

Audited Financial Statements
Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Year ended June 30, 2009
with Report of Independent Auditors

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Report of Independent Auditors

Board of Directors Alameda Corridor - East Construction Authority

We have audited the accompanying basic financial statements of Alameda Corridor - East (ACE) Construction Authority, a component unit of San Gabriel Valley Council of Governments, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of ACE Construction Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of ACE Construction Authority as of June 30, 2009, and the changes in its 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 September 25, 2009 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 grants. 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.

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 the Governmental Accounting Standards Board. 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.

Vasquez + Company LLP

Los Angeles, California
September 25, 2009

The following discussion and analysis of the financial performance and activity of the Alameda Corridor – East Construction Authority (ACE) provides an overview of ACE financial statements for the year ended June 30, 2009. This discussion was prepared by management and should be read in conjunction with the financial statements and notes which follow this section.

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.

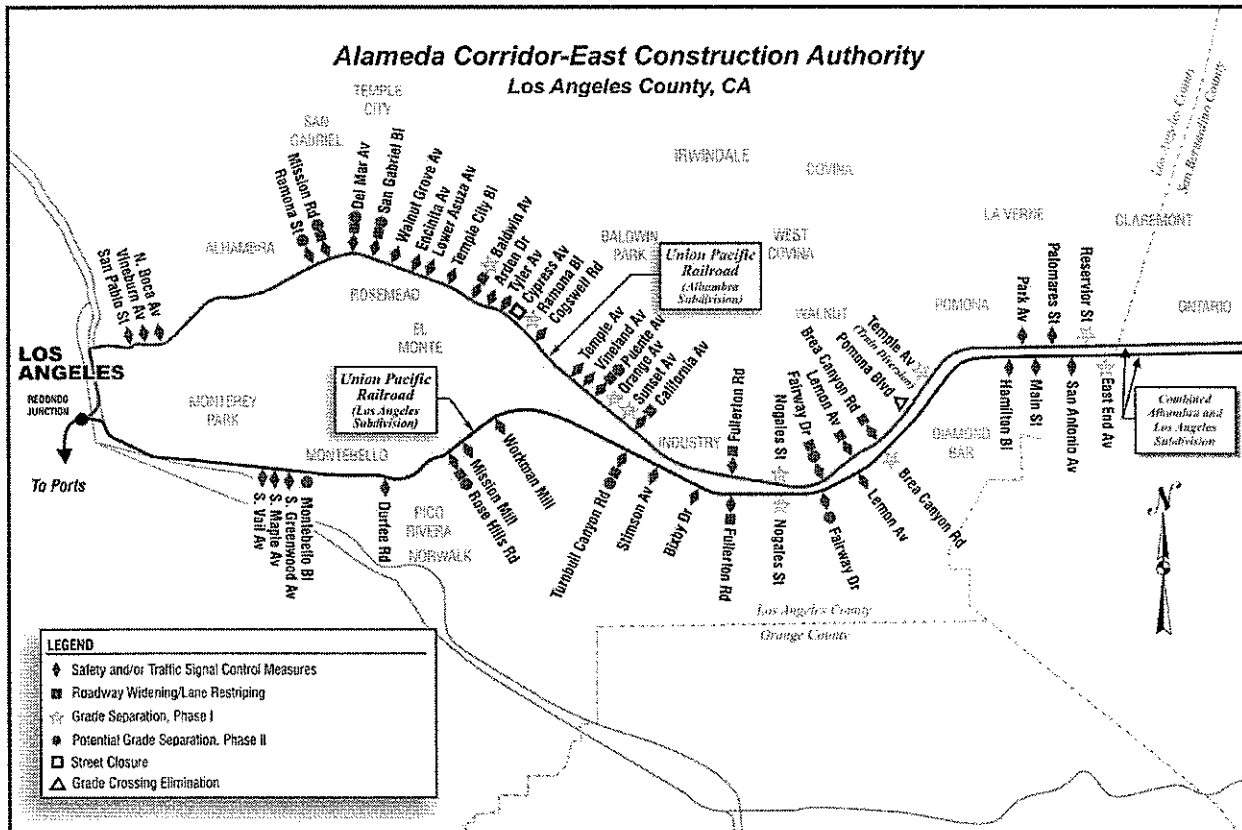
The original budget for the project was \$950 million in 1998 dollars. The project was broken out into two phases. Phase I included a test deployment of a modernized traffic control system, safety improvements at 39 grade crossings, and 10 grade separations, two of which were assigned to other agencies. Phase II included the remaining 10 grade separations. Since then, ACE assumed responsibility for an added project (Nogales St.) and has begun design on Phase II grade separations. The current cost estimates for all active or completed projects (including 4 grade separations) is \$1.108 billion. The remaining six grade separations in the overall adopted project are the subject of an updated study. Their updated definition and cost estimates should be available by the end of calendar year 2009.

