



ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Basic Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

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KPMG LLP
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Independent Auditors' Report

The Governing Board
Alameda Corridor Transportation Authority:

We have audited the accompanying basic financial statements of the Alameda Corridor Transportation Authority (the Authority) as of and for the years ended June 30, 2008 and 2007, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic 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, 2008 and 2007 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 November 4, 2008 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's discussion and analysis on pages 3 through 9 and the schedule of funding progress on page 35 are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

November 4, 2008

ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

June 30, 2008 and 2007

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, 2008 and 2007 by \$235,650,517 and \$281,087,392, respectively. Of this amount, \$392,536,493 and \$398,922,282, respectively, is invested in the Authority's capital assets, net of related debt, at June 30, 2008 and 2007. The Authority's net assets decreased by \$45,436,875 and \$34,076,101 in the years ended June 30, 2008 and 2007, respectively.

The Authority's revenues included \$480,061 and \$1,859,335 in grants for the fiscal years ended June 30, 2008 and 2007, respectively. The majority of the grants were received from the State of California Department of Transportation (Caltrans) for the State Route 47 Expressway and the Redondo Junction Grade Separation projects.

The 2007 and 2008 fiscal years marked the fifth and sixth full years of operations for the Authority. The Authority earned \$97,964,403 and \$98,720,958 from use fees, container charges, and maintenance-of-way charges during fiscal years ended June 30, 2008 and 2007, respectively. The Authority's use fees and container charges for the year 2008 shorted the 2007 total by 0.8%. All of the operating revenues and a 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.

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Condensed Financial Information

The following condensed financial information provides an overview of the Authority's financial position for the fiscal years ended June 30, 2008, 2007, and 2006:

	Years ended June 30				
	2008	2007	2006	Change between 2008 and 2007	Change between 2007 and 2006
Assets:					
Capital assets, net	\$ 1,946,229,844	1,973,473,299	1,987,249,328	(27,243,455)	(13,776,029)
Bond issuance costs	62,323,123	65,742,146	69,211,136	(3,419,023)	(3,468,990)
Other assets	276,149,033	258,584,940	245,521,843	17,564,093	13,063,097
Total assets	2,284,702,000	2,297,800,385	2,301,982,307	(13,098,385)	(4,181,922)
Liabilities:					
Long-term liabilities	1,989,869,990	1,962,844,848	1,933,274,511	27,025,142	29,570,337
Other current liabilities	59,181,493	53,868,145	53,544,303	5,313,348	323,842
Total liabilities	2,049,051,483	2,016,712,993	1,986,818,814	32,338,490	29,894,179
Net assets:					
Invested in capital assets, net of related debt	392,536,493	398,922,282	403,247,434	(6,385,789)	(4,325,152)
Restricted for debt service	17,100,805	10,889,220	6,886,290	6,211,585	4,002,930
Restricted for capital projects	9,161,519	8,772,574	6,308,867	388,945	2,463,707
Restricted by Master Trust Indenture	61,549,024	51,689,298	33,328,528	9,859,726	18,360,770
Unrestricted	(244,697,324)	(189,185,982)	(134,607,626)	(55,511,342)	(54,578,356)
Total net assets	\$ 235,650,517	281,087,392	315,163,493	(45,436,875)	(34,076,101)

Net Assets

Net assets, the difference between assets and liabilities, decreased by \$45.4 million, or 16.2%, and \$34.1 million, or 10.8%, during the years ended June 30, 2008 and 2007, respectively. The majority of this decrease is due to a \$55.8 million and \$53.2 million increase in accrued interest payable during the years ended June 30, 2008 and 2007, respectively, as well as depreciation expense of \$21.7 million and \$22.7 million during the years ended June 30, 2008 and 2007, respectively. The decrease is offset by a \$23.2 million and \$21.2 million decrease in the outstanding bonds payable due to payment of principal in fiscal year 2008. 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 2008 and 2007 fiscal years.

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

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certain funds and accounts and to apply ACTA's 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 \$27.2 million, or 1.4%, and \$13.8 million, or 0.7%, between 2008 and 2007 and 2007 and 2006, respectively. These decreases are due primarily to the depreciation of capital assets and the sale of ByPass Track project and partially offset by the additional costs of ongoing capital projects during the years ended June 30, 2008 and 2007, 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 2008 or 2007. Amortization expense related to bond issuance costs was \$3.4 million and \$3.5 million for fiscal years 2008 and 2007, respectively.

Other Assets

Other assets consist of cash, investments, receivables, condemnation deposits, and prepaid expenses. These assets increased by \$17.6 million, or 6.8%, during fiscal year 2008 and increased by \$13.1 million, or 5.3%, during fiscal year 2007, due primarily, in both years, to an increase in cash and investments.

Long-Term Liabilities

Long-term liabilities increased by \$27.0 million, or 1.4%, in fiscal year 2008 compared to fiscal year 2007 due to accrued interest on Capital Appreciation Bonds. Long-term liabilities increased by \$29.6 million, or 1.5%, in fiscal year 2007 compared to fiscal year 2006 also due to accrued interest on Capital Appreciation Bonds.

