



ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Basic Financial Statements

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Balance Sheets	11
Statements of Revenues, Expenses, and Changes in Net Assets	12
Statements of Cash Flows	13
Notes to Basic Financial Statements	14



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

Independent Auditors' Report

The Governing Board
Alameda Corridor Transportation Authority:

We have audited the accompanying basic financial statements of the Alameda Corridor Transportation Authority (the Authority) as of and for the years ended June 30, 2007 and 2006, 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, 2007 and 2006 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 December 6, 2007 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 10 and the schedule of funding progress on page 36 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

December 6, 2007

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

June 30, 2007 and 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 presented in the basic financial statements.

Financial Highlights

The assets of the Authority exceeded its liabilities (*net assets*) at June 30 2007 and 2006 by \$281,087,392 and \$315,163,493, respectively. Of this amount, \$398,922,282 and \$403,247,434, respectively, are invested in the Authority's capital assets, net of related debt. The Authority's net assets decreased by \$34,076,101 and \$49,985,678 in the years ended June 30 2007 and 2006, respectively.

The Authority received \$1,859,335 and \$3,338,410 in grant funds for the fiscal years ended June 30, 2007 and 2006, respectively. The majority of the funds were received from the State of California Department of Transportation (Caltrans) for the State Route 47 and the Redondo Junction Grade Separation projects.

The 2006 and 2007 fiscal years marked the fourth and fifth full years of operations for the Authority. The Authority earned \$98,720,958 and \$83,751,389 from use fees, container charges, and maintenance-of-way charges during fiscal years ended June 30, 2007 and 2006, respectively. The Authority's use fees and container charges for the year 2007 exceeded the 2006 total by 17.9%. All of the operating revenues and majority of maintenance-of-way charges are received from the Union Pacific (UP) and Burlington Northern Santa Fe (BNSF) railroads that utilize the Authority's Alameda Corridor (Corridor).

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, 2007 and 2006

Condensed Financial Information

The following condensed financial information provides an overview of the Authority's financial position for the fiscal years ended June 30, 2007, 2006, and 2005:

	Year ended June 30				
	2007	2006	2005	Change between 2007 and 2006	Change between 2006 and 2005
Assets:					
Capital assets, net	\$ 1,973,473,299	1,987,249,328	1,994,430,552	(13,776,029)	(7,181,224)
Other assets	258,584,940	245,521,843	252,880,812	13,063,097	(7,358,969)
Bond issuance costs	65,742,146	69,211,136	72,733,194	(3,468,990)	(3,522,058)
Total assets	<u>2,297,800,385</u>	<u>2,301,982,307</u>	<u>2,320,044,558</u>	<u>(4,181,922)</u>	<u>(18,062,251)</u>
Liabilities:					
Long-term liabilities	1,962,844,848	1,933,274,511	1,903,552,698	29,570,337	29,721,813
Other liabilities	53,868,145	53,544,303	51,342,689	323,842	2,201,614
Total liabilities	<u>2,016,712,993</u>	<u>1,986,818,814</u>	<u>1,954,895,387</u>	<u>29,894,179</u>	<u>31,923,427</u>
Net assets:					
Invested in capital assets, net of related debt	398,922,282	403,247,434	410,965,819	(4,325,152)	(7,718,385)
Restricted for debt service	10,889,220	6,886,290	3,908,562	4,002,930	2,977,728
Restricted for capital projects	8,772,574	6,308,867	69,724	2,463,707	6,239,143
Restricted by Master Trust Indenture	51,689,298	33,328,528	20,834,325	18,360,770	12,494,203
Unrestricted	(189,185,982)	(134,607,626)	(70,629,259)	(54,578,356)	(63,978,367)
Total net assets	<u>\$ 281,087,392</u>	<u>315,163,493</u>	<u>365,149,171</u>	<u>(34,076,101)</u>	<u>(49,985,678)</u>

Net Assets

Net assets, the difference between assets and liabilities, decreased by \$34.1 million, or 10.8%, and \$50.0 million, or 13.7%, during the years ended June 30, 2007 and 2006, respectively. The majority of this decrease is due to a \$53.2 million and \$50.7 million increase in accrued interest payable during the years ended June 30, 2007 and 2006, respectively, as well as depreciation expense of \$22.7 million and \$22.4 million during the years ended June 30, 2007 and 2006, respectively. The decrease is offset by a \$21.2 million and \$15.2 million decrease in the outstanding bonds payable due to payment of principal in fiscal year 2007. The remaining offset to the decrease in net assets is the result of the excess of nonoperating expenses, primarily interest expense, over operating income for both 2007 and 2006 fiscal years.

Certain reclassifications have been made to the 2006 and 2005 condensed financial information to conform to the 2007 financial information presentation. The changes were primarily related to the reclassification of accrued interest balances associated with the authority's capital appreciation bonds from invested in capital asset to unrestricted net assets; the reclassification of unamortized bond issuance costs from restricted net assets to invested in capital assets, net of related debt; and the reclassification of certain debt balances used to finance reserves from invested in capital assets, net of related debt to restricted net assets. There was no impact on the previously reported changes in net assets or total net assets of the Authority.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

June 30, 2007 and 2006

The Master Trust Indenture

In conjunction with the sale of project revenue and refunding bonds in 1999 and 2004 (Bonds), the Authority entered into a Master Trust Indenture (MTI) with US Bank, the bond trustee (Trustee), pursuant to which the Authority assigned all of its rights, title and interest in and to the Alameda Corridor project, including the receipt of certain Use Fees and Container Charges and other revenues known as "ACTA revenues" to the Trustee as security for the repayment of the Bonds. Pursuant to the terms of the MTI, the Trustee is required to establish certain funds and accounts and to apply ACTA revenues for the purposes specifically set forth therein. The MTI establishes debt service funds, debt service reserve funds, construction funds, maintenance and capital reserve funds, and certain other restrictive funds. The MTI also establishes a priority of payments, which restricts the manner, timing, and sequence of transfers into and out of such funds and accounts, and among such funds and accounts. The MTI requires that the Authority comply with certain operational and financial covenants, restricts the types of investments the Trustee and Authority may make, and requires regular financial reporting and disclosure.

