ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Basic Financial Statements

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

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KPMG LLP
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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, 2006 and 2005, 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Alameda Corridor Transportation Authority as of June 30, 2006 and 2005 and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006 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 audit.

Management's Discussion and Analysis on pages 3 through 9 and the schedule of funding progress on page 35 are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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 8, 2006

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 $3,338,410 and $5,954,900 in grant funds for the fiscal years ended June 30, 2006 and 2005, 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 2006 fiscal years marked the third and fourth full years of operations for the Authority. The Authority earned $83,751,389 and $68,900,695 from use fees, container charges, and maintenance-of-way charges during fiscal years ended June 30, 2006 and 2005, respectively. The Authority's use fees and container charges for the year 2006 exceeded the 2005 actual by 21.6%. All of the operating revenues and majority of maintenance-of-way charges are received from the two main Railroads that utilize the Authority's Alameda Corridor.

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, 2006, 2005, and 2004:

	Year ended June 30				
	2006	**2005**	**2004**	**Change between 2006 and 2005**	**Change between 2005 and 2004**
Assets:					
Capital assets, net	$ 1,987,249,328	1,994,430,552	1,993,887,001	(7,181,224)	543,551
Other assets	245,521,843	252,880,812	283,431,421	(7,358,969)	(30,550,609)
Bond issuance costs	69,211,136	72,733,194	76,640,212	(3,522,058)	(3,907,018)
Total assets	$ 2,301,982,307	2,320,044,558	2,353,958,634	(18,062,251)	(33,914,076)
Liabilities:					
Long-term liabilities	$ 1,933,274,511	1,903,552,698	1,870,675,148	29,721,813	32,877,550
Other liabilities	53,544,303	51,342,689	55,995,857	2,201,614	(4,653,168)
Total liabilities	$ 1,986,818,814	1,954,895,387	1,926,671,005	31,923,427	28,224,382
Net assets:					
Invested in capital assets, net of related debt	$ 18,330,193	61,008,573	94,598,886	(42,678,380)	(33,590,313)
Restricted for debt service	136,686,693	122,641,842	113,840,651	14,044,851	8,801,191
Restricted for capital projects	160,146,607	181,498,756	218,848,092	(21,352,149)	(37,349,336)
Total net assets	$ 315,163,493	365,149,171	427,287,629	(49,985,678)	(62,138,458)

Net Assets

Net assets, the difference between assets and liabilities, decreased by $50.0 million, or 13.7%, and $62.1 million, or 14.5%, during the years ended June 30, 2006 and 2005, respectively. This net decrease is the result of the excess of nonoperating expenses, primarily interest expense, over operating income for both 2006 and 2005 fiscal years.

Capital Assets

Net capital assets, which are made up of property, plant, and equipment, decreased by $7.2 million, or 0.4%, and $0.5 million, or .03%, due primarily to the costs of ongoing capital projects incurred and depreciation during the years ended June 30, 2006 and 2005, respectively. The 2006 increase is completely offset by higher depreciation. The Alameda Corridor (Corridor) was substantially complete on April 15, 2002, when revenue operations began. Most capital project costs incurred on various elements of the Corridor were placed into service on July 1, 2002.

Bond Issuance Costs

No additional bond issuance costs were capitalized in 2006 and 2005. Amortization expense related to bond issuance costs was $3.5 million and $3.9 million for fiscal years 2006 and 2005, respectively.

Other Assets

Other assets consist of cash, investments, receivables, condemnation deposits, and prepaid expenses. These assets decreased by $7.4 million, or 2.9%, during fiscal 2006, due primarily to a decrease in receivables and condemnation deposits. Other 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.

Grants receivable decreased by $7.1 million and $3.3 million during fiscal 2006 and 2005, respectively, due to the completion of the Pacific Coast Highway Grade Separation Project, which is funded by State and Federal grants. Other receivables decreased by $0.4 million and $1.3 million in fiscal 2006 and 2005, respectively. There were also decreases of $0.4 million and $0.5 million in restricted escrows in fiscal 2006 and 2005, respectively. Such decreases are expected as construction activity diminishes and projects are closed out.

Long-term Liabilities

Long-term liabilities increased by $29.7 million, or 1.6%, in fiscal 2006 compared to fiscal 2005 due to accrued interest on Capital Appreciation Bonds. 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.

Other Liabilities

Other liabilities consist of accounts payable, retention payable, right-of-way payable, deferred revenue, other payables, as well as principal and interest currently due on the long-term bonds payable. Accounts payable decreased by $0.4 million during fiscal 2006. This decrease is due to the decrease in construction-related work during the 2006 fiscal year. Contract retentions decreased by $0.3 million during fiscal 2006 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 $2.7 million during fiscal 2006 due to release of Right of Way (ROW) payable. Deferred revenue decreased by $0.1 million during fiscal 2006 due to a decline in expenses for the PCH Project.

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 (ROW) 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.

