SANTA CLARA

Valley Transportation Authority

Comprehensive Annual Financial Report

for the

Fiscal Year Ended

June 30, 1996

Santa Clara County, California

December 3, 1996

Board of Directors
Santa Clara Valley Transportation Authority

Subject: Comprehensive Annual Financial Report

The Santa Clara Valley Transportation Authority (VTA) Comprehensive Annual Financial Report for the year ended June 30, 1996 was prepared by the Fiscal Resources Division following the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA) and is presented herein. Responsibility for the accuracy, completeness, and fairness of the data and the clarity of the presentation, including all disclosures, rests with VTA. To the best of our knowledge and belief, the enclosed data is reported in a manner designed to present fairly, in all material respects, VTA's results of operations, financial position, and cash flows in accordance with the requirements of generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

This report is organized into three sections:

1. Introduction Section, including a table of contents, this letter of transmittal, list of principal officials and organization chart.
2. Financial Section, including the financial statements with accompanying notes, supplemental schedules, and the independent auditors' report.
3. Statistical Section, including additional data about VTA over the last ten years.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

VTA is accounted for in a single enterprise fund and uses the accrual method of accounting similar to a private enterprise. Under this method of accounting, revenues are recorded when earned and expenses are recorded when incurred. The measurement focus is on determination of net income (loss), financial position and cash flows. Where appropriate, statements and schedules reflect amounts , including provisions for claims made against VTA, based on estimates and judgments which management believes to be reasonable.

State law requires the adoption of an annual budget, which must be approved by the Board of Directors. Budgetary control is maintained at several levels. The Board of Directors authorizes budget amendments at the fund level. Line item reclassification amendments to the budget must be authorized by the responsible director. Operating expenditures are monitored by managers who are assigned responsibility for controlling their budgets. Emphasis is placed on the total budget for the division, however, capital items must be within budgeted amounts. Capital expenditures operate under the control of a project-to-date budget and the annual budget.

INTERNAL CONTROLS

To reasonably assure compliance with published policies and procedures and to protect VTA's assets, a system of internal control, including budget guidelines, is essential. This system was strengthened by the addition of an internal audit staff in fiscal year 1996. The internal auditors report to the Chief Financial Officer. There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal control. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived and that the evaluation of those factors requires estimates and judgments by management. We believe VTA's internal accounting controls adequately safeguard assets against loss from unauthorized use or disposition and provide reasonable assurance of proper recording of financial transactions in the financial statements.

THE REPORTING ENTITY

The VTA was established in 1972. VTA commenced operating a public transportation system in Santa Clara County in January 1973. Until January 1, 1995, VTA was governed by the County Board of Supervisors of Santa Clara County. The Voters of Santa Clara County approved the legal separation of the VTA from Santa Clara County. Legislation was signed by the governor of California in September 1994 and was effective January 1, 1995.

Separation of the VTA from the County of Santa Clara also provided for the merger of the VTA and the Congestion Management Program. The VTA's new governing board consists of two members of the Santa Clara County Board of Supervisors, five city council members from the City of San Jose, and five city council members selected from among the remaining incorporated cities in Santa Clara County. The separation did not alter or impair any of the VTA's rights, powers, contracts or obligations.

VTA operates 70 bus routes within a service area of approximately 326 square miles. VTA also operates a 21-mile, 33-station light rail system. This light rail system connects South Santa Clara County residents with downtown and North Santa Clara County areas, where major worksites are located. Construction of an extension to this rail line is now in progress.

VTA is a participant in the Peninsula Corridor Joint Powers Board (PCJPB), along with the San Mateo County Transit District and the City and County of San Francisco. The net operating costs and administrative expenses of the PCJPB for services operated betwen San Francisco and San Jose are reimbursed by the member agencies. VTA is responsible for 100% of the net costs of operating between San Jose and Gilroy.

A summary of recent legislation which will impact future activites of VTA is provided below:

SB374 specifies that VTA will be the successor entity for purposes of winding up the affairs of the Santa Clara County Traffic Authority. The California State Board of Equalization will continue its obligation to administer the collection of the tax, including audits and prosecutions related to the tax. As the Traffic

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 1996

Prepared by the Fiscal Resources Division
Scott Buhrer, Chief Financial Officer

Santa Clara County Transit District aka (VTA)

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INTRODUCTION

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Santa Clara County Transit District aka (VTA)

Authority was responsible for certain highway improvements, VTA will use existing Traffic Authority assets to complete the improvements.

SB457 creates a new Capital Corridor Joint Powers Board for the operation of Inter-City Rail from San Jose to Colfax and designates BART as the managing agency for an initial three-year period. SB457 also creates a Joint Powers Board for the San Joaquin Corridor for the operation of Inter-City Rail from San Jose to Stockton. VTA plans to be a member of both the above Joint Powers Boards. The State of California will maintain funding for the Capital Corridor at the existing level for a three year period. The local members of the Capital Corridor Joint Powers Board are authorized to augment state-provided resources to expand intercity passenger rail services or to address funding shortfalls in achieving agreed-upon performance standards. The funding commitment by VTA has not been determined as of this time for the Capitol Corridor. The funding commitment by VTA for the San Joaquin Corridor is expected to be approximately $1 million per year.

ECONOMIC CONDITION AND OUTLOOK

Sales Tax

Taxable Sales in FY 1996 grew by 19.8% over FY 1996, which ultimately translated into 21.5% growth in Sales Tax Revenue. VTA forecast for FY 1997 is growth in Taxable Sales of 8.0% and 1.0% for FY 1998 as the business cycle continues.

In addition, the relatively strong showing in sales tax revenue growth reinforces management's belief that the Santa Clara County or Silicon Valley economy is largely dependent on a manufacturing-based business cycle which is both reliable and predictable. Based on recent analysis of current data and resulting trends, the long-term forecast (FY1997 - FY2015) for nominal Taxable Sales growth is 4.9%.

Economic growth in Santa Clara County during FY 1996 has been extraordinary. Total Wage & Salary Jobs grew by 5% over the 12 month period; unemployment declined from 4.5% in FY 1995 to 3.7% beginning in March 1996. Key employment sectors for Santa Clara County, primarily Electronics, Manufacturing, Business Services, Construction, etc. have grown at 10% over the same period. These types of jobs generate proportionately higher levels of disposable income which contribute directly to Taxable Sales growth. Tracing the growth of these employment sectors and the growth in Taxable Sales, reveals two important trends: first is that employment is cyclical; and second, Taxable Sales follows the same pattern.

Ridership and Fares

Ridership is on the upswing during fiscal year 1996. Farebox revenue reached an all-time high of nearly $22 million providing a farebox recovery ratio of approximately 13%. These figures are expected to increase every year through initives which are discussed further below. A biennial fare review conducted by staff during fiscal 1996 will result in fare modifications in July, 1997.

Federal Section 9 Operating Assistance

Consistent with trends in Washington DC, the third year of a four-year phase out of Section 9 operating assistance will see fiscal 1997 funding drop to approximately 25% of fiscal 1995 levels. VTA's federal Section 9 operating assistance, which is allocated through the Metropolitan Transportation Commission, was allocated to the CalTrain (Peninsula Corridor Joint Powers Board), in exchange for a dollar-for-dollar reduction in the VTA's annual subsidy for the Peninsula rail service. As the federal government eliminates the Section 9 operating program, continuation of the current service will put greater pressure on local funds.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

The Board mission statement provides policy directions in four areas: 1) integrating land use and transportation, 2) using all transportation options, 3) creating a safe, convenient, reliable and high quality bus/rail operation, 4) building a regional perspective.

Consistant with the Board mission statement VTA continues its aggressive program of change. Most important are efforts to continue the strong ridership growth of the past two years. The VTA has set a goal of increasing ridership an additional 8% to 10% in the current year. Major initiatives to support this goal and our other strategic priorities will affect all parts of the organization, some more noticeably than others. Major initiatives and accomplishments include the following:

- Development of a Strategic Business Plan.
- Introduced the pilot Eco Pass program in July, making transit more attractive to employees of participating firms and agencies.
- Reallocate 12,000 hours of unproductive service to routes with greater ridership potential.
- By creating internal efficiencies, VTA expects to create an additional 46,000 hours of service, enabling more bus routes to run at intervals of 15 minutes or less.
- Light Rail and some bus routes will be expanded to run 24 hours a day. These service increases will be achieved through improved vehicle reliability and better employee attendance, supplemented by the addition of 30 new part-time operators.
- Increase passenger comfort with the placement of 150 new bus shelters and better maintenance of the existing facilities.
- Installation of bike racks on light rail vehicles and buses.
- Open a new transit center at the Santa Clara CalTrain station, improving connections between the bus and commuter rail systems.
- Achieve ADA full compliance in paratransit services by January 1, 1997, with an expected 53% increase in demand.
- Take delivery of the first element of 147 new buses, increasing reliability and passenger comfort.

