ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Basic Financial Statements

June 30, 2003 and 2002

(With Independent Auditors' Report Thereon)

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

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Description of Basic Financial Statements

The Alameda Corridor Transportation 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 statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows. The basic financial statements also include notes that explain the information recorded in the basic financial statements.

Financial Highlights

The Authority received $28,732,599 in grant funds for the fiscal year ended June 30, 2003. The majority of the funds were received from the State of California Department of Transportation (Caltrans) for the Pacific Coast Highway Grade Separation Project. The PCH Project is scheduled to be completed by second quarter of 2004, well ahead of schedule.

The 2003 fiscal year marked the first full year of operations for the Authority. The Authority earned $57,911,195 from use fees, container charges, and maintenance-of-way charges during the year. The Authority's use fees and container charges for the year exceeded projections by 5.6%. All of the operating revenues and the bulk of maintenance-of-way charges are received from the two main railroads that utilize the Authority's Alameda Corridor.

The Authority's depreciation expense has increased significantly due to placing into service major portions of its capital assets. Significant asset categories, such as trench structures (e.g., sidewalls and abutments) and bridges, are being depreciated over a longer period than in prior years.

Lastly, the Authority's total revenues and remaining bond proceeds on hand were sufficient to cover debt service payments for the year.

Condensed Financial Information

The following condensed financial information provides an overview of the Authority's financial position for the fiscal years ended June 30, 2003 and 2002.

Assets	June 30 2003	June 30 2002	Change
Assets:			
Capital assets, net	$ 1,972,816,478	1,879,446,087	5%
Other assets	274,979,791	368,617,289	(25)%
Total assets	2,247,796,269	2,248,063,376	
Liabilities:			
Long-term liabilities	1,691,905,257	1,672,464,454	1%
Other liabilities	64,066,652	54,769,245	17%
Total liabilities	1,755,971,909	1,727,233,699	
Net assets:			
Invested in capital assets, net of debt	409,669,465	316,299,074	30%
Restricted for debt service	33,889,798	75,974,012	(55)%
Restricted for capital projects	48,265,097	128,556,591	(62)%
Total net assets	$ 491,824,360	520,829,677	(6)%

(a) Net Assets

Net assets, the difference between assets and liabilities, decreased by $29 million, or 6%, during the year ended June 30, 2003. This net decrease consists of an increase of $46.1 million from operating income, offset by a decline in nonoperating revenue of nearly $110 million. This decrease is attributable to expensing debt service payments in the amount of $92.1 million as ACTA's capital assets funded by debt were placed into service. Interest costs were previously capitalized during the construction period. Additionally, operating expenses were $22 million higher, due principally to higher depreciation expense of $19.1 million from assets placed into service. These declines were offset by operating revenues of $57.9 million, investment earnings of $3.4 million (netted against interest expense), and grant revenues of $28.7 million.

(b) Capital Assets

Net capital assets which is made up of property, plant, and equipment increased by $93.4 million or 5%, due primarily to the costs of ongoing capital projects incurred during the year. 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. These assets declined by $93.6 million, or 25%, due primarily to decreases in cash and investments. Cash and investments decreased by $100.9 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 increased by $26.4 million. Grants receivable increased by $11.6 million due to the Pacific Coast Highway Grade Separation project (PCH) funded by state grants. Other receivables increased by $35.7 due to increases in cost reimbursements billed to third parties. These increases were offset by a $14.5 million decrease in restricted escrows and a decline of $4.9 million in condemnation deposits. Such decreases are expected as construction activity diminishes.

(d) Long-Term Liabilities

Long-term liabilities increased by $19.4 million from the prior year as a result of additional cumulative interest accruals on the notes payable to the United States Department of Transportation (DOT). This increase was partially offset by $1.6 million of DOT payments on the cumulative accrued amount, which commenced during October 2002.