Net Assets Invested in Capital Assets, Net of Related Debt

Net assets invested in capital assets, net of related debt, decreased by $42.7 million, or 70.0%, and $33.6 million, or 35.5%, during the years ended June 30, 2006 and 2005, respectively. The decrease in 2006 is due to depreciation expense of $22.4 million, capital asset additions of $15.9 million, and an increase in accrued interest payable of $50.7 million. The decrease in 2005 is due to depreciation expense of $24.2 million, capital asset additions of $24.7 million, an increase of $48.0 million in accrued interest, and a decrease of the long-term debt of $13.8 million due to a principal payment in fiscal year 2004.

Net Assets Restricted for Debt Service

Net assets restricted for debt service increased by $14.0 million, or 11.5%, and $8.8 million, or 7.7%, during the years ended June 30, 2006 and 2005, respectively. The increase is attributable to interest earned on restricted investments.

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 $21.4 million, or 11.8%, and $37.3 million, or 17.1%, during the years ended June 30, 2006 and 2005, respectively.

Summary of Operations and Changes in Net Assets

The 2005 and 2006 fiscal years represent the Authority's third and fourth full year of Corridor operations. Maintenance-of-way revenues, representing 3.8% in fiscal year 2006 and 4.9% in fiscal year 2005 of operating revenues, were $3.2 million and $3.4 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) were $80.5 million and $65.5 million in fiscal 2006 and 2005, respectively. The table below summarizes the changes in net assets for the years ended June 30, 2006, 2005, and 2004:

	Year ended June 30				
	2006	**2005**	**2004**	**Change between 2006 and 2005**	**Change between 2005 and 2004**
Operating revenues:					
User fees and container charges	$ 80,540,063	65,521,523	62,024,810	15,018,540	3,496,713
Maintenance-of-way charges	3,211,326	3,379,172	2,124,001	(167,846)	1,255,171
Total operating revenues	83,751,389	68,900,695	64,148,811	14,850,694	4,751,884
Operating expenses:					
Salaries and benefits	2,089,557	2,331,738	2,193,592	(242,181)	138,146
Other Administrative expenses	5,293,577	1,760,006	1,343,466	3,533,571	416,540
Maintenance-of-way	3,990,152	4,438,540	2,893,961	(448,388)	1,544,579
Depreciation	22,375,795	24,170,050	20,207,783	(1,794,255)	3,962,267
Total operating expenses	33,749,081	32,700,334	26,638,802	1,048,747	6,061,532
Operating income	50,002,308	36,200,361	37,510,009	13,801,947	(1,309,648)
Nonoperating revenues (expenses):					
Interest and investment revenue, net	8,248,684	6,461,947	2,077,314	1,786,737	4,384,633
Interest expense	(109,047,003)	(106,988,352)	(129,738,104)	(2,058,651)	22,749,752
Grants	3,338,410	5,954,900	37,366,392	(2,616,490)	(31,411,492)
Miscellaneous revenue	1,004,252	167,586	76,124	836,666	91,462
Amortization of bond issuance costs	(3,532,329)	(3,934,900)	(11,828,466)	402,571	7,893,566
Total nonoperating expenses	(99,987,986)	(98,338,819)	(102,046,740)	(1,649,167)	3,707,921
Change in net assets	(49,985,678)	(62,138,458)	(64,536,731)	12,152,780	2,398,273
Total net assets – beginning	365,149,171	427,287,629	491,824,360	(62,138,458)	(64,536,731)
Total net assets – ending	$ 315,163,493	365,149,171	427,287,629	(49,985,678)	(62,138,458)

Operating Revenues

User fee and container charges revenues, representing 96.2% and 95.1% of operating revenues, increased $15.0 million and $3.5 million, or 22.9% and 5.6%, in 2006 and 2005, respectively. The increase is due to a higher volume of cargo and a 3% fee increase in each year.

Operating Expenses

Operating expenses consist of salaries, benefits, maintenance-of-way, administrative costs, professional services, and depreciation. Professional services were capitalized in prior years, due to the fact that those costs were project related and charged to capital projects and subject to depreciation. A portion of the professional services incurred during FY 2006 was capitalized and the remainder was included as administrative expenses depending upon the specific tasks that were assigned and completed. During the years ended June 30, 2006 and 2005, operating expenses increased by $1.0 million, or 3.2%, and $6.1 million, or 22.8%, respectively.

Depreciation expense accounted for the majority of the change with a decrease of $1.8 million, or 7.4%, and $4.0 million, or 19.6%, due to the yearly depreciation of infrastructure and capital assets being placed into service in 2006 and 2005, respectively.

