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, 2014
with Report of Independent Auditors

Vasquez & Company LLP
Certifed Public Accountants and Business Consultants

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Certifed Public Accountants and Business Consultants

801 South Grand Ave., Suite 400
Los Angeles, CA 90017
Ph. (213) 873-1700
Fax (213) 873-1777
www.vasquezcpa.com

OFFICE LOCATIONS:
Los Angeles
Sacramento

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of Alameda Corridor - East (ACE) Construction Authority, a component unit of San Gabriel Valley Council of Governments, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise ACE Construction Authority's basic financial statements as listed in the table of contents.

Management's Responsibility on the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of ACE Construction Authority as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 – 10 and 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2015, 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* in considering ACE Construction Authority's internal control over financial reporting and compliance.

Vasquez & Company LLP

Los Angeles, California
February 23, 2015

The following discussion and analysis of the financial performance and activity of the Alameda Corridor – East (ACE) Construction Authority (Authority) provides an overview of ACE Construction Authority financial statements for the year ended June 30, 2014. This discussion was prepared by management and should be read in conjunction with the financial statements and notes which follow this section.

Background

The San Gabriel Valley Council of Governments (SGVCOG) created the Alameda Corridor – East (ACE) Construction Authority in 1998 to mitigate the effects of increasing Union Pacific Rail road (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.

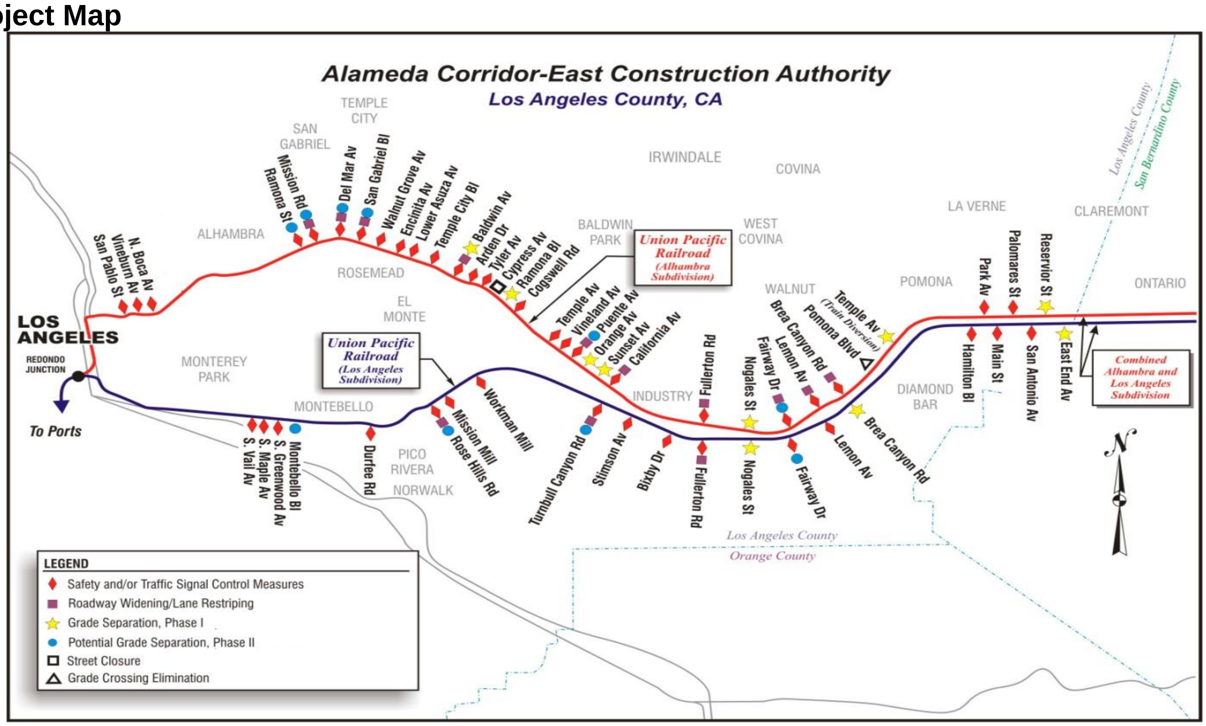
The original budget for the project was $950 million in 1998 dollars. The project was broken out into two phases. Phase I included a test deployment of a modernized traffic control system, safety improvements at 39 grade crossings, and 10 grade separations, two of which were assigned to other agencies. 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 cost estimate as of June 30, 2014 for the completed safety improvements and 14 grade separations either completed or going into construction is $1.133 billion. The scope of the remaining portion of the overall ACE Project was studied over the last two years and a revised project scope was adopted by the ACE Board and by SGVCOG in March 2012. The adopted remaining scope totals eight grade separations, of which five, Fullerton, Hamilton, and Durfee are in design, and Puente Avenue and Fairway Drive are in construction. The estimated total cost for the safety improvements and 22 grade separations is $1.863 billion.

