

**Audited Financial Statements  
and Supplementary Information  
Alameda Corridor – East Construction Authority  
(A Component Unit of San Gabriel Valley Council of Governments)  
Year ended June 30, 2010  
with Report of Independent Auditors**

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

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

We have audited the accompanying basic financial statements of Alameda Corridor - East (ACE) Construction Authority, a component unit of San Gabriel Valley Council of Governments, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of ACE Construction Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on ACE Construction Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of ACE Construction Authority as of June 30, 2010, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2010, on our consideration of ACE Construction Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Vargay + Company LLP*

**Los Angeles, California**  
**November 9, 2010**

**Alameda Corridor - East Construction Authority  
Management's Discussion and Analysis  
Year ended June 30, 2010**

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The following discussion and analysis of the financial performance and activity of the Alameda Corridor – East (ACE) Construction Authority provides an overview of ACE Construction Authority financial statements for the year ended June 30, 2010. This discussion was prepared by management and should be read in conjunction with the financial statements and notes which follow this section.

**Background**

The San Gabriel Valley Council of Governments (SGVCOG) created the ACE Construction Authority in 1998 to mitigate the effects of increasing Union Pacific Railroad (UPRR) train traffic in the San Gabriel Valley. There were 55 “at-grade” crossings in the Valley where vehicular and pedestrian traffic cross directly over railroad tracks and must stop while trains pass by. This creates congestion, degrades the local environment, and compromises safety. The ACE Project will separate 20 crossings at the busiest intersections – by either raising or lowering the crossing street or the railroad – along the 35-mile freight rail corridor from East Los Angeles to Pomona.

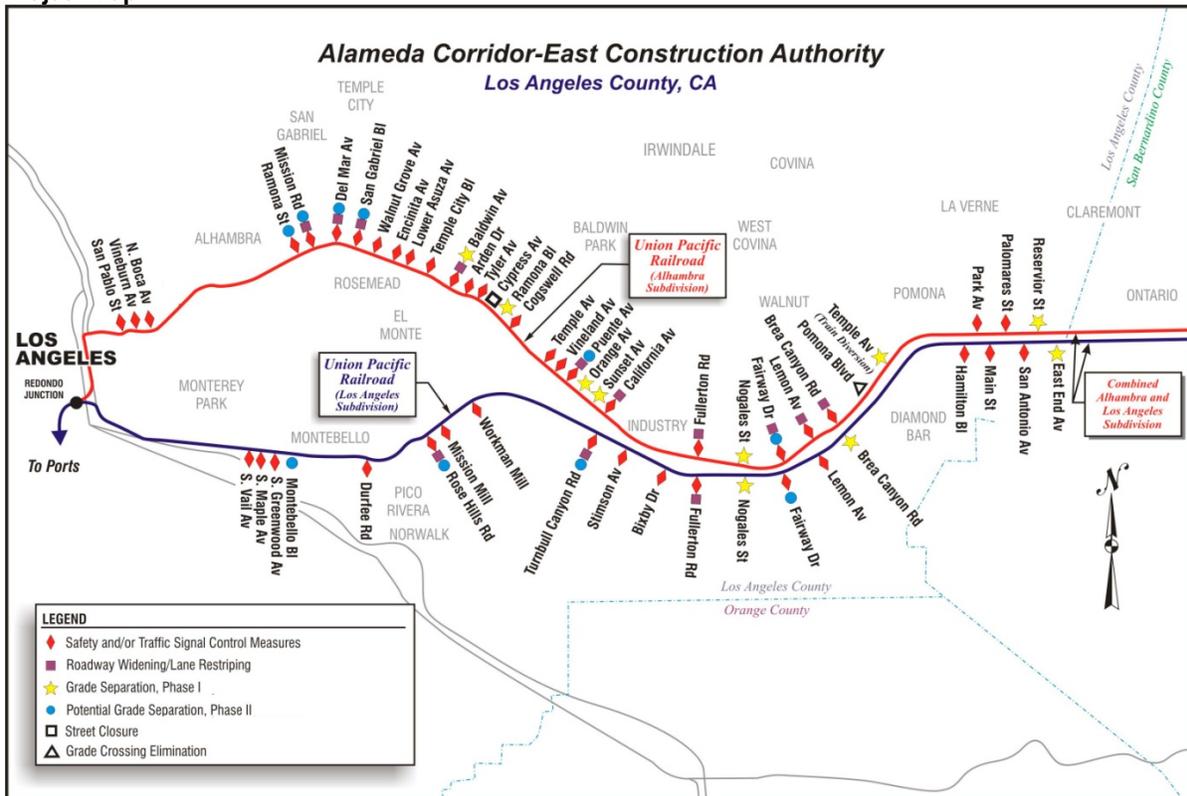
The original budget for the project was \$950 million in 1998 dollars. The project was broken out into two phases. Phase I included a test deployment of a modernized traffic control system, safety improvements at 39 grade crossings, and 10 grade separations, two of which were assigned to other agencies. Phase II included the remaining 10 grade separations. Since then, all but one of the 10 Phase I grade separations are completed or in construction. The current cost estimates for all active or completed projects consisting of the safety improvements and 13 grade separations is \$1.127 billion. The remaining six grade separations in the overall adopted project are the subject of an update study. Their updated definition and cost estimates should be available by the end of calendar year 2010.