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 late 2009/early 2010. 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
Management's Discussion and Analysis
Year ended June 30, 2009**

Project Progress During FY 2009					
Project	06/08	09/08	12/08	03/09	06/09
Baldwin	Right of Way Acquisitions				
Brea Canyon	Open to traffic				
East End	Open to traffic				
Reservoir	Open to traffic				
Nogales (AH)	Open to traffic				
Nogales (LA)	Design				
Ramona/Cypress	Open to traffic				
S.G. Trench	Design				
Sunset/Orange	Construction				
Temple/Pomona	Construction				

Project Map



ALAMEDA CORRIDOR-EAST PROJECT AREA

REVISED DATE 3/08

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 8 and 9 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 ended on June 30, 2009. 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 10 and 12 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 capital 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 14 through 25 of this report.

Financial Highlights

Statement of Activities

The FY 09 Budget for operating expenditures was \$ 80.7 million compared to \$87.3 million in FY 08. Actual total operating expenditures are \$66.8 million compared to \$68.6 million in FY 08.

Project revenues continue to closely track expenditures. The ACE Construction Authority's policy is to avoid where possible costs not reimbursable under Federal guidelines. The Los Angeles County Metropolitan Transportation Authority (Metro) 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 investment income.

Other revenues: The Union Pacific Railroad, based on a negotiated project scope, is expected to contribute five percent of the grade separations cost. Of the \$2,397,000 recognized in FY 09, \$1,333,500 for the Temple Avenue project was collected; \$1,063,500 for Brea Canyon project remains outstanding as of June 30, 2009.

The ACE Construction Authority earnings from its commercial paper program was \$574,845 in FY 09, considerably less than the \$1,456,801 earned in FY 08, as the gap between interest earned and interest paid narrowed, resulting in lower net interest income.

The ACE Construction Authority is reimbursed for indirect expense based on Caltrans approved Indirect Cost Allocation Plan (ICAP) rate. The reimbursement is added to all Caltrans and Los Angeles County Metro invoices and is calculated by applying the ICAP rate to direct grant reimbursable expenses. The FY 09 ICAP rate pending approval was 4.0%.

The applied indirect expense to projects was lower than the actual indirect expense incurred, resulting in a deferral of \$1,299,982 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. The 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 flow 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).

The 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.

Total assets increased 1.4% to \$134.1 million primarily due to increase in cash and investments.

**Alameda Corridor - East Construction Authority
Management's Discussion and Analysis
Year ended June 30, 2009**

Total construction-in-progress (CIP) decreased 29.7% to \$155.4 million. This was primarily due to additions from five active projects being offset by transfers to UPRR and the cities of Industry and Pomona for Brea Canyon Road and East End grade separations that were opened to traffic.

The SGVCOG, on behalf of the Authority, had \$100 million in variable rate, tax-exempt commercial paper outstanding as of June 2009. The decision as to how much to issue is made periodically by the ACE Construction Authority management in consultation with its financial advisors taking into account current and prospective cash flow needs.

Grants Receivable decreased 93.2% to \$1.0 million and Unbilled Receivables decreased 4.9% to \$17.2 million, as of June 30, 2009, mostly due to faster turnaround of grant reimbursable expenses.

Deferred Costs Incurred increased 169% to \$2.1 million as \$1,299,982 of unapplied indirect expense was deferred to next year's indirect cost allocation. (See Statement of Revenues, Expenditures and Changes in Fund Balance.)

Economic Factors and Next Year's Budget

Sufficient funds were available at the close of FY'09 to continue with remaining active grade separation projects.

Los Angeles County voters approved Measure R in November 2008. The ACE Project is included for \$400 million in local funds over the life of the sales tax. The Los Angeles County Metro has approved an initial drawdown of \$42 million for the ACE Project and is considering programming the full \$400 million by year 2017.

