| Current and other assets                                | \$ 118,096,596       | \$ 120,419,495       | \$ (2,322,899)      | -1.9%  |
| Capital assets  | 15,456               | 21,667               | (6,211)             | -28.7% |
| Construction in progress                                | 879,874,869          | 796,965,084          | 82,909,785          | 10.4%  |
| Less due to member cities and<br>Union Pacific Railroad | <u>(879,874,869)</u> | <u>(796,965,084)</u> | <u>(82,909,785)</u> | -10.4% |
| Total assets  | 118,112,052          | 120,441,162          | (2,329,110)         | -1.9%  |
| Deferred outflows of resources                          | 1,414,919            | 2,591,612            | (1,176,693)         | -45.4% |
| Liabilities   | (104,340,139)        | (107,321,766)        | 2,981,627           | 2.8%   |
| Deferred inflows of resources                           | <u>(408,883)</u>     | <u>(572,427)</u>     | 163,544             | 28.6%  |
| Net position  | <u>\$ 14,777,949</u> | <u>\$ 15,138,581</u> | <u>\$ (360,632)</u> | -2.4%  |

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

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

Total assets decreased by 1.9% to \$118.1 million, mainly due to a sale of one of the surplus properties held for sale and consequent use of the proceeds to reduce liabilities.

Construction in progress increased by 10.4% to \$879.9 million, primarily because of increased construction activity on San Gabriel Trench, Montebello, Fairway Drive, and Fullerton Road projects.

Unearned revenue decreased by 2.2% to \$41.9 million, mainly because of recognition to revenue of some surplus assets from the Fullerton Road and Fairway Drive projects.

Unbilled receivables decreased 46% to \$15.6 million due to lower revenues as a result of near completion of some projects.



**Alameda Corridor - East Project**  
**(A Component Unit of San Gabriel Valley Council of Governments)**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2019**

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**Condensed Statements of Revenues, Expenses and Changes in Net Position**

The following table shows the condensed statements of revenues, expenses and changes in net position for the years ended June 30, 2019 and 2018.

Total net position decreased by \$361 thousand or 2.4% for the year ended June 30, 2019. The decrease was due to change in reimbursement claim of certain pension contributions made in the fiscal years 2015 through 2019 to reduce unfunded pension liabilities from one-time claim to use of amortization period to recover the total pension payments resulting in lower reimbursement claim of indirect costs.

|   | <b>Years ended June 30</b> |               | Variance            |         |
|---|----------------------------|---------------|---------------------|---------|
|   | <b>2019</b>                | 2018          | Amount              | %       |
| Project expenses                        |                            |               |                     |         |
| Direct (Construction)                   | \$ <b>82,090,370</b>       | \$ 97,781,428 | \$ (15,691,058)     | -16.0%  |
| Indirect expenses charged to operations | <b>1,951,846</b>           | 3,145,443     | <u>(1,193,597)</u>  | -37.9%  |
| Total project expenses                  | <b>84,042,216</b>          | 100,926,871   | <u>(16,884,655)</u> | -16.7%  |
| Operating revenues                      |                            |               |                     |         |
| Grant reimbursements                    | <b>83,138,616</b>          | 99,591,251    | (16,452,635)        | -16.5%  |
| Other operating revenues                | <b>499,443</b>             | 1,627,977     | <u>(1,128,534)</u>  | -69.3%  |
| Total revenues                          | <b>83,638,059</b>          | 101,219,228   | <u>(17,581,169)</u> | -17.4%  |
| Income (loss) from operations           | <b>(404,157)</b>           | 292,357       | <u>(696,514)</u>    | -238.2% |
| Nonoperating income (expense)           |                            |               |                     |         |
| Other income                            | <b>1,286,186</b>           | 1,488,456     | (202,270)           | -13.6%  |
| Financing expense                       | <b>(1,242,661)</b>         | (1,472,588)   | 229,927             | -15.6%  |
| Net nonoperating income                 | <b>43,525</b>              | 15,868        | <u>27,657</u>       | 174.3%  |
| Change in net position                  | <b>(360,632)</b>           | 308,225       | (668,857)           | -217.0% |
| Net position at beginning of year       | <b>15,138,581</b>          | 14,830,356    | <u>308,225</u>      | 2.1%    |
| Net position at end of year             | \$ <b>14,777,949</b>       | \$ 15,138,581 | \$ <u>(360,632)</u> | -2.4%   |

**Capital Assets**

ACE had \$15,456 invested in capital assets, net of depreciation, as of June 30, 2019.