The Nogales Street project in West Covina/Industry was completed in 2005, the Reservoir Street project in Pomona was opened to traffic in 2005, Ramona Boulevard in El Monte, East End Avenue in Pomona, and Brea Canyon Road in Industry/Diamond Bar opened in 2008. Sunset Avenue in City of Industry and the Temple Avenue Train Diversion in Pomona are under construction. Property is being acquired for remaining Phase I project, Baldwin Avenue in El Monte, in anticipation of construction starting in late 2010/early 2011. In addition, the ACE Project has assumed responsibility for the southern Nogales Street grade separation (completing design and environmental review) and has begun design of the San Gabriel Trench project.

**Alameda Corridor - East Construction Authority  
Management's Discussion and Analysis  
Year ended June 30, 2010**

Project Progress During FY 2010					
Project	06/09	09/09	12/09	03/10	06/10
Baldwin	Right of Way Acquisitions				
Brea Canyon	Open to traffic				
East End	Open to traffic				
Reservoir	Open to traffic				
Nogales (AH)	Open to traffic				
Nogales (LA)	Design / ROW Acquisitions				
Ramona/Cypress	Open to traffic				
S.G. Trench	Design				
Sunset/Orange	Construction				
Temple/Pomona	Construction				

**Project Map**



**ALAMEDA CORRIDOR-EAST PROJECT AREA**

REVISED DATE 3/08

**Alameda Corridor - East Construction Authority  
Management's Discussion and Analysis  
Year ended June 30, 2010**

As of June 30, 2010 the following funding had been committed to the ACE project:

<u>Federal</u>	<u>Committed/Pledged (\$ millions)</u>	
TEA-21 Earmark	\$	134.4
Annual Appropriations (FY 2000-09)		19.7
SAFETEA-LU Earmark		<u>65.0</u>
<b>Total Federal</b>	<b>\$</b>	<b>219.1</b>
<u>State</u>		
Trans. Imp. Program (FY 2000-04)		39.0
PUC Grade Separation Fund		5.0
Trans. Cong. Relief Prog. (TCRP)		130.3
Trade Corr. Infr. Fund (TCIF)		336.6
Hwy. Rail Crossing Safety Act (HRCSA)		<u>25.6</u>
<b>Total State</b>		<b>536.5</b>
<u>LA County Metropolitan Transportation Authority</u>		
17% - Match		269.9
FY 2007 Call-for-projects		28.8
Measure R		<u>42.0</u>
<b>Total LA County Metropolitan Transportation Authority</b>		<b>340.7</b>
<b>City/County Funds</b>		<b>23.8</b>
<b>Railroad Contributions</b>		<u><b>20.5</b></u>
<b>Total ACE Project Funding</b>	<b>\$</b>	<b><u><u>1,140.6</u></u></b>

The Committed/Pledged amounts may differ slightly from authorized funding due to budgetary holdbacks on multi-year grants, and reflect management's best estimate as to the amount that will be available. In addition to the committed funds shown above, we expect to receive an additional \$358 million in Los Angeles County Metropolitan Transportation Authority (Metro) Measure R funds through fiscal years 2019. Railroad contributions reflect a regulatory ceiling of 5% of construction cost pro-rated over the construction phase of the various projects.

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

The ACE Construction Authority must pay contractors and vendors first before invoicing grantors for reimbursement. Reimbursements are currently running between two to six weeks for Caltrans (Federal and State funding) and the Los Angeles County Metropolitan Transportation Authority (local funding). Working capital therefore remains a major consideration. ACE Construction Authority's parent organization, the San Gabriel Valley Council of Governments, authorized the issuance of up to \$100 million in grant anticipation notes to satisfy working capital requirements. This program has been in effect since 2001 and has generated over \$4 million in net earnings.

### **Financial Highlights**

- ACE Construction Authority's net assets decreased by \$3.3 million, a decrease of 25%. (See page 9 for further discussion).
- Total construction in progress increased by \$76.1 million, an increase of 49%.
- Total revenues increased by \$10.7 million, an increase of 16%.
- Total project expenses increased by \$12.6 million, an increase of 19%.