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 to divert the train traffic away from two crossings. Archeological investigation at the San Gabriel Trench has been concluded and construction has been initiated. In addition, both Baldwin and Nogales grade separation projects have been awarded and construction initiated.

Project Progress During FY 2014

Project	06/13	09/13	12/13	03/14	06/14
Baldwin			Construction		
Brea Canyon			Open to traffic		
Durfee			Design		
East End			Open to traffic		
Fairway Drive			ROW Acquisitions / Construction		
Fullerton			Design / ROW Acquisitions		
Hamilton			Design		
Puente Avenue			ROW Acquisitions / Construction		
Reservoir			Open to traffic		
Nogales (AH)			Open to traffic		
Nogales (LA)			Construction		
Ramona/Cypress			Open to traffic		
S.G. Trench			Construction (Archeological Excavation) / Construction		
Sunset/Orange			Open to traffic		
Temple/Pomona					Construction

Project Map



ALAMEDA CORRIDOR-EAST PROJECT AREA

REVISED DATE 3/08

As of June 30, 2014 the following funding had been committed to the ACE project:

	ACE Funding Commitments ($ millions)	
Federal		
TEA-21 Earmark	$ 132.6	
Annual Appropriations (FY 2000-10)	20.2	
SAFETEA-LU Earmark	67.3	
ISTEA (Nogales LA)	6.9	
CMAQ (Nogales LA)	6.3	
Total Federal		233.3
State		
Trans. Imp. Program (FY 2000-04)	39.0	
PUC Grade Separation Fund	10.0	
Trans. Cong. Relief Prog. (TCRP)	130.3	
Trade Corr. Impr. Fund (TCIF)	420.5	
Hwy. Rail Crossing Safety Act (HRCSA)	25.6	
Total State		625.4
L.A. County MTA		
17% - Match	259.9	
FY 2007 Call-for-projects	28.8	
Measure R	400.0	
Total L.A. County MTA		688.7
City/County Funds/MWD Funds		11.8
Railroad Contributions		31.9
City/Railroad/Betterments/Property Sales		29.4
Total ACE Project Funding		**$ 1,620.5**

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

ACE 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 four weeks for Caltrans (Federal and State funding) and the Los Angeles County Metropolitan Transportation Authority (Los Angeles County Metro) (local funding). Working capital therefore remains a major consideration. The ACE Construction Authority and Los Angeles County Metro entered into an agreement to provide ACE Construction Authority $45M subordinate Proposition C Sales Tax Revenue Revolving Obligation Construction Fund which replaced the Grants Anticipation Notes, GANs as the primary bridge funding.

Financial Highlights

For the year ended June 30, 2014:

- Net position increased $0.01 million, an increase of 0.2%
- Construction in progress increased $135.6 million, an increase of 51.2%.
- Total revenue increased $80.9 million, an increase of 143.8%.
- Total project expense increased $80.8 million, an increase of 143.7%.