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, 2006 and 2005, interest and investment earnings increased by $1.8 million, or 27.7%, and $4.4 million, or 211.1%, respectively. The increase in investment earnings is due to the fact that in previous years the Authority capitalized tax-exempt interest earnings. Interest expense increased $2.1 million and $22.7 million in 2006 and 2005, respectively. The increase both years is due to an increase in interest payments on the 1999 and 2004 series bonds. Grant revenues decreased $2.6 million and $31.4 million, or 43.9% and 84.1%, in 2006 and 2005, respectively, due to completion of the PCH Grade Separation Project.

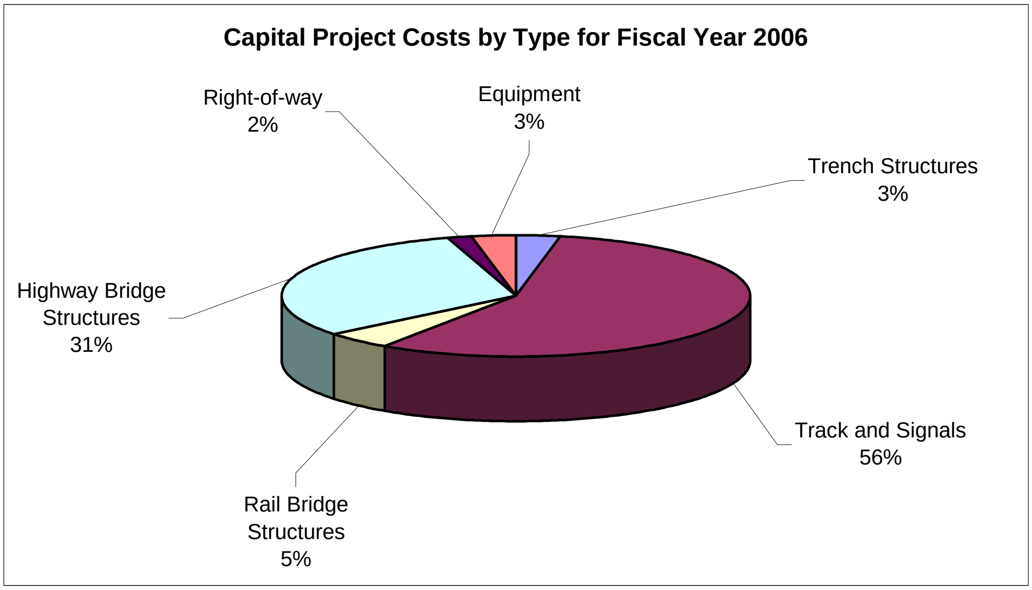
Capital Assets and Debt Administration

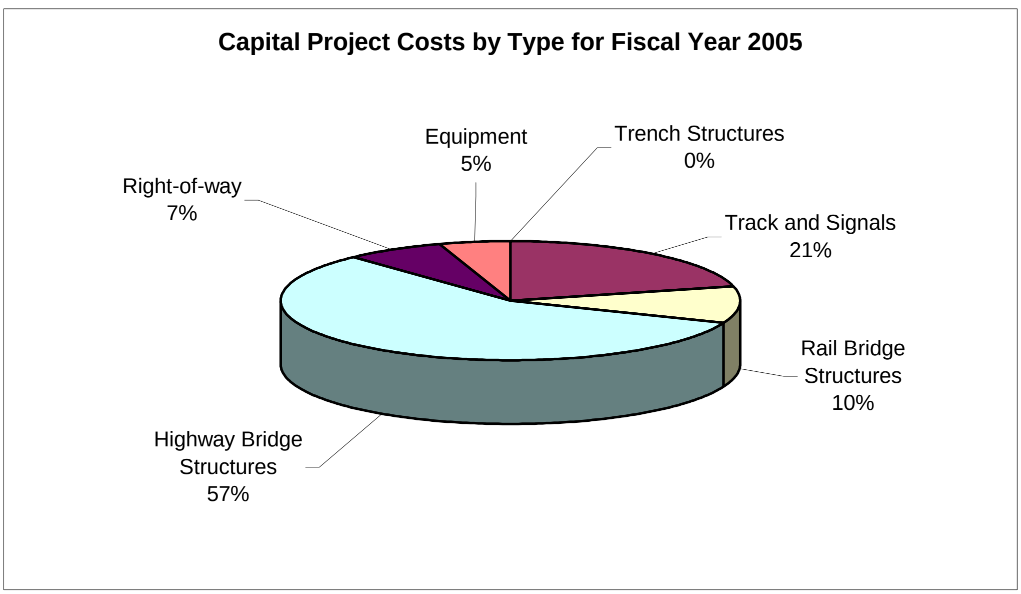
At June 30, 2006, 2005, and 2004, the Authority had approximately $2.0 billion of capital assets and approximately $1.8 billion of long-term debt outstanding.

Capital Assets

During fiscal years 2006 and 2005, the Authority expended $15.9 million and $24.7 million, respectively, on capital project activities. The chart on the following page provides a summary of capital project expenditures by type for the years ended June 30, 2006 and 2005.