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

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

#### Government-wide Financial Statements

The government-wide financial statements found on pages 11 and 12 are designed to give readers a broad overview of ACE Construction Authority's financial position. These include all of the Authority's assets and liabilities, revenues and expenses. The accounting basis is full accrual (similar to private sector companies) where ACE Construction Authority's revenues and expenses are reported as the causal event occurs, instead of when the revenue was received or expense paid.

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

The "Statement of Activities" presents ACE Construction Authority's revenues and expenses for the fiscal year ended on June 30, 2010. The statement has four primary areas: Project Expenses, Operating Revenues, Nonoperating Income (Expense) and Change in Net Assets. Expenses are broken out into Direct (those expenses that can be identified directly to individual projects) and Indirect, while Nonoperating Income (Expense) 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 13 and 15 of this report. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

**Alameda Corridor - East Construction Authority  
Management's Discussion and Analysis  
Year ended June 30, 2010**

The ACE Construction Authority, unlike municipalities, county or State governments, has one activity - construction. All of ACE Construction Authority's activities are classified as a Construction (Capital Projects) Fund.

Differences between the two sets of financial statements are normally determined by the complexity of the reporting agency and usually revolve around different treatments for capital assets and depreciation. ACE Construction Authority's focus on a single activity results in the two statements being very similar.

Notes to the Basic Financial Statements

This report includes notes to the basic financial statements. They provide additional information that is important to a complete understanding of the data contained in the government-wide and fund financial statements. The notes can be found on pages 17 through 28 of this report.

**Statement of Net Assets**

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

		June 30	
		2010	2009
Current assets	\$	<b>123,817,067</b>	\$ 134,119,106
Capital assets		<b>43,208</b>	65,447
Construction in progress		<b>231,505,012</b>	155,355,686
Less due to member cities and Union Pacific Railroad		<b>(231,505,012)</b>	(155,355,686)
Total assets		<b>123,860,275</b>	134,184,553
Current liabilities		<b>113,617,868</b>	120,598,177
Total liabilities		<b>113,617,868</b>	120,598,177
Net assets	\$	<b>10,242,407</b>	\$ 13,586,376

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

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

**Alameda Corridor - East Construction Authority  
Management's Discussion and Analysis  
Year ended June 30, 2010**

Total assets decreased by \$10.3 million (8%) to \$123.9 million primarily because of decreases in cash and investments. Decrease in cash and investment is the result of paying out and reducing a combined \$7.0 million in payables and construction advances and increase in construction activity.

Total construction in progress increased by \$76.1 million (49%) to \$231.5 million. This is consistent with faster pace in construction activities on the Sunset Ave. project and steady activities from the other remaining four active projects.

The SGVCOG, on behalf of the Authority, had \$100 million in variable rate, tax-exempt commercial paper outstanding as of June 30, 2010. The decision as to how much to issue is made periodically by the ACE Construction Authority management in consultation with its financial advisors taking into account current and prospective cash flow needs and the interest income vs. borrowing cost relationship.

Grants receivable increased by \$6.8 million (677%) to \$7.8 million primarily because of a \$7.5M outstanding invoice from Metro. Deferred cost incurred decreased by \$81,846 (4%) to \$2.0 million because ACE Construction Authority billed \$583,950 of its non-project reimburseable expenses to Metro.

**Statement of Activities**

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

	<b>Years ended June 30</b>	
	<b>2010</b>	2009
Project expenses		
Direct (construction)	\$ 74,840,690	\$ 64,231,939
Indirect expenses charged to operations	<u>4,554,512</u>	<u>2,599,274</u>
Total project expenses	<u>79,395,202</u>	<u>66,831,213</u>
Operating revenues		
Grant reimbursements	74,623,951	62,881,142
Other operating revenues	<u>1,359,697</u>	<u>2,407,395</u>
Total revenues	<u>75,983,648</u>	<u>65,288,537</u>
Loss from operations	<u>(3,411,554)</u>	<u>(1,542,676)</u>
Nonoperating income (expense)		
Financing income	692,556	1,590,530
Financing expense	<u>(624,971)</u>	<u>(1,015,686)</u>
	<u>67,585</u>	<u>574,844</u>
Change in net assets	<b>(3,343,969)</b>	(967,832)
Net assets at beginning of year	<u>13,586,376</u>	<u>14,554,208</u>
Net assets at end of year	<u>\$ 10,242,407</u>	<u>\$ 13,586,376</u>

**Alameda Corridor - East Construction Authority  
Management's Discussion and Analysis  
Year ended June 30, 2010**

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The FY '10 revised Budget for operating expenditures was \$97.5 million compared to \$75.5 million in FY '09. Actual total operating expenditures are \$78.5 million compared to \$66.8 million in FY 09.