(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 DOT notes payable, as well as principal and interest currently due on the long-term bonds payable. Contract retentions, right-of-way acquisition payable, and accounts payable decreased by $2.2 million from the prior year. Accounts payable increased by $17.3 million as a result of settling outstanding and disputed project costs with one of the major railroads. Contract retentions decreased by $14.6 million due to the release of previously held contract retentions to contractors as a result of achieving substantial completion of the Project. Right-of-way acquisition payable decreased by $4.9 million due to closing of outstanding condemnation cases. Deferred revenue declined by $3.7 million due to recognition of various advance receipts from third parties for completed project costs. Accrued interest payable increased by $1.9 million due to accrued U.S. Department of Transportation interest payable that is due during the upcoming fiscal year. A provision has also been made for the current portion of long-term debt due in the next year in the amount of $12.4 million.

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

Net assets invested in capital assets, net of related debt increased by $93.4 million or 30% 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 $112.5 million.

(g) Net Assets Restricted for Debt Service

Net assets restricted for debt service decreased by $42.1 million or 55% from last fiscal year. Partially offset by investment earnings of $1.4 million, this decrease is due to $61.7 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 $80.3 million or 62%. This decrease is entirely related to cash used to acquire and construct capital assets.

Summary of Operations and Changes in Net Assets

The 2003 fiscal year represents the Authority's first full year of Corridor operations. Maintenance-of-way revenues, representing 6% of operating revenues, increased by $2.6 million as a result of a full year of operations. The decrease in net assets for fiscal year 2003 was $29,005,046, or 6%. The table below summarizes sources of net assets and the decrease from fiscal year 2002 to fiscal year 2003.

	Year ended June 30		
	2003	**2002**	**Change**
Operating revenues:			
Use fee revenues	$ 54,667,218	11,145,337	390%
Maintenance-of-way charges	3,243,977	638,582	408%
Total operating revenues	57,911,195	11,783,919	391%
Operating expenses:			
Salaries and benefits	2,503,396	2,445,769	2%
Administrative expenses	1,544,249	1,929,696	(20)%
Feasibility studies	10,729	—	
Maintenance-of-way	4,133,479	638,582	547%
Depreciation	19,092,712	222,699	8,473%
Total operating expenses	27,284,565	5,236,746	421%
Operating income	30,626,630	6,547,173	368%
Nonoperating revenues (expenses):			
Interest and investment revenue	3,481,586	9,432,933	(63)%
Interest expense	(92,006,141)	—	
Grants	28,732,599	34,821,555	(17)%
Other revenue	160,009	104,260	53%
Capital contributions	—	6,000,000	(100)%
Total nonoperating revenues (expenses)	(59,631,947)	50,358,748	(218)%
Change in net assets	(29,005,317)	56,905,921	(151)%
Total net assets – beginning	520,829,677	463,923,756	12%
Total net assets – ending	$ 491,824,360	520,829,677	(6)%

(a) Operating Revenues

Use fee revenues, representing 94% of operating revenues, increased $43.5 million or 390%. The prior year revenue amount was for a partial year, from April 15, 2002 (the date the Authority began revenue operations) to June 30, 2002.

(b) Operating Expenses

Operating expenses consist of salaries, benefits, maintenance-of-way, revenue collection and monitoring fees, and administrative costs. During the year, operating expenses (excluding depreciation) increased by $3 million or 56%. This increase is entirely due from maintenance-of-way expenses associated with a full year of Corridor operations.

Depreciation expense increased by $18.9 million or 8,473% due to depreciation on infrastructure placed into service in 2002.

(c) Nonoperating Revenues

Nonoperating revenues consist of interest and investment earnings, interest expense, grant revenues, 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, 2003, nonoperating revenues decreased by $109 million, or 218%. The decrease includes $6 million decrease in interest earnings and investment revenue, and $92 million increase in interest expense. The decrease in interest earnings and investment revenue was mainly because of declining portfolio balances and lower interest rates. During 2003, most of the interest on debt has been expensed rather than capitalized since most of the Alameda Corridor is fully constructed and placed into service. Grant revenues declined $6.1 million or 17% as remaining grant balances are fully expended on completed projects.