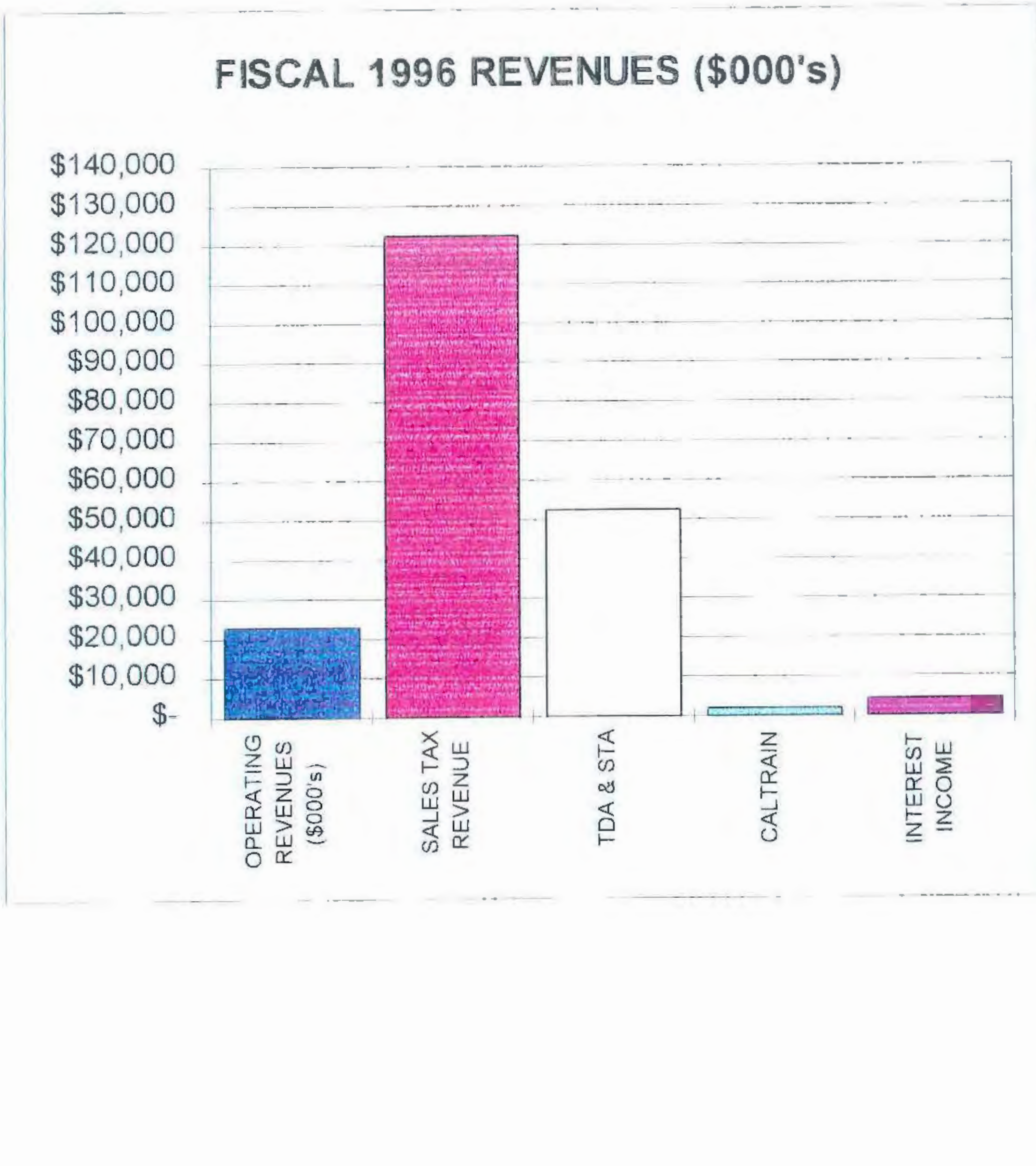
- Begin implementation of an advanced communication system that will provide for improvement in the fleet dispatch, security and management functions.
- Begin development of a computerized tracking system to ensure the highest possible maintenance level of all VTA assets, particularly bus and light rail vehicles.
- Undertake the 1997 Countywide Transportation Plan.
- Begin construction of the Tasman West Light Rail line extension.
- Negotiate new labor contracts with four bargaining units representing over 95% of the VTA's work force.
- Develop and implement a revised employee health insurance structure with the dual goal of enhancing benefits and reducing overall cost.
- Institute several aggressive training programs for employees throughout the VTA, including a state-of-the-art computer learning center.
- Implement elements of VTA Investment Policy where fiscally advantageous.
- Implement a Disaster Recovery Plan for VTA's computer systems, to ensure continuity of critical functions.
- Develop an internal printing and reproduction center to reduce the cost of printing that now goes to print shops outside VTA.

FINANCIAL HIGHLIGHTS

Revenues

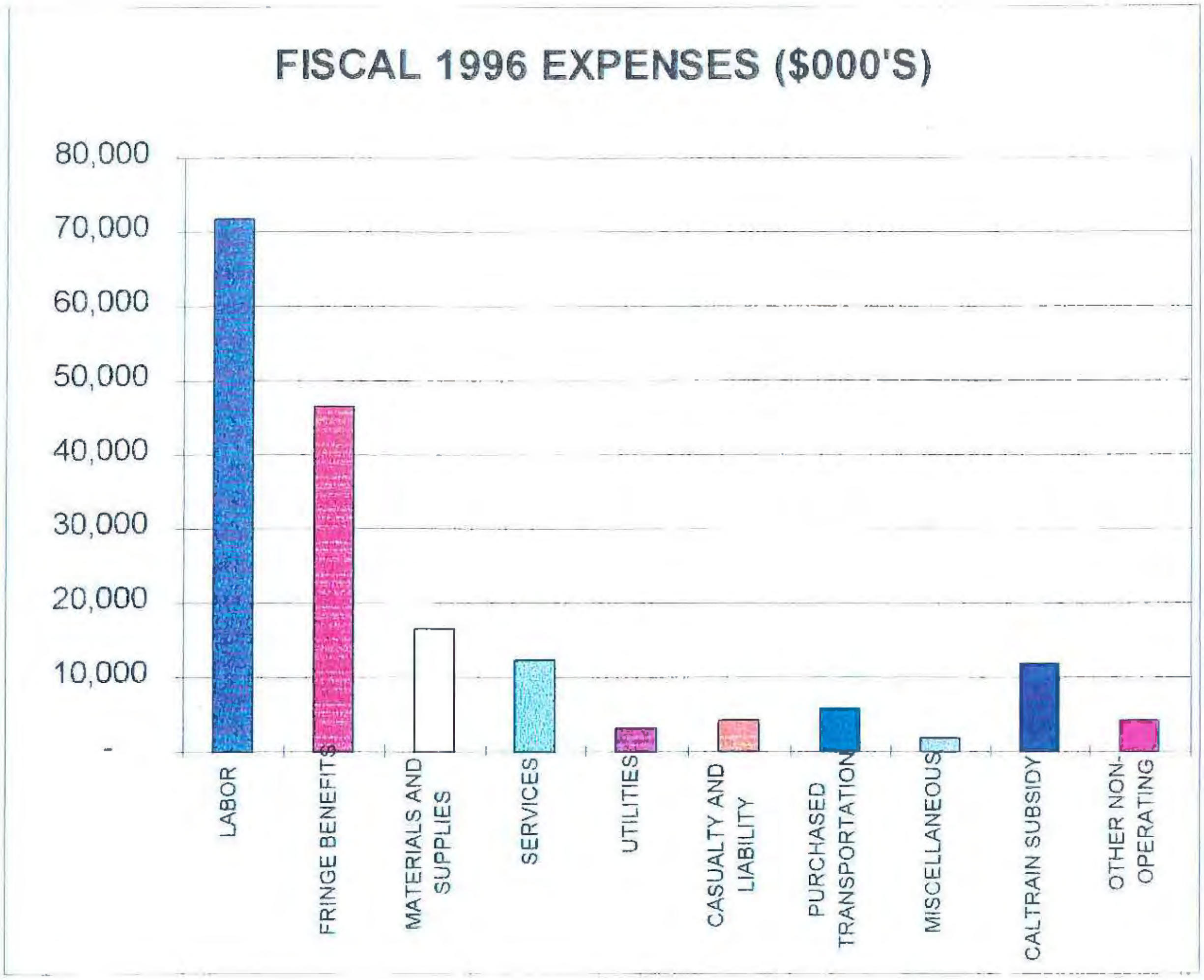
Operating revenues are derived from the sale of monthly passes, bus farebox receipts, light rail ticket vending machines and the sale of advertising space. The cash fare for an adult single ride is $1.10 and the adult monthly pass fare is $33.00. Discounted passes are offered for youth, seniors, disabled and homeless patrons.

Non-operating revenues include one-half of one percent local sales tax, California Transportation Development Act funds (TDA), State Transit Assist funding (STA), interest, and federal planning grants. The following chart shows the relative amount of operating revenue by category.