**Economic Factors and New Year's Budget**

Budget expenses in fiscal year 2020 decreased 5% over 2019, as decreases in construction were offset by increases in right-of-way acquisitions. Based on 2020 first quarter expenditures, it is anticipated the 2020 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 Project**  
**(A Component Unit of San Gabriel Valley Council of Governments)**  
**Statement of Net Position**  
**June 30, 2019**

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**ASSETS**

**Current assets**

|                                 |    |                    |
|---------------------------------|----|--------------------|
| Cash and investments            | \$ | 54,952,161         |
| Grants receivable               |    | 29,454,572         |
| Unbilled receivable             |    | 15,578,889         |
| Notes receivable                |    | 150,000            |
| Interest receivable             |    | 10,537             |
| Retention receivable            |    | 2,007,845          |
| Other receivables               |    | 542,593            |
| Due from SGVCOG                 |    | 1,224,048          |
| Prepaid expenses                |    | 243,874            |
| Property held for sale          |    | 11,092,243         |
| Under-recovery of indirect cost |    | 2,209,997          |
| <b>Total current assets</b>     |    | <u>117,466,759</u> |

**Noncurrent assets**

|  |  |                    |
|--|--|--------------------|
| Capital assets - Leasehold improvement and equipment |  | 15,456             |
| Construction in progress                             |  | 879,874,869        |
| Less due to member cities and Union Pacific Railroad |  | (879,874,869)      |
| Net pension asset                                    |  | 629,837            |
| <b>Total noncurrent assets</b>                       |  | <u>645,293</u>     |
| <b>Total assets</b>                                  |  | <u>118,112,052</u> |

**DEFERRED OUTFLOWS OF RESOURCES**

|  |  |                  |
|--|--|------------------|
| Deferred outflows of resources related to pensions |  | 1,414,919        |
| <b>Total deferred outflows of resources</b>        |  | <u>1,414,919</u> |

**LIABILITIES**

**Current liabilities**

|                                       |  |                   |
|---------------------------------------|--|-------------------|
| Accounts payable and accrued expenses |  | 15,444,050        |
| Accrued retention payable             |  | 1,894,846         |
| Unearned revenue                      |  | 41,866,818        |
| <b>Total current liabilities</b>      |  | <u>59,205,714</u> |

**Noncurrent liabilities**

|                                     |  |                    |
|-------------------------------------|--|--------------------|
| Compensated absences                |  | 134,425            |
| MTA promissory note payable         |  | 45,000,000         |
| <b>Total noncurrent liabilities</b> |  | <u>45,134,425</u>  |
| <b>Total liabilities</b>            |  | <u>104,340,139</u> |

**DEFERRED INFLOWS OF RESOURCES**

|   |  |                |
|---|--|----------------|
| Deferred inflows of resources related to pensions |  | 408,883        |
| <b>Total deferred outflows of resources</b>       |  | <u>408,883</u> |

**NET POSITION**

**Net position**

|                                  |  |                          |
|----------------------------------|--|--------------------------|
| Net investment in capital assets |  | 15,456                   |
| Unrestricted                     |  | 14,762,493               |
| <b>Total net position \$</b>     |  | <u><u>14,777,949</u></u> |

*See notes to financial statements.*

**Alameda Corridor - East Project**  
**(A Component Unit of San Gabriel Valley Council of Governments)**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended June 30, 2019**