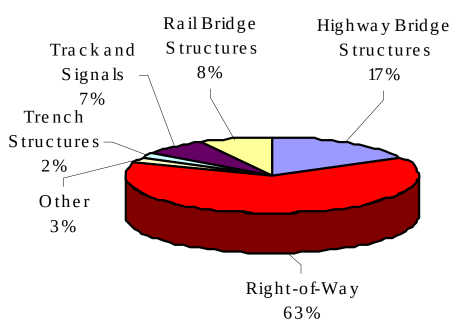
Capital Assets and Debt Administration

At June 30, 2003, the Authority had approximately $2.0 billion invested in capital assets and nearly $1.7 billion of long-term debt outstanding.

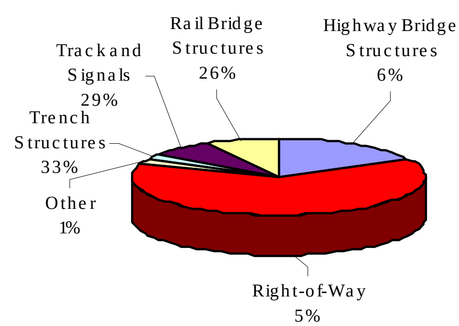
(a) Capital Assets

During fiscal year 2003 and 2002, the Authority expended $112 million and $331.8 on capital project activities, respectively. The amount expended in 2003 and 2002 includes capitalized interest of $3.4 million (net of $1.4 million earned on tax exempt bond proceeds) and $86.5 million (net of $6.1 million earned on tax exempt bond proceeds), respectively. The chart below provides a summary of capital project expenditures by type for the year ended June 30, 2003 and 2002.

Capital Project Costs by Type Fiscal Year 2003



Capital Project Costs by Type Fiscal Year 2002



(b) Long-Term Debt

During the 2003 fiscal year, the Authority's long-term debt amount increased by $19.4 million. This increase is entirely from accrued interest of $33.8 million payable on the Authority's $400 million loan from the U.S. Department of Transportation. This amount has been offset by reclassification of the current portion of the long-term debt in the amount of $15.9 million. As of June 30, 2003, the Authority's total long-term debt was $1.691 billion consisting of $1.151 billion (net of the current portion amount of $12.4 million) of revenue bonds, $400.0 million (net of the current portion amount of $3.5 million) of notes payable, and accrued interest of $141.2 million.

Other Developments

The Authority's Alameda Corridor Project opened on schedule, April 15, 2002. On that date, the Authority commenced operations and began collecting revenues for intermodal containers and rail cars using the Authority's Alameda Corridor, as authorized in the Use and Operating Agreement between the Authority and the participating railroads. The first cash collections were received from the railroads in June 2002 as required by the Use and Operating Agreement. Since the Corridor's opening, actual cash collections of nearly $53.6 million have been received from the Railroads. These revenues, combined with remaining capitalized interest, have been more than sufficient to meet debt service, reserve account required deposits cost of revenue collections and monitoring, and administrative fees.

The Authority's program manager, Alameda Corridor Engineering Team (ACET), together with Authority staff, is actively working to complete 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.

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.

Also, the Board authorized an expanded mission for the Authority. The expanded mission includes:

1. Assisting in the evaluation and implementation of extended operating hours of the cargo distribution system.
2. Assisting the Ports in optimizing the use of existing on-dock rail facilities.
3. Evaluating the viability of a shuttle train operation.
4. Supporting the development of a new near-dock Intermodal Container Transfer Facility.
5. Continuing the planning of an improved State Route 47.
6. Participating in goods-movement studies in conjunction with the Los Angeles Center Metropolitan Transportation Authority (LACMTA).

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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, 2003 and 2002, 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, 2003 and 2002 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.

