



San Gabriel Valley Council of Governments

1000 S. Fremont Ave., Unit 42, Alhambra, CA 91803 Phone: (626) 457-1800 FAX: (626) 457-1285 E-Mail SGV@sgvcog.org

City Managers' Steering Committee

March 7th, 2012

12:00 noon

El Monte City Hall
City Managers' Conference Room
11333 Valley Boulevard
El Monte, CA

1.0 Preliminary Business

2.0 Public Comment

3.0 Changes to Agenda Order; Identify Subsequent Need or Emergency Items

4.0 Consent Items

- 4.1 Minutes from February 8th, 2012 – Page 1
- 4.2 Revised Minutes from December 7th, 2011 meeting – Page 3
- 4.3 Revised Minutes from January 4th, 2012 meeting – Page 5
- 4.4 Correspondence

5.0 Regular Business Items *(It is anticipated that the Committee may take action on the following items)*

- 5.1 SGVCOG FY 2010-2011 Financial Audit Report and Management Letter – Page 8
Review the draft FY 2010-2011 financial audit and recommend approval to the Governing Board.
- 5.2 SGVCOG 2nd Quarter Report / Mid-Year Budget Revision - Page 71
Review draft SGVCOG Mid-Year Revision and recommend approval to SGVCOG Governing Board
- 5.3 ACE FY 2010-2011 Financial Audit Report Page 76
Review the draft FY 2010-2011 financial audit and recommend approval to the Governing Board.
- 5.4 ACE 2nd Quarter Financial Report / Mid-Year Budget Revision – Page 107
Review draft ACE Mid-Year Budget Report and recommend approval to SGVCOG Governing Board
- 5.5 FY 2012 SGVCOG Investment Policy – Page 129
Recommend adoption of the 2012 SGVCOG Investment Policy
- 5.6 SBDC Small Business Centers – Page 130
Discuss status of effort to return small business development center assistance to the San Gabriel Valley
- 5.7 ACE IRRIS Project- Page 132
Discuss recommendation to Governing Board to remove IRRIS project from the ACE Scope of Work
- 5.8 SGVCOG Organization and Management Study – Next Steps – Page 135
Discuss action at the February Governing Board meeting regarding the recently completed organization study and next steps regarding formation of an ad hoc committee to coordinate with the City Managers' Steering Committee to analyze options related to staffing

6.0 New Business items for Next Regular Meeting

7.0 Announcements

8.0 Next Meeting

9.0 Adjourn

Please RSVP at mcreter@sgvcog.org or at (626) 457-1800

For TAC Meeting Notice and Minutes, Please access www.sgvcog.org

NOTICE: City Clerks please post this notice (agenda)

Written materials relating to an item on any Regular Meeting Agenda of the this Committee of the San Gabriel Valley Council of Governments that are distributed to the Committee within 72 hours of the Meeting will be available for public inspection at the San Gabriel Valley Council of Governments, 1000 S. Fremont Ave., Unit 42, Bldg. A10, Suite 210, Alhambra, CA 91803 during normal business hours.



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City Managers' Steering Committee

Minutes

Date: February 8th, 2012

Time: 11:00 am

Location: El Monte City Hall

1.0 Preliminary Business

The meeting was called to order at 11:05 p.m.

Members Present:

| | |
|------------|---------------|
| Alhambra | A. Hayashi |
| Covina | D. Parrish |
| El Monte | R. Bobadilla |
| Glendora | C. Jeffers |
| San Marino | M. Ballantyne |
| Walnut | R. Wishner |

Members Absent:

Diamond Bar
La Canada Flintridge
Rosemead
San Dimas
San Gabriel
West Covina

SGVCOG Staff:

N. Conway, Executive Director
M. Creter, Staff

Public:

R. Richmond, ACE
A. Cervantes, Pico Rivera
C. Monroy, ACE
J. Ballas, City of Industry
G. Aguirre

2.0 Public Comment

There were no comments from the public.

3.0 Changes to Agenda Order; Identify Subsequent Need or Emergency Items

The Executive Director stated that items 5.4, 5.5, 5.6, and 5.7 were being pulled and rescheduled for the March 2012 meeting in order to accommodate the attendance of the SGVCOG's accountant/auditor and external auditing firm.

Additionally, a member of the Committee requested that item 5.2., 5.3, and 5.9 be placed on the March 2012 agenda.

4.0 Consent Items

4.1 Revised Minutes from December 7th, 2011 meeting

4.2 Minutes from January 4th, 2012 meeting

The minutes were approved with the following revisions:

- Both minutes were changed as follows: The sentence "There was a motion recommend to the Transportation Committee funding of the top eight projects – after removing project alternatives for the same grade crossing – (Fullerton Road, Montebello-Greenwood, Hamilton Boulevard, Fairway Drive (Alh), Turnbull Cyn Road (LA), Fairway Drive (LA), Puente Ave. (Alh), and Durfee Ave. (LA)) as ranked by the SGVCOG's ACE Phase II Subcommittee; should additional funds be available, from State, Federal or local sources, additional projects should be funded according to the rank order as developed by the Subcommittee (M/S/C: R. Wishner / J. Fuentes / Ayes: Covina, Glendora, Rosemead; Noes: La Canada Flintridge)" was changed to read, "*There was a motion recommend to the Transportation Committee funding of the top eight projects – after removing project alternatives for the same grade crossing – (Fullerton Road, Montebello-Greenwood, Hamilton Boulevard, Fairway Drive (Alh), Turnbull Cyn Road (LA), Fairway Drive (LA), Puente Ave. (Alh), and Durfee Ave. (LA)) as ranked by the SGVCOG's ACE Phase II Subcommittee (M/S/C: R. Wishner / J. Fuentes / Ayes: Covina, Glendora, Rosemead; Noes: La Canada Flintridge).*"
- Both minutes were changed as follows: The sentence "No action was taken and this item was tabled." was changed to read, "*No action was taken.*"
- The December minutes were revised to reflect the attendance of R. Bobadilla.
(M/S/C: C. Jeffers/R. Wishner/Unanimous; M. Ballantyne – abstain).

5.0 Regular Business Items

5.1 Clarification of City Managers' Steering Committee Recommendation Regarding ACE Phase II

Following the revision to the minutes discussed under items 4.1 and 4.2, there was no further discussion on this item.

5.2 Role of City Managers' Steering Committee in Providing Financial Oversight to SGVCOG and ACE

The Executive Director indicated that items 5.2 and 5.3 were requested by the representative from La Canada Flintridge and would be discussed further at the March meeting.

5.3 Role of SGVCOG's Accountant/Auditor in Providing Financial Oversight to SGVCOG and ACE

There was brief discussion on this item. The Steering Committee requested clarification regarding whether the bylaws needed to be amended to reflect the delegation of day-to-day accounting responsibilities to ACE. The Steering Committee also requested further discussion regarding the SGVCOG/ACE investment policy, specifically related the process for updating the policy and insurance requirements.

5.4 ACE 2nd Quarter Financial Report / Mid-Year Budget Revision

This item was pulled and will be rescheduled for the March 2012 meeting.

5.5 ACE FY 2010-2011 Financial Audit Report and Management Letter

This item was pulled and will be rescheduled for the March 2012 meeting.

5.6 SGVCOG 2nd Quarter Report / Mid-Year Budget Revision

This item was pulled and will be rescheduled for the March 2012 meeting.

5.7 SGVCOG FY 2010-2011 Financial Audit Report and Management Letter

This item was pulled and will be rescheduled for the March 2012 meeting.

5.8 Draft SGVCOG Organization and Operation Review

The Chair provided an overview of the major issues and findings in the report. He indicated that this report was scheduled for review at the February Executive Committee and Governing Board meetings. The Steering Committee requested clarification regarding their role in providing feedback and recommendations regarding the findings and recommendations in the report.

5.9 ACE Financial Advisor Services Contract

This item was pulled and will be rescheduled for the March 2012 meeting.

5.10 Caltrans Audit Appeal

The Executive Director reviewed the proposed settlement with Caltrans and indicated that this item is scheduled for action at the February Governing Board meeting.

5.11 SGVCOG Strategic Plan Update – *Page 112*

The Executive Director briefly reviewed the updated SGVCOG Strategic Plan for January – July 2012, and highlighted the objectives that related to the City Managers' Steering Committee, including those related to redevelopment.

5.12 Ontario Airport

The Executive Director briefly explained this item and indicated that it was being agendized for an upcoming Governing Board meeting.

6.0 New Business items for Next Regular Meeting

7.0 Announcements

8.0 Next Meeting

The next meeting is scheduled for March 7th.

9.0 Adjourn

The meeting was adjourned at 12:10.



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City Managers' Steering Committee

Minutes - REVISED

Date: December 7th, 2011

Time: 12:00 noon

Location: El Monte City Hall

1.0 Preliminary Business

The meeting was called to order at 12:05 p.m.

Members Present:

| | |
|----------------------|--------------|
| Alhambra | J. Fuentes |
| Covina | D. Parrish |
| El Monte | R. Bobadilla |
| Glendora | C. Jeffers |
| La Canada Flintridge | M. Alexander |
| Rosemead | J. Allred |
| Walnut | R. Wishner |

Members Absent:

Diamond Bar
San Dimas
San Gabriel
San Marino
West Covina

COG Staff:

N. Conway, Executive Director
M. Creter, Staff

Public:

J. Ballas, Industry
R. Bates, Pico Rivera
A. Cervantes, Pico Rivera
A. Eskandari, Pomona
L. Lowry, Pomona
R. Richmond, ACE
P. Hubler, ACE
C. Sutton, Excalibur Property Holdings

2.0 Preliminary Business

3.0 Public Comment

There were no comments from the public.

4.0 Changes to Agenda Order; Identify Subsequent Need or Emergency Items

There were no changes to the agenda order.

5.0 Consent Items

5.1 Minutes from November 2nd, 2011 meeting

There was a motion to approve the consent calendar (M/S/C: R. Bobadilla / R. Wishner / Unanimous).

6.0 Regular Business Items

6.1 ACE Phase II

There was extended discussion on this item.

There was a motion recommend to the Transportation Committee funding of the top eight projects – after removing project alternatives for the same grade crossing – (Fullerton Road, Montebello-Greenwood, Hamilton Boulevard, Fairway Drive (Alh), Turnbull Cyn Road (LA), Fairway Drive (LA), Puente Ave. (Alh), and Durfee Ave. (LA)) as ranked by the SGVCOG's ACE Phase II Subcommittee (M/S/C: R. Wishner / J. Fuentes / Ayes: Covina, Glendora, Rosemead; Noes: La Canada Flintridge).

There was a motion to recommend to the Transportation Committee that ACE submit project schedules and budgets for all active Phase II projects prior to commencing further work (M/S/C: J. Fuentes / R. Wishner / Unanimous / Abstain: La Canada Flintridge).

The Committee also requested that ACE work with the impacted cities to revisit potential pedestrian safety improvements for all 34 grade crossings.

There was discussion regarding the staff recommendation to require that jurisdictions share in the funding of any cost overruns. No action was taken.

6.2 Los Angeles Regional Water Quality Control Board (LARWQCB) Staff Assistance

The Executive Director provided an update on efforts to secure funding to continue providing technical staff assistance to Mayor Mary Ann Lutz, Vice-Chair and Municipal Government Representative on LARWQCB. He indicated that he would be bringing a recommendation to the Governing Board to contribute \$7,500 in funding towards this position.

6.3 San Gabriel Valley NPDES/Stormwater MS-4 Permit Coordination

The Executive Director gave a brief update on the status of the MS-4 LA Permit Group Technical Assistance RFP and funding commitments from cities.

6.4 SGVCOG Organization and Operation Review

The Executive Director indicated that staff, Governing Board and Committee Chair interviews had been completed in November and that a draft report is anticipated in January.

7.0 New Business items for Next Regular Meeting

8.0 Announcements

There were no announcements.

9.0 Next Meeting

The next meeting is scheduled for January 4th.

10.0 Adjourn

The meeting was adjourned at 1:30 p.m.



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City Managers' Steering Committee

Minutes - REVISED

Date: January 4th, 2012

Time: 12:00 noon

Location: El Monte City Hall

1.0 Preliminary Business

The meeting was called to order at 12:05 p.m.

Members Present:

| | |
|----------------------|--------------|
| Alhambra | J. Keating |
| Covina | D. Parrish |
| Diamond Bar | J. DeStefano |
| El Monte | J. Enriquez |
| Glendora | C. Jeffers |
| La Canada Flintridge | M. Alexander |
| Walnut | R. Wishner |

Members Absent:

Rosemead
San Dimas
San Gabriel
San Marino
West Covina

COG Staff:

N. Conway, Executive Director
M. Creter, Staff

Public:

R. Richmond, ACE
H. Choy, LA County

2.0 Public Comment

There were no comments from the public.

3.0 Changes to Agenda Order; Identify Subsequent Need or Emergency Items

There were no changes to the agenda.

4.0 Consent Items

4.1 Minutes from December 7th, 2011 meeting

There was a request to revise the minutes:

The sentence was "There was a motion to recommend to the Transportation Committee that ACE submit full project schedules and budgets for all Phase II projects prior to commencing further work (M/S/C: J. Fuentes / R. Wishner / Unanimous / Abstain: La Canada Flintridge)." changed to read "There was a motion to recommend to the Transportation Committee that ACE submit project schedules and budgets for all active Phase II projects prior to commencing further work (M/S/C: J. Fuentes / R. Wishner / Unanimous / Abstain: La Canada Flintridge)."

The sentences "There was discussion regarding the staff recommendation to require that jurisdictions share in the funding of any cost overruns. This item was tabled for later discussion." were changed to read, "There was discussion regarding the staff recommendation to require that jurisdictions share in the funding of any cost overruns. No action was taken."

There was a motion to approve the minutes as amended (M/S/C: C. Jeffers / R. Wishner / Unanimous).

5.0 Regular Business Items

5.1 Local Government Sustainable Energy Coalition

H. Choy (LA County) provided a brief presentation on the LGSEC and the benefits of membership.

The City Managers' Steering Committee recommended to the Governing Board submitting a membership application to the Local Government Sustainable Energy Coalition (LGSEC) and authorizing the expenditure

of \$10,000 that is currently budgeted for Federal Advisory services for annual membership fees (M/S/C: C. Jeffers / J. Keating / Unanimous).

5.2 SGVCOG and ACE FY 2010-2011 Financial Audit Reports

The Executive Director indicated that this item had been pulled from agenda, as the SGVCOG's financial auditor has not completed all of the necessary work.

5.3 Status of Caltrans Audit

The Executive Director gave a brief overview of the correspondence from Caltrans regarding status of audit, including outstanding reimbursement still being requested.

5.4 ACE IRS Audit Report

R. Richmond provided an update on IRS ACE Audit. He indicated that ACE had received a "not action" letter from the IRS.

The Committee members requested that a discussion on ACE's contract for financial advisory services be agendized for a future meeting.

5.5 San Gabriel Valley NPDES/Stormwater MS-4 Permit Coordination

The Executive Director provided an update on the effort to assist LA Permit Group cities in securing technical assistance for the negotiation of the new MS-4 permit.

5.6 Los Angeles Regional Water Quality Control Board (LARWQCB) Staff Assistance

The Executive Director provided information on the staff recommendation to the Governing Board to authorize an expenditure of \$7,500 to continue providing technical staff assistance to Mayor Mary Ann Lutz, Vice-Chair and Municipal Government Representative on LARWQCB.

5.7 Status of SGVCOG Organization and Operation Review

D. Parrish update on the SGVCOG's Organization and Operation review.

6.0 New Business items for Next Regular Meeting

The Executive Director indicated that he would be bringing a proposal to re-instate small business services in the San Gabriel Valley at a future meeting.

The Committee members requested that an action item regarding ACE's financial services be agendized for the next week as well as discussion on the Steering Committee's role related to financial oversight of ACE.

7.0 Announcements

8.0 Next Meeting

9.0 Adjourn

The meeting was adjourned at 1:10 p.m.



Alameda Corridor-East Construction Authority

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

MEMO TO: COG City Managers Steering Committee

FROM: Rick Richmond
Chief Executive Officer

DATE: February 15, 2012

SUBJECT: Background on Financial Advisory Services

At your February 8 meeting you requested background information on the history and role of the financial advisor in connection with the COG's issuance and monitoring of Grant Anticipation Notes (GANs).

The firm of Arimax Financial Advisors, Inc. was selected to be our financial advisor through a competitive process. The initial contract was entered into in September 2000. The initial contract required them to evaluate various working capital strategies, structure the initial issue, assist ACE with selection of other participants (dealer, trustee, etc.), consult with rating agencies and bond counsel and generally support the initial debt issuance. Subsequent annual task orders (ranging between \$11,000-\$18,000) called for ongoing administration of the debt issuance. They did not specify advice and assistance in administering the program per IRS regulations or guidelines. Arimax was acquired by First Southwest and we began contracting with them in 2004.

As I indicated at your February 8 meeting, we intend to have a new solicitation for financial advisory services proposals starting in fiscal year 2013. The scope will include the following types of services:

- Preparation and structuring of debt issuance as needed;
- Consultation with ACE bond counsel and other participants in the debt issuance and administration process;
- Monitoring and advising ACE with respect to Internal Revenue Service regulations and guidelines; and
- Providing all calculations and reports necessary to maintain IRS compliance.

I would be happy to answer any questions you might have.



San Gabriel Valley Council of Governments

Date: March 15, 2012

To: Governing Board Delegates and Alternates

From: Charles Conway, Treasurer/Auditor

Re: FY 2010-2011 Audited Financial Statements

Recommended Action:

Receive and File

Background:

Article V, Section C3 of the SGVCOG's Bylaws stipulates that Treasurer/Auditor shall have the records and accounts of the SGVCOG and its component unit, ACE Construction Authority, audited annually by an independent certified public accountant and in compliance with Government Code Sections 6505.5 and 6505.6. Furthermore, said report shall be presented to our member agencies within 15 days after receipt of said audit.

Vasquez & Company, LLP, located in Los Angeles, was hired in 2009 through a competitive procurement to perform the independent audit for both SGVCOG and ACE for the fiscal years beginning in FY 2009 through 2013. This is their third audit.

In 2003, the Board decided to consolidate ACE and the SGVCOG financial statements for public presentation since ACE is a component unit of the SGVCOG. However, the scope and magnitude of these two organizations are entirely different and, for Board discussion purposes, they have been separated. See the following attachments for the audited financial statements:

- A) SGVCOG
- B) ACE
- C) Combined SGVCOG/ACE

Summary

1. SGVCOG

FY 2010-11 marks the end of the second year in the COG's new three-year Strategic Plan, which has adopted goals and objectives for 2010 through 2012. One of the cornerstones of the new Strategic Plan is to continue to provide for the long-term financial growth and stability of the organization. It is an adopted goal that the Agency will have in an amount equal to the annual dues by the end of the third year of the current strategic plan which is 2013.

Fund Balance

Since 2005 through last year, any annual surplus funds have been allocated to building the Agency's reserves. As shown in the audit report, net assets have grown to \$584,991. This last year, additional legal and audit support expenses were needed to respond effectively to Caltrans' recent audit, the public records requests and litigation from Gil Aguirre and the added legal costs incurred with the definition of responsibilities between ACE and COG. These increased costs (\$59,921) were offset by lower than budgeted expenses. The net impact was an increase in Net Assets of \$34,491 vs a budgeted amount of \$35,400 at year end. However, had the COG not had these unanticipated additional expenses discussed above, the fund balance would have grown in FY 2010-11 by approximately \$85,000.

Grants Management

In addition to the standard scope of the audit, this last year City Managers Steering Committee met with the Partners from Vasquez & Company prior to their conduct of the audit and asked that additional audit review and testing be performed related to the COG's grants management and accounting policies and procedures. This request was done in response to a Boardmember's public comments as well as Caltrans audit findings and recommendations regarding the COG's grants management policies and procedures. The auditors conducted their review and found no reportable weaknesses or problems in the COG's grant management programs and procedures. This assessment is consistent with those findings recently submitted by COG's management consultant, Citygate Associates, LLP and their independent study of the COG's organization and operation.

FY 2011 Financial Statement and Management Letter

The COG did not receive a management letter in 2009 or 2010 and there are no outstanding corrective actions awaiting implementation. However, this year the FY 2011 audit was accompanied by a Management Letter that identified two internal control issues:

- ✓ Lack of initials and review on bank reconciliations
- ✓ Delays in depositing checks

Management has responded that it is now initialing all reconciliations.

Due to the small number of employees, COG had been waiting for the accountant to input the checks and having the Office Manager deposit the checks when that individual had the time to leave the office and travel to the bank branch office to make the deposit. Management has revised the procedure so that all checks are logged by the Office Manager, input and deposited by the Accountant on a weekly basis.

2. ACE

Major work completed as part of the ACE Project during FY 2011 included:

- Completion of Sunset/Orange project
- Completion of major design effort on the San Gabriel Trench
- Initiation of design efforts on Fairway Drive and Puente Avenue, and
- Continuation of non-construction related work Baldwin and Nogales (LA) grade separations.

Fund Balance

In FY 2011, ACE settled the audit with the IRS by reimbursing the latter agency \$4,302,044 in previously earned interest (\$4,050,984) and penalties (\$251,060). This payment to the Federal Government led to a reduction in funds available of \$4,301,411, or 42% below FY 2009-10 level. This substantial reduction in fund balance comes at a time when the Agency is preparing to embark on its largest capital undertaking.