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





Long-term Debt

As of June 30, 2006 and 2005, the Authority's total long-term debt was $1.783 billion and $1.804 billion, respectively, in revenue bonds (net of the current portion amount of $21.1 million and $15.2 million and $3.8 million of unamortized discount in fiscal 2006 and $3.7 million in 2005, respectively).

Additional debt information can be found in note 6 to the basic financial statements.

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 $263.4 million have been received from the Railroads. These revenues, combined with remaining capitalized interest income, have been more than sufficient to meet debt service, fund reserve account required deposits, and pay cost of revenue collections, 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 SR 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, 2006 and 2005

Assets	2006	2005
Current assets:		
Restricted cash and cash equivalents	$ 122,371,577	9,923,882
Restricted investments	31,615,925	202,110,085
Receivables, net of allowance of $3,979,848 at June 30, 2006 and 2005	20,091,355	27,934,113
Restricted escrow accounts	39,500	480,395
Condemnation deposits	817,700	3,518,627
Prepaid expenses	1,390,531	1,508,503
Total current assets	176,326,588	245,475,605
Noncurrent assets:		
Restricted investments	69,195,255	7,405,207
Bond issuance costs	69,211,136	72,733,194
Capital assets:		
Buildings and equipment	10,740,351	10,265,490
Alameda corridor project infrastructure, right-of-way, and land improvements	2,062,899,870	2,048,180,160
Less accumulated depreciation	(86,390,893)	(64,015,098)
Net capital assets	1,987,249,328	1,994,430,552
Total noncurrent assets	2,125,655,719	2,074,568,953
Total assets	$ 2,301,982,307	2,320,044,558
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 8,246,306	8,627,698
Right-of-way acquisition payable	817,700	3,518,627
Contract retention payable	147,735	480,395
Deferred revenue	8,454,465	8,601,761
Accrued interest payable, current portion	14,495,643	14,689,278
Revenue bonds payable, current portion	21,148,982	15,180,000
Other liabilities	233,472	244,930
Total current liabilities	53,544,303	51,342,689
Noncurrent liabilities:		
Accrued interest payable, net of current portion	150,382,218	99,454,667
Revenue bonds payable, net of unamortized discount of $3,794,827 and $3,738,071 and current portion	1,782,892,293	1,804,098,031
Total noncurrent liabilities	1,933,274,511	1,903,552,698
Total liabilities	1,986,818,814	1,954,895,387
Net assets:		
Invested in capital assets, net of related debt	18,330,193	61,008,573
Restricted for debt service	136,686,693	122,641,842
Restricted for capital projects	160,146,607	181,498,756
Total net assets	315,163,493	365,149,171
Total liabilities and net assets	$ 2,301,982,307	2,320,044,558

See accompanying notes to basic financial statements.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2006 and 2005

	2006	2005
Operating revenues:		
Use fees and container charges	$ 80,540,063	65,521,523
Maintenance-of-way charges	3,211,326	3,379,172
Total operating revenues	83,751,389	68,900,695
Operating expenses:		
Salaries and benefits	2,089,557	2,331,738
Administrative expenses	5,293,577	1,760,006
Maintenance-of-way	3,990,152	4,438,540
Depreciation	22,375,795	24,170,050
Total operating expenses	33,749,081	32,700,334
Operating income	50,002,308	36,200,361
Nonoperating revenues:		
Interest and investment revenue, net	8,248,684	6,461,947
Grants	3,338,410	5,954,900
Miscellaneous revenue	1,004,252	167,586
Total nonoperating revenues	12,591,346	12,584,433
Nonoperating expenses:		
Interest expense	109,047,003	106,988,352
Amortization of bond issuance costs	3,532,329	3,934,900
Total nonoperating expenses	112,579,332	110,923,252
Changes in net assets	(49,985,678)	(62,138,458)
Total net assets – beginning	365,149,171	427,287,629
Total net assets – ending	$ 315,163,493	365,149,171

See accompanying notes to basic financial statements.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Statements of Cash Flows

Years ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Receipts from customers for services	$ 88,340,222	63,465,065
Payment to suppliers for goods and services	(12,728,033)	(12,831,952)
Payment to employees	(2,101,015)	(1,686,309)
Net cash provided by operating activities	73,511,174	48,946,804
Cash flows from noncapital financing activities:		
Grants	10,477,158	9,215,413
Miscellaneous income	1,004,252	167,586
Net cash provided by noncapital financing activities	11,481,410	9,382,999
Cash flows from capital and related financing activities:		
Purchases of capital assets	(15,937,571)	(24,713,601)
Principal paid on notes and bonds payable	(15,180,000)	(13,750,000)
Interest payments on capital debt, net of capitalized interest	(58,380,114)	(59,132,371)
Net cash used in capital and related financing activities	(89,497,685)	(97,595,972)
Cash flows from investing activities:		
Proceeds (purchases) of investments	108,704,112	(66,991,529)
Interest and dividends received	8,248,684	6,461,947
Net cash provided by (used in) investing activities	116,952,796	(60,529,582)
Net increase (decrease) in cash and cash equivalents	112,447,695	(99,795,751)
Cash and cash equivalents, beginning of year	9,923,882	109,719,633
Cash and cash equivalents, end of year	$ 122,371,577	9,923,882
Reconciliation of operation income to net cash provided by operating activities:		
Operating income	$ 50,002,308	36,200,361
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	22,375,795	24,170,050
Change in assets and liabilities:		
Accounts receivable	4,588,833	(5,435,630)
Accounts payable	(3,562,276)	(5,983,178)
Prepaid expenses	117,972	(78,497)
Other liabilities	(11,458)	73,698
Net cash provided by operating activities	$ 73,511,174	48,946,804