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, deferred inflows/outflows of resources, 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 Position" 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 year ended on June 30, 2014. The statement has four primary areas: Project Expenses, Operating Revenues, Nonoperating Income (Expenses) and Change in Position. 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.

The 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 fixed 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.

Condensed Statements of Net Position

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

	June 30	
	2014	2013
Current and other assets	**$ 78,836,866**	$ 50,076,993
Capital assets	**34,936**	35,333
Construction in progress	**400,553,713**	264,908,733
Less due to member cities and Union Pacific Railroad	**(400,553,713)**	(264,908,733)
Total assets	**78,871,802**	50,112,326
Current liabilities	**72,021,649**	43,275,780
Net position	**$ 6,850,153**	$ 6,836,546

All organizations are required to report construction in progress (that is, the sum of prior and current year's construction expense) on the Statement of Net Position as an asset. This would normally be done by treating each year's construction as a capital expense which would be excluded from the Statement of Activities. However, the grant reimbursements generated by construction would be included in the Statement of Activities as revenue. 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 Position 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 increased by 57.4% to $78.9 million, (see condensed Statements of Net Position, page 7), mainly due to increases in cash and investments, grants receivable, and unbilled receivables consistent with increased project activity.

Construction in progress increased 51.2% to $400.6 million, (see condensed Statements of Net Position, page 7), primarily as a result of increase activity on right-of-way acquisition for Fairway Drive, San Gabriel Trench, and Puente Avenue projects, and ramping up the construction phase on Baldwin, Nogales, and San Gabriel Trench projects.

Unearned revenue decreased 28.0% to $5.4 million, (see Statement of Net Position, page 11), mainly due to recognizing revenue received in advance for Right-of-Way acquisition on the San Gabriel Trench project.

The ACE Construction Authority and Los Angeles County Metro entered into an agreement to provide ACE Construction Authority $45M subordinate Proposition C Sales Tax Revenue Revolving Obligation Construction Fund which replaced the Grants Anticipation Notes, GANs as the primary bridge funding. (See Statement of Net Position, and page 11). The first draw down of $20 million was received on September 2013, with an interest rate of 0.60605%. A subsequent draw down of $25 million was received on November 2013, with an interest rate of 0.65150%.

Grants receivables and unbilled receivables increased 76.2% to $14.9 million and 33.4% to $24.8 million respectively, due to increase activities on all active projects, (See Statement of Net Position, page 11).

The FY 2014 Budget for operating expenditures was $135.1 million compared to $57.4 million in FY 2013. Total actual operating expenditures are $136.7 million compared to $55.6 million in FY 2013. (See Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual, page 26).

Project revenues continue to closely track expenditures. The ACE Construction Authority's policy is to avoid where possible costs not reimbursable under State and Federal guidelines; Los Angeles County Metro also provides project funds and, under separate agreement, continues to fund certain administrative expenses not reimbursable under federal and state regulations; Cities requesting work in excess of Caltrans guidelines (referred to as betterments) are paid for by the requesting city.

Condensed Statements of Activities

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

	Years ended June 30	
	2014	2013
Project Expenses		
Direct (Construction)	**$ 133,233,176**	$ 51,319,683
Indirect expenses charged to operations	**3,861,290**	4,939,542
Total project expenses	**137,094,466**	56,259,225
Operating revenues		
Grant reimbursements	**136,714,080**	55,630,915
Other operating revenues	**379,995**	596,645
Total revenues	**137,094,075**	56,227,560
Income/(loss) from operations	**(391)**	(31,665)
Nonoperating income (expense)		
Financing income	**287,411**	30,540
Financing expense	**(273,413)**	(284,110)
Net non-operating income (expense)	**13,998**	(253,570)
Change in net position	**13,607**	(285,235)
Net position at beginning of year	**6,836,546**	7,121,781
Net position at end of year	**$ 6,850,153**	$ 6,836,546

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 Los Angeles County 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 higher than the actual indirect expense incurred which resulted to over recovery of indirect cost by $878,443.

