Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan

(A Component Unit of the Santa Clara Valley Transportation Authority)

Independent Auditor's Report,
Management's Discussion and Analysis,
Basic Financial Statements
and
Required Supplementary Information

For Fiscal Years Ended June 30, 2013 and 2012

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SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
AMALGAMATED TRANSIT UNION PENSION PLAN

JUNE 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
Santa Clara Valley Transportation Authority
Amalgamated Transit Union Pension Plan
San Jose, California

We have audited the accompanying financial statements of the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan (the Plan), a component unit of the Santa Clara Valley Transportation Authority (VTA), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Plan, as of June 30, 2013 and June 30, 2012, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and summary of actuarial methods and assumption be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
October 14, 2013

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
AMALGAMATED TRANSIT UNION PENSION PLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEARS ENDED JUNE 30, 2013 and 2012

This section provides an overview and analysis of the financial activities of Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan (Plan) for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our financial statements.

FINANCIAL HIGHLIGHTS

The net position of the Plan at the close of fiscal year 2013 was $422,580,481 (net position held in trust for pension benefits). The entire net position is available to meet the Plan's ongoing obligations to Plan participants and beneficiaries. Net position at the close of fiscal year 2012 was $376,724,135.

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of January 1, 2013, the date of the Plan's last actuarial valuation, the funded ratio for the Plan was approximately 71%. In general, there is approximately $0.71 of actuarial assets to cover each dollar of actuarial liability.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis are intended to serve as an introduction to the Plan's financial statements, which comprise these components:

1. Statement of Plan Net Position
2. Statement of Changes in Plan Net Position
3. Notes to the Basic Financial Statements

Please note, however, that this report also contains other supplementary information in addition to the basic financial statements themselves.

The Statement of Plan Net Position, is a snapshot of account balances at year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

The Statement of Changes in Plan Net Position, on the other hand, provides a view of current year additions to and deductions from the Plan. Both statements are in compliance with Governmental Accounting Standard Board Statements (GASB Pronouncements 34 and 50). These pronouncements require certain disclosures and require the state and local governments to report using the full accrual method of accounting. The Plan complies with all material requirements of these pronouncements.

The Statement of Plan Net Position and the Statement of Changes in Plan Net Position report information about the Plan's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date. In addition, both realized and unrealized gains and losses are shown on investments.

These two statements report the Plan's net position held in trust for pension benefits. Net position, the difference between assets and liabilities, measure the Plan's financial position. Over time, increases and decreases in the Plan's net position indicate whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the Plan's overall financial position.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. (See notes to Financial Statements on pages 8-13 of this report).

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report presents certain required supplementary information related to the Plan's progress in funding its obligations to provide pension benefits to its members.

FINANCIAL ANALYSIS

As previously noted, net position may serve over time as a useful indication of the Plan's financial position. The assets of the Plan exceeded its liabilities at the close of fiscal year 2013. Despite fluctuations in the equity markets, the Plan's board and actuary concur that the Plan remains in a financial position to meet its obligations to the plan participants and beneficiaries with a 71% funded ratio as of the last actuarial valuation.

(Table 1)

Statement of Plan Net Position

	June 30, 2013	June 30, 2012	June 30, 2011
Assets			
Investments at fair value	$ 421,853,898	$ 375,917,760	$ 376,357,452
Other assets	1,138,168	1,181,246	1,048,539
Total Assets	422,992,066	377,099,006	377,405,991
Liabilities			
Current liabilities	411,585	374,871	329,015
Net Position	$ 422,580,481	$ 376,724,135	$ 377,076,976

For the year ended June 30, 2013, the Plan's total net position held in trust for pension benefits grew by $45,856,346 or 12.2% as a result primarily of an increase in the fair market value of investments. The Plan's liabilities rose by $36,714 due primarily to the increase in outstanding accounts payable.

(Table 2)

Additions to Plan Net Position

	June 30,		
	2013	2012	2011
Contributions	$ 24,412,836	$ 19,148,113	$ 17,807,109
Net investment income	49,460,948	5,692,923	65,493,799
Total Additions	$ 73,873,784	$ 24,841,036	$ 83,300,908

VTA contributions in fiscal years 2012 and 2013 were up due to the increase in the covered payroll base. Of the total contributions in fiscal year 2013, $41,979 was put in by ATU for its staff. Investment income was posted in fiscal years 2011 to 2013, net of related investment expense.