Capital Assets

Net capital assets, which are made up of property, plant, and equipment, decreased by \$13.8 million, or 0.7%, and \$7.2 million, or 0.4%, due primarily to the depreciation of capital assets partially offset by the additional costs of ongoing capital projects during the years ended June 30, 2007 and 2006, respectively. The 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 2007 and 2006. Amortization expense related to bond issuance costs was \$3.5 million both for fiscal years 2007 and 2006.

Other Assets

Other assets consist of cash, investments, receivables, condemnation deposits, and prepaid expenses. These assets increased by \$13.1 million, or 5.3%, during fiscal 2007, due primarily to an increase in cash and investments. Other assets decreased by \$7.4 million, or 2.9%, during fiscal 2006, due primarily to a decrease in restricted cash and investments.

Grants receivable decreased by \$3.8 million and \$7.1 million during fiscal 2007 and 2006, respectively, due to the completion of the Pacific Coast Highway Grade Separation Project (PCH Project), which is funded by state and federal grants. Other receivables decreased by \$1.8 million and \$0.4 million in fiscal 2007 and 2006, respectively. There were also decreases of \$0.1 million and \$0.4 million in restricted escrows in fiscal 2007 and 2006, respectively. Such decreases are expected as construction activity diminishes and projects are closed out.

Long-Term Liabilities

Long-term liabilities increased by \$29.6 million, or 1.5%, in fiscal 2007 compared to fiscal 2006 due to accrued interest on Capital Appreciation Bonds. Long-term liabilities increased by \$29.7 million, or 1.6%, in fiscal 2006 compared to fiscal 2005 also due to accrued interest on Capital Appreciation Bonds.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

June 30, 2007 and 2006

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 \$1.0 million during fiscal 2007. This decrease is due to the decrease in construction-related work during the 2007 fiscal year. Contract retentions decreased by \$0.1 million during fiscal 2007 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 \$0.8 million during fiscal 2007 due to release of Right-of-Way (ROW) payable. Deferred revenue decreased by \$0.2 million during fiscal 2007 due to a decline in expenses for the PCH Project. Accrued interest payable increased by \$0.4 million during fiscal 2007 due to accrued bond interest payable that is due during the 2008 fiscal year. Bonds payable, current portion, increased \$2.1 million due to an increase in the principal payments due in fiscal year 2008.

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 (ROW) acquisition payable decreased by \$2.7 million during fiscal 2006 due to release of ROW payable. Deferred revenue decreased by \$0.1 million during fiscal 2006 due to a decline in expenses for the PCH Project. Accrued interest payable decreased by \$0.2 million during fiscal 2006 due to accrued bond interest payable that is due during the 2007 fiscal year.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

June 30, 2007 and 2006

Summary of Operations and Changes in Net Assets

The table below summarizes the changes in net assets for the years ended June 30, 2007, 2006, and 2005:

	Year ended June 30				
	2007	2006	2005	Change between 2007 and 2006	Change between 2006 and 2005
Operating revenues:					
User fees and container charges	\$ 95,220,756	80,540,063	65,521,523	14,680,693	15,018,540
Maintenance-of-way charges	3,500,202	3,211,326	3,379,172	288,876	(167,846)
Total operating revenues	<u>98,720,958</u>	<u>83,751,389</u>	<u>68,900,695</u>	<u>14,969,569</u>	<u>14,850,694</u>
Operating expenses:					
Salaries and benefits	1,939,188	2,089,557	2,331,738	(150,369)	(242,181)
Administrative expenses and professional services	4,816,097	5,293,577	1,760,006	(477,480)	3,533,571
Maintenance of way	4,612,400	3,990,152	4,438,540	622,248	(448,388)
Depreciation	22,661,287	22,375,795	24,170,050	285,492	(1,794,255)
Total operating expenses	<u>34,028,972</u>	<u>33,749,081</u>	<u>32,700,334</u>	<u>279,891</u>	<u>1,048,747</u>
Operating income	<u>64,691,986</u>	<u>50,002,308</u>	<u>36,200,361</u>	<u>14,689,678</u>	<u>13,801,947</u>
Nonoperating revenues (expenses):					
Interest and investment income, net	12,038,493	8,248,684	6,461,947	3,789,809	1,786,737
Interest expense	(111,007,779)	(109,047,003)	(106,988,352)	(1,960,776)	(2,058,651)
Grants	1,859,335	3,338,410	5,954,900	(1,479,075)	(2,616,490)
Miscellaneous revenues	1,818,854	1,004,252	167,586	814,602	836,666
Amortization of bond issuance costs	(3,476,990)	(3,532,329)	(3,934,900)	55,339	402,571
Total nonoperating expenses	<u>(98,768,087)</u>	<u>(99,987,986)</u>	<u>(98,338,819)</u>	<u>1,219,899</u>	<u>(1,649,167)</u>
Change in net assets	<u>(34,076,101)</u>	<u>(49,985,678)</u>	<u>(62,138,458)</u>	<u>15,909,577</u>	<u>12,152,780</u>
Total net assets – beginning	<u>315,163,493</u>	<u>365,149,171</u>	<u>427,287,629</u>	<u>(49,985,678)</u>	<u>(62,138,458)</u>
Total net assets – ending	\$ <u>281,087,392</u>	<u>315,163,493</u>	<u>365,149,171</u>	<u>(34,076,101)</u>	<u>(49,985,678)</u>

Operating Revenues

User fees and container charges revenues, representing 96.5% and 96.2% of operating revenues, increased \$14.7 million and \$15.0 million, or 18.2% and 22.9%, in 2007 and 2006, respectively. The increase is due to a higher volume of cargo and a 3% fee increase each year. In addition, a settlement of the transloading dispute between ACTA and the railroads in September 2006 resulted in an increase of \$0.90 per Twenty foot Equivalent Unit (TEU) in the Use Fee and Container Charge. The one-time increase was effective on November 24, 2006.

