Alameda Corridor-East Construction Authority

4900 Rivergrade Rd. Ste. A120 Irwindale, CA 91706 (626) 962-9292 fax (626) 962-3552 www.theaceproject.org

ALAMEDA CORRIDOR-EAST CONSTRUCTION AUTHORITY
BOARD OF DIRECTORS
REGULAR MEETING AGENDA

Monday, February 22, 2016 – 2:00 P.M.
Montebello City Hall
1600 W. Beverly Blvd.
Montebello, CA 90640

Members of the public may comment on any item on the agenda at the time it is taken up by the Board. We ask that members of the public come forward to be recognized by the Chair and keep their remarks brief. If several persons wish to address the Board on a single item, the Chair may impose a three-minute time limit on individual remarks at the beginning of the discussion.

Montebello City Hall is accessible to persons using wheelchairs and with other disabilities. Informational material will be available in large print. Assistive listening devices, materials in other alternate formats, American Sign Language interpreters and other accommodations will be made available upon request. Requests should be made to Deanna Stanley at 626-962-9292 ext. 142 or dstanley@theaceproject.org Providing at least 72 hours notice will help ensure availability.

I.	Pledge of Allegiance		
II.	Roll Call and Introductions		
III.	Public Comment		
IV.	Receive and File Finance Committee Meeting Minutes of February 3, 2016	(Pages 1 - 2)	Action
V.	Approval of Regular Meeting Minutes of January 25, 2016	(Pages 3 - 6)	Action
VI.	Chairman’s Remarks		
VII.	Board Member Comments		

The ACE Construction Authority is constituted of seven (7) member jurisdiction; the Cities of El Monte, Industry, Montebello, San Gabriel and Pomona, the County of Los Angles and the San Gabriel Valley Council of Governments. A San Bernardino County Council of Governments representative is an ex-officio Board member. Each member or alternate has one vote. A quorum of the ACE Construction Authority is no less than four (4) of its total voting membership. Actions taken by the ACE Construction Authority shall be by simple majority of the members present with a quorum in attendance except for personnel actions, the annual budget, matters dealing with the Administrative Code or matters requiring subsequent approval by the SGVCOG, all of which shall require five (5) votes. All disclosable public records related to this meeting are available for viewing at the ACE office above during normal working hours.

VIII.	Chief Executive Officer's Report	(Pages 7 - 8)	Information
IX.	Project Construction Progress Reports		Information
X.	Approve Change of Time to Regular Meetings of ACE Board of Directors	(Page 9)	Action
XI.	Approval of Task Order #2 to Berg & Associates for Construction Management Services for the Fullerton Road Grade Separation Project	(Pages 10 - 11)	Action
XII.	Approval of Task Order #2 Amendment to SWCA for Cultural Resource Services for the San Gabriel Trench Project	(Pages 12 - 13)	Action
XIII.	Receive and File Sale of Excess Property on the Baldwin Avenue Grade Separation Project	(Page 14)	Action
XIV.	Receive and File Management Report and Audited Financial Statements for Fiscal Year 2015	(Pages 15 - 61)	Action
XV.	Adjournment		Action

If you would like to receive the ACE Board agenda electronically, please email Amy Hanson at ahanson@theaceproject.org

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Alameda Corridor-East Construction Authority
Finance Committee Minutes
February 3, 2016

Vice Chair Hadjinian called the Finance Committee of the ACE Construction Authority to order at 10:06AM at 4900 Rivergrade Road Suite A120 Irwindale, CA 91706.

1. **Roll Call/Introductions**

   Jack Hadjinian, Chair
   Juli Costanzo, Vice Chair
   Elliott Rothman
   Barbara Messina
   Victoria Martinez

   <u>Staff</u>
   Mark Christoffels, Chief Executive Officer
   Menchu Ituralde, Grants & Audits Manager
   Deanna Stanley

2. **Public Comments** – There were no public comments.

3. **Status Report on ACE Contract Audits** – Mr. Christoffels reviewed the status of the ACE contract audits. He indicated there were four audits completed during the last quarter for a total questioned cost of $45,003 all of which is expected to be recovered.

4. **Project Status Reports** – Mr. Christoffels reviewed page 6, Exhibit I and indicated it reflected all grants ACE has ever received. He indicated Exhibit II reflected the allocations of the grants and the identified surplus which are funds not yet assigned to a project. He reminded the committee that the railroad has only a 5% contribution requirement. He indicated any savings on projects may be moved to fund other projects and that staff must track funding expiration dates. Mr. Christoffels reviewed Exhibit III which reflected an estimated $3M at completion as well as $32 million unassigned. Chairman Hadjinian asked Mr. Christoffels the cost of Montebello project and Mr. Christoffels indicated the project would cost $142 million. Mr. Christoffels indicated there would be a savings on the Baldwin Avenue and the San Gabriel Trench project totaling $24M which would be applied to other projects.

   Mr. Christoffels reviewed the project schedules and reported both Nogales and Durfee have been delayed one month.

Mr. Christoffels indicated the overall balance if the project were complete and all invoices paid would reflect a surplus of $13 million. He reported that the agenda also contained the portfolio of investments.

5. **Update on Working Capital** – Mr. Christoffels reported the cost of borrowing during this period resulted in net earnings of $22,090.

The meeting adjourned at 10:30AM.

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ACE Construction Authority Board of Directors Regular Meeting
January 25, 2016 Minutes

Chairman Jack Hadjinian called the meeting of the Board of Directors of the Alameda Corridor-East Construction Authority to order at 2:07PM at the Montebello Council Chambers.

1. **Pledge of Alliance** – Victoria Martinez led the pledge of allegiance.

2. **Roll Call:** In attendance was:
   Jack Hadjinian, Chair
   Juli Costanzo, Vice Chair
   Barbara Messina
   Victoria Martinez
   Elliott Rothman

   Staff:
   Mark Christoffels, CEO
   Gregory Murphy, BWS, legal counsel
   Deanna Stanley
   Amy Hanson
   Genichi Kanow
   Charles Tsang
   Phil Balmeo
   Paul Hubler
   Victoria Butler
   Cecilia Cardenas

   Guests:
   Romero Firme, David Evans & Associates
   Victoria Shen Park, Citadel CPM
   Hank Fung, LA County
   Allen Ude, LA County
   Steve Henderson, Parsons
   Phil Hawkey, SGVCOG
   Richard Ren, Senator Bob Huff
   Gilbert Vasquez, Vasquez & Co.
   Cynthia Marian, Oliver Sandifer & Murphy

3. **Public Comments** – There were no public comments at this time.

4. **Approval of December 16, 2015 Special Meeting minutes** – A motion was made to approve the December 16, 2015 minutes.

   M/S/C/Rothman/Messina/Passed Abstention: Martinez

5. **Chairman Remarks** – Chairman Hadjinian welcomed new Board member Victoria Martinez, Mayor Pro Tem of El Monte. He asked Ms. Martinez to extend appreciation on behalf of the ACE Board to Councilmember Norma Macias for her contributions while serving on the Board. Chairman asked if the Board could consider at a future meeting changing the times of the regular meetings.

6. **Board Member Comments** – Vice Chair Costanzo reported that the San Gabriel Rotary has requested a speaker from ACE. Mr. Christoffels asked information be forwarded to him.

7. **Chief Executive Officer's Report** – Mr. Christoffels reported that the Baldwin Avenue grade separation project was selected by the Southern California Chapter of the Construction Management Association of America for outstanding achievement. The award will be presented at their award gala on April 21st. Mr. Christoffels indicated that bids are sought for the construction of the Fullerton Road grade separation project in the City of Industry. He indicated the package was released and bids are due March 2nd.

8. **Project Construction Progress Reports** – Senior Project Manager Genichi Kanow reviewed traffic signal removal and street pavement removal at the Puente Avenue project. Senior Project Manager Charles Tsang reviewed retaining wall construction at Nogales Street and completed construction at Gale Avenue/Walnut Drive. Mr. Tsang also reviewed storm drain construction at the Fairway Drive project. Senior Project Manager Phil Balmeo reviewed Del Mar Avenue bridge excavation and concrete slab pouring for the trench.

9. **Election of Officers** – Greg Murphy reviewed the process for the election of officers. Chairman Hadjinian opened the nomination for the position of Chair. Juli Costanzo nominated Jack Hadjinian which was seconded by member Martinez. There were no other nominations. The Board unanimously elected Jack Hadjinian Chairman.

   Chairman Hadjinian opened nominations for Vice Chair. Barbara Messina nominated Juli Costanzo which was seconded by Jack Hadjinian. There were no other nominations. The Board unanimously elected Juli Costanzo Vice Chair.

10. **Hearing on Resolution of Necessity No. 16-01 for the Project** – Greg Murphy reviewed the process of the hearing of the Resolution of Necessity. He indicated the Board must agree by a two thirds vote that the property is required and the project planned at the best interest of the public. He reminded the Board that if the Board approves the Resolution of Necessity negotiations may continue.