The ACE Construction Authority Board approved suspension of the Integrated Rail Roadway System (IRRIS), a traffic signal system demonstration project, in June 2009. A total of \$6.4 million has been spent on the project since inception. The ACE Construction Authority staff is discussing with project participants and Caltrans the disposition of project assets and project closure process.

Based on current first quarter estimates of forecasted expenditures, The ACE Construction Authority believes it will be within 15% of the FY'10 Approved Budget of \$112.2 million.

Statement of Net Assets (in thousands)

		Governmental Activities		
		2009	2008	
Current and other assets	\$	134,184	\$	132,291
Construction in progress		155,356		220,970
Less due to cities		(155,356)		(220,970)
Total assets		134,184		132,291
Liabilities		120,598		117,737
Net Assets	\$	13,586	\$	14,554

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.

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Statement of Net Assets
June 30, 2009

ASSETS	<u>Governmental Activities</u>
Current assets	
Cash and cash equivalents	\$ 108,273,379
Grants receivable	1,010,127
Unbilled receivables	17,155,595
Interest receivable	265,772
Retention receivable	4,019,273
Receivable - other	1,064,640
Deferred cost incurred	2,114,922
Prepaid expenses	
Insurance	103,872
Cost of issuance, commercial paper	111,526
	<u>134,119,106</u>
Noncurrent assets	
Leasehold improvements and equipment	\$ 332,897
Less accumulated depreciation and amortization	<u>(267,450)</u>
	65,447
Construction in progress	155,355,686
Less due to member cities and Union Pacific Railroad	<u>(155,355,686)</u>
	-
Total assets	<u><u>134,184,553</u></u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued expense	9,722,273
Accrued retention payable	2,062,584
Deferred revenue	8,687,921
Compensated absences	125,399
Commercial paper	100,000,000
Total liabilities	<u><u>120,598,177</u></u>
NET ASSETS	
Invested in capital assets	65,447
Unrestricted	13,520,929
Total net assets	<u><u>\$ 13,586,376</u></u>

See notes to financial statements.

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Statement of Activities
Year ended June 30, 2009

Project expenses		
Direct (construction)	\$	64,231,939
Indirect expenses charged to operations		<u>2,599,274</u>
Total project expenses		<u>66,831,213</u>
 Revenues		
Grant reimbursements		62,881,142
Other operating revenues		<u>2,407,395</u>
Total revenues		<u>65,288,537</u>
Income (loss) from operations		(1,542,676)
 Nonoperating income (expense)		
Financing income		1,590,530
Financing expense		<u>(1,015,686)</u>
Net nonoperating income (expense)		<u>574,844</u>
Change in net assets		(967,832)
Net assets, beginning of year		<u>14,554,208</u>
Net assets, end of year	\$	<u><u>13,586,376</u></u>

See notes to financial statements.

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Balance Sheet
Governmental Funds
June 30, 2009

	Capital Projects	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 108,273,379	\$ 108,273,379
Grants receivable	1,010,127	1,010,127
Unbilled receivables	17,155,595	17,155,595
Interest receivable	265,772	265,772
Retention receivable	4,019,273	4,019,273
Receivable - other	1,064,640	1,064,640
Deferred cost incurred	2,114,922	2,114,922
Prepaid expenses		
Insurance	103,872	103,872
Cost of issuance, commercial paper	111,526	111,526
Total assets	\$ 134,119,106	\$ 134,119,106
LIABILITIES AND FUND BALANCE		
Accounts payable and accrued expense	\$ 9,722,273	\$ 9,722,273
Accrued retention payable	2,062,584	2,062,584
Deferred revenue	8,687,921	8,687,921
Compensated absences and employee benefits	125,399	125,399
Proceeds from issuance of commercial paper owing the San Gabriel Valley Council of Governments	100,000,000	100,000,000
Total liabilities	120,598,177	120,598,177
Fund balance		
Fund balance	13,520,929	13,520,929
Total fund balance	13,520,929	13,520,929
Total liabilities and fund balance	\$ 134,119,106	\$ 134,119,106

See notes to financial statements.

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Reconciliation of the Balance Sheet of Governmental Fund
to the Statement of Net Assets
June 30, 2009

Amount reported for governmental activities in the statement of net assets are different because:

Total governmental funds	\$ 13,520,929
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds	<u>65,447</u>
Net assets of governmental activities	<u>\$ 13,586,376</u>

See notes to financial statements.