Maintenance-of-way revenues, representing 3.5% in fiscal year 2007 and 3.8% in fiscal year 2006 of operating revenues, were \$3.5 million and \$3.2 million, respectively. Revenue from use fees (for actual railroad use of the Corridor) and container charges (paid for containers that were trucked around the Corridor but left California by rail) were \$95.2 million and \$80.5 million in fiscal year 2007 and 2006, respectively.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

June 30, 2007 and 2006

Operating Expenses

Operating expenses consist of salaries, benefits, maintenance of way, administrative costs, professional services, and depreciation. Professional services were capitalized in years prior to 2005, 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 2007 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, 2007 and 2006, operating expenses increased by \$0.3 million, or 0.8%, and \$1.0 million, or 3.2%, respectively.

Depreciation expense accounted for the majority of the change with an increase of \$0.3 million, or 1.3%, and \$1.8 million, or 7.4%, due to the yearly depreciation of infrastructure and capital assets being placed into service in 2007 and 2006, respectively.

Nonoperating Revenues and Expenses

Nonoperating revenues consist of interest and investment earnings, interest expense, grant revenues, miscellaneous revenues, and amortization of bond issuance costs. During the fiscal years ended June 30, 2007 and 2006, interest and investment income increased by \$3.8 million, or 45.9%, and \$1.8 million, or 27.7%, respectively. The increase in investment income is due to an increase in the average investments held by the Authority, as well as an increase in the average interest rate earned. Interest expense increased \$2.0 million and \$2.1 million in 2007 and 2006, respectively. The increase in both years is due to an increase in interest incurred on the 1999 and 2004 series bonds. Grant revenues decreased \$1.5 million and \$2.6 million, or 44.3% and 43.9%, in 2007 and 2006, respectively, due to completion of the PCH Project.

Capital Assets and Debt Administration

At June 30, 2007, and 2006 the Authority had approximately \$2.0 billion of capital assets and approximately \$1.8 billion of long-term debt outstanding.

Capital Assets

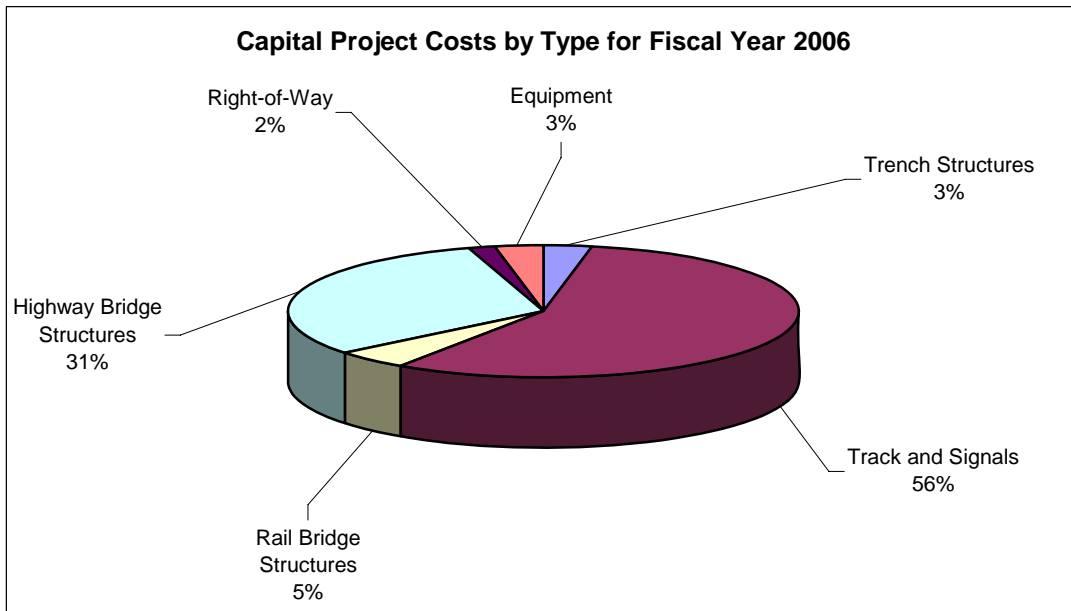
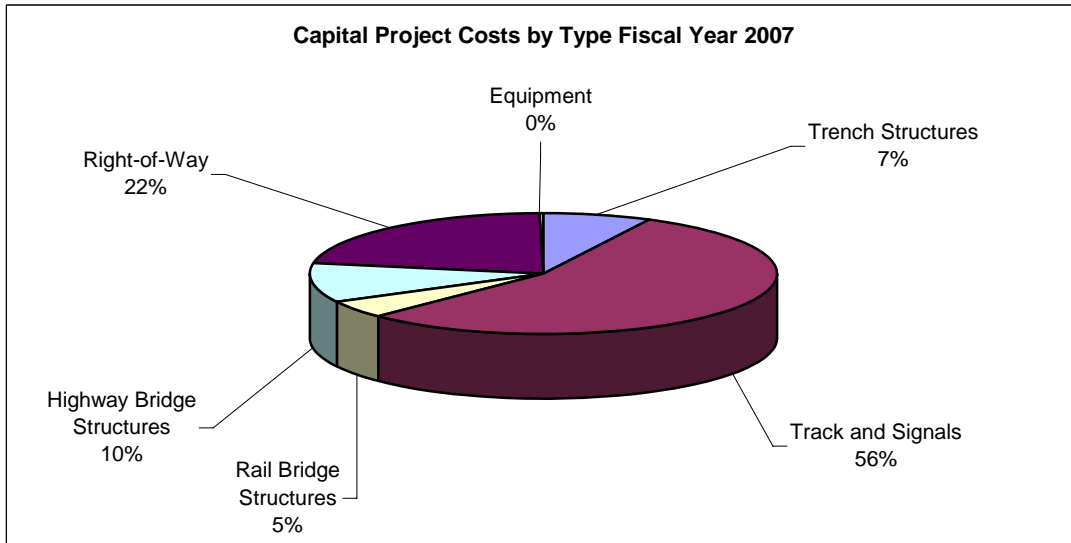
During fiscal years 2007 and 2006, the Authority expended \$8.9 million and \$15.9 million, respectively, on capital project activities. The chart on the following page provides a summary of capital project expenditures by type for the years ended June 30, 2007 and 2006.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