FY 2010 Financial Statement and Management Letter

In the prior year's audit (FY 2010) ACE received a management letter in FY 2010 that accompanied the financial statements and identified two issues:

1. An accumulated unallowable outstanding balance of \$583,950 from MTA that should be collected;
2. Overly optimistic and unrealistic budget projections that are adopted by both the ACE and COG Boards

In response to the first issue, in FY 2011, ACE invoiced and collected the outstanding balance from MTA in the amount for \$583,950.

As relates to the second issue, in FY 2011, actual operating expenditures for ACE were \$44.2 million, or 59% below the original adopted July 1 budget, \$109.1 million, and 48% below the midyear adjusted budget. This marks the fourth consecutive year where ACE has significantly under estimated its adopted operating budget. In current FY 2012, the same pattern of over-estimation exists. The midyear budget is again being reduced \$29 million or 40% from the adopted July 1 budget. It is anticipated the year end actual will be down as well.

The continuation of this financial management practice is not consistent with the industry's best management practices or is it responsive to the Auditor's and LA County's Department of Public Works Study prior recommendations. Adoption of unrealistic expenditure plans at the beginning of the fiscal year impairs the Agency's transparency and the COG Governing Board's ability to fulfill its fiduciary responsibilities for the financial oversight and evaluation of the project's progress in meeting adopted schedules and expected outcomes. Finally, ACE is currently authorized to have 24 FTE and three fulltime contract employees.

Status of FY 2011 Financial Statement

I have not been provided a copy of the management letter that accompanied the 2011 audit. Based on FY 2010 management letter comments as discussed above, and the 2011 audit report, it is clear that the issue identified by the auditors last year relating to adoption of overly optimistic and unrealistic operating budget has not been adequately addressed and it remains an outstanding issue.

Audited Financial Statements
San Gabriel Valley Council of Governments
(Primary Government)
Year ended June 30, 2011
with Report of Independent Auditors

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Report of Independent Auditors

Members of the Governing Board San Gabriel Valley Council of Governments

We have audited the accompanying financial statements of San Gabriel Valley Council of Governments (the "COG") as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the COG's primary government as listed in the table of contents. These financial statements are the responsibility of the COG'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 the COG'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.

The financial statements referred to previously include only the primary government of the San Gabriel Valley Council of Governments, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the COG's legal entity. The financial statements do not include financial data for the COG's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the COG's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly, the financial position of the reporting entity of San Gabriel Valley Council of Governments, as of June 30, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In accordance with accounting principles generally accepted in the United States, the San Gabriel Valley Council of Governments, has issued separate reporting entity financial statements, for which we have issued our report dated January 17, 2012.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the primary government of San Gabriel Valley Council of Governments, as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2012, on our consideration of San Gabriel Valley Council of Governments' 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 the 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.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements, but is 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 with 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.

Los Angeles, California
January 17, 2012

Our discussion and analysis of the San Gabriel Valley Council of Governments (the "COG") financial performance presents an overview of the COG's financial activities during the fiscal year ended June 30, 2011. We encourage readers to consider information presented here in conjunction with the financial statements (beginning on page 7). The financial statements, notes and this discussion and analysis were prepared by the management and are the responsibility of management.

Background

The COG was created effective March 17, 1994 by a Joint Powers Agreement (JPA) among various member San Gabriel Valley Cities to promote cooperation, exchange ideas, coordinate regional government programs and to provide recommendations and solutions to common problems and to general concern of member governments.

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

Financial Highlights

FY 2010-11 marks the end of the second year of the COG's three-year strategic planning cycle. One of the major focuses of the current Strategic Plan is the implementation of the San Gabriel Valley's Energywise Partnership Program. This is a contractual relationship with Southern California Edison (SCE) focused on increasing energy-efficiency throughout the San Gabriel Valley. This effort has a number of specific objectives including: 1) assisting local governments in identifying and implementing energy-efficiency projects in their municipal facilities; 2) providing training to city staff on energy efficiency issues and initiatives including Title 24, AB 811, AB 32 and Demand Response; and 3) educating and outreaching to the public to increase knowledge of energy-efficiency in their homes and businesses and provide information on SCE's residential programs and rebates. While a third party implementer and qualified technical consultants are utilized to manage and implement specific energy-efficiency retrofit projects, the COG, as the local government partner, is primarily responsible for administration, marketing and outreach for the Partnership.

Overview of Financial Statements

In FY 2010-11 income from dues decreased slightly from the previous year. This was due to changes in population figures associated with 2010 census and reconciliation of those numbers with State Department of Finance. FY 2010-11 marks the 5th consecutive year the COG has not increased dues for member agencies. Revenues from grants increased slightly due to the increased activity associated with the various programs using grant funds.

The financial statements present the financial picture of the COG from the economic resources measurement focus using the accrual basis of accounting. These statements include all recordable assets of the COG as well as all liabilities. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statement of cash flows provides information about the COG's cash receipts, cash payments, and net changes in cash resulting from operating, capital and related investing activities during the reporting period.

The statement of net assets and the statement of revenues, expenses and changes in net assets report the COG's net assets and related changes in them. Net assets are the difference between the recorded assets and liabilities. The recorded activities include all revenues from dues and operating expenses related to the operation of the COG. In addition, all of the COG's revenues and expenses related to its other programs and services are reflected in the statements.

Various disclosures accompany the financial statements in order to provide a full picture of the COG's finances. The notes to the financial statements are on pages 10-16.

Financial Analysis

Statements of Net Assets

The following table summarizes the assets, liabilities and net assets of the COG as of June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|----------------------------|-----------------------|-----------------------|
| Current assets | \$ 775,491 | \$ 765,331 |
| Capital assets, net | - | - |
| Total assets | <u>775,491</u> | <u>765,331</u> |
| Current liabilities | <u>190,500</u> | 214,831 |
| Total liabilities | <u>190,500</u> | <u>214,831</u> |
| Net assets | | |
| Invested in capital assets | - | - |
| Restricted | 15,922 | - |
| Unrestricted | <u>569,069</u> | 550,500 |
| Total net assets \$ | <u><u>584,991</u></u> | <u><u>550,500</u></u> |

Current assets increased this year by \$10,160 or 1% primarily because of higher cash balance and increased receivables from cost reimbursable grants.

Current liabilities decreased this year by \$24,331 or 11% primarily because of decreased project work being done by COG.

As mentioned earlier, net assets can serve as an indicator of financial health. The COG's assets exceeded liabilities by \$584,991 and \$550,500 as of June 30, 2011 and 2010, respectively.

**San Gabriel Valley Council of Governments
(Primary Government)
Management's Discussion and Analysis**

DRAFT

Statements of Revenues, Expenses and Changes in Net Assets

The following table presents the COG's revenues, expenses and changes in net assets for the years ended June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|-------------------|
| Revenues: | | |
| Dues | | |
| Air Quality | \$ 50,060 | \$ 143,687 |
| Transportation | 279,719 | 242,905 |
| General fund | 381,428 | 333,207 |
| Grants and matches from other governments | | |
| County of Los Angeles - Energy Upgrade | 21,993 | - |
| Water Quality Improvement | 31,582 | 223,451 |
| Southern California Edison - California Energy Efficiency Strategic Plan Implementation | 33,024 | - |
| Southern California Edison - Energywise | 102,878 | 99,588 |
| California Department of Resources - CalRecycle | 133,216 | 98,847 |
| California Department of Conservation - Watershed Coordinator Program | 79,320 | 59,006 |
| County of Los Angeles - Homeless Services | - | 15,682 |
| County of Los Angeles - Arrow Highway | - | 12,000 |
| Total revenues | <u>1,113,220</u> | <u>1,228,373</u> |
| Expenses: | | |
| Administrative | 349,288 | 170,199 |
| Air Quality | 50,502 | 143,687 |
| Transportation | 280,007 | 242,905 |
| Energy Upgrade | 21,993 | - |
| Water Quality Improvement | 15,660 | 223,494 |
| California Energy Efficiency Strategic Plan Implementation | 33,261 | - |
| Energywise | 112,208 | 99,588 |
| CalRecycle | 137,431 | 101,583 |
| Watershed Coordinator Program | 80,449 | 60,122 |
| Homeless Services | 1,210 | 17,437 |
| Arrow Highway | - | 12,000 |
| Total expenses | <u>1,082,009</u> | <u>1,071,015</u> |
| Operating income | 31,211 | 157,358 |
| Nonoperating income | <u>3,280</u> | <u>4,056</u> |
| Change in net assets | 34,491 | 161,414 |
| Net assets - beginning of year | <u>550,500</u> | <u>389,086</u> |
| Net assets - end of year | <u>\$ 584,991</u> | <u>\$ 550,500</u> |

Revenues for COG consist primarily of dues from each member city, water districts and county, which comprised 64% of total operating revenue in FY 2011 compared to 59% of total operating revenue in FY 2010. Dues decreased \$8,592 or 1% over the prior year primarily because of the cancellation of the dues from Three Valleys Municipal Water District. Grants and matches from other governments were \$402,013 in FY2011 compared to \$508,574 in FY 2010, a decrease of \$106,561 or 21%. This decrease was due to the substantial completion of the Water Quality Improvement project. The revenues earned by the COG during the year would have been sufficient to cover its current obligations, including operating expenses.

Operating expenses were \$1,082,009 in FY1011 compared to \$1,071,015 in FY 2010, an increase of \$10,994 or 1%. Administrative expenses increased by \$179,089 or 105% because of one-time legal and audit expenses related to the Caltrans audit and litigation mentioned under Note 3 and 7.

Nonoperating income consists of investment income of \$3,280 in FY 2011 compared to \$4,056 for FY 2010, a decrease of \$766 or 19%. The decrease is directly attributed to lower rates paid by Local Agency Investment Fund (LAIF) in 2011.

Capital Assets

The COG had \$0 invested in capital assets, net of depreciation, as of June 30, 2011 and 2010. The capital assets are fully depreciated as of June 30, 2011.

The COG's capital assets consist of office equipment only. Capital assets are purchased with governmental resources.

Economic Factors and Next Year's Budget

The budget for fiscal year 2012 assumes that all on-hand net assets as of June 30, 2011 will be required and available to fulfill the program and administrative expense requirements.

Further Information

This report has been designed to provide a general overview to our stakeholders of the COG's financial condition and related issues. Inquires should be directed to Mr. Nicholas T. Conway, Executive Director.

San Gabriel Valley Council of Governments
(Primary Government)
Statement of Net Assets
June 30, 2011

DRAFT

| | | <u>Business-type activities</u> |
|--|-----------|-------------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ | 591,923 |
| Grants receivable | | 140,098 |
| Other receivable | | 5,751 |
| Interest receivable | | 586 |
| Prepaid expenses - administration | | 37,133 |
| Total current assets | | <u>775,491</u> |
| Capital assets | | |
| Office equipment | | 8,645 |
| Less accumulated depreciation | | <u>(8,645)</u> |
| Property and equipment, net | | <u>-</u> |
| Total assets | | <u>775,491</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | | 67,808 |
| Due to government agency | | 42,687 |
| Unearned revenue | | 80,005 |
| Total current liabilities | | <u>190,500</u> |
| NET ASSETS | | |
| Invested in capital assets | | - |
| Restricted for Water Quality Improvement | | 15,922 |
| Unrestricted | | 569,069 |
| Net assets | \$ | <u><u>584,991</u></u> |

See notes to financial statements.

DRAFT

San Gabriel Valley Council of Governments
(Primary Government)
Statement of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2011

Operating revenues

Dues:

| | |
|----------------|-----------|
| Air Quality | \$ 50,060 |
| Transportation | 279,719 |
| General Fund | 381,428 |

Grants and matches from other governments:

| | |
|--|---------|
| County of Los Angeles - Energy Upgrade | 21,993 |
| Water Quality Improvement | 31,582 |
| Southern California Edison - California Energy Efficiency Strategic Plan Implementation | 33,024 |
| Southern California Edison - Energywise | 102,878 |
| California Department of Resources - CalRecycle | 133,216 |
| California Department of Conservation - Watershed Coordinator Program | 79,320 |

| | |
|---------------------------------|------------------|
| Total operating revenues | <u>1,113,220</u> |
|---------------------------------|------------------|

Operating expenses

| | |
|--|---------|
| Administrative | 349,288 |
| Air Quality | 50,502 |
| Transportation | 280,007 |
| Energy Upgrade | 21,993 |
| Water Quality Improvement | 15,660 |
| California Energy Efficiency Strategic Plan Implementation | 33,261 |
| Energywise | 112,208 |
| CalRecycle | 137,431 |
| Watershed Coordinator Program | 80,449 |
| Homeless Services | 1,210 |

| | |
|---------------------------------|------------------|
| Total operating expenses | <u>1,082,009</u> |
|---------------------------------|------------------|

| | |
|-------------------------|--------|
| Operating income | 31,211 |
|-------------------------|--------|

Nonoperating income

| | |
|-----------------|--------------|
| Interest income | <u>3,280</u> |
|-----------------|--------------|

| | |
|-----------------------------|--------|
| Change in net assets | 34,491 |
|-----------------------------|--------|

| | |
|---------------------------------------|----------------|
| Net assets - beginning of year | <u>550,500</u> |
|---------------------------------------|----------------|

| | |
|---------------------------------|-------------------|
| Net assets - end of year | <u>\$ 584,991</u> |
|---------------------------------|-------------------|

See notes to financial statements.

San Gabriel Valley Council of Governments
(Primary Government)
Statement of Cash Flows
Year ended June 30, 2011

DRAFT

Cash flows from operating activities

| | |
|--|------------------------|
| Cash receipts from cities | \$ 718,327 |
| Cash receipts from all others | 374,779 |
| Cash paid for operating expenses | <u>(1,103,239)</u> |
| Net cash used in operating activities | <u>(10,133)</u> |

Cash flows from investing activities

| | |
|--|---------------------|
| Cash receipts from interest | <u>3,404</u> |
| Cash provided by investing activities | <u>3,404</u> |

Net decrease in cash and cash equivalents (6,729)

Cash and cash equivalents - beginning of year 598,652

Cash and cash equivalents - end of year \$ 591,923

Reconciliation of operating loss to net cash used in operating activities:

| | |
|--|----------------------------------|
| Operating income | \$ 31,211 |
| Adjustment to reconcile operating income to net cash used in operating activities: | |
| Changes in operating assets and liabilities: | |
| Accounts receivable | 10,000 |
| Grants receivable | (27,234) |
| Other receivable | (5,751) |
| Prepaid expenses - administration | 5,972 |
| Accounts payable and accrued expenses | (64,138) |
| Due to government agencies | 42,687 |
| Unearned revenue | <u>(2,880)</u> |
| Net cash used in operating activities | \$ <u><u>(10,133)</u></u> |

See notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES

Organization and Activities

The San Gabriel Valley Council of Governments (the "COG") was created effective March 17, 1994 by a Joint Powers Agreement (JPA) among various member San Gabriel Valley Cities to promote cooperation, exchange ideas, coordinate regional government programs and to provide recommendations and solutions to common problems and to general concern of member governments. It is the immediate successor to the San Gabriel Valley Association of Cities, an unincorporated association. Its members organized the COG because they recognized a need for a more permanent and formalized structure.

The COG is supported by contributions from its members and also receives grant funds to conduct regional studies on Transportation, Air Quality, Environmental Matters, as a sub-grantee of other governmental entities. The COG is a non-profit California Public Agency and it is tax exempt.

The Reporting Entity

These financial statements do not include funds of a component unit, the Alameda Corridor - East (ACE) Construction Authority.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred. As provided in GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, COG does not apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

The following are revenue components of the COG's proprietary funds:

Air Quality (AB 2766), Transportation (Proposition A&C) & Other - Funds to foster consensus among cities in the San Gabriel Valley regarding policies and programs that address issues relating to land use, air quality, transportation, solid waste and other matters deemed essential.

County of Los Angeles - Energy Upgrade - Funds that enables single-family homeowners to make upgrades to reduce energy use, conserve resources and create more comfortable and efficient homes.

Water Quality Improvement - Funds to prepare and implement a Coordinated Implementation Plan (CIP) to reduce the amount of metal pollutants in the Los Angeles River and its Tributaries.

Southern California Edison - California Energy Efficiency Strategic Plan Implementation - Funds for the implementation of certain energy efficiency programs under the Decision 09-09-47 of the California Public Utilities Commission including the Energy Leader Partnership Program.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Basis of Accounting (Continued)

Southern California Edison – Energywise - Funds to implement a program to reduce energy usage in the region by providing enhanced rebates for installing energy efficiency measures in municipal facilities, technical assistance, and various training and educational opportunities.

California Department of Resources – CalRecycle – Funds to improve the management of household hazardous waste.

California Department of Conservation – Watershed Coordinator Program - Funds to finance a Watershed Coordinator position for the COG. The watershed that is intended to benefit from the activities of COG's Watershed Coordinator is the San Gabriel Valley Watershed.

Cash and Cash Equivalents

The COG considers money market funds and all equivalent liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Grants Receivable

Grants receivable relate to expense reimbursement from governmental agencies and are expected to be fully collectible. Accordingly, an allowance for doubtful accounts is not provided.

Office Equipment

Office equipment is carried on historical cost. Depreciation is provided using the straight-line method over the individual assets' estimated useful life, usually five years for computers, copiers and other electronic equipment, ten years for cabinets, desks and furniture.

Unearned Revenue

Some members pay their dues in advance. These amounts are reported in unearned revenue in the financial statements.

Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles (GAAP) requires the use of estimates in many areas. Estimates used in these financial statements relate primarily to fixing estimated useful lives to depreciable assets. Based upon the preceding information, estimates may not have a material effect on these financial statements.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of net assets:

| | |
|---------------------------------|-------------------|
| Cash and cash equivalents | \$ 591,923 |
| Total cash and cash equivalents | <u>\$ 591,923</u> |

Cash and cash equivalents as of June 30, 2011 consist of the following:

| | |
|-------------------------------------|-------------------|
| Deposits with financial institution | \$ 170,978 |
| Investments | <u>420,945</u> |
| Total cash and cash equivalents | <u>\$ 591,923</u> |

Investments Authorized by the California Government Code and San Gabriel Valley Council of Governments' Investment Policy

The table below identifies the investment types that are authorized for COG by the California Government Code (or COG's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or COG's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|-------------------------------------|-------------------------|--|---|
| Local Agency Bonds | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Banker's Acceptances | 180 days | 15% | 5% |
| Commercial Paper | 180 days | 15% | 5% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 30 days | None | None |
| Reverse Repurchase Agreements | 92 days | 5% | None |
| Medium-Term Notes | 5 years | 20% | None |
| Mutual Funds | N/A | 20% | 10% |
| Money Market Mutual Funds | N/A | 0% | 10% |
| 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 2 CASH AND CASH EQUIVALENTS (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 the COG manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming due over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of COG's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the COG's investments by maturity.

| Investment Type | Total | 12 Months or less | 13-24 Months | 25-60 Months | More than 60 Months |
|-----------------|------------|----------------------|-----------------|-----------------|------------------------|
| LAIF | \$ 420,945 | \$ 420,945 | \$ - | \$ - | \$ - |
| Total | \$ 420,945 | \$ 420,945 | \$ - | \$ - | \$ - |

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

The COG has no investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

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, COG's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

| Investment Type | | Minimum Legal Rating | Exempt from Disclosure | Rating as of Year End | | |
|-----------------|------------|----------------------------|------------------------------|-----------------------|------|--------------|
| | | | | AAA | AA | Not Rated |
| LAIF | \$ 420,945 | \$ - | \$ - | \$ - | \$ - | \$ 420,945 |
| Total | \$ 420,945 | \$ - | \$ - | \$ - | \$ - | \$ 420,945 |

Concentrations of Credit Risk

The investment policy of the COG 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, the COG 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 COG investments.

The COG does not have any investments in any one issuer that represent 5% or more of total investments.

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

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 COG'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 local government units' deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2011, none of COG's deposits with financial institutions in excess of Federal depository insurance limits were held in uncollateralized accounts.

The COG is a voluntary participant in the Local Agency Investment Fund (LA IF) 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 \$66.49 billion. The fair value of the COG's investment in this pool is \$420,945 at June 30, 2011 based upon the COG'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 the COG's) exposure to risk (credit, market or legal) is not currently available.

NOTE 3 DUE TO GOVERNMENT AGENCY

The California Department of Transportation Audits and Investigation (A& I) audited the costs claimed by COG totaling \$245,130 for work performed under Agreement 74A0238 (Agreement) with California Department of Transportation (Caltrans). The Agreement period was March 1, 2006 through March 31, 2008. Based on the results of the audit, A & I determined that the COG owed \$89,262 of reimbursed costs not adequately supported and not in compliance with the Agreement provisions, and the State and federal regulations.

On December 12, 2011, Caltrans issued a letter to the COG reducing the liability from \$89,262 to \$42,687, provided COG implement certain action plans.

Of the total \$42,687 due to Caltrans, \$5,751 will be collected from the City of Irwindale.

NOTE 4 ADMINISTRATIVE EXPENSES

The following were the administrative expenses for the year ended June 30, 2011:

| | |
|------------------------------------|-----------------------|
| Consultant fee | \$ 124,949 |
| Insurance | 4,662 |
| Legal fees | 60,070 |
| Accounting and audit fees | 48,387 |
| Stipends | 11,500 |
| Dues and subscriptions | 514 |
| Meetings | 29,350 |
| Committee support | 19,328 |
| Printing/publications | 5,803 |
| Annual evaluation | 3,930 |
| Information technology | 669 |
| Unreimbursable grant expenses | 1,732 |
| Disallowed costs, net (see Note 3) | 36,936 |
| Miscellaneous | 1,458 |
| Total \$ | <u><u>349,288</u></u> |

NOTE 5 ACE CONSTRUCTION AUTHORITY (COMPONENT UNIT)

Because of the size and scope of activities involving the Alameda Corridor - East project, a separate entity (ACE Construction Authority) was set up for this purpose. While affiliated, ACE Construction Authority acts separately from the COG. ACE Construction Authority began operations in October 1998, and is empowered to conduct business, hire the necessary consultants and contractors, enter into contracts and agreements, and to issue debt instruments as needed.

