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, 2011
with Report of Independent Auditors

VASQUEZ & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

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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, 2011, 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 the effectiveness of 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, 2011, 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.

As discussed in Note 1, ACE Construction Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund-type Definitions, effective for the fiscal year ended June 30, 2011. As a result of this required implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the new fund balance classification under GASB 54.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2011, on our consideration of ACE Construction Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Vasquez + Company LLP

Los Angeles, California
December 5, 2011

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, 2011. 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.

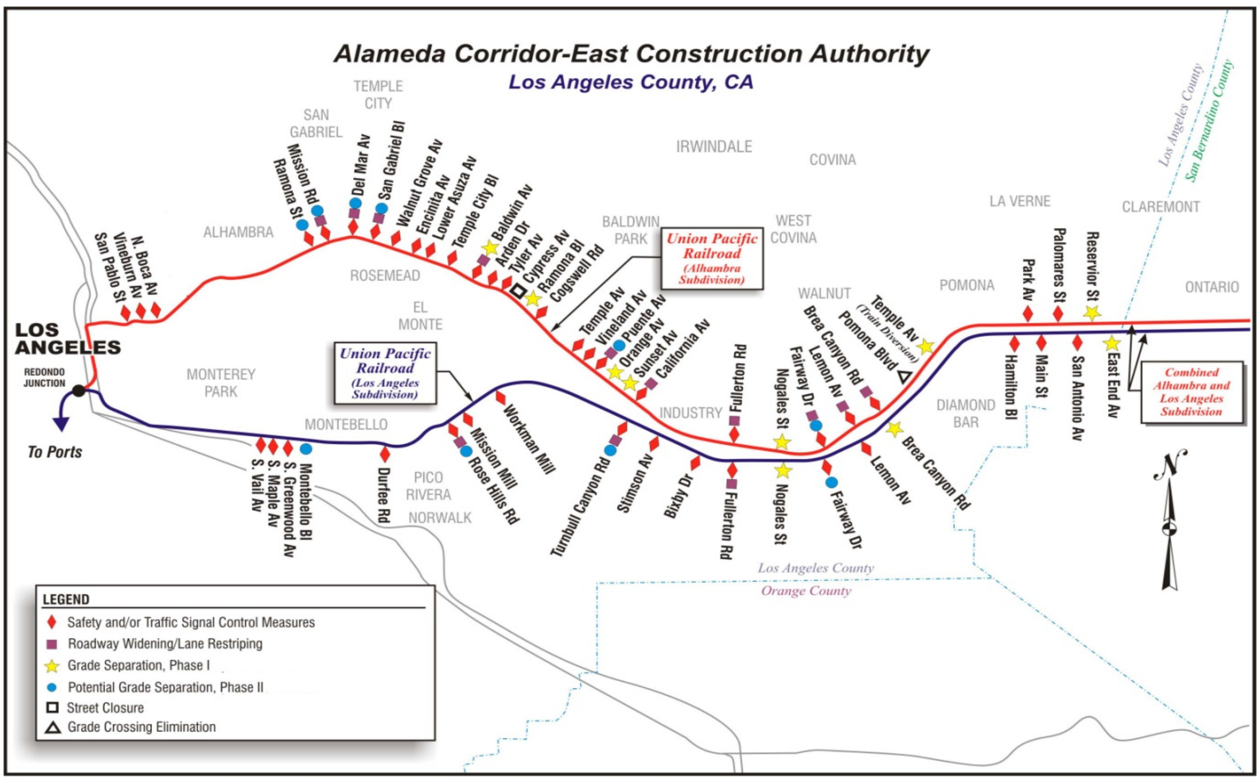
The original budget for the project was $950 million in 1998 dollars. The project was broken out into two phases. Phase I included a test deployment of a modernized traffic control system, safety improvements at 39 grade crossings, and 10 grade separations, two of which were assigned to other agencies. 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 14 grade separations is $1.143 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 2011.

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, and Sunset Avenue in City of Industry opened in 2010. The Temple Avenue Train Diversion in Pomona construction is complete, though we must await Union Pacific/Kinder Morgan agreement on relocating two Kinder Morgan pipelines in order divert the train traffic away from two crossings. The last piece of property needed for the remaining Phase I project, Baldwin Avenue in El Monte is in litigation and we anticipate construction starting in early 2012. In addition, property acquisition for the southern Nogales Street grade separation is nearing completion and construction should begin in early 2012. The San Gabriel Trench project has completed design and property acquisition and can go into construction as soon as approved State funding is available. Finally, design has begun on two of the remaining Phase II projects – Puente Avenue and Fairway Drive (LA subdivision).