Expenses

Operating and Administration Expenses for fiscal year 1996, excluding depreciation, increased from the previous fiscal year by approximately twelve million dollars. The following chart depicts the percentage of operating expenses in fiscal 1996 by major category.



CASH AND INVESTMENTS

VTA deposits cash with the County Treasurer in an investment pool commingled with cash from various governmental entities within the County. The commingled cash is principally invested in bank deposits, bankers' acceptances, negotiable certificates of deposit, U.S. Treasury Securities and various U.S. government agency and commercial notes. Interest earnings allocated to VTA amounted to $4.1 million during fiscal year 1996.

The investment policies of the commingled pool conform to State statutes. In addition VTA has written guidlines regarding the types of investments which may be made and the maximum amounts which may be invested in any one financial institution or amounts which may be invested in long-term instruments.

VTA staff coordinates with the County Treasurer to invest certain restricted funds in accordance with specific goals, consistant with the investment policy approved by the VTA board. This strategy has resulted in a yield exceeding that of the county comingled pool.

DEBT

VTA's four major debt issues outstanding at June 30, 1996 total $67,064,042. Proceeds from the issues were used to finance light rail vehicles, purchase an administration facility and acquire certain parcels of land.

INDEPENDENT AUDIT

The independent auditors for fiscal year 1996 are KPMG Peat Marwick LLP. The annual audit engagement includes the following: Financial Statements and Notes, Single Audit Report, Compliance with Laws and Regulations and Internal Controls Related to Federal Financial Assistance, Compliance with Laws and Regulations Related to the Transportation Development Act, and the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan Report.

Also a separate audit is performed by KPMG Peat Marwick LLP for the Santa Clara County Congestion Management Program.

CERTIFICATE OF ACHIEVEMENT

In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association, a governmental unit must establish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must conform to program standards and satisfy both generally accepted accounting principles and applicable legal requirements. We believe our 1996 report conforms to these requirements and will qualify for this award.

December 1996

Peter M. Cipolla
General Manager

Scott Buhrer
Chief Financial Officer

BOARD OF DIRECTORS
Santa Clara Valley Transportation Authority

1996

Dianne McKenna, Chairperson
Patricia Figueroa, Vice Chairperson

<u>GROUP 1</u>:	
CITY OF SAN JOSE	Manny Diaz
	Margie Fernandes
	Trixie Johnson
	Charlotte Powers
	Alice Woody
	George Shirakawa, Jr., Alternate
<u>GROUP 2</u>:	
CITY OF LOS ALTOS	
TOWN OF LOS ALTOS HILLS	William Siegel
CITY OF MOUNTAIN VIEW	Patricia Figueroa
CITY OF PALO ALTO	
CITY OF SANTA CLARA	Judy Nadler, Alternate
CITY OF SUNNYVALE	Manuel Valerio
<u>GROUP 3</u>:	
CITY OF CAMPBELL	
CITY OF CUPERTINO	Don Burnett
TOWN OF LOS GATOS	
CITY OF MONTE SERENO	
CITY OF SARATOGA	Donald Wolfe, Alternate
<u>GROUP 4</u>:	
CITY OF GILROY	Pete Valdez
CITY OF MILPITAS	Jim Lawson, Alternate
CITY OF MORGAN HILL	
<u>GROUP 5</u>:	
COUNTY OF SANTA CLARA	Dianne McKenna
	Ron Gonzales
	Jim Beall, Alternate

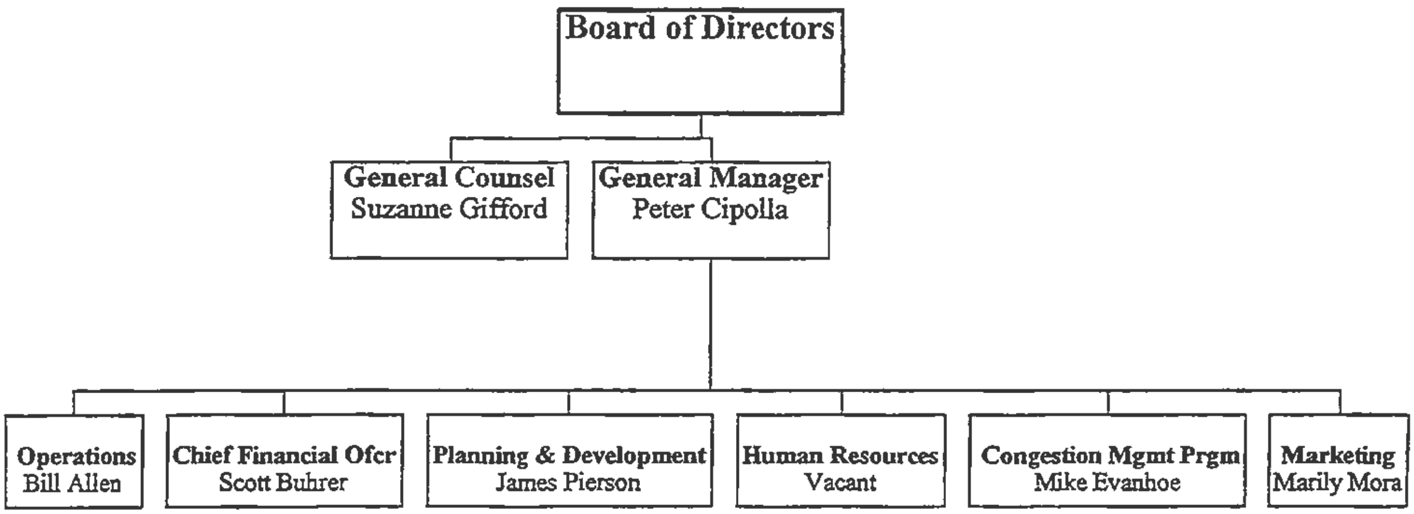
Please address all correspondence to:

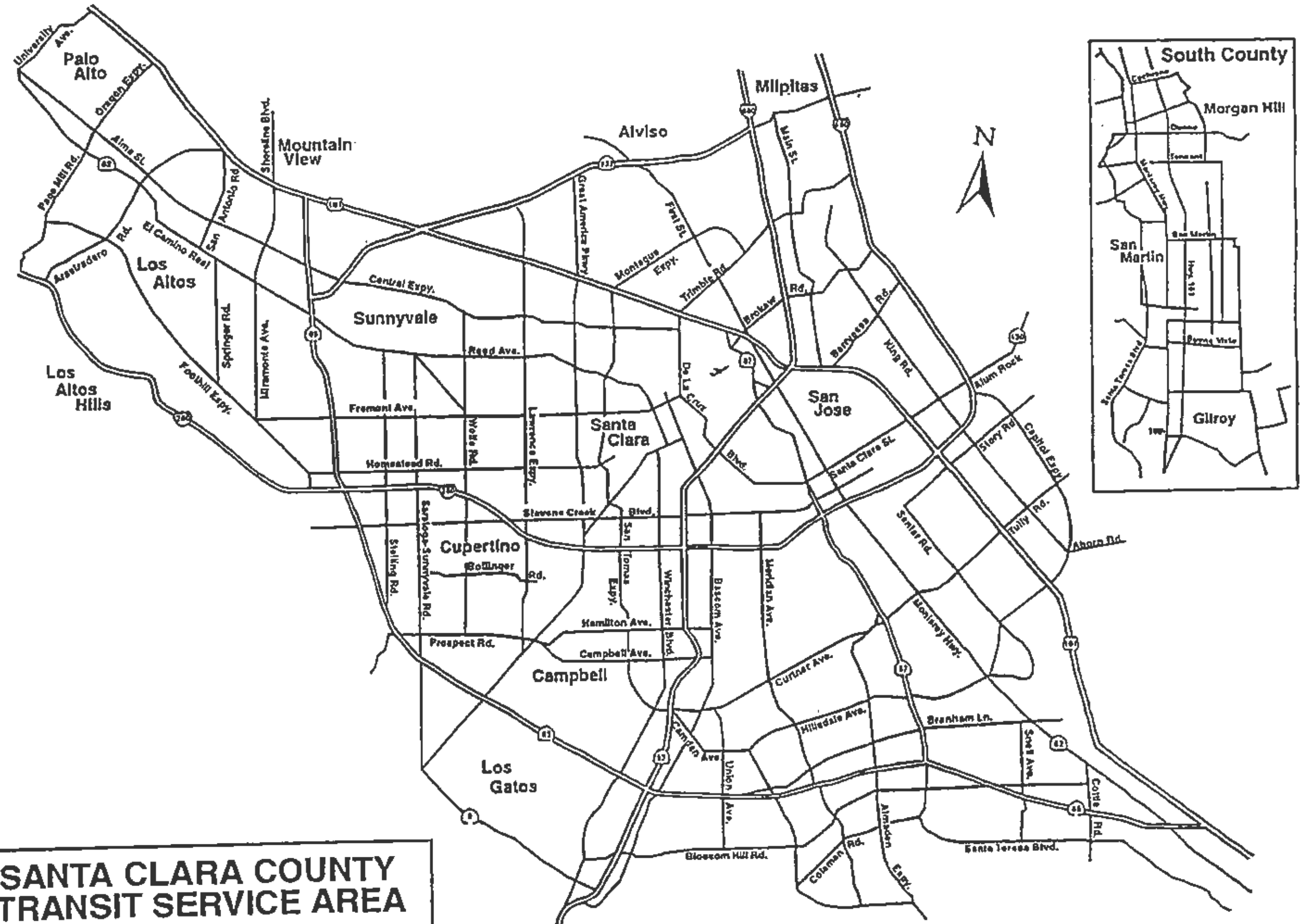
Santa Clara Valley Transportation Authority
c/o Board Secretary's Office
3331 North First Street - Bldg. C - 2nd Floor
San Jose, CA 95134-1906
Tel: (408) 321-5680
Fax: (408) 955-0891

