



**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY**

Basic Financial Statements

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

# ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

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

## **Independent Auditors' Report**

The Governing Board  
Alameda Corridor Transportation Authority:

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, 2005 and 2004, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2005 and 2004 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2005 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis on pages 3 through 10 in addition to the trend information related to annual pension costs referenced in note 10c are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

September 9, 2005

# **ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY**

## **Management's Discussion and Analysis**

June 30, 2005 and 2004

### **Description of Basic Financial Statements**

The Alameda Corridor Transportation Authority (ACTA or the Authority) presents its basic financial statements using the economic resources measurement focus and full accrual basis of accounting. 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 the information recorded in the basic financial statements.

### **Financial Highlights**

The Authority received \$5,954,900 and \$37,366,392 in grant funds for the fiscal years ended June 30, 2005 and 2004, respectively. The majority of the funds were received from the State of California Department of Transportation (Caltrans) for the Pacific Coast Highway (PCH) Grade Separation Project. The PCH Project was completed on March 4, 2004, well ahead of schedule.

The 2005 and 2004 fiscal years marked the second and third full years of operations for the Authority. The Authority earned \$68,900,695 and \$64,148,811 from use fees, container charges, and maintenance-of-way charges during fiscal years ended June 30, 2005 and 2004, respectively. The Authority's use fees and container charges for the year 2005 exceeded the 2004 actual 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.

As was the case last year, the Authority's depreciation expense has increased due to placing into service additional portions of its capital assets, and an additional depreciation expense adjustment due to reclassification from right-of-way and land improvements to project infrastructure.

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

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY**

Management's Discussion and Analysis

June 30, 2005 and 2004

**Condensed Financial Information**

The following condensed financial information provides an overview of the Authority's financial position for the fiscal years ended June 30, 2005, 2004, and 2003:

	Year ended June 30			\$ Change between 2005 and 2004	\$ Change between 2004 and 2003
	2005	2004	2003		
<b>Assets:</b>					
Capital assets, net	\$ 1,994,430,552	1,993,887,001	1,972,816,478	543,551	21,070,523
Other assets	252,880,812	283,431,421	274,979,791	(30,550,609)	8,451,630
Bond issuance costs	72,733,194	76,640,212	—	(3,907,018)	76,640,212
<b>Total assets</b>	<b>2,320,044,558</b>	<b>2,353,958,634</b>	<b>2,247,796,269</b>	<b>(33,914,076)</b>	<b>106,162,365</b>
<b>Liabilities:</b>					
Long-term liabilities	1,903,552,698	1,870,675,148	1,691,905,257	32,877,550	178,769,891
Other liabilities	51,342,689	55,995,857	64,066,652	(4,653,168)	(8,070,795)
<b>Total liabilities</b>	<b>1,954,895,387</b>	<b>1,926,671,005</b>	<b>1,755,971,909</b>	<b>28,224,382</b>	<b>170,699,096</b>
<b>Net assets:</b>					
Invested in capital assets	178,274,448	229,315,909	409,669,465	(51,041,461)	(180,353,556)
Restricted for debt service	122,641,842	95,050,110	33,889,798	27,591,732	61,160,312
Restricted for capital projects	64,232,881	102,921,610	48,265,097	(38,688,729)	54,656,513
<b>Total net assets</b>	<b>\$ 365,149,171</b>	<b>427,287,629</b>	<b>491,824,360</b>	<b>(62,138,458)</b>	<b>(64,536,731)</b>

**(a) Net Assets**

Net assets, the difference between assets and liabilities, decreased by \$62.1 million, or 14.5% and \$64.5 million, or 13.1%, during the years ended June 30, 2005 and 2004, respectively. This net decrease is the result of the excess of nonoperating expenses, primarily interest expense, over operating income for both 2005 and 2004 fiscal years.

**(b) Capital Assets**

Net capital assets, which are made up of property, plant, and equipment, increased by \$0.5 million, or .03% and \$21.1 million, or 1%, due primarily to the costs of ongoing capital projects incurred during the years ending June 30, 2005 and 2004, respectively. The 2005 and 2004 fiscal years increase is partially offset by higher depreciation associated with assets moved from construction-in-progress to in-service assets during the fiscal years. The Alameda Corridor (Project) was substantially complete on April 15, 2002 when revenue operations began. Most capital project costs incurred on various elements of the Project were placed into service on July 1, 2002.

**(c) Bond Issuance Cost**

No additional bond issuance costs were capitalized this year. The increase in the Authority's bond issuance costs in fiscal 2004 is related to the bond issuance costs recorded in conjunction with the issuance of \$686 million in 2004 Series A and B bonds, as well as the reclassification of bond issuance costs previously reflected in capital assets related to the 1999 Series bonds. Amortization expense related to

## ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

### Management's Discussion and Analysis

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bond issuance costs was \$3.9 million and \$11.8 million for fiscal years 2005 and 2004, respectively. The reduction in the amount of amortization is a result of a fiscal 2004 reclassification of bond issuance costs previously reflected in capital assets related to the 1999 Series bonds (see note 7).

#### **(d) Other Assets**

Other assets consist of cash, investments, receivables, condemnation deposits, and prepaid expenses. These assets decreased by \$30.6 million, or 10.8%, during fiscal 2005, due primarily to a decrease in restricted cash and investments. Cash and investments decreased by \$32.8 million during the fiscal year due to expected project spending.

Other assets increased by \$8.5 million, or 3%, during fiscal year 2004, due primarily to an increase in restricted cash and investments. Cash and investments increased by \$73 million during the fiscal year because of the reorganization of the Authority's debt, mentioned earlier, offset by a decrease of \$37.6 million and \$15.2 million in receivables and restricted investments, respectively.

Grants receivable decreased by \$3.3 million and \$24.7 million during fiscal 2005 and 2004, respectively, due to the completion of the Pacific Coast Highway (PCH) Grade Separation Project, which is funded by State and Federal grants. Other receivables increased by \$1.3 million in fiscal 2005 due to an outstanding insurance payment from Union Pacific Railroad and decreased \$34.8 million in fiscal 2004 due to a settlement with Union Pacific Railroad regarding various outstanding issues related to the construction of the Project. There were also decreases of \$0.5 million and \$1.8 million in restricted escrows in fiscal 2005 and 2004, respectively. Such decreases are expected as construction activity diminishes and projects are closed out.

#### **(e) Long-Term Liabilities**

Long-term liabilities increased by \$32.9 million, or 1.8%, in fiscal 2005 compared to fiscal 2004 due to accrued interest on Capital Appreciation Bonds.

Long-term liabilities increased by \$178.8 million, or 11%, in fiscal 2004 compared to fiscal 2003 as a result of the addition in revenue bonds payable due to the issuance of the Authority's 2004 Series A and B Bonds and payoff of the U.S. Department of Transportation (DOT) loan. ACTA also recognized accrued interest of \$45.8 million on the 1999 Series A and C Capital Appreciation Bonds, which included a one-time adjustment for accrued interest.

#### **(f) Other Liabilities**

Other liabilities consist of accounts payable, retention payable, right-of-way payable, deferred revenue, miscellaneous payables, as well as principal and interest currently due on the long-term bonds payable. Accounts payable decreased by \$5.7 million during fiscal 2005. This decrease is due to the decrease in construction related work during the 2005 fiscal year. Contract retentions decreased by \$0.6 million during fiscal 2005 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 increased by \$0.2 million during fiscal 2005 due to the acquiring of additional ROW. Deferred revenue increased by \$0.1 million during fiscal 2005 due to a decline in expenses for the PCH Project. Accrued interest payable increased by \$0.2 million during fiscal 2005 due to accrued bond interest payable that is due during the 2006 fiscal year.