(Table 3)

Deductions to Plan Net Position

	June 30,		
	2013	2012	2011
Distributions to participants	$ 27,788,860	$ 24,955,992	$ 23,391,640
Administrative expenses	228,578	237,885	226,304
Total Deductions	$ 28,017,438	$ 25,193,877	$ 23,617,944

The distributions to participants have steadily risen due to the growing number of retirees and beneficiaries receiving benefits. Administrative expenses rose between fiscal years 2011 and 2012 but decreased between fiscal years 2012 and 2013 due primarily to the increases and decreases in professional services received.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
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STATEMENTS OF PLAN NET POSITION
AS OF JUNE 30, 2013 and 2012

ASSETS	**2013**	**2012**
Investments		
Domestic equity securities	$ 109,750,111	$ 91,710,951
Corporate obligations	63,910,126	55,142,654
U.S. Government agency	45,966,081	50,644,912
US Treasury obligations	15,807,984	16,687,931
Money market	6,472,934	5,164,498
Pooled cash and investment with VTA Enterprise	750,121	3,076,229
Mutual funds	179,196,541	153,490,585
Total Investments	421,853,898	375,917,760
Receivables	1,138,168	1,181,246
TOTAL ASSETS	422,992,066	377,099,006
LIABILITIES		
Accounts payable	411,585	374,871
NET POSITION		
Held in trust for pension benefits	$ 422,580,481	$ 376,724,135

(A schedule of funding progress is presented on page 14)

See accompanying notes to the basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
AMALGAMATED TRANSIT UNION PENSION PLAN

STATEMENTS OF CHANGES IN PLAN NET POSITION
FOR FISCAL YEARS ENDED JUNE 30, 2013 and 2012

	2013	2012
ADDITIONS		
Contributions	$ 24,412,836	$ 19,148,113
Net investment income:		
Net appreciation (depreciation) on investments	31,487,693	(8,137,416)
Investment earnings	19,969,874	15,606,264
Investment expense	(1,996,619)	(1,775,925)
Total net Investment Income	49,460,948	5,692,923
TOTAL ADDITIONS	73,873,784	24,841,036
DEDUCTIONS		
Distributions to participants	27,788,860	24,955,992
Administrative expenses	228,578	237,885
TOTAL DEDUCTIONS	28,017,438	25,193,877
INCREASE (DECREASE) IN PLAN POSITION	45,856,346	(352,841)
NET POSITION		
Beginning of year	376,724,135	377,076,976
End of year	$ 422,580,481	$ 376,724,135

See accompanying notes to the basic financial statements

NOTE 1 – DESCRIPTION OF THE PLAN

The following description of the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan (Plan), a component unit of the Santa Clara Valley Transportation Authority (VTA), provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

A. General

The Plan is a noncontributory single-employer defined benefit pension plan covering VTA employees who are members of the Santa Clara Valley Transportation Authority Amalgamated Transit Union (ATU) and is administered by a Pension Board, consisting of three members appointed by VTA, three members appointed by the ATU, and one member jointly appointed. The membership of the Plan as of June 30 comprises the following:

	2013	2012	2011
Retirees and beneficiaries currently receiving benefits	1,152	1,065	1,020
Terminated vested members not yet receiving benefits	153	156	166
Active Members	1,401	1,391	1,380
TOTAL	2,706	2,612	2,566

B. Pension Benefits

Employees with 10 or more years of service are entitled to full annual pension benefits beginning at normal retirement age of 65. Employees with less than 10 years of service are entitled to a reduced annual benefit at age 65 provided the Pension Board approves of such a benefit. Employees with 15 or more years of service are entitled to full annual pension benefits beginning at age 55. The Plan permits early retirement if an employee becomes disabled after 10 or more years of service, and deferred vested retirement upon employee termination after 10 or more years of service, with benefits payable permitted at age 65. Employees may elect to receive their benefits in the form of a joint or survivor annuity. These benefit provisions and all other requirements are established by California statute and the labor agreement with the ATU.

C. Contributions to the plan

VTA contributes to the Plan at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vested benefits. VTA's contributions to the Plan for the fiscal year ended June 30, 2013, were made in the amount of $24,412,836 in accordance with actuarially determined requirements computed as of January 1, 2012. For the fiscal year ended June 30, 2012, the contributions amounting to $19,148,113 were made also in accordance with the actuarially determined requirements computed as of January 1, 2011.

D. Plan Termination

In the event of plan termination, the net position of the Plan would be allocated as prescribed in the Plan documents, generally to provide the following benefits in the order indicated:

- Retirement benefits payable to retired members (as defined) and disabled members (as defined).
- Actuarial reserves for the retirement benefits of other vested members (as defined).