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Statement of Revenues, Expenditures and Changes in Fund Balance
Year ended June 30, 2009

Revenues

Reimbursements		
Federal grants	\$	18,748,217
State grants		10,211,451
Local grants		32,968,437
Other revenue		3,360,432
	Total revenues	<u>65,288,537</u>

Operating expenditures

Direct		
Design		9,740,564
Right-of-Way acquisition		11,273,652
Construction management		5,023,784
Construction		32,671,785
Betterments		5,550,926
	Total direct	<u>64,260,711</u>
Indirect		
Personnel		
Salaries and wages		1,392,067
Fringe benefits		392,182
Employee related expenses		64,355
Board related expenses		16,600
Professional services		
Auditing/accounting		32,430
Disadvantaged business/outreach		165,378
Legal		39,966
Other		67,461
Program management		923,737
Representation		241,486
Brokerage		56,293
Insurance		173,032
Equipment expense		74,766
Office rental expense		187,663
Office operations		42,993
Deferred indirect expense		(1,299,982)
	Total indirect	<u>2,570,427</u>
	Total operating expenditures	<u>66,831,138</u>

Excess (deficiency) of revenues over expenditures (1,542,601)

Other financing sources (uses)

Investment revenue	1,590,530
Interest and related expenses	(1,015,686)
Net other financing sources (uses)	<u>574,844</u>
Change in fund balance	<u>(967,757)</u>
Fund balance, beginning of year	14,488,686
Fund balance, end of year	<u>\$ 13,520,929</u>

See notes to financial statements.

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balance of Governmental Funds to the Statement of Activities
Year ended June 30, 2009

Amounts reported for governmental activities in the Statement of Activities are different because:

Change in fund balance - governmental funds	\$ (967,757)
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense	
Depreciation expense	(28,846)
Capital outlay	<u>28,771</u>
Change in net assets of governmental activities	<u>\$ (967,832)</u>

See notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

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

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 earned on or before June 30, 2009 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.

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.

Budgetary Reporting

The Board approved the FY 2009 budget in May 2008.

The budget was based on estimated 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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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).

Leasehold Improvements and Equipment

Phases 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

Alameda Corridor - East Construction Authority
Notes to Financial Statements
Year ended June 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

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 LEASEHOLD IMPROVEMENTS AND EQUIPMENT

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

	<u>Balances at</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances at</u> <u>June 30, 2009</u>
<i>Cost:</i>				
Leasehold improvements	\$ 19,762	\$ -	\$ -	\$ 19,762
Computer equipment				
Hardware	159,992	-	-	159,992
Software	76,921	28,771	-	105,692
Website	3,393	-	-	3,393
Telephone equipment	12,086	-	-	12,086
Office furniture	31,972	-	-	31,972
Total cost	<u>304,126</u>	<u>28,771</u>	<u>-</u>	<u>332,897</u>
<i>Less accumulated depreciation for:</i>				
Leasehold improvements	14,822	1,976	-	16,798
Computer equipment				
Hardware	122,504	11,205	-	133,709
Software	62,343	12,468	-	74,811
Website	3,393	-	-	3,393
Telephone equipment	12,086	-	-	12,086
Office furniture	23,456	3,197	-	26,653
Total accumulated depreciation	<u>238,604</u>	<u>28,846</u>	<u>-</u>	<u>267,450</u>
Leasehold improvements and equipment, net	<u>\$ 65,522</u>	<u>\$ (75)</u>	<u>\$ -</u>	<u>\$ 65,447</u>

Depreciation expense included in indirect expenses for the year ended June 30, 2009 amounted to \$28,846.

Alameda Corridor - East Construction Authority
Notes to Financial Statements
Year ended June 30, 2009

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2009 are classified in the accompanying financial statements as follows:

Cash in bank	\$	35,995,691
Pooled funds		70,612,179
US Treasury obligations		808,375
Money market funds		857,134
Total cash and cash equivalents	\$	<u>107,416,245</u>

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>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%	None
Money Market Mutual Funds	N/A	0%	5%
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

Alameda Corridor - East Construction Authority
Notes to Financial Statements
Year ended June 30, 2009

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

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 investment by maturity:

