

Alameda Corridor East Construction Authority
General Purpose Financial Statements

Year ended June 30, 2007

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Alameda Corridor-East Construction Authority FY 2007 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, 2007 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 over 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 has a negative impact on congestion, the local environment, and safety. The ACE Construction Authority Project will result in 20 grade separations 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 are assigned to other agencies. Phase II includes the remaining 10 grade separations. The current Phase I budget is \$491 million. The Phase II budget has recently been revised to \$918 million from \$450 million to reflect changes in project definitions, funding delays and significant construction cost inflation over the last 3- 5 years.

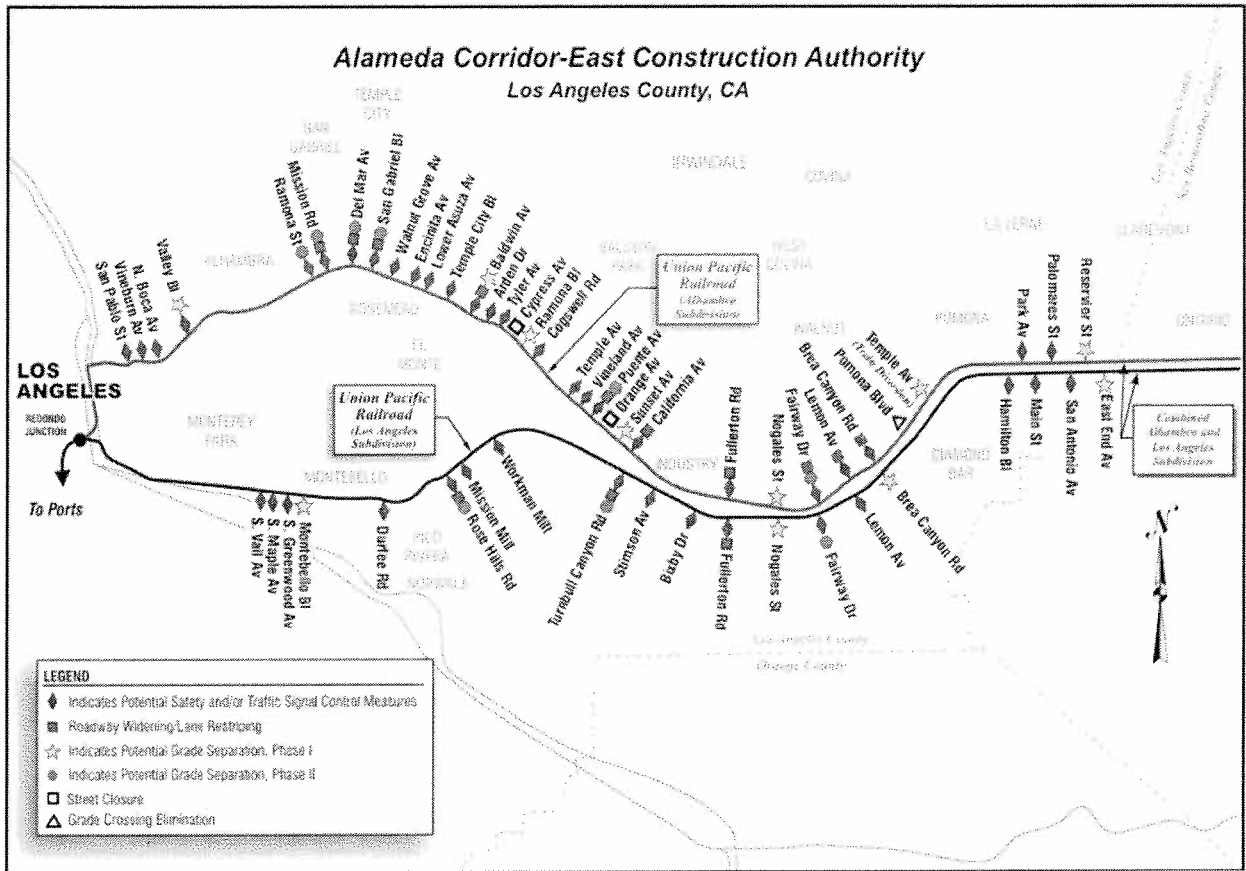
Phase I is progressing well. The Nogales Street project in West Covina/Industry was completed in 2005 and the Reservoir Street project in Pomona was opened to traffic in 2005. Two new projects began construction in FY07 (East End Ave. in Pomona and Sunset Ave. in City of Industry); ACE Construction Authority had a total of five projects in construction at the end of FY 2007. The last remaining project, Baldwin Ave. in El Monte, was funded in FY 2007 and we are now acquiring property right-of-ways (ROW) in anticipation of construction starting in early FY 2009.