Project Progress During FY 2011

Project	06/10	09/10	12/10	03/11	06/11
Baldwin			Right of Way Acquisitions		
Brea Canyon			Open to traffic		
East End			Open to traffic		
Fairway Drive				Design	
Puente Avenue				Design	
Reservoir			Open to traffic		
Nogales (AH)			Open to traffic		
Nogales (LA)			Design / ROW Acquisitions		
Ramona/Cypress			Open to traffic		
S.G. Trench			Design / ROW Acquisitions		
Sunset/Orange			Open to traffic		
Temple/Pomona			Construction		

Project Map



ALAMEDA CORRIDOR-EAST PROJECT AREA

REVISED DATE 3/08

As of June 30, 2011 the following funding had been committed to the ACE project:

		Committed/Pledged ($ millions)		
Federal				
TEA-21 Earmark	$	134.4		
Annual Appropriations (FY 2000-09)		19.7		
SAFETEA-LU Earmark		65.0		
ISTEA (Nogales LA)		6.9		
CMAQ (Nogales LA)		6.3		
Total Federal			$	232.4
State				
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)		25.6		
Total State				536.5
Los Angeles County Metropolitan Transportation Authority (Metro)				
17% - Match		259.9		
FY 2007 Call-for-projects		28.8		
Measure R		42.0		
Total Metro				330.7
City/County Funds				29.6
Railroad Contributions				20.5
Total ACE Project Funding			$	**1,149.7**

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 Metro Measure R funds through fiscal year 2019. Railroad contributions reflect a regulatory ceiling of 5% of construction cost pro-rated over the construction phase of the various projects.

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.

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 Metro (local funding). Working capital therefore remains a major consideration. The ACE Construction Authority's parent organization, the San Gabriel Valley Council of Governments (SGVCOG), authorized the issuance of up to $100 million in grant anticipation notes (GAN) to satisfy working capital requirements. $27.350 million in GANs are outstanding at June 30, 2011.

Financial Highlights

For the fiscal year ended June 30, 2011:

- Net assets decreased $4.3 million, a decrease of 42.19% primarily as a result of arbitrage rebate payments on net interest generated by net proceeds from the investment of commercial paper.

- Construction in progress decreased $47.5 million, a decrease of 20.5%.

- Total revenue decreased $31.3 million, a decrease of 41.2%.

- Total project expense decreased $34.8 million, a decrease of 43.8%.

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 the Authority's financial position. These include all of the Authority's assets and liabilities, revenues and expenses. The accounting basis is full accrual (similar to private sector companies) where the Authority's revenues and expenses are reported as the causal event occurs, instead of when the revenue was received or expense paid.

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

The "Statement of Activities" presents the Authority's revenues and expenses for the fiscal year ended on June 30, 2011. The statement has four primary areas: Operating Expenditures, Operating Revenues, Nonoperating Income (Expenses) and Change in Net Assets. Expenses are broken out into Direct (those expenses that can be identified directly to individual projects) and Indirect, while Financing Income is the interest earned on cash balances less interest and fees paid on the corresponding debt.

Fund Financial Statements

The fund financial statements can be found on pages 11 and 12 of this report. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

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

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

Notes to the Basic Financial Statements

This report includes notes to the basic financial statements. They provide additional information that is important to a complete understanding of the data contained in the government-wide and fund financial statements. The notes can be found on pages 13 through 26 of this report.

Statements of Net Assets

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

	June 30	
	2011	2010
Current and other assets	**$ 45,329,675**	$ 123,817,067
Capital assets	**23,160**	43,208
Construction in progress	**183,999,655**	231,505,012
Less due to member cities and Union Pacific Railroad	**(183,999,655)**	(231,505,012)
Total assets	**45,352,835**	123,860,275
Current liabilities	**39,431,887**	113,617,868
Net assets	**$ 5,920,948**	$ 10,242,407

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 Assets 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.

Assets decreased by 63.4% to $45.4 million (see condensed Statements of Net Assets, page 7) mainly due to reducing the amount held in investments to pay down outstanding GANs to match lower levels of project activity, lower grants and unbilled receivables as a result of lower grant reimbursable incurred expenditures.

Construction in progress decreased 21% to $184 million (see condensed Statements of Net Assets, page 7) primarily as a result of the completion of the Sunset project without offsetting construction.

