

ALAMEDA CORRIDOR - EAST CONSTRUCTION AUTHORITY



RAMONA BOULEVARD GRADE SEPARATION

FINANCIAL STATEMENTS

WITH
INDEPENDENT
AUDITOR'S
REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Alameda Corridor East Construction Authority
General Purpose Financial Statements

Year ended June 30, 2008

Table of Contents

Management's Discussion and Analysis	1
Independent Auditor's Report	8
General Purpose Financial Statements	
Statement of Net Assets	10
Balance Sheet – Governmental Funds	11
Reconciliation of Statement of Net Assets & Balance Sheet – Governmental Funds	12
Statement of Activities and Changes in Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balance	14
Reconciliation of Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balance	15
Notes to the Financial Statements	16
Supplemental Information	
Statement of Revenues and Expenditures – Budget to Actual	29

Alameda Corridor-East Construction Authority

FY 2008 Financial Statements

Management Discussion and Analysis

The Management Discussion and Analysis section of the Alameda Corridor-East (ACE) Construction Authority's annual financial report for the fiscal year ended June 30, 2008 contains a narrative discussion and analysis of the financial activities of the Authority within the context of the following financial statements and notes.

Background:

The San Gabriel Valley Council of Governments (SGVCOG) created the Alameda Corridor-East (ACE) Construction Authority in 1998 to mitigate the effects of increasing Union Pacific Railroad (UPRR) train traffic in the San Gabriel 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.

The original budget for the project was \$950 million in 1998 dollars. The project was broken out into two phases. Phase I includes a test deployment of a modernized traffic control system, safety improvements at 39 grade crossings, and 10 grade separations, two of which were assigned to other agencies. Phase II includes the remaining 10 grade separations. The current Phase I budget is \$497 million. The Phase II budget has recently been estimated at \$918 million reflecting changes in project definitions, funding delays and significant construction cost inflation over the last 3- 5 years.

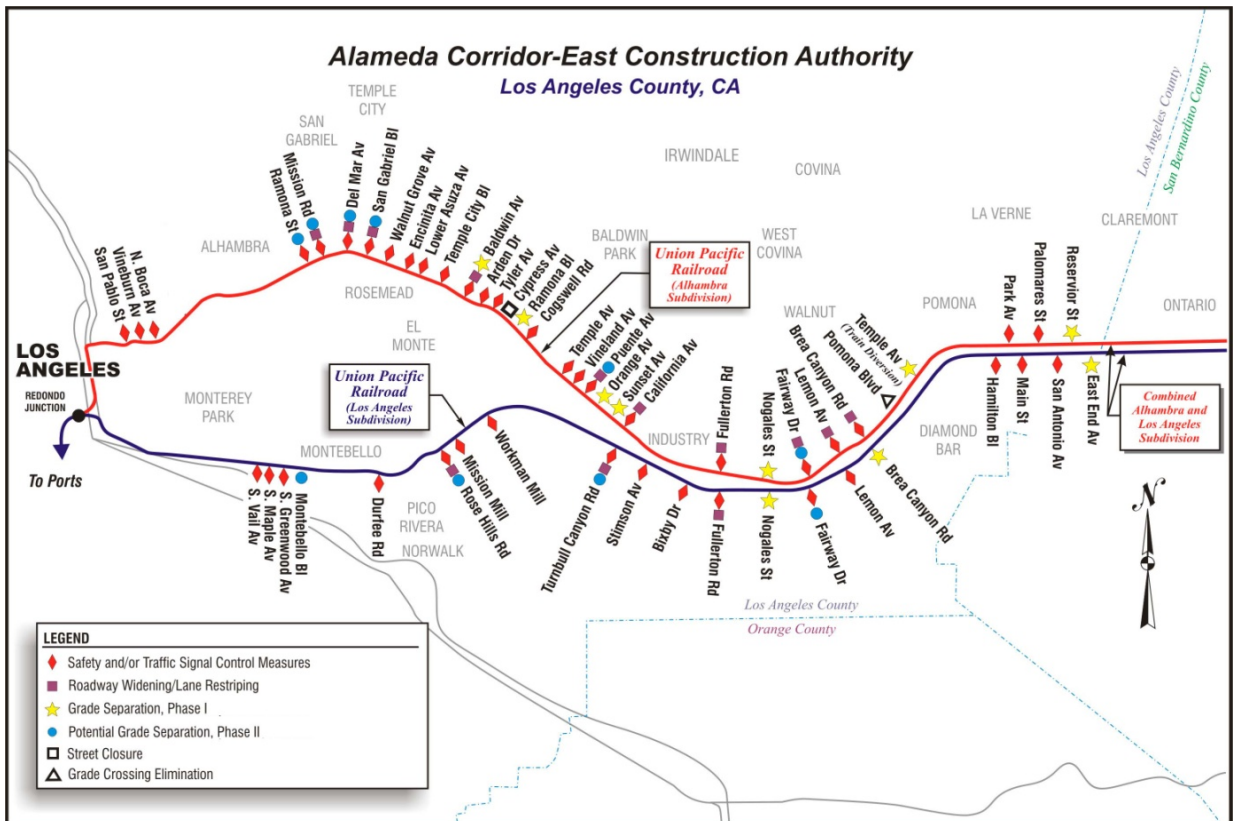
Phase I is progressing well. The Nogales Street project in West Covina/Industry was completed in 2005, the Reservoir Street project in Pomona was opened to traffic in 2005, Ramona Boulevard in El Monte, East End Avenue in Pomona, and Brea Canyon Road in Industry/Diamond Bar opened in 2008. Sunset Avenue in City of Industry and the Temple Avenue Train Diversion in Pomona are under construction. Property is being acquired for remaining Phase I project, Baldwin Avenue in El Monte, in anticipation of construction starting in 2009. In addition, the ACE Project has assumed responsibility for the Southern Nogales Street grade separation (completing design and environmental review) and has begun design of the San Gabriel Trench Project.