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Management Discussion and Analysis

Project Progress					
Project	06/06	09/06	12/06	03/07	06/07
Baldwin					ROW Acquisition
Brea Canyon			Construction		
East End		Right-of-way/Utility Relocation		Construction	
Reservoir		Construction		Open to traffic	
Nogales			Open to traffic		
Ramona			Construction		
Sunset/Orange		Right-of-way/Utility Relocation		Construction	
Temple			Construction		

Project Map



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Management Discussion and Analysis

As of June 30, 2007 the following funding had been committed to the ACE project:

Funding Source	(\$ millions) Committed /Estimated
Federal TEA-21 Demonstration Earmark	\$ 130.5
Federal Trade Corridor Grants and Appropriations	18.2
Federal SAFETEA-LU Demonstration Earmark	65.0
State ITIP and PUC Funds	43.0
State General Funds (AB 2928)	130.3
MTA	129.0
Railroad Contribution	19.5
ROW Sales	8.0
Total ACE Project Funding	\$ 543.5

The Committed/Estimated 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 to fund preliminary design for the first project of Phase II, the San Gabriel Trench. The remaining funds are being held in reserve.

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 host city of a project 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 by the appropriate regulatory agencies and fully funded before work begins. While most betterments are relatively minor, two are substantial. The original Sunset Ave. grade separation design had a parallel street, Orange Ave., closed to traffic. After the design was completed, City of Industry requested that the street be kept open, requiring an additional bridge for \$4.9 million. At Brea Canyon Rd, City of Industry requested that overhead electric utility lines be relocated below ground. This betterment is budgeted at \$5.8 million.

ACE Construction Authority must pay contractors and vendors first before invoicing grantors for reimbursement. Reimbursements are currently running between two to six weeks for 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 \$2 million in net earnings.

Alameda Corridor-East Construction Authority FY 2007 Financial Statements

Management Discussion and Analysis

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, 2007. 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.

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

Alameda Corridor-East Construction Authority FY 2007 Financial Statements

Management Discussion and Analysis

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 07 Budget for operating expenditures is \$71.1 million compared to \$65.3 million in FY 06. Actual total operating expenditures are \$82.3 million compared to \$68.1 million in FY 06.

Project revenues continue to closely track expenditures. ACE Construction Authority's policy is to minimize 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 required to contribute five percent of relevant construction cost for each of five projects. \$2,379,341 was recognized in FY 07. Property originally acquired for the now completed Nogales Street project was sold in June for \$5,098,904 (Net of expenses).

ACE Construction Authority earnings from its commercial paper program was \$459,519 in FY 07, down slightly from \$587,783 in FY 06 as the gap between interest earned and interest paid stagnated and relatively large interest payments (recognized on a cash basis according to government accounting rules) fell over into FY 07.

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 FY07 was of 8.5%. In FY 07, higher than budgeted direct expense allowed ACE Construction Authority to recover \$1,586,286 from prior years deferred costs.

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

Alameda Corridor-East Construction Authority FY 2007 Financial Statements

Management Discussion and Analysis

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 FY07, total assets increased to \$137.6 million from \$121.1 million the prior year. Total construction-in-progress (CIP) increased to \$201.7 million from \$151.4 million in FY 06 as ongoing construction for Ramona and Temple streets grade separations entered their second year. The increase was partially offset by the transfer of ACE Construction Authority's Reservoir Street grade separation to the UPRR and the City of Pomona.

ACE Construction Authority has \$100 million in variable rate, tax-exempt commercial paper outstanding as of June 2007. 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 \$12.7 million from \$2.3 million. Unbilled Receivables decreased to \$19.9 million from \$22.8 million as Caltrans grant approval enable ACE Construction Authority to effectively bill for grant reimbursable expenses.

Deferred Costs Incurred were overapplied by \$804,536 and will be offset in next year's indirect cost allocation. (See Statement of Activities.)

