KPMG

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Basic Financial Statements

June 30, 2002 and 2001

(With Independent Auditors' Report Thereon)

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Table of Contents

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

June 30, 2002 and 2001

Description of Basic Financial Statements

The Authority presents its basic financial statements using the economic resources measurement focus and full accrual basis of accounting. As a Business Type Activity, the Authority's basic financial statements include a balance sheet, statement of revenues, expenses, and changes in net assets, and statement of cash flows. The basic financial statements also include notes that explain some of the information in the` financial statements and provide more detailed data.

Condensed Financial Position Information

The following condensed financial information provides an overview of the Authority's financial position for the fiscal year ended June 30, 2002.

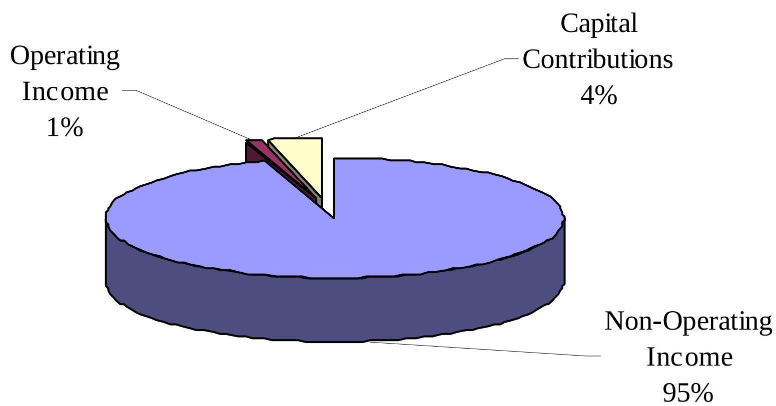
Assets	June 30 2002	June 30 2001	Change
Assets:			
Capital assets, net	$ 1,879,446,087	1,547,903,974	21%
Other assets	368,617,289	661,321,951	(44)%
Total assets	2,248,063,376	2,209,225,925	
Liabilities:			
Long-term liabilities	1,672,464,454	1,643,606,424	2%
Other liabilities	54,769,245	101,695,744	(46)%
Total liabilities	1,727,233,699	1,745,302,168	
Net assets:			
Invested in capital assets, net of debt	316,299,074	(15,243,039)	2,175%
Restricted for debt service	75,974,012	129,860,400	(41)%
Restricted for capital projects	128,556,591	349,306,396	(63)%
Total net assets	$ 520,829,677	463,923,757	12%

(a) Net Assets

Net assets, the difference between assets and liabilities, increased by $56.9 million or 12% from July 1, 2001 to June 30, 2002. This increase consists of $6.5 million from operating income, $6 million of capital contributions, and $44.4 million of nonoperating income.

The chart below provides a graphical representation of the cumulative sources of net assets through June 30, 2002.

Cumulative Sources of Net Assets Through June 30, 2002



(b) *Capital Assets*

Net capital assets which is made up of property, plant, and equipment increased by $331.5 million or 21%, due primarily to capital projects costs incurred during the year on the Alameda Corridor Project. This increase is partially offset by higher depreciation associated with assets moved from construction-in-progress to in service assets during the fiscal year. The Alameda Corridor Project was substantially complete on April 15, 2002 when revenue operations began. However, capital project costs are continuing to be incurred on various elements of the Project.

(c) *Other Assets*

Other assets consist of cash, investments, receivables, condemnation deposits, and prepaid expenses. Other assets declined by $292.7 million or 44% due primarily to decreases in cash and investments. Cash and investments decreased by $263.2 million during the fiscal year because the Authority received a significant part of the Project's overall funding (revenue bonds and Department of Transportation (DOT) loan) in prior fiscal years. The funds were invested at the time of receipt and were periodically drawn down to fund Project expenditures.

Receivables decreased by $4.8 million. Of this amount, $2.8 million is related to condemnation deposits and purchased interest due to the closure of previously outstanding condemnation proceedings. Grants receivable decreased by $16.1 million due to collection of various grants receivable in the prior period and diminished grant activities during the current fiscal year. Such increases were offset by a $14.1 million increase in other receivables. Other receivables were higher due to increases in cost reimbursements billed to third parties.

Prepaid expenses increased by $1 million due to operating insurance purchased on the date of substantial completion of the Alameda Corridor Project. The prepaid amount reflects the amount paid during the current fiscal year, which will be expensed in fiscal year 2003.

(d) Long-Term Liabilities

Long-term liabilities increased by $28.9 million from the prior year due to additional interest accrual on the notes payable to the U.S. Department of Transportation. As of June 30, 2002, none of the accrued interest payable was currently due. The Authority has made no payment on the cumulative accrued interest amount. Consequently, there have been no reductions to the prior year accrued interest amount.

(e) Other Liabilities

Other liabilities consist of accounts payable, retention payable, right of way payable, deferred revenue, settlement payable, miscellaneous payables, and the current portion of accrued interest payable on the U.S. DOT notes payable. Contract retentions, right-of-way acquisition payable, and accounts payable decreased by $48.6 million from the prior year. Accounts payable decreased by $26.7 million due to reduced project expenses. Contract retentions decreased by $25.1 million due to the release of previously held contract retentions as a result of achieving substantial completion of the Project. Right-of-way acquisition payable decreased by $2.3 million due to closing of outstanding right-of-way condemnation cases. Settlements payable decreased by $0.6 million from fiscal year 2001 due to the final installment payment on the Corridor Cities Settlement Agreement. These decreases are partially offset by a $6.1 million increase in deferred revenue due to recognition of various advance receipts from third parties for future Project costs. Accrued interest payable increased by $1.6 million due of accrued U.S. Department of Transportation interest payable that is due during the upcoming fiscal year.

(f) Net Assets Invested in Capital Assets, Net of Related Debt

Net assets invested in capital assets, net of related debt increased by $331.5 million or 2,175% from the prior year reflecting the Authority's ongoing capital project activities. During the year, capital project costs on the Alameda Corridor project, including Pacific Coast Highway (PCH) Grade separation project, were $330.2 million.

(g) Net Assets Restricted for Debt Service

Net assets restricted for debt service decreased by $53.9 million or 41% from last fiscal year. Partially offset by investment earnings of $6.1 million, this decrease is due to $60 million in debt service payments, consisting of interest only, made during the year.

(h) Net Assets Restricted for Capital Projects

Net assets restricted for capital projects represent unspent portions of debt proceeds that are not restricted for debt service. It also includes the remaining amount of cash received as contributions or from revenue operations that is restricted for acquisition and construction of capital assets. Net assets restricted for capital projects decreased by $190.2 million or 44%. This decrease is entirely related to cash used to acquire and construct capital assets.