Other Current Liabilities

Other current 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. Bonds payable, current portion, increased \$4.9 million due to an increase in the principal payments due in fiscal year 2009.

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Summary of Changes in Net Assets

The table below summarizes the changes in net assets for the years ended June 30, 2008, 2007, and 2006:

	Year ended June 30			Change between 2008 and 2007	Change between 2007 and 2006
	2008	2007	2006		
Operating revenues:					
Use fees and container charges	\$ 94,048,421	95,220,756	80,540,063	(1,172,335)	14,680,693
Maintenance-of-way charges	3,915,982	3,500,202	3,211,326	415,780	288,876
Total operating revenues	<u>97,964,403</u>	<u>98,720,958</u>	<u>83,751,389</u>	<u>(756,555)</u>	<u>14,969,569</u>
Operating expenses:					
Salaries and benefits	2,218,692	1,939,188	2,089,557	279,504	(150,369)
Administrative expenses and professional services	4,737,415	4,816,097	5,293,577	(78,682)	(477,480)
Maintenance-of-way	4,902,139	4,612,400	3,990,152	289,739	622,248
Depreciation	21,673,838	22,661,287	22,375,795	(987,449)	285,492
Total operating expenses	<u>33,532,084</u>	<u>34,028,972</u>	<u>33,749,081</u>	<u>(496,888)</u>	<u>279,891</u>
Operating income (loss)	<u>64,432,319</u>	<u>64,691,986</u>	<u>50,002,308</u>	<u>(259,667)</u>	<u>14,689,678</u>
Nonoperating revenues (expenses):					
Interest and investment income, net	13,190,152	12,038,493	8,248,684	1,151,659	3,789,809
Interest expense	(112,997,115)	(111,007,779)	(109,047,003)	(1,989,336)	(1,960,776)
Grants	480,061	1,859,335	3,338,410	(1,379,274)	(1,479,075)
Miscellaneous revenues (expenses)	(7,123,269)	1,818,854	1,004,252	(8,942,123)	814,602
Amortization of bond issuance costs	(3,419,023)	(3,476,990)	(3,532,329)	57,967	55,339
Total nonoperating expenses	<u>(109,869,194)</u>	<u>(98,768,087)</u>	<u>(99,987,986)</u>	<u>(11,101,107)</u>	<u>1,219,899</u>
Change in net assets	<u>(45,436,875)</u>	<u>(34,076,101)</u>	<u>(49,985,678)</u>	<u>(11,360,774)</u>	<u>15,909,577</u>
Total net assets – beginning of year	<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>
Total net assets – end of year	<u>\$ 235,650,517</u>	<u>281,087,392</u>	<u>315,163,493</u>	<u>(45,436,875)</u>	<u>(34,076,101)</u>

Operating Revenues

Use Fees and Container Charges revenues, representing 96.0% and 96.5% of operating revenues, decreased \$1.2 million and increased \$14.7 million, or 1.2% and 18.2%, in 2008 and 2007, respectively. The decrease is due to a lower volume of cargo and offset by a 3.0% 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.

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Maintenance-of-way revenues, representing 4.0% in fiscal year 2008 and 3.5% in fiscal year 2007 of operating revenues, were \$3.9 million and \$3.5 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 \$94.0 million and \$95.2 million in fiscal years 2008 and 2007, respectively.

Operating Expenses

Operating expenses consist of salaries, benefits, administrative costs, professional services, maintenance-of-way, 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 based on the specific tasks that were assigned and completed. During the years ended June 30, 2008 and 2007, operating expenses decreased by \$0.5 million, or 1.5%, and increased by \$0.3 million, or 0.8%, respectively.

Depreciation expense accounted for the majority of the change with a decrease of \$1.0 million, or 4.4%, and an increase of \$0.3 million, or 1.3%, due to the yearly depreciation of infrastructure and capital assets being placed into service in 2008 and 2007, respectively.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist of interest and investment earnings, interest expense, grant revenues, miscellaneous revenues, loss on sale of fixed assets, and amortization of bond issuance costs. During the fiscal years ended June 30, 2008 and 2007, interest and investment income increased by \$1.2 million, or 9.6%, and \$3.8 million, or 45.9%, 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 each in both 2008 and 2007. The increase in both years is due to an increase in interest incurred on the 1999 and 2004 series bonds. Grant revenues decreased \$1.4 million and \$1.5 million, or 74.2% and 44.3%, in 2008 and 2007, respectively, due to completion of the PCH Project. Miscellaneous revenues (expenses) decreased by \$8.9 million due to the loss from sale of the ByPass Track.

Capital Assets and Debt Administration

At June 30, 2008, and 2007, the Authority had approximately \$2.0 billion of capital assets and approximately \$2.0 billion of long-term debt outstanding.