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Contract retentions, right-of-way acquisition payable, and accounts payable decreased by \$25.9 million during fiscal 2004. Accounts payable decreased by \$21.9 million during fiscal 2004 as a result of settling outstanding and disputed project costs with one of the major railroads. Contract retentions decreased by \$2.2 million during fiscal 2004 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 \$1.7 million during fiscal 2004 due to the closing of outstanding condemnation cases. Deferred revenue increased by \$6.2 million during fiscal 2004 due to a decline in expenses for the PCH Project. Accrued interest payable increased by \$11.4 million during fiscal 2004 due to accrued bond interest payable that is due during the 2005 fiscal year.

**(g) *Net Assets Invested in Capital Assets, Net of Related Debt***

Net assets invested in capital assets, net of related debt, decreased by \$51.0 million, or 22%, and \$180.4 million, or 44%, during the years ended June 30, 2005 and 2004, respectively, reflecting the Authority's transition from a construction project to international goods movement facilitation activities. During the years ended June 30, 2005 and 2004, capital project costs on the Alameda Corridor Project, including the PCH Grade Separation Project, were \$24.7 million and \$60 million, respectively.

**(h) *Net Assets Restricted for Debt Service***

Net assets restricted for debt service increased by \$27.6 million, or 29%, and \$61.1 million, or 180%, during the years ended June 30, 2005 and 2004, respectively. The increase is attributable to issuing the 2004 Series A and B ACTA Bonds.

**(i) *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 \$38.7 million, or 38%, and \$54.7 million, or 113%, during the years ended June 30, 2005 and 2004, respectively.

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY**

Management's Discussion and Analysis

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**Summary of Operations and Changes in Net Assets**

The 2004 and 2005 fiscal years represent the Authority's second and third full year of Corridor operations. Maintenance-of-way revenues, representing 4.9% in fiscal year 2005 and 3.3% in fiscal year 2004 of operating revenues, were \$3.4 million and \$2.1 million, respectively. Revenue from use fees (for actual railroad use of the Corridor) and container charges (paid for containers which were trucked around the Corridor but left California by rail) was \$65.5 million. The table below summarizes sources of net assets for the years ended June 30, 2005, 2004, and 2003:

	Year ended June 30			\$ Change between 2005 and 2004	\$ Change between 2004 and 2003
	2005	2004	2003		
Operating revenues:					
User fees	\$ 65,521,523	62,024,810	54,667,218	3,496,713	7,357,592
Maintenance-of-way charges	3,379,172	2,124,001	3,243,977	1,255,171	(1,119,976)
Total operating revenues	<u>68,900,695</u>	<u>64,148,811</u>	<u>57,911,195</u>	<u>4,751,884</u>	<u>6,237,616</u>
Operating expenses:					
Salaries and benefits	2,331,738	2,193,592	2,503,396	138,146	(309,804)
Other administrative expenses	1,760,006	1,343,466	1,544,249	416,540	(200,783)
Feasibility studies	—	—	10,729	—	(10,729)
Maintenance-of-way	4,438,540	2,893,961	4,133,479	1,544,579	(1,239,518)
Depreciation	24,170,050	20,207,783	19,092,712	3,962,267	1,115,071
Total operating expenses	<u>32,700,334</u>	<u>26,638,802</u>	<u>27,284,565</u>	<u>6,061,532</u>	<u>(645,763)</u>
Operating income (loss)	36,200,361	37,510,009	30,626,630	(1,309,648)	6,883,379
Nonoperating revenues:					
Interest and investment revenue, net	6,461,947	2,077,314	3,481,586	4,384,633	(1,404,272)
Interest expense	(106,988,352)	(129,738,104)	(92,006,141)	22,749,752	(37,731,963)
Grants	5,954,900	37,366,392	28,732,599	(31,411,492)	8,633,793
Other revenue	167,586	76,124	160,009	91,462	(83,885)
Cost of issuance amortization	(3,934,900)	(11,828,466)	—	7,893,566	(11,828,466)
Total nonoperating expense	<u>(98,338,819)</u>	<u>(102,046,740)</u>	<u>(59,631,947)</u>	<u>3,707,921</u>	<u>(42,414,793)</u>
Change in net assets	(62,138,458)	(64,536,731)	(29,005,317)	2,398,273	(35,531,414)
Total net assets – beginning	<u>427,287,629</u>	<u>491,824,360</u>	<u>520,829,677</u>	<u>(64,536,731)</u>	<u>(29,005,317)</u>
Total net assets – end of year	<u>\$ 365,149,171</u>	<u>427,287,629</u>	<u>491,824,360</u>	<u>(62,138,458)</u>	<u>(64,536,731)</u>

**(a) Operating Revenues**

User fee revenues, representing 95.1% and 96.7% of operating revenues, increased \$3.5 million and \$7.4 million, or 5.6% and 13.5% in 2005 and 2004, respectively. The increase is due to a higher volume of cargo and a 3% fee increase in each year.

# ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

## Management's Discussion and Analysis

June 30, 2005 and 2004

### (b) *Operating Expenses*

Operating expenses consist of salaries, benefits, maintenance-of-way, revenue collection and monitoring fees, administrative costs, and depreciation. During the years ended June 30, 2005 and 2004, operating expenses increased by \$6.1 million, or 22.8%, and \$0.6 million, or 2.4%, respectively.

Depreciation expense accounted for the majority of the change with an increase of \$4.0 million, or 19.6%, and \$1.1 million, or 6.0%, due to the yearly depreciation of infrastructure and capital assets being placed into service in 2005 and 2004, respectively. During fiscal year 2005, a portion of capital assets, previously classified as right-of-way and land improvements, was reclassified to Alameda Corridor Project infrastructure. The reclassifications were made to depreciable and nondepreciable line items. Depreciable costs relate to bridges, retaining walls, fencing, paving, new utility installations, traffic signals, trackwork, ballast, railroad signals motion detectors, and AEI sensors. Nondepreciable costs relate to demolition, excavation, backfill, embankment fill, contaminated soil, delays, testing services, and utility relocations. The reclassifications to the depreciable and nondepreciable line items were based upon the criteria listed above. Due to the reclassification, an adjustment of \$2.2 million of additional depreciation expense was made in order to adjust for the depreciation not taken in prior years.

### (c) *Nonoperating Revenues and Expenses*

Nonoperating revenues consist of interest and investment earnings, interest expense, grant revenues, and miscellaneous revenues. During the fiscal years ended June 30, 2005 and 2004, interest and investment earnings increased by \$4.4 million, or 211.1% and \$1.4 million, or 40%, respectively. The increase in investment earnings is due to the fact that in previous years the Authority capitalized tax exempt interest earnings. However for fiscal year 2005, the Authority recognized all interest earnings, which include \$2.5 million of tax exempt interest. Interest expense decreased \$22.7 million due to a one time adjustment of interest expense last year. Grant revenues decreased \$31.4 million, or 84.1%, in fiscal 2005, due to completion of the PCH Grade Separation Project.

### **Capital Assets and Debt Administration**

At June 30, 2005 and 2004, the Authority had approximately \$2 billion of capital assets and approximately \$1.9 billion of long-term debt outstanding.