Capital Assets

The ACE Construction Authority had $34,936 invested in capital assets, net of depreciation as of June 30, 2014.

Economic Factors and New Year's Budget

Sufficient funds were available at the close of FY 2014 to continue with remaining active grade separation projects.

Based on projected cash flows of projects activities it is anticipated the ACE Construction Authority will be within 5% of its FY 2015 Approved Budget of $170.5 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 A120, Irwindale, CA 91706, or call (626) 962-9292.

Statement of Net Position
June 30, 2014

	Capital Fund	Adjustment	Government Wide
ASSETS			
Current assets			
Cash and investments	$ 37,092,952	$ -	$ 37,092,952
Grants receivable	14,759,353	-	14,759,353
Unbilled receivable	24,843,800	-	24,843,800
Notes receivable	300,000	-	300,000
Interest receivable	868	-	868
Retention receivable	976,423	-	976,423
Prepaid expense - Insurance	453,470	-	453,470
Property held for sale	410,000	-	410,000
	78,836,866	-	78,836,866
Noncurrent assets			
Computer equipment	-	34,936	34,936
Construction in progress	-	400,553,713	400,553,713
Less due to member cities and Union Pacific Railroad	-	(400,553,713)	(400,553,713)
Total assets	78,836,866	34,936	78,871,802
LIABILITIES			
Current liabilities			
Accounts payable and accrued expense	18,730,432	-	18,730,432
Accrued retention payable	1,142,317	-	1,142,317
Grant reimbursement payable	23,104	-	23,104
Unearned revenue	5,402,667	-	5,402,667
Over-recovery of indirect costs	1,546,482	-	1,546,482
Compensated absences	176,647	-	176,647
MTA promissory note loan	45,000,000	-	45,000,000
	72,021,649	-	72,021,649
FUND BALANCES/NET POSITION			
Fund balance			
Nonspendable for:			
Prepaid expenses	453,470		
Assigned:			
CalPERS unfunded liability, projected for 6-30-2015	1,028,938		
Capital project fund	5,332,809		
Total fund balance	$ 6,815,217		
Net position			
Net investment in capital assets		34,936	34,936
Unrestricted		-	6,815,217
Total net position		$ 34,936	$ 6,850,153

See notes to financial statements.

Statement of Activities
Year ended June 30, 2014

Project expenses		Capital Project Fund		Adjustment		Government - Wide
Direct (Construction)	$	133,233,176	$	-	$	133,233,176
Indirect expenses charged to operations		3,860,893		397		3,861,290
Total project expenses		137,094,069		397		137,094,466
Operating revenues						
Grant reimbursements		136,714,080		-		136,714,080
Other operating revenues		379,995		-		379,995
Total revenues		137,094,075		-		137,094,075
Income/(loss) from operations		6		(397)		(391)
Nonoperating income (expense)						
Financing income		287,411		-		287,411
Financing expense		(273,413)		-		(273,413)
Net nonoperating income (expense)		13,998		-		13,998
Excess of revenues over expenditures/Change in net position		14,004		(397)		13,607
Fund balance/Net Position at beginning of year		6,801,213		35,333		6,836,546
Fund balance/Net Position at end of year	$	6,815,217	$	34,936	$	6,850,153

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 Position. (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, 2014, 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.

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Reporting (Continued)

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of 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 meets this classification as of June 30, 2014.

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 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 2014 budget in June 2013.

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 Los Angeles County Metro 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.

