



ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Basic Financial Statements

June 30, 2004

(With Independent Auditors' Report Thereon)

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Balance Sheet	10
Statement of Revenues, Expenses, and Changes in Net Assets	11
Statement of Cash Flows	12
Notes to Basic Financial Statements	13



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 year ended June 30, 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2004 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 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 audit.

Management's Discussion and Analysis on pages 2 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

March 29, 2005

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

June 30, 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. As a Business Type Activity, the Authority's basic financial statements include a balance sheet, statement of revenues, expenses, and changes in net assets, and statement of cash flows. The basic financial statements also include notes that explain the information recorded in the basic financial statements.

Financial Highlights

The Authority received \$37,366,392 in grant funds for the fiscal year ended June 30, 2004. 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 2004 fiscal year marked the second full year of operations for the Authority. The Authority earned \$64,148,812 from use fees, container charges, and maintenance-of-way charges during the year. The Authority's use fees and container charges for the year exceeded the 2004 budget projection by 3.4%. 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.

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, 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, 2004 and 2003:

	<u>2004</u>	<u>June 30 2003</u>	<u>Change</u>
Assets:			
Capital assets, net	\$ 1,993,887,001	1,972,816,478	1%
Other assets	283,431,421	274,979,791	3
Bond issuance costs	76,640,212	—	100
Total assets	<u>2,353,958,634</u>	<u>2,247,796,269</u>	
Liabilities:			
Long-term liabilities	1,870,675,148	1,691,905,257	11
Other liabilities	55,995,857	64,066,652	(13)
Total liabilities	<u>1,926,671,005</u>	<u>1,755,971,909</u>	
Net assets:			
Invested in capital assets, net of debt	229,315,909	409,669,465	(44)
Restricted for debt service	95,050,110	33,889,798	180
Restricted for capital projects	102,921,610	48,265,097	113
Total net assets	<u>\$ 427,287,629</u>	<u>491,824,360</u>	(13)

(a) Net Assets

Net assets, the difference between assets and liabilities, decreased by \$64.5 million, or 13%, during the year ended June 30, 2004. This net decrease consists of an increase of \$7.1 million from operating income and an increase in nonoperating expense of nearly \$42.4 million. The increase in nonoperating expenses is attributable to an increase in interest expense and the amortization of bond issuance costs associated with the Authority's issuance of \$686 million in bonds during fiscal 2004 as well as one time adjustments discussed further in note 7 to the basic financial statements.

(b) Capital Assets

Net capital assets, which is made up of property, plant, and equipment, increased by \$21.1 million, or 1%, due primarily to the costs of ongoing capital projects incurred during the year. Capital assets also had a net decrease of \$17 million related to one-time adjustments and reclassifications further discussed in note 7 to the basic financial statements. The 2004 fiscal year increase is partially offset by higher depreciation associated with assets moved from construction-in-progress to in-service assets during the fiscal year. The Alameda Corridor (Project) was substantially complete on April 15, 2002, when revenue operations began. Most capital project costs incurred on various elements of the Project were placed into service on July 1, 2002.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

June 30, 2004

(c) Bond Issuance Cost

The increase in the Authority's bond issuance costs is related to the bond issuance costs recorded in conjunction with the current year 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 (see note 7).

(d) Other Assets

Other assets consist of cash, investments, receivables, condemnation deposits, and prepaid expenses. These assets increased by \$8.5 million, or 3%, 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 \$247,063 due to the completion of the Pacific Coast Highway (PCH) Grade Separation Project funded by state grants. Other receivables decreased by \$34.8 million due to a settlement with the Union Pacific Railroad regarding various outstanding issues related to the construction of the Project. There were also decreases of \$1.8 million and \$1.7 million in restricted escrows and condemnation deposits, respectively. Such decreases are expected as construction activity continues to diminish.