Alameda Corridor-East Construction Authority FY 2008 Financial Statements

Management Discussion and Analysis

Project Map

Project Progress During FY 2008					
Project	06/07	09/07	12/07	03/08	06/08
Baldwin	Right of Way Acquisitions				
Brea Canyon	Construction				
East End	Construction				
Reservoir	Open to traffic				
Nogales	Open to traffic				
Ramona/Cypress	Construction				
Sunset/Orange	Construction				
Temple/Pomona	Construction				
East End	Open to Traffic				



ALAMEDA CORRIDOR-EAST PROJECT AREA

REVISED DATE 3/08

**Alameda Corridor-East Construction Authority
FY 2008 Financial Statements**

Management Discussion and Analysis

As of June 30, 2008 the following funding had been committed to the ACE project:

<u>Federal</u>	Committed/Pledged (\$ millions)	
TEA-21 Earmark	\$	135.5
Annual (FY 2000-06)		16.5
SAFETEA-LU Earmark		66.0
Total Federal	\$	218.0
<u>State</u>		
Trans. Imp. Program (FY 2000-04)		39.0
PUC Grade Separation Fund		5.0
Trans. Cong. Relief Prog. (TCRP)		130.3
Trade Corr. Infr. Fund (TCIF)		336.6
Hwy. Rail Crossing Safety Act (HRSA)		25.6
Total State	\$	536.5
<u>L.A. Metro Transp Auth.</u>		
17% - Match		260.1
FY 2007 Call-for-projects		28.8
Total L.A. Metro	\$	288.9
City/County Funds		21.6
Railroad Contributions		23.7
Total ACE Funding	\$	<u>1,088.7</u>

The Committed/Pledged amounts may differ slightly from authorized funding due to budgetary holdbacks on multi-year grants and reflect management’s best estimate as to the amount that will ultimately be available. Railroad contribution reflects the federal ceiling of 5% of construction cost pro-rated over the construction phase of the various projects. Funds in excess of Phase I requirements are being used for the first projects of Phase II, Nogales Street grade separation and the San Gabriel Trench.

ACE Construction Authority 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, each phase - design, right-of-way acquisition and utility relocation, and construction - must be approved for reimbursement by Caltrans.

ACE Construction Authority must pay contractors and vendors first before invoicing grantors for reimbursement. Reimbursements are currently running between two to six weeks for

Alameda Corridor-East Construction Authority

FY 2008 Financial Statements

Management Discussion and Analysis

Caltrans (Federal and State funding) and the Los Angeles County Metropolitan Transportation Authority (local funding). Working capital therefore remains a major consideration. ACE Construction Authority's parent organization, the San Gabriel Valley Council of Governments, authorized the issuance of up to \$100 million in grant anticipation notes to satisfy working capital requirements. This program has been in effect since 2001 and has generated over \$3 million in net earnings.

Overview of Basic Financial Statements:

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

Government-wide Financial Statements

The government-wide financial statements found on pages 10 and 13 are designed to give readers a broad overview of the Authority's financial position. These include all of the Authority's assets and liabilities, revenues and expenses. The accounting basis is full accrual (similar to private sector companies) where the Authority's revenues and expenses are reported as the causal event occurs, instead of when the revenue was received or expense paid.

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

The "Statement of Activities" presents the Authority's revenues and expenses for the fiscal year ending on June 30, 2008. The statement has four primary areas: Operating Expenditures, Operating Revenues, Financing Income and Change in Net Assets. Expenses are broken out into Direct (those expenses that can be identified directly to individual projects) and Indirect, while Financing Income is the interest earned on cash balances less interest and fees paid on the corresponding debt.

Fund Financial Statements

The fund financial statements can be found on pages 11 and 14 of this report. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

Alameda Corridor-East Construction Authority FY 2008 Financial Statements

Management Discussion and Analysis

The ACE Construction Authority, unlike municipalities, county or State governments, has one activity – construction. All of ACE Construction Authority’s activities are classified as a Construction (Capital Projects) Fund with the exception of the amount invested in a deferred compensation plan for staff.

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

Notes to the Basic Financial Statements

This report includes notes to the basic financial statements. They provide additional information that is important to a complete understanding of the data contained in the government-wide and fund financial statements. The notes can be found on pages 16 through 28 of this report.

Financial Highlights:

Statement of Activities

The FY 08 Budget for operating expenditures is \$87.3 million compared to \$71.1 million in FY 07. Actual total operating expenditures are \$68.6 million compared to \$82.3 million in FY 07.