Capital Assets

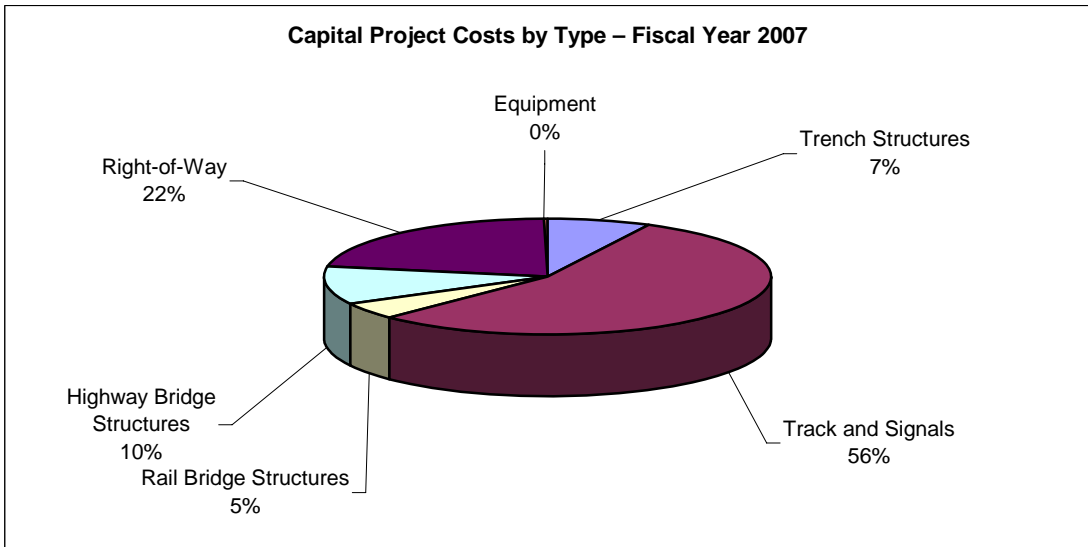
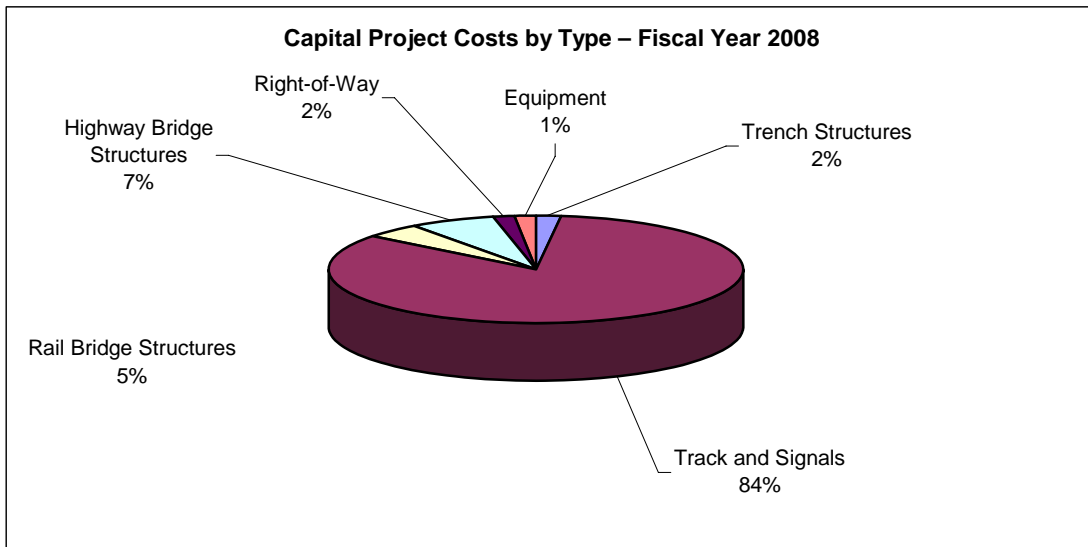
During fiscal years 2008 and 2007, the Authority expended \$13.1 million and \$9.6 million, respectively, on capital project activities. The chart on the following page provides a summary of capital project expenditures by type for the years ended June 30, 2008 and 2007.

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



Long-Term Debt

As of June 30, 2008 and 2007, the Authority's total long-term debt in revenue bonds was \$1.732 billion and \$1.760 billion, respectively, (net of the current portion amount of \$28.0 million and \$23.2 million, and \$3.8 million of unamortized discount, in fiscal year 2008 and in fiscal year 2007, respectively).

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

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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 \$452.4 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 either have 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 Expressway (SR47).

Also, the Board authorized an expanded mission for the Authority, many portions of which have been concluded. The expanded mission includes:

1. Assisting in the evaluation and implementation of extended operating hours of the cargo distribution system (concluded with the implementation of PierPASS).
2. Assisting the Ports of Los Angeles and Long Beach in optimizing the use of existing on-dock rail facilities (concluded).
3. Evaluating the viability of a shuttle train operation (determined to lack financial feasibility and railroad support).
4. Supporting the development of a new near-dock Intermodal Container Transfer Facility.
5. Continuing the planning of an improved SR47.
6. Participating in goods-movement studies in conjunction with the Los Angeles County Metropolitan Transportation Authority (LACMTA) (concluded).
7. Developing funding options and alternatives for such expanded mission activities, and authorizing \$3.2 million in initial funding (concluded).
8. Evaluating opportunities for addressing near-port empty container storage issues (concluded).

The SR47 Project has progressed, and ACTA is currently working in conjunction with Caltrans to finalize the EIR/EIS, to finalize project funding, and to begin the design and development of the new bridge and flyover.