    Mark Mendoza reviewed the property requirements. He explained a permanent easement was required for a tie back for a retaining wall and a temporary construction easement was required for construction of said wall. He indicated negotiations began over five years ago but the two owners of record are both now deceased and determination of rightful owners has been an ongoing challenge. He indicated monies due for this transaction has been placed on deposit with the State of California where, once probate is complete the rightful owner(s) can claim. Extensive discussion ensued regarding the title process. After discussion a motion was made to adopt Resolution of Necessity No. 16-01

Ayes: Hadjinian, Costanzo, Rothman, Martinez, Messina
Nayes: None
Absent: Michael Antonovich, Paul Eaton

The Resolution of Necessity No. 16-01 was approved.

11. **Approval of Contract Award to Vasquez & Company LLP for Financial Audit Services** – Mr. Christoffels reminded the Board that ACE is required to have annual financial audits conducted. He indicated the contract of the auditors is typically for five years and the current contract was to expire. He indicated notice of a procurement for these services was sent to 36 firms and three responses were received. He indicated the Technical Evaluation Committee unanimously recommended Vasquez & Company LLP.

    A motion was made to approve a contract with Vasquez & Company LLP to perform financial audit services and to issue a task order to Vasquez for audit services covering FY 2016 in an amount not-to-exceed $40,700.

    M/S/C/Rothman/ Messina/Passed

    Abstention: Hadjinian

12. **Approval of Meeting Schedule for the Finance Committee Meetings** – Mr. Christoffels indicated that after the Board approved the meeting schedule a board member has requested the February 4th Finance Committee meeting be rescheduled. After discussion a motion was made to hold the next Finance Committee meeting on Wednesday, February 3 at 10AM at the ACE offices.

    M/S/C/Messina/Costanzo/Unanimous

13. **Approval to Receive and File Quarterly Project Progress Reports** – There was no discussion.

    A motion was made to receive and file the quarterly progress reports.

    M/S/C/Rothman/Costanzo/Unanimous

14. **Approval to Receive and File Quarterly Mitigation Monitoring Reports** – There was no discussion.

    A motion was made to receive and file the quarterly mitigation monitoring reports.

    M/S/C/Rothman/Martinez/Unanimous

15. **Approval of Support Position for TCIF Provisions of AB 1591 (Frazier)** – There was no discussion.

    A motion was made to approve to approve a support position for TCIF Provisions of Assembly Bill 1591.

    M/S/C/Rothman/Messina/Unanimous

16. **Closed Session** – Greg Murphy announced the Board would convene to closed session in accordance with Government Code Section 54968 to discuss exiting litigation – one case – Los Angeles Superior Court Case No. BC 465 891
Alameda Corridor-East Construction Authority vs. Arco Gas Station; Arco AM/PM Mini Market; ISY Investments, LLC

The Board returned from closed session and Mr. Murphy indicated there was no reportable action taken.

17. **Adjournment** – The meeting was adjourned at 3:08PM. The next meeting of the Board will be held on February 22, 2016.

X Deanna Stanley

Deanna Stanley
Clerk of the Board

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MEMO TO: ACE Construction Authority Board Members & Alternates

FROM: Mark Christoffels
Chief Executive Officer

DATE: February 22, 2016

SUBJECT: CEO Report

The following are items of note since the last meeting:

Trade Corridors Support – ACE has co-signed a regional transportation agency letter urging Governor Brown and legislative leaders to direct California's share of new federal freight program formula funds to the state Trade Corridors Improvement Fund (TCIF), a significance source of support for the ACE projects. In addition, we are supporting legislative proposals to direct new and existing state revenues to the TCIF program.

Memorandum of Understanding (MOU) to Provide Support Services to the SGVCOG – The SGVCOG Governing Board is expected to approve an MOU for ACE to provide administrative, accounting and IT support services at their February 18, 2016 meeting. The Governing Board previously approved an exception to the JPA which limits the tasks of the ACE staff to ACE projects, to allow ACE staff to provide assistance to the SGVCOG with transportation planning and grant administration. Due to SGVCOG's limited staff resources and the expertise of existing ACE staff, the SGVCOG has asked additional responsibilities be undertaken by ACE. These duties include payroll administration, accounting and budgeting and IT support. All costs related to ACE performing these additional tasks will be recovered from the SGVCOG. If approved, we will bring this item to your March meeting as receive and file.

ADA Case Settlement – An American with Disabilities (ADA) related complaint was filed for the property located at 921 Fairway Drive which was acquired by ACE in conjunction with the Fairway Grade Separation Project. The claim has been settled under the CEO's authority, and ACE will be making some adjustments to the property related to handicap parking delineation. Please note that other properties, not owned by ACE, in the vicinity were hit with similar complaints and so the CEO and staff do not feel that ACE is being singled out or otherwise acting wrongly, but that the purchase of an older property subjected us to this complaint and we determined with legal counsel that settlement and the adjustments are the best course of action from both a legal and a business perspective.

Proposition 1B Project Audits - The California Department of Finance, Office of State Audits and Evaluations, will be at the ACE offices beginning February 22nd to audit Prop 1B expenditures under the Trade Corridor Improvement Fund (TCIF) for the San Gabriel Trench and Baldwin Avenue projects. This is a routine audit and ACE staff have already gathered the documents that will need to be reviewed under this audit.

Contracting – Our Administrative Code delegates to the CEO the authority to approve new contracts or change orders for Board-approved contracts within certain limits, with a requirement that I report to the Board any such contract action. Since my last report I have approved the following:

Consultant/Vendor	Reason for Change	Change Amount	Total Contract Value
Walsh Construction	Insulation for building on Commercial Ave	$171,362	$175,231,637

Community Outreach Update – Staff conducted the following project outreach activities:

- Distributed construction alert notices regarding demolition of commercial and storage units for the Fairway Drive project;
- Distributed construction alert notices regarding night-time traffic lane and sidewalk closures on E. Walnut Dr. N for utility relocation for the Fairway Drive project;
- Distributed construction alert notices regarding traffic lane shift on Valley Blvd for bridge construction for the Puente Avenue project;
- Conducted school safety presentations and distributed school safety kits to students at Greenwood Elementary School and at the Applied Technology Center in Montebello;
- Staffed an ACE Project information booth at the Transportation Night expo of the Construction Management Association of America, Southern California Chapter; and,
- Conducted ongoing community outreach and support activities for the San Gabriel Trench, Nogales Street, Puente Avenue and Fairway Drive grade separation projects.

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MEMO TO: ACE Board of Directors & Alternates

FROM: Mark Christoffels
Chief Executive Officer

DATE: February 22, 2016

SUBJECT: Approval to Change Time of Regularly Scheduled Board Meetings

RECOMMENDATION: In an effort to better accommodate Board members' schedules, the Board is asked to consider changing the time of its regular meetings from 2PM to noon.

BACKGROUND: The Board meetings have been held at 2pm since the inception of ACE with periodic changes due to schedule conflicts. A poll was taken of each member and it appears there is an agreement that changing the time to 1pm is more accommodating.

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MEMO TO: ACE Construction Authority Board Members and Alternates

FROM: Mark Christoffels
Chief Executive Officer

DATE: February 22, 2016

SUBJECT: Approval of Task Order 2 under the Contract with Berg & Associates, Inc. for Construction Management Services for Fullerton Road Grade Separation Project

RECOMMENDATION: Staff recommends that the Board authorize the Chief Executive Officer to execute Task Order 2 under the construction management (CM) services contract with Berg & Associates, Inc. (Berg) for a not-to-exceed amount of $11,871,963 for a total contract value of $12,091,017 for the Fullerton Road grade separation project.

BACKGROUND: At the June 2014 meeting, the Board approved the selection of Berg for CM services on Fullerton Road Grade Separation Project and authorized negotiation of CM services contract with this firm for Board approval. On August 18, 2014, the Board authorized the Chief Executive Officer to execute Task Order 1 under this contract for pre-construction CM services in a not-to-exceed amount of $201,054.

The initial work authorization (Task Order 1) was limited to the following tasks:

- Constructability Analysis
- Bid Support
- Advanced Utility Coordination
- Project Management Services
- Special Work Assignments

A majority of the work under Task Order 1 has been completed and the Fullerton Road grade separation project is currently out to bid. Bids are expected by the first week of March and the construction contract for this project is expected to be awarded at the Board's March 28th meeting. Upon award of the construction contract ACE will require the following CM services to commence under Task Order 2:

- Pre-construction meeting
- Progress management services
- Progress schedule review
- Changes/claims administration
- Construction safety
- Utility coordination
- Coordination of railroad flag person
- Environmental compliance oversight
- Processing & tracking of submittals and RFIs
- Quality control & inspection services
- Special Work Assignments
- Construction schedule review
- Monitor railroad force account
- Document control
- Contract close-out
- Constructability analysis
- Pre-construction survey
- Material testing & support services (QA/QC)
- Labor compliance & SBE monitoring (support)
- Review & approval of progress payments
- Traffic Control
- Project support

Proposed costs for the above CM services to be done under Task Order 2 were compared with estimates independently prepared by staff and any discrepancies were resolved. Staff recently concluded contract negotiations and is recommending approval of a not-to-exceed Task Order 2 amount of $11,871,963 with payments to be made on actual incurred costs subject to final audits by ACE staff. As a percentage of construction cost, this amount is slightly higher (14%) with similar task orders issued for other ACE projects (12%). To accommodate the large shopping centers located adjacent to the project, the contractor is being required to work double and evening shifts. To make sure this work is done properly, the CM staff will also need to work second and weekend shifts on the project which is increasing the CM labor costs and results in the contract percentage being slightly higher than a typical project for ACE. The notice to proceed for Task Order 2 will be coordinated with the notice to proceed for the construction contract.