### (a) *Capital Assets*

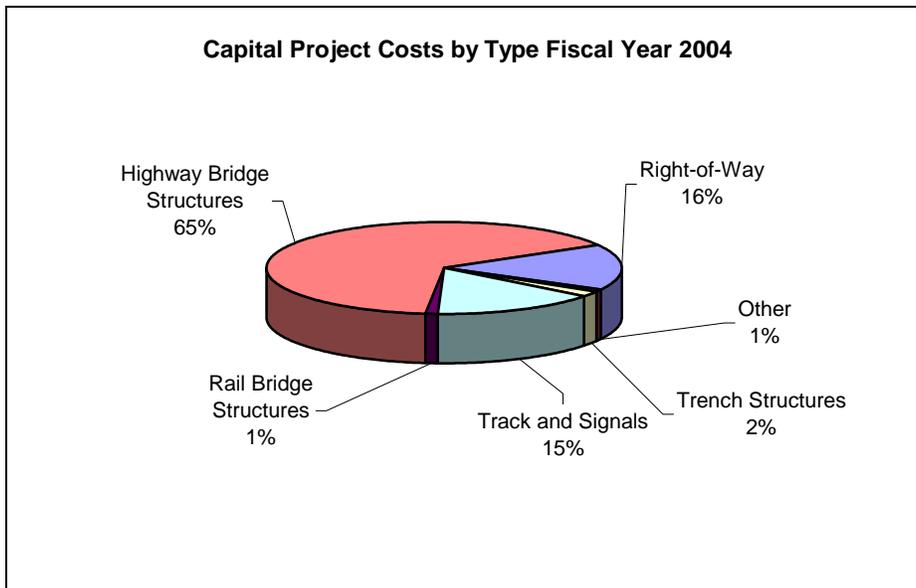
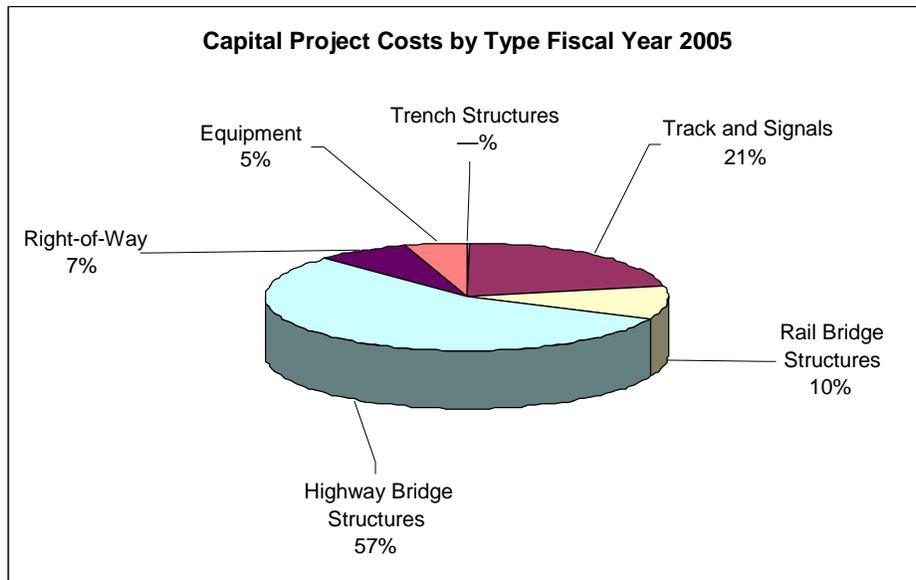
During fiscal years 2005 and 2004, the Authority expended \$24.7 million and \$60.1 million, respectively, on capital project activities. The chart below provides a summary of capital project expenditures by type for the years ended June 30, 2005 and 2004.

# ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

## Management's Discussion and Analysis

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Additional capital asset information can be found in note 5 to the basic financial statements.



### (b) *Long-Term Debt*

As of June 30, 2005 and 2004, the Authority's total long-term debt was \$1.804 billion and \$1.819 billion, respectively, in revenue bonds (net of the current portion amount of \$15.2 million and \$13.8 million and \$3.7 million of unamortized discount in fiscal 2005 and \$3.7 million in 2004, respectively).

Additional debt information can be found in note 7 to the basic financial statements.

# ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

## Management's Discussion and Analysis

June 30, 2005 and 2004

### 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 \$182.3 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 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 (the Board) modified the Alameda Corridor Project to include the addition of several Corridor-related projects, consistent with the Authority's Joint Powers Agreement, the Use and Operating Agreement, and its bond-related documents. Significant among those projects are the PCH Grade Separation Project 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 County Metropolitan Transportation Authority (LACMTA).
7. Developing funding options and alternatives for such expanded mission activities, and authorizing \$3.2 million in initial funding.
8. Evaluating opportunities for addressing near-port empty container storage issues.

The Authority is exploring the possibility of a demonstration program of local container delivery via shuttle train to an Inland Empire location in cooperation with the Union Pacific Railroad Company.

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY**

Balance Sheets

June 30, 2005 and 2004

Assets	2005	2004
Current assets:		
Restricted cash and cash equivalents (note 2)	\$ 9,923,882	109,719,633
Restricted investments (note 2)	202,110,085	128,622,231
Receivables (note 3)	27,934,113	25,435,384
Restricted escrow accounts	480,395	1,006,641
Condemnation deposits (note 4)	3,518,627	3,315,993
Prepaid expenses	1,508,503	1,430,006
Total current assets	245,475,605	269,529,888
Noncurrent assets:		
Restricted investments (note 2)	7,405,207	13,901,533
Bond issuance costs	72,733,194	76,640,212
Capital assets (note 5):		
Buildings and equipment	10,265,490	9,004,729
Alameda Corridor Project infrastructure, right of way and land improvements	2,048,180,160	2,024,727,320
Less accumulated depreciation	(64,015,098)	(39,845,048)
Total noncurrent assets	2,074,568,953	2,084,428,746
Total assets	\$ 2,320,044,558	2,353,958,634
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 8,627,698	14,348,496
Right-of-way acquisition payable (note 4)	3,518,627	3,315,993
Contract retention payable	480,395	1,049,353
Deferred revenue	8,601,761	8,497,816
Accrued interest payable, current portion	14,689,278	14,862,966
Revenue bonds payable, current portion (note 7)	15,180,000	13,750,000
Other liabilities	244,930	171,233
Total current liabilities	51,342,689	55,995,857
Noncurrent liabilities:		
Accrued interest payable	99,454,667	51,310,603
Revenue bonds payable, net of unamortized discount of \$3,738,071 and \$3,651,557 (note 7)	1,804,098,031	1,819,364,545
Total noncurrent liabilities	1,903,552,698	1,870,675,148
Total liabilities	1,954,895,387	1,926,671,005
Net assets:		
Invested in capital assets, net of related debt	178,274,448	229,315,909
Restricted for debt service	122,641,842	95,050,110
Restricted for capital projects	64,232,881	102,921,610
Total net assets	365,149,171	427,287,629
Total liabilities and net assets	\$ 2,320,044,558	2,353,958,634

See accompanying notes to basic financial statements.