(Continued)

Summary of Operations and Changes in Net Assets

The increase in net assets for fiscal year 2002 was $56.9 million or 12%. The table summarizes sources of net assets and the increase from fiscal year 2001 to fiscal year 2002.

	Year ended June 30		
	2002	**2001**	**Change**
Operating revenues:			
Use fee charges	$ 11,145,337	—	—%
Maintenance-of-way charges	638,582	—	—
Total operating revenues	11,783,919	—	
Operating expenses:			
Salaries and benefits	2,445,769	2,555,281	(4)
Administrative expenses	1,929,696	1,008,495	91
Maintenance-of-way	638,582	—	—
Total operating expenses	5,014,047	3,563,776	41
Operating income (loss)	6,769,872	(3,563,776)	290
Depreciation	222,699	183,635	21
Nonoperating revenues (expenses):			
Interest and investment revenue, net	9,432,933	28,513,012	(67)
Grants	34,821,555	175,064,910	(80)
Other revenue	104,260	31,439	232
Total nonoperating revenues	44,358,748	203,609,361	(78)
Income before capital contributions	50,905,921	199,861,950	(75)
Capital contributions	6,000,000	—	—
Change in net assets	56,905,921	199,861,950	(72)
Total net assets – beginning	463,923,756	264,061,807	76
Total net assets – ending	$ 520,829,677	463,923,757	12

(Continued)

(a) Operating Revenues

In fiscal year 2001, the Authority had no operating revenues. Revenue operations on the Corridor began on April 15, 2002. Operating revenues shown in the summary above represent fees assessed on the railroads for the use and maintenance of the Corridor from April 15, 2002 to June 30, 2002. Use fee revenues aggregated $11,145,337 or 95% of operating revenues while the corresponding maintenance-of-way revenues aggregated $638,582 or 5% of operating revenues.

(b) Operating Expenses

Operating expenses consists of salaries, benefits, maintenance-of-way, and administrative costs. During the year, operating expenses (excluding depreciation) increased by $1,450,271, or 41%. This increase is entirely due from maintenance-of-way expenses associated with the Corridor operations and costs associated with the Corridor Opening Ceremonies.

Depreciation expense increased by $39,064 or 21% due to depreciation on a new building placed in service at the end of fiscal year 2001.

(c) Nonoperating Revenues

Nonoperating revenues consists of interest earnings, capital contributions, and miscellaneous revenues. Capital contributions are grants from local, state, and federal sources that are for the construction and acquisition of capital assets. During the fiscal year ended June 30, 2002, nonoperating revenues decreased by $153.3 million, or 75%. The decrease includes $19.1 million decrease in interest earnings and $134.2 million decrease in capital contributions. The decrease in interest earnings was mainly because of declining portfolio balances and low interest rates. Capital contributions decreased because a significant portion of the Authority's grant funding was billed in fiscal year 2001 when construction of the Corridor peaked.

(Continued)

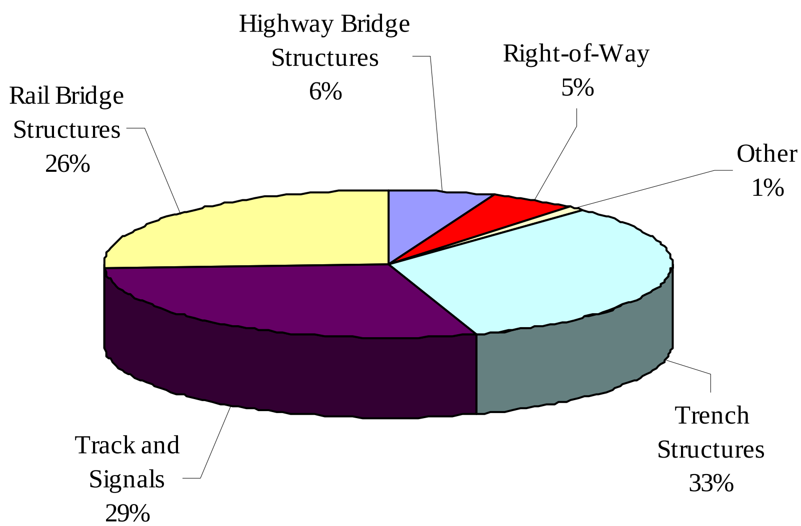
Capital Assets and Debt Administration

As of June 30, 2002, the Authority had $1.879 billion invested in capital assets and $1.672 billion of long-term debt outstanding.

(a) Capital Assets

During 2002, the Authority expended $331.8 million on capital project activities, including capitalized interest of $86.5 million (net of $6.1 million earned on tax exempt bond proceeds). The chart below provides a summary of capital project expenses by type for the year ended June 30, 2002.

Capital Project Expenses by Type Fiscal Year 2002



(b) Long-Term Debt

During the year 2002, the Authority's long-term debt amount increased by $28.9 million. This increase is entirely from accrued interest payable on the Authority's $400 million loan from the U.S. Department of Transportation. As of June 30, 2002, the Authority's long-term debt balance was $1.672 billion consisting of $1.163 billion of revenue bonds and $509 million of notes payable (including accrued interest).

Other Developments

The Alameda Corridor opened on schedule, April 15, 2002. On that date, the Corridor commenced operations and began collecting revenues for intermodal containers and rail cars using the Corridor based on the provisions of the Use and Operating Agreement. The first cash collections were received from the Railroads on June 30, 2002 as required by the Use and Operating Agreement. Since the Corridor's opening, actual cash collections of nearly $25 million have been received from the Railroads. These revenues, combined with remaining capitalized interest, have been more than sufficient to meet debt service, reserve target account required deposits, and administrative fees. In fact, actual revenues are exceeding the Authority's published 1999 projections.

The Authority's program manager, Alameda Corridor Engineering Team (ACET), together with Authority staff, is actively working on finishing construction of the remaining original Alameda Corridor projects (e.g., Long Beach Lead, Anaheim Pump Station), and closing out completed projects. Most of the Authority's largest projects have either reached or are on the verge of final closeout, with minimal additional outstanding claims or unresolved issues. Recently, the Authority's Governing Board took action to release $11 million from the Tutor-Saliba contract back into contingency, still leaving a contract balance with sufficient reserves for any remaining issues.

During the past year, the Authority's Governing Board changed the Alameda Corridor project to include several Corridor-related projects as provided for under the provisions of the Authority's By-Laws, the Use and Operating Agreement, and its Master Trust Indenture for its outstanding bonds. Significant among those projects is the Pacific Coast Highway Grade Separation (PCH) and a feasibility study of the State Route 47 Truck Expressway (SR47). The SR47 study is the first step toward a possible two-mile elevated thoroughfare designed principally to facilitate goods movement from Terminal Island via Alameda Street.

KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Governing Board
Alameda Corridor Transportation Authority
Carson, California:

We have audited the accompanying basic financial statements of the Alameda Corridor Transportation Authority (the Authority) as of and for the years ended June 30, 2002 and 2001, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alameda Corridor Transportation Authority as of June 30, 2002 and 2001, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 1 to the basic financial statements, the Authority adopted Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus,* No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus,* and No. 38, *Certain Financial Statement Note Disclosures,* effective July 1, 2001.

Management's Discussion and Analysis on pages 1 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 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.

KPMG LLP

September 18, 2002

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Balance Sheets

June 30, 2002 and 2001

Assets	2002	2001
Current assets:		
Restricted cash and cash equivalents (note 2)	$ 59,218,614	31,423,459
Restricted investments (note 2)	213,596,620	474,606,295
Receivables (note 3)	35,788,369	38,315,377
Restricted escrow accounts	16,915,328	42,532,584
Condemnation deposits (note 4)	9,934,514	12,191,768
Prepaid expenses	944,755	—
Total current assets	336,398,200	599,069,483
Noncurrent assets:		
Restricted investments (note 2)	32,219,089	62,252,468
Capital assets (note 5):		
Buildings and equipment	6,783,754	786,291
Alameda Corridor Project infrastructure	1,873,206,886	1,547,439,538
Less accumulated depreciation	(544,553)	(321,855)
Total noncurrent assets	1,911,665,176	1,610,156,442
Total assets	$ 2,248,063,376	2,209,225,925
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 18,994,623	45,729,654
Settlements payable	—	666,667
Right-of-way acquisition payable (note 4)	9,934,514	12,191,768
Contract retention payable	17,831,089	42,950,056
Deferred revenue	6,077,485	—
Accrued interest payable (note 6)	1,644,025	—
Other liabilities	287,509	157,599
Total current liabilities	54,769,245	101,695,744
Noncurrent liabilities:		
Accrued interest payable (note 6)	109,317,441	80,459,411
Revenue bonds payable (note 8)	1,163,147,013	1,163,147,013
Notes payable (note 7)	400,000,000	400,000,000
Total noncurrent liabilities	1,672,464,454	1,643,606,424
Net assets:		
Invested in capital assets, net of related debt	316,299,074	(15,243,039)
Restricted for debt service	75,974,012	129,860,400
Restricted for capital projects	128,556,591	349,306,396
Total net assets	520,829,677	463,923,757
Total liabilities and net assets	$ 2,248,063,376	2,209,225,925

See accompanying notes to basic financial statements.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2002 and 2001

	2002	2001
Operating revenues:		
Use fee charges	$ 11,145,337	—
Maintenance-of-way charges	638,582	—
Total operating revenues	11,783,919	—
Operating expenses:		
Salaries and benefits	2,445,769	2,555,281
Administrative expenses	1,929,696	1,008,495
Maintenance-of-way	638,582	—
Depreciation	222,699	183,635
Total operating expenses	5,236,746	3,747,411
Operating income (loss)	6,547,173	(3,747,411)
Nonoperating revenues (expenses):		
Interest and investment revenue, net	9,432,933	28,513,012
Grants	34,821,555	175,064,910
Other revenue	104,260	31,439
Total nonoperating revenues	44,358,748	203,609,361
Income before capital contributions	50,905,921	199,861,950
Capital contributions (note 12)	6,000,000	—
Change in net assets	56,905,921	199,861,950
Total net assets – beginning	463,923,756	264,061,807
Total net assets – ending	$ 520,829,677	463,923,757

See accompanying notes to basic financial statements.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Statements of Cash Flows

Years ended June 30, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Receipts from customers for services	$ 6,959,125	—
Payment to suppliers for good and services	(2,975,148)	(1,008,495)
Payment to employees	(2,315,859)	(2,469,413)
Net cash provided by (used in) operating activities	1,668,118	(3,477,908)
Cash flows from noncapital financing activities:		
Other revenue	104,260	31,439
Cash flows from capital and related financing activities:		
Grants	50,894,152	261,389,324
Capital contributions	6,000,000	—
Capital assets acquired	(334,649,061)	(603,365,127)
Net cash used in capital and related financing activities	(277,754,909)	(341,975,803)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	291,043,054	302,770,958
Interest and dividends	12,734,630	39,165,004
Net cash provided by investing activities	303,777,684	341,935,962
Net increase (decrease) in cash and cash equivalents	27,795,153	(3,486,310)
Cash and cash equivalents, beginning of the year	31,423,461	34,909,769
Cash and cash equivalents, end of the year	$ 59,218,614	31,423,459
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	$ 6,547,173	(3,747,411)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	222,699	183,635
Change in assets and liabilities:		
Increase in use fees receivable	(5,126,787)	—
Increase in maintenance-of-way deferred revenues	794,536	—
Increase in maintenance-of-way receivable	(492,544)	
Increase in accounts payable	537,885	—
Increase in prepaid expenses	(944,755)	—
Increase in other liabilities	129,911	85,868
Net cash provided by (used in) operating activities	$ 1,668,118	(3,477,908)

See accompanying notes to basic financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Reporting Entity

The Alameda Corridor Transportation Authority (the Authority) was established on August 31, 1989 through a Joint Exercise of Powers Agreement (JPA) between the cities of Los Angeles and Long Beach, California. The purpose of the Authority was to develop an improved railroad and highway network between the Ports of Los Angeles and Long Beach (collectively known as the Ports) and downtown Los Angeles (the routes between the two locations have become known as the Alameda Corridor).

The Authority's independent Governing Board has seven members, comprised of two members each from the Ports of Los Angeles and Long Beach, one member each from the cities of Los Angeles and Long Beach and one member representing the Los Angeles County Metropolitan Transportation Authority (LACMTA).

As of June 30, 2002, the members of the Authority's Governing Board were:

- Chairman – Mr. Frank Colonna, Councilman, City of Long Beach
- Vice Chairman – Ms. Janice Hahn, Councilwoman, City of Los Angeles
- Member – Mr. Don Knabe, Supervisor, County of Los Angeles and Chairperson LACMTA
- Member – Mr. Larry Keller, Executive Director, Port of Los Angeles
- Member – Mr. Richard Steinke, Executive Director, Port of Long Beach
- Member – Mr. Tom H. Warren, Commissioner, Port of Los Angeles
- Member – Mr. Roy Hearrean, Commissioner, Port of Long Beach.