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|  |                         |                   |
|--|-------------------------|-------------------|
| <b>Project expenses</b>                  |                         |                   |
| Direct (Construction)                    | \$                      | 82,090,370        |
| Indirect expenses charged to operations  |                         | 1,951,846         |
|  | Total project expenses  | <u>84,042,216</u> |
| <b>Operating revenues</b>                |                         |                   |
| Grant reimbursements                     |                         | 83,138,616        |
| Other operating revenues                 |                         | 499,443           |
|  | Total revenues          | <u>83,638,059</u> |
|  | Loss from operations    | (404,157)         |
| <b>Nonoperating income (expense)</b>     |                         |                   |
| Other income                             |                         | 1,286,186         |
| Financing expense                        |                         | (1,242,661)       |
|  | Net nonoperating income | <u>43,525</u>     |
|  |                         | (360,632)         |
| <b>Change in net position</b>            |                         | (360,632)         |
| <b>Net position at beginning of year</b> |                         | <u>15,138,581</u> |
| <b>Net position at end of year</b>       | \$                      | <u>14,777,949</u> |

*See notes to financial statements.*

Alameda Corridor - East Project  
(A Component Unit of San Gabriel Valley Council of Governments)  
Statement of Cash Flows  
Year Ended June 30, 2019

---

**Cash flows from operating activities**

|   |                    |
|---|--------------------|
| Cash receipts from construction activities            | \$ 100,004,733     |
| Cash paid for operating expenses                      | (82,564,157)       |
| Cash paid for employee compensation and related costs | <u>(3,112,180)</u> |
| <b>Net cash provided by operating activities</b>      | <u>14,328,396</u>  |

**Cash flows from noncapital financing activities**

|   |                    |
|---|--------------------|
| Advances to SGVCOG                                  | (1,222,824)        |
| Interest paid on MTA promissory note payable        | <u>(1,242,661)</u> |
| <b>Cash used in noncapital financing activities</b> | <u>(2,465,485)</u> |

**Cash flows from investing activities**

|  |                  |
|--|------------------|
| Interest received                            | <u>1,283,300</u> |
| <b>Cash provided by investing activities</b> | <u>1,283,300</u> |

**Change in cash and investments** 13,146,211

**Cash and investments - beginning of year** 41,805,950

**Cash and investments - end of year** \$ 54,952,161

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

|  |                      |
|--|----------------------|
| Operating loss   | \$ (404,157)         |
| Adjustment to reconcile operating income to net cash provided by operating activities: |                      |
| Depreciation   | 6,211                |
| Changes in operating assets and liabilities:   |                      |
| Grants receivable  | (11,223,435)         |
| Unbilled receivable  | 13,288,265           |
| Retention receivable   | (635,688)            |
| Other receivables  | 484,467              |
| Prepaid expenses   | 24,592               |
| Property held for sale   | 16,175,148           |
| Under-recovery of indirect cost  | (788,692)            |
| Deferred outflows of resources related to pensions                                     | 1,176,693            |
| Accounts payable and accrued expenses  | (2,163,889)          |
| Accrued retention payable  | 461,056              |
| Unearned revenue   | (933,391)            |
| Compensated absences   | (39,708)             |
| Net pension liability (asset)  | (935,532)            |
| Deferred inflows of resources related to pensions                                      | <u>(163,544)</u>     |
| <b>Net cash provided by operating activities</b>                                       | <u>\$ 14,328,396</u> |

*See notes to financial statements.*

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**The Reporting Entity**

The accompanying financial statements present only the Alameda Corridor - East Project (ACE) which 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.

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

**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.

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

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting (Continued)**

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
  
- Restricted – This component of net position consists of constraints placed on resources through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
  
- Unrestricted – This component of net position consists of resources that do not meet the definition of “restricted” or “net investment in capital assets.”

**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 investments portfolio managed by financial institutions 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 (LACMTA) 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**

The threshold for capitalization is \$5,000 in accordance with federal guidelines. 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  |

**Construction in Progress**

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

**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, 2019, property held for resale was \$11,092,243.

**Pensions**

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



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**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Implementation of New Accounting Pronouncements**

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

GASB statement No. 83

In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, "*Certain Asset Retirement Obligations*." This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement is effective for financial statements for the fiscal year beginning after June 15, 2018, and did not impact ACE.

GASB statement No. 88

In March 2018, the Governmental Accounting Standards Board (GASB) issued Statement No. 88, "*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*." The Statement's objective is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement is effective for financial statements for the fiscal year beginning after June 15, 2018, and did not impact ACE.