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY**

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Use fees and container charges	\$ 65,521,523	62,024,810
Maintenance-of-way charges	3,379,172	2,124,001
Total operating revenues	<u>68,900,695</u>	<u>64,148,811</u>
Operating expenses:		
Salaries and benefits	2,331,738	2,193,592
Administrative expenses	1,760,006	1,343,466
Maintenance-of-way	4,438,540	2,893,961
Depreciation	24,170,050	20,207,783
Total operating expenses	<u>32,700,334</u>	<u>26,638,802</u>
Operating income	<u>36,200,361</u>	<u>37,510,009</u>
Nonoperating revenues:		
Interest and investment revenue, net	6,461,947	2,077,314
Grants	5,954,900	37,366,392
Miscellaneous revenue	167,586	76,124
Total nonoperating revenues	<u>12,584,433</u>	<u>39,519,830</u>
Nonoperating expenses:		
Interest expense	106,988,352	129,738,104
Amortization of bond issuance costs	3,934,900	11,828,466
Total nonoperating expenses	<u>110,923,252</u>	<u>141,566,570</u>
Change in net assets	(62,138,458)	(64,536,731)
Total net assets – beginning	<u>427,287,629</u>	<u>491,824,360</u>
Total net assets – end of year	<u>\$ 365,149,171</u>	<u>427,287,629</u>

See accompanying notes to basic financial statements.

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY**

Statements of Cash Flows

Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Receipts from customers for services	\$ 63,465,065	104,406,498
Payment to suppliers for goods and services	(12,831,952)	(25,336,086)
Payment to employees	<u>(1,686,309)</u>	<u>(2,404,809)</u>
Net cash provided by operating activities	<u>48,946,804</u>	<u>76,665,603</u>
Cash flows from noncapital financing activities:		
Grants	9,215,413	37,366,392
Miscellaneous income	<u>167,586</u>	<u>76,124</u>
Net cash provided by noncapital financing activities	<u>9,382,999</u>	<u>37,442,516</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(24,713,601)	(60,974,606)
Principal paid on notes and bonds payable	1,430,000	(412,405,000)
Proceeds from bond issuance	—	686,024,089
Bond issuance cost	(27,885)	(44,616,805)
Interest payments on capital debt, net of capitalized interest	<u>(74,284,486)</u>	<u>(236,040,990)</u>
Net cash used in capital and related financing activities	<u>(97,595,972)</u>	<u>(68,013,312)</u>
Cash flows from investing activities:		
Proceeds (purchases) of investments, net	(66,991,529)	24,861,836
Interest and dividends received	<u>6,461,947</u>	<u>2,077,314</u>
Net cash provided by (used in) investing activities	<u>(60,529,582)</u>	<u>26,939,150</u>
Net increase (decrease) in cash and cash equivalents	(99,795,751)	73,033,957
Cash and cash equivalents, beginning of year	<u>109,719,633</u>	<u>36,685,676</u>
Cash and cash equivalents, end of year	\$ <u><u>9,923,882</u></u>	\$ <u><u>109,719,633</u></u>
Reconciliation of operation income to net cash provided by operating activities:		
Operating income	\$ 36,200,361	37,510,009
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	24,170,050	20,207,783
Change in assets and liabilities:		
Use fees receivable	(5,435,630)	40,257,688
Grants receivable	—	—
Accounts payable	(5,983,178)	(19,711,339)
Prepaid expenses	(78,497)	(537,195)
Other liabilities	<u>73,698</u>	<u>(1,061,343)</u>
Net cash provided by operating activities	\$ <u><u>48,946,804</u></u>	\$ <u><u>76,665,603</u></u>

See accompanying notes to basic financial statements.

# ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2005 and 2004

## (1) Organization and Summary of Significant Accounting Policies

### (a) *Reporting Entity*

The Alameda Corridor Transportation Authority (ACTA or 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, 2005, the members of the Authority's Governing Board were:

Chairperson – Hon. Janice Hahn, Councilwoman, City of Los Angeles

Vice-Chairperson – Hon. Frank Colona, Councilman, City of Long Beach

Member – Hon. Don Knabe, Supervisor, County of Los Angeles and Chairperson LACMTA

Member – Mr. Bruce Seaton, Interim 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 – Mr. James C. Hankla, Commissioner, Port of Long Beach.

The Authority is empowered to explore alternative methods of financing, to develop existing property, and coordinate other governmental efforts necessary for a consolidated transportation corridor, including the completion of the Alameda Corridor Project (the 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, from pledges of revenues from other responsible agencies, or from any other legally available funds.

# ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

## Notes to Basic Financial Statements

June 30, 2005 and 2004

**(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.

**(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.

# ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

## Notes to Basic Financial Statements

June 30, 2005 and 2004

For the fiscal year ended June 30, 2005, the Authority implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This Statement addresses common deposits and investment risks related to credit risks, concentration of credit risk, and interest rate risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also are required to be disclosed. Implementation of GASB Statement No. 40 did not have a significant impact on the Authority's financial statements for the year ended June 30, 2005, but did required additional disclosures related to deposits and investment risks (see note 2).

**(e) *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).

**(f) *Investments***

Investments 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, 2005 and 2004. 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.

The Authority participates in the State of California's Local Agency Investment Fund, 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.

**(g) *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.

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY**

Notes to Basic Financial Statements

June 30, 2005 and 2004

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	30 years
Right-of-way improvements and hazardous materials	Nondepreciable
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 also included in property and equipment. Depreciation on these assets is included in the results of operations for the year.

**(h) 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 sheet 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.

**(i) 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 then rate of pay. All vacation hours that have been earned but not paid as of June 30, 2005 and 2004 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 unused sick hours for each employee as of June 30, 2005 and 2004 have also been accrued in the accompanying basic financial statements.

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY**

Notes to Basic Financial Statements

June 30, 2005 and 2004

(j) *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.

(k) *Reclassifications*

Certain financial statement items for prior years have been reclassified to conform to the current year presentation.

(2) **Cash and Investments**

Cash and investments as of June 30, 2005 and 2004 are classified in the accompanying financial statements as follows:

	<b>June 30, 2005</b>
	<b>Fair value</b>
Restricted cash and cash equivalents	\$ 9,923,882
Restricted short-term investments	202,110,085
Restricted long-term investments	7,405,207
Total cash and investments	<u>\$ 219,439,174</u>

	<b>June 30, 2004</b>
	<b>Fair value</b>
Restricted cash and cash equivalents	\$ 109,719,633
Restricted short-term investments	128,622,231
Restricted long-term investments	13,901,533
Total cash and investments	<u>\$ 252,243,397</u>

(a) *Deposits*

At June 30, 2005 and 2004, the net carrying amount of the Authority's reconciled deposit account with Bank of America was \$703,312 and \$7,876,388 while the corresponding bank balance was \$968,957 and \$10,699,968, respectively. Outstanding checks account for the respective differences between the carrying amounts and bank balances. Of the aforementioned bank balance, \$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.

# ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

## Notes to Basic Financial Statements

June 30, 2005 and 2004

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 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 in which the Authority may invest its funds as permitted by the California Government Code. Generally, investments shall be made in the context of the "prudent investor" rule.

**(c) Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in the market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and medium term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Authority monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The Authority has no specific limitations with respect to this metric.