The Authority is empowered to explore alternative methods of financing, develop existing property, and to coordinate other governmental efforts necessary for the completion of the Alameda Corridor project. The Authority may issue revenue bonds to carry out its obligations under the agreement. Such bonds will be payable from revenues generated from the Alameda Corridor, from one or more pledges of revenues from the Authority, the Board of Harbor Commissioners of Long Beach and Los Angeles, or pledges of revenues from other responsible agencies or from any other legally available funds.

(b) Program Management Agreement

In January 1996, the Authority's Governing Board entered into a ten-year Program Management Agreement (Agreement) with the Alameda Corridor Engineering Team (ACET), a joint venture comprised of Daniel, Mann, Johnson, and Mendenhall; Moffatt and Nichol Engineers; Jenkins, Gales, and Martinez, Inc.; and TELACU Construction Management, Inc., to provide the broad program management services necessary to assist the Authority in implementing the Alameda Corridor Project. The Agreement calls for ACET to provide the Authority with professional services related to management, engineering, construction support, procurement, coordination, and administration of the Alameda Corridor Project Construction Program.

(c) Use and Operating Agreement

In October 1998, the cities of Long Beach and Los Angeles; the Authority; Union Pacific Railroad (UP); and Burlington Northern Santa Fe Railway Company (BNSF) entered into a "Use and Operating Agreement." The "Use and Operating Agreement" outlines the provisions for the construction, operation and use of the Rail Corridor (as defined in the Use and Operating Agreement). Specifically, it grants UP and BNSF the right to use the Rail Corridor constructed by the Authority for all Through Train (as defined in the Use and Operating Agreement) movements upon substantial completion in exchange for paying maintenance, operating charges, and use fees to the Authority. Proceeds of the use fees will be used to repay the revenue bonds and the Department of Transportation (DOT) Loan.

(d) Basis of Presentation

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in the United States. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles for governments within the United States.

In accordance with GAAP, the Authority's operations are accounted for as a Business Type Activity. In this regard, the Authority follows the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when they are earned and become measurable, and expenses are recorded when they are incurred, irrespective of when paid.

Operating revenues and expenses generally result from the operation of the Alameda Rail Corridor. The principal operating revenues of the Authority are fees assessed to the railroads for use and maintenance of the corridor. Operating expenses include administrative expenses, maintenance and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Under GAAP, the Authority has the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The Authority elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by the GASB.

(e) New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis (GASB 34)*, in June 1999. This Statement establishes financial reporting standards for state and local governments including special purpose government such as the Authority. GASB-34 requires, among other things, that the difference between assets and liabilities be reported as net assets, not equity; that a Management's Discussion and Analysis (MD&A) section precede the basic financial statements; and that capital assets be capitalized and depreciated over their estimated useful lives. Since the Authority has already capitalized its assets and recorded depreciation, the only significant changes made in order to comply with the new requirements were the MD&A section and reporting the details of net assets.

For the years ended June 30, 2002 and 2001, the Authority implemented the applicable provisions of Statement No. 34. By implementing the provisions of this Statement, the Authority has included the following:

- Management's discussion and analysis (MD&A)
- Balance sheets
- Statements of revenues, expenses, and changes in fund net assets
- Statements of cash flows on the direct method
- Notes to financial statements.

(f) Capital Contributions

Certain expenses for the Alameda Corridor project are funded through various grants from local, state, and federal sources. These grants are considered earned as the related allowable expenses are incurred. Grants for capital asset acquisition and construction are reported in the statements of revenues, expenses, and changes in net assets, after nonoperating revenues and expenses, as capital contributions.

(g) Cash and Cash Equivalents

In accordance with GASB Statement No. 9, the Authority has defined, for purposes of the preparation of its statements of cash flows, cash and cash equivalents to include deposits and money market accounts with an original maturity date of three months or less including investments in the State of California Local Agency Investment Fund (LAIF).

(h) Investments

Investments with original maturity date greater than one year from the date of purchase are stated at fair value. The value of each investment security has been determined based on the published closing price of the security as of June 30, 2002. The net changes in fair value of investments, consisting of realized gains or losses and the unrealized appreciation/depreciation on those investments, have been included in investment earnings as shown in the accompanying statements of revenues, expenses, and changes in net assets.

The Authority's investment practices are governed by Board approved Investment Policy. The types of investment authorized by the Policy are described further in note 2.

The Authority is a participant in the California State Treasurer's Local Agency Investment Fund (LAIF), a non-SEC registered investment pool open to all government units in the state of California, whose investment advisory Board reviews and monitors the investment portfolio and strategies on a monthly basis.

(i) Capital Assets

Capital assets purchased or constructed are carried at cost, including cost of capitalized interest during construction. Donated assets are valued at the estimated fair value on the date received. Depreciation is provided over the estimated useful life of each asset and computed on a straight-line basis beginning with the fiscal year after the asset is placed in service.

Estimated useful lives of classes of capital assets are as follows:

Automotive vehicles	5 years
Tenant improvements	3 years
Buildings	40 years
Highway bridge structures	40 years
Tracks and signal systems	40 years
Trench structures	40 years
Right-of-way improvements	40 years
Rail bridge structures	40 years
Other equipment	3-5 years
Computer equipment/software	3 years

Capital assets acquired with state and local grants are included in property and equipment. Depreciation on these assets is included in the results of operations for the year.

(j) Restricted Assets

Certain proceeds of the Authority’s revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheets because their use is limited by applicable bond covenants. The revenue bonds capitalized interest, debt service reserve, interest, indemnity, and revenue fund accounts have been classified as restricted assets because these accounts are restricted for the payment of interest and principal on the outstanding revenue bonds. The reserve account has also been classified as restricted assets because the amount in this account is restricted for specific purposes under the Use and Operating Agreement and the revenue bond covenants.

Remaining long-term debt proceeds which have been set aside for capital projects are also reported as restricted assets.

(k) Compensated Absences

All Authority employees earn time off with pay for vacation and illness each pay period. The number of hours accrued is generally uniform for all employees. Vacation hours are payable to employees when used at the employee’s current rate of pay. Any unused vacation remaining at time of termination is also payable to the employee at his/her rate of pay. All vacation hours that have been earned but not paid as of June 30, 2002 have been accrued in the accompanying basic financial statements. Sick hours are paid to employees when used. ACTA's sick leave policy also provides that employees will be paid 50% of the remaining value of their sick leave hours upon termination. Consequently, 50% of all sick hours for each employee as of June 30, 2002 have been accrued in the accompanying financial statements.

(l) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash and Investments

(a) Deposits

At June 30, 2002 and 2001, the net carrying amounts of the Authority's deposits were $1,901,951 and $9,906,747 while the corresponding bank balances were $3,581,320 and $18,968,258, respectively. Outstanding checks account for the respective differences between the carrying amounts and bank balances. Of the aforementioned bank balances, $100,000 is covered by the Federal Deposit Insurance Corporation with the excess being secured with collateral of securities held by the pledging financial institution's trust or agent in the Authority's name.