June 30, 2007 and 2006

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



Long-Term Debt

As of June 30, 2007 and 2006, the Authority's total long-term debt in revenue bonds was \$1.760 billion and \$1.783 billion, respectively, (net of the current portion amount of \$23.2 million and \$21.1 million and \$3.8 million of unamortized discount in fiscal 2007 and \$3.8 million in 2006, respectively).

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

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

June 30, 2007 and 2006

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 (Use and Operating Agreement). 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 interest income, have been more than sufficient to meet debt service, fund reserve account required deposits, and pay the cost of revenue collections, monitoring, and administrative fees.

The Authority's program manager, Alameda Corridor Engineering Team (ACET), together with the Authority's staff, are 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 completion 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 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 to 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 of Los Angeles and Long Beach 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.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Balance Sheets

June 30, 2007 and 2006

Assets	<u>2007</u>	<u>2006</u>
Current assets:		
Restricted cash and cash equivalents	\$ 141,817,948	122,371,577
Restricted investments	28,980,233	31,615,925
Receivables, net of allowance of \$3,979,848 at June 30, 2007 and 2006	16,441,236	20,091,355
Restricted escrow accounts	—	39,500
Condemnation deposits	39,840	817,700
Prepaid expenses	<u>1,431,220</u>	<u>1,390,531</u>
Total current assets	<u>188,710,477</u>	<u>176,326,588</u>
Noncurrent assets:		
Restricted investments	69,874,463	69,195,255
Bond issuance costs	65,742,146	69,211,136
Capital assets:		
Right-of-Way and land improvements	154,506,480	153,064,201
Buildings and equipment	10,760,127	10,740,351
Infrastructure	1,917,258,872	1,909,835,669
Less accumulated depreciation	<u>(109,052,180)</u>	<u>(86,390,893)</u>
Total capital assets, net	<u>1,973,473,299</u>	<u>1,987,249,328</u>
Total noncurrent assets	<u>2,109,089,908</u>	<u>2,125,655,719</u>
Total assets	<u>\$ 2,297,800,385</u>	<u>2,301,982,307</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 7,216,240	8,246,306
Right-of-way acquisition payable	39,840	817,700
Contract retention payable	5,000	147,735
Deferred revenue	8,274,791	8,454,465
Accrued interest payable, current portion	14,889,419	14,495,643
Revenue bonds payable, current portion	23,155,840	21,148,982
Other liabilities	<u>287,015</u>	<u>233,472</u>
Total current liabilities	<u>53,868,145</u>	<u>53,544,303</u>
Noncurrent liabilities:		
Accrued interest payable, net of current portion	203,140,360	150,382,218
Revenue bonds payable, net of unamortized discount of \$3,826,792 and \$3,794,827 and current portion	<u>1,759,704,488</u>	<u>1,782,892,293</u>
Total noncurrent liabilities	<u>1,962,844,848</u>	<u>1,933,274,511</u>
Total liabilities	<u>2,016,712,993</u>	<u>1,986,818,814</u>
Net Assets		
Invested in capital assets, net of related debt	398,922,282	403,247,434
Restricted for debt service	10,889,220	6,886,290
Restricted for capital projects	8,772,574	6,308,867
Restricted by Master Trust Indenture	51,689,298	33,328,528
Unrestricted	<u>(189,185,982)</u>	<u>(134,607,626)</u>
Total net assets	<u>281,087,392</u>	<u>315,163,493</u>
Total liabilities and net assets	<u>\$ 2,297,800,385</u>	<u>2,301,982,307</u>

See accompanying notes to basic financial statements.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Use fees and container charges	\$ 95,220,756	80,540,063
Maintenance-of-way charges	3,500,202	3,211,326
Total operating revenues	<u>98,720,958</u>	<u>83,751,389</u>
Operating expenses:		
Salaries and benefits	1,939,188	2,089,557
Administrative expenses	3,597,946	2,890,048
Professional services	1,218,151	2,403,529
Maintenance of way	4,612,400	3,990,152
Depreciation	22,661,287	22,375,795
Total operating expenses	<u>34,028,972</u>	<u>33,749,081</u>
Operating income	<u>64,691,986</u>	<u>50,002,308</u>
Nonoperating revenues:		
Interest and investment revenue, net	12,038,493	8,248,684
Grants	1,859,335	3,338,410
Miscellaneous revenues	1,818,854	1,004,252
Total nonoperating revenues	<u>15,716,682</u>	<u>12,591,346</u>
Nonoperating expenses:		
Interest expense	111,007,779	109,047,003
Amortization of bond issuance costs	3,476,990	3,532,329
Total nonoperating expenses	<u>114,484,769</u>	<u>112,579,332</u>
Change in net assets	<u>(34,076,101)</u>	<u>(49,985,678)</u>
Total net assets – beginning	<u>315,163,493</u>	<u>365,149,171</u>
Total net assets – ending	<u>\$ 281,087,392</u>	<u>315,163,493</u>

See accompanying notes to basic financial statements.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Statements of Cash Flows

Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Receipts from customers for services	\$ 100,730,654	\$ 88,403,347
Payment to suppliers for good and services	(11,599,520)	(12,728,033)
Payment to employees	<u>(1,885,646)</u>	<u>(2,101,015)</u>
Net cash provided by operating activities	<u>87,245,488</u>	<u>73,574,299</u>
Cash flows from noncapital financing activities:		
Grants	5,684,350	10,477,158
Miscellaneous income	<u>1,818,854</u>	<u>1,004,252</u>
Net cash provided by noncapital financing activities	<u>7,503,204</u>	<u>11,481,410</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(9,554,812)	(15,937,571)
Principal paid on notes and bonds payable	(21,148,982)	(15,180,000)
Interest payments on capital debt	<u>(57,895,827)</u>	<u>(58,380,114)</u>
Net cash used in capital and related financing activities	<u>(88,599,621)</u>	<u>(89,497,685)</u>
Cash flows from investing activities:		
Proceeds of investments	1,956,484	108,704,112
Interest and dividends received	<u>11,340,816</u>	<u>8,185,559</u>
Net cash provided by investing activities	<u>13,297,300</u>	<u>116,889,671</u>
Net increase in cash and cash equivalents	19,446,371	112,447,695
Cash and cash equivalents, beginning of year	<u>122,371,577</u>	<u>9,923,882</u>
Cash and cash equivalents, end of year	<u>\$ 141,817,948</u>	<u>\$ 122,371,577</u>
Reconciliation of operation income to net cash provided by operating activities:		
Operating income	\$ 64,691,986	50,002,308
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	22,661,287	22,375,795
Change in assets and liabilities:		
Accounts receivable	2,009,695	4,651,958
Accounts payable	(2,130,334)	(3,562,276)
Prepaid expenses	(40,689)	117,972
Other liabilities	<u>53,543</u>	<u>(11,458)</u>
Net cash provided by operating activities	<u>\$ 87,245,488</u>	<u>\$ 73,574,299</u>

See accompanying notes to basic financial statements

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

(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, 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, 2007, the members of the Authority's Governing Board were:

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

Vice-Chairperson – Hon. Bonnie Lowenthal, Vice Mayor, City of Long Beach

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.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

(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). 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) Master Trust Indenture

In conjunction with the sale of project revenue and refunding bonds in 1999 and 2004 (Bonds), the Authority entered into a Master Trust Indenture (MTI) with US Bank, the bond trustee (Trustee), pursuant to which the Authority assigned all of its rights, title and interest in and to the Alameda Corridor project, including the receipt of certain Use Fees and Container Charges and other revenues known as "ACTA revenues" to the Trustee as security for the repayment of the Bonds. Pursuant to the terms of the MTI, the Trustee is required to establish certain funds and accounts and to apply ACTA revenues for the purposes specifically set forth therein. The MTI establishes debt service funds, debt service reserve funds, construction funds, maintenance and capital reserve funds, and certain other restrictive funds. The MTI also establishes a priority of payments, which restricts the manner, timing, and sequence of transfers into and out of such funds and accounts, and among such funds and accounts. The MTI requires that the Authority comply with certain operational and financial covenants, restricts the types of investments the Trustee and Authority may make, and requires regular financial reporting and disclosure.

(e) 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. 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 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

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

November 30, 1989. The Authority has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

(f) 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).

(g) 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, 2007 and 2006. 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-Securities and Exchange Commission registered investment pool open to all government units in the State of California.

(h) Capital Assets

Capital assets purchased or constructed are carried at cost, including 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.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

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 also included in the results of operations for the year.

(i) 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 that have been set aside for capital projects are also reported as restricted assets.

(j) 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 earned. The Authority also recognizes deferred revenue on a straight-line basis. Deferred revenue primarily consists of deferred grant revenue and funds received from 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.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

(k) *Compensated Absences*

All Authority employees accumulate time off with pay for vacation and illness each pay period. While sick hours are accrued at a uniform rate among all employees, vacation accrual is based on length of service. Vacation hours are payable to employees when used at the employee's current rate of pay. Any unused vacation remaining at time of termination is also payable to the employee at his/her then rate of pay. All vacation hours that have been earned but not paid as of June 30, 2007 and 2006 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 \$102,035 as of June 30, 2007 and 2006 have also been accrued in other liabilities of the accompanying basic financial statements.

(l) *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.

(m) *Reclassifications*

Certain reclassifications have been made to the 2006 financial statement information to conform to the 2007 financial statement presentation. The changes were primarily related to the reclassification of accrued interest balances associated with the authority's capital appreciation bonds from invested in capital asset to unrestricted net assets; the reclassification of unamortized bond issuance costs from restricted net assets to invested in capital assets, net of related debt; and the reclassification of certain debt balances used to finance reserves from invested in capital assets, net of related debt to restricted net assets. There was no impact on the previously reported changes in net assets or total net assets of the Authority.

(2) *Cash and Investments*

Cash and investments as of June 30, 2007 and 2006 are classified in the accompanying financial statements as follows:

	June 30, 2007 fair value
Restricted cash and cash equivalents	\$ 141,817,948
Restricted short-term investments	28,980,233
Restricted long-term investments	69,874,463
Total cash and investments	<u>\$ 240,672,644</u>

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

	<u>June 30, 2006</u> <u>fair value</u>
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	<u>\$ 223,182,757</u>

(a) Deposits

At June 30, 2007 and 2006, the net carrying amount of the Authority's deposit account with Bank of America was \$2,232,638 and \$762,313, while the corresponding bank balance was \$3,243,572 and \$1,140,944, 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.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

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.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

The following schedules indicate the interest rate risk of the Authority's investments as of June 30, 2007 and 2006:

	<u>2007</u>	<u>Weighted average maturity (in years)</u>
Cash and investment type:		
Cash	\$ 500	—
Money market fund	5,046,895	—
LAIF	3,183,819	—
U.S. Treasury notes	8,451,472	4.24
U.S. Corporate notes	22,345,653	1.62
Commercial paper	23,499,294	0.11
Federal agency obligations	178,145,011	1.12
	<u>\$ 240,672,644</u>	<u>1.14</u>