(e) Long-Term Liabilities

Long-term liabilities increased by \$178.8 million, or 11%, from the prior year 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 United States 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 further discussed in note 7 to the basic financial statement.

(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. Contract retentions, right-of-way acquisition payable, and accounts payable decreased by \$25.9 million from the prior year. Accounts payable decreased by \$21.9 million as a result of settling outstanding and disputed project costs with one of the major railroads. Contract retentions decreased by \$2.2 million due to the release of previously held contract retentions to contractors as a result of achieving substantial completion of the Project. Right-of-way acquisition payable decreased by \$1.7 million due to the closing of outstanding condemnation cases. Deferred revenue increased by \$6.2 million due to a decline in expenses for the PCH Project. Accrued interest payable increased by \$11.4 million due to accrued bond interest payable that is due during the upcoming 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 \$180.4 million, or 44%, from the prior year reflecting the Authority's transition from a construction project to international goods movement facilitation activities. During the year, capital project costs on the Alameda Corridor Project, including the PCH Grade Separation Project, were \$60 million.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

June 30, 2004

(h) *Net Assets Restricted for Debt Service*

Net assets restricted for debt service increased by \$61.1 million, or 180%, from last fiscal year. 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 increased by \$54.7 million, or 113%.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

June 30, 2004

Summary of Operations and Changes in Net Assets

The 2004 fiscal year represents the Authority's second full year of Corridor operations. Maintenance-of-way revenues, representing 3% of operating revenues, were \$2.1 million. 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 \$62 million. The table below summarizes sources of net assets for the years ended June 30, 2004 and 2003:

	Year ended June 30		
	2004	2003	Change
Operating revenues:			
Use fee and container charge revenues	\$ 62,024,810	54,667,218	13%
Maintenance-of-way charges	2,124,001	3,243,977	(35)
Total operating revenues	<u>64,148,811</u>	<u>57,911,195</u>	11
Operating expenses:			
Salaries and benefits	2,193,592	2,503,396	(12)
Administrative expenses	1,343,466	1,544,249	(13)
Feasibility studies	—	10,729	—
Maintenance-of-way	2,893,961	4,133,479	(30)
Depreciation	20,207,783	19,092,712	6
Total operating expenses	<u>26,638,802</u>	<u>27,284,565</u>	(2)
Operating income	<u>37,510,009</u>	<u>30,626,630</u>	22
Nonoperating revenues (expenses):			
Interest and investment revenue	2,077,314	3,481,586	(40)
Interest expense	(129,738,104)	(92,006,141)	41
Grants	37,366,392	28,732,599	30
Other revenue	76,124	160,009	(52)
Cost of issuance ammortization	(11,828,466)	—	—
Total nonoperating expenses	<u>(102,046,740)</u>	<u>(59,631,947)</u>	71
Change in net assets	<u>(64,536,731)</u>	<u>(29,005,317)</u>	122
Total net assets – beginning	<u>491,824,360</u>	<u>520,829,677</u>	(6)
Total net assets – ending	<u>\$ 427,287,629</u>	<u>491,824,360</u>	(13)

(a) Operating Revenues

Use fee revenues, representing 97% of operating revenues, increased \$7.4 million, or 13%.

(b) Operating Expenses

Operating expenses consist of salaries, benefits, maintenance-of-way, revenue collection and monitoring fees, and administrative costs. During the year, operating expenses decreased by \$.6 million, or 2%.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

June 30, 2004

Depreciation expense increased by \$1.1 million, or 6%, due to the yearly depreciation of infrastructure and capital assets being placed into service in 2004.

(c) *Nonoperating Revenues and Expenses*

Nonoperating revenues consist of interest and investment earnings, interest expense, grant revenues, and miscellaneous revenues. During the fiscal year ended June 30, 2004, interest and investment earnings decreased by \$1.4 million, or 40%. The decrease in interest earnings and investment revenue was mainly because of declining portfolio balances and lower interest rates. The increase in interest expense was primarily related to (i) the Authority's issuance of \$686 million of bonds during fiscal 2004 (interest and amortization of bond issuance costs) and (ii) a one time adjustment discussed further in note 7 to the basic financial statements. Grant revenues increased \$8.6 million, or 30%, due to a higher level of activity in completing the PCH Grade Separation Project.