PRINCIPAL OFFICIALS

General Manager	Peter M. Cipolla
Board Secretary	Sandra Weymouth
Chief Financial Officer	Scott Buhrer
Congestion Management	Michael P. Evanhoe, Director
Fiscal Resources	Jerry Rosenquist, Director
General Counsel	Suzanne Gifford, General Counsel
Government Affairs	Kurt Evans, Manager
Human Resources	(vacancy)
Maintenance	George Barlow, Deputy Director
Marketing	Marily Mora, Director
Operations	William Allen, Director
Planning & Development	James Pierson, Director
Service & Operations	Mike Aro, Deputy Director
Transportation	Rich Golda, Deputy Director
Transportation & Policy	Lucy V. Wurtz, Manager

Santa Clara Valley Transportation Authority
Overview





SANTA CLARA COUNTY TRANSIT SERVICE AREA

FINANCIALS

- *INDEPENDENT AUDITORS' REPORT*
- *BALANCE SHEETS*
- *STATEMENTS OF REVENUES AND EXPENSES*
- *STATEMENTS OF DISTRICT EQUITY*
- *STATEMENTS OF CASH FLOWS*
- *NOTES TO FINANCIAL STATEMENTS*

Santa Clara County Transit District aka (VTA)

KPMG Peat Marwick LLP

50 West San Fernando Street
San Jose, CA 95113

Independent Auditors' Report

The Board of Directors
Santa Clara County Transit District:

We have audited the accompanying balance sheet of the Santa Clara County Transit District (aka Santa Clara Valley Transportation Authority or the VTA) as of June 30, 1996, and the related statements of revenues and expenses, changes in enterprise equity, and cash flows for the year then ended. These financial statements are the responsibility of the VTA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the VTA as of June 30, 1995, were audited by other auditors whose report thereon dated October 24, 1995, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1996 financial statements referred to above present fairly, in all material respects, the financial position of the Santa Clara County Transit District as of June 30, 1996, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the 1996 basic financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the VTA. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG Peat Marwick LLP

October 25, 1996, except as to Note 17,
which is as of November 5, 1996

SANTA CLARA COUNTY TRANSIT DISTRICT
(aka Santa Clara Valley
Transportation Authority or the VTA)

Balance Sheets

June 30, 1996 and 1995

Assets	1996	1995
Current assets:		
Cash and cash equivalents	$ 46,775,418	17,378,221
Receivables	1,607,922	834,872
Note receivable	1,500,000	1,500,000
Due from other governmental agencies	29,255,197	33,901,416
Inventories	10,505,089	10,075,453
Prepaid and other current assets	1,276,830	65,519
Total current assets	90,920,456	63,755,481
Restricted assets:		
Cash and cash equivalents	100,198,661	74,563,748
Investments with fiscal agent	27,396,557	22,515,981
Prepaid expenses	15,020	–
Due from other governmental agencies	1,277,428	3,919,404
Total restricted assets	128,887,666	100,999,133
Other noncurrent assets:		
Deferred bond issuance costs	946,613	992,670
Other	150,500	1,197,973
Total other noncurrent assets	1,097,113	2,190,643
Property, facilities, and equipment:		
Land and right-of-way	456,774,885	456,503,658
CalTrain - Gilroy extension	33,497,710	33,462,333
Buildings, improvements, furniture, and fixtures	136,363,155	133,136,831
Vehicles	144,412,466	145,936,427
Light-rail tracks and electrification	71,368,261	70,796,434
Other	15,014,655	12,256,509
Construction in progress	90,099,795	92,883,735
Total property, facilities, and equipment	947,530,927	944,975,927
Less accumulated depreciation	(120,850,951)	(104,655,388)
Total property, facilities, and equipment, net	826,679,976	840,320,539
Total assets	$ 1,047,585,211	1,007,265,796

(Continued)

SANTA CLARA COUNTY TRANSIT DISTRICT
(aka Santa Clara Valley
Transportation Authority or the VTA)

Balance Sheets, (Continued)

June 30, 1996 and 1995

Liabilities and District Equity	1996	1995
Current liabilities:		
Current portion of long-term debt	$ 501,451	459,879
Accounts payable	4,590,670	5,271,078
Other accrued liabilities	15,158,971	10,886,628
Due to other governmental agencies	568,984	2,037,208
Total current liabilities	20,820,076	18,654,793
Liabilities payable from restricted assets:		
Accounts payable	78,436	46,703
Other accrued liabilities – current	13,584,179	13,056,916
Due to other governmental agencies	1,940,612	1,618,494
Long-term debt	7,303,589	7,283,091
Other accrued liabilities – noncurrent	76,815,518	47,300,824
Total liabilities payable from restricted assets	99,722,334	69,306,028
Noncurrent liabilities:		
Long-term debt	59,259,002	59,715,050
Other accrued liabilities	9,353,123	10,617,559
Total noncurrent liabilities	68,612,125	70,332,609
Total liabilities	189,154,535	158,293,430
Enterprise equity:		
Contributed capital:		
Federal grants	351,587,441	353,683,786
State grants	132,409,371	134,087,591
Other	17,602,173	17,616,563
Total contributed capital	501,598,985	505,387,940
Retained earnings:		
Reserved	29,165,332	31,693,105
Unreserved	327,666,359	311,891,321
Total retained earnings	356,831,691	343,584,426
Total enterprise equity	858,430,676	848,972,366
Total liabilities and enterprise equity	$ 1,047,585,211	1,007,265,796

See accompanying notes to financial statements.

SANTA CLARA COUNTY TRANSIT DISTRICT
(aka Santa Clara Valley
Transportation Authority or the VTA)

Statements of Revenues and Expenses

Years ended June 30, 1996 and 1995

	1996	1995
Operating revenues:		
Passenger fares	$ 21,522,933	19,884,440
Advertising and other	1,441,355	1,211,946
Total operating revenues	22,964,288	21,096,386
Operating expenses:		
Labor	71,809,616	68,533,494
Fringe benefits	46,456,900	39,146,231
Materials and supplies	16,649,398	14,581,858
Services	12,310,426	10,400,468
Utilities	3,276,574	3,337,423
Casualty and liability	4,120,303	7,199,741
Purchased transportation	5,745,837	4,713,655
Leases and rentals	773,317	1,078,563
Miscellaneous	1,184,206	1,575,473
Total operating expenses, excluding depreciation	162,326,577	150,566,906
Operating loss before depreciation	(139,362,289)	(129,470,520)
Depreciation expense:		
On assets acquired with capital grants	10,124,613	7,078,604
On assets otherwise acquired	13,141,369	10,184,808
Total depreciation expense	23,265,982	17,263,412
Operating loss	(162,628,271)	(146,733,932)
Nonoperating revenues (expenses):		
Sales tax revenue	122,274,395	100,637,507
Federal operating grants and reimbursements	148,296	145,604
State and local operating grants and reimbursements	52,597,357	50,007,440
CalTrain subsidy	(11,973,493)	(11,900,344)
CalTrain reimbursements	2,085,857	4,971,602
Interest income	4,140,040	2,554,456
Interest expense	(3,863,231)	(3,639,920)
Congestion Management Agency expense, net	(25,611)	(195,717)
Other expense, net	(242,462)	(1,158,849)
Total nonoperating revenues, net	165,141,148	141,421,779
Net income (loss)	$ 2,512,877	(5,312,153)

See accompanying notes to financial statements.