The COG entered into an agreement to borrow up to \$100,000,000 by issuance of grant anticipation notes, guaranteed by a letter of credit, and collateralized by the pledge of grant revenues. Balances outstanding have been as high as \$100,000,000. At report date June 30, 2011, balances owed amount to \$27,350,000, and are reflected on the financial statements of ACE Construction Authority. All of the proceeds of the issue have been received by the ACE Construction Authority and its attendant interest, costs and fees have been paid by ACE Construction Authority.

Management has elected not to report the above transaction on these financial statements primarily because of its size, and the fact that the transaction amounts to conduit financing, which is similar to a municipality issuing bonds for a hospital located within its boundaries or of mortgage revenue bonds to be paid by homeowners in an Affordable Housing project.

NOTE 6 RELATED PARTY TRANSACTION

The COG has an agreement with Arroyo Associates, Inc. (AAI) to conduct COG's day-to-day administration, management and operating activities. As part of the Agreement, the President of AAI assumes the role of the Executive Director for COG.

For the fiscal year ended June 30, 2011, the total payments to AAI were \$556,443, in accordance with the contract.

NOTE 7 CONTINGENCIES

The COG is currently a party in a legal proceeding. After consultation with legal counsel, management estimates that the matter will be resolved without material effect on the COG's financial position.

NOTE 8 SUBSEQUENT EVENTS

The COG 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 January 17, 2012, 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.

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

**Members of the Governing Board
San Gabriel Valley Council of Governments**

We have audited the financial statements of San Gabriel Valley Council of Governments (the “COG”) as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the COG’s primary government and have issued our report thereon dated January 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of COG is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the COG’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 the COG’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the COG’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 a 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 the COG'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.

Los Angeles, California
January 17, 2012

**Audited Financial Statements
and Supplementary Information
San Gabriel Valley Council of Governments
*Year ended June 30, 2011
with Report of Independent Auditors***

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Report of Independent Auditors

Board of Directors San Gabriel Valley Council of Governments

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of San Gabriel Valley Council of Governments (the "COG"), as of and for the year ended June 30, 2011, which collectively comprise the COG's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the COG'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 the COG'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 financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the San Gabriel Valley Council of Governments as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2012, on our consideration of San Gabriel Valley Council of Governments' 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 the 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.

The management's discussion and analysis on pages 3 through 9 and budgetary comparison information on page 31 are not a required part of the basic financial statements, but is 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 with 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.

Los Angeles, California
January 17, 2012

Our discussion and analysis of the San Gabriel Valley Council of Governments (the "COG") financial performance presents an overview of the COG's financial activities during the fiscal year ended June 30, 2011. We encourage readers to consider information presented here in conjunction with the financial statements (beginning on page 10). The financial statements, notes and this discussion and analysis were prepared by the management and are the responsibility of management.

Background

The COG was created effective March 17, 1994 by a Joint Powers Agreement (JPA) among various member San Gabriel Valley Cities to promote cooperation, exchange ideas, coordinate regional government programs and to provide recommendations and solutions to common problems and to general concern of member governments.

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

Financial Highlights

FY 2010-11 marks the end of the second year of the COG's three-year strategic planning cycle. One of the major focuses of the current Strategic Plan is the implementation of the San Gabriel Valley's Energywise Partnership Program. This is a contractual relationship with Southern California Edison (SCE) focused on increasing energy-efficiency throughout the San Gabriel Valley. This effort has a number of specific objectives including: 1) assisting local governments in identifying and implementing energy-efficiency projects in their municipal facilities; 2) providing training to city staff on energy efficiency issues and initiatives including Title 24, AB 811, AB 32 and Demand Response; and 3) educating and outreaching to the public to increase knowledge of energy-efficiency in their homes and businesses and provide information on SCE's residential programs and rebates. While a third party implementer and qualified technical consultants are utilized to manage and implement specific energy-efficiency retrofit projects, the COG, as the local government partner, is primarily responsible for administration, marketing and outreach for the Partnership.

Overview of Financial Statements

In FY 2010-11 income from dues decreased slightly from the previous year. This was due to changes in population figures associated with 2010 census and reconciliation of those numbers with State Department of Finance. FY 2010-11 marks the 5th consecutive year the COG has not increased dues for member agencies. Revenues from grants increased slightly due to the increased activity associated with the various programs using grant funds.

The financial statements present the financial picture of the COG from the economic resources measurement focus using the accrual basis of accounting. These statements include all recordable assets of the COG as well as all liabilities. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statement of cash flows provides information about the COG's cash receipts, cash payments, and net changes in cash resulting from operating, capital and related investing activities during the reporting period.

The statement of net assets and the statement of revenues, expenses and changes in net assets report the COG's net assets and related changes in them. Net assets are the difference between the recorded assets and liabilities. The recorded activities include all revenues from dues and operating expenses related to the operation of the COG. In addition, all of the COG's revenues and expenses related to its other programs and services are reflected in the statements.

Various disclosures accompany the financial statements in order to provide a full picture of the COG's finances. The notes to the financial statements are on pages 13 - 30.

Financial Analysis

Statements of Net Assets

The following table summarizes the assets, liabilities, and net assets of COG's primary government as of June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|----------------------------|--------------------------|--------------------------|
| Current assets | \$ 775,491 | \$ 765,331 |
| Capital assets | - | - |
| Total assets | <u>775,491</u> | <u>765,331</u> |
| Current liabilities | <u>190,500</u> | 214,831 |
| Total liabilities | <u>190,500</u> | <u>214,831</u> |
| Net assets | | |
| Invested in capital assets | - | - |
| Restricted | 15,922 | - |
| Unrestricted | 569,069 | 550,500 |
| Total net assets | \$ <u><u>584,991</u></u> | \$ <u><u>550,500</u></u> |

Current assets increased this year by \$10,160 or 1% primarily because of higher cash balance and increased receivables from cost reimbursable grants.

Current liabilities decreased this year by \$24,331 or 11% primarily because of decreased project work being done by COG.

As mentioned earlier, net assets can serve as an indicator of financial health. The COG's assets exceeded liabilities by \$584,991 and \$550,500 as of June 30, 2011 and 2010, respectively.

Statement of Activities

The following table presents the COG's revenues, expenses, and changes in net assets for the years ended June 30, 2011 and 2010:

San Gabriel Valley Council of Governments
Management's Discussion and Analysis
Year ended June 30, 2011

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|-------------------|
| Revenues: | | |
| Dues | | |
| Air Quality | \$ 50,060 | \$ 143,687 |
| Transportation | 279,719 | 242,905 |
| General fund | 381,428 | 333,207 |
| Grants and matches from other governments | | |
| County of Los Angeles - Energy Upgrade | 21,993 | - |
| Water Quality Improvement | 31,582 | 223,451 |
| Southern California Edison - California Energy Efficiency Strategic Plan Implementation | 33,024 | - |
| Southern California Edison - Energywise | 102,878 | 99,588 |
| California Department of Resources - CalRecycle | 133,216 | 98,847 |
| California Department of Conservation - Watershed Coordinator Program | 79,320 | 59,006 |
| County of Los Angeles - Homeless Services | - | 15,682 |
| County of Los Angeles - Arrow Highway | - | 12,000 |
| Total revenues | <u>1,113,220</u> | <u>1,228,373</u> |
| Expenses: | | |
| Administrative | 349,288 | 170,199 |
| Air Quality | 50,502 | 143,687 |
| Transportation | 280,007 | 242,905 |
| Energy Upgrade | 21,993 | - |
| Water Quality Improvement | 15,660 | 223,494 |
| California Energy Efficiency Strategic Plan Implementation | 33,261 | - |
| Energywise | 112,208 | 99,588 |
| CalRecycle | 137,431 | 101,583 |
| Watershed Coordinator Program | 80,449 | 60,122 |
| Homeless Services | 1,210 | 17,437 |
| Arrow Highway | - | 12,000 |
| Total expenses | <u>1,082,009</u> | <u>1,071,015</u> |
| Operating income | 31,211 | 157,358 |
| Nonoperating income | <u>3,280</u> | <u>4,056</u> |
| Change in net assets | 34,491 | 161,414 |
| Net assets - beginning of year | <u>550,500</u> | <u>389,086</u> |
| Net assets - end of year | <u>\$ 584,991</u> | <u>\$ 550,500</u> |

Revenues for COG consist primarily of dues from each member city, water districts and county, which comprised 64% of total operating revenue in FY 2011 compared to 59% of total operating revenue in FY 2010. Dues decreased \$8,592 or 1% over the prior year primarily because of the cancellation of the dues from Three Valleys Municipal Water District. Grants and matches from other governments were \$402,013 in FY2011 compared to \$508,574 in FY 2010, a decrease of \$106,561 or 21%. This decrease was due to the substantial completion of the Water Quality Improvement project. The revenues earned by the COG during the year would have been sufficient to cover its current obligations, including operating expenses.

Operating expenses were \$1,082,009 in FY1011 compared to \$1,071,015 in FY 2010, an increase of \$10,994 or 1%. Administrative expenses increased by \$179,089 or 105% because of one-time legal and audit expenses related to the Caltrans audit and litigation mentioned under Notes 7 and 11.

Nonoperating income consists of investment income of \$3,280 in FY 2011 compared to \$4,056 for FY 2010, a decrease of \$766 or 19%. The decrease is directly attributed to lower rates paid by Local Agency Investment Fund (LAIF) in 2011.

Capital Assets

The COG had \$0 invested in capital assets, net of depreciation, as of June 30, 2011 and 2010. The capital assets are fully depreciated as of June 30, 2011.

The COG's capital assets consist of office equipment only. Capital assets are purchased with governmental resources.

Component Unit

Financial Highlights

ACE Construction Authority's 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%.

Statements of Net Assets

| | 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 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 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 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.

COG, on behalf of the Authority, had \$27.35 million 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 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.

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; the Los Angeles County Metropolitan Transportation Authority (Metro) also provides project funds and, under separate agreement, continues to fund certain administrative expenses not reimbursable under federal and state regulations; Cities requesting work in excess of Caltrans guidelines (referred to as betterments) are paid for by the requesting city.

Statements of Activities

| | 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.

Economic Factors and Next Year's Budget

The primary government's budget for fiscal year 2012 assumes that all on-hand net assets as of June 30, 2011 will be required and available to fulfill the program and administrative expense requirements.

Further Information

This report has been designed to provide a general overview to our stakeholders of the COG's financial condition and related issues. Inquires should be directed to Mr. Nicholas T. Conway, Executive Director.

San Gabriel Valley Council of Governments
Statement of Net Assets
June 30, 2011

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| | Primary Government Business-type Activities | Capital Project Fund | Component Unit Adjustment | Government- wide |
|--|--|-------------------------|------------------------------|---------------------|
| Current assets | | | | |
| Cash and cash equivalents | \$ 591,923 | \$ 24,378,470 | \$ - | \$ 24,378,470 |
| Grants receivable | 140,098 | 4,032,710 | - | 4,032,710 |
| Unbilled receivables | - | 7,617,163 | - | 7,617,163 |
| Interest receivable | 586 | 16,430 | - | 16,430 |
| Retention receivable | - | 4,960,642 | - | 4,960,642 |
| Receivable - other | 5,751 | 120,656 | - | 120,656 |
| Deferred cost incurred | - | 2,331,369 | - | 2,331,369 |
| Prepaid expenses: | | | | |
| Administration | 37,133 | - | - | - |
| Insurance | - | 34,693 | - | 34,693 |
| Cost of issuance, commercial paper | - | 74,351 | - | 74,351 |
| Property held for sale | - | 1,763,191 | - | 1,763,191 |
| Total current assets | <u>775,491</u> | <u>45,329,675</u> | <u>-</u> | <u>45,329,675</u> |
| Noncurrent assets | | | | |
| Leasehold improvements and equipment | 8,645 | - | 332,897 | 332,897 |
| Less accumulated depreciation and amortization | (8,645) | - | (309,737) | (309,737) |
| 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 | <u>775,491</u> | <u>\$ 45,329,675</u> | <u>\$ 23,160</u> | <u>45,352,835</u> |
| Current liabilities | | | | |
| Accounts payable and accrued expense | 67,808 | \$ 5,456,811 | \$ - | 5,456,811 |
| Accrued retention payable | - | 895,520 | - | 895,520 |
| Due to government agencies | 42,687 | - | - | - |
| Deferred revenue | 80,005 | 5,622,131 | - | 5,622,131 |
| Compensated absences | - | 107,425 | - | 107,425 |
| Commercial paper | - | 27,350,000 | - | 27,350,000 |
| Total current liabilities | <u>190,500</u> | <u>39,431,887</u> | <u>-</u> | <u>39,431,887</u> |
| 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 | | <u>5,897,788</u> | <u>-</u> | |
| Net assets | | | | |
| Invested in capital assets | - | | \$ 23,160 | 23,160 |
| Restricted | 15,922 | | | - |
| Unrestricted | 569,069 | | | 5,897,788 |
| Total net assets | <u>\$ 584,991</u> | | | <u>\$ 5,920,948</u> |
| Total liabilities and fund balance | | <u>\$ 45,329,675</u> | | |

See notes to financial statements.

San Gabriel Valley Council of Governments
Statement of Activities
Year ended June 30, 2011

| | | | | | | | Component Unit | | |
|--|---------------|-----------------------------------|-------------------------|--|--|--|---|-------------|--|
| Functions/Programs | Expenses | Indirect Expense Allocation | Program Revenues | | | Primary Government | Deficiency of Revenues over Expenditures | Adjustments | Net (Expense) Revenue and Changes in Net Assets |
| | | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Business-type Activities Net (Expense) Revenue and Changes in Net Assets | | | |
| Primary government: | | | | | | | | | |
| Business-type activities: | | | | | | | | | |
| General government | \$ 349,288 | \$ - | \$ 381,428 | \$ - | \$ - | \$ 32,140 | | | |
| Air Quality | 50,502 | - | 50,060 | - | - | (442) | | | |
| Transportation | 280,007 | - | 279,719 | - | - | (288) | | | |
| Energy Upgrade | 21,993 | - | - | 21,993 | - | - | | | |
| Water Quality Improvement | 15,660 | - | - | 31,582 | - | 15,922 | | | |
| California Energy Efficiency Strategic Plan Implementation | 33,261 | - | - | 33,024 | - | (237) | | | |
| Energywise | 112,208 | - | - | 102,878 | - | (9,330) | | | |
| Calrecyle | 137,431 | - | - | 133,216 | - | (4,215) | | | |
| Watershed Coordinator Program | 80,449 | - | - | 79,320 | - | (1,129) | | | |
| Homeless services | 1,210 | - | - | - | - | (1,210) | | | |
| Total business-type activities | \$ 1,082,009 | \$ - | \$ 711,207 | \$ 402,013 | \$ - | 31,211 | | | |
| Component unit: | | | | | | | | | |
| Project expenses | \$ 40,879,495 | \$ 3,715,448 | \$ - | \$ - | \$ 44,657,627 | - | \$ 62,684 | \$ (20,048) | \$ 42,636 |
| Financing expense | 4,907,655 | - | - | - | - | - | (4,907,655) | - | (4,907,655) |
| Total component unit | \$ 45,787,150 | \$ 3,715,448 | \$ - | \$ - | \$ 44,657,627 | - | (4,844,971) | (20,048) | (4,865,019) |
| General revenues: | | | | | | | | | |
| Interest income/ financing income | | | | | | 3,280 | 543,560 | - | 543,560 |
| Change in net assets | | | | | | 34,491 | (4,301,411) | (20,048) | (4,321,459) |
| Fund balance/Net assets, beginning of year | | | | | | 550,500 | 10,199,199 | 43,208 | 10,242,407 |
| Fund balance/Net assets, end of year | | | | | | \$ 584,991 | \$ 5,897,788 | \$ 23,160 | \$ 5,920,948 |

See notes to financial statements.

San Gabriel Valley Council of Governments
Statement of Cash Flows
Year ended June 30, 2011

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Cash flows from operating activities

| | |
|--|------------------------|
| Cash receipts from cities | \$ 718,327 |
| Cash receipts from all others | 374,779 |
| Cash paid for operating expenses | <u>(1,103,239)</u> |
| Net cash used in operating activities | <u>(10,133)</u> |

Cash flows from investing activities

| | |
|--|---------------------|
| Cash receipts from interest | <u>3,404</u> |
| Cash provided by investing activities | <u>3,404</u> |

Net decrease in cash and cash equivalents (6,729)

Cash and cash equivalents - beginning of year 598,652

Cash and cash equivalents - end of year \$ 591,923

Reconciliation of operating income to net cash

used in operating activities:

Operating income \$ 31,211

Adjustment to reconcile operating income to net cash

used in operating activities:

Changes in operating assets and liabilities:

| | |
|---------------------------------------|---------------|
| Accounts receivable | 10,000 |
| Grants receivable | (27,234) |
| Other receivable | (5,751) |
| Prepaid expenses | 5,972 |
| Accounts payable and accrued expenses | (64,138) |
| Deferred revenue | (2,880) |
| Due to government agencies | <u>42,687</u> |

Net cash used in operating activities \$ (10,133)

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES

Organization and activities

The San Gabriel Valley Council of Governments (the "COG") was created effective March 17, 1994 by a Joint Powers Agreement (JPA) among various member San Gabriel Valley Cities to promote cooperation, exchange ideas, coordinate regional government programs and to provide recommendations and solutions to common problems and to general concern of member governments. It is the immediate successor to the San Gabriel Valley Association of Cities, an unincorporated association. Its members organized the COG because they recognized a need for a more permanent and formalized structure.

The COG is supported by contributions from its members and also receives grant funds to conduct regional studies on Transportation, Air Quality, Environmental Matters, as a sub-grantee of other governmental entities. The COG is a non-profit California Public Agency and it is tax exempt.

Reporting entity

The accompanying financial statements present the COG (the primary government) and its component unit, the Alameda Corridor-East Construction Authority (ACE Construction Authority). As defined by GASB Statement No. 14, component units are legally separate entities that are included in the primary government's reporting entity because of the significance of their operating or financial relationships with the primary government. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the COG. The COG and its component unit are together referred to herein as the *reporting entity*.

The ACE Construction Authority is a single purpose construction authority created by the COG in 1998 to mitigate the effects of increasing Union Pacific Railroad train traffic in the San Gabriel Valley. Separate financial statements for the ACE Construction Authority are issued.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information about the primary government (the COG) and its component unit (ACE Construction Authority). The financial statements are prepared using the accrual basis of accounting.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement presentation

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *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.

As provided in GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, COG does not apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. 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.

Based upon the nature of the operations of ACE Construction Authority, only a capital projects fund is utilized (a governmental fund type). Amounts reflected in the adjustment column in the financial statements of ACE Construction Authority represents capital assets and construction in progress (less due to member cities and Union Pacific Railroad) used on governmental activities that are not current financial resources and therefore are not reported as assets in the governmental fund balance and the related depreciation expense on the capital assets reported in the government-wide statement of activities do not require the use of current financial resources and therefore not reported as an expenditure in the governmental funds.

Description of funds

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following are revenue components of the COG's proprietary funds:

Air Quality (AB 2766), Transportation (Proposition A&C) & Other - Funds to foster consensus among cities in the San Gabriel Valley regarding policies and programs that address issues relating to land use, air quality, transportation, solid waste and other matters deemed essential.

County of Los Angeles - Energy Upgrade - Funds that enables single-family homeowners to make upgrades to reduce energy use, conserve resources and create more comfortable and efficient homes.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Description of funds (continued)

Proprietary Funds (continued)

Water Quality Improvement - Funds to prepare and implement a Coordinated Implementation Plan (CIP) to reduce the amount of metal pollutants in the Los Angeles River and its Tributaries.

Southern California Edison - California Energy Efficiency Strategic Plan Implementation - Funds for the implementation of certain energy efficiency programs under the Decision 09-09-47 of the California Public Utilities Commission including the Energy Leader Partnership Program.

Southern California Edison – Energywise - Funds to implement a program to reduce energy usage in the region by providing enhanced rebates for installing energy efficiency measures in municipal facilities, technical assistance, and various training and educational opportunities.

California Department of Resources – CalRecycle – Funds to improve the management of household hazardous waste.

California Department of Conservation – Watershed Coordinator Program - Funds to finance a Watershed Coordinator position for the COG. The watershed that is intended to benefit from the activities of COG's Watershed Coordinator is the San Gabriel Valley Watershed.

Governmental Fund

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

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.

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 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

ACE Construction Authority's 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 POLICIES (CONTINUED)

Budgetary reporting (continued)

It is the ACE Construction 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 and investments

The COG considers money market funds and all equivalent liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Grants receivable

Grants receivable relate to expense reimbursement from governmental agencies and are expected to be fully collectible. Accordingly, an allowance for doubtful accounts is not provided.

Grant revenues and expenditures

All grants are between the COG and the granting authority. ACE Construction Authority has been given authority to obtain and administer funding in the name of COG. 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, ACE Construction 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 |

Unearned revenue

Some members pay their dues in advance. These amounts are reported in unearned revenue in the basic financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

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 5.