Deferred revenue (unearned and unavailable) increased 22.9% to $5.6 million (see Statement of Net Assets, page 11) primarily due to having to recognize $1.8 million of surplus rental property generating revenue after project was closed. Sale of this property is expected to take place within the next fiscal year.

The SGVCOG, on behalf of the Authority, had $27.35 million (see Statement of Net Assets, page 11) in variable rate, tax-exempt commercial paper outstanding as of June 2011. The decision as to how much to issue is made periodically by the ACE Construction Authority management in consultation with its financial advisors taking into account current and prospective cash flow needs.

Grants and unbilled receivables decreased 48.6% to $4 million and 56.19% to $7.6 million (see Statement of Net Assets, page 11) respectively due to lower reimbursable grant expenditures.

The FY2011 revised Budget for operating expenditures was $82.7 million compared to $97.5 million in FY2010. Actual total operating expenditures are $44.2 million compared to $78.5 million in FY2010. (See Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual, page 27).

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 (referred to as betterments) are paid for by the requesting city.

Statement of Activities

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

	Years ended June 30	
	2011	2010
Project expenses		
Direct (construction)	**$ 40,879,495**	$ 74,840,690
Indirect expenses charged to operations	**3,735,496**	4,554,512
Total project expenses	**44,614,991**	79,395,202
Revenues		
Grant reimbursements	**44,181,756**	74,623,951
Other operating revenues	**475,871**	1,359,697
Total revenues	**44,657,627**	75,983,648
Income/(loss) from operations	**42,636**	(3,411,554)
Nonoperating income (expense)		
Financing income	**543,560**	692,556
Financing expense	**(4,907,655)**	(624,971)
Net financing income (expense)	**(4,364,095)**	67,585
Change in net assets	**(4,321,459)**	(3,343,969)
Net assets at beginning of year	**10,242,407**	13,586,376
Net assets at end of year	**$ 5,920,948**	$ 10,242,407

The ACE Construction Authority is reimbursed for indirect expenses 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 $298,293 to future years.

Capital Assets

ACE Construction Authority had $23,160 and $43,208 invested in capital assets, net of depreciation, as of June 30, 2011 and 2010, 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 2011 to continue with remaining active grade separation projects.

Los Angeles County voters approved Measure R in November 2008. 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.

ACE Construction Authority Board approved suspension of the Integrated Rail Roadway System (IRRIS), a traffic signal system demonstration project, in June 2009. A total of $6.4 million has been spent on the project since inception. Caltrans and the Federal Highway Administration have approved the closeout of the project.

With less than a quarter of expenditure activity in FY 2012, it is challenging to estimate that actual expenditures will be consistent with levels assumed in the FY 2012 budget. However, using recent expenditure trends it appears the ACE Construction Authority will be within 20% of the FY 2012 Approved Budget of $72 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 Al20, 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, 2011

	Capital Project Fund	Adjustment	Government-wide
ASSETS			
Current assets			
Cash and investments	$ 24,378,470	$ -	$ 24,378,470
Grants receivable	4,032,710	-	4,032,710
Unbilled receivables	7,617,163	-	7,617,163
Interest receivable	16,430	-	16,430
Retention receivable	4,960,642	-	4,960,642
Receivable - other	120,656	-	120,656
Deferred cost incurred	2,331,369	-	2,331,369
Prepaid expenses			
Insurance	34,693	-	34,693
Cost of issuance, commercial paper	74,351	-	74,351
Property held for sale	1,763,191	-	1,763,191
	45,329,675	-	45,329,675
Noncurrent assets			
Leasehold improvements and equipment, net	-	23,160	23,160
Construction in progress	-	183,999,655	183,999,655
Less due to member cities and Union Pacific Railroad	-	(183,999,655)	(183,999,655)
Total assets	45,329,675	23,160	45,352,835
LIABILITIES			
Current liabilities			
Accounts payable and accrued expense	5,456,811	-	5,456,811
Accrued retention payable	895,520	-	895,520
Deferred revenue	5,622,131	-	5,622,131
Compensated absences	107,425	-	107,425
Commercial paper	27,350,000	-	27,350,000
Total liabilities	39,431,887	-	39,431,887
FUND BALANCES/NET ASSETS			
Fund balance			
Nonspendable for:			
Deferred cost incurred	2,331,369		
Prepaid expenses	109,044		
Assigned:			
Capital project fund	3,457,375		
Total fund balance	$ 5,897,788		
Net assets			
Invested in capital assets		23,160	23,160
Unrestricted		-	5,897,788
Total net assets		$ 23,160	$ 5,920,948

See notes to financial statements.