See accompanying notes to basic financial statements.

(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, 2006, the members of the Authority's Governing Board were:

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

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

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

Member – Dr. Geraldine Knatz, Executive Director, Port of Los Angeles

Member – Mr. Richard Steinke, Executive Director, Port of Long Beach

Member – Hon. Douglas Krause, Commissioner, Port of Los Angeles

Member – Mr. James C. Hankla, President, Port of Long Beach.

The Authority is empowered to explore alternative methods of financing, to develop existing property, and to 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.

(b) Program Management Agreement

In January 1996, the Authority's Governing Board entered into a 10-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 Corridor. 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 U.S. generally accepted accounting principles (GAAP) as applied to governmental units in the United States. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles for governments within the United States.

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

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 GASB.

Beginning with 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 require 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, money market accounts, and investments 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, 2006 and 2005. 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 interest and investment revenue 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 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.

(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. Trench structures, tracks and signals, rail bridge structures, and highway bridge structures include both depreciable and nondepreciable components. The nondepreciable components are comprised of costs related to demolition, excavation, backfill, utility relocation, right-of-way, and hazardous materials remediation.

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, 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) Operating Revenues and Expenses

Operating revenues and expenses generally result from the operation of the Rail Corridor. The principal operating revenues of the Authority are fees assessed to the Railroads for use and maintenance of the Corridor these fees are recognized in the period incurred. The Authority also recognizes deferred revenue on a straight-line basis. Deferred revenue primarily consists of deferred grant revenue and funds received by the Railroads for maintenance on 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.

(j) 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, 2006 and 2005 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 totaling $26,100 as of June 30, 2006 and 2005 have also been accrued in other liabilities of the accompanying basic financial statements.

(k) ***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

(l) ***Reclassifications***

Certain financial statement items for 2005 have been reclassified to conform to the 2006 presentation.

(2) Cash and Investments

Cash and investments as of June 30, 2006 and 2005 are classified in the accompanying financial statements as follows:

		June 30, 2006 Fair value
Restricted cash and cash equivalents	$	122,371,577
Restricted short-term investments		31,615,925
Restricted long-term investments		69,195,255
Total cash and investments	$	223,182,757

		June 30, 2005 Fair value
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	$	219,439,174

(a) ***Deposits***

At June 30, 2006 and 2005, the net carrying amount of the Authority's reconciled deposit account with Bank of America was $762,313 and $703,312, while the corresponding bank balance was $1,140,944 and $968,957, 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.

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 short-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.

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:

Authorized investment type	Maximum maturity	Maximum percentage of portfolio	Maximum investment in one issuer
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 master trust indenture allows for exception of the maximum maturity prescript in the Authority's investment policy. The Authority is allowed a maximum maturity of 10 years for investments in the debt service reserve funds.

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

	2006	Weighted average maturity (in years)
Cash and investment type:		
Cash	$ 500	—
Money market fund	2,838,397	—
LAIF	2,922,812	—
U.S. Treasury notes	10,658,467	3.48
U.S. Corporate notes	20,844,794	1.68
Commercial paper	23,168,165	0.10
Federal agency obligations	162,749,622	1.19
	$ 223,182,757	1.21

	2005	Weighted average maturity (in years)
Cash	$ 500	—
Money market fund	2,628,683	—
LAIF	7,294,699	—
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
	$ 219,439,174	0.20

(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 June 30, 2006							
	Not rated	AAA	AA-	A+	A	A-1	A-1+	A-
Investment type:								
Cash and money market fund	$ 2,838,897	—	—	—	—	—	—	—
LAIF	2,922,812	—	—	—	—	—	—	—
U.S. Treasury notes	10,658,467	—	—	—	—	—	—	—
U.S. Corporate notes	—	588,788	487,716	8,317,886	9,710,219	—	—	1,740,185
Commercial paper	—	—	—	810,000	—	5,519,398	16,838,767	—
Federal agency obligations	—	162,749,622	—	—	—	—	—	—
Totals	16,420,176	163,338,410	487,716	9,127,886	9,710,219	5,519,398	16,838,767	1,740,185
Grand total	$ 223,182,757							