**NOTE 2      CAPITAL ASSETS**

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

|                                    | <b>Balance</b>       |                   |                  | <b>Balance</b>       |
|------------------------------------|----------------------|-------------------|------------------|----------------------|
|                                    | <b>June 30, 2018</b> | <b>Additions</b>  | <b>Deletions</b> | <b>June 30, 2019</b> |
| Cost:                              |                      |                   |                  |                      |
| Leasehold improvements             | \$ 19,762            | \$ -              | -                | \$ 19,762            |
| Computer equipment                 | 349,816              | -                 | -                | 349,816              |
| Telephone equipment                | 12,086               | -                 | -                | 12,086               |
| Office furniture                   | 31,972               | -                 | -                | 31,972               |
| Total cost                         | <u>413,636</u>       | <u>-</u>          | <u>-</u>         | <u>413,636</u>       |
| Less accumulated depreciation for: |                      |                   |                  |                      |
| Leasehold improvements             | 19,762               | -                 | -                | 19,762               |
| Computer equipment                 | 328,149              | 6,211             | -                | 334,360              |
| Telephone equipment                | 12,086               | -                 | -                | 12,086               |
| Office furniture                   | 31,972               | -                 | -                | 31,972               |
| Total accumulated depreciation     | <u>391,969</u>       | <u>6,211</u>      | <u>-</u>         | <u>398,180</u>       |
| Capital assets, net \$             | <u>21,667</u>        | <u>\$ (6,211)</u> | <u>-</u>         | <u>\$ 15,456</u>     |

Depreciation expense included in indirect expenses for the year ended June 30, 2019 amounted to \$6,211.

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**NOTE 3 CASH AND INVESTMENTS**

Cash and investments at June 30, 2019 consist of the following:

|                            |    |                          |
|----------------------------|----|--------------------------|
| Cash in bank               | \$ | 602,007                  |
| Pooled funds               |    | 1,648,902                |
| Money market funds         |    | 25,883,959               |
| Investments                |    | <u>26,817,293</u>        |
| Total cash and investments | \$ | <u><u>54,952,161</u></u> |

**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<br>Investment Type  | Maximum<br>Maturity | Maximum<br>Percentage<br>of Portfolio | Maximum<br>Investment<br>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<br>Companies Registered with the SCE | None                | 20%                                   | 10%                                    |
| State's Local Agency Investment Fund   | None                | None                                  | None                                   |
| Mortgage-backed Securities   | 5 years             | 15%                                   | None                                   |

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**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that 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>  |
| LAIF                          | \$ 1,648,902         | \$ 1,648,902                          | \$ -                   | \$ -                 |
| Money Market Funds            | 25,883,959           | 25,883,959                            | -                      | -                    |
| Fidelity Government Portfolio | 1,544,795            | 1,544,795                             | -                      | -                    |
| Government Agencies           | 14,256,015           | 649,425                               | 3,629,212              | 9,977,378            |
| Certificates of Deposit       | 3,164,307            | 1,280,163                             | 1,391,302              | 492,842              |
| Corporate Bonds               | 7,500,001            | 1,350,948                             | 989,541                | 5,159,512            |
| Municipals                    | 352,175              | 100,486                               | 101,561                | 150,128              |
| <b>Total</b>                  | <b>\$ 54,350,154</b> | <b>\$ 32,458,678</b>                  | <b>\$ 6,111,616</b>    | <b>\$ 15,779,860</b> |

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**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

**Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations**

ACE has no investments 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 and the Policy and the actual rating at the end of the year for each investment type.

| Investment Type               | Total         | Minimum<br>Legal<br>Rating | Rating As of June 30, 2019 |               |              |              |
|-------------------------------|---------------|----------------------------|----------------------------|---------------|--------------|--------------|
|                               |               |                            | AAA                        | AA            | A            | Not<br>Rated |
| LAIF                          | \$ 1,648,902  | N/A                        | \$ -                       | \$ -          | \$ -         | \$ 1,648,902 |
| Money Market Funds            | 25,883,959    | A                          | 25,883,959                 | -             | -            | -            |
| Fidelity Government Portfolio | 1,544,795     | N/A                        | -                          | -             | -            | 1,544,795    |
| Government Agencies           | 14,256,015    | A                          | -                          | 11,894,300    | -            | 2,361,715    |
| Certificates of Deposit       | 3,164,307     | N/A                        | -                          | -             | 903,679      | 2,260,628    |
| Corporate Bonds               | 7,500,001     | A                          | -                          | 874,980       | 6,625,021    | -            |
| Municipals                    | 352,175       | A                          | -                          | 352,175       | -            | -            |
| Total                         | \$ 54,350,154 |                            | \$ 25,883,959              | \$ 13,121,455 | \$ 7,528,700 | \$ 7,816,040 |