Project revenues continue to closely track expenditures. ACE Construction Authority'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 (often called betterments) are paid for by the requesting city. Any remaining costs are paid from investment income.

Other revenues: \$6,606 is the net proceeds received from a settlement with the project designer for the Nogales grade separation project.

ACE Construction Authority earnings from its commercial paper program was \$67,585 in FY 10, considerably less than the \$574,844 earned in FY 09, as the gap between interest earned and interest paid narrowed, resulting in lower net interest income.

ACE Construction Authority is reimbursed for indirect expense based on Caltrans approved Indirect Cost Allocation Plan (ICAP) rate. The reimbursement is added to all Caltrans and Metro invoices and is calculated by applying the ICAP rate to direct salaries and wages, and fringe benefits. The applied indirect expense to projects was lower than the actual indirect expense incurred, resulting in a deferral of \$502,104 to next year.

Change in net assets for 2010 was (\$3.3 million) compared to (\$1.0 million) in 2009. During 2007, Ace Construction Authority sold an excess right-of-way property located in West Covina for about \$5.1 million. As allowed by the 23 Code of Federal Regulations Part 710.403(e), ACE Construction Authority elected to apply the proceeds from the sale against activities eligible for funding during the year ended June 30, 2010 resulting to higher expenses than revenues for the said year. The proceeds from sale were included in the beginning fund balance.

### **Capital Assets**

ACE Construction Authority had \$43,208 and \$65,447 invested in capital assets, net of depreciation, as of June 30, 2010 and 2009, respectively.

ACE Construction Authority's capital assets consist of leasehold improvement and office equipment only.

### **Economic Factors and Next Year's Budget**

Sufficient funds were available at the close of FY 2010 to continue with remaining active grade separation projects.

Los Angeles County voters approved Measure R in November 2008. The ACE Project is included for \$400 million in local funds over the life of the sales tax. Metro has approved an initial drawdown of \$42 million for the ACE Project and projects that the full \$400 million will be available between now and FY 2019.

In June 2009, ACE Construction Authority Board approved 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. The ACE Construction Authority staff has requested a project close out from Caltrans.

With less than a quarter of expenditure activity in FY 2011 it is rather challenging to estimate that actual expenditures will be consistent with levels assumed in the FY 2011 budget. However, using recent expenditure trends it appears that ACE Construction Authority will be within 10 - 15% of the FY 2011 Approved Budget of \$109.3 million.

### **Requests for Information**

These financial statements are designed to provide citizens, taxpayers, customers, and creditors with a general overview of the Authority's finances and to demonstrate accountability for the money it receives. If there are any questions about this report or a need for additional information, please contact The ACE Construction Authority, 4900 Rivergrade Road, Suite AI20, Irwindale, CA 91706, or call (626) 962-9292.

**Alameda Corridor - East Construction Authority**  
**(A Component Unit of San Gabriel Valley Council of Governments)**  
**Statement of Net Assets**  
**June 30, 2010**

		<u>Governmental Activities</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$	92,588,960
Grants receivable		7,844,672
Unbilled receivables		17,386,831
Interest receivable		91,813
Retention receivable		3,714,651
Receivable - other		162
Deferred cost incurred		2,033,076
Prepaid expenses		
Insurance		63,964
Cost of issuance, commercial paper		92,938
		<u>123,817,067</u>
<b>Noncurrent assets</b>		
Leasehold improvements and equipment	\$	332,897
Less accumulated depreciation and amortization		<u>(289,689)</u>
		43,208
Construction in progress		231,505,012
Less due to member cities and Union Pacific Railroad		<u>(231,505,012)</u>
		-
<b>Total assets</b>		<u><u>123,860,275</u></u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expense		7,646,292
Accrued retention payable		1,273,560
Deferred revenue		4,573,473
Compensated absences		124,543
Commercial paper		100,000,000
		<u>113,617,868</u>
<b>Total liabilities</b>		<u>113,617,868</u>
<b>NET ASSETS</b>		
Invested in capital assets		43,208
Unrestricted		10,199,199
<b>Total net assets</b>	\$	<u><u>10,242,407</u></u>

*See notes to financial statements.*

**Alameda Corridor - East Construction Authority**  
**(A Component Unit of San Gabriel Valley Council of Governments)**  
**Statement of Activities**  
**Year ended June 30, 2010**