This authorization will also allow a 10% contingency allowance in accordance with normal agency procedures. Any contract amount changes from the above figure due to contract amendments during Task Order 2 CM services that exceed the CEO's authorization will be brought back to the Board for further consideration and approval.

BUDGET IMPACT: Funds for this contract are included in the budget and will come from State and Metro funds allocated to this project.

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MEMO TO: ACE Construction Authority Board Members & Alternates

FROM: Mark Christoffels
Chief Executive Officer

DATE: February 22, 2016

SUBJECT: Approval of Contract Amendment for Cultural Resources Management with SWCA Environmental Consultants for the San Gabriel Trench Project

RECOMMENDATION: Staff recommends that the Board authorize the Chief Executive Officer to increase Task Order 2 on the contract with SWCA Environmental Consultants (SWCA) for cultural resources management on the San Gabriel Trench Project for a not-to-exceed amount of $494,824 for a total Task Order 2 contract authorization of $3,970,221.

BACKGROUND: At the July 25, 2011, the Board approved the selection of SWCA for the cultural resources management services (CRM) for the San Gabriel Trench project. On August 27, 2012, the Board authorized the CEO to execute Task Order 2 for the second phase which primarily consists of monitoring significant locations for impacts and as-needed archaeological support for the duration of the construction project.

As the Board had been previously informed, a significant amount of human remains were uncovered that were not anticipated when SWCA was issued task order 2 under their contract. To avoid delays during project construction, staff directed SWCA to have the funds originally budgeted for items under task order 2, such as construction monitoring, feature recovery, artifact curation, and laboratory processing and reporting, and shift them to the human remains treatment item. In addition the following items of work were also required that were not originally anticipated:

1. Archaeological Construction Monitoring went well beyond four months that was originally anticipated and budgeted.
2. Extensive documentation of archaeological features discovered under the original Union Pacific Railroad track alignment, including wall, reservoir, and building foundations; extensive unlined ditches; railroad features; and Native American ceremonial deposits. The original scope and budget for data recovery under the tracks accounted for the discovery and documentation of five features to be removed. The field effort uncovered over 20 large architectural features.
3. Round-the-clock archaeological monitoring surrounding the closure of the Ramona Street Crossing.
4. Excavation, protection, and analysis of a Native American house feature during monitoring. This find represents a unique and important feature type not previously identified at San Gabriel Mission archaeological site.

The additional scope of work identified above was required to be undertaken by ACE in accordance with the project Memorandum of Agreement between Caltrans and the State Historic Preservation Officer. This request for contract amendment is to replenish funds for those that were temporarily used to do the work.

Due to the extensive archaeological support needed described above and based on what staff and SWCA know at this point, it is estimated that approximately $494,824 will be required for archaeological monitoring services for the remaining construction work. The requested increase includes work that was not previously budgeted including additional reporting and curation triggered by unanticipated finds as identified above. Should additional unanticipated human remains be discovered, staff may need to obtain additional authorization.

The authorization will include a 10% contingency allowance in accordance with our contract administration procedures.

BUDGET IMPACT: Funds for this contract are available from State grants awarded to the project (Proposition 1B TCIF Funds).

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MEMO TO: ACE Construction Authority Board Members and Alternates

FROM: Mark Christoffels
Chief Executive Officer

DATE: February 22, 2016

SUBJECT: Sale of Excess Property on the Baldwin Avenue Grade Separation Project

RECOMMENDATION: Receive and file an update on the sale of excess property on the Baldwin Avenue Grade Separation Project.

BACKGROUND: At the March 16, 2015 meeting, based upon the completion of the Baldwin Avenue Grade Separation Project, the ACE Board declared as surplus property twenty-eight parcels totaling approximately 205,142 gross square feet (4.7 acres) of vacant parcels zoned for either General Commercial use (EMC-3) or General Manufacturing (M-2). The surplus property was divided into 3 areas for purposes of sale: Surplus West, Surplus East and Surplus Northeast.

Consistent with ACE right-of-way guidelines and the Caltrans right-of-way manual, ACE made all of the surplus property available to "priority purchasers" consisting of governmental and public agencies for a 60-day period at fair market value. In May 2015, the City of El Monte formerly expressed interest in the Surplus East and Surplus West properties for development of affordable housing for Veterans including their families. At the September 28, 2015 meeting, the ACE Board concurred with the "priority" sale of the Surplus East and Surplus West parcels to the City of El Monte in partnership with Mercy Housing in the amount of $2,660,000.00 to allow for the construction of a Veterans Housing facility.

No governmental or other public agencies expressed an interest in the remaining surplus property (Surplus Northeast). This surplus property consists of one parcel totaling approximately 43,680 gross square feet (1.00 acres) zoned for either general commercial or general manufacturing use. In accordance with ACE right-of-way guidelines and the Caltrans right-of-way manual, the property was placed on the open market through on-line multiple listing services websites and on ACE's website to the general public for a period of 82 days (October 28, 2015 – January 18, 2016). Three bids were received with the highest coming from Nelson Yip in the amount of $1,280,000. This amount is higher than the appraised value and the offer has been accepted. This will be an all cash sale with a 60 day escrow which includes a 45 day due diligence/contingency period and a 15 day period to close escrow following expiration of the due diligence/contingency period.

BUDGET IMPACT: Proceeds from the sale of surplus properties will be used to fund other ACE Projects or obligations.

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Memo to: ACE Construction Authority Board Members & Alternates

From: Mark Christoffels
Chief Executive Officer

Date: February 22, 2016

Subject: Audited Financial Statements for Fiscal Year ending June 30, 2015

RECOMMENDATION: Staff recommends the Board receive and file the Audited Financial Statements for Fiscal Year ending June 30, 2015

BACKGROUND: In January, 2016, the firm of Vasquez & Company LLP completed their comprehensive audit of the financial statements for the ACE Construction Authority for the fiscal year ending June 30, 2015, and transmitted the attached report to staff and the ACE Board of Directors. The report concludes the following:

- In their opinion, the component unit financial statements present fairly, in all material respects, the respective financial position of the governmental activities and major funds of the ACE Construction Authority as of June 30, 2015, and the respective financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

- No exceptions were taken to their review of the ACE Construction Authority's internal control over financial reporting and their tests of the agency's compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters related to financial controls.

In summary, the audits found no discrepancies with the ACE Construction Authority's financial reporting and records for the financial reporting period ending June 30, 2015.

Audited Financial Statements
and Supplementary Information
Alameda Corridor – East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
As of and for the Year ended June 30, 2015
with Report of Independent Auditors

An Independently Owned Member
McGLADREY ALLIANCE
McGladrey

Vasquez & Company LLP
Certified Public Accountants and Business Consultants

Audited Financial Statements
and Supplementary Information
Alameda Corridor – East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
As of and for the Year ended June 30, 2015
with Report of Independent Auditors

Report of Independent Auditors

The Honorable Members of the Board of Directors
Alameda Corridor – East Construction Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of Alameda Corridor - East Construction Authority (ACE), a component unit of San Gabriel Valley Council of Governments (SGVCOG), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise ACE's basic financial statements as listed in the table of contents.

Management's Responsibility on the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Alameda Corridor – East Construction Authority as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 11 and the required supplementary information on pages 34 - 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ACE's basic financial statements. The statement of revenues, expenditures and changes in fund balance – budget to actual on page 36, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The statement of revenues, expenditures and changes in fund balance – budget to actual is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statement of revenues, expenditures and changes in fund balance – budget to actual is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Implementation of New Accounting Standards

As discussed in Notes 1, 6 and 10 to the financial statements, ACE has implemented Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* effective for the fiscal year ended June 30, 2015. As a result of this required implementation, ACE's beginning net position was restated to retroactively report the net position liability as of the beginning of the fiscal year. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2016, on our consideration of ACE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ACE's internal control over financial reporting and compliance.

Vasquez & Company LLP

Los Angeles, California
January 28, 2016

The management's discussion and analysis (MD&A) of the financial performance and activity of the Alameda Corridor – East Construction Authority (ACE) provides an overview of ACE financial statements for the year ended June 30, 2015. This discussion was prepared by management and should be read in conjunction with the accompanying financial statements and notes which follow this section.