SANTA CLARA COUNTY TRANSIT DISTRICT
(aka Santa Clara Valley
Transportation Authority or the VTA)

Statements of Changes in Enterprise Equity

Years ended June 30, 1996 and 1995

	Contributed Capital	Retained Earnings Reserved	Retained Earnings Unreserved	Total enterprise equity
Balances, June 30, 1994	$ 483,864,452	25,451,330	313,100,474	822,416,256
Net loss	–	–	(5,312,153)	(5,312,153)
Capital grants	31,042,779	–	–	31,042,779
Depreciation on assets acquired with capital grants	(7,078,604)	–	7,078,604	–
Disposal of assets acquired with capital grants	(2,440,687)	–	2,440,687	–
Contribution from Congestion Management Agency	–	–	825,484	825,484
Increase in reserved retained earnings	–	6,241,775	(6,241,775)	–
Balances, June 30, 1995	505,387,940	31,693,105	311,891,321	848,972,366
Net income	–	–	2,512,877	2,512,877
Capital grants	6,945,433	–	–	6,945,433
Depreciation on assets acquired with capital grants	(10,124,613)	–	10,124,613	–
Disposal of assets acquired with capital grants	(609,775)	–	609,775	–
Decrease in reserved retained earnings	–	(2,527,773)	2,527,773	–
Balances, June 30, 1996	$ 501,598,985	29,165,332	327,666,359	858,430,676

See accompanying notes to financial statements.

SANTA CLARA COUNTY TRANSIT DISTRICT
(aka Santa Clara Valley
Transportation Authority or the VTA)

Statements of Cash Flows

Years ended June 30, 1996 and 1995

	1996	1995
Cash flows from operating activities:		
Operating loss	$ (162,628,271)	(146,733,932)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	23,265,982	17,263,412
Changes in operating assets and liabilities:		
Receivables	184,615	(745,856)
Inventories	(429,636)	(1,411,952)
Prepaid and other current assets	(185,136)	6,162
Accounts payable	(247,907)	(679,833)
Other accrued liabilities	2,953,140	1,867,761
Due to other governmental agencies, net	(718,230)	1,155,095
Noncurrent other accrued liabilities	403,242	1,851,503
Net cash used in operating activities	(137,402,201)	(127,427,640)
Cash flows from noncapital financing activities:		
Operating grants received	52,762,747	46,772,056
Sales tax received	118,149,898	98,200,836
CalTrain subsidy	(11,973,493)	(11,900,344)
Other nonoperating receipts, net	16,451,871	8,399,693
Transfer of self-insurance assets	17,926,138	–
Net cash provided by noncapital financing activities	193,317,161	141,472,241
Cash flows from capital and related financing activities:		
Net proceeds from issuance of long-term debt	–	5,085,459
Repayment of long-term debt	(459,881)	(268,311)
Interest paid	(3,863,231)	(3,578,954)
Acquisition and construction of capital assets	(11,262,226)	(53,365,635)
Repayment of construction advance	2,574,281	–
Capital grants received	8,650,851	32,383,398
Proceeds from sale of capital assets	17,612	1,222,416
Net cash used in capital and related financing activities	(4,342,594)	(18,521,627)
Cash flows provided by investing activities – interest received	3,459,744	1,927,292
Net increase (decrease) in cash and cash equivalents	55,032,110	(2,549,734)
Cash and cash equivalents, beginning of year	91,941,969	94,491,703
Cash and cash equivalents, end of year	$ 146,974,079	91,941,969
Supplemental disclosure of cash flow information:		
Cash and cash equivalents, beginning of year:		
Unrestricted	$ 17,378,221	28,787,290
Restricted	74,563,748	65,704,413
	$ 91,941,969	94,491,703
Cash and cash equivalents, end of year:		
Unrestricted	$ 46,775,418	17,378,221
Restricted	100,198,661	74,563,748
	$ 146,974,079	91,941,969
Noncash transactions:		
Transfer of deferred compensation plan investments with fiscal agent from County of Santa Clara	$ –	8,108,623
Reduction of contributed capital for disposal of assets purchased with capital grant funds	$ 609,775	2,440,687

See accompanying notes to financial statements.

(1) Organization

Santa Clara County Transit District (aka Santa Clara Transportation Authority or the VTA) was established in 1972. The VTA develops, maintains, and operates a public mass transit system for the benefit of the residents of the County of Santa Clara (the County), California (the State).

The VTA was previously governed by the County's Board of Supervisors (the Board) under provisions of the Santa Clara County Transit District Act. Pursuant to legislation enacted in September 1994, the VTA legally separated from the County effective January 1, 1995. The VTA's new governing board consists of two members of the Board, five City Council members from the City of San Jose, and five City Council members selected from among the remaining incorporated cities in the County. The legal separation from the County has not altered or impaired any of the VTA's rights, powers, contracts, or obligations, and the VTA continues as the same legal entity under the same name.

The VTA is not subject to federal or state income taxes.

(2) Significant Accounting Policies

Description of the Reporting Entity

The Santa Clara County Transit District Congestion Management Program (the CMP) was created in 1990 in response to Proposition 111. The CMP is not legally separate from the VTA. The CMP is responsible for studying ways to alleviate traffic congestion in the County, coordinating and prioritizing proposals for state and federal transportation funds, administering the Bay Area Air Quality Management Program, and coordinating land use and other transportation planning. The accompanying financial statements include the financial activities of the CMP for fiscal 1996 and 1995.

The accompanying financial statements do not include the financial activities of the Santa Clara County District Amalgamated Transit Union Pension (the Plan). Separately issued financial statements of the Plan are available.

(Continued)

Description of Funds

The accounts of the VTA are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The funds are grouped into one broad fund category as follows:

Proprietary Fund Type - Enterprise Fund – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The VTA's transit operations are reported upon as a single Enterprise Fund.

The VTA has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

Basis of Accounting

The accompanying financial statements are prepared using the accrual basis of accounting, under which revenues are recorded when earned and expenses are recorded when incurred. The measurement focus is on determination of net income (loss), financial position, and cash flows.

Cash and Cash Equivalents

For purposes of the accompanying statements of cash flows, the VTA considers all highly liquid investments (including restricted investments) with a maturity of three months or less from the date of purchase to be cash equivalents.

Investments with Fiscal Agent

Investments with fiscal agent are stated at the lower of amortized cost or market. See Note 3 for market value information.

Inventories

Inventories are stated at average cost and charged to expense at the time individual items are withdrawn from inventory (consumption method).

(Continued)

Restricted Assets

Restricted assets consist of monies and other resources, the use of which is either Board designated or legally restricted for the following purposes:

- Capital acquisition and construction
- Workers' compensation
- Debt service
- Unemployment Insurance Fund
- General Liability Insurance
- Deferred compensation
- Retiree Health Care Programs
- ATU Spousal Medical Trust
- Bay Area Air Quality Management Grant

Deferred Bond Issuance Costs

Deferred bond issuance costs are amortized in a manner that approximates the effective interest method.

Property, Facilities, and Equipment

Property, facilities, and equipment are stated at historical cost. The cost of normal maintenance and repairs is charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related properties. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Structures and improvements	15 to 50 years
Buses and maintenance vehicles	7 to 12 years
Light-rail structures and light-rail vehicles	25 to 30 years
Other operating equipment	5 to 15 years

Depreciation on such assets is included in the accompanying statements of revenues and expenses. During fiscal 1996, the VTA revised the estimated useful life of rolling stock to 12 years consistent with federal guidelines, in addition, salvage value was reduced to zero on all depreciable assets to better represent actual experience. The VTA has accounted for these changes as a change of estimate, and, accordingly, the depreciation expense in the current year increased by approximately $4,692,000.

During fiscal 1996, the VTA increased its capitalization level for fixed assets to $5,000, which resulted in an increase of approximately $1,621,000 in other expense.

Interest is capitalized on construction in progress in accordance with Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*. Accordingly, interest capitalized is the total interest cost from the date of the borrowing net of any allowable interest earned on temporary investments of the proceeds of those borrowings until the specified asset is ready for its intended use. There was no interest capitalized in 1996 or 1995.

(Continued)

Other Accrued Liabilities

Other accrued liabilities, including those payable from restricted assets, represent accruals for compensated absences for vacation and sick leave benefits, payroll, deferred compensation, ATU Retiree Spousal Medical Trust, Retiree Health Care Programs, general liability insurance, workers' compensation liabilities, and the Aerospace Settlement Refund scheduled to be repaid to the State through June 2000.

Self-Insurance

The VTA is self-insured for general liability and workers' compensation claims. Estimated losses on claims other than workers' compensation claims are charged to expense in the period the loss is determinable. Estimated losses for workers' compensation claims are charged to expense as a percentage of labor in each accounting period. The costs incurred for workers' compensation and general liability (including estimates for claims incurred but not yet reported) are accrued as a liability based on an actuarial determination of the present value of estimated future cash payments (see Note 12).

Federal, State, and Local Grant Funds

Federal, state, and local grant funds are accounted for in accordance with the purpose for which the funds are intended.

Approved grants for the acquisition of property, facilities, and equipment are recorded as contributed capital when the related expenditures are incurred. Depreciation recognized on assets acquired or constructed through grants restricted for capital acquisitions is recorded in the appropriate contributed capital account. Net loss, adjusted by the amount of depreciation on fixed assets acquired in this manner, is recorded in retained earnings. Disposals of such assets, prior to being fully depreciated, are recorded as reductions to contributed capital.

Approved grants for operating assistance are recorded as nonoperating revenues when the related expenditures are incurred.