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Balance Sheets

June 30, 2008 and 2007

Assets	2008	2007
	<u> </u>	<u> </u>
Current assets:		
Restricted cash and cash equivalents	\$ 59,181,493	53,868,145
Receivables, net of allowance of \$3,979,848 at June 30, 2008 and 2007	14,160,845	16,441,236
Condemnation deposits	15,805	39,840
Prepaid expenses	<u>1,727,065</u>	<u>1,431,220</u>
Total current assets	<u>75,085,208</u>	<u>71,780,441</u>
Noncurrent assets:		
Restricted cash and cash equivalents	49,898,939	57,409,518
Restricted investments	151,164,886	129,394,981
Bond issuance costs	62,323,123	65,742,146
Capital assets:		
Buildings and equipment	10,575,816	10,760,127
Alameda Corridor project infrastructure, right-of-way, and land improvements	2,064,598,293	2,071,765,352
Less accumulated depreciation	<u>(128,944,265)</u>	<u>(109,052,180)</u>
Capital assets, net	<u>1,946,229,844</u>	<u>1,973,473,299</u>
Total noncurrent assets	<u>2,209,616,792</u>	<u>2,226,019,944</u>
Total assets	<u>\$ 2,284,702,000</u>	<u>2,297,800,385</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 7,441,181	7,216,240
Right-of-way acquisition payable	15,805	39,840
Contract retention payable	184,508	5,000
Deferred revenue	7,592,605	8,274,791
Accrued interest payable, current portion	15,571,398	14,889,419
Revenue bonds payable, current portion	28,039,173	23,155,840
Other liabilities	<u>336,823</u>	<u>287,015</u>
Total current liabilities	<u>59,181,493</u>	<u>53,868,145</u>
Noncurrent liabilities:		
Accrued interest payable, net of current portion	258,209,847	203,140,360
Revenue bonds payable, net of current portion, and unamortized discount	<u>1,731,660,143</u>	<u>1,759,704,488</u>
Total noncurrent liabilities	<u>1,989,869,990</u>	<u>1,962,844,848</u>
Total liabilities	<u>\$ 2,049,051,483</u>	<u>2,016,712,993</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 392,536,493	398,922,282
Restricted for debt service	17,100,805	10,889,220
Restricted for capital projects	9,161,519	8,772,574
Restricted by Master Trust Agreement	61,549,024	51,689,298
Unrestricted deficit	<u>(244,697,324)</u>	<u>(189,185,982)</u>
Total net assets	<u>235,650,517</u>	<u>281,087,392</u>
Total liabilities and net assets	<u>\$ 2,284,702,000</u>	<u>2,297,800,385</u>

See accompanying notes to basic financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Use fees and container charges	\$ 94,048,421	95,220,756
Maintenance-of-way charges	3,915,982	3,500,202
Total operating revenues	<u>97,964,403</u>	<u>98,720,958</u>
Operating expenses:		
Salaries and benefits	2,218,692	1,939,188
Administrative expenses	3,016,835	3,597,946
Professional services	1,720,580	1,218,151
Maintenance-of-way	4,902,139	4,612,400
Depreciation	21,673,838	22,661,287
Total operating expenses	<u>33,532,084</u>	<u>34,028,972</u>
Operating income	<u>64,432,319</u>	<u>64,691,986</u>
Nonoperating revenues:		
Interest and investment revenue, net	13,190,152	12,038,493
Grants	480,061	1,859,335
Miscellaneous revenue	864,279	1,818,854
Total nonoperating revenues	<u>14,534,492</u>	<u>15,716,682</u>
Nonoperating expenses:		
Interest	112,997,115	111,007,779
Amortization of bond issuance costs	3,419,023	3,476,990
Loss from sale of fixed assets	7,987,548	—
Total nonoperating expenses	<u>124,403,686</u>	<u>114,484,769</u>
Change in net assets	(45,436,875)	(34,076,101)
Total net assets – beginning of year	<u>281,087,392</u>	<u>315,163,493</u>
Total net assets – end of year	<u>\$ 235,650,517</u>	<u>281,087,392</u>

See accompanying notes to basic financial statements.