Project revenues continue to closely track expenditures. ACE Construction Authority’s policy is to avoid where possible costs not reimbursable under Federal guidelines. The Los Angeles County MTA also provides project funds and, under separate agreement, continues to fund certain administrative expenses not reimbursable under federal and state regulations. Cities requesting work in excess of Caltrans guidelines (often called betterments) are paid for by the requesting city. Any remaining costs are paid from interest income.

Other revenues: The Union Pacific Railroad is expected to contribute five percent of construction cost for grade separations. \$5,473,596 was recognized in FY 08.

ACE Construction Authority earnings from its commercial paper program was \$1,456,801 in FY 08, considerably higher than the \$459,519 earned in FY 07 as the gap between interest earned and interest paid increase, resulting in lower interest payments (recognized on a cash basis according to government accounting rules).

ACE Construction Authority is reimbursed for indirect expense by grantors by adding a pre-approved percentage of direct cost to all invoices. ACE Construction Authority’s Caltrans approved Indirect Rate for FY08 was of 4.3%. During this period, lower than budgeted direct

Alameda Corridor-East Construction Authority

FY 2008 Financial Statements

Management Discussion and Analysis

expense resulted in ACE Construction Authority having to defer \$1,582, 822 of indirect expense to next year.

Balance Sheet (Statement of Net Assets)

All organizations are required to report construction in progress (that is, the sum of prior and current year's construction expense) on the Balance Sheet as an asset. This would normally be done by treating each year's construction as a capital expense which would be excluded from the Statement of Activities. However, the grant reimbursements generated by construction would be included in the Statement of Activities as revenue. ACE Construction Authority is obligated to transfer components of completed projects to the UPRR and the cities so that they can be included in their financial statements. The resulting reduction in assets would be flowed through the Statement of Activities as a loss. The net effect would be to produce widely fluctuating Net Assets and Fund Balances depending on whether ACE Construction Authority was constructing (Surplus) or transferring assets to member cities (Deficit).

ACE Construction Authority elected to treat construction in progress as a matching asset and liability. This shows the total cost of ACE Construction Authority's projects and the resulting liability to transfer the assets upon completion while not unduly impacting the Statement of Activities.

During FY08, total assets decreased to \$132.3 million from \$137.6 million the prior year. Total construction-in-progress (CIP) increased to \$221 million from \$201.7 million in FY 07 as ongoing expenditures for Sunset Avenue and Baldwin Avenue grade separations entered their second year. The increase was partially offset by the transfer of ACE Construction Authority's Ramona Avenue grade separation to the UPRR and the City of El Monte.

ACE Construction Authority had \$100 million in variable rate, tax-exempt commercial paper outstanding as of June 2008. The decision as to how much to issue is made periodically by ACE Construction Authority management in consultation with its financial advisors taking into account current and prospective cash flow needs.

Grants Receivable increased to \$14.9 million from \$12.7 million. Unbilled Receivables decreased to \$18.0 million from \$19.9 million reflecting faster billing turnaround of grant reimbursable expenses.

Deferred Costs Incurred increased to \$786,066 as \$1,582,822 of actual overhead cost was deferred to next year's indirect cost allocation. (See Statement of Activities.)

Alameda Corridor-East Construction Authority FY 2008 Financial Statements

Management Discussion and Analysis

Economic Factors and New Year's Budget

Sufficient funds were available at the close of FY 08 to continue with remaining grade separation projects.

Los Angeles County Metropolitan Transportation Authority's Board approved \$112 million for Phase II projects, in December 2007. In addition, in April 2008, the California Transportation Commission allocated \$336.6 million from the Proposition 1B Trade Corridor Infrastructure Fund for the San Gabriel Trench project. Also, during FY 2008 the ACE Construction Authority was asked to incorporate the Southerly Nogales Street grade separation (L.A. subdivision) into its adopted program, with approximately \$64 million in committed funding transferred with it.

Based on current first quarter estimates of forecasted expenditures, ACE Construction Authority believes it will be within 12% of the FY 08 Approved Budget of \$80.7 million.

Statement of Net Assets (in thousands)

	Governmental Activities	
	2008	2007
Current and other assets	\$ 132,291	\$ 137,604
Construction in progress	220,970	201,724
Less: Due to cities	220,970	201,724
Total Assets	132,291	137,604
Liabilities	117,736	125,819
Net Assets	\$ 14,554	\$ 11,785

Requests for Information:

These financial statements are designed to provide citizens, taxpayers, customers, and creditors with a general overview of the Authority'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 The ACE Construction Authority, 4900 Rivergrade Road, Suite A120, Irwindale, CA 91706, or call (626) 962-9292.



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Alameda Corridor-East Construction Authority
Irwindale, California

We have audited the accompanying financial statements of the governmental activities of Alameda Corridor-East (ACE) Construction Authority, component unit of San Gabriel Valley Council of Governments, as of and for the year ended June 30, 2008, which collectively comprise the ACE Construction Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of ACE Construction Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of ACE Construction Authority as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2008, on our consideration of ACE Construction Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by

accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ACE Construction Authority's basic financial statements. The introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of ACE Construction Authority. The fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in cursive script that reads "Lopez and Company, LLP".