Statement of Activities

Year ended June 30, 2011

	Capital Project Fund	Adjustment	Government-wide
Project expenses			
Direct (construction)	$ 40,879,495	$ -	$ 40,879,495
Indirect expenses charged to operations	3,715,448	20,048	3,735,496
Total project expenses	44,594,943	20,048	44,614,991
Revenues			
Grant reimbursements	44,181,756	-	44,181,756
Other operating revenues	475,871	-	475,871
Total revenues	44,657,627	-	44,657,627
Income from operations	62,684	(20,048)	42,636
Nonoperating income (expense)			
Financing income	543,560	-	543,560
Financing expense	(4,907,655)	-	(4,907,655)
Net nonoperating income (expense)	(4,364,095)	-	(4,364,095)
Deficiency of revenues over expenditures/Change in net assets	(4,301,411)	(20,048)	(4,321,459)
Fund balance/Net Assets at beginning of year	10,199,199	43,208	10,242,407
Fund balance/Net Assets at end of year	$ 5,897,788	$ 23,160	$ 5,920,948

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, 2011 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 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.

<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 the Authority.

Fund Balance Reporting

During the fiscal year ended June 30, 2011, ACE Construction Authority has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement 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:

<u>Nonspendable fund balance</u> 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.

<u>Restricted fund balance</u> 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 ACE Construction Authority's highest level of decision-making authority (Board of Directors).

Assigned fund balance consists of funds that are set aside for specific purposes by ACE Construction Authority's highest level of decision making authority 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 Construction Authority'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 of Directors, as ACE Construction Authority's highest level of decision-making authority, 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 of Directors removes or changes the specific use through the same type of formal action taken to establish the commitment. ACE Construction Authority does not have any fund balance that meet this classification as of June 30, 2011.

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

ACE Construction Authority 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 Construction Authority considers unrestricted fund balances to have been spent when an 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 Construction Authority to reduce the committed amounts first, followed by assigned amounts, and then unassigned amounts.

Budgetary Reporting

The Board approved the FY 2011 budget in July 2010.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Reporting (continued)
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.

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.

As of June 30, 2011, $27.35 million in variable rate, tax-exempt commercial paper is outstanding. 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.

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 a 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. Specific provisions of the borrowing are described in Note 4 (Advances by the San Gabriel Valley Council of Governments).

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, office and telephone equipment	5 years

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

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Cost:				
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
Less accumulated depreciation for:				
Leasehold improvements	18,774	988	-	19,762
Computer equipment				
Hardware	142,968	9,259	-	152,227
Software	83,186	8,376	-	91,562
Website	3,393	-	-	3,393
Telephone equipment	12,086	-	-	12,086
Office furniture	29,282	1,425	-	30,707
Total accumulated depreciation	289,689	20,048	-	309,737
Leasehold improvements and equipment, net	$ 43,208	$ (20,048)	$ -	$ 23,160

Depreciation expense included in indirect expenses for the year ended June 30, 2011 amounted to $20,048.

NOTE 3 CASH AND INVESTMENTS

Cash and investments at June 30, 2011 as classified in the accompanying financial statements are composed of:

Cash in bank	$	7,577,692
Pooled funds		1,543,746
Money market funds		2,202,259
Medium-Term Notes		2,438,260
US Treasury obligations		10,616,513
Total cash and investments	$	24,378,470

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.

	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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 INVESTMENTS (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.

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that ACE Construction Authority manages its exposure to interest rate risk

		Remaining maturity in months			
Investment Type	**Total**	**12 Months or less**	**13 to 24 Months**	**25 to 60 Months**	**More than 60 months**
LAIF	$ 1,543,746	$ 1,469,646	$ 44,769	$ 29,331	$ -
Held by trustee:					
Money market funds	2,202,259	2,202,259	-	-	-
Investment contracts	13,054,773	-	13,054,773	-	-
Total	$ 16,800,778	$ 3,671,905	$ 13,099,542	$ 29,331	$ -

NOTE 3 CASH AND INVESTMENTS (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 at the end of the year for each investment type.