	Ratings as of June 30, 2005						
	Not rated	AAA	AA-	A+	A	A-1	A-1+
Cash	$ 500	—	—	—	—	—	—
Money market	2,628,683	—	—	—	—	—	—
LAIF	7,294,699	—	—	—	—	—	—
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	12,455,179	183,650,239	654,566	607,355	2,204,293	4,706,719	15,160,823
Grand total	$ 219,439,174						

(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:

			2006	2005
Federal Home Loan Bank	Federal agency obligations	$	47,662,784	29,290,984
Fannie Mae	Federal agency obligations		65,673,672	41,267,896
Students loan	Federal agency obligations		—	1,768,048
Federal Home Loan Mortgage Corp.	Federal agency obligations		49,413,166	110,264,335
		$	162,749,622	182,591,263

(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 is recorded on an amortized cost basis. At June 30, 2006 and 2005, the balance of such deposits is $2,922,812 and $7,294,698, respectively.

(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:

		June 30	
		2006	2005
Grants receivable	$	6,176,600	13,315,348
Interest receivable		1,750,506	1,254,725
Use fees receivable, net of allowance of $3,979,848 at June 30, 2006 and 2005		9,641,802	10,977,343
Other receivables		2,522,447	2,386,697
Total	$	20,091,355	27,934,113

(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, 2006 and 2005, the balance of such deposits was $817,700 and $3,518,627, respectively.

(5) Capital Assets

The following schedule summarizes capital assets for the years ended June 30, 2006 and 2005:

	Balance, July 1, 2005	Additions	Deletions	Balance, June 30, 2006
Right-of-way and land improvements, not being depreciated	$ 153,321,734	485,467	(743,000)	153,064,201
Buildings and equipment:				
Automotive vehicles	456,384	—	—	456,384
Office equipment	534,756	77,071	—	611,827
Other equipment	186,825	—	—	186,825
Tenant improvements	72,334	—	—	72,334
Buildings	1,102,594	—	—	1,102,594
Revenue assessment and verification system	7,912,597	397,790	—	8,310,387
Buildings and equipment	10,265,490	474,861	—	10,740,351
Alameda Corridor Project Infrastructure:				
Capital assets, being depreciated:				
Trench structures	714,246,007	367,309	—	714,613,316
Track and signals	192,390,808	8,362,145	—	200,752,953
Rail bridge structures	407,894,541	540,301	—	408,434,842
Highway bridge structures	144,447,821	3,604,737	—	148,052,558
Capital assets, not being depreciated:				
Trench structures	223,749,369	115,066	—	223,864,435
Track and signals	65,487,745	498,242	—	65,985,987
Rail bridge structures	101,676,189	194,599	—	101,870,788
Highway bridge structures of Alameda Corridor	44,965,946	1,294,844	—	46,260,790
Infrastructure	1,894,858,426	14,977,243	—	1,909,835,669
Total fixed assets	2,058,445,650	15,937,571	(743,000)	2,073,640,221
Less accumulated depreciation for:				
Trench structures	(31,132,333)	(10,410,757)	—	(41,543,090)
Track and signals	(8,272,416)	(2,996,912)	—	(11,269,328)
Rail bridge structures	(15,339,710)	(5,279,480)	—	(20,619,190)
Highway bridge structures	(4,569,830)	(1,942,898)	—	(6,512,728)
Automotive vehicles	(439,569)	—	—	(439,569)
Office equipment	(550,187)	(120,147)	—	(670,334)
Other equipment	(13,094)	(2,681)	—	(15,775)
Tenant improvements	(69,909)	(1,214)	—	(71,123)
Buildings	(147,011)	(33,692)	—	(180,703)
Revenue assessment and verification system	(3,481,039)	(1,588,014)	—	(5,069,053)
Total accumulated depreciation	(64,015,098)	(22,375,795)	—	(86,390,893)
Capital assets, net	$ 1,994,430,552	(6,438,224)	(743,000)	1,987,249,328

	Balance, July 1, 2004	Additions	Transfers	Balance, June 30, 2005
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:				
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 of 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

(6) 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 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.

As of June 30, 2006 and 2005, the unamortized discount balance on the 1999 and 2004 Series Bonds was $3,794,827 and $3,738,071, respectively. Interest on the 1999 Series A and C Capital Appreciation Bonds for fiscal year 2006 and 2005, respectively, amounted to $14,730,828 and $10,302,024 was recognized in the accompanying statements of revenues, expenses, and changes in net assets for the years ended June 30, 2006 and 2005, 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 were 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, 2006 and 2005 is $444,440,000.

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 moneys 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:

Redemption period (both dates inclusive)	Redemption price (expressed as a percentage of principal amount)
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:

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
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		10,045,000	20,542,981	30,587,981
2012 – 2016		63,270,000	94,002,733	157,272,733
2017 – 2021		90,035,000	74,656,497	164,691,497
2022 – 2026		124,415,000	48,068,069	172,483,069
2027 – 2031		130,075,000	13,492,875	143,567,875
Total	$	444,440,000	336,986,596	781,426,596

(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 were used to finance a portion of the cost of design and construction of the Alameda Corridor Project.