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Statements of Cash Flows

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from customers for services	\$ 98,893,798	100,730,654
Payment to suppliers for good and services	(10,237,172)	(11,599,520)
Payment to employees	(2,168,884)	(1,885,646)
Net cash provided by operating activities	<u>86,487,742</u>	<u>87,245,488</u>
Cash flows from noncapital financing activities:		
Grants	1,655,058	5,684,350
Miscellaneous revenue	864,279	1,818,854
Net cash provided by noncapital financing activities	<u>2,519,337</u>	<u>7,503,204</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(13,086,103)	(9,554,812)
Sales of capital assets	10,668,172	—
Principal paid on notes and bonds payable	(23,155,840)	(21,148,982)
Interest payments on capital debt	(57,250,821)	(57,895,827)
Net cash used in capital and related financing activities	<u>(82,824,592)</u>	<u>(88,599,621)</u>
Cash flows from investing activities:		
Purchases of investments	(152,265,119)	(131,225,763)
Sales of investments	130,898,327	104,803,422
Interest received	12,987,074	9,179,356
Net cash used in investing activities	<u>(8,379,718)</u>	<u>(17,242,985)</u>
Net decrease in cash and cash equivalents	(2,197,231)	(11,093,914)
Cash and cash equivalents, beginning of year	<u>111,277,663</u>	<u>122,371,577</u>
Cash and cash equivalents, end of year	\$ <u><u>109,080,432</u></u>	\$ <u><u>111,277,663</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 64,432,319	64,691,986
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	21,673,838	22,661,287
Change in assets and liabilities:		
Accounts receivable	929,395	2,009,695
Accounts payable, other payables and deferred revenue	(301,772)	(2,130,334)
Prepaid expenses	(295,846)	(40,689)
Other liabilities	49,808	53,543
Net cash provided by operating activities	\$ <u><u>86,487,742</u></u>	\$ <u><u>87,245,488</u></u>

See accompanying notes to basic financial statements.

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Notes to Basic Financial Statements

June 30, 2008 and 2007

(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 route between the two locations has 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, 2008, the members of the Authority's Governing Board were:

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

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

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

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

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

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

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

The Authority is empowered to explore alternative methods of financing, to develop existing property, and to coordinate other governmental efforts necessary for a consolidated transportation corridor, including the completion of the Alameda Corridor Project (the Project). The Authority may issue revenue bonds to carry out its obligations under the JPA. Such bonds will be payable from revenues generated from the Alameda Corridor, from one or more pledges of revenues from the Authority, the Board of Harbor Commissioners of Long Beach and Los Angeles, from pledges of revenues from other responsible agencies, or from any other legally available funds.

(b) *Program Management Agreement*

In January 1996, the Authority's Governing Board entered into a 10-year Program Management Agreement (Agreement) with the Alameda Corridor Engineering Team (ACET), a joint venture comprised of Daniel, Mann, Johnson, and Mendenhall (now DMJM Harris); 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

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administration of the Alameda Corridor Project Construction Program. This agreement was amended twice by the Governing Board and is now extended through December 2013.

(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's 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 basic 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 state and local governments within the United States of America.

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.

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Under GAAP, the Authority has the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The Authority has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

(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). As all cash and cash equivalents are restricted, cash and cash equivalents in excess of current liabilities have been classified as noncurrent.

(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, 2008 and 2007. 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 comprised costs related to demolition, excavation, backfill, utility relocation, right-of-way, and hazardous materials remediation.

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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 remediation	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 the Authority's other 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. 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.

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(k) *Compensated Absences*

All Authority's employees accumulate time off with payroll accrual 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 the 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, 2008 and 2007 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 \$119,899 and \$102,035 as of June 30, 2008 and 2007, respectively, have also been accrued in other liabilities of the accompanying basic financial statements.

(l) *Use of Estimates*

The preparation of basic financial statements in conformity with GAAP 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 basic 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 2007 financial statement information to conform to the 2008 financial statement presentation. The changes were primarily related to the reclassification of restricted cash and cash equivalents and restricted investments between current and noncurrent assets.

(2) *Cash and Investments*

Cash and investments as of June 30, 2008 and 2007 are classified in the accompanying basic financial statements as follows:

	June 30, 2008 fair value
Restricted cash and cash equivalents (current)	\$ 59,181,493
Restricted cash and cash equivalents (noncurrent)	49,898,939
Restricted investments	151,164,886
Total cash and investments	\$ 260,245,318

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	<u>June 30, 2007</u> <u>fair value</u>
Restricted cash and cash equivalents (current)	\$ 53,868,145
Restricted cash and cash equivalents (noncurrent)	57,409,518
Restricted investments	<u>129,394,981</u>
Total cash and investments	<u>\$ 240,672,644</u>

(a) Deposits

At June 30, 2008 and 2007, the net carrying amount of the Authority's deposit account with Bank of America was \$1,509,274 and \$2,232,638, while the corresponding bank balance was \$1,626,943 and \$3,243,572, 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.

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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 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
State of California Local Agency Investment Fund (LAIF)	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 MTI 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.

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The following schedules indicate the interest rate risk of the Authority's investments as of June 30, 2008 and 2007:

	<u>2008</u>	<u>Weighted average maturity (in years)</u>
Cash and investment type:		
Cash	\$ 500	—
Money market fund	7,809,499	—
LAIF	3,705,454	—
U.S. Treasury notes	12,691,170	4.28
U.S. corporate notes	21,815,541	1.68
Commercial paper	20,422,480	0.10
Federal agency obligations	193,800,674	1.01
	<u>\$ 260,245,318</u>	<u>1.11</u>