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 CASH AND INVESTMENTS

The cash and cash equivalents as of June 30, 2011 are as follows:

Primary government:

| | | |
|-------------------------------------|----|----------------|
| Deposits with financial institution | \$ | 170,978 |
| Investments | | 420,945 |
| Total cash and cash equivalents | \$ | <u>591,923</u> |

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Component unit:

| | |
|----------------------------|----------------------|
| 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 | <u>\$ 24,378,470</u> |

Investments Authorized by the California Government Code and San Gabriel Valley Council of Governments' Investment Policy

The table below identifies the investment types that are authorized for COG by the California Government Code (or COG's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or COG's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Primary government and component unit:

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|-------------------------------------|-------------------------|--|---|
| Local Agency Bonds | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Banker's Acceptances | 180 days | 15% | 5% |
| Commercial Paper | 180 days | 15% | 5% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 30 days | None | None |
| Reverse Repurchase Agreements | 92 days | 5% | None |
| Medium-Term Notes | 5 years | 20% | None |
| Mutual Funds | N/A | 20% | 10% |
| Money Market Mutual Funds | N/A | 0% | 10% |
| 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 |

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.

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

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

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the COG manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming due over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of COG's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the COG's investments by maturity.

Primary government:

| <u>Investment Type</u> | <u>Remaining maturity in months</u> | | | | |
|------------------------|-------------------------------------|--------------------------|---------------------|---------------------|----------------------------|
| | <u>Total</u> | <u>12 Months or less</u> | <u>13-24 Months</u> | <u>25-60 Months</u> | <u>More than 60 Months</u> |
| LAIF | \$ 420,945 | \$ 420,945 | \$ - | \$ - | \$ - |
| Total | \$ 420,945 | \$ 420,945 | \$ - | \$ - | \$ - |

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Component unit:

| Investment Type | Total | Remaining maturity in months | | | |
|-------------------------|----------------------|------------------------------|----------------------|------------------|---------------------|
| | | 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 | - |
| <i>Held by trustee:</i> | | | | | |
| Money market funds | 2,202,259 | 2,202,259 | - | - | - |
| Investment contracts | 13,054,773 | - | 13,054,773 | - | - |
| Total | <u>\$ 16,800,778</u> | <u>\$ 3,671,905</u> | <u>\$ 13,099,542</u> | <u>\$ 29,331</u> | <u>\$ -</u> |

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

The COG and its component unit have no investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

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, COG's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Primary government:

| Investment Type | | Minimum Legal Rating | Exempt from Disclosure | Rating as of Year End | | |
|-----------------|-------------------|----------------------|------------------------|-----------------------|-------------|-------------------|
| | | | | AAA | AA | Not Rated |
| LAIF | \$ 420,945 | N/A | \$ - | \$ - | \$ - | \$ 420,945 |
| Total | <u>\$ 420,945</u> | | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 420,945</u> |

Component unit:

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

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Concentrations of Credit Risk

The investment policy of the COG 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, the COG 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 COG investments.

The COG does not have any investments in any one issuer that represent 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 COG'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 local government units' deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2011, none of COG's deposits with financial institutions in excess of Federal depository insurance limits were held in uncollateralized accounts.

The COG is a voluntary participant in the Local Agency Investment Fund (LA IF) 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 \$66.49 billion. The fair value of the COG's investment in this pool is \$420,945 at June 30, 2011 based upon the COG'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 the COG's) exposure to risk (credit, market or legal) is not currently available.

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk (Continued)

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:

| <u>Investment Type</u> | <u>Reported Amount</u> |
|------------------------|----------------------------|
| Money market funds | \$ <u>2,202,259</u> |

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 3 LEASEHOLD IMPROVEMENTS AND EQUIPMENT

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

| | <u>Balances at July 1, 2010</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balances at June 30, 2011</u> |
|---|-------------------------------------|--------------------|------------------|--------------------------------------|
| <i>Cost:</i> | | | | |
| Leasehold improvements | \$ 19,762 | \$ - | \$ - | \$ 19,762 |
| Computer equipment | | | | |
| Hardware | 159,992 | - | - | 159,992 |
| Software | 105,692 | - | - | 105,692 |
| Website | 3,393 | - | - | 3,393 |
| Telephone equipment | 12,086 | - | - | 12,086 |
| Office furniture | 31,972 | - | - | 31,972 |
| Total cost | <u>332,897</u> | <u>-</u> | <u>-</u> | <u>332,897</u> |
| <i>Less accumulated depreciation for:</i> | | | | |
| 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 | <u>289,689</u> | <u>20,048</u> | <u>-</u> | <u>309,737</u> |
| Leasehold improvements and equipment, net | <u>\$ 43,208</u> | <u>\$ (20,048)</u> | <u>\$ -</u> | <u>\$ 23,160</u> |

NOTE 3 LEASEHOLD IMPROVEMENTS AND EQUIPMENT (CONTINUED)

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

NOTE 4 RECEIVABLES

Receivables of the component unit as of June 30, 2011, as shown in the government-wide financial statements, in the aggregate, including retention, are as follows:

| <u>Receivables</u> | <u>Amount</u> |
|--------------------|----------------------|
| Grants | \$ 4,032,710 |
| Unbilled | 7,617,163 |
| Retention | 4,960,642 |
| Interest | 16,430 |
| Other | 120,656 |
| | <u>\$ 16,747,601</u> |

NOTE 5 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 6 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 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.

NOTE 6 GRANT ACCOUNTING (CONTINUED)

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 7 DUE TO GOVERNMENT AGENCY

The California Department of Transportation Audits and Investigation (A& I) audited the costs claimed by COG totaling \$245,130 for work performed under Agreement 74A0238 (Agreement) with California Department of Transportation (Caltrans). The Agreement period was March 1, 2006 through March 31, 2008. Based on the results of the audit, A & I determined that the COG owed \$89,262 of reimbursed costs not adequately supported and not in compliance with the Agreement provisions, and the State and federal regulations.

On December 12, 2011, Caltrans issued a letter to the COG reducing the liability from \$89,262 to \$42,687, provided COG implement certain action plans.

Of the total \$42,687 due to Caltrans, \$5,751 will be collected from the City of Irwindale.

NOTE 8 ADMINISTRATIVE EXPENSES

The following were the administrative expenses of the primary government for the year ended June 30, 2011:

| | | |
|------------------------------------|----|----------------|
| Consultant fee | \$ | 124,949 |
| Insurance | | 4,662 |
| Legal fees | | 60,070 |
| Accounting and audit fees | | 48,387 |
| Stipends | | 11,500 |
| Dues and subscriptions | | 514 |
| Meetings | | 29,350 |
| Committee support | | 19,328 |
| Printing/publications | | 5,803 |
| Annual evaluation | | 3,930 |
| Information technology | | 669 |
| Unreimbursable grant expenses | | 1,732 |
| Disallowed costs, net (see Note 7) | | 36,936 |
| Miscellaneous | | 1,458 |
| Total | \$ | <u>349,288</u> |

NOTE 9 RELATED PARTY TRANSACTION

The COG has an agreement with Arroyo Associates, Inc. (AAI) to conduct COG's day-to-day administration, management and operating activities. As part of the Agreement, the President of AAI assumes the role of the Executive Director for COG.

For the fiscal year ended June 30, 2011, the total payments to AAI were \$556,443, in accordance with the contract.

NOTE 10 EMPLOYEE BENEFIT PLAN

Defined Benefit Pension Plan

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

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

Funding Policy

Active plan members as defined by the above statutes are required to contribute 7% of their annual covered salary. The Authority has elected to contribute this amount to CalPERS on behalf of eligible employees. The authority is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by CalPERS Board of Administration. The required employer contribution rate to CalPERS for the year ended June 30, 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 manner that produces level annual cost as the percentage of pay in each year from the age of hire (entry age) to the assumed retirement age.

NOTE 10 EMPLOYEE BENEFIT PLAN (CONTINUED)

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

The ACE Construction Authority did not incur any other liabilities during fiscal year 2011 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, 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 | \$ <u>1,162,063</u> |

NOTE 10 EMPLOYEE BENEFIT PLAN (CONTINUED)

Deferred compensation plan (continued)

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 11 COMMITMENTS AND CONTINGENCIES

Primary government:

The COG is currently a party in a legal proceeding. After consultation with legal counsel, management estimates that the matter will be resolved without material effect on the COG's financial position.

Component unit:

As mentioned in Note 6, 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 ACE Construction Authority rents its office from Metropolitan Life Insurance Company subject to a lease expiring April 30, 2016. Monthly rent and a pro-rata share of facility maintenance and utilities are as follow:

NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

| <u>Period from/to</u> | <u>Monthly Rent</u> | <u>Annual Amount</u> |
|-------------------------------|-------------------------|--------------------------|
| May 1, 2011 to April 30, 2012 | \$ 17,448 | \$ 209,376 |
| May 1, 2012 to April 30, 2013 | 17,972 | 215,664 |
| May 1, 2013 to April 30, 2014 | 18,511 | 222,132 |
| May 1, 2014 to April 30, 2015 | 19,066 | 228,792 |
| May 1, 2015 to April 30, 2016 | 19,638 | 235,656 |
| Total lease commitments | \$ | <u>1,111,620</u> |

Escrow Agreements for Contract Retention - The Escrow Agent, Contractor or Owner may terminate this Escrow Agreement, with or without cause, by providing 30 days prior written notice to the other parties. In the event of termination of this Escrow Agreement, all the funds on deposit shall be paid to the Owner and any accrued interest less escrow fees shall be paid to the Contractor. The Authority has recognized as expenditure retention payments totaling \$3,763,151. Funds are deposited in several escrow accounts until release to the Contractor is authorized.

NOTE 12 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.

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 13 ACCOUNTING FOR ARBITRAGE

In February of 2011 ACE received an Information Data Request from the Internal Revenue Service ("IRS") related to arbitrage rebate compliance on ACE Construction Authority's 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 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 14 SUBSEQUENT EVENTS

COG 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 January 17, 2012, 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.

DRAFT

San Gabriel Valley Council of Governments
Statement of Revenues, Expenditures, and Changes in Fund Balances – Component Unit
Budget to Actual
Year ended June 30, 2011

| | Budgeted Amounts | | Actual | Variance |
|---|-------------------------|--------------------------|---------------------|--------------------------------|
| | Original | Amended Final | Amounts | 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) |

**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
San Gabriel Valley Council of Governments**

We have audited the financial statements of San Gabriel Valley Council of Governments (the "COG") as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the COG and have issued our report thereon dated January 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of COG is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the COG'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 the COG's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the COG'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 a 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 the COG'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.

Los Angeles, California
January 17, 2012

**San Gabriel Council of Governments
Comments to Management Report
Year ended June 30, 2011**

Members of the Governing Board
San Gabriel Valley Council of Governments

In planning and performing our audit of the financial statements of San Gabriel Valley Council of Governments, as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered San Gabriel Valley Council of Government's internal control over financial reporting (internal control) 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 San Gabriel Valley Council of Governments' internal control. Accordingly, we do not express an opinion on the effectiveness of San Gabriel Valley Council of Governments' internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated January __, 2012, on the financial statements of San Gabriel Valley Council of Governments.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Company personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

San Gabriel Valley Council of Governments written response to our comments and suggestions has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the management and Governing Board of San Gabriel Valley Council of Governments and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Los Angeles, California
January 11, 2012

**San Gabriel Council of Governments
Observations and Recommendations
Year ended June 30, 2011**

1. Review Bank Reconciliation Statements

Condition

During our review of the bank reconciliation statements prepared for the months of December 2010 and June 2011, we noted that the statements were not signed by the preparer and there is no indication that the statements were reviewed by another responsible person.

Cause and Effect

While no errors were noted during our review of the bank reconciliation statements, lack of management review of the bank reconciliation statements might result in errors not being detected and corrected on a timely basis.

Recommendation

We recommend that the bank reconciliations statements be signed and dated by the personnel preparing them to evidence timely preparation of the statements. We also recommend that the bank reconciliations be reviewed for accuracy and completeness on a timely basis by another responsible person. The review should include tests of mechanical accuracy and tracing of items on the reconciliation to the relevant source documents. The composition of unreconciled differences should be determined and followed up on, and any journal entries deemed necessary as a result be recorded.

As a prompt to the preparer and reviewer/approver to sign the reconciliation, reconciliation forms could include a signature block with space for the signatures, or a stamp with a signature block could be applied to the reconciliations.

Management Response

Check Reconciliation

Management has started a process where the Executive Director will now review and initial all bank reconciliations.

2. Deposit Cash Receipts on a Timely Basis

Condition

Cash receipts are not being deposited on a timely basis. During our review of the cash receipt process, we noted instances where checks were deposited 3 to 39 days after receipt.

Cause and Effect

At the present time, the Office Manager accumulates check receives and forwards them to the Accountant when he reports to SGVCOG. The Office Manager will only deposit the checks once the Accountant records the receipt in Quickbooks and generates a deposit summary and deposit slip. Late deposit will increase the risk of loss from burglary, misplacement, or misappropriation. In addition, the cash is not available for expenditures or investment.

Recommendation

We recommend that deposits be made on a daily basis both to improve cash flow and to reduce the risk of loss.

Cash Deposits

Due to the nature of a small office, it is not possible to deposit checks on a daily basis. However, the Office Manager receives and will now keep a register of all incoming checks. The Accountant will input the checks into the accounting system and take the checks to the bank on a weekly basis. The Office Manager will reflect all deposits in the register of incoming checks.

Management Response

A definition of the above milestones is needed. "Date of Completion" refers to substantial completion of the contractor's work, typically when the project improvements can be put into service. "Date work accepted by Resident Engineer" refers to completion of all required work (punchlist). "Date of Acceptance by ACE Board" is a formal action to accept the contractor's work, release the contractor's retainage and file a completion notice with the County.

We file the "Report of Expenditure" soon after all invoices on the project have been received, since this milestone ends the ability to receive reimbursement for the project expenses. Historically, neither UPRR nor Edison submits final invoices until a year or more beyond the contractor's project completion.

As noted, there is no Caltrans definition of "Project Completion Date." We maintain regular contact with Caltrans local staff on all project activities, including pending closeouts and they have not expressed a concern with our practice to date.



San Gabriel Valley Council of Governments

Date: March 7, 2012

To: City Managers' Steering Committee

From: Nicholas T. Conway, Executive Director

Re: FY 2011-12 Mid-Year Budget Review and Revision

Recommended Action:

Receive and file second quarter financial report and recommend to Governing Board approval of FY 2011-2012 mid-year budget revision.

Background:

Attached please find FY 2011-12 mid-year report regarding budget to actual. Below is an overview of the proposed changes. As shown in Exhibit 1, revenues have increased slightly due to additional work activities approved by the Steering Committee and COG Governing Board. The increased revenue will be offset by increased expenditures directly related to those specific activities (LA River 2 Metals TMDL and LA Permit Group). Overall, the mid-year analysis indicates the COG will end the year with a small surplus (\$4,266), which is within \$1,000 of that which was estimated in June 2011.

Revenues

General – Dues from the majority of our member agencies are billed during the first quarter of the fiscal year and all have been paid. Los Angeles County Districts 1 and 5 and SGV Water District are billed on a mid-year cycle.

Grants – Grant income is received on a reimbursement basis and is shown when collected. Based on the current status of the COG's grants, the following budget revisions, indicated in parentheses, are being recommended:

- **San Gabriel Valley Energy Wise Partnership (SGVEWP) (\$160,000):** Since 2009, the SGVCOG has been in local government partnership with Southern California Edison (SCE) to increase energy-efficiency through the San Gabriel Valley. This effort, known as the San Gabriel Valley Energy Wise Partnership (SGVEWP), is funded by the California Public Utilities Commissions (CPUC) and has a number of specific objectives including: 1) assisting local governments in identifying and implementing energy efficiency projects in their municipal facilities; 2) providing training to city staff on energy efficiency issues and initiatives including Title 24, AB 32 and Demand Response; and 3) educating and outreaching to the public to increase knowledge of energy-efficiency in their homes and business and provide information on SCE's residential programs and rebates.

The adopted FY 2011-12 budget anticipated revenues of \$178,965 for this grant program. It is being recommended that this revenue be reduced to \$160,000. SGVEWP budgets are based on a calendar rather than a fiscal year, and staff anticipates that, based on the workplan that has been developed, there will be higher expenditures in the latter half of 2012, particularly during the summer months when workshops and other events tend to occur. Therefore, it is staff's

recommendation that approximately \$18,000 in revenues from this grant be carried forward to FY 2012-13.

- **Watershed Coordinator (\$50,995):** This grant was completed and closed out in January 2012. Therefore, actual final revenue and expenditures were included in the mid-year budget revision.
- **LA Rivers Reach 2 Metals TMDL Contract (\$52,070):** In 2009, on behalf of several of our member agencies, the City of Monrovia requested the COG's assistance in implementing mitigation strategies to meet the total maximum daily load (TMDL) requirements set forth by the Los Angeles Regional Water Quality Control Board (LARWQCB). In order to meet these requirements, the cities must participate in a monitoring program. However, in order to do so, the participating cities must be a part of a joint powers authority (JPA) to contractually engage a consultant. These cities have requested that the SGVCOG serve as this JPA, rather than have the cities create a separate JPA specifically for this purpose.

While the majority of work for this program was completed during FY 2009-10, the final completion of this project was on hold pending clarification and direction from the LARWQCB and final confirmation of the participating cities. While awaiting this information, the contract between COG and the selected firm, CDM, expired. However, a contract extension was approved at the November Governing Board meeting. All remaining funds for this project have been kept in a separate savings account while work was on hold.

- **LA Permit Group Technical Assistance (\$107,888):** The Los Angeles Regional Water Quality Control Board (LARWQCB) is currently developing a new National Pollutant Discharge Elimination System Municipal Separate Sanitary Storm Sewer (MS4 NPDES Permit). This permit establishes regulations related to stormwater discharges. As the potential costs and the legal implications of the new permit are high, the municipalities in Los Angeles County formed the LA Permit Group to develop a unified voice to participate in a collaborative negotiating process. To prepare for negotiations for the new permit, the LA Permit Group is seeking technical consulting services to assist in the negotiations for the new permit.

In October 2011, the LA Permit Group asked the San Gabriel Valley Council of Governments to assist in developing a public procurement process to attain a technical consultant and to collect the funds necessary to support the contract. At the November Governing Board meeting, staff was directed to assess each SGVCOG jurisdiction a flat-fee not to exceed \$5,000 for these services as well as undertake an extensive outreach effort to collect a fee of \$5,000 from those jurisdictions that are outside of the San Gabriel Valley that are also co-permittees on the new permit.

The fee collected will only be used to cover the cost of this contract, which is \$107,888 and the SGVCOG will not receive any portion of the collected funds. If the amount of money collected exceeds the amount of the contract, each jurisdiction will be reimbursed a pro-rata share of the cost. The LA Permit Group selected Larry Walker Associates and work began in late December.

Currently, 31 cities have submitted letters of participation. Because that exceeds the amount needed to fund the contract, each city will be receiving a reimbursement.

Expenditures

General: Since the majority of the COG's operating expenditures are tied to fixed fee not to exceed contracts, the second quarter expenditures were as planned. The following adjustments are being recommended:

- **Financial Audit Services (\$13,500):** The adopted budget allocated \$15,000 for this item. The multi-year contract with the SGVCOG financial auditing firm, Vasquez and Company, for this service provides for a maximum payment of \$13,500 for FY 2011-12.
- **Bookkeeping/Accounting (\$12,000):** The adopted budget allocated \$12,500 for this item. This was to allow for a possible cost-of-living adjustment. The payments for this position have retained at the FY 2010-11 levels.
- **Federal Advisory Services (\$5,000):** The adopted budget allocated \$25,000 for this budget item. To date, the SGVCOG has not undertaken any public procurement process to secure a firm to provide Federal Advisory Services. The City Managers' Steering Committee and the Executive Committee are evaluating the value-added of having this service being provided on an ongoing basis. It is anticipated that a recommendation for moving forward will be made as part of the FY 2012-13 budget.
- **Printing (\$14,000):** The adopted budget allocated \$20,000 for this budget item, which includes reproduction equipment lease costs, per copy costs, and supplies. At mid-year, current expenditures are approximately \$6,000, therefore staff is recommending that the budget item be reduced by \$6,000.
- **SGVCOG Organization and Operation Review (\$19,949):** In July 2011, the SGVCOG Governing Board authorized undertaking a public procurement process to hire a firm to conduct an organization and operation review of the SGVCOG. However, at the time that the budget was adopted, an exact budget for this item had not been identified. In October, the Governing Board authorized entering into a contract for an amount not to exceed \$19,949 with City Gate Associates to conduct this study. It is anticipated that work on this study will be completed in February 2012.
- **Los Angeles Regional Water Quality Control Board (LARWQCB) Municipal Representative Technical Assistance (\$7,500):** In January 2012, the SGVCOG Governing Board authorized an expenditure of \$7,500 to provide partial funding for a staff assistant to Mayor Mary Ann Lutz (Monrovia), who serves as the municipal representative on the LARWQCB. Previously this position was funded by the League of Cities, Los Angeles Division. The SGVCOG is working with other regional entities, including Gateway COG, to fund the full cost (\$30,000) of this part-time position.
- **Local Government Sustainable Energy Coalition (LGSEC) (\$10,000):** In January 2012, the SGVCOG Governing Board authorized an expenditure of \$10,000 for one year in membership dues to join the LGSEC. This group represents local governments at California Public Utilities Commission (CPUC) and California Energy Commission (CEC) hearings. In the coming year, the CPUC will be ruling on the upcoming 2013-14 cycle of energy efficiency funding. Participation in this group will ensure that the San Gabriel Valley will receive its fair share of funding.