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<b>Project expenses</b>	
Direct (construction)	\$ 74,840,690
Indirect expenses charged to operations	<u>4,554,512</u>
<b>Total project expenses</b>	<u>79,395,202</u>
<b>Revenues</b>	
Grant reimbursements	74,623,951
Other operating revenues	<u>1,359,697</u>
<b>Total revenues</b>	<u>75,983,648</u>
<b>Loss from operations</b>	(3,411,554)
<b>Nonoperating income (expense)</b>	
Financing income	692,556
Financing expense	<u>(624,971)</u>
<b>Net nonoperating income (expense)</b>	<u>67,585</u>
<b>Change in net assets</b>	(3,343,969)
<b>Net assets at beginning of year</b>	<u>13,586,376</u>
<b>Net assets at end of year</b>	<u>\$ 10,242,407</u>

*See notes to financial statements.*

**Alameda Corridor - East Construction Authority**  
**(A Component Unit of San Gabriel Valley Council of Governments)**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2010**

	<b>Capital Projects</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 92,588,960	\$ 92,588,960
Grants receivable	7,844,672	7,844,672
Unbilled receivables	17,386,831	17,386,831
Interest receivable	91,813	91,813
Retention receivable	3,714,651	3,714,651
Receivable - other	162	162
Deferred cost incurred	2,033,076	2,033,076
Prepaid expenses		
Insurance	63,964	63,964
Cost of issuance, commercial paper	92,938	92,938
<b>Total assets</b>	<b>\$ 123,817,067</b>	<b>\$ 123,817,067</b>
<b>LIABILITIES AND FUND BALANCE</b>		
Accounts payable and accrued expense	\$ 7,646,292	\$ 7,646,292
Accrued retention payable	1,273,560	1,273,560
Deferred revenue	4,573,473	4,573,473
Compensated absences and employee benefits	124,543	124,543
Proceeds from issuance of commercial paper owing the San Gabriel Valley Council of Governments	100,000,000	100,000,000
<b>Total liabilities</b>	<b>113,617,868</b>	<b>113,617,868</b>
<b>Fund balance</b>		
Fund balance	10,199,199	10,199,199
<b>Total fund balance</b>	<b>10,199,199</b>	<b>10,199,199</b>
<b>Total liabilities and fund balance</b>	<b>\$ 123,817,067</b>	<b>\$ 123,817,067</b>

*See notes to financial statements.*

**Alameda Corridor - East Construction Authority  
(A Component Unit of San Gabriel Valley Council of Governments)  
Reconciliation of the Balance Sheet of Governmental Fund  
to the Statement of Net Assets  
June 30, 2010**

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Fund balance for governmental funds \$ 10,199,199

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

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds 43,208

Net assets of governmental activities \$ 10,242,407

*See notes to financial statements.*

**Alameda Corridor - East Construction Authority**  
**(A Component Unit of San Gabriel Valley Council of Governments)**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Year ended June 30, 2010**

<b>Revenues</b>	
Reimbursements	
Federal grants	\$ 17,804,533
State grants	13,453,885
Local grants	43,158,885
Other revenue	662,757
	<u>75,080,060</u>
	<b>Total revenues</b>
<b>Operating expenditures</b>	
Direct	
Design	16,511,192
Right-of-Way acquisition	11,720,139
Construction management	2,593,258
Construction	41,577,912
Betterments	2,438,189
Total direct	<u>74,840,690</u>
Indirect	
Personnel	
Salaries and wages	1,498,005
Fringe benefits	469,866
Employee related expenses	34,811
Professional services	
Auditing/accounting	39,835
Disadvantaged business/outreach	74,218
Legal	54,855
Other	445,354
Program management	1,090,470
Brokerage	60,064
Insurance	129,616
Equipment expense	42,324
Office rental expense	149,500
Office operations	41,871
Deferred indirect expense	(502,104)
Total indirect	<u>3,628,685</u>
	<b>Total operating expenditures</b>
	<u>78,469,375</u>
Deficiency of revenues over expenditures	(3,389,315)
<b>Other financing sources (uses)</b>	
Investment revenue	692,556
Interest and related expenses	(624,971)
Non-project reimburseable funds	903,588
Non-project reimburseable expense	(903,588)
Net other financing sources (uses)	<u>67,585</u>
Change in fund balance	(3,321,730)
Fund balance at beginning of year	<u>13,520,929</u>
Fund balance at end of year	<u>\$ 10,199,199</u>

*See notes to financial statements.*

**Alameda Corridor - East Construction Authority**  
**(A Component Unit of San Gabriel Valley Council of Governments)**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund**  
**Balance of Governmental Funds to the Statement of Activities**  
**Year ended June 30, 2010**

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Net change in fund balance - total governmental funds \$ (3,321,730)

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

Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense

Depreciation expense (22,239)

Change in net assets of governmental activities \$ (3,343,969)

*See notes to financial statements.*

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**The Reporting Entity**

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

**Basis of Accounting**

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

ACE Construction Authority recognizes reimbursements from grants as revenues to the extent reimbursing obligations are earned on or before June 30, 2010 and are therefore the same under both modified accrual and full accrual basis. Major interest bearing debt is short-term in nature so there is no difference relating to accrued interest owed.