Capital Assets and Debt Administration

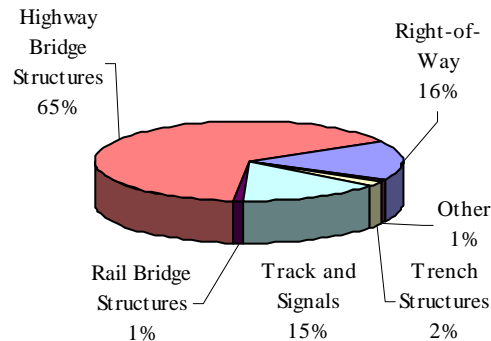
At June 30, 2004, the Authority had approximately \$2 billion invested in capital assets and approximately \$1.9 billion of long-term debt outstanding.

(a) *Capital Assets*

During fiscal year 2004, the Authority expended \$12.1 million on capital project activities, excluding an adjustment of \$27 million for capitalized interest (see note 7). The chart below provides a summary of capital project expenditures by type for the year ended June 30, 2004.

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

Capital Project Costs by Type Fiscal Year 2004



ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

June 30, 2004

(b) Long-Term Debt

During the 2004 fiscal year, the Authority issued long-term debt of \$686 million. This sale of the 2004 Series A and B bonds extinguished the Authority's \$400 million loan from the U.S. Department of Transportation. As of June 30, 2004, the Authority's total long-term debt was \$1.819 billion in revenue bonds (net of the current portion amount of \$13.8 million and of unamortized discount of \$3.6 million).

Additional debt information can be found in note 7 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 \$120.7 million have been received from the Railroads. These revenues, combined with remaining capitalized interest, have been more than sufficient to meet debt service, reserve account required deposits, cost of revenue collections and monitoring, and administrative fees.

The Authority's program manager, Alameda Corridor Engineering Team (ACET), together with Authority staff, is actively working to complete construction of the remaining original Alameda Corridor projects (e.g., Long Beach Lead, Anaheim Pump Station) and closing out completed projects. Most of the Authority's largest projects have either reached or are on the verge of final closeout, with minimal additional outstanding claims or unresolved issues.

The Authority's Governing Board (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.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

June 30, 2004

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 anticipates that a six- to nine-month demonstration program of local container delivery via shuttle train to an Inland Empire location will occur in cooperation with the Union Pacific Railroad Company next year.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Balance Sheet

June 30, 2004

Assets

Current assets:	
Restricted cash and cash equivalents (note 2)	\$ 109,719,633
Restricted investments (note 2)	128,622,231
Receivables (note 3)	25,435,384
Restricted escrow accounts	1,006,641
Condemnation deposits (note 4)	3,315,993
Prepaid expenses	1,430,006
Total current assets	<u>269,529,888</u>
Noncurrent assets:	
Restricted investments (note 2)	13,901,533
Bond issuance costs	76,640,212
Capital assets (note 5):	
Buildings and equipment	9,004,729
Alameda Corridor Project infrastructure	2,024,727,320
Less accumulated depreciation	<u>(39,845,048)</u>
Total noncurrent assets	<u>2,084,428,746</u>
Total assets	<u>\$ 2,353,958,634</u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 14,348,496
Right-of-way acquisition payable (note 4)	3,315,993
Contract retention payable	1,049,353
Deferred revenue	8,497,816
Accrued interest payable, current portion	14,862,966
Revenue bonds payable, current portion (note 7)	13,750,000
Other liabilities	171,233
Total current liabilities	<u>55,995,857</u>
Noncurrent liabilities:	
Accrued interest payable	51,310,603
Revenue bonds payable, net of unamortized discount of \$3,651,557 (note 7)	<u>1,819,364,545</u>
Total noncurrent liabilities	<u>1,870,675,148</u>
Net assets:	
Invested in capital assets, net of related debt	229,315,909
Restricted for debt service	95,050,110
Restricted for capital projects	<u>102,921,610</u>
Total net assets	<u>427,287,629</u>
Total liabilities and net assets	<u>\$ 2,353,958,634</u>