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, 2006 are $50,453,617 and $23,774,437, respectively. The 1999 Series A CABs are not subject to optional redemption.

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

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
2027 – 2031	$	7,298,874	30,326,126	37,625,000
2032 – 2036		32,114,863	161,730,137	193,845,000
2037 – 2038		11,039,880	69,240,120	80,280,000
Total	$	50,453,617	261,296,383	311,750,000

(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 were 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 $6,595,000 and $13,340,000 at June 30, 2006 and 2005, 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:

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
2007	$	6,595,000	145,888	6,740,888
Total	$	6,595,000	145,888	6,740,888

(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 Alameda Corridor Transportation 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 were 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, 2006 and 2005. The 1999 Series C Current Interest Bonds are not subject to optional redemption.

(Continued)

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

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
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		—	28,260,555	28,260,555
2012 – 2016		24,420,000	140,305,675	164,725,675
2017 – 2021		105,255,000	113,537,538	218,792,538
2022 – 2026		109,420,000	88,702,020	198,122,020
2027 – 2031		191,060,000	26,403,960	217,463,960
Total	$	430,155,000	510,251,968	940,406,968

(e) 1999 Series C Capital Appreciation Bonds

The Series C Taxable Capital Appreciation Lien Revenue Bonds (1999 Series C CABs) were issued by the Alameda Corridor Transportation Authority in the aggregate amount of $67,298,396 on February 9, 1999. Proceeds from the sale of these insured 1999 Series C CABs were 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, 2006 and 2005 are $67,298,396 and $43,295,700 and $67,298,396 and $36,116,615, respectively. The 1999 Series C CABs are not subject to optional redemption.

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

		Annual debt service requirement		
		Principal	**Interest**	**Total**
Fiscal year:				
2017 – 2021	$	7,709,136	24,390,864	32,100,000
2022 – 2026		14,343,854	51,421,146	65,765,000
2027 – 2031		6,850,575	50,524,425	57,375,000
2032 – 2036		28,944,977	266,655,023	295,600,000
2037 – 2038		9,449,853	112,970,147	122,420,000
Total	$	67,298,395	505,961,605	573,260,000

(f) 1999 Series D Bonds

The Series D Taxable Subordinate Lien Revenue Bonds (1999 Series D Bonds) were issued by the Alameda Corridor Transportation 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 were 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 $122,870,000 and $131,305,000 at June 30, 2006 and 2005, 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:

	Annual debt service requirement		
	Principal	**Interest**	**Total**
Fiscal year:			
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	13,620,000	4,463,315	18,083,315
2012 – 2016	65,550,000	8,373,838	73,923,838
Total	$ 122,870,000	37,749,462	160,619,462

(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 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 Capital Appreciation 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 accrued interest for all 2004 Series A Bonds is $56,266,423 and $29,296,922 at June 30, 2006 and 2005, respectively. The principal balance outstanding on the 2004 Series A Bonds, which are not convertible or callable, at June 30, 2006 and 2005 was $200,300,100.

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

		Annual debt service requirement	
	Principal	**Interest**	**Total**
Fiscal year:			
2012 – 2016	$ 47,275,271	29,004,729	76,280,000
2017 – 2021	116,675,411	128,179,590	244,855,001
2022 – 2026	—	—	—
2027 – 2031	36,349,420	121,330,580	157,680,000
Total	$ 200,300,102	278,514,899	478,815,001

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

		Annual debt service requirement	
	Principal	**Interest**	**Total**
Fiscal year:			
2012 – 2016	$ —	80,153,850	80,153,850
2017 – 2021	—	114,505,500	114,505,500
2022 – 2026	274,992,286	213,777,779	488,770,065
Total	$ 274,992,286	408,437,129	683,429,415

The 2004 Series A Bonds, which are convertible and 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 principal balance outstanding on the 2004 Series A Bonds, which are convertible and callable, was $274,992,286 at June 30, 2006 and 2005.

(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 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 $27,045,648 and $210,731,703 and $14,042,564 at June 30, 2006 and 2005, respectively.