	<u>2006</u>	<u>Weighted average maturity (in years)</u>
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
	<u>\$ 223,182,757</u>	<u>1.21</u>

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

(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, 2007								
		Not rated	AAA & AA	AA-	A+	A	A-1	A-1+	A- & TSY	Total
Investment type:										
Cash and money										
market fund	\$	2,298,345	2,749,050	—	—	—	—	—	—	5,047,395
LAIF		3,183,819	—	—	—	—	—	—	—	3,183,819
U.S. Treasury notes		—	—	—	—	—	—	—	8,451,472	8,451,472
U.S. Corporate notes		—	2,828,468	3,941,901	6,404,970	7,909,612	—	—	1,260,702	22,345,653
Commercial paper		—	—	—	—	—	7,388,048	16,111,246	—	23,499,294
Federal agency obligations		—	178,145,011	—	—	—	—	—	—	178,145,011
Totals	\$	5,482,164	183,722,529	3,941,901	6,404,970	7,909,612	7,388,048	16,111,246	9,712,174	240,672,644

		Ratings as of June 30, 2006								
		Not rated	AAA	AA-	A+	A	A-1	A-1+	A-	Total
Investment type:										
Cash and money										
market fund	\$	2,838,897	—	—	—	—	—	—	—	2,838,897
LAIF		2,922,812	—	—	—	—	—	—	—	2,922,812
U.S. Treasury notes		10,658,467	—	—	—	—	—	—	—	10,658,467
U.S. Corporate notes		—	588,788	487,716	8,317,886	9,710,219	—	—	1,740,185	20,844,794
Commercial paper		—	—	—	810,000	—	5,519,398	16,838,767	—	23,168,165
Federal agency obligations		—	162,749,622	—	—	—	—	—	—	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	223,182,757

(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:

		2007	2006
Federal Home Loan Bank	Federal agency obligations	\$ 29,929,683	47,662,784
Fannie Mae	Federal agency obligations	78,272,121	65,673,672
Federal Home Loan Mortgage Corp.	Federal agency obligations	67,759,132	49,413,166
		\$ 175,960,936	162,749,622

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

(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. 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, 2007 and 2006, the fair value of the balance of such deposits is \$3,183,819 and \$2,922,812, 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	
	2007	2006
Grants receivable	\$ 2,351,585	6,176,600
Interest receivable	2,015,527	1,750,506
Use fees receivable, net of allowance of \$3,979,848 at June 30, 2007 and 2006	11,708,400	9,641,802
Other receivables	365,724	2,522,447
Total	<u>\$ 16,441,236</u>	<u>20,091,355</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 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, 2007 and 2006, the balance of such deposits and payables were \$39,840 and \$817,700, respectively.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

(5) Capital Assets

The following schedule summarizes capital assets for the years ended June 30, 2007 and 2006:

	<u>Balance, July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2007</u>
Right-of-way and land improvements, not being depreciated	\$ 153,064,201	2,111,833	(669,554)	154,506,480
Buildings and equipment:				
Automotive vehicles	456,384	—	—	456,384
Office equipment	611,827	10,211	—	622,038
Other equipment	186,825	—	—	186,825
Tenant improvements	72,334	—	—	72,334
Buildings	1,102,594	—	—	1,102,594
Revenue assessment and verification system	8,310,387	9,565	—	8,319,952
Total buildings and equipment	<u>10,740,351</u>	<u>19,776</u>	<u>—</u>	<u>10,760,127</u>
Alameda Corridor Project Infrastructure:				
Capital assets, being depreciated:				
Trench structures	714,613,316	538,740	—	715,152,056
Track and signals	200,752,953	4,258,426	—	205,011,379
Rail bridge structures	408,434,842	379,766	—	408,814,608
Highway bridge structures	148,052,558	801,793	—	148,854,351
Capital assets, not being depreciated:				
Trench structures	223,864,435	168,769	—	224,033,204
Track and signals	65,985,987	998,591	—	66,984,578
Rail bridge structures	101,870,788	83,020	—	101,953,808
Highway bridge structures of the Corridor	46,260,790	194,098	—	46,454,888
Infrastructure	<u>1,909,835,669</u>	<u>7,423,203</u>	<u>—</u>	<u>1,917,258,872</u>
Total fixed assets	<u>2,073,640,221</u>	<u>9,554,812</u>	<u>(669,554)</u>	<u>2,082,525,479</u>
Less accumulated depreciation for:				
Trench structures	(41,543,090)	(10,416,110)	—	(51,959,200)
Track and signals	(11,269,328)	(3,192,309)	—	(14,461,637)
Rail bridge structures	(20,619,190)	(5,289,619)	—	(25,908,809)
Highway bridge structures	(6,512,728)	(1,987,605)	—	(8,500,333)
Automotive vehicles	(439,569)	—	—	(439,569)
Office equipment	(670,334)	(68,217)	—	(738,551)
Other equipment	(15,775)	(2,681)	—	(18,456)
Tenant improvements	(71,123)	(1,214)	—	(72,337)
Buildings	(180,703)	(36,753)	—	(217,456)
Revenue assessment and verification system	(5,069,053)	(1,666,779)	—	(6,735,832)
Total accumulated depreciation	<u>(86,390,893)</u>	<u>(22,661,287)</u>	<u>—</u>	<u>(109,052,180)</u>
Capital assets, net	<u>\$ 1,987,249,328</u>	<u>(13,106,475)</u>	<u>(669,554)</u>	<u>1,973,473,299</u>