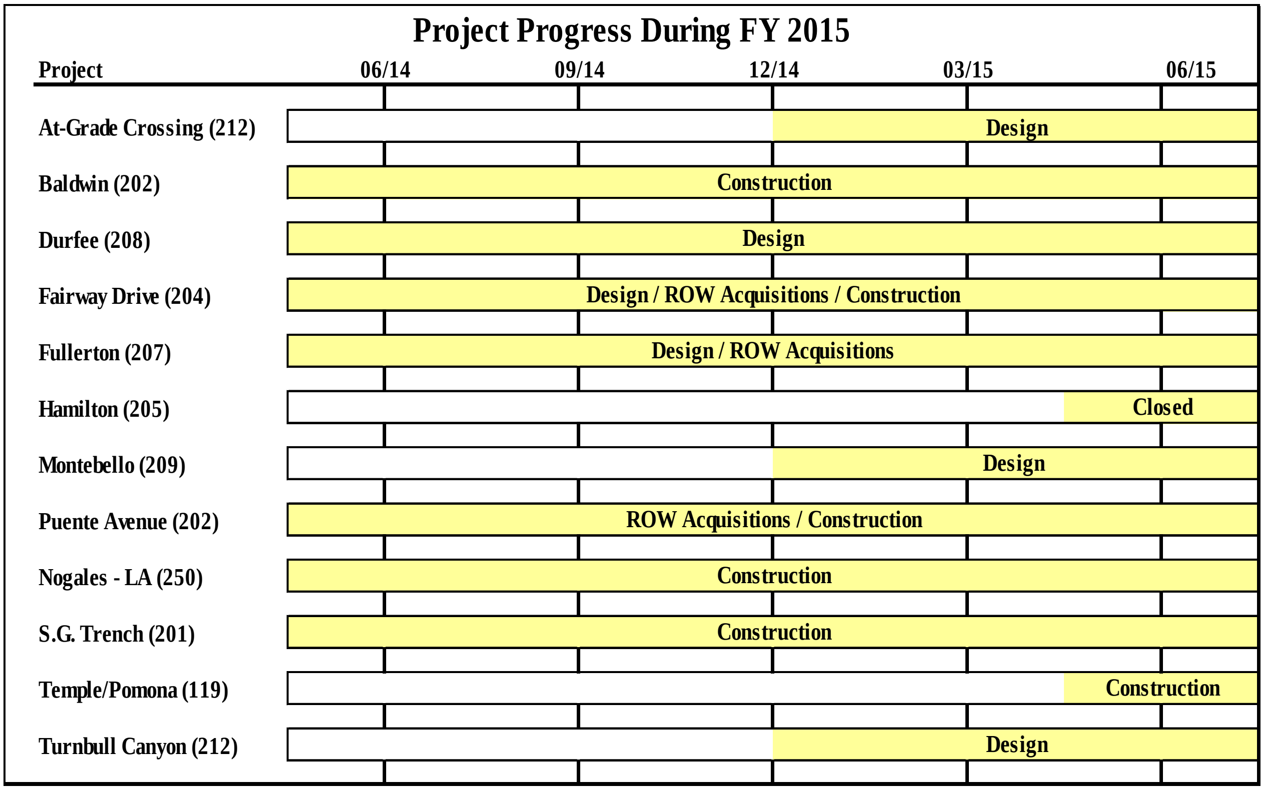
Background

The San Gabriel Valley Council of Governments (SGVCOG) created ACE in 1998. ACE is a single purpose construction authority established to implement a construction program intended to mitigate the adverse impacts at rail-roadway crossings in the San Gabriel Valley of increasing rail traffic along the nationally significant Alameda Corridor East Trade Corridor. Train counts through the Valley are projected to nearly double by the year 2035 as increasing numbers of freight trains carry freight to and from the nation's busiest container ports in San Pedro Bay.

The ACE Project is a comprehensive program of constructing grade separations, where the road goes over or under the railroad, and safety and mobility upgrades at 53 crossings in the San Gabriel Valley. Construction has been completed on 8 rail-roadway grade separations. Eight grade separations are under construction with four grade separations and pedestrian crossing safety program at four crossings starting in two years. Jump Start safety improvements have been completed at 40 at-grade crossings.

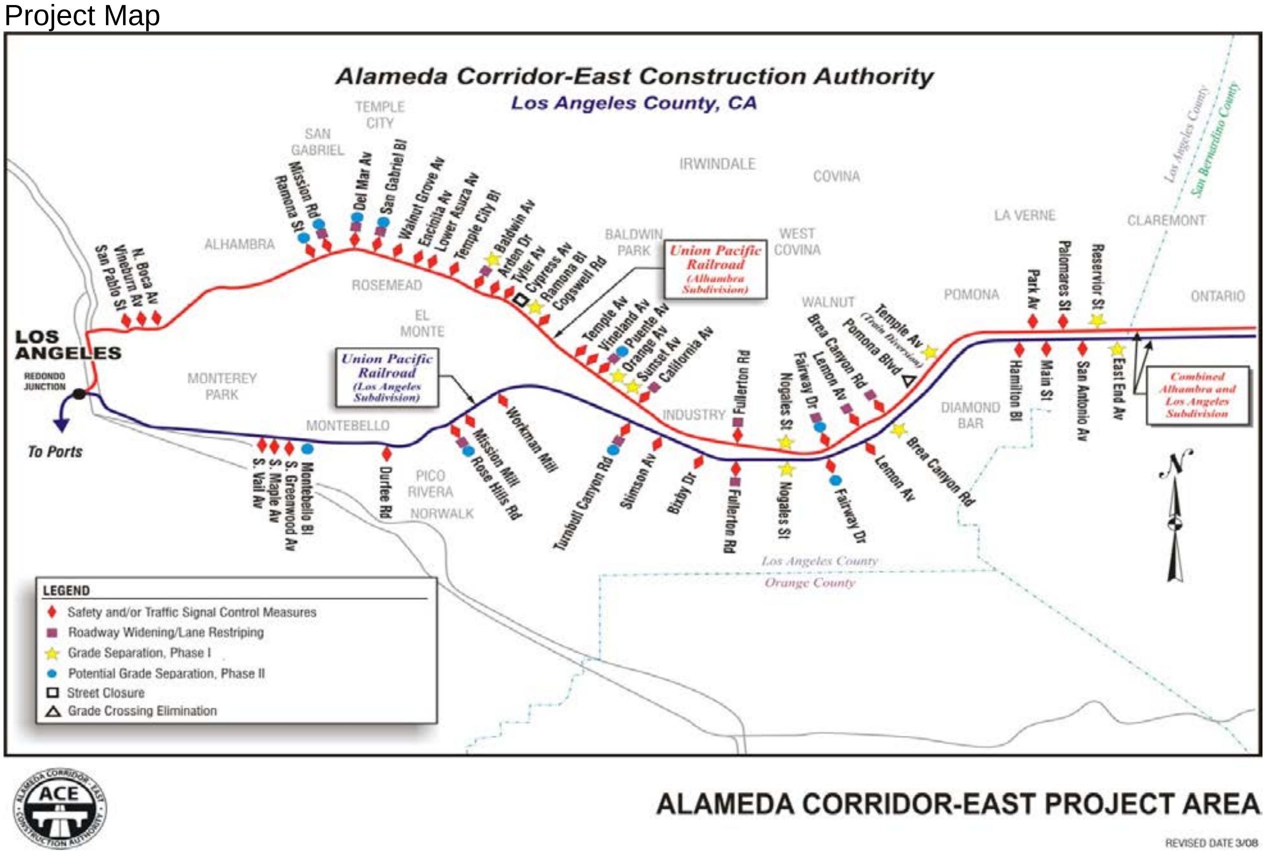
The original budget for the project was $950 million in 1998 dollars. The cost estimate as of June 30, 2015 for the completed safety improvements and 14 grade separations either completed or going into construction is $1.653 billion.

Projects under construction include the Nogales Street, Fairway Drive, and Puente Avenue grade separations; the San Gabriel Trench; and the Temple Avenue rail diversion project. Going to construction in 2016 will be the Fullerton Road and Durfee Avenue grade separation projects. Currently in design is the Montebello Corridor Project and the At-Grade Crossing Safety Improvements.