Economic Factors and Next Year's Budget

The Federal government passed a multi-year transportation funding bill in August 2005 that allocated \$42.6 million directly to the Authority, and an additional \$125 million to be divided by the four counties (Los Angeles, Orange, Riverside and San Bernardino) impacted by the increased freight traffic. ACE Construction Authority received FHWA approval to use \$31.25 million of the four-county total.

Sufficient funds were available at the close of FY 07 to precede with the remaining seven grade separation projects. Construction contracts were let for Brea Canyon in March 2006 and for Sunset in August 2006. The construction phase of the newer contracts will last

Alameda Corridor-East Construction Authority FY 2007 Financial Statements

Management Discussion and Analysis

approximately two years. Two other grade separations that were in the original plan for Phase I are the responsibility of the City of Los Angeles and the County of Los Angeles.

Los Angeles County Metropolitan Transportation Authority's Board, in December 2007, approved \$112 million for Phase II projects.

Based on current estimates of forecasted expenditures, ACE Construction Authority believes it will be within 10% of the FY 08 Approved Budget of \$103.9 million.

Statement of Net Assets (in thousands)

	Governmental Activities	
	2007	2006
Current and other assets	\$ 137,604	\$ 121,082
Construction in progress	201,724	151,413
Less: Due to cities	201,724	151,413
Total Assets	137,604	121,082
Liabilities	125,819	116,894
Net Assets	\$ 11,785	\$ 4,188

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.



Lopez and Company, LLP

Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities of the Alameda Corridor-East ("ACE") Construction Authority as of and for the year ended June 30, 2007, which collectively comprise ACE Construction Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ACE Construction Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. ACE Construction Authority is a component unit of the San Gabriel Valley Council of Governments.

We conducted our audit in accordance with auditing standards generally 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 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 opinion.

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, 2007, 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 January 14, 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 agreement 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 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.

January 14, 2008

Our audit was conducted for the purpose of forming an opinion 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 section 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.



Lopez and Company, LLP
January 14, 2008

Alameda Corridor-East Construction Authority
Statement of Net Assets
June 30, 2007

Account	Governmental Activities
Assets	
Cash and cash equivalents (Note 4)	\$ 101,819,016
Grants Receivable	12,705,417
Unbilled receivables	19,924,287
Receivable - Other	1,288,767
Accrued interest	880,644
Prepaid expenses	
Utility relocation	144,808
Insurance	109,439
Cost of issuance, commercial paper	148,702
Investments - Deferred compensation plan	529,817
Leasehold improvements and equipment	259,664
Less: Accumulated depreciation (Note 3)	<u>(206,532)</u>
Construction in Progress (Note 9)	201,724,420
Less: Due to member cities & Union Pacific Railroad	<u>(201,724,420)</u>
Total Assets	<u><u>\$ 137,604,029</u></u>
Liabilities	
Accounts payable and accrued expense	\$ 13,644,898
Accrued retention payable	1,458,289
Deferred revenue	7,318,995
Deferred costs incurred	804,536
Compensated absences	62,302
Deferred compensation payable (Note 7)	529,817
Commercial paper	100,000,000
City of Industry Loan and other noncurrent liabilities	2,000,000
Total Liabilities	<u><u>125,818,837</u></u>
Net Assets	<u><u>\$ 11,785,192</u></u>

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

Alameda Corridor-East Construction Authority
Balance Sheet - Governmental Funds
June 30, 2007

Account	Fund Type		Total Governmental Funds
	Capital Projects	Fiduciary Fund	
Assets			
Cash and cash equivalents (Note 4)	\$ 101,819,016	\$ -	\$ 101,819,016
Grants Receivable	12,705,417	-	12,705,417
Unbilled receivables	19,924,287	-	19,924,287
Interest Receivable	880,644	-	880,644
Receivable - Other	1,288,767	-	1,288,767
Prepaid Expenses			
Utility relocation	144,808	-	144,808
Insurance	109,439	-	109,439
Cost of issuance, commercial paper	148,702	-	148,702
Investments - Deferred compensation plan	-	529,817	529,817
Total Assets	\$ 137,021,080	\$ 529,817	\$ 137,550,897
Liabilities and Fund Equity			
Liabilities			
Accounts payable and accrued expense	\$ 13,644,898	\$ -	\$ 13,644,898
Accrued retention payable	1,458,289	-	1,458,289
Deferred revenue	7,318,995	-	7,318,995
Deferred costs incurred	804,536	-	804,536
Compensated absences & employee benefits	62,302	-	62,302
Deferred compensation payable (Note 7)	-	529,817	529,817
Proceeds from issuance of Commercial Paper owing the San Gabriel Valley Council of Governments (Note 5)	100,000,000	-	100,000,000
City of Industry Loan and other noncurrent liabilities	2,000,000	-	2,000,000
Total Liabilities	125,289,020	529,817	125,818,837
Fund Balance			
Fund Balance	11,732,060	-	11,732,060
Total Fund Balance	11,732,060	-	11,732,060
Total Liabilities and Fund Balance	\$ 137,021,080	\$ 529,817	\$ 137,550,897