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 June 30, 2013	Additions	Deletions	Balance June 30, 2014
Cost:				
Leasehold improvements	$ 19,762	$ -	$ -	$ 19,762
Computer equipment				
Hardware	192,139	9,540	-	201,679
Software	114,483	-	-	114,483
Website	3,393	-	-	3,393
Telephone equipment	12,086	-	-	12,086
Office furniture	31,972	-	-	31,972
Total cost	373,835	9,540	-	383,375
Less accumulated depreciation for:				
Leasehold improvements	19,762	-	-	19,762
Computer equipment				
Hardware	164,278	8,179	-	172,457
Software	107,011	1,758	-	108,769
Website	3,393	-	-	3,393
Telephone equipment	12,086	-	-	12,086
Office furniture	31,972	-	-	31,972
Total accumulated depreciation	338,502	9,937	-	348,439
Leasehold improvements and equipment, net	$ 35,333	$ (397)	$ -	$ 34,936

Depreciation expense included in indirect expenses for the year ended June 30, 2014 amounted to $9,937.

NOTE 3 CASH AND INVESTMENTS

Cash and investments at June 30, 2014 as classified in the accompanying financial statements are composed of:

Cash in bank	$ 625,166
Pooled funds	1,573,666
Money market funds	14,681,912
Investments	20,212,208
Total cash and cash equivalents	$ 37,092,952

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.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

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

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

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

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:

		Remaining Maturity (in Months)			
Investment Type	Total	12 Months Or Less	13 to 24 Months	25-60 Months	More Than 60 Months
LAIF	$ 1,573,666	$ 1,498,130	$ 45,636	$ 29,900	$ -
Money market funds	14,681,912	14,681,912	-	-	-
Investment contracts	20,212,208	-	20,212,208	-	-
Total	$ 36,467,786	$ 16,180,042	$ 20,257,845	$ 29,900	$ -

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.

				Rating as of Year End		
Investment Type		Minimum Legal Rating	Exempt From Disclosure	AAA	Aa	Not Rated
LAIF	$ 1,573,666	N/A	$ -	$ -	$ -	$ 1,573,666
Money market funds	14,681,912	A	-	14,681,912	-	-
Investment contracts	20,212,208	N/A	-	20,212,208	-	-
Total	$ 36,467,786		$ -	$ 34,894,120	$ -	$ 1,573,666

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, 2014, 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.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk (Continued)
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.

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, 2014, the Authority's deposit of $16,630,721 with financial institutions is in excess of Federal depository insurance limits but are held in collateralized accounts.

As of June 30, 2014, 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	$	14,681,912

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, 2014, the total market value of LAIF, including accrued interest was approximately $64.896 billion. The fair value of ACE Construction Authority’s investment in this pool is $1,573,665 at June 30, 2014 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 LOS ANGELES COUNTY METRO PROMISSORY NOTE LOAN

In June 2013, ACE Construction Authority entered into a promissory note to borrow up to $45,000,000, in variable rate, from the Los Angeles County Metro to be used as working capital. Loan payable outstanding, at June 30, 2014, amounted to $45,000,000. For the month of June 2014, interest rates vary according to market conditions and have ranged from 0.6057% to 0.6515%. In FY 2014, proceeds of the borrowings have been used to pay for construction activities.

The principal amount of the loan is to be used as working capital for the benefit pursuant to the terms of the Alameda Corridor East Phase II Grade Separations Master Funding Agreement ("Master Agreement"), date June 14, 2013. Except as otherwise provided in the Master Agreement and the promissory note, including, but not limited to, LACMTA's right to set off against the Measure R and/or Proposition C funds reimbursement due borrower, the entire unpaid balance of the working capital loan, all accrued and outstanding CP costs and any fees are unsecured and due in June 2023.

NOTE 5 GRANT ACCOUNTING

In the year ended June 30, 2014, 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 were also California transportation programs paid through Caltrans. Local share was received from Metro. All of these grants are expenditure driven; funds must be expended before reimbursement is received. Certain amounts have been held back by the grantor agency pending completion of certain phases of contracted work and some costs incurred are subject to disallowance.

Receivable amounts at June 30, 2014, are shown net of disallowed costs. Caltrans approved, under Office of Management and Budget (OMB) Circular A-87, an indirect overhead allocation formula of 195.70% of total direct salaries and fringe benefit costs. Indirect costs incurred in the fiscal year ended June 30, 2014 were $3,861,290.