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY**

Notes to Basic Financial Statements

June 30, 2005 and 2004

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:

<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio</u>	<u>Maximum investment in one issuer</u>
ACTA bonds	N/A	None	N/A
U.S. Treasury bills, notes, or bonds	5 years	None	None
State warrants or Treasury notes or bonds	None	None	None
U.S. local agency bonds, notes, or warrants	None	None	None
Federal agency obligations	5 years	None	None
Callable federal agency securities	5 years	20%	None
Bankers' acceptances	180 days	40%	10%
Commercial paper	270 days	25%	10%
Negotiable certificates of deposit	2 years	30%	None
Repurchase agreements	90 days	50%	None
California Local Agency Investment Fund	N/A	None	None
Time deposits	1 year	15%	None
L.A. County Treasurer Investment Pool	N/A	None	None
Money market funds	None	20%	10%
Medium-term maturity corporate notes	None	30%	10%
Mortgage- or asset-backed securities	5 years	20%	None

The five sectors that the Authority actually invested in, therefore the basis on which the Authority monitors its interest rate risk, are as follows:

	<u>2005</u>	<u>Weighted average maturity (in years)</u>
Investment type:		
U.S. Treasury notes	\$ 2,531,297	0.64
U.S. Corporate notes	4,165,190	0.56
Commercial paper	19,867,542	0.09
Federal agency obligations	182,951,263	0.20
	<u>\$ 209,515,292</u>	<u>0.20</u>

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY**

Notes to Basic Financial Statements

June 30, 2005 and 2004

**(d) Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum of a rating by (where applicable) the Authority's Investment Policy, debt agreements, and the actual rating as of year-end for each investment type.

	Ratings as of fiscal year-end						
	TSY	AAA	AA-	A+	A	A-1	A-1+
Investment type:							
U.S. Treasury notes	2,531,297	—	—	—	—	—	—
U.S. Corporate notes	—	698,976	654,566	607,355	2,204,293	—	—
Commercial paper	—	—	—	—	—	4,706,719	15,160,823
Federal agency obligations	—	182,951,263	—	—	—	—	—
Totals	<u>2,531,297</u>	<u>183,650,239</u>	<u>654,566</u>	<u>607,355</u>	<u>2,204,293</u>	<u>4,706,719</u>	<u>15,160,823</u>
Grand total \$	<u>209,515,292</u>						

**(e) Concentration of Credit Risk**

The Authority's Investment Policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total Authority's investments are as follows:

Federal Home Loan Bank	Federal agency obligations	\$ 29,290,984
Fannie Mae	Federal agency obligations	41,267,896
Students loan	Federal agency obligations	1,768,048
Federal Home Loan Mortgage Corp.	Federal agency obligations	<u>110,264,335</u>
		<u>\$ 182,591,263</u>

**(f) Investment in State of California Local Agency Investment Pool**

The Authority is a voluntary participant in the Local Agency Investment Fund that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements as cash equivalents at amounts based upon the Authority's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. At June 30, 2005 and 2004, the balance of such deposits is \$7,294,698 and \$16,390,999, respectively.

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY**

Notes to Basic Financial Statements

June 30, 2005 and 2004

**(3) Receivables**

Receivables consist of grants, use fees, and other amounts due from private entities. The following provides a summary of the amounts of accounts and other receivables:

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
Grants receivable	\$ 13,315,348	16,575,861
Interest receivable	1,254,725	628,156
Use fees receivable	10,977,343	7,104,683
Other receivables	2,386,697	1,126,684
Total	<u>\$ 27,934,113</u>	<u>25,435,384</u>

**(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, 2005 and 2004, the balance of such deposits was \$3,518,627 and \$3,315,993, respectively.

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY**

Notes to Basic Financial Statements

June 30, 2005 and 2004

**(5) Capital Assets**

The following schedule summarizes capital assets for the years ended June 30, 2005 and 2004:

	<u>Balance, July 1, 2004</u>	<u>Additions</u>	<u>Transfers and deductions</u>	<u>Balance, June 30, 2005</u>
Right-of-way and land improvements, not being depreciated	\$ 628,493,930	1,797,135	(476,969,331)	153,321,734
Buildings and equipment:				
Automotive vehicles	456,384	—	—	456,384
Office equipment	493,896	40,860	—	534,756
Other equipment	186,825	—	—	186,825
Tenant improvements	72,334	—	—	72,334
Buildings	1,102,594	—	—	1,102,594
Revenue assessment and verification system	6,692,696	1,219,901	—	7,912,597
Buildings and equipment	9,004,729	1,260,761	—	10,265,490
Alameda Corridor Project Infrastructure				
Capital assets, being depreciated:				
Trench structures	704,063,817	50,576	10,131,614	714,246,007
Track and signals	160,733,336	4,732,307	26,925,165	192,390,808
Rail bridge structures	368,830,280	1,943,436	37,120,825	407,894,541
Highway bridge structures	112,055,169	9,716,020	22,676,632	144,447,821
Capital assets, not being depreciated:				
Construction in progress:				
Trench structures	1,280,611	15,844	222,452,914	223,749,369
Track and signals	9,300,110	543,575	55,644,060	65,487,745
Rail bridge structures	616,430	551,073	100,508,686	101,676,189
Highway bridge structures				
Alameda Corridor	39,353,637	4,102,874	1,509,435	44,965,946
Infrastructure	1,396,233,390	21,655,705	476,969,331	1,894,858,426
Total fixed assets	2,033,732,049	24,713,601	—	2,058,445,650
Less accumulated depreciation for:				
Trench structures	(20,153,904)	(10,978,429)	—	(31,132,333)
Track and signals	(5,145,565)	(3,126,851)	—	(8,272,416)
Rail bridge structures	(8,806,186)	(6,533,524)	—	(15,339,710)
Highway bridge structures	(2,579,324)	(1,990,506)	—	(4,569,830)
Automotive vehicles	(439,569)	—	—	(439,569)
Office equipment	(401,422)	(148,765)	—	(550,187)
Other equipment	(10,413)	(2,681)	—	(13,094)
Tenant improvements	(68,695)	(1,214)	—	(69,909)
Buildings	(110,258)	(36,753)	—	(147,011)
Revenue assessment and verification system	(2,129,712)	(1,351,327)	—	(3,481,039)
Total accumulated depreciation	(39,845,048)	(24,170,050)	—	(64,015,098)
Capital assets, net	\$ 1,993,887,001	543,551	—	1,994,430,552

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY**

Notes to Basic Financial Statements

June 30, 2005 and 2004

	<u>Balance, July 1, 2003</u>	<u>Additions</u>	<u>Transfers and deletions</u>	<u>Balance, June 30, 2004</u>
Right-of-way and land improvements, not being depreciated	\$ 567,311,373	9,518,456	51,664,101	628,493,930
Buildings and equipment:				
Automotive vehicles	456,384	—	—	456,384
Office equipment	386,036	107,860	—	493,896
Other equipment	186,825	—	—	186,825
Tenant improvements	72,334	—	—	72,334
Buildings	1,102,594	—	—	1,102,594
Revenue assessment and verification systems	5,895,195	797,501	—	6,692,696
Buildings and equipment	8,099,368	905,361	—	9,004,729
Alameda Corridor Project Infrastructure				
Capital assets, being depreciated (reclassified-assets in use):				
Trench structures	711,960,723	—	(7,896,906)	704,063,817
Track and signals	155,699,191	—	5,034,145	160,733,336
Rail bridge structures	381,114,173	—	(12,283,893)	368,830,280
Highway bridge structures	87,225,015	—	24,830,154	112,055,169
Capital assets, not being depreciated:				
Construction in progress:				
Trench structures	6,516,688	1,280,611	(6,516,688)	1,280,611
Track and signals	16,806,391	9,300,110	(16,806,391)	9,300,110
Rail bridge structures	19,467,690	616,430	(19,467,690)	616,430
Highway bridge structures	38,253,131	39,353,638	(38,253,132)	39,353,637
Infrastructure	1,417,043,002	50,550,789	(71,360,401)	1,396,233,390
Total fixed assets	1,992,453,743	60,974,606	(19,696,300)	2,033,732,049
Less accumulated depreciation for:				
Trench structures	(10,376,858)	(9,777,046)	—	(20,153,904)
Track and signals	(2,583,829)	(2,561,736)	—	(5,145,565)
Rail bridge structures	(3,924,613)	(4,881,573)	—	(8,806,186)
Highway bridge structures	(994,717)	(1,584,607)	—	(2,579,324)
Automotive vehicles	(375,591)	(63,978)	—	(439,569)
Office equipment	(283,809)	(117,613)	—	(401,422)
Other equipment	(6,189)	(4,224)	—	(10,413)
Tenant improvements	(67,481)	(1,214)	—	(68,695)
Buildings	(73,505)	(36,753)	—	(110,258)
Revenue assessment and verification systems	(950,673)	(1,179,039)	—	(2,129,712)
Total accumulated depreciation	(19,637,265)	(20,207,783)	—	(39,845,048)
Capital assets, net	\$ 1,972,816,478	40,766,823	(19,696,300)	1,993,887,001