The California Government Code Section 53601 requires California banks and savings and loan associations to secure an agency's deposits not covered by federal depository insurance by pledging government securities as collateral. The carrying amount of pledged securities must equal at least 110% of the agency's deposits. California law also allows financial institutions to secure agency deposits by pledging first trust deed mortgage notes having a value of 150% of the Authority's total deposits. The collateral must be held at the pledging bank's trust department or other bank acting as the pledging bank's agent, in the Authority's name.

(b) Investments

The Authority's deposits and investments are invested pursuant to the investment policy guidelines adopted by the Governing Board of the Authority. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses the types of investment instruments and the percentage of the portfolio which the Authority may invest its funds as permitted by the California Government Code. Under provision of the Authority's investment policy, and in accordance with Section 53601 of the California Government Code, the Authority may invest in the following type of investments:

- Bankers Acceptances
- Mortgage or Asset-Backed Securities
- California Local Agency Investment Fund
- Commercial Paper

- Federal Agency Obligations
- Time Deposits
- Medium-Term Maturity Corporate Notes
- Money Market Funds
- Negotiable Certificates of Deposit
- Treasury bills, notes, or bonds
- Repurchase Agreements.

The Authority's investment policy identifies certain restrictions related to the above investments. Investments held by the Authority during the year did not include repurchase agreements or reverse repurchase agreements.

Investments of the Authority as of June 30, 2002 and 2001 are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by three categories as follows:

- Category 1 – Includes investments that are insured or registered or for which securities are held by the Authority or its agent in the Authority's name
- Category 2 – Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name
- Category 3 – Includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Authority's name.

The difference between the carrying value of investments and the fair value of investments is a result of the Authority's policy to record investments with an original maturity date of less than one year from the date of purchase at cost (see note 1(h)).

	June 30, 2002		
	Category	**Carrying value**	**Fair value**
Categorized investments:			
Commercial paper	1	$ 11,954,613	11,988,500
Asset-backed securities	2	779,639	779,639
Corporate bonds	2	33,650,666	33,599,916
Federal agency issues	2	174,845,521	175,101,982
U.S. Treasury securities	1	24,585,269	24,585,269
Total categorized investments		245,815,708	246,055,306
Investments not required to be categorized:			
Cash deposits and money market securities		28,005,124	28,005,124
Local agency investment fund (LAIF)		31,213,491	31,213,491
Total cash and investments		$ 305,034,323	305,273,921
Cash and cash equivalents – restricted		$ 59,218,614	
Short-term investments – restricted		213,596,620	
Long-term investments – restricted		32,219,089	
Total cash and investments		$ 305,034,323	

	June 30, 2001		
	Category	**Carrying value**	**Fair value**
Categorized investments:			
Commercial paper	1	$ 37,284,986	37,308,225
Asset-backed securities	2	1,352,585	1,352,585
Corporate bonds	2	36,840,655	36,840,655
Federal agency issues	2	380,245,592	381,220,144
U.S. Treasury securities	1	81,134,945	81,134,945
Total categorized investments		536,858,763	537,856,554
Investments not required to be categorized:			
Cash deposits and money market securities		27,874,522	27,874,522
Local agency investment fund (LAIF)		3,548,937	3,548,937
Total cash and investments		$ 568,282,222	569,280,013
Cash and cash equivalents – restricted		$ 31,423,459	
Short-term investments – restricted		474,606,295	
Long-term investments – restricted		62,252,468	
Total cash and investments		$ 568,282,222	

Investments held in the California State Treasurer's Local Agency Investment Fund are not subject to categorization and are reported as cash equivalents. These funds have relatively high and consistent yields at minimum risk as their primary objective. Decisions regarding these investments are made by agents for the Authority who are acting in accordance with agreements with the Authority.

(3) Receivables

Receivables consist of receivables from grants, interest, railroad and ports reimbursable costs, Los Angeles County Sanitation District relocation costs, and other receivables from private entities. The following provides a summary of the amounts of accounts and other receivables:

	Balance, June 30	
	2002	**2001**
Grants receivable	$ 5,264,970	21,337,568
Interest receivable	2,081,078	5,382,776
Ports/Railroad reimbursement receivable	20,518,647	6,481,094
Los Angeles County Sanitation District receivable	2,500,000	5,000,000
Use fees receivable	5,126,788	—
Other receivables	296,886	113,939
Total	$ 35,788,369	38,315,377

(4) Condemnation Deposits/Right-of-Way Acquisition Payable

The Authority has made condemnation deposits with the state of California and the Superior Court of the County of Los Angeles for the purposes of purchasing right-of-way land from properties adjacent to the Alameda Corridor. Payments from these deposits are made once the properties are appraised and a settlement between the Authority and the property owner is reached. These deposits are offset by a right-of-way acquisition payable. At June 30, 2002 and 2001, the balance of such deposits aggregated $9,934,514 and $12,191,768, respectively.

(5) Capital Assets

The following schedule summarizes capital assets:

	Balance, July 1, 2001	Additions	Transfers	Decreases	Balance, June 30, 2002
Capital assets, not being depreciated:					
Construction in progress:					
Trench structures	$ 828,636,737	105,909,344	—	—	934,546,081
Track and signals	142,870,157	96,077,115	—	—	238,947,272
Rail bridge structures	393,891,486	86,834,713	—	—	480,726,199
Highway bridge structures	97,183,249	20,411,473	—	—	117,594,722
Right-of-way	84,857,909	17,650,704	(1,116,000)	—	101,392,613
Total capital assets, not being depreciated	1,547,439,538	326,883,349	(1,116,000)	—	1,873,206,887
Capital assets, being depreciated:					
Automotive vehicles	476,908	—	—	(20,524)	456,384
Office equipment	238,066	142,556	—	—	380,622
Other equipment	5,050	—	13,406	—	18,456
Tenant improvements	66,267	6,067	—	—	72,334
Buildings	—	—	1,102,594	—	1,102,594
Revenue assessments and verification systems	—	4,753,364	—	—	4,753,364
Total capital assets, being depreciated	786,291	4,901,987	1,116,000	(20,524)	6,783,754
Less accumulated depreciation for:					
Automotive vehicles	(201,589)	(82,725)	—	—	(284,314)
Office equipment	(78,533)	(89,199)	—	—	(167,732)
Other equipment	(141)	(1,684)	—	—	(1,825)
Tenant improvements	(41,592)	(12,338)	—	—	(53,930)
Buildings	—	(36,753)	—	—	(36,753)
Total accumulated depreciation	(321,855)	(222,699)	—	—	(544,554)
Capital assets, net	$ 1,547,903,974	331,562,637	—	(20,524)	1,879,446,087