See accompanying notes to basic financial statements.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2004

Operating revenues:	
Use fees and container charges	\$ 62,024,810
Maintenance-of-way charges	2,124,001
Total operating revenues	<u>64,148,811</u>
Operating expenses:	
Salaries and benefits	2,193,592
Administrative expenses	1,343,466
Maintenance-of-way	2,893,961
Depreciation	20,207,783
Total operating expenses	<u>26,638,802</u>
Operating income	<u>37,510,009</u>
Nonoperating revenues:	
Interest and investment revenue, net	2,077,314
Grants	37,366,392
Miscellaneous revenue	76,124
Total nonoperating revenues	<u>39,519,830</u>
Nonoperating expenses:	
Interest expense	129,738,104
Costs of issuance	11,828,466
Total nonoperating expenses	<u>141,566,570</u>
Change in net assets	(64,536,731)
Total net assets – beginning	<u>491,824,360</u>
Total net assets – ending	<u>\$ 427,287,629</u>

See accompanying notes to basic financial statements.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Statement of Cash Flows

Year ended June 30, 2004

Cash flows from operating activities:	
Receipts from customers for services	\$ 104,406,498
Payment to suppliers for good and services	(25,336,086)
Payment to employees	(2,404,809)
	<hr/>
Net cash provided by operating activities	76,665,603
	<hr/>
Cash flows from noncapital financing activities:	
Grants	37,366,392
Miscellaneous income	76,124
	<hr/>
Net cash provided by noncapital financing activities	37,442,516
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Cash flows from capital and related financing activities:	
Purchases of capital assets	(60,974,606)
Principal paid on notes and bonds payable	(412,405,000)
Proceeds from bond issuance	686,024,089
Bond issuance cost	(44,616,805)
Interest payments on capital debt, net of capitalized interest	(236,040,990)
	<hr/>
Net cash used in capital and related financing activities	(68,013,312)
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Cash flows from investing activities:	
Proceeds from sales and maturities of investments, net	24,861,836
Interest and dividends received	2,077,314
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Net cash provided by investing activities	26,939,150
	<hr/>
Net increase in cash and cash equivalents	73,033,957
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Cash and cash equivalents, beginning	36,685,676
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Cash and cash equivalents, end	\$ 109,719,633
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Reconciliation of operation income to net cash provided by operating activities:	
Operating income	\$ 37,510,009
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	20,207,783
Change in assets and liabilities:	
Use fees receivable	40,257,688
Accounts payable	(19,711,339)
Prepaid expenses	(537,195)
Other liabilities	(1,061,343)
	<hr/>
Net cash provided by operating activities	\$ 76,665,603
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See accompanying notes to basic financial statements.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 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, 2004, the members of the Authority's Governing Board were:

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

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

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

Member – Mr. Larry Keller, Executive Director, Port of Los Angeles

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

Member – Hon. Thomas Warren, Commissioner, Port of Los Angeles

Member – 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.

(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

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

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.

(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).

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

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

(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.

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

Computer equipment/software	3 years
Tenant improvements	3 years
Automotive vehicles	5 years
Other equipment	3-5 years
Buildings	40 years
Right-of-way improvements	40 years
Tracks and signal systems	40 years
Roads	50 years
Highway bridge structures	100 years
Trench structures	100 years
Rail bridge structures	100 years

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

(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

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

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 rate of pay. All vacation hours that have been earned but not paid as of June 30, 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 sick hours for each employee as of June 30, 2004 have also been accrued in the accompanying basic financial statements.