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

	<u>Balance, July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2006</u>
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
Total buildings and equipment	<u>10,265,490</u>	<u>474,861</u>	<u>—</u>	<u>10,740,351</u>
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 the Corridor	44,965,946	1,294,844	—	46,260,790
Infrastructure	<u>1,894,858,426</u>	<u>14,977,243</u>	<u>—</u>	<u>1,909,835,669</u>
Total fixed assets	<u>2,058,445,650</u>	<u>15,937,571</u>	<u>(743,000)</u>	<u>2,073,640,221</u>
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	<u>(64,015,098)</u>	<u>(22,375,795)</u>	<u>—</u>	<u>(86,390,893)</u>
Capital assets, net	\$ <u>1,994,430,552</u>	<u>(6,438,224)</u>	<u>(743,000)</u>	<u>1,987,249,328</u>

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

(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, 2007 and 2006, the unamortized discount balance on the 1999 and 2004 Series Bonds was \$3,826,792 and \$3,794,827, respectively. Interest on the 1999 Series A and C Capital Appreciation Bonds for fiscal year 2007 and 2006, respectively, amounted to \$11,657,192 and \$14,730,828 and was recognized in the accompanying statements of revenues, expenses, and changes in net assets for the years ended June 30, 2007 and 2006, respectively.

(a) 1999 Series A Current Interest Bonds

The Series A Tax-Exempt Current Interest Lien Revenue Bonds (Series A) were issued by the 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 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, 2007 and 2006 are \$443,705,000 and 444,440,000, respectively.

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

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

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

	Annual debt service requirement		
	Principal	Interest	Total
Fiscal year(s):			
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	10,850,000	20,025,819	30,875,819
2013 – 2017	68,060,000	90,672,412	158,732,412
2018 – 2022	96,275,000	69,909,511	166,184,511
2023 – 2027	132,190,000	41,881,931	174,071,931
2028 – 2030	100,420,000	7,730,500	108,150,500
Total	\$ 443,705,000	314,993,079	758,698,079

(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 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, 2007 and 2006 are \$50,453,617 and \$27,751,685, and \$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(s):			
2028 – 2032	\$ 14,298,474	61,326,526	75,625,000
2033 – 2037	30,751,197	165,033,803	195,785,000
2038	5,403,946	34,936,054	40,340,000
Total	\$ 50,453,617	261,296,383	311,750,000

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

(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 matured 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 \$0 and \$6,595,000 at June 30, 2007 and 2006, respectively. There is no remaining debt service on the Authority's 1999 Series B Bonds that were paid in full on October 1, 2006.

(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 were used to finance a portion of the cost of the design and construction of the 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, 2007 and 2006. The 1999 Series C Current Interest Bonds are not subject to optional redemption.

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

	Annual debt service requirement		
	Principal	Interest	Total
Fiscal year(s):			
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	—	28,260,555	28,260,555
2013 – 2017	47,590,000	137,965,350	185,555,350
2018 – 2022	82,085,000	107,448,988	189,533,988
2023 – 2027	151,920,000	80,077,800	231,997,800
2028 – 2030	148,560,000	15,196,500	163,756,500
Total	\$ <u>430,155,000</u>	<u>481,991,413</u>	<u>912,146,413</u>

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

(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 were used to finance a portion of the cost of the design and construction of the 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, 2007 and 2006 are \$67,298,396 and \$50,975,644, and \$67,298,396 and \$43,295,700, 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(s):			
2018 – 2022	\$ 15,059,727	49,660,273	64,720,000
2023 – 2027	6,993,264	26,151,736	33,145,000
2028 – 2032	13,320,113	102,004,887	115,325,000
2033 – 2037	27,335,658	271,219,342	298,555,000
2038	4,589,634	56,925,366	61,515,000
Total	\$ <u>67,298,396</u>	<u>505,961,604</u>	<u>573,260,000</u>

(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 were used to finance a portion of the cost of the design and construction of the 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 \$113,505,000 and \$122,870,000 at June 30, 2007 and 2006, respectively. The 1999 Series D Bonds are not subject to optional redemption.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

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

	Annual debt service requirement		
	Principal	Interest	Total
Fiscal year:			
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	14,890,000	3,614,825	18,504,825
2013 – 2015	50,660,000	4,759,013	55,419,013
Total	\$ 113,505,000	30,597,615	144,102,615

(g) 2004 Series A Capital Appreciation Bonds

The 2004 Series A Capital Appreciation Bonds Tax-Exempt Subordinate Lien Revenue Refunding Bonds (2004 Series A Bonds) were issued by the Authority in the aggregate amount of \$475,292,386 on April 22, 2004. 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 \$475,292,386 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 and 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 \$84,676,653 and \$56,266,423 at June 30, 2007 and 2006, respectively. The principal balance outstanding on the 2004 Series A Bonds, which are not convertible or callable, at June 30, 2007 and 2006 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(s):			
2013 – 2017	\$ 65,757,745	44,132,255	109,890,000
2018 – 2022	98,192,935	113,052,065	211,245,000
2023 – 2027	—	—	—
2028 – 2032	36,349,420	121,330,580	157,680,000
2033 – 2037	—	—	—
Total	\$ 200,300,100	278,514,900	478,815,000

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

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(s):			
2013 – 2017	\$ —	103,054,950	103,054,950
2018 – 2022	48,302,780	138,902,895	187,205,675
2023 – 2027	226,689,506	166,479,285	393,168,791
Total	\$ 274,992,286	408,437,130	683,429,416

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, 2007 and 2006.