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, 2007

Balance Sheet - Governmental Funds

Total Fund Balance	\$ 11,732,060
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Statement of Net Assets

Total Net Assets	11,785,192
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Difference	<u>\$ (53,132)</u>
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Net Fixed Assets

\$ 53,132 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**

Project Expenses	
Direct (Construction)	\$ 75,559,488
Indirect expenses charged to operations	6,718,315
Total project expenses	82,277,803
 Less:	
Grant reimbursements	81,916,361
Other operating revenues	7,483,639
Net income/(loss) from operations	7,122,197
 Plus:	
Financing income	4,700,521
Less: Financing expense	4,241,002
Net financing income	459,519
Change in net assets	7,581,716
 Net Assets - beginning of year	 4,203,476
Capital Contribution	-
Net Assets - end of year (06/30/07)	\$ 11,785,192

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, 2007

Revenues	
Reimbursements	
Federal Grants	\$ 24,703,425
State Grants	35,660,262
Local Grants	21,552,673
Other Revenue	7,483,640
Total Revenues	<u>89,400,000</u>
Operating Expenditures	
Direct	
Design	569,385
Right-of-Way Acquisition	5,958,432
Construction Management	7,580,067
Construction	56,834,936
Betterments	4,616,668
Total Direct	<u>75,559,488</u>
Indirect	
Personnel	
Salaries and Wages	906,063
Fringe Benefits	426,588
Employee Related Expenses	41,807
Board Related Expenses	16,951
Professional Services	
Auditing/Accounting	32,412
Disadvantaged business/Outreach	137,145
Legal	40,691
Other	71,504
Program Management	1,682,090
Representation	231,436
Brokerage	56,434
Insurance	366,245
Equipment Expense	51,329
Office Rental Expense	201,270
Office Operations	31,060
Deferred Indirect Expense	2,399,916
Total Indirect	<u>6,692,941</u>
Total Operating Expenditures	<u>82,252,429</u>
Excess of Revenue over Expenditures before Financing	7,147,571
Financing Income	
Investment Revenue	4,700,521
Interest and Related Expenses	4,241,002
Net Financing Income/Expense	<u>459,519</u>
Excess of Revenues over Expenditures	7,607,090
Fund Balance Beginning of Period	\$ 4,124,970
Fund Balance End of Period	<u>\$ 11,732,060</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	\$	7,607,090
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Statement of Activities

Change in Net Assets of Governmental Activities	7,581,716
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Difference

\$	<u>25,374</u>
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The change of \$25,374 represents the difference between the cost of acquisition, \$ 0 and depreciation expense of \$25,374.

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

Alameda Corridor - East Construction Authority Financial Statements

Notes to Financial Statements June 30, 2007

Note 1. Summary of Significant Accounting Policies

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, 2007 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, 2007

D. Budgetary Reporting

The Board approved the FY 2007 budget in May 2006.

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)

All project related funding is, as mentioned above, cost reimbursable. ACE Construction Authority initially obtained a \$2,000,000 loan from the City of Industry for working capital.

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.

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

Alameda Corridor - East Construction Authority
Financial Statements

Notes to Financial Statements

June 30, 2007

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 4 (Advances by the San Gabriel Valley Council of Governments).

See Note 5 for more information.

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.

Note 2. Implementation of new GASB pronouncements

During year ended June 30, 2005, ACE Construction Authority adopted GASB Statement 40 – Deposit and Investment Risk Disclosures – an amendment to GASB Statement No. 3 in order to conform to the following Governmental Accounting Standards Board Statements.