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The accompanying basic financial statements are presented on the accrual basis of accounting. Contributions are recognized when due pursuant to formal commitments as well as statutory or contractual requirements. Benefits and refunds of contributions are recognized when due and payable under the provisions of the Plan.

B. Investments

Investments are reported at fair market value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates. The fair market value of the investments in mutual funds of $179,196,541 and $153,490,585 at June 30, 2013 and 2012, respectively, were valued by the respective mutual fund management firms. Purchases and sales of securities are reflected on the trade date while investment income is recognized as earned.

C. Net Appreciation (Depreciation) on Investments

Net appreciation (depreciation) on investments pertains to unrealized gains and losses. Unrealized appreciation (depreciation) adjusts investment carrying amounts to reflect current market values, based on quoted prices in an active market.

D. Administrative Expenses

Certain internal costs of administering the Plan are paid by the Plan. Administrative expenses for the years ended June 30, 2013 and 2012 were $228,578 and $237,885, respectively.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 3 – INVESTMENTS

The Plan has adopted an internally developed investment policy that is governed by the standards established in the California Constitution. In addition, the Plan has written investment policies regarding the type of investments that may be made specifically for the Plan and the amount, which may be invested in any one financial institution or amounts that may be invested in long-term instruments. Management believes the Plan has complied with the provisions of statutes pertaining to the types of investments held, institutions in which deposits were made, and security requirements.

The Plan maintains all of its operating cash funds in VTA's cash and investment pool. The pool functions as a demand deposit account for the Plan, as amounts can be withdrawn at any time upon demand. VTA's management and its Board of Directors are responsible for oversight of the cash and investment pool. Information regarding the characteristics of the entire investment pool can be found in the VTA's financial statements. That report may be obtained by writing to Santa Clara Valley Transportation Authority – Fiscal Resources Division, 3331 North First Street, San Jose, California, 95134. The fair market value of the Agency's position in the cash pool is the same as the value of the cash pool shares. As of June 30, 2013 and 2012, the Plan had $750,121 and $3,076,229, respectively, in VTA's cash and investment pool.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Plan's investment policy provides for the use of a custodian/trustee to invest the Plan's assets as directed by investment managers. The Plan's investment securities were held by Union Bank Trust Department, a custodial bank, at June 30, 2013 and 2012, separate from the counterparty, in the name of Santa Clara Valley Transportation Authority (VTA). VTA's securities are not part of Union Bank's assets and not attachable by any of its creditors.

Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in market rates. One of the Plan's primary goals is to provide sufficient liquidity to meet future pension benefit payment obligation, however, the Plan does not have any policy specifically addressing interest rate risk. The Plan had a net investment of $109,750,110 and $91,710,951 invested in equity based securities as of June 30, 2013 and June 30, 2012, respectively, and $179,196,541 and $153,490,585 invested in mutual funds as of June 30, 2013 and June 30, 2012, respectively.

The following table shows the time distribution for the maturity of the Plan's assets as of June 30, 2013:

Type of Investment	Fair Value	Less Than 1 Year	1-5 Years	Greater than 6 Years
Corporate Obligations	$ 63,910,126	$ 459,510	$ 20,288,094	$ 43,162,522
U.S. Government agency obligations	45,966,081	-	2,285,095	43,680,986
U.S. Treasury obligations	15,807,984	15,807,984	-	-
Money market*	6,472,934	6,472,934	-	-
Total	$ 132,157,125	$ 22,740,428	$ 22,573,189	$ 86,843,508

The following table shows the time distribution for the maturity of the Plan's assets as of June 30, 2012:

Type of Investment	Fair Value	Less Than 1 Year	1-5 Years	Greater than 6 Years
Corporate Obligations	$ 55,142,654	$ 1,665,172	$ 12,608,502	$ 40,868,980
U.S. Government agency obligations	50,644,912	487,449	2,780,991	47,376,472
U.S. Treasury obligations	16,687,931	10,134,233	6,553,698	-
Money market*	5,164,498	5,164,498	-	-
Total	$ 127,639,995	$ 17,451,352	$ 21,943,191	$ 88,245,452

*The time distribution for the money market funds is based on the weighted average maturity of investments comprising the funds.