Lopez and Company, LLP
December 10, 2008

Alameda Corridor - East Construction Authority
Statement of Net Assets
June 30, 2008

Account	Governmental Activities
Assets	
Cash and cash equivalents (Note 3)	\$ 88,260,334
Grants Receivable	14,900,961
Unbilled receivables	18,038,209
Interest receivable	591,568
Receivable - Other	8,752,642
Deferred cost incurred	786,066
Prepaid expenses	
Utility relocation	144,808
Insurance	161,513
Cost of issuance, commercial paper	130,114
Investments - Deferred compensation plan	458,880
Leasehold improvements and equipment	304,126
Less: Accumulated depreciation (Note 2)	(238,604)
Construction in Progress (Note 9)	220,970,269
Less: Due to member cities & Union Pacific Railroad	(220,970,269)
Total Assets	\$ 132,290,617
Liabilities	
Accounts payable and accrued expense	\$ 10,976,271
Payables - Other	211,909
Accrued retention payable	1,302,245
Deferred revenue	4,688,849
Compensated absences	98,255
Deferred compensation payable (Note 7)	458,880
Commercial paper	100,000,000
Total Liabilities	117,736,409
Net Assets	\$ 14,554,208

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

Alameda Corridor-East Construction Authority
Balance Sheet - Governmental Funds
June 30, 2008

Account	Fund Type		Total Governmental Funds
	Capital Projects	Fiduciary Fund	
Assets			
Cash and cash equivalents (Note 3)	\$ 88,260,334	\$ -	\$ 88,260,334
Grants Receivable	14,900,961	-	14,900,961
Unbilled receivables	18,038,209	-	18,038,209
Interest Receivable	591,568	-	591,568
Receivable - Other	8,752,642	-	8,752,642
Deferred cost incurred	786,066	-	786,066
Prepaid Expenses			
Utility relocation	144,808	-	144,808
Insurance	161,513	-	161,513
Cost of issuance, commercial paper	130,114	-	130,114
Investments - Deferred compensation plan	-	458,880	458,880
Total Assets	\$ 131,766,215	\$ 458,880	\$ 132,225,095
Liabilities and Fund Equity			
Liabilities			
Accounts payable and accrued expense	\$ 10,976,271	\$ -	\$ 10,976,271
Payables - Other	211,909	-	211,909
Accrued retention payable	1,302,245	-	1,302,245
Deferred revenue	4,688,849	-	4,688,849
Compensated absences & employee benefits	98,255	-	98,255
Deferred compensation payable (Note 7)	-	458,880	458,880
Proceeds from issuance of Commercial Paper owing the San Gabriel Valley Council of Governments (Note 5)	100,000,000	-	100,000,000
Total Liabilities	117,277,529	458,880	117,736,409
Fund Balance			
Fund Balance	14,488,686	-	14,488,686
Total Fund Balance	14,488,686	-	14,488,686
Total Liabilities and Fund Balance	\$ 131,766,215	\$ 458,880	\$ 132,225,095

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

Alameda Corridor-East Construction Authority
Reconciliation of the Statement of Net Assets & Balance Sheet - Governmental Funds
June 30, 2008

Balance Sheet - Governmental Funds

Total Fund Balance	\$ 14,488,686
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Statement of Net Assets

Total Net Assets	14,554,208
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Difference	<u><u>\$ (65,522)</u></u>
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Net Fixed Assets

\$ 65,522 is the difference between the amount capitalized as leasehold improvements and office equipment net of accumulated depreciation.

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

Alameda Corridor-East Construction Authority
Statement of Activities and Changes in Net Assets
June 30, 2008

Project Expenses	
Direct (Construction)	\$ 65,761,900
Indirect expenses charged to operations	2,859,834
Total project expenses	68,621,734
 Less:	
Grant reimbursements	64,415,889
Other operating revenues	5,473,596
Net income/(loss) from operations	1,267,751
 Plus:	
Financing income	4,612,949
Less: Financing expense	3,156,148
Net financing income	1,456,801
Change in net assets	2,724,552
 Net Assets - beginning of year	 11,829,656
Capital Contribution	-
Net Assets - end of year (06/30/08)	\$ 14,554,208

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

Alameda Corridor-East Construction Authority
Statement of Revenues, Expenditures and Changes in Fund Balance
June 30, 2008

Revenues		
Reimbursements		
Federal Grants	\$	19,175,927
State Grants		17,399,369
Local Grants		27,840,593
Other Revenue		<u>5,473,596</u>
Total Revenues		<u><u>69,889,485</u></u>
Operating Expenditures		
Direct		
Design		1,665,769
Right-of-Way Acquisition		11,174,607
Construction Management		6,302,464
Construction		44,454,009
Betterments		<u>2,165,051</u>
Total Direct		<u><u>65,761,900</u></u>
Indirect		
Personnel		
Salaries and Wages		1,131,497
Fringe Benefits		528,538
Employee Related Expenses		47,372
Board Related Expenses		16,100
Professional Services		
Auditing/Accounting		81,660
Disadvantaged business/Outreach		74,517
Legal		48,776
Other		78,137
Program Management		1,529,703
Representation		270,572
Brokerage		64,509
Insurance		211,234
Equipment Expense		80,073
Office Rental Expense		209,031
Office Operations		38,865
Deferred Indirect Expense		<u>(1,582,822)</u>
Total Indirect		<u><u>2,827,762</u></u>
Total Operating Expenditures		<u><u>68,589,662</u></u>
Excess of Revenue over		
Expenditures before Financing		1,299,823
Financing Income		
Investment Revenue		4,612,949
Interest and Related Expenses		<u>3,156,148</u>
Net Financing Income/Expense		<u><u>1,456,801</u></u>
Excess of Revenues over Expenditures		2,756,624
Fund Balance Beginning of Period	\$	11,732,062
Capital Contribution		-
Fund Balance End of Period	<u>\$</u>	<u><u>14,488,686</u></u>