Grants: Based on workflow and other issues discussed above, the following revisions to grant-related expenses are being recommended:

- **Miscellaneous Grant Expenses (\$5,000):** The adopted budget allocated \$10,000 for this budget item, which includes costs that are related to the administration of grants but which cannot be charged to individual grants. These costs include publishing request for proposals in newspapers and journals, legal fees associated with reviewing and developing contracts, and grants research forum memberships. To date, actual expenditures are only \$500. Therefore it is recommended that the budget for this item be reduced by \$5,000.

- **Grants & Policy Committee Support (\$20,000):** These funds are intended to support part-time staff assisting in the implementation of grants as well as management of policy committee related activities. SGVCOG staff has not recruited for this position and intend to delay recruitment until completion of the organizational study.
- **Caltrans Audit Expenses (\$2,400):** In September 2011, the Governing Board confirmed approval of a contract with Lopez and Company for an amount of up to \$26,500. The purpose of this contract was to prepare a response to the draft audit from Caltrans for the Community-Based Transportation Planning Grant. The majority of the work for this contract was completed in FY 2010-11, and this budget item reflects a final payment.
- **Contract Administrator (\$20,000):** As part of the FY 2011-12 budget, the Governing Board directed staff to include a line item for a “contract administrator.” At that time the exact cost, contractual relationship, and workplan were not defined. Subsequent to adoption of the budget, the Governing Board took action to undertake an organization and operations review prior to taking action on the contract administrator position. As discussed above, that study is currently underway, and the funds originally allocated for the contract administrator were used to fund the study.
- **Management Services Amendment #2 (\$160,000):** The adopted budget allocated \$200,000 for this budget item, which includes staff charges for work associated with the SCE CEESP grant. All funds associated with this budget are expended on a reimbursement basis to Arroyo Associates, based on actual manhour charges. Staff is estimating that manhour charges will be approximately 20% lower than originally anticipated and is therefore recommending a revision to this budget item. This revision is being recommended due to a reallocation of manhours to other projects and grants, which has lowered the manhours available to work on this project. However, this project still remains on schedule for completion in October 2012. Because the SGVCOG is fully reimbursed for all costs associated with this grant, this reduction in expenses has no net impact on the budget.
- **Watershed Coordinator Expenses (\$44,344):** See explanation above under “Revenue.”
- **SCE Local Government Partnership Expenses (\$30,000):** The adopted budget allocated \$20,000 for this item. Due to events, such as city recognition events, that are scheduled for Spring 2012, staff is recommending that this budget item be increased by \$10,000.
- **SCE CEESP Expenses (\$2,200,000):** The adopted budget allocated \$2,160,000 for this budget item, which represents consultant fees and city reimbursement costs associated with implementation of the SCE CEESP grant. The expenses for this project are being increased by \$40,000 to reflect reimbursements to cities for energy efficiency audits of municipal facilities. This work was originally anticipated to occur in FY 2011-12, but has been accelerated due to coincide with other work efforts on the grant. Because the SGVCOG is fully reimbursed for all costs associated with this grant, this increase in expenses has no net impact on the budget.
- **LA Rivers Reach 2 Metals TMDL Contract (\$52,070):** See explanation above under “Revenue.”
- **LA Permit Group Technical Assistance (\$107,888):** See explanation above under “Revenue.”

| Budget Item | Adopted Budget FY 2010-11 | Actual FY 2010-11 | Adopted FY 2011-12 | Mid-Year Actual | Proposed Mid-Year Revision |
|--|------------------------------|----------------------|-----------------------|--------------------|----------------------------------|
| General Operating Income | | | | | |
| Member Dues | \$719,800 | \$719,540 | \$701,211 | \$701,211 | \$701,211 |
| Interest | \$1,000 | \$1,000 | \$1,000 | | \$1,000 |
| Total General Operating Income | \$720,800 | \$720,540 | \$702,211 | \$701,211 | \$702,211 |
| Grants & Special Project Income | | | | | |
| SCE Local Government Partnership | \$126,343 | \$102,878 | \$178,965 | \$73,299 | \$160,000 |
| Watershed Coordinator Grant | \$68,000 | \$84,022 | \$34,000 | \$50,995 | \$50,995 |
| CalRecycle Grant | \$167,023 | \$123,375 | \$186,000 | \$57,623 | \$186,000 |
| SCE CEESP Grant | \$1,650,433 | \$28,077 | \$2,360,000 | \$365,323 | \$2,360,000 |
| Energy Upgrade California | | \$21,573 | \$55,000 | \$24,850 | \$55,000 |
| Total Grants & Special Project Income | \$2,011,799 | \$359,925 | \$2,813,965 | \$572,090 | \$2,811,995 |
| Total Income | \$2,732,599 | \$1,080,465 | \$3,516,176 | \$1,273,301 | \$3,514,206 |
| General Operating Expenses | | | | | |
| <u>Ongoing Management and Operational Contracts</u> | | | | | |
| Management Services Contract (MSC) | \$422,154 | \$416,279 | \$422,154 | \$214,017 | \$428,033 |
| MTA Board Support | \$50,000 | \$50,000 | \$50,000 | \$25,000 | \$50,000 |
| Legal Services | \$25,600 | \$64,000 | \$66,214 | \$47,261 | \$66,214 |
| Financial Audit Services | \$13,000 | \$13,000 | \$15,000 | \$13,500 | \$13,500 |
| Bookkeeping / Accounting | \$12,000 | \$13,000 | \$12,500 | \$6,000 | \$12,000 |
| <u>Consultant Services</u> | | | | | |
| Federal Advisory Services | \$25,000 | \$0 | \$25,000 | \$0 | \$5,000 |
| Strategic Planning | \$16,000 | \$10,147 | \$16,000 | \$4,667 | \$16,000 |
| Media/Public Relations | \$10,000 | \$240 | \$10,000 | \$715 | \$10,000 |
| Annual Evaluation | \$4,500 | \$3,930 | \$4,500 | \$0 | \$4,500 |
| SGVCOG Organization and Operation Review | | | TBD | \$19,949 | \$19,949 |
| LARWQCB Technical Support | | | | | \$7,500 |
| <u>Memberships</u> | | | | | |
| Local Government Sustainable Energy Coalition | | | | | \$10,000 |
| <u>Special Events and Advocacy Travel</u> | | | | | |
| Annual Federal Advocacy Delegation | \$17,000 | \$11,265 | \$17,000 | \$0 | \$17,000 |
| Annual State Advocacy Delegation | \$5,000 | \$0 | \$5,000 | \$0 | \$5,000 |
| Local Receptions | \$5,000 | \$3,606 | \$5,000 | \$3,067 | \$5,000 |
| Governing Board and Committee Meetings | \$7,500 | \$6,632 | \$7,500 | \$3,665 | \$7,500 |
| <u>Direct Expenses</u> | | | | | |
| Board Stipends | \$11,000 | \$11,650 | \$11,000 | \$4,850 | \$11,000 |
| Insurance | \$6,000 | \$5,612 | \$6,000 | \$4,863 | \$6,000 |
| Printing / Publication | \$20,000 | \$4,842 | \$20,000 | \$5,973 | \$14,000 |
| Miscellaneous | \$20,000 | \$5,974 | \$20,000 | \$3,685 | \$20,000 |
| Total Operating Expenditures | \$669,754 | \$620,177 | \$712,869 | \$337,262 | \$728,197 |
| Grants & Special Projects Expenses | | | | | |
| <u>Grants & Special Projects Staff</u> | | | | | |
| MSC - Amendment #1 (Energy Wise, CalRecycle, Watershed) | \$105,000 | \$105,000 | \$105,000 | \$52,500 | \$105,000 |
| MSC - Amendment #2 (SCE CEESP) | \$55,428 | \$21,896 | \$200,000 | \$57,147 | \$160,000 |
| MSC - Amendment #3 (Energy Upgrade) | | \$21,573 | \$55,000 | \$24,850 | \$55,000 |
| Grants & Policy Committee Support | \$45,000 | \$40,000 | \$20,000 | \$0 | \$0 |
| California Redistricting Commission Technical Assistance | | \$20,000 | | | |
| Caltrans Audit Response Expenses | | \$21,437 | | \$2,400 | \$2,400 |
| Contract Administrator | | | \$20,000 | \$0 | \$0 |
| <u>Consultant Services and Other Direct Grant Expenses</u> | | | | | |
| Miscellaneous Grant Expenses | \$10,000 | \$1,962 | \$10,000 | \$500 | \$5,000 |
| Information Technology | \$5,000 | \$669 | \$5,000 | \$0 | \$5,000 |
| Watershed Coordinator Grant | \$60,000 | \$73,237 | \$30,000 | \$44,344 | \$44,344 |
| SCE Local Government Partnership Expenses | \$10,000 | \$13,198 | \$20,000 | \$20,104 | \$30,000 |
| CalRecycle Grant Expenses | \$143,372 | \$100,000 | \$175,000 | \$20,189 | \$175,000 |
| SCE CEESP Expenses | \$1,593,645 | \$6,181 | \$2,160,000 | \$308,176 | \$2,200,000 |
| Total Grant & Special Project Expenses | \$2,027,445 | \$425,153 | \$2,800,000 | \$530,209 | \$2,781,744 |
| Total Expenditures | \$2,697,199 | \$1,045,331 | \$3,512,869 | \$867,471 | \$3,509,940 |
| Surplus | \$35,400 | \$35,135 | \$3,307 | | \$4,266 |

**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**

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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.

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.

Los Angeles, California
December 5, 2011

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**Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Management's Discussion and Analysis
Year ended June 30, 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.

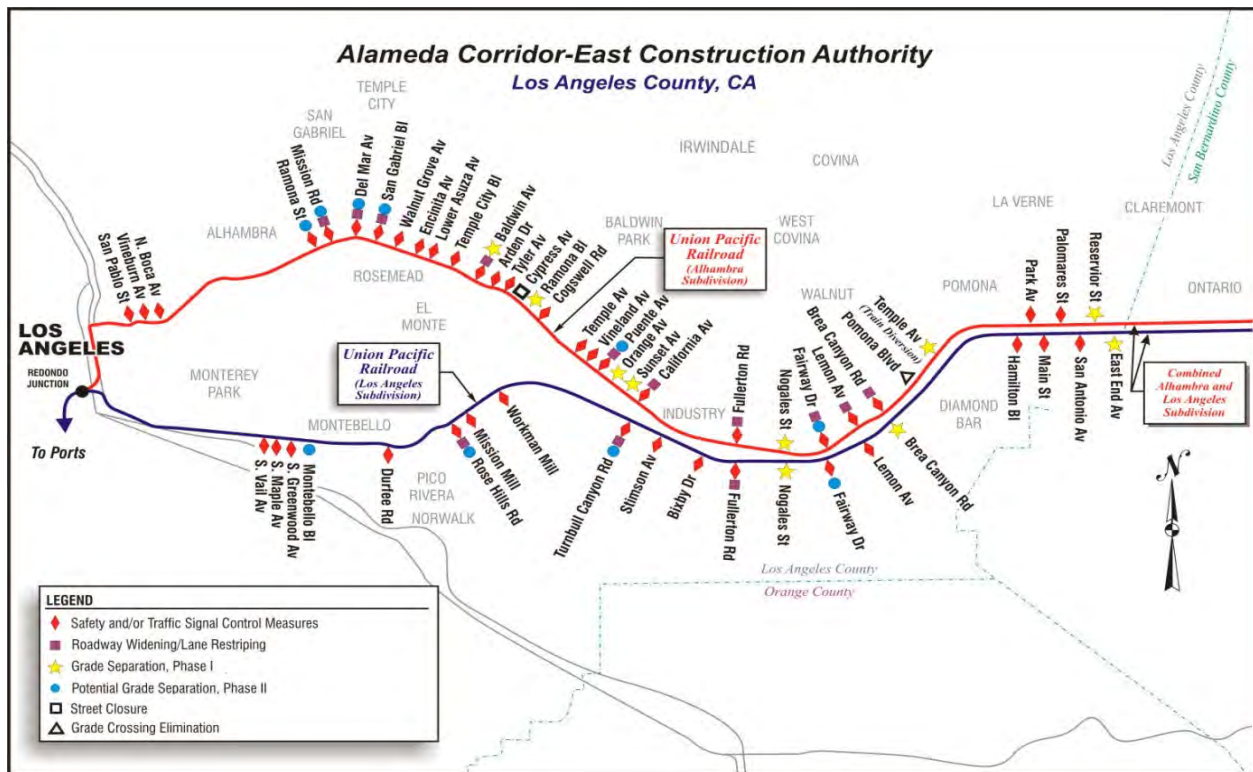
The Nogales Street project in West Covina/Industry was completed in 2005, the Reservoir Street project in Pomona was opened to traffic in 2005, Ramona Boulevard in El Monte, East End Avenue in Pomona, and Brea Canyon Road in Industry/Diamond Bar opened in 2008, and Sunset Avenue in City of Industry opened 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 to 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).

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Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Management's Discussion and Analysis
Year ended June 30, 2011

| 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

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Management's Discussion and Analysis
Year ended June 30, 2011

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

| Federal | Committed/Pledged | |
|---|--------------------------|--|
| | (\$ millions) | |
| 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.

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Management's Discussion and Analysis
Year ended June 30, 2011

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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.

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Management's Discussion and Analysis
Year ended June 30, 2011

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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 A120, Irwindale, CA 91706, or call (626) 962-9292.

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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 |
| | <u>45,329,675</u> | <u>-</u> | <u>45,329,675</u> |
| 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 | <u>45,329,675</u> | <u>23,160</u> | <u>45,352,835</u> |
| 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 | <u>39,431,887</u> | <u>-</u> | <u>39,431,887</u> |
| 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 | <u>\$ 5,897,788</u> | | |
| Net assets | | | |
| Invested in capital assets | | 23,160 | 23,160 |
| Unrestricted | | - | 5,897,788 |
| Total net assets | | <u>\$ 23,160</u> | <u>\$ 5,920,948</u> |

See notes to financial statements.

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Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
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 | <u>44,594,943</u> | <u>20,048</u> | <u>44,614,991</u> |
| Revenues | | | |
| Grant reimbursements | 44,181,756 | - | 44,181,756 |
| Other operating revenues | 475,871 | - | 475,871 |
| Total revenues | <u>44,657,627</u> | <u>-</u> | <u>44,657,627</u> |
| 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) | <u>(4,364,095)</u> | <u>-</u> | <u>(4,364,095)</u> |
| 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 | <u>10,199,199</u> | <u>43,208</u> | <u>10,242,407</u> |
| Fund balance/Net Assets at end of year | <u>\$ 5,897,788</u> | <u>\$ 23,160</u> | <u>\$ 5,920,948</u> |

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.

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

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:

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.

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 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 |
|---|---------------------------------|--------------------|------------------|----------------------------------|
| <i>Cost:</i> | | | | |
| Leasehold improvements | \$ 19,762 | \$ - | \$ - | \$ 19,762 |
| Computer equipment | | | | |
| Hardware | 159,992 | - | - | 159,992 |
| Software | 105,692 | - | - | 105,692 |
| Website | 3,393 | - | - | 3,393 |
| Telephone equipment | 12,086 | - | - | 12,086 |
| Office furniture | 31,972 | - | - | 31,972 |
| Total cost | <u>332,897</u> | <u>-</u> | <u>-</u> | <u>332,897</u> |
| <i>Less accumulated depreciation for:</i> | | | | |
| 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 | <u>289,689</u> | <u>20,048</u> | <u>-</u> | <u>309,737</u> |
| Leasehold improvements and equipment, net | <u>\$ 43,208</u> | <u>\$ (20,048)</u> | <u>\$ -</u> | <u>\$ 23,160</u> |

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

Alameda Corridor - East Construction Authority
(A Component Unit of San Gabriel Valley Council of Governments)
Notes to Financial Statements
Year ended June 30, 2011

DRAFT

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 | <u>\$ 24,378,470</u> |

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

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

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

NOTE 3 CASH AND 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.

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

Disclosures Relating to Interest Rate Risk

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

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

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 | Aa | 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 \$ | <u>16,800,778</u> | | <u>\$ -</u> | <u>15,257,032</u> | <u>\$ -</u> | <u>1,543,746</u> |

Concentration of Credit Risk

ACE Construction Authority's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 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:

| <u>Investment Type</u> | <u>Reported Amount</u> |
|------------------------|----------------------------|
| Money market funds | \$ <u>\$2,209,259</u> |

Investments in State Investment Pool

ACE Construction Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. At June 30, 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 manner that produces level annual cost as the percentage of pay in each year from the age of hire (entry age) to the assumed retirement age.

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

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

Three-Year Trend Information for CalPERS

| <u>Year</u> | | <u>(APC)</u> | APC <u>Contributed</u> | | <u>Obligation</u> |
|-------------|----|--------------|----------------------------------|----|-------------------|
| 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 | \$ <u>1,162,063</u> |

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:

| <u>Period from/to</u> | <u>Monthly Rent</u> | <u>Annual Amount</u> |
|-------------------------------|-------------------------|--------------------------|
| May 1, 2011 to April 30, 2012 | \$ 17,448 | \$ 209,376 |
| May 1, 2012 to April 30, 2013 | 17,972 | 215,664 |
| May 1, 2013 to April 30, 2014 | 18,511 | 222,132 |
| May 1, 2014 to April 30, 2015 | 19,066 | 228,792 |
| May 1, 2015 to April 30, 2016 | 19,638 | 235,656 |
| Total lease commitments | \$ | <u><u>1,111,620</u></u> |

Escrow Agreements for Contract Retention - The Escrow Agent, Contractor or Owner may terminate this Escrow Agreement, with or without cause, by providing 30 days prior written notice to the other parties. In the event of termination of this Escrow Agreement, all the funds on deposit shall be paid to the Owner and any accrued interest less escrow fees shall be paid to the Contractor. The Authority has recognized as expenditure retention payments totaling \$3,763,151. 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 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 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 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 received a notice from the IRS which states that the IRS have made a determination to close the examination of ACE'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 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 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.

DRAFT

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 | | | Variance |
|---|------------------|------------------|-------------------|------------------------|
| | Original | Amended Final | Actual Amounts | 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) |

**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.

Los Angeles, California
December 5, 2011



Alameda Corridor-East Construction Authority

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

DATE: March 15, 2012

MEMO TO: San Gabriel Valley Council of Governments Governing Board

FROM: Rick Richmond
Chief Executive Officer

SUBJECT: Approval of Mid Year Budget Revision to FY '12 ACE Budget

RECOMMENDATION

The ACE Board recommends the SGVCOG Governing Board approve the Mid Year budget revision to the FY '12 ACE Budget.

BACKGROUND

In January the ACE Board adopted a mid-year FY '12 budget revision to reduce the annual budget from \$72.077 million to \$43.477 million. This was primarily due to revised scheduling of some work and delay in starting construction on three projects (Baldwin Ave., Nogales St. and the San Gabriel Trench) from late FY '12 to FY '13.

A more detailed explanation is attached.

SGVCOG approval of ACE's annual budget is required under the SGVCOG bylaws.

Attachment – January 23, 2012 Recommendation to ACE Board Regarding Mid-Year Budget Revision



Alameda Corridor-East Construction Authority

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

MEMO TO: ACE Construction Authority Board Members & Alternates

FROM: Rick Richmond
Chief Executive Officer

SUBJECT: Approval of Mid Year Budget Revision

DATE: January 23, 2012

RECOMMENDATION: Staff recommends approval of the attached mid-year budget revision for the fiscal year ending June 30, 2012, reducing our total budget from \$72.077 million to \$43.477 million.

BACKGROUND: You adopted our current budget in June 2011 based on our estimate at the time on the expected rate of progress and resulting spending rate for the active projects. The most significant change from our assumptions which has the effect of reducing our fiscal year spending is delay on two of three pending construction projects from late FY 2012 to early FY 2013.

Delays on beginning construction on the Baldwin Avenue, Nogales Street and San Gabriel Trench projects resulted in reductions to many related budget line items. The delay on the Baldwin project is attributable to the extended delay in the acquisition of the final real estate interested needed to proceed with construction, which has pushed the likely construction start to early FY 2013. Similarly, the construction start for the Nogales Avenue project is expected to go to mid-2012. The start of the San Gabriel Trench, which we budgeted on the expectation of an April start, is now expected to start in May/June.

Expected budget underruns are all contained within our direct costs; we expect to be close to budget on our indirect costs. This is important since recovery of our overhead expenses (\$4.353 million for the year) is most closely tied to our in-house direct labor and indirect cost expenditures, both of which should be close to budget by June 30.

Based on the above, and a review of all expenditures for the first five months of the fiscal year, we are recommending the attached revisions. The line items with significant changes are:

Program Management – Direct (-\$717K) – We expect a significant reduction in our budget for program management for right-of-way acquisition for the Baldwin Avenue and San Gabriel Trench projects, and for construction on the Baldwin Avenue project.

Design – Direct (-\$2.502M) – We expect reductions in design costs for the Puente Avenue and Fairway Drive projects.

Right-of-Way Acquisition – Direct (-\$2.797M) – This decrease is primarily due to a budgeted acquisition cost for the Baldwin and Nogales projects going to next fiscal year based on a scheduled court dates, partially offset by higher costs for the San Gabriel project to account for UPRR real estate compensation not budgeted for.

Utility Relocation – Direct (-\$10.430M) – This decrease is mostly due to a transfer of fiber optic relocation expenses into the main construction contract on the San Gabriel Trench and a delay in SCE relocation for the Nogales project.

Construction Management – Direct (-\$1.328M) – The deferral in construction start dates on all three projects mentioned above will cause a reduced level of construction management cost.