**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, 2019, ACE had no investments in any one issuer (other than money market funds and external investment pools) that represent 5% or more of ACE's total 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.

**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, 2019, 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, 2019, the following investment types were held by the same broker-dealer (counterparty) that was used by ACE to buy the securities:

| Investment Type    | Reported<br>Amount          |
|--------------------|-----------------------------|
| Money market funds | \$ <u><u>25,883,959</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, 2019, the total fair value of LAIF, including accrued interest was approximately \$106 billion. The fair value of ACE's investment in this pool is \$1,648,902 at June 30, 2019 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.

**Fair Value Measurement**

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

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**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

**Fair Value Measurement (Continued)**

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

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

| Investment Type               | Investments<br>That Are Not<br>Measured at<br>Fair Value | Quoted Prices in<br>Active Markets<br>for Identical Assets<br>Level 1 | Significant Other<br>Observable<br>Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 | Total                |
|-------------------------------|--|---|--|--|----------------------|
| LAIF                          | \$ 1,648,902   | \$ -  | \$ -   | \$ -   | \$ 1,648,902         |
| Money Market Funds            | -  | -   | 25,883,959   | -  | 25,883,959           |
| Fidelity Government Portfolio | -  | -   | 1,544,795  | -  | 1,544,795            |
| Government Agencies           | -  | -   | 14,256,015   | -  | 14,256,015           |
| Certificates of Deposit       | -  | -   | 3,164,307  | -  | 3,164,307            |
| Corporate Bonds               | -  | -   | 7,500,001  | -  | 7,500,001            |
| Municipals                    | -  | -   | 352,175  | -  | 352,175              |
| Total                         | <u>\$ 1,648,902</u>                                      | <u>\$ -</u>   | <u>\$ 52,701,252</u>                                 | <u>\$ -</u>                                      | <u>\$ 54,350,154</u> |

**NOTE 4 LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY (LACMTA) PROMISSORY NOTE PAYABLE**

In June 2013, ACE entered into a promissory note to borrow up to \$45,000,000, in variable rate, from the LACMTA to be used as working capital. The note payable balance outstanding at June 30, 2019 amounted to \$45,000,000. Interest rates vary according to market conditions and have ranged from 1.77% to 3.05%.

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

**NOTE 5            GRANTS RECEIVABLE**

During the year ended June 30, 2019, ACE was the recipient, primarily from the U.S. Department of Transportation through California Department of Transportation (CalTRANS), of cost reimbursement type grants. Local matching share funds are also received from LACMTA. These grants are expenditure driven; funds must be expended before reimbursement is received. Certain amounts have been held back by the grantor agency pending completion of certain phases of contracted work and certain costs incurred may be subject to disallowance. Grants receivable and unbilled grants receivable at June 30, 2019 are shown net of disallowed costs. CalTRANS approved, under Uniform Guidance section 2 CFR 200.516, an indirect overhead allocation formula of 151.4% of total direct salaries and fringe benefit costs. Indirect costs incurred charged to grants for the year ended June 30, 2019 were \$1,951,846.

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

**NOTE 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.

Classic participants (defined as eligible participants prior to January 1, 2013) are required to contribute about 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 PEPR) 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.

**NOTE 6      EMPLOYEE BENEFIT PLAN (CONTINUED)**

***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, 2019, are summarized as follows:

|  | <b>Miscellaneous Plan</b> |                  |
|--|---------------------------|------------------|
|  | Classic                   | PEPRA            |
|  | 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               | 8.89%                     | 6.84%            |

**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, 2019, the contributions made by ACE to the Plan were as follows:

|                          | <b>Miscellaneous Plan</b> |
|--------------------------|---------------------------|
| Contributions - employer | \$ 375,831                |



**NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)**

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

As a component unit of SGVCOG, ACE was allocated pension liabilities (assets), pension expense and deferred inflows and outflows of resources based on ACE's share of the pension contribution during the fiscal year 2019.