Alameda Corridor - East Construction Authority
Financial Statements

Notes to Financial Statements
June 30, 2007

GASB Statement 40 addresses common deposit and investment risk related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks indemnified are also required to be disclosed.

Note 3. 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	113,697	14,941	-	128,638
Software	63,813	-	-	63,813
Web site	3,393	-	-	3,393
Telephone Equipment	12,086	-	-	12,086
Office Furniture	31,972	-	-	31,972
Total Fixed Assets	\$ 244,723	\$ 14,941	\$ -	\$ 259,664

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

Note 4. Cash and investments

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets

Cash and investments	\$ 97,397,875
Cash and investments held by bond trustee	4,421,141
Total cash and investments	\$ 101,819,016

Cash and investments as of June 30, 2007 consist of the following:

Deposits with financial institutions	\$ 26,847,820
Investments	70,550,055
Total cash and investments	\$ 97,397,875

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

Notes to Financial Statements

June 30, 2007

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.

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.

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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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed in	Maximum Investment One Issuer
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:

Investment Type	Remaining Maturity (in Months)				
	12 Months Or Less	13 to 24 Months	25-60 Months	More Than 60 Months	
State investment pool	\$ 70,550,056	\$ 67,163,653	\$ 2,045,952	\$ 1,340,451	\$ -
Held by bond trustee:					
Money market funds	3,172,327	3,172,327	-	-	-
Investment contracts	1,248,814	948,907	299,907	-	-
Total	<u>\$ 74,971,196</u>	<u>\$ 71,284,887</u>	<u>\$ 2,345,859</u>	<u>\$ 1,340,451</u>	<u>\$ -</u>

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).

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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	\$ 70,550,056	N/A	\$ -	\$ -	\$ -	\$ 70,550,056
Held by bond trustee:	-					
Money market funds	3,172,327	A		3,172,327		
Investment contracts	1,248,814	N/A		1,248,814		
Total	\$ 74,971,196		\$ -	\$ 4,421,141	\$ -	\$ 70,550,056

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, 2007 ACE Construction Authority had no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of 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

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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, 2007, none of ACE Construction Authority's deposits with financial institutions in excess of Federal depository insurance limits were held in uncollateralized accounts.

As of June 30, 2007, 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	\$ 1,248,814

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 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.

Note 5. Advances by the San Gabriel Valley Council of Governments

A. City of Industry Loan

In August of 1999 the SGVCOG borrowed \$2,000,000 from the City of Industry the proceeds to be used by the ACE Construction Authority. The loan is secured by the pledge of the proceeds of grants outstanding. The note was to mature no earlier than eighteen months after issuance, no later than thirty-six months. Prepayment required five days' notice and interest to be paid is not to exceed the LAIF interest rate. Interest is paid by ACE Construction Authority and payments are current.

As part of the agreement to issue short-term notes (Commercial Paper) the City of Industry agreed to subordinate its indebtedness to the short-term borrowings and subsequently has extended the maturity of the note to June 2008.

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B. 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, 2007, amounted to \$100,000,000. Interest rates vary according to market conditions and have ranged from .7% to 3.71% over the life of the program and have ranged from 3.33% to 3.71% 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 current guarantor, Bayern LB, replaced Toronto-Dominion Bank with a 10 year facility in July 2005. The outstanding amount was increased to \$100 million from \$80 million at that time.

C. Capital contribution

Prior to the formation of the Authority, the SGVCOG incurred \$105,529 in costs related to the Project. Due to Federal and State restrictions on costs incurred prior to receiving Federal and State grants these expenses are not reimbursable by current funding sources. These costs have been reported as an outstanding liability to the SGVCOG on the Authority's financial statements since 1999. In 2005 the Authority stated that it did not anticipate that repayment would be made in the foreseeable future and would therefore treat this as contributed capital. Payment was made at the request of the SGVCOG in FY 2006. This reduces the contributed capital account to zero.

Note 6. Grant Accounting

In the fiscal year ended June 30, 2007 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 also were California transportation programs paid through CalTrans. Local share was received from the Metropolitan Transportation Authority (MTA). All of these grants are expenditures 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.