The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. U.S. Government agency obligations in the amount of $45,966,081 and $50,644,912 at June 30, 2013 and 2012, respectively, are mainly backed by mortgage pass-through securities which are sensitive to interest rate changes. Therefore, if interest rate declines, the mortgages are subject to prepayment by borrowers.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by the nationally recognized statistical rating organizations. The Plan's investment policy has mitigated credit risk by prioritizing safety of principal above other investment objectives, by requiring third-party investment manager applicants to meet certain requirements, by diversifying the portfolio, and by establishing monitoring procedures.

The following is a summary of the credit quality distribution for investments with credit exposure as a percentage of total investments at June 30, 2013 and 2012, as rated by Standard and Poor's:

		Percent of Portfolio	
Type of Investment	Rating	2013	2012
Domestic equity securities	Not Applicable	26.0%	24.4%
Corporate obligations	AAA	0.0%	0.0%
	AA	1.7%	1.2%
	A	7.1%	7.0%
	BBB	6.3%	6.5%
U.S. Agency Securities	Not Applicable	0.4%	2.2%
U.S. Government Securities	Not Applicable	10.6%	11.3%
Pooled cash and investment with VTA Enterprise	Not Applicable	3.7%	4.4%
Pooled investment with VTA Enterprise	Not Applicable	0.2%	0.8%
Money market	Not Applicable	1.5%	1.4%
Mutual funds	Not Applicable	42.5%	40.8%
TOTAL		100.0%	100.0%

Concentration of Credit Risk

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the Plan. The Plan's investment policy mitigates the concentration of credit risk by identifying percentage ranges for different types of investments and specific targets within the percentage ranges. Disclosure of concentration of credit risk is defined as any investment with one issuer that is greater than 5% of the total Plan investments. As of June 30, 2013, the Plan had $32,099,193 or 7.6% of total Plan investments, invested in securities issued by Federal National Mortgage Association (Fannie Mae). As of June 30, 2012, the Plan had $26,698,345 or 7.1% of total Plan investments, invested in securities issued by Fannie Mae. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt from this requirement, as they are normally diversified themselves.

Custodial Credit Risks

The Plan held investments that are not registered in the name of VTA but are held in a mutual fund as follows:

Type of Investment	June 30, 2013 Amount	Percent of Portfolio	June 30, 2012 Amount	Percent of Portfolio
State Street Global Advisors				
S&P 500 Conservative Index	$ 55,695,805	13.2%	$ 50,867,098	13.5%
MFS Investment Management	59,140,194	14.0%	52,343,725	13.9%
UBS	43,966,699	10.4%	35,569,210	9.5%
Robeco E. M.	20,393,843	4.8%	14,710,552	3.9%
	$ 179,196,541		$ 153,490,585	

NOTE 4 – ANNUAL PLAN COST AND NET PLAN OBLIGATION

VTA's Annual Required Contribution (ARC) to the Plan is an amount actuarially determined in accordance with the parameters of GASB Statement 27. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years. The annual pension cost, the percentage of annual pension cost contributed to the Plan, and the net Plan obligation for fiscal years ending June 30, 2013, and the preceding five years are as follows: (in thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage APC Contributed	Net Plan Obligation
6/30/2013	$ 24,413	100%	$ -
6/30/2012	19,148	100%	-
6/30/2011	17,807	100%	-
6/30/2010	17,905	100%	-
6/30/2009	14,843	100%	-
6/30/2008	16,137	100%	-

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REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
AMALGAMATED TRANSIT UNION PENSION PLAN

SCHEDULE OF FUNDING PROGRESS (1)
AS OF JUNE 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2013	$ 386,347,400	$ 543,942,719	$ 157,595,319	71.0%	$ 102,040,657	154.0%
1/1/2012	373,170,465	517,200,475	144,030,010	72.2%	100,376,441	143.5%
1/1/2011	368,134,113	486,770,538	118,636,425	75.6%	97,569,124	121.6%

(1) The schedule of funding progress presents the most recent actuarial information regarding the funding progress of the plan.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
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SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS
FOR JANUARY 1, 2013 VALUATION
AS OF JUNE 30, 2013

Description	Methods/Assumptions
Valuation date	January 1, 2013
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level dollar open method
Remaining amortization period	20 years
Asset valuation method	Market value less unrecognized investment gain or losses during the prior four years, phased in at 20% per year, subject to a minimum of 80% and a maximum of 120% of market value.
Actuarial assumptions	
Investment rate of return	7.50% (7.75% for Prior Valuation)
Projected salary increases	3.5% to 15.6%, depending on service
Inflation rate	3.25%
Cost of Living	None

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