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY**

Notes to Basic Financial Statements

June 30, 2005 and 2004

**(6) U.S. Department of Transportation Loan Agreement**

The Authority was 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:

	<u>Amount</u>
September 1997	\$ 140,000,000
September 1998	140,000,000
September 1999	<u>120,000,000</u>
Total	<u>\$ 400,000,000</u>

The loan was paid in full during fiscal year 2004.

**(7) Bonds Payable**

The 1999 Series A, B, C, and D Bonds and the 2004 Series A and B 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.

At the initial recording of the 1999 Series Bonds, the premiums and discounts for the 1999 Series Bonds and interest accretion on the 1999 Series A and C Capital Appreciation Bonds were not recognized. The amount of unamortized premium or discount from the date of issuance through June 30, 2005 was a net premium of \$86,514, which was being recognized in fiscal year 2005. As of June 30, 2005 and 2004, the unamortized discount balance was \$3,738,071 and \$3,691,557, respectively. Interest on the 1999 Series A and C Capital Appreciation Bonds for fiscal year 2004 and 2005, respectively, amounted to \$9,685,855 and \$10,302,024 and was recognized in the accompanying statements of revenues, expenses, and changes in net assets for the years ended June 30, 2005 and 2004, respectively.

**(a) 1999 Series A Current Interest Bonds**

The Series A Tax-Exempt Current Interest Lien Revenue Bonds (Series A) were issued by the Alameda Corridor Transportation Authority in the aggregate amount of \$444,440,000 on January 1, 1999. Proceeds from the sale of this insured 1999 Series A Current Interest Bonds are being used to finance a portion of the cost of design and construction of the Alameda Corridor Project.

Interest on the 1999 Series A Current Interest 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 Current Interest Bonds, which mature on October 1, 2029, bear interest at rates ranging from 4.00% to 5.25%. The balance outstanding on the 1999 Series A Current Interest Bonds at June 30, 2005 and 2004 is \$444,440,000.

**ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY**

Notes to Basic Financial Statements

June 30, 2005 and 2004

The 1999 Series A Current Interest Bonds due on or after October 1, 2010 are redeemable at the option of the Authority on or after October 1, 2009, in whole or in part at any time, from any monies that may be provided for such purpose, and at the redemption process set forth in the table below, expressed as a percentage of the principal amount of such Series A Bonds, so redeemed plus accrued interest to the date fixed for redemption:

<b>Redemption period (both dates inclusive)</b>	<b>Redemption price (expressed as a percentage of principal amount)</b>
October 1, 2009 through September 30, 2010	101.0%
October 1, 2010 through September 30, 2011	100.5
October 1, 2011 and thereafter	100.0

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

	<b>Annual debt service requirement</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year:			
2006	\$ —	22,008,216	22,008,216
2007	735,000	21,993,516	22,728,516
2008	7,950,000	21,800,916	29,750,916
2009	8,605,000	21,422,285	30,027,285
2010	9,310,000	21,006,724	30,316,724
2011 – 2015	58,745,000	97,077,300	155,822,300
2016 – 2020	84,140,000	79,064,842	163,204,842
2021 – 2025	116,910,000	53,960,100	170,870,100
2026 – 2030	158,045,000	20,660,913	178,705,913
Total	\$ 444,440,000	358,994,812	803,434,812

**(b) 1999 Series A Capital Appreciation Bonds**

The Series A Tax-Exempt Capital Appreciation Lien Revenue Bonds (1999 Series A CABs) were issued by the Alameda Corridor Transportation Authority in the aggregate amount of \$50,453,617 on February 2, 1999. Proceeds from the sale of these insured 1999 Series A CABs are being used to finance a portion of the cost of design and construction of the Alameda Corridor Project.

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The first maturity of the bonds will commence on October 1, 2030. The 1999 Series A CABs, which mature between October 1, 2030 and October 1, 2037, have an accretion yield to maturity at rates ranging from 5.25% to 5.27%. The principal and accrued interest balance outstanding on the 1999 Series A CABs at June 30, 2005 are \$50,453,617 and \$19,998,865, respectively. The Series A CABs are not subject to optional redemption.

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

	<b>Annual debt service requirement</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year:			
2031 – 2035	\$ 33,535,373	158,389,627	191,925,000
2036 – 2038	16,918,244	102,906,756	119,825,000
Total	<u>\$ 50,453,617</u>	<u>261,296,383</u>	<u>311,750,000</u>

**(c) 1999 Series B Bonds**

The Series B Tax-Exempt Subordinate Lien Revenue Bonds (1999 Series B Bonds) 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 principal balance outstanding on the 1999 Series B Bonds is \$13,340,000 and \$19,520,000 at June 30, 2005 and 2004, respectively. The 1999 Series B Bonds are not subject to optional redemption.

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

	<b>Annual debt service requirement</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year:			
2006	\$ 6,745,000	439,913	7,184,913
2007	6,595,000	145,888	6,740,888
Total	<u>\$ 13,340,000</u>	<u>585,801</u>	<u>13,925,801</u>

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**(d) 1999 Series C Current Interest Bonds**

The Series C Taxable Current Interest Lien Revenue Bonds (1999 Series C Current Interest Bonds) were issued by the Authority in the aggregate amount of \$430,155,000 on January 1, 1999. Proceeds from the sale of these insured 1999 Series C Current Interest 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 Current Interest Bonds is payable semiannually on April 1 and October 1 of each year commencing April 1, 1999 with principal payments commencing October 1, 2015. The 1999 Series C Current Interest Bonds, which mature on October 1, 2029, bear interest at rates ranging from 6.50% to 6.60%. The principal balance outstanding on the 1999 Series C Current Interest Bonds is \$430,155,000 at June 30, 2005 and 2004. The 1999 Series C Current Interest Bonds are not subject to optional redemption.

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

	<b>Annual debt service requirement</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year:			
2006	\$ —	28,260,555	28,260,555
2007	—	28,260,555	28,260,555
2008	—	28,260,555	28,260,555
2009	—	28,260,555	28,260,555
2010	—	28,260,555	28,260,555
2011 – 2015	3,130,000	141,201,050	144,331,050
2016 – 2020	126,545,000	121,071,038	247,616,038
2021 – 2025	70,065,000	94,625,025	164,690,025
2026 – 2030	230,415,000	40,312,635	270,727,635
Total	\$ 430,155,000	538,512,523	968,667,523

**(e) 1999 Series C Capital Appreciation Bonds**

The Series C Taxable Capital Appreciation Lien Revenue Bonds (1999 Series C CABs) were issued by the Authority in the aggregate amount of \$67,298,396 on February 9, 1999. Proceeds from the sale of these insured 1999 Series C CABs are being used to finance a portion of the cost of the design and construction of the Alameda Corridor Project.