	Balance, July 1, 2000	Additions	Transfers	Decreases	Balance, June 30, 2001
Capital assets, not being depreciated:					
Construction in progress:					
Trench structures	$ 474,522,195	354,114,542	—	—	828,636,737
Track and signals	86,389,594	56,480,563	—	—	142,870,157
Rail bridge structures	247,161,472	146,730,014	—	—	393,891,486
Highway bridge structures	72,369,278	24,813,971	—	—	97,183,249
Right-of-way	62,633,437	22,224,472	—	—	84,857,909
Total capital assets, not being depreciated	943,075,976	604,363,562	—	—	1,547,439,538
Capital assets, being depreciated:					
Automotive vehicles	476,908	—	—	—	476,908
Office equipment	8,625	229,441	—	—	238,066
Other equipment	—	5,050	—	—	5,050
Tenant improvements	66,267	—	—	—	66,267
Buildings	—	—	—	—	—
Revenue assessments and verification systems	—	—	—	—	—
Total capital assets, being depreciated	551,800	234,491	—	—	786,291
Less accumulated depreciation for:					
Automotive vehicles	(106,207)	(95,382)	—	—	(201,589)
Office equipment	(2,759)	(75,774)	—	—	(78,533)
Other equipment	—	(141)	—	—	(141)
Tenant improvements	(29,254)	(12,338)	—	—	(41,592)
Buildings	—	—	—	—	—
Total accumulated depreciation	(138,220)	(183,635)	—	—	(321,855)
Capital assets, net	$ 943,489,556	604,414,418	—	—	1,547,903,974

The Authority capitalizes interest costs, net of interest earned, on proceeds from tax-exempt borrowings used to finance construction activities. Capitalized interest is recorded as part of the asset to which it relates and will be amortized over the assets estimated useful life upon completion of construction. Capitalized interest costs, net of interest revenues of $6,121,002 and $15,417,824 were $86,452,212 and $78,511,422 in 2002 and 2001, respectively.

(6) Accrued Interest Payable

In January 1997, the Authority entered into a loan agreement with the U.S. Department of Transportation (DOT), Federal Highway Administration. The loan is for a principal amount of $400,000,000 to be used to pay costs related to acquisition of land, designing, engineering, constructing, improving, and financing of the Alameda Corridor. Interest accrued and payable on the loan as of June 30, 2002 and 2001 was $110,961,466 and $80,459,411, respectively. (See note 8.)

(7) U.S. Department of Transportation Loan Agreement

As described in note 6, the Authority is obligated to the U.S. Department of Transportation in the principal amount of $400,000,000 pursuant to the loan agreement dated January 17, 1997. Loan drawdowns were made as follows:

		Amount
Federal fiscal year:		
1997	$	140,000,000
1998		140,000,000
1999		120,000,000
Total	$	400,000,000

The term of the loan shall extend from January 17, 1997 to Final Maturity date (see definition of terms below). The loan bears interest at 6.52% annually applied to the outstanding loan balance through September 30, 2001. The interest rate on the outstanding loan balance from October 1, 2001 to the Final Maturity Date is 6.79% per annum. No interest or principal is due until Stage 2 of the loan.

The following is a definition of applicable loan terms:

- "Final Maturity Date" means the last day of Stage 2.
- "Stage 1" means the period commencing on January 17, 1997, and ending on the later of September 30, 2001 or the date of Substantial Completion, but in no event later than September 30, 2005.
- "Stage 2" means the period commencing on the immediately following the last day of Stage 1 and ending on October 1 of the thirtieth year thereafter.
- "Substantial Completion" shall have the meaning given such term in the Memorandum of Understanding dated September 22, 1994.

(8) Bonds Payable

The 1999 series A, B, C, and D Bonds are payable solely from and secured by a pledge of, among other revenues, use fees, and container charges to be paid by the Union Pacific Railroad Company and Burlington Northern and Santa Fe Railway Company for use of the Project and from shortfall advances to be paid under certain circumstances by the City of Long Beach, acting by and through its Board of Harbor Commissioners, and the City of Los Angeles acting by and through its Board of Harbor Commissioners.

(a) 1999 Series A Bonds

The series A Tax-Exempt Lien Revenue Bonds (Series A) were issued by the Alameda Corridor Transportation Authority in the aggregate amount of $494,893,617 on January 1, 1999. Proceeds from the sale of this insured 1999 Series A Bonds are being used to finance a portion of the cost of design and construction of the Alameda Corridor Project (the Project).

Interest on the 1999 Series A Bonds is payable semiannually on April 1 and October 1 of each year commencing April 1, 1999, with principal payments commencing October 1, 2006. The 1999 Series A Bonds, which mature in 2029, bear interest at rates ranging from 4.00% to 5.27%. The balance outstanding on the 1999 Series A Bonds at June 30, 2002 was $494,893,617.

The remaining debt service of the 1999 Series A Bonds is as follows:

	Annual debt service requirement		
	Principal	**Interest**	**Total**
Fiscal year:			
2003	$ —	22,008,216	22,008,216
2004	—	22,008,216	22,008,216
2005	—	22,008,216	22,008,216
2006	—	22,008,216	22,008,216
2007	735,000	21,993,516	22,728,516
2008 – 2012	46,760,000	104,798,724	151,558,724
2013 – 2017	68,060,000	90,672,409	158,732,409
2018 – 2022	96,275,000	69,909,512	166,184,512
2023 – 2027	132,190,000	41,881,933	174,071,933
2028 – 2032	114,718,474	69,057,026	183,775,500
2033 – 2037	30,751,197	165,033,804	195,785,001
2038 – 2042	5,403,946	34,936,054	40,340,000
Total	$ 494,893,617	686,315,842	1,181,209,459

(b) 1999 Series B Bonds

The Series B Tax-Exempt Subordinate Lien Revenue Bonds (Series B) were issued by the Alameda Corridor Transportation Authority in the aggregate principal amount of $25,165,000 on January 1, 1999. Proceeds from the sale of these insured 1999 Series B Bonds are being used to finance a portion of the cost of design and construction of the Project.

Interest on the 1999 Series B Bonds is payable semiannually on April 1 and October 1 of each year commencing April 1, 1999, with principal payments commencing October 1, 2003. The 1999 Series B Bonds, which mature in fiscal year 2007, bear interest at rates ranging from 4.00% to 4.5%. The balance outstanding on the 1999 Series B Bonds is $25,165,000 at June 30, 2002.