Management's Discussion and Analysis on pages 1 through 8 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

October 10, 2003

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Statement of Net Assets

June 30, 2003 and 2002

Assets		**2003**	**2002**
Current assets:			
Restricted cash and cash equivalents (note 2)	$	36,685,676	59,218,614
Restricted investments (note 2)		138,261,763	213,596,620
Receivables (note 3)		62,180,493	35,788,369
Restricted escrow accounts		2,814,972	16,915,328
Condemnation deposits (note 4)		5,020,240	9,934,514
Prepaid expenses		892,810	944,755
Total current assets		245,855,954	336,398,200
Noncurrent assets:			
Restricted investments (note 2)		29,123,837	32,219,089
Capital assets (note 5):			
Buildings and equipment		8,099,368	6,783,754
Alameda Corridor Project infrastructure		1,417,043,002	1,771,814,273
Right-of-way and land improvements		567,311,373	101,392,613
Less accumulated depreciation		(19,637,265)	(544,553)
Total noncurrent assets		2,001,940,315	1,911,665,176
Total assets	$	2,247,796,269	2,248,063,376
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	36,331,155	18,994,623
Right-of-way acquisition payable (note 4)		5,020,240	9,934,514
Contract retention payable		3,252,978	17,831,089
Deferred revenue		2,318,624	6,077,485
Accrued interest payable, current portion (note 6)		3,506,080	1,644,025
Revenue bonds payable, current portion (note 8)		12,405,000	—
Other liabilities		1,232,575	287,509
Total current liabilities		64,066,652	54,769,245
Noncurrent liabilities:			
Accrued interest payable (note 6)		141,163,244	109,317,441
Revenue bonds payable (note 8)		1,150,742,013	1,163,147,013
Notes payable (note 7)		400,000,000	400,000,000
Total noncurrent liabilities		1,691,905,257	1,672,464,454
Net assets:			
Invested in capital assets, net of related debt		409,669,465	316,299,074
Restricted for debt service		33,889,798	75,974,012
Restricted for capital projects		48,265,097	128,556,591
Total net assets		491,824,360	520,829,677
Total liabilities and net assets	$	2,247,796,269	2,248,063,376

See accompanying notes to basic financial statements.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2003 and 2002

		2003	2002
Operating revenues:			
Use fees	$	54,667,218	11,145,337
Maintenance-of-way charges		3,243,977	638,582
Total operating revenues		57,911,195	11,783,919
Operating expenses:			
Salaries and benefits		2,503,396	2,445,769
Administrative expenses		1,544,249	1,929,696
Feasibility studies		10,729	—
Maintenance-of-way		4,133,479	638,582
Depreciation		19,092,712	222,699
Total operating expenses		27,284,565	5,236,746
Operating income		30,626,630	6,547,173
Nonoperating revenues (expenses):			
Interest and investment revenue		3,481,586	9,432,933
Interest expense		(92,006,141)	—
Grants		28,732,599	34,821,555
Other revenue		160,009	104,260
Capital contributions (note 12)		—	6,000,000
Total nonoperating revenues (expenses), net		(59,631,947)	50,358,748
Change in net assets		(29,005,317)	56,905,921
Total net assets – beginning		520,829,677	463,923,756
Total net assets – ending	$	491,824,360	520,829,677

See accompanying notes to basic financial statements.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Statements of Cash Flows

Years ended June 30, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Receipts from customers for services	$ 56,405,992	6,959,125
Payment to suppliers for good and services	(4,781,679)	(2,975,148)
Payments to employees	(2,495,683)	(2,315,859)
Net cash provided by operating activities	49,128,630	1,668,118
Cash flows from noncapital financing activities:		
Other revenue	160,009	104,260
Cash flows from capital and related financing activities:		
Grants	17,174,642	50,894,152
Capital contributions	—	6,000,000
Capital assets acquired	(110,593,974)	(334,649,061)
Interest payments on capital debt, net of capitalized interest	(61,715,184)	—
Net cash used in capital and related financing activities	(155,134,516)	(277,754,909)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	78,448,945	291,043,054
Interest and dividends	4,863,994	12,734,630
Net cash provided by investing activities	83,312,939	303,777,684
Net change in cash and cash equivalents	(22,532,938)	27,795,153
Cash and cash equivalents, beginning of the year	59,218,614	31,423,461
Cash and cash equivalents, end of the year	$ 36,685,676	59,218,614
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 30,626,630	6,547,173
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	19,092,712	222,699
Changes in operating assets and liabilities:		
Use fees receivable	(1,076,449)	(5,126,787)
Maintenance-of-way deferred revenues	701,557	794,536
Maintenance-of-way receivable	(1,130,312)	(492,544)
Accounts payable	(82,520)	537,885
Prepaid expenses	51,945	(944,755)
Other liabilities	945,067	129,911
Net cash provided by operating activities	$ 49,128,630	1,668,118