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

**Alameda Corridor - East Construction Authority
Reconciliation of the Statement of Activities to the Statement of Revenues,
Expenditures and Changes in Fund Balances**

Statement of Revenues, Expenditures and Changes in Fund Balance

Net Change in Fund Balances - Total Governmental Funds	\$	2,756,624
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Statement of Activities

Change in Net Assets of Governmental Activities	2,724,552
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Difference	<u>\$</u>	<u>32,072</u>
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The Change of \$32,072 represents the current year depreciation.

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

Alameda Corridor - East Construction Authority
Financial Statements

Notes to Financial Statements
June 30, 2008

1. Summary of Significant Accounting Policies

A. The Reporting Entity

The ACE Construction Authority is a component unit of the San Gabriel Valley Council of Governments, (SGVCOG).

B. Basis of Accounting

Government wide reporting uses the full accrual basis of accounting. The Statement of Activities presents changes in Net Assets. (This is equivalent to an Income and Changes in Equity Statement in private sector companies.). Revenues are recorded when earned and expenses are recognized at the time of the causal event.

ACE Construction Authority recognizes reimbursements from grants as revenues to the extent reimbursing obligations are on or before June 30, 2008 and are therefore the same under both modified accrual and full accrual basis. Major interest bearing debt is short-term in nature so there is no difference relating to accrued interest owed.

C. Description of Funds and Account Groups

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

Governmental fund

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

Fiduciary fund

Deferred Compensation Fund - The Authority provides employees the opportunity to contribute to a qualified deferred compensation plan administered by the International Cities Management Corporation (ICMA). Contributions are made pursuant to a salary reduction plan. Individual accounts are maintained for each individual employee. See Note 7c for a summary of transactions.

Alameda Corridor - East Construction Authority Financial Statements

Notes to Financial Statements June 30, 2008

D. Budgetary Reporting

The Board approved the FY 2008 budget in May 2007.

The budget was based on estimated of expenditures over the operating period. Significant under-runs were initially encountered as the Authority experienced delays in obtaining various Caltrans required approvals for major design contracts from Federal and State grantors.

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

E. Cash Equivalents

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

F. Grant Revenues and Expenditures

All grants are between the SGVCOG and the granting authority. ACE Construction Authority has been given authority to obtain and administer funding in the name of SGVCOG. The MTA grant was in existence when ACE Construction Authority was created and all subsequent grants therefore are administered by ACE Construction Authority.

To-date all grants with the exception of the UPRR contributions are, and are anticipated to be in the future, cost reimbursable. That is, the Authority must first expend the money and then bill for reimbursement from the grantors.

G. Short-Term Notes (Commercial Paper)

In March 2001, SGVCOG authorized the issuance of up to \$100,000,000 in short-term variable rate tax-exempt grant anticipation notes. The notes are backed by a letter of credit from Bayern LB.

Borrowings at year end were \$100,000,000, the same as the prior year end. During the course of the year amounts outstanding varied based on terms and maturities of individual commercial paper issuances.

**Alameda Corridor - East Construction Authority
Financial Statements**

**Notes to Financial Statements
June 30, 2008**

ACE Construction Authority management and financial advisors review on a periodic basis the current and prospective cash requirements in determining the amount of commercial paper to be issued.

Arbitrage has been earned on the differential between interest earned on investment with the State Treasurer's Local Agency Fund (LAIF) and local bank, and to holders of the commercial paper. Arbitrage earned may be required to be refunded unless certain specific Internal Revenue Code requirements are met. Management believes it is meeting those requirements. Specific provisions of the borrowing are described in Note 5 (Advances by the San Gabriel Valley Council of Governments).

H. Fixed Assets (Leasehold improvements and equipment)

Purchases of equipment and other improvements that can be capitalized are recorded as expenditures in the capital projects fund. The threshold for capitalization has been \$5,000 since FY 2005 in accordance with Federal guidelines. On the government wide financial statements such items are recorded as capital assets and are depreciated based upon their estimated useful lives on a straight-line basis. Useful lives of assets categories are as follows:

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

I. Use of Estimates

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

J. Reclassifications

Certain reclassifications have been made from previous years' presentations primarily in the Statements of Revenues, Expenditures and Changes in Fund Equity to agree more readily to budget categories.

**Alameda Corridor - East Construction Authority
Financial Statements**

**Notes to Financial Statements
June 30, 2008**

2. Fixed Assets

A summary of fixed asset changes is as follows:

Asset Category	Beginning Balances	Additions	Deletions	Ending Balances
Leasehold Improvements	\$ 19,762	\$ -	\$ -	\$ 19,762
Computer Equipment				
Hardware	128,638	31,354	-	159,992
Software	63,813	13,107	-	76,921
Web site	3,393	-	-	3,393
Telephone Equipment	12,086	-	-	12,086
Office Furniture	31,972	-	-	31,972
Total Fixed Assets	\$ 259,664	\$ 44,462	\$ -	\$ 304,126

Fixed Assets (computer equipment, leasehold improvements, office furniture and equipment, etc.) are carried at cost. Repairs and replacements are expensed as incurred.