The first maturity of the bonds will commence on October 1, 2020. The 1999 Series C CABs, which mature between October 1, 2020 and October 1, 2037, have an accretion yield to maturity at rates ranging from 6.69% to 6.83%. The principal balance and accrued interest outstanding on the 1999 Series C CABs at June 30, 2005 and 2004 are \$67,298,396 and \$36,116,615 and \$67,298,396 and \$29,398,396, respectively. The 1999 Series C CABs are not subject to optional redemption.

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

	<b>Annual debt service requirement</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year:			
2021 – 2025	\$ 22,052,990	75,812,010	97,865,000
2026 – 2030	—	—	—
2031 – 2035	30,649,550	262,025,450	292,675,000
2036 – 2038	14,595,856	168,124,144	182,720,000
Total	\$ 67,298,396	505,961,604	573,260,000

*(f) 1999 Series D Bonds*

The Series D Taxable Subordinate Lien Revenue Bonds (1999 Series D Bonds) 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 on October 1, 2014, bear interest at rates ranging from 5.47% to 6.37%. The principal balance outstanding on the 1999 Series D Bonds is \$131,305,000 and \$138,875,000 at June 30, 2005 and 2004, respectively. The 1999 Series D Bonds are not subject to optional redemption.

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

	<b>Annual debt service requirement</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year:			
2006	\$ 8,435,000	7,661,160	16,096,160
2007	9,365,000	7,151,847	16,516,847
2008	10,360,000	6,580,191	16,940,191
2009	11,420,000	5,943,538	17,363,538
2010	12,555,000	5,236,733	17,791,733
2011 – 2015	79,170,000	12,837,153	92,007,153
Total	\$ 131,305,000	45,410,622	176,715,622

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**(g) 2004 Series A Bonds**

The 2004 Series A Tax-Exempt Subordinate Lien Revenue Refunding Bonds (2004 Series A Bonds) were issued by the Alameda Corridor Transportation Authority in the aggregate amount of \$475,292,386 on April 22, 2004. The 2004 Series A 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. Proceeds from the sale of these insured 2004 Series A Bonds were used to refund the U.S. Department of Transportation Loan.

The 2004 Series A Bonds are capital appreciation bonds. Of the total \$474,292,386 of 2004 Series A Bonds issued, \$200,300,100 are not convertible or callable, and \$274,992,286 are convertible to current interest bonds on October 1, 2012 and callable on October 1, 2017. The first maturity of the bonds, which are not convertible or callable, will commence on October 1, 2012. The 2004 Series A Bonds, which are not convertible or callable, mature between 2012 and 2030, have an accretion yield to maturity at rates ranging from 4.30% to 5.72%. The balance outstanding on the 2004 Series A Bonds, which are not convertible or callable, at June 30, 2005 and 2004 was \$200,300,100.

The 2004 Series A Bonds, which are convertible or callable, accrete to full face value of \$5,000 per bond on October 1, 2012. These bonds convert automatically and pay interest semiannually on April 1 and October 1 of each year commencing with April 1, 2013. The first maturity of the 2004 Series A Bonds, which are convertible and callable, will commence on October 1, 2021. The 2004 Series A Bonds, which are convertible and callable, mature between 2021 and 2025 and bear interest at rates ranging from 5.25% to 5.45%. These bonds are also callable at par, with accrued interest, if any, on October 1, 2017 or any date thereafter. The balance outstanding on the 2004 Series A Bonds, which are convertible and callable, was \$274,992,286 at June 30, 2005 and 2004.

The Authority's remaining debt service on the 2004 Series A Convertible and Callable Bonds is as follows:

	<b>Annual debt service requirement</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year:			
2021 – 2025	\$ 214,235,814	118,694,186	332,930,000
2026 – 2029	60,756,472	34,703,528	95,460,000
Total	<u>\$ 274,992,286</u>	<u>153,397,714</u>	<u>428,390,000</u>

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The Authority's remaining debt service on the 2004 Series A Capital Appreciation Bonds is as follows:

	<b>Annual debt service requirement</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year:			
2011 – 2015	\$ 31,551,785	17,783,215	49,335,000
2016 – 2020	104,374,642	101,645,358	206,020,000
2021 – 2025	28,024,253	37,755,747	65,780,000
2026 – 2030	13,641,409	43,373,591	57,015,000
2031 – 2034	22,708,011	77,956,989	100,665,000
Total	\$ 200,300,100	278,514,900	478,815,000

**(h) 2004 Series B Bonds**

The 2004 Series B Taxable Subordinate Lien Refunding Bonds (2004 Series B Bonds) were issued by the Alameda Corridor Transportation Authority in the aggregate amount of \$210,731,703 on April 22, 2004. The 2004 Series B 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. Proceeds from the sale of these insured 2004 Series B Bonds were used to refund the U.S. Department of Transportation Loan.

The 2004 Series B Bonds are capital appreciation bonds with the first maturity commencing October 1, 2006. The 2004 Series B Bonds mature between October 1, 2006 and October 1, 2033 and have an accretion yield to maturity at rates ranging from 3.05% to 6.33%. The 2004 Series B Bonds are not subject to optional redemption. The principal balance and accrued interest outstanding on the 2004 Series B Bonds are \$210,731,703 and \$14,042,564 and \$210,731,703 and \$1,777,593 at June 30, 2005 and 2004, respectively.

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The Authority's remaining debt service on the 2004 Series B Capital Appreciation Bonds is as follows:

	<b>Annual debt service requirement</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year:			
2006	\$ —	—	—
2007	4,453,982	336,019	4,790,001
2008	4,845,840	609,160	5,455,000
2009	8,014,173	1,530,827	9,545,000
2010	10,396,088	2,658,912	13,055,000
2011 – 2015	51,889,210	23,350,790	75,240,000
2016 – 2020	—	—	—
2021 – 2025	—	—	—
2026 – 2030	79,625,817	266,054,182	345,679,999
2031 – 2034	51,506,593	250,508,408	302,015,001
Total	\$ 210,731,703	545,048,298	755,780,001

(i) ***Accrued Interest Payable***

The Authority's accrued interest payable is as follows:

	<b>June 30, 2005</b>		
	<b>Current interest bond</b>	<b>CAB long-term</b>	<b>Total</b>
1999 Series A Bonds	\$ 5,502,054	19,998,565	25,500,619
1999 Series B Bonds	147,012	—	147,012
1999 Series C Bonds	7,065,139	36,116,615	43,181,754
1999 Series D Bonds	1,975,073	—	1,975,073
2004 Series A Bonds	—	29,296,922	29,296,922
2004 Series B Bonds	—	14,042,565	14,042,565
	\$ 14,689,278	99,454,667	114,143,945

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	<b>June 30, 2004</b>		
	<b>Current interest bond</b>	<b>CAB long-term</b>	<b>Total</b>
1999 Series A Bonds	\$ 5,502,054	16,414,379	21,916,433
1999 Series B Bonds	215,288	—	215,288
1999 Series C Bonds	7,065,139	29,398,777	36,463,916
1999 Series D Bonds	2,080,485	—	2,080,485
2004 Series A Bonds	—	3,719,854	3,719,854
2004 Series B Bonds	—	1,777,593	1,777,593
	<u>\$ 14,862,966</u>	<u>51,310,603</u>	<u>66,173,569</u>