	<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>

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(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, 2008								
		Not rated	AAA & AA	AA-	A+ & AA+	A	A-1	A-1+	A- & TSY	Total
Investment type:										
Cash and money										
market fund	\$	1,509,774	6,300,225	—	—	—	—	—	—	7,809,999
LAIF		3,705,454	—	—	—	—	—	—	—	3,705,454
U.S. Treasury notes		—	—	—	—	—	—	—	12,691,170	12,691,170
U.S. corporate notes		—	3,749,358	3,118,067	8,909,653	6,038,463	—	—	—	21,815,541
Commercial paper		—	—	—	—	—	9,069,772	11,352,708	—	20,422,480
Federal agency obligations		—	58,861,263	—	—	—	—	134,939,411	—	193,800,674
Totals	\$	<u>5,215,228</u>	<u>68,910,846</u>	<u>3,118,067</u>	<u>8,909,653</u>	<u>6,038,463</u>	<u>9,069,772</u>	<u>146,292,119</u>	<u>12,691,170</u>	<u>260,245,318</u>
		Ratings as of June 30, 2007								
		Not rated	AAA & AA	AA-	A+ & AA+	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	\$	<u>5,482,164</u>	<u>183,722,529</u>	<u>3,941,901</u>	<u>6,404,970</u>	<u>7,909,612</u>	<u>7,388,048</u>	<u>16,111,246</u>	<u>9,712,174</u>	<u>240,672,644</u>

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(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:

		<u>2008</u>	<u>2007</u>
Federal Home Loan Bank	Federal agency obligations	\$ 54,792,653	29,929,683
Fannie Mae	Federal agency obligations	76,534,192	78,272,121
Federal Home Loan Mortgage Corp.	Federal agency obligations	<u>55,497,630</u>	<u>67,759,132</u>
		<u>\$ 186,824,475</u>	<u>175,960,936</u>

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

The Authority is a voluntary participant in the LAIF 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 basic 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, 2008 and 2007, the fair value of the balance of such deposits is \$3,705,454 and \$3,183,819, respectively.

(g) Risks and Uncertainties

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks associated with certain investments held by the Authority, which could impact the value of investments after the date of these financial statements.

(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:

		<u>June 30</u>	
		<u>2008</u>	<u>2007</u>
Grants receivable	\$	1,176,588	2,351,585
Interest receivable		1,815,493	2,015,527
Use fees receivable, net of allowance of \$3,979,848 and \$3,979,848 at June 30, 2008 and 2007, respectively		10,727,995	11,708,400
Other receivables		<u>440,769</u>	<u>365,724</u>
Total	\$	<u>14,160,845</u>	<u>16,441,236</u>

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(4) Capital Assets

The following schedule summarizes capital assets for the years ended June 30, 2008 and 2007:

	<u>Balance, July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2008</u>
Right-of-way and land improvements, not being depreciated	\$ 154,506,480	242,268	(2,517,282)	152,231,466
Buildings and equipment:				
Automotive vehicles	456,384	—	(374,287)	82,097
Office equipment	622,038	—	(20,024)	602,014
Other equipment	186,825	—	—	186,825
Tenant improvements	72,334	—	—	72,334
Buildings	1,102,594	—	—	1,102,594
Revenue assessment and verification system	8,319,952	210,000	—	8,529,952
Total buildings and equipment	<u>10,760,127</u>	<u>210,000</u>	<u>(394,311)</u>	<u>10,575,816</u>
Alameda Corridor Project Infrastructure:				
Capital assets, being depreciated:				
Trench structures	715,152,056	194,687	—	715,346,743
Track and signals	205,011,379	10,590,122	(17,525,880)	198,075,621
Rail bridge structures	408,814,608	519,253	—	409,333,861
Highway bridge structures	148,854,351	686,884	—	149,541,235
Capital assets, not being depreciated:				
Trench structures	224,033,204	60,989	—	224,094,193
Track and signals	66,984,578	349,988	—	67,334,566
Rail bridge structures	101,953,808	74,807	—	102,028,615
Highway bridge structures of the Corridor	46,454,888	157,105	—	46,611,993
Alameda Corridor Project Infrastructure	<u>1,917,258,872</u>	<u>12,633,835</u>	<u>(17,525,880)</u>	<u>1,912,366,827</u>
Total fixed assets	<u>2,082,525,479</u>	<u>13,086,103</u>	<u>(20,437,473)</u>	<u>2,075,174,109</u>
Less accumulated depreciation for:				
Trench structures	(51,959,200)	(10,423,963)	—	(62,383,163)
Track and signals	(14,461,637)	(3,167,001)	1,387,442	(16,241,196)
Rail bridge structures	(25,908,809)	(5,289,619)	—	(31,198,428)
Highway bridge structures	(8,500,333)	(1,987,605)	—	(10,487,938)
Automotive vehicles	(439,569)	(16,814)	374,287	(82,096)
Office equipment	(738,551)	(35,977)	188,393	(586,135)
Other equipment	(18,456)	—	(168,369)	(186,825)
Tenant improvements	(72,337)	—	—	(72,337)
Buildings	(217,456)	(36,753)	—	(254,209)
Revenue assessment and verification system	(6,735,832)	(716,106)	—	(7,451,938)
Total accumulated depreciation	<u>(109,052,180)</u>	<u>(21,673,838)</u>	<u>1,781,753</u>	<u>(128,944,265)</u>
Capital assets, net	\$ <u>1,973,473,299</u>	<u>(8,587,735)</u>	<u>(18,655,720)</u>	<u>1,946,229,844</u>

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	<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
Alameda Corridor Project 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>