**Description of Funds and Account Groups**

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

Governmental Fund

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

**Budgetary Reporting**

The Board approved the FY 2010 budget in May 2009.

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

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

**Cash Equivalents**

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

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

**Grant Revenues and Expenditures**

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

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

**Short-term Notes (Commercial Paper)**

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

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

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

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

**Leasehold Improvements and Equipment**

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

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

**Alameda Corridor - East Construction Authority**  
**Notes to Financial Statements**  
**Year ended June 30, 2010**

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

**Use of Estimates**

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

**Reclassifications**

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

**NOTE 2      LEASEHOLD IMPROVEMENTS AND EQUIPMENT**

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

	<b>Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance</b>
	<b>June 30, 2009</b>	<b>June 30, 2010</b>	<b>June 30, 2010</b>	<b>June 30, 2010</b>
<i>Cost:</i>				
Leasehold improvements	\$ 19,762	\$ -	\$ -	\$ 19,762
Computer equipment				
Hardware	159,992	-	-	159,992
Software	105,692	-	-	105,692
Website	3,393	-	-	3,393
Telephone equipment	12,086	-	-	12,086
Office furniture	31,972	-	-	31,972
Total cost	332,897	-	-	332,897
<i>Less accumulated depreciation for:</i>				
Leasehold improvements	16,798	1,976	-	18,774
Computer equipment				
Hardware	133,709	9,259	-	142,968
Software	74,811	8,376	-	83,187
Website	3,393	-	-	3,393
Telephone equipment	12,086	-	-	12,086
Office furniture	26,653	2,629	-	29,282
Total accumulated depreciation	267,450	22,239	-	289,689
Leasehold improvements and equipment, net	\$ 65,447	\$ (22,239)	\$ -	\$ 43,208

Depreciation expense included in indirect expenses for the year ended June 30, 2010 amounted to \$22,239.

**Alameda Corridor - East Construction Authority**  
**Notes to Financial Statements**  
**Year ended June 30, 2010**

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**NOTE 3 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at June 30, 2010 are classified in the accompanying financial statements as follows:

Cash in bank	\$	24,692,006
Pooled funds		66,224,366
Money market funds		1,672,588
Total cash and cash equivalents	\$	<u>92,588,960</u>

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

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

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

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

**Investments Authorized by Debt Agreements**

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

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

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

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that ACE Construction Authority manages its exposure to interest rate risk is by purchasing a combination of 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 Construction Authority's investments (including investments held by trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of ACE Construction Authority's investment by maturity:

<u>Investment Type</u>	<u>Remaining maturity in months</u>				
	<u>Total</u>	<u>12 Months or less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More than 60 months</u>
LAIF	\$ 66,224,366	\$ 63,045,597	\$ 1,920,507	\$ 1,258,262	-
<i>Held by trustee:</i>					
Money market funds	1,672,588	1,672,588	-	-	-
Investment contracts	-	-	-	-	-
Total	<u>\$ 67,896,954</u>	<u>\$ 64,718,185</u>	<u>\$ 1,920,507</u>	<u>\$ 1,258,262</u>	<u>-</u>

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

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

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

**Disclosures Relating to Credit Risk**

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

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt from Disclosure</u>	<u>Rating as of year end</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not rated</u>
LAIF	\$ 66,224,366	N/A	\$ -	\$ -	\$ -	\$ 66,224,366
Held by trustee:						
Money market funds	1,672,588	A	-	1,672,588	-	-
Investment contracts	-	N/A	-	-	-	-
Total	\$ <u>67,896,954</u>		\$ <u>-</u>	\$ <u>1,672,588</u>	\$ <u>-</u>	\$ <u>66,224,366</u>

**Concentration of Credit Risk**

ACE Construction Authority's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2010, ACE Construction Authority had no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total ACE Construction Authority investments.

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

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

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

The California Government Code and ACE Construction Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2010, the Authority's deposit of \$24,834,846 with financial institutions is in excess of Federal depository insurance limits but are held in collateralized accounts.

As of June 30, 2010, the following investment types were held by the same broker-dealer (counterparty) that was used by ACE Construction Authority to buy the securities:

Investment Type	Reported Amount
Money market funds	\$ <u>\$1,672,588</u>

**Investments in State Investment Pool**

ACE Construction Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. At June 30, 2010, the total market value of LAIF, including accrued interest was approximately \$69.57 billion. The fair value of ACE Construction Authority's investment in this pool is \$66,224,366 at June 30, 2010 based upon ACE Construction Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the portfolio). LAIF's (and ACE Construction Authority's) exposure to risk (credit, market or legal) is not currently available.