**(j) Combined 2004 and 1999 Debt Service**

The Authority's debt service of the 1999 Series A, B, C, and D Bonds, and the 2004 Series A and B Bonds, in aggregate, is as follows:

	<b>Annual debt service requirement</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year:			
2006	\$ 15,180,000	58,369,843	73,549,843
2007	21,148,982	57,887,825	79,036,806
2008	23,155,840	57,250,822	80,406,662
2009	28,039,173	57,157,205	85,196,378
2010	32,261,088	57,162,924	89,424,012
2011 – 2015	224,485,995	349,502,257	573,988,253
2016 – 2020	315,059,642	416,286,737	731,346,379
2021 – 2025	451,288,058	461,526,947	912,815,005
2026 – 2030	542,483,699	407,706,134	950,189,833
2031 – 2035	138,399,526	748,880,474	887,280,000
2036 – 2038	31,514,099	271,030,901	302,545,000
Total	<u>\$ 1,823,016,102</u>	<u>2,942,762,069</u>	<u>4,765,778,171</u>

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Long-term liability activity for the years ended June 30, 2005 and 2004 was as follows:

	<u>Balance, July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2005</u>	<u>Due within one year</u>
Bonds payable:					
1999 Series A Bonds	\$ 494,893,617	—	—	494,893,617	—
1999 Series B Bonds	19,520,000	—	(6,180,000)	13,340,000	6,745,000
1999 Series C Bonds	497,453,396	—	—	497,453,396	—
1999 Series D Bonds	138,875,000	—	(7,570,000)	131,305,000	8,435,000
2004 Series A Bonds	475,292,386	—	—	475,292,386	—
2004 Series B Bonds	<u>210,731,703</u>	<u>—</u>	<u>—</u>	<u>210,731,703</u>	<u>—</u>
Total bonds payable	1,836,766,102	—	(13,750,000)	1,823,016,102	15,180,000
Interest payable:					
Accrued interest bond payable	<u>66,173,569</u>	<u>47,970,376</u>	<u>—</u>	<u>114,143,945</u>	<u>14,689,278</u>
Subtotal	1,902,939,671	47,970,376	(13,750,000)	1,937,160,047	29,869,278
Less due within one year:					
Bonds payable:					
Series B	(6,180,000)	—	(565,000)	(6,745,000)	(6,745,000)
Series D	(7,570,000)	—	(865,000)	(8,435,000)	(8,435,000)
Interest payable:					
Accrued interest bond payable	<u>(14,862,966)</u>	<u>173,688</u>	<u>—</u>	<u>(14,689,278)</u>	<u>(14,689,278)</u>
Long-term liabilities	\$ <u><u>1,874,326,705</u></u>	<u><u>48,144,064</u></u>	<u><u>(15,180,000)</u></u>	<u><u>1,907,290,769</u></u>	<u><u>—</u></u>

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	<u>Balance, July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2004</u>	<u>Due within one year</u>
Bonds payable:					
1999 Series A Bonds	\$ 494,893,617	—	—	494,893,617	—
1999 Series B Bonds	25,165,000	—	(5,645,000)	19,520,000	6,180,000
1999 Series C Bonds	497,453,396	—	—	497,453,396	—
1999 Series D Bonds	145,635,000	—	(6,760,000)	138,875,000	7,570,000
2004 Series A Bonds	—	475,292,386	—	475,292,386	—
2004 Series B Bonds	—	210,731,703	—	210,731,703	—
Total bonds payable	<u>1,163,147,013</u>	<u>686,024,089</u>	<u>(12,405,000)</u>	<u>1,836,766,102</u>	<u>13,750,000</u>
Notes payable:					
U.S. Department of Transportation (note 6)	400,000,000	—	(400,000,000)	—	—
Interest payable:					
Accrued interest bond payable	—	66,173,569	—	66,173,569	14,862,966
U.S. Department of Transportation Note	<u>144,669,324</u>	<u>—</u>	<u>(144,669,324)</u>	<u>—</u>	<u>—</u>
Subtotal	<u>1,707,816,337</u>	<u>752,197,658</u>	<u>(557,074,324)</u>	<u>1,902,939,671</u>	<u>28,612,966</u>
Less due within one year:					
Bonds payable:					
Series B	(5,645,000)	—	(535,000)	(6,180,000)	(6,180,000)
Series D	(6,760,000)	—	(810,000)	(7,570,000)	(7,570,000)
Interest payable on U.S. Department of Transportation Note	(3,506,080)	3,506,080	—	—	—
Accrued interest bond payable	<u>—</u>	<u>—</u>	<u>(14,862,966)</u>	<u>(14,862,966)</u>	<u>(14,862,966)</u>
Long-term liabilities	<u>\$ 1,691,905,257</u>	<u>755,703,738</u>	<u>(573,282,290)</u>	<u>1,874,326,705</u>	<u>—</u>

**(8) 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.

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**(9) Operating Leases**

The following is a schedule of future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at June 30, 2005:

Fiscal year:	<u>Lease obligations</u>
2006	\$ 245,088
2007	248,400
2008	255,024
2009	<u>129,168</u>
Total minimum lease payments	<u>\$ 877,680</u>

**(10) 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 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 2005 was 13.364%. The Authority's

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covered payroll for the employees participating in CALPERS for the years ended June 30, 2005 and 2004 was \$1,617,401 and \$1,575,884, respectively. Total payroll for fiscal years 2005 and 2004 was \$1,687,067 and \$1,602,677, 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 fiscal years 2005 and 2004, the Authority's Annual Required Contribution (ARC) was \$113,218 and \$110,312, which the Authority contributed. The required contribution for 2005 was determined as part of the June 2004 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.

	<b>Trend information (unaudited)</b>		
	<b>Annual pension cost (APC)</b>	<b>Percentage of APC contributed</b>	<b>Net pension obligation</b>
Fiscal year ending:			
2000	\$ 65,209	100%	\$ —
2001	200,047	100	—
2002	180,802	100	—
2003	177,695	100	—
2004	185,119	100	—
2005	216,149	100	—

<b>Valuation date</b>	<b>Funding status (unaudited)</b>					
	<b>Entry age normal accrued liability</b>	<b>Actuarial value of assets</b>	<b>Unfunded liability/ (excess assets)</b>	<b>Funded status</b>	<b>Annual covered payroll</b>	<b>UAAL as a % of payroll</b>
June 30, 1996	\$ 17,551	10,504	7,047	59.85%	\$ 112,056	6.289%
June 30, 1997	35,039	35,696	(657)	101.88	112,056	(0.586)
June 30, 1998	100,450	93,881	6,569	93.46	266,081	2.469
June 30, 1999	238,705	208,813	29,892	87.48	655,996	4.557
June 30, 2000	372,911	358,515	14,396	96.14	912,589	1.577
June 30, 2001	829,789	710,868	118,921	85.67	1,443,236	8.240
June 30, 2002	1,157,396	952,452	204,944	82.29	1,575,203	13.011

Effective with the June 30, 2003 actuarial valuation, the Authority was required to participate in a risk pool within CALPERS because its plan had less than 100 active members. As a result, separate information regarding the funding status is not available for this year.

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**(11) Funding Agreements**

Funding agreements were executed between the Authority and the Ports of Los Angeles and Long Beach (the Ports) where the Ports agreed 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. 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, 2005 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

# ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

## Notes to Basic Financial Statements

June 30, 2005 and 2004

### **(12) 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 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.