Sales Tax Revenues

Sales tax revenues are recognized in the accounting period in which they are due to the VTA. Therefore, recorded sales taxes include amounts collected by merchants at the end of the fiscal year but not remitted to the State until subsequent to that time.

Pension Costs

Pension costs are accrued as determined based on actuarial valuations using the entry age normal cost method.

(Continued)

Total cash and investments as of June 30, are reported in the accompanying balance sheets as follows:

	1996	1995
Unrestricted cash and cash equivalents	$ 46,775,418	17,378,221
Restricted:		
Cash and cash equivalents	100,198,661	74,563,748
Investments with fiscal agent	27,396,557	22,515,981
Total restricted	127,595,218	97,079,729
Total cash and investments	$ 174,370,636	114,457,950

(4) Due From Other Governmental Agencies

Due from other governmental agencies as of June 30, consisted of the following:

	1996	1995
Federal government	$ 970,946	2,183,563
State government	1,431,596	5,374,560
County of Santa Clara	361,514	3,919,404
Sales tax	23,817,296	21,093,921
PCJPB advances	1,713,650	–
CalTrans reimbursement	2,085,857	4,971,602
Other	151,766	277,770
Total	$ 30,532,625	37,820,820

Due from other governmental agencies as of June 30, is reported in the accompanying balance sheets as follows:

	1996	1995
Current assets	$ 29,255,197	33,901,416
Restricted assets	1,277,428	3,919,404
	$ 30,532,625	37,820,820

(Continued)

(5) Note Receivable

The note receivable, including all accrued and unpaid interest from June 21, 1994, was due from Community Housing Developers, a nonprofit corporation, on or before June 21, 1996. The note, which bears interest at 8% per annum, is secured by a first deed of trust. A portion of the note, 52%, is due to the City of San Jose upon payment to the VTA from Community Housing Developers and is, therefore, included in other accrued liabilities. As of June 30, 1996, this note was in default and an agreement was reached to extend the terms. Payment in full was received on October 1, 1996.

(6) Construction In Progress

Construction in progress (CIP), included in property, facilities, and equipment, includes capitalized costs associated with the following projects as of June 30:

	1996	1995
Tasman Corridor project	$ 86,732,048	79,570,724
Hazardous Materials Emergency Program	–	5,883,248
Tamien Child Care Facility	–	1,905,917
Environmental building and site modifications	681,171	1,626,907
Facilities modifications	848,614	1,546,425
Software development	543,551	1,089,966
Vasona Corridor project	1,023,899	1,010,071
Transportation agency administration building improvements	142,470	197,759
Coach replacement	66,395	52,718
Bike rack project	61,647	–
Total	$ 90,099,795	92,883,735

Additional information regarding projects in progress as of June 30, 1996, follows:

Total Board approved project budget	$ 402,159,789
Expended to date	90,099,795
Expenditure budget available for CIP	$ 312,059,994
Anticipated funding sources are as follows:	
Federal, state, and other local assistance	$ 285,115,602
Local contribution	26,944,392
Total funding sources	$ 312,059,994

The VTA has outstanding encumbrances of approximately $43,125,000 as of June 30, 1996, related to the above capital projects.

(Continued)

Use of Estimates

The VTA's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses and the disclosure of contingent liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

Fair Value of Financial Instruments

As of June 30, 1996, financial instruments, included in the VTA's financial statements, consisted of cash and cash equivalents, receivables, accounts payable, other accrued liabilities, and long-term debt. The carrying amounts of such financial instruments approximate fair value.

Reclassifications

Certain reclassifications have been made to the accompanying 1995 financial statements in order to conform them to the 1996 financial statement presentation.

(3) Cash and Investments

For investment purposes, the VTA deposits cash with the County Treasurer in a commingled account with cash from various other governmental entities within the County. The commingled cash is principally invested in time deposits, bankers' acceptances, negotiable certificates of deposit, and various U.S. government agency and commercial notes. Interest earned from such time deposits and investments is allocated quarterly to the VTA based on the VTA's average daily cash balances.

The VTA's investment policies conform to state statutes, and provide written investment guidance regarding the types of investments which may be made and that limit amounts which may be invested in any one financial institution or amounts which may be invested in long-term instruments. During the years ended June 30, 1996 and 1995, permissible investments included deposits with the County Treasurer in a commingled account, obligations of the U.S. Treasury, U.S. government agencies and certain time deposits, certificates of deposit, bankers' acceptances, commercial paper, and repurchase and reverse repurchase agreements. Investments in commercial paper must be rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. Negotiable certificates of deposit are restricted to those rated B or better by the Thompson Batchwatch, Inc. rating service.

Bank deposits are collateralized as required by state law (Government Code Section 53652) with assets held in a common pool with other governmental agencies. State law requires that the market value of the common pool of collateral be equal to or greater than 110% of all public deposits with the pledging financial institution if government securities are used, or 150% if first trust deed mortgage notes are used as collateral. The collateral is not held by, or held in the name of, the County or the VTA. As of June 30, 1996, approximately $40,000 of cash held by a fiscal agent was collateralized. The remaining cash of approximately $143,000 consisted primarily of cash in the light-rail ticket vending machines.

(Continued)

The VTA complied with the provisions of state statutes pertaining to the types of investments held, institutions in which deposits are made, and security requirements. The VTA will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Mutual funds and certificates of deposits held for the deferred compensation plan are invested at the discretion of participating employees. Such investments are not subject to statutes relating to other VTA investments.

The VTA's investments are categorized below to give an indication of the custodial risk assumed by the VTA as of June 30, 1996. Category 1 includes investments that are insured or registered or for which the securities are held by the VTA or its agent in the VTA's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the VTA's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the VTA's name.

	1996				
	Category			Amortized	Market
Type of Investment	1	2	3	cost	value
Corporate notes	$ 9,350,952	–	–	9,350,952	9,482,195
U.S. Treasury and government agency notes	43,454,254	–	–	43,454,254	43,165,208
Investments commingled in County Treasury	100,563,112	–	–	100,563,112	100,341,420
Total investments	$ 153,368,318	–	–	153,368,318	152,988,823
Money market funds, specifically for the VTA				669,927	669,927
Mutual funds and certificates of deposits held for the deferred compensation plan				20,148,651	20,148,651
Total investments				$ 174,186,896	173,807,401

The carrying value and market value of the VTA's investments were $114,299,074 and $114,920,866, respectively, as of June 30, 1995.

As of June 30, the VTA's cash and investments consisted of the following:

	1996	1995
Cash	$ 183,740	158,876
Investments	174,186,896	114,299,074
	$ 174,370,636	114,457,950

(Continued)

(7) Long-Term Debt

Long-term debt as of June 30, consisted of the following:

		1996	1995
1994 ABAG33 Series C Certificates, net of unamortized discount of $92,248 and $97,372 as of June 30, 1996 and 1995, respectively	$	4,992,752	5,127,628
1991 Series A Sales Tax Revenue Bonds, net of unamortized discount of $1,422,171 and $1,482,948 as of June 30, 1996 and 1995, respectively		32,182,829	32,422,052
Series 1985A Equipment Trust Certificates, adjustable interest rate (3.6% as of June 30, 1996); due June 1, 2015		29,660,000	29,660,000
Improvement Bond Series 22R; 6.9%; final payment due July 2, 2004		228,461	248,340
Total debt		67,064,042	67,458,020
Less current portion		501,451	459,879
Long-term debt	$	66,562,591	66,998,141

Long-term debt as of June 30, is reported in the accompanying balance sheets as follows:

		1996	1995
Long-term debt payable from restricted assets	$	7,303,589	7,283,091
Unrestricted		59,259,002	59,715,050
	$	66,562,591	66,998,141

1994 ABAG33 Series C Certificates

The 1994 ABAG33 Series C Certificates (Series C Certificates) were issued to finance the purchase of certain parcels of land from the County. Issuance costs are being amortized over the term of the debt. The Series C Certificate payments are special obligations payable solely from revenues derived principally from the imposition of a one-half percent retail transaction and use tax. Series C Certificates are secured by a pledge of and first lien on the sales tax revenues on parity with the 1991 Series A Sales Tax Revenue Bonds (1991 Series A Bonds) and the Series 1985A Equipment Trust Certificates (the 1985A Certificates).

(Continued)

The Series C Certificates mature serially through November 15, 2014. Future annual principal payments on the serial bonds range from $145,000 to $455,000 and bear interest ranging from 4.75% to 7.00%.

The Series C Certificates are subject to mandatory redemption prior to their maturity date on each December 1 on or after December 1, 2009, through mandatory sinking fund account payments at a redemption price equal to the principal amount to be redeemed, plus accrued interest to the redemption date. Prior to December 1, 2005, the Series C Certificates are subject to optional redemption at a redemption rate of 102% of the principal amount, plus accrued interest from December 1, 2004, through November 30, 2005, at a rate of 101% from December 1, 2005, through November 30, 2006, and at a rate of 100% from December 1, 2006, through November 30, 2009.