The remaining debt service of the Authority's 1999 series B Bonds is as follows:

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
2003	$	—	1,110,676	1,110,676
2004		5,645,000	985,913	6,630,913
2005		6,180,000	724,600	6,904,600
2006		6,745,000	439,913	7,184,913
2007		6,595,000	145,888	6,740,888
Total	$	25,165,000	3,406,990	28,571,990

(c) 1999 Series C Bonds

The Series C Taxable Senior Lien Revenue Bonds (Series C) were issued by the Authority in the aggregate principal amount of $497,453,396 on January 1, 1999. Proceeds from the sale of these insured 1999 Series C Bonds are being used to finance a portion of the cost of the design and construction of the Alameda corridor Project.

Interest on the 1999 Series C Bonds is payable semiannually on April 1 and October 1 of each year commencing April 1, 1999 with principal payments commencing October 1, 2014. The 1999 Series C Bonds, which mature in 2037, bear interest at rates ranging from 6.5% to 6.83%. The balance outstanding on the 1999 Series C Bonds is $497,453,396 at June 30, 2002.

The Authority's remaining debt service on the 1999 Series C Bonds is as follows:

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
2003	$	—	28,260,556	28,260,556
2004		—	28,260,556	28,260,556
2005		—	28,260,556	28,260,556
2006		—	28,260,556	28,260,556
2007		—	28,260,556	28,260,556
2008 – 2012		—	141,302,780	141,302,780
2013 – 2017		47,590,000	137,965,355	185,555,355
2018 – 2022		97,144,727	157,109,262	254,253,989
2023 – 2027		158,913,264	106,229,536	265,142,800
2028 – 2032		161,880,113	117,201,387	279,081,500
2033 – 2037		27,335,658	271,219,342	298,555,000
2038 – 2042		4,589,634	56,925,366	61,515,000
Total	$	497,453,396	1,129,255,808	1,626,709,204

(d) 1999 Series D Bonds

The Series D Taxable Subordinate Lien Revenue Bonds (Series D) were issued by the Authority in the aggregate principal amount of $145,635,000 on January 1, 1999. Proceeds from the sale of these insured 1999 Series D Bonds are being used to finance a portion of the cost of the design and construction of the Alameda Corridor Project.

Interest on the 1999 Series D Bonds is payable semiannually on April 1 and October 1 of each year commencing April 1, 1999, with principal payments commencing October 1, 2003. The 1999 Series D Bonds, which mature in 2014, bear interest at rates ranging from 5.47% to 6.25%. The balance outstanding on the 1999 Series D Bonds is $145,635,000 at June 30, 2002.

The Authority's remaining debt service on the 1999 Series D Bonds is as follows:

	Annual debt service requirement		
	Principal	**Interest**	**Total**
Fiscal year:			
2003	$ —	8,691,714	8,691,714
2004	6,760,000	8,506,828	15,266,828
2005	7,570,000	8,111,117	15,681,117
2006	8,435,000	7,661,160	16,096,160
2007	9,365,000	7,151,848	16,516,848
2008 – 2012	62,845,000	25,838,607	88,683,607
2013 – 2017	50,660,000	4,759,013	55,419,013
Total	$ 145,635,000	70,720,287	216,355,287

The Authority's remaining debt service of the 1999 Series A, B, C, and D, in aggregate, is as follows:

	Annual debt service requirement		
	Principal	**Interest**	**Total**
Fiscal year:			
2003	$ —	60,071,162	60,071,162
2004	12,405,000	59,761,513	72,166,513
2005	13,750,000	59,104,489	72,854,489
2006	15,180,000	58,369,845	73,549,845
2007	16,695,000	57,551,808	74,246,808
2008 – 2012	109,605,000	271,940,111	381,545,111
2013 – 2017	166,310,000	233,396,777	399,706,777
2018 – 2022	193,419,727	227,018,774	420,438,501
2023 – 2027	291,103,264	148,111,469	439,214,733
2028 – 2032	276,598,587	186,258,413	462,857,000
2033 – 2037	58,086,855	436,253,146	494,340,001
2038 – 2042	9,993,580	91,861,420	101,855,000
Total	$ 1,163,147,013	1,889,698,927	3,052,845,940

As of June 30, 2002, the Authority has complied with its debt covenants.

Long-term liability activity for the year ended June 30, 2002 was as follows:

	Balance, July 1, 2001	Additions	Balance, June 30, 2002
Bonds payable:			
1999 Series A bonds	$ 494,893,617	—	494,893,617
1999 Series B bonds	25,165,000	—	25,165,000
1999 Series C bonds	497,453,396	—	497,453,396
1999 Series D bonds	145,635,000	—	145,635,000
Total bonds payable	1,163,147,013	—	1,163,147,013
Notes payable:			
U.S. Department of Transportation	400,000,000	—	400,000,000
Interest payable:			
U.S. Department of Transportation note	80,459,411	30,502,055	110,961,466
Subtotal	1,643,606,424	30,502,055	1,674,108,479
Less due within one year:			
Interest payable on U.S. Department of Transportation note	—	(1,644,025)	(1,644,025)
Long-term liabilities	$ 1,643,606,424	28,858,030	1,672,464,454

	Balance, July 1, 2000	Additions	Balance, June 30, 2001
Bonds payable:			
1999 Series A bonds	$ 494,893,617	—	494,893,617
1999 Series B bonds	25,165,000	—	25,165,000
1999 Series C bonds	497,453,396	—	497,453,396
1999 Series D bonds	145,635,000	—	145,635,000
Total bonds payable	1,163,147,013	—	1,163,147,013
Notes payable:			
U.S. Department of Transportation	400,000,000	—	400,000,000
Interest payable:			
U.S. Department of Transportation note	50,601,323	29,858,088	80,459,411
Long-term liabilities	$ 1,613,748,336	29,858,088	1,643,606,424

(9) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; and natural disasters for which the Authority carries commercial insurance. In each of the past three fiscal years, the Authority has experienced no losses that have not been covered by existing insurance policy limits.

(10) Operating Leases

The following is a schedule of future minimum leases payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at June 30, 2000.

		Lease obligations
Fiscal year:		
2003	$	255,153
2004		79,015
Total minimum lease payments	$	334,168

(11) Retirement Plan

(a) Plan Description

Effective January 8, 1996, the Authority entered into a contract with the California Public Employee Retirement System (CALPERS), an agent multiple-employer public employee retirement system that acts as common investment and administrative agent for participating public entities within the state of California. A menu of benefit provisions as well as other requirements are established by State Statues within the Public Employees' Retirement Law. The Authority selects optional benefit provisions from the benefit menu by contract with CALPERS and adopts those benefits through Board authorization. CALPERS issues a separate comprehensive annual financial report. Copies of the CALPERS' annual financial report may be obtained from CALPERS Executive Office – 400 P Street, Sacramento, CA. 95814.