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 in August 1989 through a Joint Exercise of Powers Agreement (JPA) between the cities of Los Angeles and Long Beach, California. The purpose of the Authority is to acquire, construct, finance, and operate a consolidated transportation corridor, including an improved railroad expressway 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, 2003, the members of the Authority's Governing Board were:

- Chairperson – Hon. Janice Hahn, Councilwoman, City of Los Angeles
- Vice-Chairperson – Hon. Frank Colonna, Councilman, City of Long Beach
- Member – Hon. 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 – Hon. Thomas Warren, Commissioner, Port of Los Angeles
- Member – Hon. 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 a consolidated transportation corridor, including the completion of the Alameda Corridor project. The Authority may issue revenue bonds to carry out its obligations under the JPA. 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, container charges, and use fees to the Authority. Proceeds of the container charges and 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 accounting principles generally accepted in the United States of America (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 revenue collection and other 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 has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by the GASB.

(e) Accounting Pronouncements

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis* (GASB 34). This statement established financial reporting standards for state and local governments including special purpose government such as the Authority. The GASB has followed up on such issues with other related pronouncements designed to clarify the intent of GASB 34.

GASB 34 and its related pronouncements and interpretation require, 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.

The Authority has previously implemented the provisions of GASB 34 and it's related pronouncements for the fiscal year ended June 30, 2002.

(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, as with nonoperating revenues and expenses, as capital contributions.

(g) Cash and Cash Equivalents

The Authority has defined, for purposes of the preparation of its statements of cash flows, that "cash and cash equivalents" 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, 2003. 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 a board-approved investment policy. The types of investment authorized by the policy are described further in Note 2 of these Notes to Basic Financial Statements.

The Authority participates 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.

(Continued)

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

Computer equipment/software	3 years
Tenant improvements	3 years
Automotive vehicles	5 years
Other equipment	3-5 years
Buildings	40 years
Right-of-way improvements	40 years
Tracks and signal systems	40 years
Roads	50 years
Highway bridge structures	100 years
Trench structures	100 years
Rail bridge structures	100 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 first restricted to the payment of interest and principal on the outstanding revenue bonds. After payment of debt service, remaining revenues, if any, are restricted to the payment of other Authority costs and legal obligations (e.g., Port shortfall advances) as defined by the Authority's Use and Operating Agreement. 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 accumulate time off with pay for vacation and illness each pay period. While sick hours are accrued at a uniform rate among all employees, vacation accrual is based on length of service. 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, 2003 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, 2003 have also been accrued in the accompanying basic 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 that management make estimates and assumptions that may 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, 2003 and 2002, the net carrying amounts of the Authority's deposits were $6,611,037 and $1,901,951 while the corresponding bank balances were $9,659,336 and $3,581,320, 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 a public 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 types 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, 2003 and 2002 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.

	June 30, 2003		
	Category	**Carrying value**	**Fair value**
Categorized investments:			
Corporate bonds	2	$ 17,298,568	17,300,079
Federal agency issues	2	144,826,139	145,115,547
U.S. Treasury securities	1	5,242,057	5,242,462
Total categorized investments		167,366,764	167,658,088
Investments not required to be categorized:			
Cash deposits and money market securities		25,146,822	25,127,967
Local agency investment fund (LAIF)		11,557,690	11,557,690
Total cash and investments		$ 204,071,276	204,343,745
Restricted cash and cash equivalents		$ 36,685,676	
Short-term investments		138,261,763	
Long-term investments		29,123,837	
Total cash and investments		$ 204,071,276	

	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	

Investments held in the California State Treasurer’s Local Agency Investment Fund are not subject to categorization and have been 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.