Construction – Direct (-\$11.398M) – This reflects the delays in starting construction on the three projects mentioned above – Baldwin (-\$4.8M), Nogales (-\$4.0 M) and San Gabriel (-\$3.0M), partially offset by higher Sunset project construction spending.

Third Party Review – Direct – (-\$407K) – This is primarily due to deferral of outstanding agency review of San Gabriel Trench construction to next fiscal year.

Staff will be prepared to answer any questions you may have on this recommended budget revision.

Attachment

ACE Construction Authority
FY 2012 Amended Budget
(\$ in thousands)

| Expenditures | FY 2012 Approved | Proposed Change | FY 2012 Amended |
|---------------------------------|-----------------------------|----------------------------|----------------------------|
| Indirect | | | |
| Personnel | | | |
| Salaries and Wages | \$ 1,650 | \$ (61) | \$ 1,589 |
| Fringe Benefits | 527 | (32) | 495 |
| Board/Employee Expense | | | |
| Auto/Travel | 25 | - | 25 |
| Training/Memberships | 11 | - | 11 |
| Board Expense | 19 | - | 19 |
| Professional Services | | | |
| Auditing/Accounting | 35 | - | 35 |
| DBE Compliance | 83 | - | 83 |
| Legal-Agency Support | 65 | - | 65 |
| Program Management | 539 | - | 539 |
| State/Federal Advisory Services | 265 | - | 265 |
| Risk Management | 65 | - | 65 |
| Insurance | 845 | - | 845 |
| Equipment Expense | 55 | - | 55 |
| Office Expense | 209 | - | 209 |
| Office Operations | 41 | - | 41 |
| Other | 12 | - | 12 |
| Total Indirect | <u>4,446</u> | <u>(93)</u> | <u>4,353</u> |
| Direct | | | |
| Salaries and Wages | 727 | 61 | 789 |
| Fringe Benefits | 288 | 32 | 320 |
| Employee Travel - Projects | 17 | 0 | 18 |
| Program Management | 2,380 | (717) | 1,663 |
| Legal | 455 | 847 | 1,302 |
| Labor Compliance | 120 | (68) | 52 |
| Design | 6,156 | (2,502) | 3,654 |
| ROW Acquisition | 18,245 | (2,797) | 15,448 |
| Utility Relocation | 11,855 | (10,430) | 1,425 |
| Construction Mgt | 2,575 | (1,328) | 1,247 |
| Railroad | 1,054 | 174 | 1,228 |
| Construction | 23,115 | (11,398) | 11,717 |
| Third Party Review | 630 | (407) | 223 |
| UPRR Invoice Review | - | 20 | 20 |
| Advertising | 14 | 4 | 18 |
| Total Direct | <u>67,631</u> | <u>(28,509)</u> | <u>39,124</u> |
| Total Expenditures | <u>\$ 72,077</u> | <u>\$ (28,602)</u> | <u>\$ 43,477</u> |



Alameda Corridor-East Construction Authority

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

DATE: March 15, 2012

MEMO TO: San Gabriel Valley Council of Governments Governing Board

FROM: Rick Richmond
Chief Executive Officer

SUBJECT: ACE Quarterly Report

RECOMMENDATION

Receive and file.

BACKGROUND

In addition to the three ACE action items included in your March agenda, I will be making a presentation summarizing our most recent quarterly status report. The full report is attached.

Attachment

ACE Construction Authority
FY 2012 Second Quarter
Project Reports

As of December 31, 2011

EXHIBIT I - ACE REVENUE BY SOURCE
As of December 31, 2011

| Grant | | Authorized | Adjustments | Note | Net Authorized | Allocated To Projects | Surplus |
|--------------------------------|--------------------|----------------------|---------------------|------|----------------------|-----------------------|-------------------|
| Federal | | | | | | | |
| TEA - 21 | Sect 1017 | 2,205,000 | (136,333) | b | 2,068,667 | 2,063,683 | 4,984 |
| TEA - 21 | Sect 1138 | 17,250,000 | - | | 17,250,000 | 17,250,000 | - |
| TEA - 21 | Sect 1533 | 100,000,000 | - | | 100,000,000 | 100,000,000 | - |
| TEA - 21 | Sect 198 | 9,562,500 | (572,760) | | 8,989,740 | 8,989,740 | - |
| TEA - 21 | Sect 0491 | 6,500,000 | (402,000) | a | 6,098,000 | 6,098,000 | - |
| Hlway Fund FY 01 | | 1,500,000 | (3,300) | b | 1,496,700 | 1,496,700 | - |
| NCPD FY 2000 | | 1,240,000 | - | | 1,240,000 | 1,240,000 | - |
| NCPD FY 2001 | | 2,400,000 | (2,565) | b | 2,397,435 | 2,397,435 | - |
| NCPD FY 2002 | | 4,000,000 | (116,000) | b | 3,884,000 | 3,884,000 | - |
| NCPD FY 2003 | | 1,495,000 | (10,000) | b | 1,485,000 | 1,485,000 | - |
| NCPD FY 2004 | | 2,000,000 | (119,163) | b | 1,880,837 | 1,880,837 | - |
| STP FY 2006 | | 4,200,000 | (42,000) | b | 4,158,000 | 4,158,000 | - |
| STP FY 2009 | | 570,000 | - | | 570,000 | 570,000 | - |
| SAFETEA-LU FY 05 | Sect 1701 | 2,528,000 | (378,937) | c | 2,149,063 | 2,149,063 | - |
| SAFETEA-LU FY 06 | Sect 1701 | 2,528,000 | (378,635) | c | 2,149,365 | 2,149,365 | - |
| SAFETEA-LU FY 07 | Sect 1701 | 2,528,000 | (375,781) | c | 2,152,219 | 2,152,219 | - |
| SAFETEA-LU FY 08 | Sect 1701 | 2,528,000 | (375,781) | c | 2,152,219 | 2,152,219 | - |
| SAFETEA-LU FY 09 | Sect 1701 | 2,528,000 | (374,889) | c | 2,153,111 | 2,153,111 | - |
| SAFETEA-LU FY 05 | Sect 1934 | 3,000,000 | (450,000) | c | 2,550,000 | 2,550,000 | - |
| SAFETEA-LU FY 06 | Sect 1934 | 6,000,000 | (900,000) | c | 5,100,000 | 5,100,000 | - |
| SAFETEA-LU FY 07 | Sect 1934 | 7,500,000 | (1,125,000) | c | 6,375,000 | 6,375,000 | - |
| SAFETEA-LU FY 08 | Sect 1934 | 7,500,000 | (1,125,000) | c | 6,375,000 | 6,375,000 | - |
| SAFETEA-LU FY 09 | Sect 1934 | 6,000,000 | (900,000) | c | 5,100,000 | 5,100,000 | - |
| SAFETEA-LU FY 05 | Sect 1301 | 3,125,000 | (247,763) | c | 2,877,237 | 2,877,237 | - |
| SAFETEA-LU FY 06 | Sect 1301 | 6,250,000 | (495,526) | c | 5,754,474 | 5,754,474 | - |
| SAFETEA-LU FY 07 | Sect 1301 | 7,812,500 | (619,407) | c | 7,193,093 | 7,193,093 | - |
| SAFETEA-LU FY 08 | Sect 1301 | 7,812,500 | (619,407) | c | 7,193,093 | 7,193,093 | - |
| SAFETEA-LU FY 09 | Sect 1301 | 6,250,000 | (495,526) | c | 5,754,474 | 5,754,474 | - |
| FRA | | 2,544,100 | - | | 2,544,100 | 2,185,000 | 359,100 |
| ISTEA (Nogales-LA) | | 6,936,147 | - | | 6,936,147 | 6,936,147 | - |
| CMAQ (Nogales-LA) | | 6,347,000 | - | | 6,347,000 | 6,347,000 | - |
| | Subtotal | 242,639,747 | (10,265,773) | | 232,373,974 | 232,009,890 | 364,084 |
| State | | | | | | | |
| ITIP | | 39,000,000 | (18,426) | d | 38,981,574 | 38,981,574 | - |
| PUC (Brea Canyon) | | 5,000,000 | - | | 5,000,000 | 5,000,000 | - |
| TCRP | | 150,000,000 | (19,700,000) | e | 130,300,000 | 130,300,000 | - |
| Prop 1B - HRCSA (Nogales-LA) | | 25,600,000 | - | | 25,600,000 | 25,600,000 | - |
| TCIF (SG Trench) | | 336,600,000 | - | | 336,600,000 | 336,600,000 | - |
| | Subtotal | 556,200,000 | (19,718,426) | | 536,481,574 | 536,481,574 | - |
| Local | | | | | | | |
| MTA 1 (FY 98-02) | C 25% | 37,500,000 | (23,360,000) | f | 14,140,000 | 14,140,000 | - |
| MTA 2 (FY 03-05) | C 10% | 1,857,000 | - | | 1,857,000 | 1,857,000 | - |
| MTA 2 (FY 03-05) | C 25% | 13,178,000 | - | | 13,178,000 | 13,178,000 | - |
| MTA 2 (FY 03-05) | AB 3090 | 9,308,000 | - | | 9,308,000 | 9,308,000 | - |
| MTA 2 (FY 03-05) | STIP-RIP | 5,496,000 | - | | 5,496,000 | 5,496,000 | - |
| MTA 3 (FY 06-09) | C 25% | 85,000,000 | - | | 85,000,000 | 85,000,000 | - |
| MTA 4 (FY 09-15) | C 25%-Remaining | 28,566,800 | - | | 28,566,800 | 28,566,800 | - |
| MTA 5 (FY 09-15) | C 25%-Supplemental | 112,323,000 | (9,978,000) | g | 102,345,000 | 29,138,250 | 73,206,750 |
| MTA 6 (Nogales-LA) | C 25% | 28,849,000 | - | | 28,849,000 | 28,849,000 | - |
| MTA 7 (SG Trench) | Measure R | 42,000,000 | - | h | 42,000,000 | 42,000,000 | - |
| | Subtotal | 364,077,800 | (33,338,000) | | 330,739,800 | 257,533,050 | 73,206,750 |
| Other Sources | | | | | | | |
| Railroad (UPRR/Metrolink) | | 31,921,000 | - | i | 31,921,000 | 17,500,000 | 14,421,000 |
| Cities (Nogales-LA) | | 9,600,000 | - | | 9,600,000 | 9,600,000 | - |
| Betterments (Cities/Metrolink) | | 17,773,575 | - | | 17,773,575 | 17,084,825 | 688,750 |
| MWD (Brea Canyon) | | 2,207,402 | - | | 2,207,402 | 2,207,402 | - |
| | Subtotal | 61,501,977 | - | | 61,501,977 | 46,392,227 | 15,109,750 |
| TOTAL GRANTS | | 1,224,419,524 | (63,322,199) | | 1,161,097,325 | 1,072,416,741 | 88,680,584 |
| Other Income | | | | | | | |
| Property Rental Income | | 34,291 | - | | 34,291 | - | 34,291 |
| Net Investment Income | | - | - | | - | - | - |
| | Subtotal | 34,291 | - | | 34,291 | - | 34,291 |
| TOTAL ACE Construction | | 1,224,453,815 | (63,322,199) | | 1,161,131,616 | 1,072,416,741 | 88,714,875 |

Notes:

- Transferred by LA County to ACE for the Nogales-LA project.
- Federal budgetary reduction.
- Appropriations reduced by 15%.
- \$18K for Ramona lapsed in June 2008 prior to project closeout.
- \$19.7 million programmed to other entities (yet to be allocated by State).
- Allocated to City of LA.
- Adjustment made by MTA based on 17% of total project cost.
- An additional \$358M for the ACE Project is included in the voter approved Measure R program and is expected to be available between Fiscal Years 2011 and 2019 per Metro Board action of March 2010.
- Based on individual projects, UPRR paid 1/2 before and 1/2 after construction phase.
\$30.921M committed by UPRR but due to phasing of construction, only \$13.458M has been received.

EXHIBIT II - ACE PROJECTS FUNDING BY SOURCE
As of December 31, 2011

(\$ 000's)

| Project | Task | Fed # | TEA-21 | NOF/STP | SAFETEA | ITIP | ISTEA/CMQ | FRA/PUC | TCRP | Prop 1B | MTA 1 | MTA 2 | MTA 3 | MTA 4 | MTA 5 | MTA 6 | MTA 7 | Railroad | Cities/Better |
|--------------------------------------|------------------|-------|-----------|---------|---------|--------|-----------|---------|--------|---------|---------|--------|--------|--------|--------|---------|--------|----------|---------------|
| Total | | | | | | | | | | | | | | | | | | | |
| Brea Canyon | Design ROW (027) | (019) | 4,556 | 1,191 | - | - | 410 | - | - | - | - | - | - | - | - | - | - | - | - |
| | Constr TCRP | (027) | 12,881 | - | 1,485 | 5,521 | - | - | 2,500 | - | - | - | - | 455 | - | - | - | - | - |
| Brea Canyon Sub-Total | | | 49,959 | - | - | - | - | - | 2,000 | - | - | - | - | 3,875 | - | - | - | - | - |
| Brea Canyon Better | | n/a | 67,396 | 1,191 | 1,485 | 5,521 | 410 | 5,000 | 21,007 | - | - | - | - | 21,745 | - | - | - | - | 2,207 |
| Brea Canyon Total | | | 6,507 | - | - | - | - | 5,000 | 25,507 | - | - | - | - | 26,075 | - | - | - | - | 2,207 |
| | | | 73,903 | 1,191 | 1,485 | 5,521 | 410 | 5,000 | 25,507 | - | - | - | - | 26,075 | - | - | - | - | 6,507 |
| Ramona | Design ROW (002) | (002) | 4,355 | 3,560 | - | - | - | - | - | - | 795 | - | - | - | - | - | - | - | 8,715 |
| | Constr | (002) | 8,156 | 2,400 | - | - | - | - | - | - | 215 | 5,494 | 48 | - | - | - | - | - | - |
| Ramona Sub-Total | | | 38,839 | 16,684 | 4,158 | - | 5,533 | - | - | - | - | 8,083 | 2,324 | 1,057 | - | - | - | - | - |
| Ramona Better | | n/a | 51,350 | 22,644 | 4,158 | - | 5,533 | - | - | - | 1,010 | 13,577 | 2,372 | 1,057 | - | - | - | - | 1,000 |
| Ramona Total | | | 1,741 | - | - | - | - | - | - | - | - | - | - | 623 | - | - | - | - | 1,000 |
| | | | 53,091 | 22,644 | 4,158 | - | 5,533 | - | - | - | 1,010 | 13,577 | 2,372 | 1,680 | - | - | - | - | 1,119 |
| Nogales-AH | Design ROW (005) | (005) | 4,034 | 2,560 | - | - | 1,473 | - | - | - | - | 1 | - | - | - | - | - | - | 1,119 |
| | Constr | (005) | 17,231 | 9,829 | 2,397 | - | 2,364 | - | - | - | 700 | 1,940 | - | - | - | - | - | - | - |
| Nogales-AH Sub-Total | | | 28,434 | 1,841 | - | - | 21,580 | - | 4,406 | - | 382 | 225 | - | - | - | - | - | - | - |
| Nogales-AH Better | | n/a | 49,698 | 14,230 | 2,397 | - | 25,417 | - | 4,406 | - | 1,082 | 2,166 | - | - | - | - | - | - | - |
| Nogales-AH Total | | | 100 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | | | 49,798 | 14,230 | 2,397 | - | 25,417 | - | 4,406 | - | 1,082 | 2,166 | - | - | - | - | - | - | 100 |
| Jump Start | Design ROW (001) | (001) | 8,057 | 6,072 | - | - | 265 | - | - | - | 1,541 | - | 179 | - | - | - | - | - | 100 |
| | Constr | (001) | 3,582 | 2,866 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Jump Start Sub-Total | | | 11,639 | 8,938 | - | - | 265 | - | - | - | 612 | 239 | (134) | - | - | - | - | - | - |
| JS - Mission | Design ROW (006) | (006) | 242 | 240 | - | - | - | - | - | - | 2,153 | 239 | 45 | - | - | - | - | - | - |
| | Constr | (015) | 158 | 160 | - | - | - | - | - | - | 2 | - | - | - | - | - | - | - | - |
| JS - Mission Sub-Total | | | 2,270 | 1,578 | - | - | - | - | - | - | - | (2) | - | - | - | - | - | - | - |
| | | | 2,670 | 1,978 | - | - | - | - | - | - | 515 | 96 | 81 | - | - | - | - | - | - |
| JS - Quad Gates | Constr | (016) | 4,832 | 3,863 | - | - | - | - | - | - | 517 | 94 | 81 | - | - | - | - | - | - |
| IRIS - Train | Constr | (007) | 2,936 | 2,164 | - | - | - | - | - | - | 888 | 38 | 43 | - | - | - | - | - | - |
| JS - Phase 1 | Constr | (008) | 3,553 | 2,845 | - | - | - | - | - | - | 374 | 167 | 231 | - | - | - | - | - | - |
| JS - Phase 2 | Constr | (014) | 4,991 | 3,992 | - | - | - | - | - | - | 96 | 615 | (2) | - | - | - | - | - | - |
| IRIS - Traffic | Constr | (021) | 3,520 | 2,502 | - | - | - | - | - | - | - | 1,000 | (1) | - | - | - | - | - | - |
| JS/Safety/IRIS Total | | | 34,141 | 26,282 | - | - | 265 | - | - | - | - | 727 | 290 | - | - | - | - | - | - |
| | | | 1,062,429 | 135,898 | 15,615 | 65,028 | 38,982 | 13,283 | 7,185 | 130,300 | 362,200 | 8,414 | 28,578 | 85,000 | 27,567 | 27,138 | 28,849 | 42,000 | 17,500 |
| Total Projects | | | 9,988 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Start-up/Misc | | n/a | 1,072,417 | 135,898 | 15,615 | 65,028 | 38,982 | 13,283 | 7,185 | 130,300 | 362,200 | 14,140 | 29,839 | 85,000 | 28,567 | 29,138 | 28,849 | 42,000 | 28,892 |
| Total ACE | | | 1,161,098 | 135,904 | 15,615 | 65,028 | 38,982 | 13,283 | 7,544 | 130,300 | 362,200 | 14,140 | 29,839 | 85,000 | 28,567 | 102,345 | 28,849 | 42,000 | 31,921 |
| Net Authorized Allocated to Projects | | | 1,072,417 | 135,898 | 15,615 | 65,028 | 38,982 | 13,283 | 7,185 | 130,300 | 362,200 | 14,140 | 29,839 | 85,000 | 28,567 | 29,138 | 28,849 | 42,000 | 29,581 |
| Surplus / (Shortfall) | | | 88,681 | 6 | (0) | (0) | 0 | (0) | 359 | - | - | - | - | - | 0 | 23,207 | - | 14,421 | 28,892 |
| Other Income | | | 34 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Surplus / (Shortfall) | | | 88,715 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

MTA 1: MOU P004367
MTA 2: MOU 8002
MTA 3-5: AMENDMENTS TO MOU 8002
MTA 6: MOU P000F1159 (Nogales-LA)
MTA 7: MOU 8002R (San Gabriel Trench)