(h) 2004 Series B Capital Appreciation Bonds

The 2004 Series B Capital Appreciation Bonds Taxable Subordinate Lien Refunding Bonds (2004 Series B Bonds) were issued by the 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 repay 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 \$206,277,721 and \$40,345,538, and \$210,731,703 and \$27,045,648, at June 30, 2007 and 2006, respectively.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

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(s):			
2008	\$ 4,845,841	609,159	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	16,892,075	7,262,925	24,155,000
2013 – 2017	21,721,443	11,633,557	33,355,000
2018 – 2022	—	—	—
2023 – 2027	25,085,190	75,589,810	100,675,000
2028 – 2032	72,790,086	272,884,914	345,675,000
2033 – 2037	33,257,135	168,087,865	201,345,000
Total	\$ <u>206,277,723</u>	<u>544,712,277</u>	<u>750,990,000</u>

(i) **Accrued Interest Payable**

The Authority's accrued interest payable is as follows:

	June 30, 2007		
	Current interest bond	CABs long-term	Total
1999 Series A Bonds	\$ 5,494,704	27,751,685	33,246,389
1999 Series C Bonds	7,065,139	50,975,644	58,040,783
1999 Series D Bonds	1,720,417	—	1,720,417
2004 Series A Bonds	—	84,676,653	84,676,653
2004 Series B Bonds	609,159	39,736,378	40,345,537
Total	\$ <u>14,889,419</u>	<u>203,140,360</u>	<u>218,029,779</u>

	June 30, 2006		
	Current interest bond	CABs long-term	Total
1999 Series A Bonds	\$ 5,502,053	23,774,438	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	\$ <u>14,495,643</u>	<u>150,382,218</u>	<u>164,877,861</u>

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

(j) Combined 1999 and 2004 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(s):			
2008	\$ 23,155,840	57,250,822	80,406,662
2009	28,039,172	57,157,205	85,196,377
2010	32,261,088	57,162,924	89,424,012
2011	36,940,692	57,721,159	94,661,851
2012	42,632,075	59,164,124	101,796,199
2013 – 2017	253,789,189	392,217,537	646,006,726
2018 – 2022	339,915,442	478,973,732	818,889,174
2023 – 2027	542,877,959	390,180,562	933,058,521
2028 – 2032	385,738,092	580,473,907	966,211,999
2033 – 2037	91,343,990	604,341,010	695,685,000
2038	9,993,581	91,861,420	101,855,001
Total	\$ <u>1,786,687,120</u>	<u>2,826,504,402</u>	<u>4,613,191,522</u>

Long-term liability activity for the years ended June 30, 2007 and 2006 was as follows:

	Balance, July 1, 2006	Additions	Deletions	Balance, June 30, 2007	Due within one year
Bonds payable:					
1999 Series A Bonds	\$ 494,893,617		(735,000)	494,158,617	7,950,000
1999 Series B Bonds	6,595,000		(6,595,000)	—	—
1999 Series C Bonds	497,453,396		—	497,453,396	—
1999 Series D Bonds	122,870,000		(9,365,000)	113,505,000	10,360,000
2004 Series A Bonds	475,292,386		—	475,292,386	—
2004 Series B Bonds	210,731,703		(4,453,982)	206,277,721	4,845,840
Total bonds payable	1,807,836,102	—	(21,148,982)	1,786,687,120	23,155,840
Less unamortized bond discounts	(3,794,827)	—	31,965	(3,826,792)	—
Interest payable:					
Accrued interest payable	164,877,861	111,007,779	(57,855,861)	218,029,779	14,889,419
Net long-term liabilities	\$ <u>1,968,919,136</u>	<u>111,007,779</u>	<u>(78,972,878)</u>	<u>2,000,890,107</u>	<u>38,045,259</u>

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

	<u>Balance, July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2006</u>	<u>Due within one year</u>
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	<u>210,731,703</u>	<u>—</u>	<u>—</u>	<u>210,731,703</u>	<u>4,453,982</u>
Total bonds payable	1,823,016,102	—	(15,180,000)	1,807,836,102	21,148,982
Less unamortized bond discount	(3,738,071)	—	56,756	(3,794,827)	—
Interest payable:					
Accrued interest payable	<u>114,143,946</u>	<u>109,047,003</u>	<u>(58,313,088)</u>	<u>164,877,861</u>	<u>14,495,643</u>
Net long-term liabilities	<u>\$ 1,933,421,977</u>	<u>109,047,003</u>	<u>(73,436,332)</u>	<u>1,968,919,136</u>	<u>35,644,625</u>

(7) Operating Leases

The Authority has a noncancelable operating lease for office space. Operating lease expenses incurred in 2007 and 2006 were \$253,637 and \$264,583, 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 the operating lease which has a remaining noncancelable lease term in excess of one year at June 30, 2007:

Fiscal year:	<u>Lease obligations</u>
2008	\$ 255,024
2009	<u>129,168</u>
Total minimum lease payments	<u>\$ 384,192</u>

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

(8) 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 was 13.42% and 13.34% for the years ended June 30, 2007 and 2006, respectively. The Authority's covered payroll for the employees participating in CALPERS for the years ended June 30, 2007 and 2006 was \$1,328,187 and \$1,512,531, respectively. Total payroll for fiscal years 2007 and 2006 was \$1,409,522 and \$1,660,607, 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.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

(c) Annual Pension Cost

For fiscal years 2007 and 2006, the Authority's Annual Required Contribution (ARC) was \$178,243 and \$201,711, respectively, which the Authority contributed. The required contribution for 2007 and 2006 was determined as part of the June 2005 actuarial valuation using the entry-age-actuarial-cost method with the contributions determined as a percentage 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 3.00%. 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 ended:			
2000	\$ 65,210	100%	\$ —
2001	199,017	100	—
2002	180,802	100	—
2003	177,695	100	—
2004	185,119	100	—
2005	216,150	100	—
2006	201,711	100	—
2007	178,243	100	—

Schedule of Funding Progress (Unaudited)

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
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, 2004 through June 30, 2007.

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Notes to Basic Financial Statements

June 30, 2007 and 2006

(9) 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 with the “North End Project” of the Authority. Through approval of the Ports’ Boards, the Ports lifted the use of restriction on such funds. In 1997, the Port of Long Beach also provided \$1 million in funding to be used solely to pay a 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 engineering, design, property tax, and infrastructure costs. Total reimbursements to the Ports through June 30, 2007 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, 2007 and 2006

(10) 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 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.

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.

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 be material to the Authority.