Investment Type		Minimum Legal Rating	Exempt from Disclosure	Rating as of year end: AAA	Rating as of year end: Aa	Rating as of year end: Not rated
LAIF	$ 1,543,746	N/A	$ -	$ -	$ -	$ 1,543,746
Held by trustee:						
Money market funds	2,202,259	A	-	2,202,259	-	-
Investment contracts	13,054,773	N/A	-	13,054,773	-	-
Total	$ 16,800,778		$ -	$ 15,257,032	$ -	$ 1,543,746

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, 2011, 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 other than funds held by the trustee.

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 INVESTMENTS (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, 2011, the Authority's deposit of $7,743,269 with financial institutions is in excess of Federal depository insurance limits but are held in collateralized accounts.

As of June 30, 2011, 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	$	$2,209,259

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, 2011, the total market value of LAIF, including accrued interest was approximately $66.52 billion. The fair value of ACE Construction Authority’s investment in this pool is $1,543,746 at June 30, 2011 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, 2011, amounted to $27,350,000. Interest rates vary according to market conditions and have ranged from 0.38% and 0.24% in FY 2011. 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, 2011, 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, 2011, are shown net of disallowed costs. Caltrans approved, under Office of Management and Budget (OMB) Circular A-87, an indirect overhead allocation formula of 397.1% of total direct salaries and fringe benefit costs. Indirect costs incurred in fiscal year ended June 30, 2011 were $3,608,604 and previously deferred indirect expense was increased by $298,293.

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, 2011 is 8.475%. 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 2011, the Authority's annual pension cost and actual contribution was $331,340. For the year ended June 30, 2011, 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

Year	(APC)	APC Contributed	Obligation
6/30/2009	$ 207,868	100%	$ -
6/30/2010	353,248	100%	-
6/30/2011	331,340	100%	-

Postemployment Benefits
ACE Construction Authority did not incur any other liabilities during fiscal year 2011 related to postemployment 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. 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, 2011, plan assets totaling $1,162,063 were held by independent trustees and, as such, are not reflected in the accompanying basic financial statements.

Balance at June 30, 2010	$	806,716
Add employee contribution		160,881
Add net realized and unrealized appreciation in fair value of investments		196,968
Less distributions		(2,500)
Less fees charged		(2)
Balance at June 30, 2011	$	1,162,063

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, 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 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 Construction Authority 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 Construction Authority's financial position.

NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2011 to April 30, 2012	$ 17,448	$ 209,376
May 1, 2012 to April 30, 2013	17,972	215,664
May 1, 2013 to April 30, 2014	18,511	222,132
May 1, 2014 to April 30, 2015	19,066	228,792
May 1, 2015 to April 30, 2016	19,638	235,656
Total lease commitments		$ 1,111,620

Escrow Agreements for Contract Retention - The Escrow Agent, Contractor or Owner may terminate this Escrow Agreement, with or without cause, by providing 30 days prior written notice to the other parties. In the event of termination of this Escrow Agreement, all the funds on deposit shall be paid to the Owner and any accrued interest less escrow fees shall be paid to the Contractor. The Authority has recognized as expenditure retention payments totaling $3,763,151. 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, 2011, $574,432,135 of costs was accumulated on projects in process and $390,432,480 had been transferred to the railroad and impacted cities.

Under the government funds and modified accrual basis of accounting $44,189,806 in FY 2011 project expenditures would be reported as expenditures in the year incurred. On the government-wide financial statements conforming to GASB 34 reporting on these transactions presents a challenge. Accumulating those costs as construction in progress (i.e., treated as a cash flow expenditure and not a current year expense) would substantially overstate income while reporting the disposal and expensing the accumulated costs would distort the cost of operations. In both cases, net assets would fluctuate wildly, depending on the timing of construction and disposal.

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

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 ARBITRAGE

In February of 2011 ACE Construction Authority received an Information Data Request from the Internal Revenue Service (“IRS”) related to arbitrage rebate compliance on its 2005 Series commercial paper draw. Based upon this request, it was discovered that the Series 2005 draw, and the previous three draws, had not met spending exceptions that would avoid the payment of any excess profits made on investing the tax-exempt commercial paper draws in taxable investments prior to these amounts being spent.

ACE Construction Authority contracted with First Southwest Company to perform rebate calculations on all of its outstanding commercial paper draws. Based upon these calculations, as of June 30, 2011, ACE Construction Authority has made payments to the IRS in the amount of $2,465,791, consisting of $2,214,731 of rebate liability, and $251,060 in late interest for required filings prior to June 30, 2011.