EXHIBIT II - ACE PROJECTS FUNDING BY SOURCE
As of December 31, 2011

(\$ 000's)

| Project | Task | Fed # | TEA-21 | NCPD/STP | SAFETEA | ITIP | ISTEA/CMQ | FRA/PUC | TCRP | Prop 1B | MTA 1 | MTA 2 | MTA 3 | MTA 4 | MTA 5 | MTA 6 | MTA 7 | Railroad | Cities/Better |
|----------------------------|--------|-------|---------|----------|---------|--------|-----------|---------|---------|---------|-------|-------|--------|--------|-------|--------|--------|----------|---------------|
| Baldwin | Design | (017) | 5,209 | 3,013 | - | - | 753 | - | - | - | - | - | 495 | 696 | 251 | - | - | - | - |
| | ROW | (028) | 40,942 | - | 24,890 | - | - | - | - | - | - | - | 9,382 | 2,500 | 4,170 | - | - | - | - |
| | Constr | n/a | 26,857 | 2,373 | 570 | 20,186 | 1,043 | - | - | - | - | - | 0 | 0 | 2,685 | - | - | - | - |
| Baldwin Total | | | 73,008 | 5,386 | 570 | 45,076 | 1,797 | - | - | - | - | - | 9,877 | 3,196 | 7,106 | - | - | - | - |
| Puente | Design | (034) | 5,186 | - | 216 | - | - | - | - | - | - | - | - | 84 | 4,886 | - | - | - | - |
| | ROW | n/a | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | Constr | n/a | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Puente Total | | | 5,186 | - | 216 | - | - | - | - | - | - | - | - | 84 | 4,886 | - | - | - | - |
| Fairway | Design | (036) | 5,875 | - | 240 | - | - | - | - | - | - | - | - | 60 | 5,575 | - | - | - | - |
| | ROW | n/a | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | Constr | n/a | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Fairway Total | | | 5,875 | - | 240 | - | - | - | - | - | - | - | - | 60 | 5,575 | - | - | - | - |
| East End | Design | (003) | 4,295 | 1,952 | 1,240 | - | 952 | - | - | - | - | 97 | 54 | - | - | - | - | - | - |
| | ROW | (003) | 4,478 | 3,131 | - | - | 1,347 | - | - | - | - | - | - | - | - | - | - | - | - |
| | Design | (010) | 3,620 | 2,896 | - | - | 600 | - | - | - | 122 | 2 | - | - | - | - | - | - | - |
| | ROW | (010) | 9,431 | 5,718 | - | - | 2,255 | - | - | - | - | 286 | 919 | 253 | - | - | - | - | - |
| | Constr | TCRP | 57,376 | - | - | - | 407 | - | 46,780 | - | - | 433 | 9,757 | - | - | - | - | - | - |
| EE/Reservoir Total | | | 79,200 | 13,697 | 1,240 | - | 5,561 | - | 46,780 | - | 122 | 818 | 10,730 | 253 | - | - | - | - | - |
| Sunset | Design | (020) | 4,739 | - | - | - | - | - | 4,400 | - | - | - | 339 | - | - | - | - | - | - |
| | ROW | (026) | 3,146 | 100 | 2,063 | - | - | - | 100 | - | - | - | 565 | - | 318 | - | - | - | - |
| | Constr | TCRP | 80,043 | - | - | - | - | - | 47,720 | - | - | - | 14,607 | 16,691 | 1,025 | - | - | - | - |
| Sunset Sub-Total | | | 87,928 | 100 | - | 2,063 | - | - | 52,220 | - | - | - | 15,511 | 16,691 | 1,343 | - | - | - | - |
| Sunset Total | | | 94,362 | 100 | - | 2,063 | - | - | 52,220 | - | - | - | 15,511 | 16,691 | 1,343 | - | - | - | 6,434 |
| Temple | Design | (009) | 7,265 | 4,680 | - | - | - | - | - | - | 1,168 | 151 | 978 | 288 | - | - | - | - | - |
| | ROW | (009) | 12,367 | 7,768 | - | - | - | - | - | - | 969 | 1,370 | 2,260 | - | - | - | - | - | - |
| | Constr | (009) | 71,948 | 33,700 | 3,884 | - | - | 1,387 | - | - | 33 | 7,589 | 13,505 | 3,950 | - | - | - | 7,900 | - |
| Temple Total | | | 91,580 | 46,149 | 3,884 | - | - | 1,387 | - | - | 2,169 | 9,110 | 16,743 | 4,238 | - | - | - | 7,900 | - |
| Nogales-LA | Design | (032) | 3,725 | 932 | - | - | - | - | - | - | - | - | - | - | - | 785 | - | - | 2,008 |
| | ROW | (035) | 36,899 | 5,166 | - | - | 6,936 | 2,185 | - | - | - | - | - | - | - | 17,205 | - | - | 5,407 |
| | Constr | n/a | 51,034 | - | - | - | 6,347 | - | - | 25,600 | - | - | - | - | - | 8,228 | 10,859 | - | - |
| Nogales-LA Total | | | 91,658 | 6,098 | - | - | 13,283 | 2,185 | - | 25,600 | - | - | - | - | - | 8,228 | 28,849 | - | 7,415 |
| SG Trench | Design | (030) | 34,214 | 120 | 1,881 | 11,913 | - | - | - | - | 3 | 27 | 3,006 | 1,365 | - | - | 15,900 | - | - |
| | ROW | (030) | 28,285 | - | - | - | - | - | - | - | - | - | - | - | - | - | 26,100 | - | - |
| | Constr | n/a | 345,200 | - | - | - | - | - | 336,600 | - | - | - | - | - | - | - | - | 8,600 | 2,185 |
| SG Trench Sub-Total | | | 407,699 | 120 | 1,881 | 11,913 | - | - | 336,600 | - | 3 | 27 | 3,006 | 1,365 | - | - | 42,000 | 8,600 | 2,185 |
| | Better | | 2,925 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,925 |
| SG Trench Total | | | 410,624 | 120 | 1,881 | 11,913 | - | - | 336,600 | - | 3 | 27 | 3,006 | 1,365 | - | - | 42,000 | 8,600 | 5,110 |

Exhibit III

ACE Projects Allocation vs. Actual Summary

As of December 31, 2011

(\$ 000's)

| Project | Cost Estimate (1997) | Cost Estimate (2006) | Allocated (Exhibit II) | Betterments /Other | Railroad | Total Allocated | ITD Expenditures (Exhibit V) | Estimate at Completion Exhibit IV | Variance (Allocated vs. Estimate at Completion) | Status |
|------------------------------------|----------------------|----------------------|------------------------|--------------------|-----------------|---------------------|------------------------------|-----------------------------------|---|---------|
| Start-up/Misc | | | \$ 9,988 | | | \$ 9,988 | \$ 7,814 | | | |
| Active Projects | | | | | | | | | | |
| 1 Baldwin Avenue | \$ 23,994 | \$ 64,765 | \$ 73,008 | \$ - | \$ - | \$ 73,008 | \$ 36,291 | \$ 85,207 | \$ (12,199) | Active |
| 2 Fairway Drive (LA) | N/A | N/A | 5,875 | - | - | 5,875 | 1,374 | 5,875 | - | PE only |
| 3 Nogales South (LA) | 24,307 | N/A | 91,658 | - | - | 91,658 | 19,694 | 97,058 | (5,400) | Active |
| 4 Puente Avenue | N/A | N/A | 5,186 | - | - | 5,186 | 1,776 | 5,875 | (689) | PE only |
| 5 San Gabriel Trench | 198,205 | N/A | 407,699 | 2,925 | - | 410,624 | 44,142 | 498,485 | (90,786) | Active |
| 6 Sunset Avenue | 22,259 | 70,502 | 87,928 | 6,434 | - | 94,362 | 86,607 | 87,892 | 36 | Active |
| 7 Temple Avenue | 35,985 | 80,272 | 91,580 | - | 7,900 | 91,580 | 88,191 | 92,120 | (540) | Active |
| 8 Brea Canyon | 26,571 | 64,401 | 67,396 | 6,507 | - | 73,903 | 67,394 | 67,396 | - | Closed |
| 9 East End/Reservoir | 56,571 | 69,180 | 79,200 | - | - | 79,200 | 78,960 | 79,012 | 188 | Closed |
| 10 Jump Start/Crossing Safety/IRIS | 61,000 | 35,200 | 34,141 | - | - | 34,141 | 34,142 | 34,142 | (1) | Closed |
| 11 Nogales North (Alh) | 39,636 | 54,599 | 49,698 | 100 | - | 49,798 | 49,698 | 49,698 | - | Closed |
| 12 Ramona Blvd. | 14,489 | 47,102 | 51,350 | 1,741 | 1,000 | 53,091 | 51,350 | 51,350 | - | Closed |
| Subtotal | \$ 503,017 | \$ 486,021 | \$ 1,054,707 | \$ 17,707 | \$ 8,900 | \$ 1,072,417 | \$ 567,432 | \$ 1,154,110 | \$ (109,391) | |
| Inactive Projects | | | | | | | | | | |
| 13 Montebello Blvd. | | | | | | | | | | |
| 14 Rose Hills Road | | | | | | | | | | |
| 15 Turnbull Canyon Road | | | | | | | | | | |
| 16 Fairway Drive (Alh) | | | | | | | | | | |

| | | |
|-------------------------------------|-------------------------|---------------------|
| Estimated Total Project Cost | \$ 950,000 | \$ 1,400,000 |
| Net Authorized | \$ 1,161,097,325 | |
| Allocated | 1,072,416,741 | |
| Available | \$88,680,584 | |

** Excludes Start-up/Misc of \$9,988M to agree with Exhibit-IV EAC.

Exhibit IV Expenditure Forecast (Active Projects)

As of December 31, 2011
(\$ millions)

| ITD 2010 | Actual 2011 | Budget Estimate ^A | | Forecast | | | EAC ^B | |
|-----------------------|----------------|------------------------------|------|----------|-------|---------|------------------|---------|
| | | 2012 | 2013 | 2014 | 2015 | Q1 FY12 | Change | Q2 FY12 |
| Active Projects | | | | | | | | |
| Baldwin | 34.3 | 1.2 | 9.3 | 1.6 | 22.9 | 23.3 | 1.9 | 85.2 |
| Fairway Drive (LA) | | 0.7 | 2.6 | 3.0 | 2.2 | | | 5.9 |
| Nogales (LA) | 4.7 | 12.6 | 17.4 | 7.1 | 29.6 | 29.9 | 13.3 | 97.1 |
| Puente Ave | | 0.6 | 2.9 | 2.2 | 3.1 | | | 5.9 |
| San Gabriel Trench | 25.4 | 16.3 | 35.1 | 27.3 | 109.9 | 180.5 | 139.0 | 498.5 |
| Sunset | 76.6 | 9.4 | 0.3 | 1.9 | | | | 87.9 |
| Temple | 85.9 | 2.3 | | | 3.9 | | | 92.1 |
| Completed Projects | | | | | | | | |
| Brea Cyn | 67.4 | 0.0 | | | | | | 67.4 |
| Crossing Safety/IRRIS | 34.1 | | | | | | | 34.1 |
| East End/Reservoir | 78.9 | 0.0 | | | | | | 79.0 |
| Nogales (Alh) | 49.7 | | | | | | | 49.7 |
| Ramona | 51.3 | | | | | | | 51.3 |
| Inactive Projects | | | | | | | | |
| Fairway Drive (Alh) | | | | | | | | |
| Montebello Blvd | | | | | | | | |
| Rose Hills Rd | | | | | | | | |
| Turnbull Canyon Rd | | | | | | | | |
| Total | 508.5 | 43.1 | 67.6 | 43.1 | 171.6 | 233.7 | 154.2 | 1,154.6 |
| | | | | | | | -0.5 | 1,154.1 |

Note: Project forecasts include indirect cost.

Note: Project forecasts include indirect cost.

^A 2012 estimate includes mid-year adjustments

^B EAC includes 2012 estimate

^C \$400k utility relocations

^D (\$900k) construction savings

Exhibit V

ACE Expenditures vs. Reimbursements

As of December 31, 2011

| Reimbursement Status (\$ 000) | | | | | | | | | |
|-----------------------------------|---------------------|------------|------------------------|-----------------|------------------|-----------------------------------|----------------------|--|--|
| Projects | ITD Expenditures | Received | Billed/Not Received | To Be Billed | MTA Retention | Indirect ¹ Costs | | | |
| | | | | | | Requiring Caltrans Approval | Unreim- burseable | | |
| Baldwin | \$ 36,291 | \$ 35,418 | \$ 291 | \$ 239 | \$ 343 | - | - | | |
| Fairway Drive | 1,374 | 287 | - | 1,084 | 3 | - | - | | |
| Nogales (LA) | 19,694 | 17,828 | 1,940 | (130) | 55 | - | - | | |
| Puente Ave. | 1,776 | 286 | - | 1,486 | 4 | - | - | | |
| SG Trench | 44,142 | 41,247 | 2,278 | 443 | 175 | - | - | | |
| Sunset | 86,607 | 84,387 | 1,456 | 618 | 146 | - | - | | |
| Temple | 88,191 | 87,529 | 31 | 6 | 625 | - | - | | |
| Brea Canyon | 67,394 | 67,401 | 28 | (324) | 289 | - | - | | |
| Crossing Safety / IRRIS | 34,142 | 33,788 | 15 | - | 338 | - | - | | |
| EE/Reservoir | 78,960 | 78,711 | 14 | - | 235 | - | - | | |
| Nogales (AH) | 49,698 | 49,640 | 3 | - | 55 | - | - | | |
| Ramona | 51,350 | 51,374 | 94 | (293) | 174 | - | - | | |
| Uncollected Indirect Exp. '08-'11 | - | - | - | - | - | - | - | | |
| Sub-total Projects | 559,618 | 547,897 | 6,151 | 3,129 | 2,441 | 1,335 | 1,335 | | |
| Project Administration | 7,814 | 7,706 | - | 108 | - | - | (191) | | |
| Total ACE | \$ 567,432 | \$ 555,602 | \$ 6,151 | \$ 3,237 | \$ 2,441 | \$ 1,335 | \$ (191) | | |

Notes:

1 - Represents carriedforward amounts from '08 and '09 that will be applied to indirect cost plans for Fiscal Years '12 and '13.

Exhibit VI

Project Schedules

As of December 31, 2011

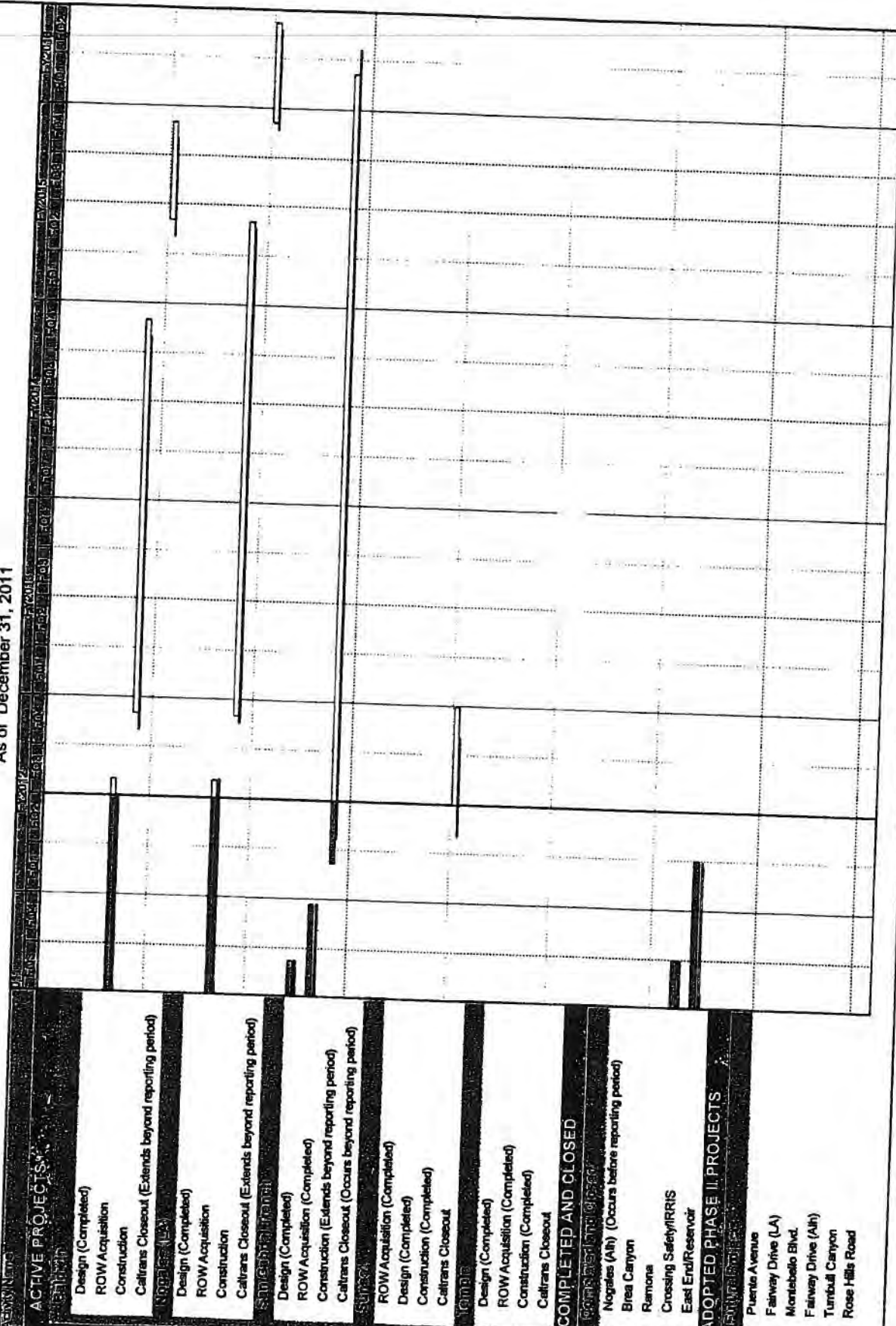


Exhibit VII

Treasury / Banking Investments

As of December 31, 2011

| | | |
|-----------------------------------|----|------------------|
| Operating Account | \$ | 225,640 |
| Money Market Account | | 91,779 * |
| Money Market (UPRR Contributions) | | 2,423,430 |
| Total cash on hand | | 2,740,849 |

Investments

LAIF

CBB - US Treasuries

Total investments

1,561,670

10,340,336

11,902,006

Billed / Not Received To Be Billed

MTA Retention

Indirect Expenses ('08 - '09)

Total Cash & Receivables

6,151,014

3,237,493

2,441,482

1,334,784

27,807,630

Outstanding Debt (Commercial Paper) Resources In Excess of Debt

20,000,000

\$ 7,807,630

* Note: Excludes \$2,283,000 of recovered project costs and advanced construction funds

Exhibit VII

Compliance with Banking / Investment Policy

As of December 31, 2011

| SGVCOG Authorized Investments Ref: # | Bayerische Landesbank Permitted Investment Ref: # | Deposit/ Investment Amount 12-31-11 | Bank Deposits | Maximum Maturity | Maximum Percent of Portfolio | Maximum Investment in One Issuer |
|--------------------------------------|---|-------------------------------------|--|------------------|------------------------------|----------------------------------|
| | | | Ace deposits are held by Citizens Business Bank (CBB) under a deposit agreement in amounts not to exceed \$50 million. Under the agreement, CBB maintains collateral deposits of at least 110% of the value of all ACE deposits at Bank of the West - Los Angeles in eligible securities. The CBB deposits accounts are: | | | |
| | | \$ 225,640 | Checking Account | | | |
| | | 4,798,209 | Money Market Accounts (2) * | | | |
| | | 5,023,849 | Total Deposits | | | |
| 1 | 1 | 10,340,336 | Permitted Investments U.S. Treasury Obligations | None Stated | None Stated | None Stated |
| 5 | 11 | 1,561,670 | State's Local Agency Investment Fund | None Stated | None Stated | None Stated |
| | | 11,902,006 | Total Investments | | | |
| | | \$ 16,925,855 | Total | | | |

SGVCOG and Bayerische Landesbank

1. United States Treasury notes, bonds, bills, or certificate of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest

SGVCOG

5. Notwithstanding any other provision of law, and local government official, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer of the State of California for deposit in the Local Agency Investment Fund for the purpose of investment.

11. State's Local Agency Investment Fund.

* Note: Includes \$2,283,000 of grant reimbursement for close out projects



San Gabriel Valley Council of Governments

3452 East Foothill Blvd. Suite 810, Pasadena, California 91107 Phone: (626) 564-9702 FAX: (626) 564-1116 E-Mail SGV@sgvcog.org

Date: March 15, 2012

To: Governing Board Delegates and Alternates

From: Charles Conway, Accountant/Auditor

Re: FY 2012 Investment Policy

RECOMMENDATION

Adopt the 2012 SGVCOG Investment Policy.

BACKGROUND

At the time the COG was formed in 1994 and during its early years, there were limited funds available. The Agency's operated a deficit during its first two years of operation. Therefore, the Agency had limited, if any, cash to invest. However, at that time, an investment policy was required and it was adopted and implemented. All available funds were required to be invested with local agency pools operated by LA County.

In 1998, the COG formed ACE and its investment policy was expanded to allow for broader investments with the government backed securities in response to the infusion of additional capital involved with ACE (\$950 million) capital improvement program. In 2001, The COG's investment policy was modified again to broaden the use of various instruments permitted in the State's Local Agency Investment Fund (LAIF). That same policy, which is modeled after the League of Cities' recommended policy, has remained in effect to this date.

The COG's external auditors review COG's investment policy and test the portfolio for compliance every year. That report is included in the COG's published financial statement. "Best Management Practice" recommends that the Governing Board take official action every year to restate and reaffirm the Agency's investment policy regardless of any lack of change in the current policy. The current policy is being presented in Attachment A for your review and consideration. There is no change being recommended at this time. The investment policy will be presented every year hereafter along with the proposed budget.

SAN GABRIEL VALLEY COUNCIL OF GOVERNMENTS
Statement of Investment Policy
Fiscal Year 2012

1. Purpose: The purpose of this San Gabriel Valley Council of Governments ("Council") Statement of Investment Policy ("Policy") is to comply with the requirements of California Government Code Section 53600 et seq. and to provide clear guidance for the investment of all monies of the Council.

2. Scope: This Policy applies to all investment activities and financial assets of the Council.

3. Definitions: Unless the context otherwise requires, the terms defined in this Policy shall for all purposes hereof and of any amendment hereof or supplement hereto have the meanings defined herein. Such definitions shall be equally applicable to both the singular and plural forms of any of the terms defined herein. Terms used herein and not otherwise defined shall have the meanings given such terms pursuant to the Government Code Section 53600 et seq. as such sections now exist and as they maybe hereafter amended.

4. Prudence: Investments shall be made in the context of the "Prudent Investor" standard which states that:

"When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Council. Within the limitations of this section and considering individual investments as part of an overall strategy, a trustee is authorized to acquire investments as authorized by law."

The "Prudent Investor" standard shall be applied in the context of managing the Funds. The Treasurer and other investment employees, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

5. Objectives: When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the primary objective of the Treasurer or his or her designee shall be to safeguard the principal of the funds under his or her control. The secondary objective shall be to meet the liquidity needs of the Council. The third objective shall be to achieve a return on the funds under the Treasurer's control.

6. Investment Authority: Pursuant to Council Resolution No. , the Treasurer is authorized to invest the Council's Funds in accordance with California Government Code Sections 53600, 16429.1 and 53684 et seq. Such investments shall be limited to the instruments authorized under Section 53610 and 53635 and further described in Appendix A.

7. Ethics and Conflicts of Interest: The Treasurer and other employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. The Treasurer and investment employees shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio and shall refrain from undertaking personal investment transactions with the

SAN GABRIEL VALLEY COUNCIL OF GOVERNMENTS
Statement of Investment Policy
Fiscal Year 2012

same individual with whom business is conducted on behalf of their entity. The Treasurer and investment employees are required to file annual disclosure statements as required by the Fair Political Practices Commission ("FPPC"). During the course of the year, if there is an event subject to disclosure that could impair the ability of the Treasurer or investment employees to make impartial decisions, the Board of Directors will be notified in writing within 10 days of the event.