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.

NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

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

Funding Policy
Active plan members as defined by the above statutes are required to contribute 7% of their annual covered salary. The Authority has elected to contribute this amount to CalPERS on behalf of eligible employees. The Authority is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by CalPERS Board of Administration. The required employer contribution rate to CalPERS for the year ended June 30, 2014 was 10.282%. 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 year 2014, the Authority's annual pension cost and actual contribution was $451,128. For the year ended June 30, 2014, the actuarial funding method used by 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.

NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

Three-Year Trend Information for CalPERS

Year		(APC)	APC Contributed		Obligation
6/30/2012	$	419,077	100%	$	-
6/30/2013		407,704	100%		-
6/30/2014		451,128	100%		-

Required Supplementary Information – Schedule of Funding Progress

Acturial valuation date		Actuarial accrued liability		Actuarial value of assets		Unfunded actuarial accrued liability (UAAL)	Funded ratio		Annual coverage payroll	UAAL as a percentage of payroll
6/30/2011	$	4,081,296	$	3,339,706	$	741,590	81.8%	$	2,294,319	32.3%
6/30/2012		4,639,428		3,580,566		1,058,862	77.2%		2,414,903	43.8%
6/30/2013		5,532,529		4,496,264		1,036,265	81.3%		2,684,185	38.6%

Postemployment Benefits
ACE Construction Authority did not incur any other liabilities during the year 2014 related to postemployment benefits.

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, 2014, plan assets totaling $1,759,803 were held by independent trustees and, as such, are not reflected in the accompanying basic financial statements.

Balance at June 30, 2013	$	1,509,642
Add employee contribution		132,981
Add net realized and unrealized appreciation		
in fair value of investments		250,974
Less distributions		(133,300)
Less fees charged		(494)
Balance at June 30, 2014	$	1,759,803

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.

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

Period from / to	Monthly Rent	Annual Amount
May 1, 2013 to April 30, 2014	$ 18,511	$ 222,129
May 1, 2014 to April 30, 2015	19,066	228,793
May 1, 2015 to April 30, 2016	19,638	235,657
May 1, 2016 to April 30, 2017	20,227	242,727
May 1, 2017 to April 30, 2018	20,834	250,009
Total lease commitments		$ 1,179,315

Escrow Agreements for Contract Retention – Pursuant to contracts entered into between ACE Construction Authority and several of its contractors, funds are deposited with an Escrow Agent. The Escrow Agent holds the fund for the benefit of the contractors until the escrow is terminated. The Escrow Agent, Contractor or Owner may terminate this Escrow Agreement, with or without cause, by providing 30 days prior written notice to the other parties. In the event of termination of this Escrow Agreement, all the funds on deposit shall be paid to the Owner and any accrued interest less escrow fees shall be paid to the Contractor. The Authority has recognized as expenditure retention payments totaling $5,914,090. 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, 2014, $792,158,451 of costs was accumulated on projects in process and $391,604,738 had been transferred to the railroad and impacted cities.

Under the governmental funds and modified accrual basis of accounting in FY 2014 project expenditures would be reported as expenditures in the year incurred. On the government-wide financial statements conforming to GASB 34 reporting on these transactions presents a challenge. Accumulating those costs as construction in progress (i.e., treated as a cash flow expenditure and not a current year expense) would substantially overstate income while reporting the disposal and expensing the accumulated costs would distort the cost of operations. In both cases, net assets would fluctuate wildly, depending on the timing of construction and disposal.

To alleviate this situation, management has elected to record a liability (same amount as the construction in progress) to UPRR and governments likely to be the eventual owner of the improvements/grade separations. This approach will minimize the effects of both on the acquisition of property for construction and the accumulation of construction costs and their eventual disposal.