(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.

(2) **Cash and Investments**

(a) ***Deposits***

At June 30, 2004, the net carrying amount of the Authority's deposit was \$7,876,388 while the corresponding bank balance was \$10,699,968. 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.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

(b) Investments

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

- Bankers' Acceptances
- Mortgage- or Asset-Backed Securities
- California Local Agency Investment Fund
- Commercial Paper
- Federal Agency Obligations
- Time Deposits
- Medium-Term Maturity Corporate Notes
- Money Market Funds
- Negotiable Certificates of Deposit
- Treasury Bills, Notes, or Bonds
- Repurchase Agreements.

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

Investments of the Authority as of June 30, 2004 are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by three categories as follows:

Category 1 – Includes investments that are insured or registered or for which securities are held by the Authority or its agent in the Authority's name

Category 2 – Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name

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

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

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

	June 30, 2004	
	<u>Category</u>	<u>Fair value</u>
Categorized investments:		
Corporate bonds	2	\$ 8,694,119
Federal agency obligations	2	<u>133,829,645</u>
Total categorized investments		142,523,764
Investments not required to be categorized:		
Cash deposits and money market securities		93,328,634
Local agency investment fund (LAIF)		<u>16,390,999</u>
Total cash and investments		<u>\$ 252,243,397</u>
Restricted cash and cash equivalents		\$ 109,719,633
Restricted short-term investments		128,622,231
Restricted long-term investments		<u>13,901,533</u>
Total cash and investments		<u>\$ 252,243,397</u>

(3) Receivables

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

Grants receivable	\$ 16,575,861
Interest receivable	628,156
Use fees receivable	7,104,683
Other receivables	<u>1,126,684</u>
Total	<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, 2004, the balance of such deposits was \$3,315,993.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

(5) Capital Assets

The following schedule summarizes capital assets:

	Balance, July 1, 2003	Additions	Transfers and deletions	Balance, June 30, 2004
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
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, 2004

The Authority capitalizes interest costs, net of interest earned, on proceeds from tax-exempt borrowings used to finance construction activities during the construction period. Capitalized interest is recorded as part of the asset to which it relates and will be amortized over the asset's estimated useful life upon completion of construction. Capitalized interest costs, net of interest revenues of \$3,143,391, were \$29,099,929 in fiscal year 2004 (see note 7).

(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, 2004 was a net premium of \$784,517, which is being recognized in fiscal year 2004. As of June 30, 2004, the unamortized discount balance is \$3,691,557. Interest on the 1999 Series A and C Capital Appreciation Bonds in the amount of \$27,022,615 from the date of issuance through June 30, 2002 (project construction period) was also added to the cost of the assets for which the bonds were sold during fiscal 2004 and these costs are being depreciated over the life of the associated assets. Interest on the 1999 Series A and C Capital Appreciation Bonds for fiscal year 2003 and fiscal year 2004, respectively, amounted to \$9,104,686 and \$9,685,855 and was recognized in the accompanying statement of revenues, expenses, and changes in net assets for the year ended June 30, 2004. Additionally, the 1999 Series Bonds cost of issuance of \$43,851,875 was originally recorded as a capital asset but was reclassified to bond issuance costs in the accompanying balance sheet during fiscal 2004. Amortization of the bond issuance costs of \$11,542,197 from the date of issuance through June 30, 2004 was recognized in the accompanying statement of revenues, expenses, and changes in net assets for the year ended June 30, 2004. These entries and adjustments affect financial statement presentation and year-to-year comparability, but management believes these

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

reclassifications or adjustments are not material to the Authority's basic financial statements. Additionally, none of the reclassifications or adjustments have any impact on the Authority's cash flow or ability to service debt.