Project Progress During FY 2015
Project
06/14
09/14
12/14
03/15
06/15
At-Grade Crossing (212)
Design
Baldwin (202)
Construction
Durfee (208)
Design
Fairway Drive (204)
Design / ROW Acquisitions / Construction
Fullerton (207)
Design / ROW Acquisitions
Hamilton (205)
Closed
Montebello (209)
Design
Puente Avenue (202)
ROW Acquisitions / Construction
Nogales - LA (250)
Construction
S.G. Trench (201)
Construction
Temple/Pomona (119)
Construction
Turnbull Canyon (212)
Design

Project Map



Alameda Corridor-East Construction Authority
Los Angeles County, CA
LOS ANGELES
REDONDO JUNCTION
To Ports
ALHAMBRA
SAN GABRIEL
TEMPLE CITY
ROSEMEAD
EL MONTE
MONTEREY PARK
MONTEBELLO
PICO RIVERA
NORWALK
BALDWIN PARK
IRWINDALE
COVINA
WEST COVINA
INDUSTRY
WALNUT
DIAMOND BAR
POMONA
LA VERNE
CLAREMONT
ONTARIO
Union Pacific Railroad (Alhambra Subdivision)
Union Pacific Railroad (Los Angeles Subdivision)
Combined Alhambra and Los Angeles Subdivision
San Pablo St
Vineburn Av
N. Boca Av
Ramona St
Mission Rd
Del Mar Av
San Gabriel Bl
Walnut Grove Av
Encinita Av
Lower Azusa Rd
Temple City Bl
Baldwin Av
Arden Dr
Tyler Av
Cypress Av
Ramona Bl
Cogswell Rd
Temple Av
Vineland Av
Puente Av
Orange Av
Sunset Av
California Av
Fullerton Rd
Nogales St
Fairway Dr
Lemon Av
Brea Canyon Rd
Pomona Blvd
Temple Av (Train Diversion)
Park Av
Palomares St
Reservior St
Hamilton Bl
Main St
San Antonio Av
East End Av
S. Vail Av
S. Maple Av
S. Greenwood Av
Montebello Bl
Durfee Rd
Mission Mill
Rose Hills Rd
Workman Mill
Turnbull Canyon Rd
Stimson Av
Bixby Dr
Fullerton Rd
Nogales St
Fairway Dr
Lemon Av
Brea Canyon Rd
Los Angeles County
Orange County
San Bernardino County
LEGEND
Safety and/or Traffic Signal Control Measures
Roadway Widening/Lane Restriping
Grade Separation, Phase I
Potential Grade Separation, Phase II
Street Closure
Grade Crossing Elimination
ACE
ALAMEDA CORRIDOR-EAST PROJECT AREA
REVISED DATE 3/08

As of June 30, 2015 the following funding had been committed to the ACE project:

	ACE Funding Commitments ($ millions)	
Federal		
TEA-21 Earmark	$ 132.6	
Annual Appropriations (FY 2000-10)	21.5	
SAFETEA-LU Earmark	67.3	
Rail-Highway Crossing Program	10.0	
ISTEA (Nogales LA)	6.9	
CMAQ (Nogales LA)	6.3	
Total Federal		$ 244.6
State		
Transportation Improvement Program (FY 2000-04)	39.0	
PUC Grade Separation Fund	10.0	
Traffic Congestion Relief Program (TCRP)	130.3	
Trade Corridors Improvement Fund (TCIF)	420.5	
Highway-Railroad Crossing Safety Account (HRCSA)	43.9	
Total State		643.7
L.A. County MTA		
17% - Match	259.9	
FY 2007 Call-For-Projects	28.8	
Measure R	400.0	
Total L.A. County MTA		688.7
City/County Funds/MWD Funds		12.1
Railroad Contributions		33.9
City/Railroad/Betterments/Property Sales		29.5
Total ACE Project Funding		$ **1,652.5**

The committed/pledged amounts may differ slightly from authorized funding due to budgetary holdbacks on multi-year grants, and reflect management's best estimate as to the amount that will be available. Railroad contributions reflect a regulatory ceiling of 5% of construction cost pro-rated over the construction phase of the various projects.

ACE manages its projects to avoid risk wherever possible. All projects are designed to be within the scope allowed by federal, state and local guidelines. The project host city is responsible for paying for any "betterments" not needed for the basic grade separation. In addition, each phase - design, right-of-way acquisition and utility relocation, and construction - must be approved for reimbursement in advance by the California Department of Transportation (CalTRANS).

ACE must pay contractors and vendors first before invoicing grantors for reimbursement. Reimbursements are currently running between two to four weeks for CalTRANS (Federal and State funding) and the Los Angeles County Metropolitan Transportation Authority ("Metro") (local funding). Working capital therefore remains a major consideration. ACE and Metro entered into an agreement to provide ACE $45M subordinate Proposition C Sales Tax Revenue Revolving Obligation Construction Fund which replaced the Grants Anticipation Notes as the primary bridge funding.

Financial Highlights

For the year ended June 30, 2015:

- Net position increased by $5.7 million, an increase of 99.8%.
- Construction in progress increased by $129.0 million, an increase of 32.2%.
- Total revenue decreased by $0.3 million, a decrease of 0.2%.
- Total project expense decreased by $6.0 million, a decrease of 4.4%.

Overview of Basic Financial Statements

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

Government-wide Financial Statements

The government-wide financial statements found on pages 12 and 13 are designed to give readers a broad overview of ACE's financial position. These include all of ACE's assets and liabilities, deferred inflows/outflows of resources, revenues and expenses. The accounting basis is full accrual (similar to private sector companies) where ACE's revenues and expenses are reported as the causal event occurs, instead of when the revenue was received or expense paid.

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

The "Statement of Activities" presents ACE's revenues and expenses for the year ended on June 30, 2015. The statement has four primary areas: *project expenses*, *operating revenues*, *nonoperating income (expense)*, and *change in net position*. Expenses are broken out into direct (those expenses that can be identified directly to individual projects) and indirect. The financing income is the interest earned on cash balances less interest and fees paid on the corresponding debt.

Fund Financial Statements

The fund financial statements can be found on pages 12 and 13 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.

ACE, unlike cities, county or state governments, has one activity – construction. All of ACE's activities are classified as a Construction Fund (Capital Projects) with the exception of the amount invested in a deferred compensation plan funded solely by the employees.

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

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the governmental funds financial statements. The notes can be found on pages 14 through 33 of this report.

Condensed Statements of Net Position

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

	June 30 [a]		Variance	
	2015	2014	Amount	%
Current and other assets	$ **88,561,367**	$ 78,836,866	$ 9,724,501	12.3%
Capital assets	**24,841**	34,936	(10,095)	-28.9%
Construction in progress	**529,573,361**	400,553,713	129,019,648	32.2%
Less due to member cities and Union Pacific Railroad	**(529,573,361)**	(400,553,713)	(129,019,648)	32.2%
Total assets	**88,586,208**	78,871,802	9,714,406	12.3%
Deferred outflows of resources	**797,532**	-	797,532	100.0%
Liabilities	**77,509,175**	72,021,649	5,487,526	7.6%
Deferred inflows of resources	**444,373**	-	444,373	100.0%
Net position	$ **11,430,192**	$ 6,850,153	$ 4,580,039	66.9%

[a] The net position as of June 30, 2015 was restated to recognize the effect of the implementation of GASB 68. The net position as of June 30, 2014 had not been restated.

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

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

Total assets increased by 12.3% to $88.6 million, mainly due to increases in cash and investments, grants receivable, and unbilled receivable consistent with increased project activity.

Construction in progress increased by 32.2% to $529.6 million, primarily as a result of construction activity being in full swing on the San Gabriel Trench and the near completion of the Baldwin Avenue, and Nogales Projects, and increased right-of-way acquisition activity of Fairway Drive and Fullerton Projects.

Unearned revenue decreased 5.0% to $5.1 million, mainly due to recognition of revenue received in advance for right-of-way acquisition on the Nogales project.

ACE and Metro entered into an agreement to provide ACE $45M subordinate Proposition C Sales Tax Revenue Revolving Obligation Construction Fund which replaced the Grants Anticipation Notes as the primary bridge funding.

Grants receivable and unbilled receivable increased by 9.3% to $16.1 million and by 16.5% to $28.9 million, respectively, due to increased activities on all active projects.

The FY 2015 Budget for operating expenditures was $173.4 million compared to $135.1 million in FY 2014. Total actual operating expenditures are $131.1 million compared to $137.1 million in FY 2014. (*See Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actua*l, page 36).

The project revenues continue to closely track the expenditures. ACE's policy is to avoid where possible costs not reimbursable under state and federal guidelines; 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 (referred to as betterments) are paid for by the requesting city.

Condensed Statements of Activities

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

	Years ended June 30		Variance	
	2015	2014	Amount	%
Project expenses				
Direct (construction)	$ **128,506,162**	$ 133,233,176	$ (4,727,014)	-3.5%
Indirect expenses charged to operations	**2,551,424**	3,861,290	(1,309,867)	-33.9%
Total project expenses	**131,057,586**	137,094,466	(6,036,881)	-4.4%
Operating revenues				
Grant reimbursements	**131,098,676**	136,714,080	(5,615,404)	-4.1%
Other operating revenues	**5,703,121**	379,995	5,323,126	1400.8%
Total revenues	**136,801,797**	137,094,075	(292,278)	-0.2%
Income (loss) from operations	**5,744,211**	(391)	5,744,603	-1468156.5%
Nonoperating income (expense)				
Financing income	**430,691**	287,411	143,280	49.9%
Financing expense	**(464,451)**	(273,413)	(191,038)	69.9%
Net financing income (loss)	**(33,760)**	13,998	(47,758)	-341.2%
Change in net position	**5,710,451**	13,607	5,696,844	41868.5%
Net position at beginning of year, as restated	**5,719,741** *	6,836,546	(1,116,806)	-16.3%
Net position at end of year	$ **11,430,192**	$ 6,850,153	$ 4,580,039	66.9%

Includes prior period adjustment of $1,130,412 to implement GASB No. 68, see Note 10.