**NOTE 4            ADVANCES BY THE SAN GABRIEL VALLEY COUNCIL OF GOVERNMENTS**

**Short-term Notes Payable (Commercial Paper)**

In the Spring of 2001 the SGVCOG entered into an agreement to borrow up to \$100,000,000 in short-term debt guaranteed by a letter of credit and collateralized by the pledge of grant revenues. The securities issue is tax exempt. Notes outstanding at June 30, 2010, amounted to \$100,000,000. Interest rates vary according to market conditions and have ranged from .20% to 1.51% over the life of the program and have ranged from 1.49% to .30 % in FY 2010. Proceeds of the borrowings have been used to pay for construction activities and also to provide a revenue source on the differential between interest earned and interest paid. The Commercial Paper is currently guaranteed by Bayern LB.

**NOTE 5            GRANT ACCOUNTING**

In the year ended June 30, 2010, ACE Construction Authority was the recipient, primarily from the Federal Department of Transportation through the California Department of Transportation (Caltrans), of cost reimbursement type grants. There was 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, 2010, are shown net of disallowed costs. Caltrans approved, under Office of Management and Budget (OMB) Circular A-87, an indirect overhead allocation formula of 435.70% of total direct salaries and fringe benefit costs. Indirect costs incurred in fiscal year ended June 30, 2010 were \$4,130,789 and previously deferred indirect expense (as restated) was increased by \$502,104.

**NOTE 6            EMPLOYEE BENEFIT PLAN**

**Defined Benefit Pension Plan**

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

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

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

Funding Policy

Active plan members as defined by the above statutes are required to contribute 7% of their annual covered salary. The Authority has elected to contribute this amount to CalPERS on behalf of eligible employees. The authority is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by CalPERS Board of Administration. The required employer contribution rate to CalPERS for the year ended June 30, 2010 is 9.035%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost (APC)

For fiscal year 2010, the Authority's annual pension cost and actual contribution was \$353,248. For the year ended June 30, 2010, the actuarial funding method used by the CalPERS is the Entry Age Normal Cost Method. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a matter that produces level annual cost as the percentage of pay in each year from the age of hire (entry age) to the assumed retirement age.

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

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

Three-Year Trend Information for CalPERS

<u>Year</u>	<u>(APC)</u>	<u>APC Contributed</u>	<u>Obligation</u>
6/30/2008	\$ 340,300	100%	\$ 89,189
6/30/2009	\$ 207,868	100%	\$ -
6/30/2010	\$ 353,248	100%	\$ -

**Post-employment Benefits**

ACE Construction Authority did not incur any other liabilities during fiscal year 2010 related to post-employment benefits.

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

**Deferred Compensation Plan**

The Authority has entered into a salary reduction deferred compensation plan for its employees. Securities held by the plan are valued at market.

Balance at June 30, 2009	\$	381,749
Add employee contribution		379,483
Add net realized and unrealized appreciation in fair value of investments		<u>45,484</u>
Balance at June 30, 2010	\$	<u><u>806,716</u></u>

**NOTE 7 COMMITMENTS AND CONTINGENCIES**

As mentioned in Note 5, the Authority receives reimbursement type grants from Federal, State and local sources. Certain expenditures are not allowable and not subject to reimbursement. Also, there may be disallowed costs. Management's experience in this regard indicates disallowances, if any, will not be material.

In June 2009, ACE Construction Authority Board approved 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. The ACE Construction Authority staff has requested 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.

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

Period from/to	Monthly Rent	Annual Amount
May 1, 2010 to April 30, 2011	\$ 16,940	\$ 203,280
May 1, 2011 to April 30, 2012	17,448	209,376
May 1, 2012 to April 30, 2013	17,972	215,664
May 1, 2013 to April 30, 2014	18,511	222,132
May 1, 2014 to April 30, 2015	19,066	228,792
May 1, 2015 to April 30, 2016	19,638	<u>235,656</u>
Total lease commitments	\$	<u><u>1,314,900</u></u>

**NOTE 7            COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Escrow Agreements for Contract Retention - The Escrow Agent, Contractor or Owner may terminate this Escrow Agreement, with or without cause, by providing 30 days prior written notice to the other parties. In the event of termination of this Escrow Agreement, all the funds on deposit shall be paid to the Owner and any accrued interest less escrow fees shall be paid to the Contractor. The Authority has recognized as expenditure retention payments totaling \$6,161,867. 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 the ACE Construction Authority when no longer needed, all of the construction projects when completed, will be deeded to the Union Pacific Railroad and the cities in which they are located at no cost to the acquirer. At June 30, 2010, \$530,047,360 of costs was accumulated on projects in process and \$298,542,348 had been transferred to the railroad and impacted cities.