(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, 2004 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 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:

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

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year:			
2005	\$ —	22,008,216	22,008,216
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 – 2014	54,500,000	99,895,953	154,395,953
2015 – 2019	78,485,000	83,195,494	161,680,494
2020 – 2024	109,760,000	59,559,144	169,319,144
2025 – 2029	148,925,000	28,232,288	177,157,288
2030 – 2034	35,480,000	887,000	36,367,000
2035 – 2037	—	—	—
Total	\$ <u>444,440,000</u>	<u>381,003,028</u>	<u>825,443,028</u>

(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.

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, 2004 are \$50,453,617 and \$16,414,379, respectively. The Series A CABs are not subject to optional redemption.

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

	<u>Annual debt service requirement</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year:			
2031 – 2034	\$ 27,404,483	125,365,517	152,770,000
2035 – 2038	23,049,134	135,930,866	158,980,000
Total	\$ <u>50,453,617</u>	<u>261,296,383</u>	<u>311,750,000</u>

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

(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 \$19,520,000 at June 30, 2004. 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:			
2005	\$ 6,180,000	724,600	6,904,600
2006	6,745,000	439,913	7,184,913
2007	6,595,000	145,888	6,740,888
Total	\$ 19,520,000	1,310,401	20,830,401

(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, 2004. The 1999 Series C Current Interest Bonds are not subject to optional redemption.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

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:			
2005	\$ —	28,260,555	28,260,555
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 – 2014	—	141,302,775	141,302,775
2015 – 2019	100,080,000	128,436,350	228,516,350
2020 – 2024	63,250,000	99,009,623	162,259,623
2025 – 2029	213,560,000	54,963,810	268,523,810
2030 – 2034	53,265,000	1,757,745	55,022,745
2035 – 2037	—	—	—
Total	\$ 430,155,000	566,773,078	996,928,078

(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, 2004 is \$67,298,396 and \$29,398,774, 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:			
2021 – 2024	\$ 22,052,990	75,812,010	97,865,000
2025 – 2029	—	—	—
2030 – 2034	25,200,275	207,769,725	232,970,000
2035 – 2038	20,045,131	222,379,869	242,425,000
Total	\$ 67,298,396	505,961,604	573,260,000

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

(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 \$138,875,000 at June 30, 2004. 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:			
2005	\$ 7,570,000	8,111,117	15,681,117
2006	8,435,000	7,661,160	16,096,160
2007	9,365,000	7,151,847	16,516,847
2008	10,360,000	6,580,191	16,940,191
2009	11,420,000	5,943,538	17,363,538
2010 – 2014	75,485,000	17,566,386	93,051,386
2015 – 2019	16,240,000	507,500	16,747,500
Total	\$ <u>138,875,000</u>	<u>53,521,739</u>	<u>192,396,739</u>

(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. 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, 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

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 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, 2004.

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:			
2010 – 2014	\$ —	34,351,650	34,351,650
2015 – 2019	—	114,505,500	114,505,500
2020 – 2024	156,355,244	181,937,776	338,293,020
2025 – 2029	118,637,042	77,642,203	196,279,245
2030 – 2034	—	—	—
Total	\$ <u>274,992,286</u>	<u>408,437,129</u>	<u>683,429,415</u>

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

	Annual debt service requirement		
	Principal	Interest	Total
Fiscal year:			
2010 – 2014	\$ 13,032,273	6,427,727	19,460,000
2015 – 2019	97,070,616	82,054,384	179,125,000
2020 – 2024	53,847,791	68,702,209	122,550,000
2025 – 2029	—	—	—
2030 – 2034	36,349,420	121,330,580	157,680,000
Total	\$ <u>200,300,100</u>	<u>278,514,900</u>	<u>478,815,000</u>

(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. 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 \$1,777,593, respectively, at June 30, 2004.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