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

		Annual debt service requirement	
	Principal	**Interest**	**Total**
Fiscal year:			
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	13,275,692	4,454,308	17,730,000
2012 – 2016	38,613,518	18,896,482	57,510,000
2017 – 2021	—	—	—
2022 – 2026	—	—	—
2027 – 2031	79,625,818	266,054,182	345,680,000
2032 – 2036	51,506,592	250,508,408	302,015,000
Total	$ 210,731,703	545,048,298	755,780,001

(i) Accrued Interest Payable

The Authority's accrued interest payable is as follows:

		June 30, 2006	
	Current interest bond	**CABs long-term**	**Total**
1999 Series A Bonds	$ 5,502,054	23,774,437	29,276,491
1999 Series B Bonds	72,944	—	72,944
1999 Series C Bonds	7,065,139	43,295,700	50,360,839
1999 Series D Bonds	1,855,507	—	1,855,507
2004 Series A Bonds	—	56,266,432	56,266,432
2004 Series B Bonds	—	27,045,648	27,045,648
Total	$ 14,495,644	150,382,217	164,877,861

		June 30, 2005	
	Current interest bond	**CABs long-term**	**Total**
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
Total	$ 14,689,278	99,454,667	114,143,945

(Continued)

(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:

	Annual debt service requirement		
	Principal	**Interest**	**Total**
Fiscal year:			
2007	$ 21,148,982	57,887,825	79,036,807
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	36,940,692	57,721,159	94,661,851
2012 – 2016	239,128,788	370,737,307	609,866,095
2017 – 2021	319,674,547	455,269,988	774,944,535
2022 – 2026	523,171,140	401,969,014	925,140,154
2027 – 2031	451,259,686	508,132,149	959,391,835
2032 – 2036	112,566,433	678,893,567	791,460,000
2037 – 2038	20,489,733	182,210,267	202,700,000
Total	$ 1,807,836,102	2,884,392,227	4,692,228,329

Long-term liability activity for the years ended June 30, 2006 and 2005 was as follows:

	Balance, July 1, 2005	Additions	Deletions	Balance, July 30, 2005	Due within one year
Bonds payable:					
1999 Series A Bonds	$ 494,893,617	—	—	494,893,617	735,000
1999 Series B Bonds	13,340,000	—	(6,745,000)	6,595,000	6,595,000
1999 Series C Bonds	497,453,396	—	—	497,453,396	—
1999 Series D Bonds	131,305,000	—	(8,435,000)	122,870,000	9,365,000
2004 Series A Bonds	475,292,386	—	—	475,292,386	—
2004 Series B Bonds	210,731,703	—	—	210,731,703	4,453,982
Total bonds payable	1,823,016,102	—	(15,180,000)	1,807,836,102	21,148,982
Interest payable:					
Accrued interest payable	114,143,946	65,423,194	(14,689,278)	164,877,862	14,495,643
Net long-term liabilities	$ 1,937,160,048	65,423,194	(29,869,278)	1,972,713,964	35,644,625

	Balance, July 1, 2004	Additions	Deletions	Balance, June 30, 2005	Due within one year
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	210,731,703	—	—	210,731,703	—
Total bonds payable	1,836,766,102	—	(13,750,000)	1,823,016,102	15,180,000
Interest payable:					
Accrued interest payable	66,173,570	47,970,376	—	114,143,946	14,689,278
Net long-term liabilities	$ 1,902,939,672	47,970,376	(13,750,000)	1,937,160,048	29,869,278

(7) 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.

(8) Operating Leases

Lease expenses incurred in 2006 and 2005 was $264,583 and $288,176, respectively. ACTA has an option to extend the lease for one additional period of three years (January 1, 2009 through December 31, 2011) with the prevailing rental rate. ACTA management has not decided whether to exercise the option; therefore, there are no lease obligations beyond 2009.

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, 2006:

	Lease obligations
Fiscal year:	
2007	$ 248,400
2008	255,024
2009	129,168
Total minimum lease payments	$ 632,592

(9) 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 who reach 1,000 hours in a fiscal year 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 2006 was 13.336%. The Authority's covered payroll for the employees participating in CALPERS for the years ended June 30, 2006 and 2005 was $1,512,531 and $1,617,401, respectively. Total payroll for fiscal years 2006 and 2005 was $1,660,607 and $1,687,067, 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 2006 and 2005, the Authority's Annual Required Contribution (ARC) was $201,711 and $216,149, respectively, which the Authority contributed. The required contribution for 2006 was determined as part of the June 2005 actuarial valuation using the entry-age-actuarial-cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment return (net of expenses), (b) projected salary increase of 3.25% – 14.45% depending on age, service, and type of employment, (c) merit increase that varies by length of service, and (d) payroll growth of 3.25%. Both (a) and (b) include an inflation component of 3.0%. 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.

	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	177,695	100	—
2004	185,119	100	—
2005	216,149	100	—
2006	201,711	100	—

Schedule of Funding Progress (Unaudited)

	Funding status (unaudited)					
Valuation date	Entry age normal accrued liability	Actuarial value of assets	Unfunded liability (excess assets)	Funded status	Annual covered payroll	UAAL as a % of payroll
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
June 30, 2003	1,770,125	1,280,728	489,397	72.35	1,675,305	29.212

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. Separate information regarding the funding status is not available for the years ended June 30, 2005 or 2006.

(10) 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, 2006 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

(11) 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. These invoiced but uncollected amounts have been reserved as 100% uncollectible.

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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.