(Continued)

(3) Receivables

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

	Balance, June 30	
	2003	**2002**
Grants receivable	$ 16,822,924	5,264,970
Interest receivable	679,793	2,081,078
Ports/Railroad reimbursement receivable	—	20,518,647
Los Angeles County Sanitation District receivable	2,500,000	2,500,000
Use fees receivable	6,203,236	5,126,788
Other receivables	7,046,931	296,886
Due from the Railroads	21,746,030	—
Due from Los Angeles County	7,181,579	—
Total	$ 62,180,493	35,788,369

(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, 2003 and 2002, the balance of such deposits aggregated $5,020,240 and $9,934,514, respectively.

(5) Capital Assets

The following schedule summarizes capital assets:

	Balance, July 1, 2002	Additions	Transfers	Decreases	Balance, June 30, 2003
Right-of-way and land improvements, not being depreciated	$ 101,392,612	39,136,449	426,782,312	—	567,311,373
Buildings and equipment:					
Automotive vehicles	456,384	—	—	—	456,384
Office equipment	380,622	5,414	—	—	386,036
Other equipment	18,456	168,369	—	—	186,825
Tenant improvements	72,334	—	—	—	72,334
Buildings	1,102,594	—	—	—	1,102,594
Revenue assessment and verification systems	4,753,364	1,141,831	—	—	5,895,195
Buildings and equipment	6,783,754	1,315,614	—	—	8,099,368
Alameda Corridor Project Infrastructure:					
Capital assets, being depreciated (reclassified – assets in use):					
Trench structures	—	—	711,960,723	—	711,960,723
Track and signals	—	—	155,699,191	—	155,699,191
Rail bridge structures	—	—	381,114,173	—	381,114,173
Highway bridge structures	—	—	87,225,015	—	87,225,015
Capital assets, not being depreciated:					
Construction in progress:					
Trench structures	934,546,081	6,516,688	(934,546,081)	—	6,516,688
Track and signals	238,947,272	16,806,391	(238,947,272)	—	16,806,391
Rail bridge structures	480,726,199	19,467,690	(480,726,199)	—	19,467,690
Highway bridge structures	117,594,722	29,220,271	(108,561,862)	—	38,253,131
Alameda Corridor Infrastructure	1,771,814,274	72,011,040	(426,782,312)	—	1,417,043,002
Less accumulated depreciation for:					
Trench structures	—	(10,376,858)	—	—	(10,376,858)
Track and signals	—	(2,583,829)	—	—	(2,583,829)
Rail bridge structures	—	(3,924,613)	—	—	(3,924,613)
Highway bridge structures	—	(994,717)	—	—	(994,717)
Automotive vehicles	(284,314)	(91,277)	—	—	(375,591)
Office equipment	(167,732)	(116,077)	—	—	(283,809)
Other equipment	(1,825)	(4,364)	—	—	(6,189)
Tenant improvements	(53,930)	(13,551)	—	—	(67,481)
Buildings	(36,752)	(36,753)	—	—	(73,505)
Revenue assessment and verification systems	—	(950,673)	—	—	(950,673)
Total accumulated depreciation	(544,553)	(19,092,712)	—	—	(19,637,265)
Capital assets, net	$ 1,879,446,087	93,370,391	—	—	1,972,816,478

	Balance, July 1, 2001	Additions	Transfers	Decreases	Balance, June 30, 2002
Right-of-way and land improvements, not being depreciated	$ 84,857,909	17,650,704	(1,116,000)	—	101,392,613
Building and equipment:					
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
Building and equipment	786,291	4,901,987	1,116,000	(20,524)	6,783,754
Alameda Corridor Project Infrastructure:					
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	20,411,472	—	—	117,594,721
Alameda Corridor Project Infrastructure	1,462,581,629	309,232,644	—	—	1,771,814,273
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	—	(36,752)	—	—	(36,752)
Total accumulated depreciation	(321,855)	(222,698)	—	—	(544,553)
Capital assets, net	$ 1,547,903,974	331,562,637	—	(20,524)	1,879,446,087

The Authority capitalizes interest costs, net of interest earned, on proceeds from tax-exempt borrowings used to finance construction activities during the construction period. 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 $1,384,523 and $6,121,002 were $3,416,901 and $86,452,212 in fiscal years 2003 and 2002, 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, 2003 and 2002 was $144,669,324 and $110,961,466, respectively. (See notes 7 and 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 day 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, 2003 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:				
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	664,307,626	1,159,201,243

(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 4.50%. The balance outstanding on the 1999 Series B Bonds is $25,165,000 at June 30, 2003.