8. Qualified Dealers and Institutions: The Council shall transact business only with banks, savings and loans, and registered investment securities dealers. The purchase of any investment, other than those purchased directly from the issuer, shall be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporation Code, who is a member of the National Association of Securities Dealers, or a member of a Federally regulated securities exchange, a National or State-Chartered Bank, a Federal or State Association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must meet the criteria set forth in Appendix B hereto and made a part hereof and must provide the Council with any and all information necessary for the Council to determine the financial institution's or broker/dealer's eligibility.

9. Deposits: The Council's money shall be deposited in any state or national bank, savings association or federal association, state or federal credit union, or federally insured industrial loan company, as defined in Section 53630 et seq., with the objective of realizing maximum return, consistent with prudent financial management, except that money shall not be deposited in any state or federal credit union if a member of the Board of Directors, or an employee of the Council, also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or supervisory committee, of the state or federal credit union. Deposits may be in inactive deposits, active deposits or interest-bearing deposits. The amount of the deposits cannot exceed the amount of the bank's, savings and loan's or credit union's paid up capital surplus.

The bank or savings and loan must secure the active and inactive deposits with eligible securities having a market value of 110% of the total amount of the deposits. State law also allows, as an eligible security, first trust deeds having a value of 150% of the total amount of the deposits. A third class of collateral is letters of credit drawn on the Federal Home Loan Bank (FHLB) of San Francisco having a value of 105% of the total amount of the deposits.

10. Authorized Investments: The Council is authorized to invest only in the investments described in Appendix A hereto, incorporated herein and made a part hereof, provided, however, that such investments are subject to the restrictions and prohibitions contained in the California Government Code and in Section 11 of this Investment Policy

11. Prohibited Investments and Transactions: The Council shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages.

The Council shall not invest any funds in any security that could result in zero interest accrual if held to maturity. However, the Council may hold prohibited instruments until their maturity dates. The limitation in this subdivision shall not apply to Council investments in shares of beneficial interest issued by diversified management companies registered under the Investment

SAN GABRIEL VALLEY COUNCIL OF GOVERNMENTS
Statement of Investment Policy
Fiscal Year 2012

Company Act of 1940 (15 U.S.C. Sec. 80a- 1, and following) that are authorized for investment pursuant to subdivision (k) of Section XII, above.

12. Collateral Requirements: California Government Code, Sections 53652 through 53667 requires depositories to post certain types and levels of collateral for public funds above the Federal Deposit Insurance Corporation ("FDIC") insurance amounts. The collateral requirements apply to bank deposits, both active (checking and savings accounts) and inactive (non-negotiable time certificates of deposit). Collateral is also required for repurchase agreements. The collateral level shall be valued daily and must be maintained at a level of 102% for the life of the repurchase agreement.

13. Safekeeping of Securities: The Treasurer is authorized to deposit for safekeeping, all securities owned by the Council, with a federal or state association (as defined by Section 5102 of the Financial Code), a trust company or a state or national bank located within this state or with the Federal Reserve Bank of San Francisco or any branch thereof within this state, or with any Federal Reserve bank or with any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the Council.

Collateral for repurchase agreements will be held by a third party custodian under the terms of a Public Securities Association ("PSA") master repurchase agreement. All securities will be received and delivered using standard delivery versus payment ("DVP") procedures which ensures that securities are deposited with the third party custodian prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts. Investments in the State Pool or money market mutual funds are undeliverable and are not subject to delivery or third party safekeeping. The Treasurer shall not be responsible for securities delivered to and receipted for by a financial institution until they are withdrawn from the financial institution by the Treasurer.

14. Diversification: Where this Investment Policy, including Appendix A, does not specify a limitation on the percentage of the Council's total investment portfolio may be invested in a single security type or with a single financial institution, with the exception of U.S. Treasury securities and authorized pools, no more than 50% of the Council's total investment portfolio may be invested in a single security type or with a single financial institution.

15 Maximum Maturities: Where this Investment Policy, including Appendix A, does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement authorized by this Investment Policy, that at the time of the investment has a term remaining to maturity in excess of five years, unless the Board of Directors has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board of Directors no less than three months prior to the investment.

16. Internal Controls: The Treasurer shall develop an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

SAN GABRIEL VALLEY COUNCIL OF GOVERNMENTS
Statement of Investment Policy
Fiscal Year 2012

17. Reporting: In accordance with Section 53607 of the Government Code, the Treasurer shall make a monthly report of the investment transactions conducted on behalf of the Council.

In accordance with Section 53646 of the Government Code, the Treasurer will annually render to the Board of Directors a statement of investment policy. The policy shall be reviewed and approved at a public meeting on an annual basis by the Board of Directors. Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such moneys shall be reinvested only as provided by this policy. Pursuant to Section 53646 of the Government Code, the Treasurer shall render a report (the "Report") to the Board of Directors and the internal auditor containing detailed information on all securities, investments, and moneys of the Council. The Report will be submitted on a quarterly basis and be provided to the Council within 30 days following the end of the quarter.

The Report will contain the following information on the funds that are subject to this investment policy:

- (1) the type of investment, name of the insurer, date of maturity, par and cost in each investment,
- (2) the weighted average maturity of the investments,
- (3) any investments, including loans and security lending programs, that are under the management of contracted parties,
- (4) the market value and source of the valuation,
- (5) a description of the compliance with the statement of investment policy,
- (6) a statement denoting the Council's ability to meet its pool's expenditure requirements for the next six months, and
- (7) if any Council moneys are invested in the County Pool, the investment report provided by the County Treasurer pursuant to Section 53684.

18. Policy Review: This Investment Policy shall be reviewed at least annually by the Treasurer and Board of Directors to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return, and its relevance to current law, financial and economic trends, and to meet the needs of the Council.

DATED: March 15, 2012
SUBMITTED BY:

Charles M. Conway
TREASURER

SAN GABRIEL VALLEY COUNCIL OF GOVERNMENTS
Statement of Investment Policy
Fiscal Year 2012

APPENDIX A
AUTHORIZED INVESTMENTS

(1) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

(2) Negotiable certificates of deposits issued by a nationally or state-chartered bank or a state or federal association (as defined by Section 5102 of the Financial Code) or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 30 percent of the agency's surplus money which may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposits do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638.

(3) Shares of beneficial interest issued by diversified management companies, as defined in Section 23701 of the Revenue and Taxation Code, investing in the securities and obligations as authorized by subdivisions (a) to (l), inclusive, of this section and that comply with the investment restrictions of Article 1 (commencing with Section 53600) and Article 2 (commencing with Section 53630). To be eligible for investment pursuant to this subdivision, these companies shall either:

(a) Attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services.

(b) Retain an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations as authorized by subdivisions (a) to (m), inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000).

The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that these companies may charge and shall not exceed 15 percent of the Council's surplus money that may be invested pursuant to this section.

(4) Notwithstanding anything to the contrary contained in this section, Section 53635, or any other provision of law, moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of the Council, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the Council providing for the issuance.

(5) Notwithstanding any other provision of law, an local government official, with the consent of the governing body of that agency, having money in its treasury not required for

SAN GABRIEL VALLEY COUNCIL OF GOVERNMENTS
Statement of Investment Policy
Fiscal Year 2012

APPENDIX A
AUTHORIZED INVESTMENTS

immediate needs, may remit the money to the Treasurer of the State of California for deposit in the Local Agency Investment Fund for the purpose of investment.

SAN GABRIEL VALLEY COUNCIL OF GOVERNMENTS
Statement of Investment Policy
Fiscal Year 2012

APPENDIX B
INVESTMENT CRITERIA FOR FINANCIAL INSTITUTIONS

The Council requires that each financial institution submit current financial statements which are evaluated by staff prior to the investment of funds. The following criteria are used:

The institution must have been in business at least three years.

The institution must submit audited financial statements.

The institution must have assets of at least \$50 million and a net worth to liability ratio of 3.5% to 1.

Investments of less than 180 days to maturity can use a net worth of asset ratio of 3.0% to 1.

Investments in Credit Unions require an Equity (net worth) to Asset Value of 5.0%. The loan balance to share draft ratio is compared to industry standards, but should not exceed 90%. The Council may invest funds for a period up to 120 days in institutions with a Regular Reserve to Loan Balance ratio of at least 3.25%. For longer periods of time, the ratio must be at least 4.0%.

In addition, examination is made of the Reserve for Loan Losses category to evaluate the financial trend of the institution's asset base. When available, data is evaluated regarding the level of non-performing assets (Le., loans no longer paying interest and/or principal in the amount called for in the original contract agreement). Comparison is made of institution ratio values to the industry averages.

Under deposits, if data is available, we track the ratio of \$100,000 certificates of deposit (brokered money) to the total deposit base. A percent greater than 50% is an area of concern.

Whenever possible, the use of several year's financial data is evaluated present a trend activity in the institution.

It is also required that interest be paid on a monthly basis; current law only requires quarterly payments. No more than \$100,000 is placed in any savings and loan, small bank, or credit union.



San Gabriel Valley Council of Governments

1000 South Fremont Ave., Unit 42, Alhambra, California 91803 Phone: (626) 457-1800 FAX: (626) 457-1285 E-Mail SGV@sgvcog.org

DATE: March 7, 2012

TO: City Managers' Steering Committee

FROM: Nicholas T. Conway, Executive Director

RE: San Gabriel Valley Small Business Development Center

Recommended Action

For information only.

Background

Two years ago, the Small Business Development Center (SBDC) that had been located at Mt. SAC closed, making the San Gabriel Valley the only area in metropolitan Los Angeles without an SBDC. Because of the importance of small businesses in the San Gabriel Valley, several of our cities expressed interest in working to bring back an SBDC to the San Gabriel Valley. As such, the COG has partnered with the Economic Partnership, Representatives Judy Chu and Grace Napolitano, as well as local educational institutions, in pursuit of SBA funding to support this effort. The Housing Community and Economic Development (HCED) Committee has identified bringing SBDCs back to the San Gabriel Valley as one of its six-month goals and objectives. In cooperation with any interested colleges, the HCED Committee hopes to open as many as four regional SBDCs in the San Gabriel Valley, in order to serve all parts of the region.

Beginning in December 2011, the Chair of the HCED Committee, the Director of the San Gabriel Valley Economic Partnership, and myself began meeting with representatives from Cal State L.A., Cal Poly Pomona, and the 4 community colleges in the San Gabriel Valley (Mt. SAC, Citrus College, Pasadena City College, and Rio Hondo College) to determine how to move forward. Throughout January and February 2012, this group has continued to meet in order to finalize participation in the project, create a consortium of all interested colleges, and develop a strategy for moving forward. With the excitement surrounding this proposal and the urging of Representative Judy Chu, the COG hoped to respond to the SBA's procurement for an SBDC by the spring of 2012, with a center operational by summer 2012.

The educational institutions have remained committed to this project. However, due to budget cuts, they have expressed concern about the speed with which the COG was hoping to open the SBDC. They have asked that the timeline for responding to the SBA's procurement and for opening an SBDC be pushed back. As such, the COG now hopes to respond to the SBA's procurement by the summer of 2012, with a center operational by fall 2012. In order to continue the momentum of the project and to be prepared for the new timeline, the SGVCOG and the Partnership will continue to meet with local educational institutions.

In conjunction with its efforts to bring SBDCs back to the San Gabriel Valley, the HCED Committee is also looking to develop a strategy to provide additional services for San Gabriel Valley businesses. The HCED Committee is looking into the possibility of creating an ad hoc committee to address economic development in the San Gabriel Valley.



Alameda Corridor-East Construction Authority

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

DATE: March 15, 2012

MEMO TO: San Gabriel Valley Council of Governments Governing Board

FROM: Rick Richmond
Chief Executive Officer

SUBJECT: Removal of Integrated Rail Roadway Interface System (IRRIS)
from the Scope of the ACE Project

RECOMMENDATION

The ACE Board recommends the SGVCOG Governing Board approve removal of the IRRIS Project from the scope of the ACE Project.

BACKGROUND

An advanced signal system demonstration project, later to be known as IRRIS, was included in the original adoption of the ACE Project by SGVCOG in the late 1990s. The ACE Construction Authority began implementing IRRIS in 2000 and continued system installation, testing, modification and failure analysis through mid-2009 at which time we suspended further work on the project. At that time, ACE concluded that successful completion of the project was by no means assured, and the time it would take and ultimate cost could not be reliability predicted. Further, the difficulties and cost of keeping a relatively sophisticated, integrated series of technical components operating accurately and reliability over an extended period – a responsibility which would shift to the City of Pomona by prior agreement – would be a significant burden.

Attached to this recommendation is a more detailed explanation of the history of the project which went to the ACE Board in June 2009.

MTA, Caltrans and the Federal Highway Administration have all approved the closeout of the demonstration project. No grant reimbursement is being requested.

The ACE Board approved this scope change at their October 24, 2011 meeting and it is expected to be considered at the March 15 SGVCOG Transportation Committee meeting.

Attachment – June 22, 2009 Recommendation to ACE Board Regarding IRRIS



Alameda Corridor-East Construction Authority

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

MEMO TO: ACE Construction Authority Board Members & Alternates

FROM: Rick Richmond
Chief Executive Officer

DATE: June 22, 2009

SUBJECT: Approval of Suspension of IRRIS Project

RECOMMENDATION: Staff recommends that we suspend the continued development of the Integrated Rail Roadway Interface System (IRRIS), transfer ownership of traffic control components to the City of Pomona, and monitor future train control technology to consider its usefulness in achieving the original objectives of the IRRIS program.

BACKGROUND: Development of an advanced signal system demonstration project was one of the elements of the Alameda Corridor-East (ACE) Project adopted by the San Gabriel Valley Council of Governments (SGVCOG) in the late 1990s. The demonstration project, later named IRRIS, was intended to improve mobility for motorists trying to get across future unseparated grade crossings by:

- Accurately predicting crossing gate down times, and
- Where warranted redirect traffic to nearby grade separated crossings through changeable message signs and traffic signal timing adjustments, and
- Provide crossing delay information to emergency responders.

An implementation plan for the project selected Pomona as the most promising location to test the application of advanced signalization techniques. The demonstration project was to consist of three project elements:

- A traffic subsystem including upgraded control software, upgraded signal equipment, changeable message signs and vehicle detectors encompassing an approximate 112 square block area of central Pomona;
- A railroad subsystem which would detect train location, length and speed at 19 separate locations over a 12-mile length, and communicate the necessary information to;
- A traffic control center which would "read" the train information and determine whether to activate the traffic re-routing advisory.

Project cost was estimated at \$7.2 million, consisting of \$5.65 million for hardware, software and construction and \$1.55 million for technical services.

Contracts for the field communications and train detection equipment were awarded in 2001, traffic control system software was purchased in late 2002 and a contract for the upgraded traffic control system was awarded in late 2003. A pilot installation of the train detection system was conducted in 2003; full installation of the system was authorized with the scheduled completion of late 2004 with acceptance testing to follow.

Testing in early 2005 revealed that the train detection component of the system was not meeting the requirements for reliable and accurate train detection. The train detection system vendor, EVA Signal Corporation, performed a series of upgrades and retests throughout 2005 continuing up to August 2006. By this time the firm was experiencing severe financial difficulties and obvious trouble with supporting their installation in Pomona. In October 2006 we found them in default of their contract. About the same time EVA filed for bankruptcy. Through Counsel we pursued remedy through their performance bond; Counsel advised us that preliminary acceptance of the pilot installation (3 of 19 sites) and the relatively small value of the bond made meaningful recovery unlikely.

In March 2007 you authorized a contract with Automated Switching and Controls, Inc. (ASCI), who provided the project's communications system, to evaluate alternative train detection systems. ASCI evaluated five different technologies, recommended a new generation of magnetometers (the type of detection which failed earlier), and estimated their installed cost at \$421,000.

Current Situation: Staff is recommending that we suspend further development of the IRRIS Project based on these considerations:

- Remaining Uncertainties – while the evaluation of a replacement train detection system has been thorough and appears sound, the remaining project components would still have to be integrated at an undetermined cost and duration, technical support resources (consultants) would have to be remobilized and, if our experience is any guide, there will be still be significant challenges in store;
- Prospects for Long Term Success – Beyond the challenge of getting the system to meet accuracy and reliability expectations, the system will require long term operation and maintenance attention. This was recognized at the outset of the project and we have a project agreement with the City of Pomona to support the project after acceptance. Again, our experience has shown us that maintaining a moderately sophisticated technological application like IRRIS in the demanding environment of an operating railroad will not be easy or inexpensive. In recent

discussion on this subject City of Pomona staff have expressed concerns over this.

- Evolution of Alternative Relevant Technology – in the aftermath of last year's Metrolink/UPRR accident in Chatsworth, major attention is going into the development of a more effective train control system using newer technologies. Positive Train Control is expected to generate train tracking and communications capabilities which could potentially be used for purposes akin to IRRIS, and the urgency associated with this effort is expected to produce results within the next few years.

Financial Considerations – A total of \$6,445,027 has been charged to the IRRIS project to date. All contract work and professional services were completed and accepted with the exception of the train detection system mentioned above. The amount paid on that contract was \$1,041,542.

Of the \$6.445 million spent, \$3.5 million was spent on the planning, design and installation of the upgraded traffic signal system and changeable message signs, most of which has been in use since 2005 and will have lasting public benefit. A total of \$2.9 million was spent on the planning, design and installation of the railroad and communications components of the project, which would not be used if this recommendation is approved.

Next Steps – As mentioned above, we have had initial discussions with Pomona staff regarding the future use of the traffic equipment already installed. Should the project be suspended we will also need to discuss with the Union Pacific the disposition of equipment installed on their right-of-way.

If suspension is approved, a request will have to be made to the SGVCOG for an amendment to the scope of this adopted ACE Project.

Finally, if further work on IRRIS is suspended, staff intends to follow the progress of Positive Train Control and its potential applicability to the objectives of the IRRIS project.



San Gabriel Valley Council of Governments

1000 S. Fremont Ave, Unit 42, Bldg A10, Alhambra, CA 91803 Phone: (626) 457-1800 FAX: (626) 457-1285 E-Mail SGV@sgvcog.org

Date: March 7, 2012

To: City Managers' Steering Committee

From: Nicholas T. Conway, Executive Director

Re: Citygate Associates, LLC Organizational Management Audit

Recommended Action

For information only.

Background

In July 2011, the SGVCOG Governing Board authorized the COG President to form an Ad Hoc Committee to develop a Request for Proposals (RFP) and select a management consulting firm to undertake a Management and Organization Audit of the SGVCOG. Subsequently, I appointed five individuals to serve on this ad hoc committee:

- Angel Carrillo (SGVCOG President),
- Mary Ann Lutz (Second Vice President),
- Tim Spohn (former Chair of the ACE Board),
- Daryl Parrish (Chair, City Managers' Steering Committee Chair)
- Fran Delach (former CM-Azusa).

After undertaking a public procurement process, the ad hoc committee recommended the award of contract to Citygate Associates, LLC at the October 2011 Governing Board meeting for an amount not-to-exceed \$19,949.

As set forth in their proposal, the consultant's work plan included conducting more than 20 one-on-one interviews; collecting and analyzing financial and operational data; reviewing systems, policies and procedures, including the COG's existing management services contract, and assessing "best management practices; and comparative analysis of Gateway Cities COG; evaluating the current organization structure and staff resources and formulating recommendations to address needed and desired outcomes.

At the February Governing Board meeting, Dave DeRoos, President of Citygate Associates LLC, and Jim Evans, Project Manager, provided a presentation on the methods and findings of its Organizational Management Audit. The major findings of the Report included the following:

- ✓ The reporting system currently in place, in which the five staff members report directly to the Executive Director, is efficient.
- ✓ SGVCOG is following best practices in its record-keeping and grant management.
- ✓ SGVCOG member agencies are very pleased with the work of SGVCOG's contracted

staff. In each of the last three annual performance reviews of the Executive Director—most recently completed in 2010—over 85% of respondents rated the Executive Director’s work as “superior” or “above average” in all categories.

- ✓ The internal controls in place maintain the best practices concerning the core activities and grant programs maintained by the SGVCOG.
- ✓ The COG’s organization and management structure is unique among the seven other COGs in LA County, and the only one that is “privatized” (i.e. Foothill Transit Model).
- ✓ The current organizational structure allows for the creation of an appearance of a conflict of interest between managing the SGVCOG and administering the grant programs. This can be resolved by organizational realignment.
- ✓ There is ambiguity in the roles and responsibilities—specifically related to accountability, project planning, and budgeting of component projects—of the SGVCOG and the overall ACE project.

The consultant’s major recommendations included the following:

- ✓ Complete implementation of Caltrans audit and corrective plan
- ✓ Investigate costs of bringing core staff “in-house”
- ✓ Clarify and reiterate the COG’s oversight role related to the ACE project
- ✓ Review long-term goal and mission of organization

Governing Board Action

Following discussion, the Governing Board voted to form an ad hoc committee, to be chaired by Joseph Gonzales, Councilmember from the City of South El Monte, to work with the City Managers’ Steering Committee to undertake the following tasks:

- 1) To review Citygate recommendations to include bringing staff in house;
- 2) To determine whether to use Citygate Associates for additional services;
- 3) If using Citygate Associates LLC, to cap additional expenditures in an amount not to exceed \$5000.00;
- 4) To make recommendations to Governing Board on “next steps.”