Under the government funds and modified accrual basis of accounting \$78,469,375 in FY 2010 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      ACCOUNTING FOR PROCEEDS FROM SALE OF EXCESS RIGHT OF WAY PROPERTY**

During the year ended June 30, 2007, ACE Construction Authority sold an excess right-of-way property located in the City of West Covina for \$5,098,904. The property was originally acquired for the Nogales Street project and was sold in June 2007. The proceeds of sale were reflected as other revenue in ACE Construction Authority's financial statements for the year ended June 30, 2007 and were included in the fund balance as of July 1, 2009. As allowed by the 23 Code of Federal Regulations Part 710.403(e), ACE Construction Authority elected to apply the proceeds from the said sale against activities eligible for funding during the year ended June 30, 2010 resulting to a significant decrease in the fund balance.

**Alameda Corridor - East Construction Authority**  
**Statement of Revenues, Expenditures and Changes in Fund Balance –**  
**Budget to Actual**  
**Year ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Amended</u> <u>Final</u>		
<b>Revenues</b>				
Reimbursements				
Federal grants	\$ 42,309,000	\$ 37,054,920	\$ 17,804,533	\$ (19,250,387)
State grants	23,619,000	20,685,910	13,453,885	(7,232,025)
Local grants	40,014,000	35,005,182	43,158,885	8,153,703
Other revenue	9,325,000	8,166,989	662,757	(7,504,232)
<b>Total revenues</b>	<u>115,267,000</u>	<u>100,913,000</u>	<u>75,080,060</u>	<u>(25,832,940)</u>
<b>Operating expenditures</b>				
Construction				
Design	16,612,000	17,407,000	16,511,192	895,808
Right-of-Way acquisition	30,182,000	26,437,000	11,720,139	14,716,861
Construction management	5,922,000	3,297,000	2,593,258	703,742
Construction	49,819,000	41,096,000	41,577,912	(481,912)
Betterments	5,450,000	5,450,000	2,438,189	3,011,811
Total construction	<u>107,985,000</u>	<u>93,687,000</u>	<u>74,840,690</u>	<u>18,846,310</u>
Indirect				
Personnel				
Salaries and wages	1,416,000	1,429,000	1,498,005	(69,005)
Fringe benefits	413,000	417,000	469,866	(52,866)
Employee related expenses	63,000	63,000	34,811	28,189
Professional services				
Auditing/accounting	35,000	35,000	39,835	(4,835)
Disadvantaged business/labor compliance	121,000	121,000	74,218	46,782
Legal	50,000	50,000	54,855	(4,855)
Other	-	-	445,354	(445,354)
Program management	1,138,000	1,138,000	1,090,470	47,530
Brokerage	65,000	65,000	60,064	4,936
Insurance	175,000	175,000	129,616	45,384
Equipment expense	58,000	58,000	42,324	15,676
Office rental expense	209,000	209,000	149,500	59,500
Office operations	47,000	47,000	41,871	5,129
Other	13,000	13,000	-	13,000
Deferred indirect expense	-	-	(502,104)	502,104
Total indirect	<u>3,803,000</u>	<u>3,820,000</u>	<u>3,628,685</u>	<u>191,315</u>
<b>Total operating expenditures</b>	<u>111,788,000</u>	<u>97,507,000</u>	<u>78,469,375</u>	<u>19,037,625</u>
Excess of revenues over expenditures	3,479,000	3,406,000	(3,389,315)	(6,795,315)
<b>Other financing sources (uses)</b>				
Investment revenue	1,455,000	1,455,000	692,556	(762,444)
Interest and related expenses	(868,000)	(868,000)	(624,971)	(243,029)
Non-project reimburseable funds	320,000	320,000	903,588	583,588
Non-project reimburseable expense	(320,000)	(320,000)	(903,588)	583,588
Net other financing sources (uses)	<u>587,000</u>	<u>587,000</u>	<u>67,585</u>	<u>161,703</u>
Change in fund balance	4,066,000	3,993,000	(3,321,730)	(7,314,730)
Fund balance at beginning of year	13,520,929	13,520,929	13,520,929	-
Fund balance at end of year	<u>\$ 17,586,929</u>	<u>\$ 17,513,929</u>	<u>\$ 10,199,199</u>	<u>\$ (7,314,730)</u>

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

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

We have audited the financial statements of Alameda Corridor – East (ACE) Construction Authority, a component unit of San Gabriel Valley Council of Governments, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 9, 2010. 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.

Internal Control Over Financial Reporting

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

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.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

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

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

Vargus + Company LLP

**Los Angeles, California**  
**November 9, 2010**