NOTE 9 TRANSFER OF ACE PROJECT

On May 30, 2013, the Governing Board of SGVCOG voted to pursue separation between itself and ACE, allowing ACE to become an independent Joint Powers Authority. Six cities have approved the amended JPA agreement establishing a new ACE Joint Powers Authority (ACE JPA), allowing the agreement to be filed with the Secretary of State. The confirmation of State recognition has been received. A formal request to establish a new CalPERS contract for the ACE JPA employees while retaining the existing contract for SGVCOG employees has been submitted. A response from CalPERS is not anticipated until year end. If CalPERS determines the contract can be separated, staff anticipates the new JPA can be realized shortly thereafter.

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

NOTE 10 SUBSEQUENT EVENTS

By a unanimous vote on December 1, 2014, the Governing Board allowed the ACE Project Transfer Agreement discussed in Note 9 to expire and directed that a future strategic planning discussion be held at a later date to develop a plan for moving forward with the ACE Construction Authority.

ACE Construction Authority has evaluated events subsequent to June 30, 2014 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through February 23, 2015, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no other 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 (Unaudited)
Capital Project Fund - Budget to Actual
Year ended June 30, 2014

	Budgeted Amounts Original	Budgeted Amounts Amended Final	Actual Amounts	Variance Positive (Negative)
Revenues				
Reimbursements				
Federal grants	$ 10,498,000	$ 10,498,000	$ 9,618,893	$ (879,107)
State grants	63,782,000	63,782,000	57,640,501	(6,141,499)
Local grants	60,838,953	60,838,953	65,735,471	4,896,518
Betterment & other local	-	-	3,719,215	3,719,215
Total revenues	135,118,953	135,118,953	136,714,080	1,595,127
Operating expenditures				
Construction				
Design	8,148,000	8,148,000	7,878,717	(269,283)
Right-of-way acquisition	50,826,000	50,826,000	59,948,301	9,122,301
Construction management	7,824,000	7,824,000	9,838,902	2,014,902
Construction	65,137,000	65,137,000	55,195,019	(9,941,981)
Betterments	-	-	372,237	372,237
Total construction	131,935,000	131,935,000	133,233,176	1,298,176
Indirect				
Personnel				
Salaies and wages	1,832,314	1,832,314	1,398,933	(433,381)
Fringe benefits	571,452	571,452	431,264	(140,188)
Employee related expenses	33,550	33,550	19,028	(14,522)
Professional services				
Auditing/accounting	40,000	40,000	39,500	(500)
Legal	70,000	70,000	54,263	(15,737)
Other	-	-	1,077	1,077
Program management	64,411	64,411	40	(64,371)
Brokerage	65,000	65,000	58,931	(6,069)
Insurance	106,416	106,416	240,733	134,317
Equipment expense	123,068	123,068	102,229	(20,839)
Office rental expense	223,242	223,242	213,344	(9,898)
Office operations	48,000	48,000	66,747	18,747
Other	6,500	6,500	10,841	4,341
Applied indirect expense	-	-	843,968	843,968
Total indirect	3,183,953	3,183,953	3,480,898	296,945
Total operating expenditures	135,118,953	135,118,953	136,714,074	1,595,121
Excess (deficiency) of revenues over expenditures	-	-	6	6
Other financing sources (uses)				
Investment revenue	130,000	130,000	287,411	157,411
Interest and related expenses	(272,000)	(272,000)	(273,413)	(1,413)
Non-project reimbursable funds	368,459	368,459	379,995	11,536
Non-project reimbursable expense	(368,459)	(368,459)	(379,995)	(11,536)
Net other financing sources (uses)	(142,000)	(142,000)	13,998	155,998
Change in fund balance	(142,000)	(142,000)	14,004	156,004
Fund balance at beginning of year	6,801,213	6,801,213	6,801,213	-
Fund balance at end of year	$ 6,659,213	$ 6,659,213	$ 6,815,217	$ 156,004

801 South Grand Avenue, Suite 400 • Los Angeles, California 90017-4646 • Ph. (213) 873-1700 • Fax (213) 873-1777