ACE is reimbursed for indirect expenses based on CalTRANS approved Indirect Cost Allocation Plan (ICAP) rate. The reimbursement is added to all CalTRANS' and Metro's invoices and is calculated by applying the ICAP rate to direct salaries and wages, and fringe benefits. The applied indirect expense to projects was higher than the actual indirect expense incurred which resulted to over recovery of indirect cost by $719,694.

Capital Assets

ACE had $24,841 invested in capital assets, net of depreciation, as of June 30, 2015.

Economic Factors and New Year's Budget

Sufficient funds were available at the close of FY 2015 to continue with remaining active grade separation projects.

Based on projected cash flows of project activities, it is anticipated that ACE will be within 7% of its FY 2016 Approved Budget of $185.5 million.

Requests for Information:

These financial statements are designed to provide citizens, taxpayers, customers, and creditors with a general overview of ACE's finances and to demonstrate accountability for the money it receives. If there are any questions about this report or a need for additional information, please contact ACE, 4900 Rivergrade Road, Suite A120, Irwindale, CA 91706, or call (626) 962-9292.

	Capital Project Fund	Adjustments	Government-Wide
ASSETS			
Current assets			
Cash and investments	$ 40,642,424	$ -	$ 40,642,424
Grants receivable	16,129,467	-	16,129,467
Unbilled receivable	28,948,132	-	28,948,132
Notes receivable	300,000	-	300,000
Interest receivable	1,115	-	1,115
Retention receivable	1,619,102	-	1,619,102
Prepaid expenses - Insurance	511,127	-	511,127
Property held for sale	410,000	-	410,000
Total current assets	88,561,367	-	88,561,367
Noncurrent assets			
Leasehold improvements and equipment	-	24,841	24,841
Construction in progress	-	529,573,361	529,573,361
Less due to member cities and Union Pacific Railroad	-	(529,573,361)	(529,573,361)
Total noncurrent assets	-	24,841	24,841
Total assets	88,561,367	24,841	88,586,208
DEFERRED OUTFLOWS OF RESOURCES			
Pension contribution	-	686,455	686,455
Net difference between actual and plan's proportionate share of aggregate empoyer contribution	-	111,077	111,077
Total deferred outflows of resources	-	797,532	797,532
LIABILITIES			
Accounts payable and accrued expense	23,889,186	-	23,889,186
Accrued retention payable	1,432,552	-	1,432,552
Unearned revenue	5,131,889	-	5,131,889
Over-recovery of indirect costs	844,623	-	844,623
Compensated absences	172,762	-	172,762
Metro promissory note loan	45,000,000	-	45,000,000
Net pension liability	-	1,038,163	1,038,163
Total liabilities	76,471,012	1,038,163	77,509,175
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual earnings on pension plan investments	-	348,871	348,871
Adjustments due to differences in proportions	-	95,502	95,502
Total deferred outflows of resources	-	444,373	444,373
FUND BALANCES/NET POSITION			
Fund balance			
Nonspendable for:			
Prepaid expenses	511,127		
Assigned:			
CalPERS unfunded liability	1,038,037		
Capital project fund	10,541,191		
Total fund balance	$ 12,090,355		
Net position			
Net investment in capital assets		24,841	24,841
Unrestricted		(685,004)	11,405,351
Total net position		$ (660,163)	$ 11,430,192

Project expenses		Capital Project Fund		Adjustments		Government-Wide
Direct (construction)	$	128,951,570	$	(445,408)	$	128,506,162
Indirect expenses charged to operations		2,541,329		10,095		2,551,424
Total project expenses		131,492,899		(435,313)		131,057,586
Operating revenues						
Grant reimbursements		131,098,676		-		131,098,676
Other operating revenues		5,703,121		-		5,703,121
Total revenues		136,801,797		-		136,801,797
Income from operations		5,308,898		435,313		5,744,211
Nonoperating income (expense)						
Financing income		430,691		-		430,691
Financing expense		(464,451)		-		(464,451)
Net nonoperating expense		(33,760)		-		(33,760)
Excess of revenues over expenditures/Change in net position		5,275,138		435,313		5,710,451
Fund balance/Net position at beginning of year, as restated		6,815,217		(1,095,476)		5,719,741
Fund balance/Net position at end of year	$	12,090,355	$	(660,163)	$	11,430,192

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity
The Alameda Corridor - East Construction Authority (ACE) is a component unit of the San Gabriel Valley Council of Governments (SGVCOG).

Basis of Accounting
Government-wide reporting uses the full accrual basis of accounting. The statement of activities presents changes in net position (This is equivalent to a statement of income and statement of changes in equity in for-profit entities). Revenues are recorded when earned and expenses are recognized at the time of the causal event.

ACE recognizes reimbursements from grants as revenues to the extent reimbursing obligations are earned on or before June 30, 2015, 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
ACE uses funds and account groups to report on its financial position and results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

<u>Governmental Fund</u>
Capital Project 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 ACE.

Fund Balance Reporting
Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes the following fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds:

Nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples are inventories, prepaid expenses, long-term receivables, or non-financial assets held for resale unless the proceeds are restricted, committed or assigned.

Restricted fund balance includes resources that are subject to externally enforceable legal restrictions. It includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Reporting (Continued)

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Directors (“Board”), ACE’s highest level of decision-making authority.

Assigned fund balance consists of funds that are set aside for specific purposes by ACE’s Board or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance.

Unassigned fund balance is the residual classification for ACE’s general fund and includes all spendable amounts not contained in the other classifications. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

The Board may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken. Committed amounts cannot be used for any other purpose unless the Board removes or changes the specific use through the same type of formal action taken to establish the commitment. ACE does not have any fund balance that meets this classification as of June 30, 2015.

The Board delegates the authority to assign fund balance to the Chief Executive Officer for purposes of reporting in the annual financial statements.

ACE considers the restricted fund balances to have been spent when expenditure is incurred for purposes for which both unrestricted and restricted fund balance is available. ACE considers unrestricted fund balances to have been spent when expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of ACE to reduce the committed amounts first, followed by assigned amounts, and then unassigned amounts.

Budgetary Reporting

The Board approved the FY 2015 budget in June 2014.

The budget was based on estimated expenditures over the operating period. Significant underruns were initially encountered as ACE experienced delays in obtaining various CalTRANS’ required approvals for major design contracts from Federal and State grantors.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Implementation of New Accounting Pronouncements

During the year ended June 30, 2015, SGVCOG and ACE adopted the following Governmental Accounting Standards Board (GASB) statements which impacted the ACE's government-wide financial statements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statements No. 27 and 50*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures of pensions that are provided by local governmental employers through pension plans that are administered through trusts that meet certain conditions. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

- GASB Statement No. 71, *Pension Transition for Contributions made subsequent to the Measurement Date - an amendment of GAS Statement No. 68*. This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

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 the description.

Grant Revenues and Expenditures

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

Until now, all grants with the exception of the Union Pacific Railroad (UPRR) contributions are, and are anticipated to be in the future, are cost reimbursable. That is, ACE must first expend the money and then bill for reimbursement from the grantors.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and telephone equipment	5 years

Pension

ACE adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, during the fiscal year ended June 30, 2015. For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of ACE's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

Property Held for Sale

The property held for sale is recorded at the lower of acquisition cost or estimated net realizable value.

NOTE 2 LEASEHOLD IMPROVEMENTS AND EQUIPMENT

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

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Cost:				
Leasehold improvements	$ 19,762	$ -	$ -	$ 19,762
Computer equipment				
Hardware	201,679	-	-	201,679
Software	114,483	-	-	114,483
Website	3,393	-	-	3,393
Telephone equipment	12,086	-	-	12,086
Office furniture	31,972	-	-	31,972
Total cost	383,375	-	-	383,375
Less accumulated depreciation for:				
Leasehold improvements	19,762	-	-	19,762
Computer equipment				
Hardware	172,457	8,337	-	180,794
Software	108,769	1,758	-	110,527
Website	3,393	-	-	3,393
Telephone equipment	12,086	-	-	12,086
Office furniture	31,972	-	-	31,972
Total accumulated depreciation	348,439	10,095	-	358,534
Leasehold improvements and equipment, net	$ 34,936	$ (10,095)	$ -	$ 24,841

Depreciation expense included in indirect expenses for the year ended June 30, 2015 amounted to $10,095.

NOTE 3 CASH AND INVESTMENTS

Cash and investments at June 30, 2015 as classified in the accompanying financial statements consist of:

Cash in bank	$ 335,976
Pooled funds	1,577,513
Money market funds	18,332,367
Investments	20,396,568
Total	$ 40,642,424

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

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

The table below identifies the investment types that are authorized for ACE by the California Government Code ("Code") or ACE's investment policy ("Policy"), which is more restrictive. The table also identifies certain provisions of the Code (or the Policy) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements ACE, rather than the general provisions of the Code or the Policy.