3. Cash and investments

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Statement of net assets

Cash and investments	\$ 86,640,872
Cash and investments held by bond trustee	1,619,462
Total cash and investments	\$ 88,260,334

Cash and investments as of June 30, 2008 consist of the following:

Deposits with financial institutions	\$ 21,183,584
Investments	65,457,288
Total cash and investments	\$ 86,640,872

**Alameda Corridor - East Construction Authority
Financial Statements**

**Notes to Financial Statements
June 30, 2008**

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

The table below identifies the **investment types** that are authorized for ACE Construction Authority by the California Government Code (or ACE Construction Authority's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or ACE Construction Authority's investment policy, where more restrictive) 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 of ACE Construction Authority, rather than the general provisions of the California Government Code or ACE Construction Authority's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of *Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	15%	5%
Commercial Paper	180 days	15%	5%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	30 days	None	None
Reverse Repurchase Agreements	92 days	5%	None
Medium-Term Notes	5 years	20%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	0%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

**Alameda Corridor - East Construction Authority
Financial Statements**

**Notes to Financial Statements
June 30, 2008**

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or ACE Construction Authority's investment policy.

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed in</u>	<u>Maximum Investment One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that ACE Construction Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of ACE Construction Authority's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of ACE Construction Authority's investments by maturity:

**Alameda Corridor - East Construction Authority
Financial Statements**

**Notes to Financial Statements
June 30, 2008**

Remaining Maturity (in Months)

Investment Type	12 Months Or Less		13 to 24 Months		25-60 Months		More Than 60 Months	
State investment pool	\$ 65,457,289	\$ 62,315,339	\$ 1,898,261	\$ 1,243,688	\$ -	\$ -	\$ -	\$ -
Held by bond trustee:	-	-	-	-	-	-	-	-
Money market funds	620,806	620,806	-	-	-	-	-	-
Investment contracts	998,656	948,907	49,749	-	-	-	-	-
Total	\$ 67,076,751	\$ 63,885,052	\$ 1,948,010	\$ 1,243,688	\$ -	\$ -	\$ -	\$ -

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

Disclosures Relating to Credit Risk

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

Investment Type		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	Aa	Not Rated
State investment pool	\$ 65,457,289	N/A	\$ -	\$ -	\$ -	\$ 65,457,289
Held by bond trustee:	-					
Money market funds	620,806	A		620,806		
Investment contracts	998,656	N/A		998,656		
Total	\$ 67,076,751		\$ -	\$ 1,619,462	\$ -	\$ 65,457,289

Concentration of Credit Risk

The investment policy of ACE Construction Authority 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, 2008 ACE Construction Authority had no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external

**Alameda Corridor - East Construction Authority
Financial Statements**

**Notes to Financial Statements
June 30, 2008**

investment pools) that represent 5% or more of total ACE Construction Authority investments.

ACE Construction Authority does not have any investments in any one issuer that represent 5% or more of 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.

The California Government Code and ACE Construction Authority'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 City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2008, the Authority's deposit of \$9,822,359 with financial institutions is in excess of Federal depository insurance limits and were held in uncollateralized accounts.

As of June 30, 2008, the following investment types were held by the same broker-dealer (counterparty) that was used by ACE Construction Authority to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Federal agency securities	\$ 998,656

Investment in State Investment Pool

ACE Construction Authority 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. The fair value of ACE Construction Authority's

**Alameda Corridor - East Construction Authority
Financial Statements**

**Notes to Financial Statements
June 30, 2008**

investment in this pool is reported in the accompanying financial statements at amounts based upon ACE Construction Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

4. Receivables

Receivables as of June 30, 2008, as shown in the government-wide financial statements, in the aggregate, including retention, are as follows:

<u>Receivables</u>	<u>Amount</u>
Grants	\$ 14,900,961
Unbilled	18,038,209
Interest	591,568
Other	8,752,642 *
	<u>\$ 42,283,380</u>

* Other includes \$3,950,000 from Union Pacific Rail Road

The \$3.95 million above is an accrual of revenues related to Union Pacific Railroad's (UPRR) commitment to fund certain infrastructure costs for the Temple 4th track project. UPRR allocated in 2007 funds to pay ½ of the participation for the infrastructure work. Payment will be made upon execution of a definitive agreement; expected to be signed by December of 2008.

5. Advances by the San Gabriel Valley Council of Governments

Short-Term Notes Payable (Commercial Paper)

In the spring of 2001 the SGVCOG entered into an agreement to borrow up to \$100,000,000 in short-term debt guaranteed by a letter of credit and collateralized by the pledge of grant revenues. The securities issue is tax exempt. Notes outstanding at June 30, 2008, amounted to \$100,000,000. Interest rates vary according to market conditions and have ranged from .7% to 1.51% over the life of the program and have ranged from 3.33% to 1.71% in FY 2007. As with the note payable to the City of Industry proceeds of the borrowings have been used to pay for construction activities and also to provide a revenue source on the differential between interest earned and interest paid.