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:			
2005	\$ —	—	—
2006	—	—	—
2007	4,453,981	336,019	4,790,000
2008	4,845,840	609,160	5,455,000
2009	8,014,173	1,530,827	9,545,000
2010 – 2014	62,285,298	26,009,702	88,295,000
2015 – 2019	—	—	—
2020 – 2024	—	—	—
2025 – 2029	70,660,674	231,359,326	302,020,000
2030 – 2034	60,471,737	285,203,263	345,675,000
Total	\$ 210,731,703	545,048,297	755,780,000

(i) **Accrued Interest Payable**

The Authority's accrued interest payable is as follows:

	Current Interest Bond Current Portion	CAB Long-term	Total
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
	\$ 14,862,966	51,310,603	66,173,569

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

(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:			
2005	\$ 13,750,000	59,104,488	72,854,488
2006	15,180,000	58,369,844	73,549,844
2007	21,148,981	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 – 2014	205,302,571	325,554,193	530,856,764
2015 – 2019	291,875,616	408,699,228	700,574,844
2020 – 2024	405,266,025	485,020,762	890,286,787
2025 – 2029	551,782,716	392,197,627	943,980,343
2030 – 2034	238,170,915	742,313,830	980,484,745
2035 – 2038	43,094,265	358,310,735	401,405,000
Total	\$ <u>1,836,766,102</u>	<u>3,001,866,559</u>	<u>4,838,632,661</u>

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

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

	<u>Balance, July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2004</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
1999 Series C Bonds	497,453,396	—	—	497,453,396
1999 Series D Bonds	145,635,000	—	(6,760,000)	138,875,000
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>
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
U.S. Department of Transportation Note	144,669,324	—	(144,669,324)	—
Subtotal	<u>1,707,816,337</u>	<u>752,197,658</u>	<u>(557,074,324)</u>	<u>1,902,939,671</u>
Less due within one year:				
Bonds payable:				
Series B	(5,645,000)	—	(535,000)	(6,180,000)
Series D	(6,760,000)	—	(810,000)	(7,570,000)
Interest payable on U.S. Department of Transportation Note	(3,506,080)	3,506,080	—	—
Accrued Interest Bond payable	—	—	(14,862,966)	(14,862,966)
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>

(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.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

(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, 2004:

	<u>Lease obligations</u>
Fiscal year:	
2005	\$ 269,006
2006	<u>134,503</u>
Total minimum lease payments	<u>\$ 403,509</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 2004 was 11.747%. The Authority's covered payroll for the employees participating in CALPERS for the year ended June 30, 2004 was \$1,575,884. Total payroll for fiscal year 2004 was \$1,602,677.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

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 year 2004, the Authority's Annual Required Contribution (ARC) was \$110,312, which the Authority contributed. The required contribution for 2004 was determined as part of the June 2003 actuarial valuation using the entry-age-actuarial-cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment return (net of expenses), (b) projected salary increase of 3.75% – 14.20% depending on age, service, and type of employment, (c) merit increase that varies by length of service, and (d) payroll growth of 3.75%. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of the Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three-year period. The Plan's unfunded accrued actuarial liability (UAAL) is amortized using a level-percentage-of-projected-payroll method, on a closed basis over a 20-year period.

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

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

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2004

(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:

<u>Funding date</u>	<u>Port of Los Angeles</u>	<u>Port of Long Beach</u>
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	<u>\$ 13,333,835</u>	<u>15,166,165</u>

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

In June 1997, the Ports agreed to fund \$4 million each to be used solely for acquisition of property rights required in connection of the “North End Project” of the Authority. Through approval of the Boards, the Ports lifted this restriction on such funds. In 1997, the Port of Long Beach provided \$1 million in funding to be used solely to pay the Settlement Agreement between the Authority and related entities (see note 12). 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, 2004 consisted of the following:

	<u>Port of Los Angeles</u>	<u>Port of Long Beach</u>
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	<u>\$ 86,206,428</u>	<u>27,788,671</u>

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 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.