Amounts shown as receivable at June 30, 2007, are shown net of disallowed costs. Caltrans approved, under Office of Management and Budget (OMB) Circular A-87, an indirect overhead allocation formula of 8.5% of total direct cost. Indirect costs incurred in fiscal year

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ended June 30, 2007 were \$6,395,432 and previously deferred indirect expense was reduced by \$2,399,916

Note 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 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 2007, the Authority's annual pension cost and actual contribution was \$223,100. For the year ended June 30, 2007, 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

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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>
6/30/05	\$ 179,607	100%	\$ 92,943
6/30/06	\$ 223,026	100%	\$ 92,037
6/30/07	\$ 223,100	100%	\$ 90,797

B. Post-Employment Benefits

The authority currently did not incur any other liabilities during fiscal year 2007 related to post-employment benefits

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 valued at market.

Balance at June 30, 2006	\$ 398,154
Add:	
Employee Contributions	69,613
Earnings, Net of Market Write-downs	62,373
Less:	
Fees Charged	323
Balance at June 30, 2007	\$ 529,817

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Note 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>
June1, 2008 to May 31, 2009	\$16,447	\$197,359
June1, 2009 to May 31, 2010	16,903	\$202,841
June1, 2010 to August 31, 2010	17,360	<u>\$52,082</u>
Total lease agreement		<u><u>\$452,282</u></u>

Note 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, 2007 \$316,413,504 of costs were accumulated on projects in process and \$114,689,083 had been transferred to the railroad and impacted cities.

Under the government funds and modified accrual basis of accounting \$81,982,044 in FY 2007 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

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the acquisition of property for construction and the accumulation of construction costs and their eventual disposal.

ACE Construction Authority
Statement of Revenues, Expenditures - Budget to Actual
June 30, 2007

	Capital Projects		
	Budget	Actual	Difference
Revenues			
Reimbursements			
Federal grants	\$ 21,449,991	\$ 24,703,425	\$ 3,253,434
State grants	30,963,816	35,660,262	4,696,446
Local grants	18,714,193	21,552,673	2,838,481
Other Revenue	-	7,483,640	7,483,640
Total revenues	<u>71,128,000</u>	<u>89,400,000</u>	<u>18,272,000</u>
Operating Expenditures			
Construction			
Design	319,000	569,385	250,385
Right-of-way acquisition	4,310,000	5,958,432	1,648,432
Construction management	5,456,000	7,580,067	2,124,067
Construction	56,702,000	56,834,936	132,936
Betterments	-	4,616,668	4,616,668
Total construction	<u>66,787,000</u>	<u>75,559,488</u>	<u>8,772,488</u>
Indirect			
Personnel			
Salaries and wages	888,000	906,063	18,063
Fringe benefits	417,000	426,588	9,588
Employee Related Expenses	48,000	41,807	(6,193)
Board Related Expenses	20,000	16,951	(3,049)
Professional Services			
Auditing/accounting	40,000	32,412	(7,588)
Disadvantaged business/outreach	190,000	137,145	(52,855)
Legal	29,000	40,691	11,691
Other	77,000	71,504	(5,497)
Program management	1,500,000	1,682,090	182,090
Representation	245,000	231,436	(13,564)
Brokerage	65,000	56,434	(8,566)
Insurance	500,000	366,245	(133,755)
Equipment Expense	59,000	51,329	(7,671)
Office Rental Expense	201,000	201,270	270
Office Operations	54,000	31,060	(22,940)
Other	8,000	-	(8,000)
Deferred Indirect Expense	-	2,399,916	2,399,916
Total Indirect	<u>4,341,000</u>	<u>6,692,941</u>	<u>2,351,941</u>
Total Operating Expenditures	<u>71,128,000</u>	<u>82,252,429</u>	<u>11,124,429</u>
Excess of Revenue over Expenditures before Financing	-	7,147,571	7,147,571
Financing			
Investment revenue	-	4,700,521	4,700,521
Interest and related expenses	-	4,241,002	4,241,002
Net Financing Income/Expense	-	459,519	459,519
Excess of Revenues over Expenditures	-	7,607,090	7,607,090
Fund equity beginning of period	4,124,970	4,124,970	-
Capital Contribution	-	-	-
Fund Equity End of Period	<u>\$ 4,124,970</u>	<u>\$ 11,732,060</u>	<u>\$ 7,607,090</u>

See accompanying auditor's report.