The Commercial Paper is currently guaranteed by Bayern LB.

Alameda Corridor - East Construction Authority Financial Statements

Notes to Financial Statements June 30, 2008

6. Grant Accounting

In the fiscal year ended June 30, 2008 the Authority was the recipient of reimbursements for costs incurred primarily from the Federal Department of Transportation through the California Department of Transportation (CalTrans). There were also California transportation programs paid through CalTrans. Local share was received from the Metropolitan Transportation Authority (MTA). All of these grants are expenditure driven; funds must be expended before reimbursement is received. Certain amounts have been held back by the grantor agency pending completion of certain phases of contracted work and some costs incurred are subject to disallowance.

Receivable amounts at June 30, 2008, are shown net of disallowed costs. Caltrans approved, under Office of Management and Budget (OMB) Circular A-87, an indirect overhead allocation formula of 4.3% of total direct cost. Indirect costs incurred in fiscal year ended June 30, 2008 were \$4,410,584 and previously deferred indirect expense was increased by \$1,582,822.

7. Employee Benefit Plans

A. Defined Benefit Pension Plan

Effective June 17, 2002 contributions and earnings of continuing employees previously contributed to Cal Pars, were transferred to Cal PERS.

Cal PERS is an agent, multiple employer defined benefit pension plan that acts as a common investment and administrative agent for participating public entities within the State of California. State statutes within the Public Employees Retirement Law establish menus of benefit provisions as well as other requirements. Cal PERS issues separate comprehensive annual financial reports. Copies of the Cal PERS' annual financial report may be obtained from Cal PERS Executive Office – 400 P Street, Sacramento, CA 95814. Since the plan had less than 100 active members and at least one valuation since June 30, 2003, Cal PERS requires the authority's Plan to participate in a risk pool. Required supplementary information for the Risk Pool is presented on page 26. Mandated pooling was effective with the June 20, 2003 valuation.

Funding Policy

Active plan members as defined by the above statutes are required to contribute 7% of their annual covered salary. The authority has elected to contribute this amount to Cal PERS on behalf of eligible employees. The authority is also required to contribute the actuarially

**Alameda Corridor - East Construction Authority
Financial Statements**

**Notes to Financial Statements
June 30, 2008**

determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by Cal PERS Board of Administration. The employer contribution rates to Cal PERS for the year ended June 30, 2007 was 12.007%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by Cal PERS.

Annual Pension Cost (APC)

For fiscal year 2008, the Authority's annual pension cost and actual contribution was \$340,300. For the year ended June 30, 2008, the actuarial funding method used by the Cal PERS is the Entry Age Normal Cost Method. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as the percentage of pay in each year from the age of hire (entry age) to the assumed retirement age.

The actuarial assumptions included (a) 2% at 55 as the benefit formula; (b) 7.75% investment rate of return compounded annually (net of expenses); (c) projected payroll growth rate of 3.25% and inflation of 3.0% compounded annually; and (d) 2% cost-of-living adjustment.

The actuarial funding process calculates a regular contribution schedule of employee contributions and employer contributions (normal costs) which are designed to accumulate with interest to equal the total present value of benefits by the time every member has left employment. As of each June 30, the actuary calculated the desirable level of plan assets as of that point in time by subtracting the present value of scheduled future employee contributions and future employer normal costs from the total present value of benefits.

Three-Year Trend Information for Cal PERS

<u>Year</u>	<u>(APC)</u>	<u>APC Contributed</u>	<u>Obligation</u>
06/30/06	\$ 223,026	100%	\$ 92,037
06/30/07	\$ 223,100	100%	\$ 90,797
06/30/08	\$ 340,300	100%	\$ 89,189

B. Post-Employment Benefits

The authority currently did not incur any other liabilities during fiscal year 2008 related to post-employment benefits

**Alameda Corridor - East Construction Authority
Financial Statements**

**Notes to Financial Statements
June 30, 2008**

C. Deferred Compensation Plan

As previously discussed in the Summary of Significant Accounting policies the Authority has entered into a salary reduction deferred compensation plan for its employees. Securities held by the plan are market.

Balance at June 30, 2007	\$	529,817
Add:		
Employee Contributions		69,788
Earnings, Net of Market Write-downs		(140,320)
Less:		
Fees Charged		405
Balance at June 30, 2008	\$	458,879

8. Commitments and Contingencies

A. As previously noted the Authority receives reimbursement type grants from Federal, State and local sources. Certain expenditures are not allowable and not subject to reimbursement. Also, there may be disallowed costs. Management's experience in this regard indicates disallowances, if any, will not be material.

B. Earnings from arbitrage may be subject to rebate under certain provisions of the Internal Revenue Service Code unless certain specific conditions as met. Management is committed to meeting those conditions.

C. The Authority rents its office from Washington Mutual Savings subject to a lease expiring August 31, 2010. Monthly rent and a pro rata share of facility maintenance and utilities are as follow:

<u>Period From/To</u>	<u>Monthly Rent</u>	<u>Annual Amount</u>
June 1, 2008 to May 31, 2009	\$ 17,047	\$ 204,564
June 1, 2009 to May 31, 2010	17,601	211,212
June 1, 2010 to August 31, 2010	18,094	54,282
Total lease agreement		\$ 470,058

Alameda Corridor - East Construction Authority Financial Statements

Notes to Financial Statements June 30, 2008

D. Escrow Agreements for Contract Retention – The Escrow Agent, Contractor or Owner 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 the Owner and any accrued interest less escrow fees shall be paid to the Contractor. The Authority has recognized as expenditure retention payments totaling \$9,208,948. Funds are deposited in an escrow account until release is authorized.