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

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee is governed by provisions of the debt agreements, rather than the general provisions of the Code or the Policy.

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

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Authorized Investment Type	Maximum Maturity	Percentage of Portfolio Invested	Maximum Investment in One Issuer
US Government Agencies	5 years	38%	15%
Medium-term Notes (Corporate Bonds)	5 years	28%	10%
Mortgage-backed Securities	5 years	13%	None
Municipals	None	8%	None
State's Local Agency Investment Fund (LAIF)	None	7%	None
Certificate of Deposits	5 years	5%	10%
Money Market Funds	None	1%	None

Disclosures Relating to Interest Rate Risk

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

		Remaining Maturity (in Months)		
Investment Type	Total	12 Months Or Less	13 to 24 Months	25-60 Months
LAIF	$ 1,577,513	$ 1,501,792	$ 45,748	$ 29,973
Money market funds	18,332,367	18,332,367	-	-
Federated prime cash obligations	1,797,517	1,797,517	-	-
Government agencies	6,767,007	500,340	299,805	5,966,862
Certificates of deposit	1,367,020	250,491	251,130	865,399
Corporate bonds	6,024,107	-	1,499,712	4,524,395
Government mortgages	2,549,360	-	-	2,549,360
Municipals	1,891,557	752,213	-	1,139,344
Total	$ 40,306,448	$ 23,134,720	$ 2,096,395	$ 15,075,333

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk

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

Investment Type	Total	Minimum Legal Rating	Rating As of June 30, 2015 AAA	AA	A	Not Rated
LAIF	$ 1,577,513	N/A	$ -	$ -	$ -	$ 1,577,513
Money market funds	18,332,367	A	18,332,367	-	-	-
Federated prime cash obligations	1,797,517	N/A	-	-	-	1,797,517
Government agencies	6,767,007	A	-	6,767,007	-	-
Certificates of deposit	1,367,020	N/A	-	-	-	1,367,020
Corporate bonds	6,024,107	A	-	-	6,024,107	-
Government mortgages	2,549,360	A	-	2,549,360	-	-
Municipals	1,891,557	A	273,170	1,618,387	-	-
Total	$ 40,306,448		$ 18,605,537	$ 10,934,754	$ 6,024,107	$ 4,742,050

Concentration of Credit Risk

ACE's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Code. As of June 30, 2015, ACE 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 of ACE's investments other than funds held by the trustee.

ACE 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 INVESTMENTS (CONTINUED)

Custodial Credit Risk (Continued)

The Code and the Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2015, ACE's deposit of $17,593,648 with financial institutions is in excess of federal depository insurance limits but are held in collateralized accounts.

As of June 30, 2015, the following investment types were held by the same broker-dealer (counterparty) that was used by ACE to buy the securities:

Investment Type		Reported Amount
Money Market Funds	$	18,332,367

Investments in State Investment Pool

ACE is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the Code under the oversight of the Treasurer of the State of California. At June 30, 2015, the total market value of LAIF, including accrued interest was approximately $69.673 billion. The fair value of ACE’s investment in this pool is $1,577,513 at June 30, 2015 based upon ACE’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the portfolio). LAIF’s (and ACE’s) exposure to risk (credit, market or legal) is not currently available.

NOTE 4 METRO PROMISSORY NOTE LOAN

In June 2013, ACE entered into a promissory note to borrow up to $45,000,000, in variable rate, from the Metro to be used as working capital. Loan payable outstanding, at June 30, 2015, amounted to $45,000,000. For the month of June 2015, interest rates vary according to market conditions and have ranged from 0.6288% to 0.6840%. In FY 2014, proceeds of the borrowings have been used to pay for construction activities.

NOTE 4 METRO PROMISSORY NOTE LOAN (CONTINUED)

The principal amount of the loan is to be used as working capital pursuant to the terms of the *Alameda Corridor East Phase II Grade Separations Master Funding Agreement* ("Master Agreement"), dated June 14, 2013. Except as otherwise provided in the Master Agreement and the promissory note, including, but not limited to, Metro's right to set off against the Measure R and/or Proposition C funds reimbursement due borrower, the entire unpaid balance of the working capital loan, all accrued and outstanding CP costs and any fees are unsecured and due on September 9, 2023, ten years after the first drawdown date. Because this is a revolving construction fund provided by Metro to facilitate the payment to the project contractors of ACE, this loan is not considered as a long-term debt.

NOTE 5 GRANT ACCOUNTING

During the year ended June 30, 2015, ACE was the recipient, primarily from the U.S. Department of Transportation through CalTRANS, of cost reimbursement type grants. There were also California transportation programs paid through CalTRANS. Local share was received from Metro. All of these grants are expenditure driven; funds must be expended before reimbursement is received. Certain amounts have been held back by the grantor agency pending completion of certain phases of contracted work and some costs incurred are subject to disallowance.

Receivable amounts at June 30, 2015, are shown net of disallowed costs. CalTRANS approved, under Office of Management and Budget (OMB) Circular A-87, an indirect overhead allocation formula of 113% of total direct salaries and fringe benefit costs. Indirect costs incurred in the year ended June 30, 2015 were $2,147,104.

NOTE 6 EMPLOYEE BENEFIT PLAN

A. General Information about the Pension Plans

Plan Description

All qualified permanent and probationary employees are eligible to participate in ACE's Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and ACE resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

Classic participants (defined as eligible participants prior to January 1, 2013) are required to contribute 8% of their annual covered salary. New participants (defined as eligible employees brought into CalPERS membership for the first time on or after January 1, 2013 PEPRA) contribute at least half the normal cost rate as determined by CalPERS. ACE contributes the remaining amounts necessary to fund the benefits for its employees, using the actuarial basis adopted by the CalPERS Board of Administration.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous Plan	
	Classic	PEPRA
Hire date	Prior to Jan. 1, 2013	On or after Jan. 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits , as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7.000%	6.25%
Required employer contribution rates	11.032%	6.25%

NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. ACE is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous Plan	
	Classic	PEPRA
Contributions - employer	$ 286,167	$ 10,141
Contributions - employee	208,798	10,174

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

As of June 30, 2015, ACE reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous (Classic)	$ 1,038,037
Miscellaneous (PEPRA)	126
Total Net Pension Liability	$ 1,038,163

ACE's net pension liability (asset) for each Plan is measured as the proportionate share of the net pension liability (asset). The net pension liability (asset) of the Plan is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. ACE's proportion of the net pension liability was based on a projection of the ACE's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

ACE's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	Miscellaneous Plan	
	Classic	PEPRA
Proportion - June 30, 2013	0.04329%	0.00004%
Proportion - June 30, 2014	0.04200%	0.00003%
Change - Increase (decrease)	-0.00129%	-0.00001%

At June 30, 2015, ACE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous Plan			
	Classic		PEPRA	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 682,291	$ -	$ 4,164	$ -
Net difference between actual and pension plan's proportionate share of aggregate employer contributions	109,670	-	1,407	-
Ajdustments due to differences in proportions	-	(93,627)	-	(1,875)
Net differences between projected and actual earnings on pension plan investments	-	(348,829)	-	(42)
Total	$ 791,961	$ (442,456)	$ 5,571	$ (1,917)

$686,455 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016.

NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30		Amount
2016	$	(81,655)
2017		(81,655)
2018		(82,767)
2019		(87,219)

Actuarial Assumptions

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)
Post-Retirement Benefit Increase	(4)

(1) Varies by entry age and service

(2) Net of pension plan investment and administrative expenses, including inflation

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

(4) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

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

The following presents ACE's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what ACE's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaenous Plan Classic	Miscellaenous Plan PEPRA
1% Decrease	6.50%	6.50%
Net Pension Liability	$ 1,849,462	$ 225
Current Discount Rate	7.50%	7.50%
Net Pension Liability	$ 1,038,037	$ 126
1% Increase	8.50%	8.50%
Net Pension Liability	$ 364,632	$ 44

NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

C. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

D. Payable to the Pension Plan

At June 30, 2015, ACE did not have outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Postemployment Benefits

ACE did not incur any other liabilities during the year 2015 related to postemployment benefits.

Deferred Compensation Plan

ACE has entered into a salary reduction deferred compensation plan for its employees. Securities held by the plan are valued at market. The plan allows employees to defer a portion of their current income from state and federal taxation. Employees may withdraw their participation at any time by giving written notice at least a week in advance prior to the effective date of the withdrawal. At June 30, 2015, plan assets totaling $1,851,762 were held by independent trustees and, as such, are not reflected in the accompanying basic financial statements.

Balance at June 30, 2014	$	1,759,803
Add employee contribution		178,421
Add net realized and unrealized apreciation in fair value of investments		38,232
Less distributions		(123,942)
Less fees charged		(752)
Balance at June 30, 2015	$	1,851,762

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

NOTE 7 COMMITMENTS AND CONTINGENCIES

As mentioned in Note 5, ACE 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.