<u>Investment Type</u>	<u>Remaining maturity in months</u>				
	<u>12 Months or less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More than 60 months</u>	
State investment pool	\$ 70,612,179	\$ 67,222,794	\$ 2,047,753	\$ 1,341,632	-
<i>Held by trustee:</i>					
Money market funds	857,134	857,134	-	-	-
Investment contracts	808,375	948,907	(140,532)	-	-
Total \$	<u>72,277,688</u>	<u>69,028,835</u>	<u>1,907,221</u>	<u>1,341,632</u>	<u>-</u>

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

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	\$ 70,612,179	N/A	\$ -	\$ -	\$ -	70,612,179
Held by bond trustee:						
Money market funds	857,134	A	-	857,134	-	-
Investment contracts	808,375	N/A	-	808,375	-	-
Total	\$ <u>72,277,688</u>		\$ <u>-</u>	\$ <u>1,665,509</u>	\$ <u>-</u>	\$ <u>70,612,179</u>

Concentration of Credit Risk

ACE Construction Authority's investment policy 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, 2009, 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 represents 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.

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2009, the Authority's deposit of \$36,214,838 with financial institutions is in excess of Federal depository insurance limits but are held in collateralized accounts.

As of June 30, 2009, the following investment types were held by the same broker-dealer (counterparty) that was used by ACE Construction Authority to buy the securities:

Investment Type	Reported Amount
Federal Agency Securities	\$ <u>808,375</u>

Investments 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 4 RECEIVABLES

Receivables as of June 30, 2009, as shown in the government-wide financial statements, in the aggregate, including retention, are as follows:

Receivables	Amount
Grants	\$ 1,010,127
Unbilled	17,155,595
Retention	4,019,273
Interest	265,772
Other	1,064,640
	\$ 23,515,407

The \$1M other receivable primarily represents accrual of revenues related to Union Pacific Railroad's (UPRR) contribution of 5% of infrastructure costs for the Brea Canyon Grade Separation Project.

NOTE 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, 2009, amounted to \$100,000,000. Interest rates vary according to market conditions and have ranged from .20% to 1.51% over the life of the program and have ranged from 1.49% to .30 % in FY 2009. 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.

NOTE 6 GRANT ACCOUNTING

In the year ended June 30, 2009, the Authority was the recipient, primarily from the Federal Department of Transportation through the California Department of Transportation (CalTrans), of reimbursement of cost incurred. 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.

NOTE 6 GRANT ACCOUNTING (CONTINUED)

Receivable amounts at June 30, 2009, 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% of total direct cost. Indirect costs incurred in fiscal year ended June 30, 2009 were \$3,870,409 and previously deferred indirect expense was increased by \$1,299,982.

NOTE 7 EMPLOYEE BENEFIT PLAN

Defined Benefit Pension Plan

Effective June 17, 2002 contributions and earnings of continuing employees previously contributed to CalPars, were transferred to CalPERS.

CalPERS 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. CalPERS issues separate comprehensive annual financial reports. Copies of the CalPERS' annual financial report may be obtained from CalPERS 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, CalPERS requires the Authority's Plan to participate in a risk pool. 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 CalPERS 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 CalPERS Board of Administration. The required employer contribution rate to CalPERS for the year ended June 30, 2009 is 10.480%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost (APC)

For fiscal year 2009, the Authority's annual pension cost and actual contribution was \$207,868. For the year ended June 30, 2009, the actuarial funding method used by the CalPERS 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.

NOTE 7 EMPLOYEE BENEFIT PLAN (CONTINUED)

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) 3% 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 CalPERS

Year	(APC)	APC Contributed	Obligation
6/30/2007	\$ 223,100	100%	\$ 90,797
6/30/2008	\$ 340,300	100%	\$ 89,189
6/30/2009	\$ 207,868	100%	\$ -

Post-employment Benefits

The Authority did not incur any other liabilities during fiscal year 2009 related to post-employment benefits.

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, 2008	\$ 458,879
Add:	
Employee contributions	89,134
Less:	
Net realized and unrealized depreciation in fair value of investments	(119,772)
Distributions	(46,424)
Fees charged	(68)
Balance at June 30, 2009	<u>\$ 381,749</u>

NOTE 8 COMMITMENTS AND CONTINGENCIES

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.