9. Accounting for Construction in Progress and Eventual Disposal of Projects

Except for minor acquisitions that may be sold by the ACE Construction Authority when no longer needed all of the construction projects, when completed, will be deeded to the Union Pacific Railroad and the cities in which they are located at no cost to the acquirer. At June 30, 2008, \$385,003,166 of costs were accumulated on projects in process and \$164,032,897 had been transferred to the railroad and impacted cities.

Under the government funds and modified accrual basis of accounting \$68,589,662 in FY 2008 project expenditures would be reported as expenditures in the year incurred. On the government-wide financial statements conforming to GASB 34 reporting on these transactions presents a challenge. Accumulating those costs as construction in progress (i.e., treated as a cash flow expenditure and not a current year expense) would substantially overstate income while reporting the disposal and expensing the accumulated costs would distort the cost of operations. In both cases, net assets would fluctuate wildly, depending on the timing of construction and disposal.

To alleviate this situation, management has elected to defer costs incurred and record a like liability to the UPRR and governments likely to be the eventual owner of the improvements/grade separations. This approach will minimize the effects of both on both the acquisition of property for construction and the accumulation of construction costs and their eventual disposal.

ACE Construction Authority
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Capital Projects
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Difference
	Original	Amended Final		
Revenues				
Reimbursements				
Federal grants	\$ 32,517,000	\$ 27,370,973	\$ 19,175,927	\$ (8,195,046)
State grants	57,691,000	48,561,024	17,399,369	(31,161,655)
Local grants	14,685,000	12,361,003	27,840,593	15,479,590
Other Revenue	<u>8,265,000</u>	<u>6,957,010</u>	<u>5,473,596</u>	<u>(1,483,414)</u>
Total revenues	<u>113,158,000</u>	<u>95,250,010</u>	<u>69,889,485</u>	<u>(25,360,525)</u>
Operating Expenditures				
Construction				
Design	3,009,000	3,009,000	1,665,769	(1,343,231)
Right-of-way acquisition	22,856,000	20,056,000	11,174,607	(8,881,393)
Construction management	6,291,000	6,291,000	6,302,464	11,464
Construction	60,903,000	47,103,000	44,454,009	(2,648,991)
Betterments	<u>5,966,000</u>	<u>5,966,000</u>	<u>2,165,051</u>	<u>(3,800,949)</u>
Total construction	<u>99,025,000</u>	<u>82,425,000</u>	<u>65,761,900</u>	<u>(16,663,100)</u>
Indirect				
Personnel				
Salaries and wages	1,025,000	1,025,000	1,131,497	106,497
Fringe benefits	468,000	558,000	528,538	(29,462)
Employee Related Expenses	55,000	55,000	47,372	(7,628)
Board Related Expenses	20,000	20,000	16,100	(3,900)
Professional Services				
Auditing/accounting	40,000	40,000	81,660	41,660
Disadvantaged business/outreach	120,000	120,000	74,517	(45,483)
Legal	40,000	40,000	48,776	8,776
Other	72,000	72,000	78,137	6,137
Program management	1,977,000	1,977,000	1,529,703	(447,297)
Representation	230,000	230,000	270,572	40,572
Brokerage	60,000	60,000	64,509	4,509
Insurance	407,000	407,000	211,234	(195,766)
Equipment Expense	77,000	77,000	80,073	3,073
Office Rental Expense	210,000	210,000	209,031	(969)
Office Operations	27,000	27,000	38,865	11,865
Other	5,000	5,000	-	(5,000)
Deferred Indirect Expense		-	(1,582,822)	(1,582,822)
Total Indirect	<u>4,833,000</u>	<u>4,923,000</u>	<u>2,827,762</u>	<u>(2,095,238)</u>
Total Operating Expenditures	<u>103,858,000</u>	<u>87,348,000</u>	<u>68,589,662</u>	<u>(18,758,338)</u>
Excess of Revenue over Expenditures before Financing	9,300,000	7,902,010	1,299,823	(6,602,187)
Financing				
Investment revenue	4,888,000	4,888,000	4,612,949	(275,051)
Interest and related expenses	<u>4,138,000</u>	<u>4,138,000</u>	<u>3,156,148</u>	<u>(981,852)</u>
Net Financing Income/Expense	<u>750,000</u>	<u>750,000</u>	<u>1,456,801</u>	<u>706,801</u>
Excess of Revenues over Expenditures	<u>10,050,000</u>	<u>8,652,010</u>	<u>2,756,624</u>	<u>(5,895,386)</u>
Fund equity beginning of period	11,732,062	11,732,062	11,732,062	-
Capital Contribution	-	-	-	-
Fund Equity End of Period	<u>21,782,062</u>	<u>\$ 20,384,072</u>	<u>\$ 14,488,686</u>	<u>\$ (5,895,386)</u>

See accompanying auditor's report.