All regular Authority employees with greater than 1,000 hours scheduled are eligible to participate in CALPERS. Benefits vest after 5 years of service. Employees who retire at or after age 50, with 5 years of credited service, are entitled to an annual retirement benefit, payable monthly for life, in an amount based on the average of the employee's highest 12 consecutive monthly pay rate during employment that varies from 1.426 % at age 50 to a maximum of 2.418% at age 63 for each year of credited service. The system also provides for death and survivor's benefits. These benefit provisions and all other requirements are established by State statue and the Authority's Board authorization.

(b) Funding Policy

Active plan members in the plan are required to contribute 7% of their annual covered payroll. The Authority pays this required employee contribution on behalf of its employees. The Authority is required to contribute actuarially determined remaining amounts necessary to fund benefits for its members. The actuarial methods and assumptions used are those adopted by CALPERS Board of Administration. The required employer contribution rate for fiscal 2001/02 was 11.741%. The Authority's covered payroll for the employees participating in CALPERS for the year ended June 30, 2002 was $1,539,917, and total payroll was $1,870,688.

The contribution requirements of the plan members are established by State statue and the employer contribution rate is established and may be amended by CALPERS.

(c) Annual Pension Cost

For fiscal year 2001/02, the Authority's Annual Required Contribution (ARC) was $180,802 and the Authority actually contributed $180,802. The required contribution for fiscal year 2001/02 was determined as part of the June 1999 actuarial valuation using the entry age actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment return (net of expenses), (b) projected salary increase of 3.75 – 14.20% depending on age, service, and type of employment, (c) merit increase that varies by length of service, and (d) payroll growth of 3.75%. Both (a)and (b) include an inflation component of 3.5%. The actuarial value of the plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three-year period. The plan's unfunded accrued actuarial liability (UAAL) is amortized using a level percentage of projected payroll method, on a closed basis over a 20-year period.

Trend Information – Unaudited

	Annual Pension Cost (APC)	Percentage of APC contributed	Net pension obligation
Fiscal year ending:			
2000	$ 65,209	100%	$ —
2001	200,047	100%	—
2002	180,802	100%	—

Funding Status – Unaudited

Valuation date	Entry age normal accrued liability	Actuarial value of assets	Unfunded liability/ (excess assets)	Funded status	Annual covered payroll	UAAL as a % of payroll
6/30/1996	$ 17,551	10,504	7,047	59.85%	$ 112,056	6.289%
6/30/1997	35,039	35,696	(657)	101.88%	112,056	(0.586)%
6/30/1998	100,450	93,881	6,569	93.46%	266,081	2.469%
6/30/1999	238,705	208,813	29,892	87.48%	655,996	4.557%
6/30/2000	372,911	358,515	14,396	96.14%	912,589	1.577%

(12) Funding Agreements

Funding agreements were executed between the Authority and the Ports of Los Angeles and Long Beach (the Ports) to pay initial project costs according to the following schedule:

Funding Date		Port of Los Angeles	Port of Long Beach
May 1990	$	3,500,000	3,500,000
February 1994		5,833,835	7,666,165
June 1997		—	1,000,000
June 1997		4,000,000	3,000,000
Total	$	13,333,835	15,166,165

In May 1990, the Ports each executed a funding agreement of $3.5 million for expenditures on the project. In February 1994, additional funding agreements were executed by both the Ports and the Authority for additional contributions of $5,833,835 and $7,666,165 respectively.

In June 1997, the Ports agreed to fund $4 million each to be used solely for acquisition of property rights required in connection of the "North End Project" of the Authority. Through approval of the Boards, the Ports lifted this restriction on such funds. In 1997, the Port of Long Beach provided $1 million in funding to be used solely to pay the Settlement Agreement between the Authority and related entities (see note 13). During fiscal year 1998, the Authority received funding of $4,000,000 from the Port of Los Angeles and $3,000,000 from the Port of Long Beach, bringing cumulative contributions to $13,333,835 and $15,166,165, respectively.

During the year ended June 30, 2002, the Ports funded $3 million each to fund additional capital improvements.

In January 1999, the Authority issued the series A, B, C, and D Revenue Bonds. Upon receiving the bond proceeds, the Authority repaid the Ports for all funds advanced to the Authority by the Ports including implementation, property tax and infrastructure costs. Total reimbursements to the Ports through June 30, 2002 consisted of the following:

		Port of Los Angeles	Port of Long Beach
Funding repayment	$	13,333,835	15,166,165
Accrued interest on funding		3,272,354	3,697,113
Implementation costs, property tax, and infrastructure		69,600,239	8,925,393
Total	$	86,206,428	27,788,671

(13) Commitments and Contingencies

The Authority is subject to claims and lawsuits arising in the normal course of business. Such claims are routinely evaluated by the Authority's legal counsel. Management may make provisions for probable losses if deemed appropriate on advice of legal counsel. To the extent provisions for damages are considered necessary, appropriate amounts are reflected in the accompanying basic financial statements. It is the opinion of management based on consultation with legal counsel that the estimated liability for unreserved claims and suits will not have material impact on the Authority's basic financial statements.

(a) Settlement Agreement

A Settlement Agreement was entered into between the Authority, the cities of Long Beach and Los Angeles, acting by and through their respective Boards of Harbor Commissioners, and the cities of Carson, Compton, Huntington Park, Lynwood, South Gate, and Vernon (Corridor Cities) in settlement of threatened litigation by these cities with respect to the Alameda Corridor Project. In exchange for the settlement amount to be paid by the Authority, the Corridor Cities committed to support the Alameda Corridor Project, to enter into agreements regarding issuance of permits, traffic management, and other matters, to forbear from filing or supporting litigation challenging projects of the Port of Los Angeles or the Port of Long Beach, which are mitigated by the Alameda Corridor Project, and to release the Authority from certain potential claims.

The Settlement Agreement calls for the Authority to pay the Corridor Cities the sum of $12 million in full satisfaction of the releases and other provisions of such Settlement Agreement. During fiscal year ended June 30, 2002, the Authority made the final settlement payments to the Corridor Cities in the amount of $666,667.

(b) Grant Audits

As a recipient of federal and state grant funds, the Authority is subject to periodic audits and compliance reviews by, or on behalf of, the granting agencies to determine if the expenditure of granted funds has been made in accordance with grant provisions. Such audits and compliance reviews could result in the potential disallowance of expenditures claimed by the Authority. The Authority's management believes that the Authority has complied with the terms of its grant agreements and that the possible adverse effects, if any, of disallowed grant expenditures on the Authority would not impair the Authority's financial condition.