As of June 30, 2019, ACE reported net pension liabilities (assets) for its proportionate shares of the net pension liabilities (assets) of the Plan as follows:

|                                     |                           |
|-------------------------------------|---------------------------|
|                                     | <u>Miscellaneous Plan</u> |
| Net Pension Liabilities (Assets) \$ | (629,837)                 |

ACE's net pension liabilities (assets) for the Plan are measured as the proportionate share of the net pension liability (asset). The net pension liabilities (assets) of the Plan are measured as of June 30, 2018, and the total pension liabilities (assets) for the Plan used to calculate the net pension liabilities (assets) were determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. ACE's proportion of the net pension liabilities (assets) 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.

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, 2017 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, 2017 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:

|   |           |
|---|-----------|
|   | 2019      |
| Total pension liability and other pension amounts | 0.0005967 |
| Plan fiduciary net position                       | 0.0008206 |

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**NOTE 6      EMPLOYEE BENEFIT PLAN (CONTINUED)**

At June 30, 2019, ACE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <b>Miscellaneous Plan</b>            |                                     |
|---|--------------------------------------|-------------------------------------|
|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
| Pension contributions subsequent to measurement date  | \$ 375,831                           | \$ -                                |
| Differences between actual and expected experience  | (24,166)                             | 8,223                               |
| Changes in assumption   | (71,803)                             | 17,598                              |
| Changes in employer's proportion  | -                                    | (431,590)                           |
| Differences between the employer's contribution and the employer's proportionate share of contributions | 1,135,057                            | -                                   |
| Net differences between projected and actual earnings on pension plan investments                       | -                                    | (3,114)                             |
| <b>Total</b>  | <b>\$ 1,414,919</b>                  | <b>\$ (408,883)</b>                 |

\$375,831 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, 2020.

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<br>June 30 | Amount     |
|------------------------|------------|
| 2020                   | \$ 222,085 |
| 2021                   | 241,080    |
| 2022                   | 161,375    |
| 2023                   | 5,665      |

**NOTE 6      EMPLOYEE BENEFIT PLAN (CONTINUED)**

***Actuarial Assumptions***

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

|                                  | Miscellaneous                   |
|----------------------------------|---------------------------------|
| Valuation Date                   | June 30, 2017                   |
| Measurement Date                 | June 30, 2018                   |
| Actuarial Cost Method            | Entry-Age Normal<br>Cost Method |
| <br>Actuarial Assumptions:       |                                 |
| Investment rate of return        | 7.15%                           |
| Inflation                        | 2.50%                           |
| Salary Increases                 | (1)                             |
| Mortality (4)                    | (2)                             |
| Post-Retirement Benefit Increase | (3)                             |

- (1) Varies by entry age and service
- (2) Derived using CalPERS' Membership Data for all funds
- (3) Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies.
- (4) The mortality table used was developed based on CalPERS-specific data. The includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

***Long-term Expected Rate of Return***

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

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

**NOTE 6      EMPLOYEE BENEFIT PLAN (CONTINUED)**

***Long-term Expected Rate of Return (Continued)***

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, 2018.

***Discount Rate***

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

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

The following presents 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         | \$ | 615,899                   |
| Current Discount Rate         |    | 7.15%                     |
| Net Pension Liability (Asset) | \$ | (629,837)                 |
| 1% Increase                   |    | 8.15%                     |
| Net Pension Liability (Asset) | \$ | (1,658,173)               |

**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, 2019, ACE did not have outstanding balance for contributions to the pension plan required for the year ended June 30, 2019.