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(5) 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, 2008 and 2007, the unamortized discount balance on the 1999 and 2004 Series Bonds was \$3,831,964 and \$3,826,792, respectively. Interest on the 1999 Series A and C Capital Appreciation Bonds for fiscal year 2008 and 2007, respectively, amounted to \$12,401,472 and \$11,657,192 and was recognized in the accompanying statements of revenues, expenses, and changes in net assets for the years ended June 30, 2008 and 2007, 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, 2008 and 2007 is \$435,755,000 and \$443,705,000, 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

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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):			
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	11,700,000	19,465,944	31,165,944
2014 – 2018	73,125,000	87,072,748	160,197,748
2019 – 2023	102,885,000	64,862,238	167,747,238
2024 – 2028	140,315,000	35,296,425	175,611,425
2029 – 2030	68,920,000	3,497,000	72,417,000
Total	\$ 435,755,000	293,192,164	728,947,164

(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, 2008 and 2007 are \$50,453,617 and \$31,941,734 and \$50,453,617 and \$27,751,685, 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):			
2029 – 2033	\$ 20,988,875	93,016,125	114,005,000
2034 – 2038	29,464,742	168,280,259	197,745,001
Total	\$ 50,453,617	261,296,384	311,750,001

(c) 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.

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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 and \$430,155,000 at June 30, 2008 and 2007, respectively. 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):			
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	—	28,260,555	28,260,555
2014 – 2018	72,765,000	134,053,813	206,818,813
2019 – 2023	56,910,000	102,931,650	159,841,650
2024 – 2028	197,775,000	68,537,865	266,312,865
2029 – 2030	102,705,000	6,904,755	109,609,755
Total	\$ 430,155,000	453,730,858	883,885,858

(d) 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, 2008 and 2007 are \$67,298,396 and \$59,187,068 and \$67,298,396 and \$50,975,644, respectively. The 1999 Series C CABs are not subject to optional redemption.

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

	Annual debt service requirement		
	Principal	Interest	Total
Fiscal year(s):			
2019 – 2023	\$ 22,052,990	75,812,010	97,865,000
2024 – 2028	—	—	—
2029 – 2033	19,430,060	154,424,940	173,855,000
2034 – 2038	25,815,346	275,724,654	301,540,000
Total	\$ 67,298,396	505,961,604	573,260,000

(e) 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 \$103,145,000 and \$113,505,000 at June 30, 2008 and 2007, respectively. The 1999 Series D Bonds are not subject to optional redemption.

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

	Annual debt service requirement		
	Principal	Interest	Total
Fiscal year(s):			
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	16,460,000	2,664,038	19,124,038
2014 – 2015	34,200,000	2,094,975	36,294,975
Total	\$ 103,145,000	24,017,424	127,162,424

(f) 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.

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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 \$114,610,606 and \$84,676,653 at June 30, 2008 and 2007, respectively. The principal balance outstanding on the 2004 Series A Bonds, which are not convertible or callable, at June 30, 2008 and 2007 was \$200,300,100 and \$200,300,100, respectively.

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	\$ 3,052,968	1,312,032	4,365,000
2014 – 2018	83,621,154	62,343,846	145,965,000
2019 – 2023	77,276,558	93,528,441	170,804,999
2024 – 2028	—	—	—
2029 – 2033	36,349,420	121,330,580	157,680,000
Total	\$ 200,300,100	278,514,899	478,814,999

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	\$ —	11,450,550	11,450,550
2014 – 2018	—	114,505,500	114,505,500
2019 – 2023	100,934,059	161,872,313	262,806,372
2024 – 2028	174,058,227	120,608,766	294,666,993
Total	\$ 274,992,286	408,437,129	683,429,415

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

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A Bonds, which are convertible and callable, was \$274,992,286 and \$274,992,286 at June 30, 2008 and 2007, respectively.

(g) 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 \$201,431,881 and \$52,470,439 and \$206,277,723 and \$39,736,378, at June 30, 2008 and 2007, respectively.

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

	Annual debt service requirement		
	Principal	Interest	Total
Fiscal year(s):			
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	21,721,443	11,633,557	33,355,000
2014 – 2018	—	—	—
2019 – 2023	—	—	—
2024 – 2028	48,607,903	152,742,097	201,350,000
2029 – 2033	66,413,487	279,256,513	345,670,000
2034 – 2037	16,111,020	84,563,980	100,675,000
Total	\$ <u>201,431,881</u>	<u>544,103,119</u>	<u>745,535,000</u>

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(h) *Accrued Interest Payable*

The Authority's accrued interest payable is as follows:

	June 30, 2008		
	Current interest bond	Long-term CABs	Total
1999 Series A Bonds	\$ 5,405,753	31,941,734	37,347,487
1999 Series C Bonds	7,065,139	59,187,068	66,252,207
1999 Series D Bonds	1,569,679	—	1,569,679
2004 Series A Bonds	—	114,610,606	114,610,606
2004 Series B Bonds	1,530,827	52,470,439	54,001,266
Total	<u>\$ 15,571,398</u>	<u>258,209,847</u>	<u>273,781,245</u>