1991 Series A Sales Tax Revenue Bonds

The 1991 Series A Bonds, which originally included $2,930,000 of serial bonds and $31,445,000 of term bonds, were issued to finance the acquisition, renovation, and equipping of new administration buildings for the VTA. Issuance costs related to this issuance are being amortized over the term of the debt. The 1991 Series A Bonds are special obligations of the VTA payable from and secured by sales tax revenue.

The $2,930,000 serial bonds mature serially beginning June 1, 1994, through June 1, 2001. Future annual principal payments on the serial bonds range from $335,000 to $535,000 and bear interest range from 5.75% to 6.30%. The $31,445,000 term bonds consist of $9,570,000, $3,155,000, and $18,720,000, which mature in 2011, 2013, and 2021, respectively. The term bonds are subject to redemption prior to their stated maturity through mandatory sinking fund account payments. The term bonds bear interest ranging from 6.25% to 6.75%, and annual sinking fund payments range from $595,000 to $2,975,000 beginning June 1, 2002, through June 1, 2021.

Series 1985A Equipment Trust Certificates

The 1985A Certificates were issued to finance the retirement of the Series 1984A Equipment Trust Certificates, which had been issued to finance the acquisition of light-rail vehicles for the Guadalupe Corridor light-rail project. Proceeds from the sale of the 1985A Certificates were $52,155,000, which is net of issuance costs of $705,000. Issuance costs related to this issuance are being amortized over the term of the debt. The interest on the 1985A Certificates is adjusted daily by the Trustee (3.6% as of June 30, 1996).

The 1985A Certificates are limited general obligations of the VTA and are secured by the light-rail vehicles purchased with the proceeds of such certificates, an irrevocable letter of credit in the amount of $30,400,000, which expires on June 15, 2000, and sales tax revenue.

(Continued)

The 1985A Certificates mature beginning in 2007 and are subject to redemption prior to their maturity date on each June 1 through deposit on such date in a separate sinking fund account, of the principal amount due together with accrued interest to the date of redemption. As of June 30, 1996, the VTA had repaid $23,200,000 on the 1985A Certificates. As a result of making payments prior to scheduled repay maturity dates, the next required sinking fund payments are due in 2007 through 2015 and range from $460,000 to $4,800,000.

Improvement Bond Series 22R

The Improvement Bond Series 22R (the Bonds) were assumed by the VTA upon the purchase of land in fiscal 1992 to be used as the VTA's administration building site. The Bonds were originally issued in 1979 and mature through 2004. Future annual principal payments range from $21,500 to $36,900.

Limitations and Restrictions

There are a number of limitations and restrictions contained in the various bond indentures. The VTA's management believes that the VTA is in compliance with all significant limitations and restrictions.

Five Year Debt Maturity

Annual debt service requirements (including sinking fund requirements) to maturity for long-term debt are as follows:

Year ending June 30,	
1997	$ 4,654,569
1998	4,676,669
1999	4,705,414
2000	4,729,712
2001	4,749,947
Thereafter	109,729,428
Total	133,245,739
Less amounts representing interest	66,181,697
Less current portion	501,451
Less long-term debt payable from restricted assets	7,303,589
Long-term debt	$ 59,259,002

(Continued)

(8) Sales Tax Revenue

Sales tax revenue represents sales tax revenue from the California State Board of Equalization, which, under a sales tax measure, collects for the VTA 0.5% for each taxable sales dollar spent in the County. These amounts are available to fund both operations and capital expenditures except that portion which is to be used to repay the 1991 Series A Bonds as described in Note 7. Collection fees charged by the State Board of Equalization were approximately $2,115,000 and $1,809,000 in fiscal 1996 and 1995, respectively.

As of June 30, 1996 and 1995, the VTA accrued a liability of approximately $3,822,000 and $4,915,000, respectively, as a result of the settlement of certain litigation by the State requiring the refunding of certain sales taxes previously collected and remitted to the VTA. The State is charging interest at 6% on the refunding of such sales taxes.

(9) Reservation of Retained Earnings

The excess of restricted assets over the related liabilities payable from restricted assets is recorded as a reservation of retained earnings in the accompanying balance sheets. Reserved retained earnings as of June 30, 1996 and 1995, consisted of $29,165,332 and $31,693,105, respectively, for capital and operating purposes.

(10) Federal, State, and Local Assistance

The VTA is dependent upon the receipt of funds from several sources to meet its operating maintenance, capital, and debt service requirements. The receipt of such revenues is controlled by federal, state, and local laws, the provisions of various grant contracts and regulatory approvals and, in some instances, is dependent on the availability of grant funds and the availability of local matching funds.

(Continued)

A summary of the various governmental funding sources is as follows:

Federal Grants

Federal grants are approved principally by the Federal Transportation Administration (FTA) and the Federal Highway Administration (FHWA). Federal grants for the years ended June 30, are summarized as follows:

	1996	1995
Operating assistance grants:		
Federal Technical Studies	$ 110,200	109,943
Federal Emergency Management Agency (FEMA)	–	35,661
Other	38,096	–
Total operating assistance grants	148,296	145,604
Capital grants:		
FTA Section 3	5,408,341	22,746,273
FTA Section 6	239,471	135,530
FTA Section 9	806,940	2,557,167
FHWA	295,696	1,289,259
Total capital grants	6,750,448	26,728,229
Total federal grants	$ 6,898,744	26,873,833

In 1996 and 1995, Federal Technical Studies grants of approximately $260,000 and $273,000, respectively, were included in Congestion Management Program expense, net, as presented in the accompanying statements of revenues and expenses (see Note 16).

FTA and FHWA reserve the right to audit expenditures financed by their grants to determine if such expenditures comply with the conditions of the grants. The VTA's management believes the results of such audits would not have a material adverse effect on the VTA's financial position. FTA and FHWA retain their interest in assets acquired under federal grants should the assets be disposed of prior to the end of their economic lives, or not be used for mass transit purposes.

(Continued)

State and Local Grants and Subsidies

State and local grants and subsidies for the years ended June 30, are summarized as follows:

	1996	1995
Operating assistance grants:		
Transportation Development Act	$ 49,491,174	46,626,452
State Transit Assistance	2,718,256	2,705,268
AB434 (Vehicle Registration)	387,927	–
Other	–	675,720
Total operating grants	52,597,357	50,007,440
Capital grants:		
State-Local Partnership Program	(133,250)	–
Proposition 108 and 116	50,453	3,850,004
State Traffic Systems Management Program	38,311	163,017
Local Assistance	–	166,000
New Technology Development Program	239,471	–
Other	–	135,529
Total capital grants	194,985	4,314,550
Total state grants and subsidies	$ 52,792,342	54,321,990

Transportation Development Act (TDA) funds represent the VTA's share of the 0.25% sales tax collected in the County.

The VTA transferred its federal operating assistance allocation of $2,085,857 and $4,971,602 to the Peninsula Corridor Joint Powers Board for the years ended June 30, 1996 and 1995, respectively, for the purpose of achieving a dollar-for-dollar reduction in its Member Agency contribution requirements. This amount is included as CalTrain reimbursements in the accompanying statements of revenues and expenses (see Note 15).

State Transit Assistance (STA) represents funds received pursuant to the STA Program, whereby, a portion of gasoline sales tax revenues is appropriated by the State Legislature to the State Transportation Planning and Development Account for certain transit and energy-related purposes. STA funds are allocated throughout the State on the basis of population and operating revenues and are claimed by the VTA on a cost-reimbursement basis.

AB434 vehicle registration fees represent funds received from the Bay Area Air Quality Management District. These funds are used for shuttle services and projects promoting clean air in the South Bay.

State-Local Partnership Program assistance is received pursuant to an agreement entered into in November 1992 to reimburse project costs relating to construction of a commuter rail service from San Jose to Gilroy. Funds of $133,250 advanced to the VTA were returned to the State in 1996 as determined in the final report on the project.

(Continued)

State Traffic Systems Management Program funds are received from Proposition 111. The California Transportation Commission programs the projects from a prioritized list submitted by the California Department of Transportation (CalTrans). The Statue requires that priority be given to projects from counties with adopted Congestion Management Programs. These funds are used by the VTA to fund the Tasman Corridor Project.

Proposition 108 and 116 funds are received from the California Transportation Commission from Rail Bond funds pursuant to the 1990 Clean Air and Transportation Improvement Act. These funds are used to reimburse project costs relating to final engineering on the Tasman Corridor Project and construction of a commuter rail service from San Jose to Gilroy.

Local Assistance represents funds received from the cities of San Jose and Mountain View to reimburse project costs relating to art works prepared for the Transit Mall and Tasman Corridor.

The State's New Technology Development Program is funded by the State's office of Advanced Transportation Management and Information Systems (ATMIS). The ATMIS performs research, development, and demonstration of advanced technologies which are applicable to transportation, including paratransit and ridesharing. These program funds were passed through the VTA to the paratransit provider for a program entitled, "Demonstration of a Real-Time, AVL-Equipped Paratransit System as a Feeder to Fixed Route Transit Serving ADA Eligible Passengers."