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

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
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	2,296,314	27,461,314

(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 6.50% to 6.83%. The balance outstanding on the 1999 Series C Bonds is $497,453,396 at June 30, 2003.

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

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
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	1,100,995,252	1,598,448,648

(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, 2003.

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

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
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	62,028,573	207,663,573

The Authority's 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:				
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	1,829,627,765	2,992,774,778

As of June 30, 2003, the Authority has complied with its debt covenants.

Long-term liability activity for the year ended June 30, 2003 was as follows:

	Balance, July 1, 2002	Change	Balance, June 30, 2003
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 (note 7)	400,000,000	—	400,000,000
Interest payable:			
U.S. Department of Transportation Note	110,961,466	33,707,858	144,669,324
Subtotal	1,674,108,479	33,707,858	1,707,816,337
Less due within one year:			
Bonds payable:			
Series B	—	(5,645,000)	(5,645,000)
Series D	—	(6,760,000)	(6,760,000)
Interest payable on U.S. Department of			

	Balance, July 1, 2001	Change	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 (note 7)	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)

(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, 2003.

	Lease obligations
Fiscal year:	
2004	$ 209,287
2005	269,006
2006	134,503
Total minimum lease payments	$ 612,796

(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 Statutes 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 rates 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 statute 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 2003 and 2002 fiscal years was 10.566% and 11.741%, respectively. The Authority's covered payroll for the employees participating in CALPERS for the year ended June 30, 2003 and 2002 was $1,681,765 and $1,539,917, respectively. Total payroll for fiscal years 2003 and 2002 was $1,928,773 and $1,870,688, respectively, respectively.

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.

(c) Annual Pension Cost

For the 2003 and 2002 fiscal years, the Authority's Annual Required Contribution (ARC) was $289,841 and $180,802, respectively, which the Authority contributed. The required contribution for 2003 was determined as part of the June 2002 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		
	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%	—
2003	289,416	100%	—

	Funding status					
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	1.557%
6/30/2001	829,789	710,868	118,921	85.70%	1,443,236	8.200%
6/30/2002	1,157,396	952,452	204,944	82.30%	1,575,203	13.000%

(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 1998	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 between both Ports and the Authority for additional contributions of $7,666,165 and $5,833,835, 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 $15,166,165 for the Port of Long Beach, and $13,333,835 for the Port of Los Angeles.

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, 2003 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 the Authority's management, based on consultation with legal counsel, that the estimated liability for unreserved claims and suits will not have a material impact on the Authority's basic financial statements.

The Use and Operating Agreement with the Railroads provides for payment by the Railroads to the Authority for international containerized cargo that moves into or out of Southern California by rail. The Authority captures revenues from international cargo loaded on rail at Port facilities or trucked between nearby rail loading facilities and the Ports. However, the Authority has not been paid by the Railroads for international cargo transported by truck to warehouse or distribution centers for transfer into larger volume containers (i.e., transloaded) and subsequently railed out of Southern California.

The Authority is vigorously pursuing what it believes to be its entitlement to these revenues with both Railroads through negotiation and other available means at its disposal. Management of the Authority believes it will continue to meet its outstanding debt obligations based on existing and projected revenues supported by the contingent pledge of the Ports to repay up to forty percent (40%) of the annual debt service requirement.

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 that may be determined by the granting agencies upon the Authority would not impair the Authority's financial condition.

(14) Subsequent Event

The Governing has Board has authorized the issuance of up to $750 million par amount of tax-exempt and taxable bonds to prepay all or a part of the outstanding loan balance of the United States Department of Transportation loan. The Authority expects to issue such bonds during March 2004.