NOTE 8 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

The Authority rents its office from Metropolitan Life Insurance Company subject to a lease expiring April 30, 2016. Monthly rent and a pro-rata share of facility maintenance and utilities are as follow:

Period from/to	Monthly Rent	Annual Amount
May 1, 2009 to April 30, 2010	\$ 16,447	\$ 197,364
May 1, 2010 to April 30, 2011	16,940	203,280
May 1, 2011 to April 30, 2012	17,448	209,376
May 1, 2012 to April 30, 2013	17,972	215,664
May 1, 2013 to April 30, 2014	18,511	222,132
May 1, 2014 to April 30, 2015	19,066	228,792
May 1, 2015 to April 30, 2016	19,638	235,656
Total lease commitments	\$	<u>1,512,264</u>

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 \$3,250,984. Funds are deposited in several escrow accounts until release is authorized.

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, 2009, \$450,881,270 of costs was accumulated on projects in process and \$295,525,584 had been transferred to the railroad and impacted cities.

Under the government funds and modified accrual basis of accounting \$66,831,138 in FY 2009 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.

NOTE 9

ACCOUNTING FOR CONSTRUCTION IN PROGRESS AND EVENTUAL DISPOSAL OF PROJECTS (CONTINUED)

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

Alameda Corridor - East Construction Authority
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Budget to Actual
Year ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Amended Final		
Revenues				
Reimbursements				
Federal grants	\$ 29,546,000	\$ 27,462,428	\$ 18,748,217	\$ 8,714,211
State grants	20,965,000	19,486,557	10,211,451	9,275,106
Local grants	23,199,000	21,563,016	32,968,437	(11,405,421)
Other revenue	6,968,000	6,968,000	3,360,432	3,607,568
Total revenues	80,678,000	75,480,001	65,288,537	10,191,464
Operating expenditures				
Construction				
Design	10,605,000	10,085,000	9,740,564	344,436
Right-of-Way acquisition	19,475,000	17,247,000	11,273,652	5,973,348
Construction management	2,951,000	2,458,000	5,023,784	(2,565,784)
Construction	36,387,000	34,430,000	32,671,785	1,758,215
Betterments	6,968,000	6,968,000	5,550,926	1,417,074
Total construction	76,386,000	71,188,000	64,260,711	6,927,289
Indirect				
Personnel				
Salaries and wages	1,495,000	1,495,000	1,392,067	102,933
Fringe benefits	424,000	424,000	392,182	31,818
Employee related expenses	56,000	56,000	64,355	(8,355)
Board related expenses	19,000	19,000	16,600	2,400
Professional services				
Auditing/accounting	30,000	30,000	32,430	(2,430)
Disadvantaged business/labor compliance	115,000	115,000	165,378	(50,378)
Legal	35,000	35,000	39,966	(4,966)
Other	73,000	72,000	67,461	4,539
Program management	1,114,000	1,114,000	923,737	190,263
Representation	281,000	281,000	241,486	39,514
Brokerage	65,000	65,000	56,293	8,707
Insurance	273,000	273,000	173,032	99,968
Equipment expense	43,000	44,000	74,766	(30,766)
Office rental expense	215,000	215,000	187,663	27,337
Office operations	45,000	45,000	42,993	2,007
Other	8,000	8,000	-	8,000
Deferred indirect expense	-	-	(1,299,982)	1,299,982
Total indirect	4,291,000	4,291,000	2,570,427	1,720,573
Total operating expenditures	80,677,000	75,479,000	66,831,138	8,647,862
Excess (deficiency) of revenues over expenditures	1,000	1,001	(1,542,601)	1,543,602
Other financing sources (uses)				
Investment revenue	4,136,000	4,888,000	1,590,530	3,297,470
Interest and related expenses	(3,291,000)	(4,138,000)	(1,015,686)	(3,122,314)
Net other financing sources (uses)	845,000	750,000	574,844	175,156
Change in fund balance	846,000	751,001	(967,757)	1,718,758
Fund balance, beginning of year	14,488,686	14,488,686	14,488,686	-
Fund balance, end of year	\$ 15,334,686	\$ 15,239,687	\$ 13,520,929	\$ 1,718,758

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

**Board of Directors
Alameda Corridor – East Construction Authority**

We have audited the financial statements of Alameda Corridor – East Construction Authority, a component unit of San Gabriel Valley Council of Governments, as of and for the year ended June 30, 2009, and have issued our report thereon dated September 25, 2009. 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Alameda Corridor – East Construction Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Alameda Corridor – East Construction Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Alameda Corridor – East Construction Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data, reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

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

This report is intended solely for the information and use of the governing board, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vargas + Company LLP

**Los Angeles, California
September 25, 2009**