In June 2009, ACE's Board approved the suspension of the Integrated Rail Roadway System (IRRIS), a traffic signal system demonstration project. A total of $6.4 million has been spent on the project since inception. ACE's employees have received a project close out from CalTRANS. Management believes that no funds will be returned as a result of the suspension.

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.

In the ordinary course of its operations, ACE is the subject of claims and litigations from outside parties. In the opinion of management, there is no pending litigation or unasserted claims, the outcome of which would materially affect ACE's financial position.

Lease

ACE occupies its office from Metropolitan Life Insurance Company subject to a lease expiring April 30, 2018. The monthly base rent, as defined in the lease agreement, follows:

Period from / to	Monthly Rent	Annual Amount
May 1, 2015 to April 30, 2016	$ 19,638	$ 235,657
May 1, 2016 to April 30, 2017	20,227	242,727
May 1, 2017 to April 30, 2018	20,834	250,009
Total lease commitments		$ 728,393

Escrow Agreements for Contract Retention

Pursuant to contracts entered into between ACE and several of its contractors, funds are deposited with an Escrow Agent. The Escrow Agent holds the fund for the benefit of the contractors until the escrow is terminated. 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. ACE has recognized as expenditure retention payments totaling $13,115,758. Funds are deposited in several escrow accounts until release to the Contractor is authorized.

NOTE 8 ACCOUNTING FOR CONSTRUCTION IN PROGRESS AND EVENTUAL DISPOSAL OF PROJECTS

Except for minor acquisitions that may be sold by ACE when no longer needed, all of the construction projects when completed, will be deeded to the UPRR and the cities in which they are located at no cost to the acquirer. At June 30, 2015, $922,967,147 of costs was accumulated on projects in process and $393,393,806 had been transferred to the railroad and impacted cities.

Under the governmental funds and modified accrual basis of accounting in FY 2015 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 record a liability (same amount as the construction in progress) to UPRR and governments likely to be the eventual owner of the improvements/grade separations. 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.

NOTE 9 TRANSFER OF ACE PROJECT

On May 30, 2013, the Governing Board of SGVCOG voted to pursue separation between itself and ACE, allowing ACE to become an independent Joint Powers Authority (JPA). Six cities have approved the amended JPA agreement establishing a new ACE Joint Powers Authority (ACE JPA), allowing the agreement to be filed with the Secretary of State. The confirmation of state recognition has been received. A formal request to establish a new CalPERS contract for the ACE JPA employees while retaining the existing contract for SGVCOG employees has been submitted.

On July 25, 2013, an agreement to transfer ACE Project was entered between San Gabriel Valley Council of Governments and Alameda Corridor Joint Powers Authority. This agreement was made to transfer all obligations, assets and responsibilities for the ACE Project from the SGVCOG to ACE. Upon the transfer of the ACE Project, ACE will assume responsibility for all aspects of the ACE Project and all associated liabilities, will indemnify SGVCOG for all such liabilities, and will manage all related matters through ACE Project Completion.

NOTE 9 TRANSFER OF ACE PROJECT (CONTINUED)

On April 7, 2014, a response from CalPERS specified the new ACE JPA employees would not be allowed to continue as “Classic” employees under the existing SGVCOG CalPERS contract and would be subjected to the new PEPRA rules for the entire service earned with the ACE JPA. This was deemed unacceptable and, by a unanimous vote on December 1, 2014, the Governing Board allowed the ACE Project Transfer Agreement to expire and directed that a future strategic planning discussion be held at a later date to develop a plan for moving forward with ACE.

NOTE 10 PRIOR PERIOD ADJUSTMENT

The beginning balance of ACE’s government-wide financial statements net position has been restated to reflect the following adjustment:

Net position at June 30, 2014, as previously reported	$	6,850,153
Prior period adjustment:		
Adjustment to record retroactive effect of implementing GASB Statement No. 68		(1,130,412)
Net position at June 30, 2014, as restated	$	5,719,741

The net position balance as of June 30, 2014 was restated to retroactively report the net pension liability as of the beginning of the fiscal year as a result of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

NOTE 11 SUBSEQUENT EVENTS

ACE has evaluated events subsequent to June 30, 2015 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through January 28, 2016, the date the financial statements were available to be issued. Based upon this evaluation, there were no subsequent events occurred that require recognition or additional disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

		2015	
		Miscellaneous Plan	
		Classic	PEPRA
Proportion of the net pension liability		0.01668%	0.00001%
Proportionate share of the net pension liability	$	1,038,037 $	126
Covered - employee payroll (1)	$	2,764,711 $	176,748
Proportionate share of the net pension liability as percentage of covered-employee payroll		37.55%	0.07%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability		83.03%	83.02%
Plan's proportionate share of aggregate employer contributions (2)	$	137,329 $	88

Notes to Schedule

1 Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

2 The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

		2015	
		Miscellaneous Plan	
		Classic	PEPRA
Actuarially determined contributions		$ 286,167	$ 10,141
Contributions in relation to the actuarially determined contributions		(286,167)	(10,141)
Contribution deficiency (excess)		$ -	$ -
Covered-Employee Payroll		$ 2,764,711	$ 176,748
Contributions as a percentage of covered-employee payroll		10.35%	5.74%

Notes to Schedule:

Valuation date	June 30, 2013

<u>Methods and assumptions used to determine contribution rates:</u>

Actuarial Cost Method	Entry age normal
Amortization method / Period	Level percent of payroll
Remaining amortization period	15 years as of valuation date
Asset valuation method	5 year Smoothed Market
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.50%, net of pension plan investment expense and administrative expenses including inflation.
Retirement age	55 years
Mortality	Derived using CalPERS Membership Data for all funds

* Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

SUPPLEMENTARY INFORMATION

	Budgeted Amounts			Variance
		Amended	Actual	Positive
	Original	Final	Amount	(Negative)
Revenues				
Reimbursements				
Federal grants	$ 23,300,584	$ 23,324,775	$ 15,225,565	$ (8,099,210)
State grants	80,707,341	80,791,132	78,414,522	(2,376,611)
Local grants	69,163,499	69,235,305	41,531,950	(27,703,356)
Betterment	-	-	1,235,535	1,235,535
Total revenues	173,171,424	173,351,213	136,407,572	(36,943,641)
Operating expenditures				
Construction				
Design	9,270,000	9,270,000	5,133,531	4,136,469
Right-of-way acquisition	62,292,000	62,292,000	28,324,528	33,967,472
Construction management	11,223,000	11,223,000	14,241,659	(3,018,659)
Construction	87,453,000	87,453,000	80,306,295	7,146,705
Betterments	303,000	303,000	945,557	(642,557)
Total construction	170,541,000	170,541,000	128,951,570	41,589,430
Indirect				
Personnel				
Salaries and wages	1,414,757	1,414,757	1,417,247	(2,490)
Fringe benefits	459,493	639,282	666,583	(27,301)
Employee related expenses	38,000	38,000	39,276	(1,276)
Professional services				
Auditing/accounting	45,000	45,000	40,700	4,300
Legal	40,000	40,000	30,777	9,223
Other	-	-	2,425	(2,425)
Brokerage	65,000	65,000	55,562	9,438
Insurance	150,000	150,000	248,617	(98,617)
Equipment expense	91,198	91,198	47,505	43,693
Office rental expense	237,436	237,436	236,294	1,142
Office operations	78,740	78,740	71,262	7,478
Other	10,800	10,800	10,551	249
Applied indirect expense	-	-	(719,694)	719,694
Total indirect	2,630,424	2,810,213	2,147,104	663,109
Total operating expenditures	173,171,424	173,351,213	131,098,674	42,252,539
Excess of revenues over expenditures	-	-	5,308,898	5,308,898
Other financing sources (uses)				
Investment revenue	380,696	380,696	430,691	49,995
Interest and related expenses	(333,000)	(333,000)	(464,451)	(131,451)
Non-project reimbursable funds	337,966	337,966	387,682	49,716
Non-project reimbursable expense	(337,966)	(337,966)	(387,682)	(49,716)
Intercompany revenue	-	-	6,543	6,543
Intercompany expense	-	-	(6,543)	(6,543)
Net other financing sources (uses)	47,696	47,696	(33,760)	(81,456)
Change in fund balance	47,696	47,696	5,275,138	5,227,442
Fund balance at beginning of year	6,815,217	6,815,217	6,815,217	-
Fund balance at end of year	$ 6,862,913	$ 6,862,913	$ 12,090,355	$ 5,227,442

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

The Honorable Members of the Board of Directors
Alameda Corridor – East Construction Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Alameda Corridor – East Construction Authority (ACE), a component unit of San Gabriel Valley Council of Governments, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise ACE's basic financial statements, and have issued our report thereon dated January 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered ACE's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ACE's internal control. Accordingly, we do not express an opinion on the effectiveness of ACE's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vasquez & Company LLP

Los Angeles, California
January 28, 2016