As of June 30, 2011, the estimated liability payment on three outstanding commercial paper draws is $1,836,253. Of this total, $598,286 was paid on July 5, 2011, $717,422 was paid on July 29, 2011, and $412,716 was paid on October 27, 2011, leaving an estimated liability of $107,829 as of December 5, 2011.

On October 28, 2011, ACE Construction Authority received a notice from the IRS which states that the IRS have made a determination to close the examination of ACE Construction Authority’s 2005 Series commercial paper draw with no change to the position that interest received by the beneficial owners of the Bonds is excludable from the gross income under section 103 of the Internal Revenue Code. However, the IRS’ examination revealed that rebate payments were required and that ACE Construction Authority had no system to monitor the compliance with arbitrage and yield restriction regulations. Future noncompliance could result in penalties and/or the taxability of interest received by the beneficial owners of the Bonds. The accrued liability as of June 30, 2011 covers the rebate payments required and ACE Construction Authority is committed to having a system to monitor the compliance with arbitrage and yield restriction regulations.

NOTE 10 SUBSEQUENT EVENTS

ACE Construction Authority has evaluated events subsequent to June 30, 2011 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 5, 2011, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the 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 – Budget to Actual
Year ended June 30, 2011

	Budgeted Amounts Original	Budgeted Amounts Amended Final	Actual Amounts	Variance Positive (Negative)
Revenues				
Reimbursements				
Federal grants	$ 14,631,000	$ 11,064,657	$ 4,985,702	$ (6,078,955)
State grants	26,808,000	20,273,482	-	(20,273,482)
Local grants	67,941,000	51,380,209	39,196,054	(12,184,155)
Other revenue	1,333,000	-	332	332
Total revenues	110,713,000	82,718,348	44,182,088	(38,536,260)
Operating expenditures				
Construction				
Design	7,698,000	7,389,951	7,375,691	14,260
Right-of-Way acquisition	43,677,000	49,437,809	21,472,099	27,965,710
Construction management	1,198,000	1,339,913	1,060,283	279,630
Construction	51,726,000	19,368,157	9,665,665	9,702,492
Betterments	970,000	1,336,518	1,305,757	30,761
Total construction	105,269,000	78,872,348	40,879,495	37,992,853
Indirect				
Personnel				
Salaries and wages	1,625,000	1,654,000	1,571,525	82,475
Fringe benefits	467,000	477,000	480,984	(3,984)
Employee related expenses	35,000	33,000	36,976	(3,976)
Professional services				
Auditing/accounting	35,000	35,000	41,314	(6,314)
Disadvantaged business/labor compliance	161,000	161,000	90,681	70,319
Legal	55,000	55,000	63,022	(8,022)
Other	-	-	225,426	(225,426)
Program management	923,000	952,000	654,870	297,130
Brokerage	65,000	65,000	59,346	5,654
Insurance	166,000	131,000	98,624	32,376
Equipment expense	48,000	37,000	40,642	(3,642)
Office rental expense	203,000	203,000	187,356	15,644
Office operations	38,000	38,000	57,838	(19,838)
Other	5,000	5,000	-	5,000
Deferred indirect expense	-	-	(298,293)	298,293
Total indirect	3,826,000	3,846,000	3,310,311	535,689
Total operating expenditures	109,095,000	82,718,348	44,189,806	38,528,542
Excess (deficiency) of revenues over expenditures	1,618,000	-	(7,718)	(7,718)
Other financing sources (uses)				
Investment revenue	638,000	638,000	543,560	(94,440)
Interest and related expenses	(562,000)	(562,000)	(4,907,655)	(4,345,655)
Non-project reimburseable funds	285,000	285,000	312,798	27,798
Non-project reimburseable expense	(285,000)	(285,000)	(312,798)	(27,798)
Rental revenue	-	-	162,741	162,741
Rental expense	-	-	(92,339)	(92,339)
Net other financing sources (uses)	76,000	76,000	(4,293,693)	(4,369,693)
Change in fund balance	1,694,000	76,000	(4,301,411)	(4,377,411)
Fund balance at beginning of year	10,199,199	10,199,199	10,199,199	-
Fund balance at end of year	$ 11,893,199	$ 10,275,199	$ 5,897,788	$ (4,377,411)

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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, 2011, and have issued our report thereon dated December 5, 2011. 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

Management of ACE Construction Authority is responsible for establishing and maintaining effective 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.

Vasquez + Company LLP

Los Angeles, California
December 5, 2011

V&C