**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, 2019, plan assets with a total fair value of \$1,834,939 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 and the unused lease commitment, as defined in the lease agreement, follows:

| Period from / to               | Monthly<br>Rent | Annual<br>Amount      |
|--------------------------------|-----------------|-----------------------|
| July 1, 2019 to April 30, 2020 | \$ 22,056       | \$ 220,557            |
| May 1, 2020 to April 30, 2021  | 22,717          | <u>272,608</u>        |
| Total lease commitments        | \$              | <u><u>493,165</u></u> |

**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 expenses related to contract retention payments totaling \$523,424 for fiscal year ended June 30, 2019. 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, 2019, \$879,874,869 of costs was accumulated on projects in process and \$463,758,906 had been transferred to UPRR and impacted cities.

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

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

**NOTE 9      SUBSEQUENT EVENTS**

ACE has evaluated events or transactions that occurred subsequent to the balance sheet date through May 28, 2020, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined that, except as noted below, no other subsequent matters required disclosure or adjustment to the accompanying financial statements.

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

To date, it is unknown how long these conditions will last and what the complete financial effect will be to businesses and other affected organizations, including local governmental entities. Management believes that financial impact, if any, will not materially affect the June 30, 2019 financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**



**Alameda Corridor - East Project  
(A Component Unit of San Gabriel Valley Council of Governments)  
Schedule of Proportionate Share of the Net Pension Liability  
Last Ten Years\***

| Reporting Year   | 2019               | 2018               | 2017               | 2016               | 2015                       |                           |
|--|--------------------|--------------------|--------------------|--------------------|----------------------------|---------------------------|
|  | Miscellaneous Plan | Miscellaneous Plan | Miscellaneous Plan | Miscellaneous Plan | Miscellaneous Plan Classic | Miscellaneous Plan PEPRAs |
| Proportion of the net pension liability (asset)  | -0.01829%          | 0.00874%           | 0.02803%           | 0.03744%           | 0.01668%                   | 0.00001%                  |
| Proportionate share of the net pension liability (asset)**   | \$ (629,837)       | 344,628            | \$ 973,847         | \$ 835,047         | \$ 1,038,037               | \$ 664                    |
| Covered - employee payroll <sup>(1)**</sup>  | \$ 3,115,011       | 3,464,229          | \$ 3,422,438       | \$ 2,824,589       | \$ 2,764,711               | \$ 176,748                |
| Proportionate share of the net pension liability (asset) as percentage of covered-employee payroll**           | -20.22%            | 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 | 105.77%            | 96.11%             | 87.02%             | 87.61%             | 83.03%                     | 83.02%                    |
| Plan's proportionate share of aggregate employer contributions <sup>(2)**</sup>                                | \$ 375,831         | 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**

- <sup>1</sup> 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.
- <sup>2</sup> 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 five years are shown.

*See report of independent auditors.*

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

| Reporting Year  | 2019                 | 2018                 | 2017                 | 2016                 | 2015                         |                            |
|---|----------------------|----------------------|----------------------|----------------------|------------------------------|----------------------------|
|   | Miscellaneous Plan** | Miscellaneous Plan** | Miscellaneous Plan** | Miscellaneous Plan** | Miscellaneous Plan Classic** | Miscellaneous Plan PEPRA** |
| Actuarially determined contributions                                  | \$ 363,686           | \$ 450,749           | \$ 527,296           | \$ 318,540           | \$ 286,167                   | \$ 10,141                  |
| Contributions in relation to the actuarially determined contributions | (363,686)            | (450,749)            | (527,296)            | (318,540)            | (286,167)                    | (10,141)                   |
| Contribution deficiency (excess)                                      | \$ -                 | \$ -                 | \$ -                 | \$ -                 | \$ -                         | \$ -                       |
| Covered-Employee Payroll  | \$ 3,115,011         | \$ 3,464,229         | \$ 3,422,438         | \$ 2,824,589         | \$ 2,764,711                 | \$ 176,748                 |
| Contributions as a percentage of covered-employee payroll             | 11.68%               | 13.01%               | 15.41%               | 11.28%               | 10.35%                       | 5.74%                      |

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

**Notes to Schedule:**

Valuation date June 30, 2017

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                     | 2.50%   |
| Salary increases              | Varies by Entry Age and Service                     |
| Investment rate of return     | 7.15%, net of pension plan investment expense       |
| Retirement age                | 55 years  |
| Mortality                     | Derived using CalPERS Membership Data for all funds |

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

*See report of independent auditors.*



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