	June 30, 2007		
	Current interest bond	Long-term CABs	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>

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(i) **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):			
2009	\$ 28,039,173	57,157,205	85,196,378
2010	32,261,088	57,162,924	89,424,012
2011	36,940,692	57,721,159	94,661,851
2012	42,632,075	59,164,124	101,796,199
2013	52,934,411	74,786,675	127,721,086
2014 – 2018	263,711,154	400,070,881	663,782,035
2019 – 2023	360,058,608	499,006,652	859,065,260
2024 – 2028	560,756,131	377,185,153	937,941,284
2029 – 2033	314,806,841	658,429,914	973,236,755
2034 – 2038	71,391,107	528,568,893	599,960,000
Total	\$ <u>1,763,531,280</u>	<u>2,769,253,580</u>	<u>4,532,784,860</u>

Long-term liability activity for the years ended June 30, 2008 and 2007 was as follows:

	Balance, July 1, 2007	Additions	Deletions	Balance, June 30, 2008	Due within one year
Bonds payable:					
1999 Series A Bonds	\$ 494,158,617	—	(7,950,000)	486,208,617	8,605,000
1999 Series C Bonds	497,453,396	—	—	497,453,396	—
1999 Series D Bonds	113,505,000	—	(10,360,000)	103,145,000	11,420,000
2004 Series A Bonds	475,292,386	—	—	475,292,386	—
2004 Series B Bonds	206,277,721	—	(4,845,840)	201,431,881	8,014,173
Total bonds payable	1,786,687,120	—	(23,155,840)	1,763,531,280	28,039,173
Less unamortized bond discounts	(3,826,792)	—	5,172	(3,831,964)	—
Interest payable:					
Accrued interest payable	218,029,779	113,002,287	(57,250,821)	273,781,245	15,571,398
Net long-term liabilities	\$ <u>2,000,890,107</u>	<u>113,002,287</u>	<u>(80,401,489)</u>	<u>2,033,480,561</u>	<u>43,610,571</u>

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	<u>Balance, July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2007</u>	<u>Due within one year</u>
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	<u>210,731,703</u>	<u>—</u>	<u>(4,453,982)</u>	<u>206,277,721</u>	<u>4,845,840</u>
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	(3,762,862)	—
Interest payable:					
Accrued interest payable	<u>164,877,861</u>	<u>111,007,779</u>	<u>(57,855,861)</u>	<u>218,029,779</u>	<u>14,889,419</u>
Net long-term liabilities	<u>\$ 1,968,919,136</u>	<u>111,007,779</u>	<u>(78,972,878)</u>	<u>2,000,954,037</u>	<u>38,045,259</u>

(6) 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, defined benefit pension plan, public employee retirement system that acts as common investment and administrative agent for participating public entities within the State of California. The Authority selects benefit provisions by contract with CALPERS and adopts those benefits through Governing 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’s 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 benefits. These benefit provisions and all other requirements are established by State statute and the Authority’s Governing 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

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Administration. The required employer contribution rate was 12.70% and 13.42% for the years ended June 30, 2008 and 2007, respectively. The Authority's covered payroll for the employees participating in CALPERS for the years ended June 30, 2008 and 2007 was \$1,497,954 and \$1,328,187, respectively. Total payroll for fiscal years 2008 and 2007 was \$1,556,627 and \$1,409,522, respectively.

The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CALPERS.

(c) Annual Pension Cost

For fiscal years 2008 and 2007, the Authority's Annual Required Contribution (ARC) was \$190,195 and \$178,243, respectively, which the Authority contributed. The required contribution for 2008 and 2007 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:			
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	—
2008	190,195	100	—

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Notes to Basic Financial Statements

June 30, 2008 and 2007

Schedule of Funding Progress (Unaudited)

Valuation date	Entry age normal accrued liability	Actuarial value of assets	Funding status		Annual covered payroll	UAAI as a percentage of payroll
			Unfunded liability (excess assets)	Funded status		
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.

(d) Prefunding of OPEB

Effective fiscal year 2008, the Authority commenced prefunding of medical coverage as Other Post Employment Benefits (OPEB) through participation in the California Employers' Retiree Benefit Trust (CERBT), an agent multiple employer plan. The Authority's measure of OPEB liabilities is scheduled on a biennial valuation cycle.

Fiscal year	Schedule of Funding Progress and Employer Contributions		
	Annual Required Contribution (ARC)	Percentage of ARC contributed	Total OPEB costs
2007-2008	\$ 80,000	100%	\$ 2,572.05

The ARC for fiscal year 2007 – 2008 is \$82,600, and the next Biennial Actuarial Valuation Date is June 30, 2009.

(7) 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.

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June 30, 2008 and 2007

The Use and Operating Agreement with the railroads provides for payment by the railroads to the Authority for cargo that moves into or out of Southern California by rail. The Authority captures revenues from cargo loaded on rail at Port facilities or trucked between nearby rail-loading facilities and the Ports and invoices the railroads accordingly. However, the Authority has not been paid or has been underpaid by the railroads for certain cargo, which the Authority believes is subject to payment of Use Fees or Container Charges under the terms of the Use and Operating Agreement. 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.