(11) Pension Plans and Other Postemployment Benefits

Santa Clara County District Amalgamated Transit Union Pension Plan

Substantially all ATU employees are covered by the Santa Clara County District Amalgamated Transit Union Pension Plan (the Plan). The Plan is a noncontributory single-employer defined benefit pension plan. The Plan provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. Employees vest after 10 years of service and are eligible to receive retirement benefits at age 65. Employees may also be eligible to receive retirement benefits at age 55 after 15 years of service. These benefit provisions and all other requirements are established by California statute and the agreement with the Union.

The VTA, based on a valuation by the Plan's actuaries, contributed 6.42% and 6.81% of payroll for covered employees during the years ended June 30, 1996 and 1995, respectively. Total payroll amounted to approximately $118,267,000 and $107,680,000 for 1996 and 1995, respectively. The VTA's total covered ATU payroll for the years ended June 30, 1996 and 1995, was approximately $63,903,000 and $61,239,000, respectively.

(Continued)

Funding Status and Progress

The pension benefit obligation is an actuarially determined standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits, to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Plan on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the Plan.

The pension benefit obligation of the Plan was computed as part of an actuarial valuation performed as of January 1, 1996. The significant actuarial assumptions used in the 1996 valuation to compute the pension benefit obligation were an average rate of return on invested assets of 7.5% and average wage increases of 5.0% attributable to inflation, merit, and real salary increases. There were no changes in actuarial assumptions from the January 1, 1995 actuarial valuation. Actuarial gains and losses are amortized as computed over 20 years.

The funding status applicable to the Plan at January 1, 1996, follows:

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated vested employees not yet receiving benefits	$ 28,716,000
Current employees:	
Employer financed, vested	54,199,000
Employer financed, nonvested	10,492,000
Total pension benefit obligation	93,407,000
Net assets available for plan benefits, at market value (total amortized cost, $104,143,000)	109,151,000
Net assets available for plan benefits in excess of pension benefit obligation	$ 15,744,000

(Continued)

Actuarially Determined Contributions Required and Contributions Made

The funding policy of the Plan provides for actuarially determined periodic contributions by the VTA at rates such that sufficient assets will be available to pay plan benefits when due. The VTA's contributions to the Plan for the years ended June 30, 1996 and 1995, were made in accordance with the actuarially determined requirements computed at January 1, 1995 and 1994, respectively. The total pension expense for the years ended June 30, 1996 and 1995, was approximately \$4,104,000 and \$4,175,000, respectively, which consisted of the VTA's normal cost (5.99% and 6.08% of current covered payroll) of approximately \$3,830,000 and \$3,726,000, respectively, and amortization of the unfunded actuarial liability (0.43% and 0.73% of current covered payroll) of approximately \$274,000 and \$449,000, respectively. The unfunded accrued liability is amortized over a 20-year period beginning January 1, 1994.

The Plan uses the Entry Age Normal Cost Method to determine the contribution rate for normal cost and to amortize any unfunded actuarial liabilities.

Significant actuarial assumptions used in the 1996 and 1995 valuations to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation as described above.

Historical Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. For the years ended June 30, 1996, 1995, and 1994, the trend information, which is based on the latest available actuarial information at January 1, for each of the respective years, is summarized as follows:

Year	VTA contributions	VTA contributions as a % of covered payroll	Net assets available for plan benefits as a % of pension benefit obligation[a]	Net assets available for plan benefits in excess of pension benefit obligation as a % of annual covered payroll
1996	\$ 4,104,000	6.42%	117%	24.64%
1995	4,175,000	6.81	105	6.50
1994	4,035,000	6.59	114	17.84

[a] Net assets available for plan benefits are stated at market value.

Additional historical trend information about progress made in accumulating sufficient assets to pay benefits when due can be found in the separate financial statements of the Plan.

(Continued)

Public Employees Retirement System

All eligible non-ATU employees of VTA participate in the State's Public Employees Retirement System (PERS). Prior to separation from the County on January 1, 1995, (see Note 1) all eligible VTA employees participated in PERS through the County. PERS is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State. PERS provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by state statute and the VTA resolutions. The VTA contracts with PERS for these benefits.

The VTA contributed 15.8% and 14.3% of payroll for covered employees to PERS for the years ended June 30, 1996 and 1995, respectively. The VTA's contribution includes the employees' required payroll contribution. The VTA's total covered payroll, applicable to non-ATU employees, for the years ended June 30, 1996 and 1995, was approximately $21,696,000 and $19,900,000, respectively. Employees have no additional obligation to contribute to PERS.

Funding Status and Progress

As a result of the separation from the County, certain administrative employees were transferred from the County to the VTA. Based on discussions with PERS' staff, it was determined that all of those administrative employees' service credits earned during the period they worked for the County's transportation agency would be transferred to the VTA's PERS account. The transfer of related assets and liabilities is anticipated to occur in fiscal 1997 and it is estimated there will be a net $5,000,000 of assets transferred greater than liabilities. After the transfer, an actuarial valuation will be prepared to determine the pension benefit obligation relating to such employees.

Actuarially Determined Contributions Required and Contributions Made

The funding policy of PERS provides for actuarially determined periodic contributions by the VTA at rates such that sufficient assets will be available to pay PERS' benefits when due. The VTA's contributions to PERS were made in accordance with the actuarially determined requirements. The VTA's contributions to PERS for the year ended June 30, 1996, and the six months ended June 30, 1995, were based on preliminary actuarial studies performed by PERS. VTA's total pension expense for the years ended June 30, 1996 and 1995, was approximately $3,228,000 and $2,940,000, respectively, which consisted of $1,341,000 and $1,302,000, respectively, of employees' total required contributions paid by the VTA (6.6% and 6.5%, respectively, of current covered payroll), and the VTA's employer contributions of $1,887,000 and $1,638,000, respectively, (9.3% and 8.2%, respectively, of current covered payroll).

(Continued)

PERS uses the level percentage of payroll modification of the Entry Age Normal Actuarial Cost Method to determine the contribution rate for normal cost and to amortize any unfunded actuarial liabilities through June 30, 2011.

Historical Trend Information

System wide 10-year trend information may be found in the PERS Annual Reports. Due to the separation from the County, effective January 1, 1995, 10-year trend information, specifically applicable to the VTA, is not available.

Other Postemployment Benefits

Deferred Compensation Plan

The VTA offers its employees a deferred compensation plan (Deferred Plan) created in accordance with Section 457 of the Internal Revenue Code. The Deferred Plan permits the employees to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or emergency.

Effective January 2, 1995, as a result of the separation from the County (see Note 1), certain management and support staff of the County were transferred to the VTA. As a result, additional deferred compensation plan assets and liabilities of approximately $8.1 million relating to those employees were transferred into the VTA's Deferred Plan.

As of June 30, 1996 and 1995, approximately $20,149,000 and $15,978,000, respectively, had been deferred under the Deferred Plan. The assets and liabilities of the Deferred Plan are included in the accompanying balance sheets under restricted assets and other accrued liabilities – noncurrent. All amounts of compensation deferred under the Deferred Plan may be invested, at the option of the employees, in certificates of deposits, money market, mutual, growth or fixed income funds, and all assets and related earnings thereon are solely the property of the VTA until paid or made available to the employees or other beneficiaries, subject only to the claims of general creditors. Participants' rights under the Deferred Plan are equal to those of general creditors of the VTA in an amount equal to the fair market value of the deferred account for each participant. To date, the Deferred Plan's assets have only been used to pay deferred compensation amounts to employees. In the opinion of the VTA's management, it is unlikely that deferred compensation assets will be used to satisfy the claims of the VTA's general creditors in the future. Amounts paid to participants in 1996 and 1995 were approximately $485,000 and $481,000, respectively.

(Continued)

ATU Spousal Medical Trust

The VTA had restricted assets and related liabilities as of June 30, 1996 and 1995, of approximately $2,054,000 and $1,669,000, respectively, for the ATU Spousal Medical Trust (the Trust), a medical insurance benefit for eligible pensioners' spouses. Pursuant to a collective bargaining agreement, the VTA is required to contribute to the Trust $0.15 per hour worked by all ATU employees. As of June 30, 1996 and 1995, 110 and 111 participating spouses, respectively, met the eligibility requirements. Contributions to the Trust, which were expensed by the VTA, were approximately $432,000 and $347,000 for the years ended June 30, 1996 and 1995, respectively. Benefit payments made by the Trust for the years ended June 30, 1996 and 1995, were approximately $174,000 and $171,000, respectively.

Retiree Health Care Programs

<u>ATU</u>

The VTA provides an ATU Retiree Health Care Program (the ATU Program), a postemployment benefit, in accordance with the agreement between the VTA and the ATU, to all ATU employees who retire from the VTA on or after attaining the age of 55 with at least 15 years of service, or if an employee becomes disabled and has completed at least 10 years of service. As of June 30, 1996, 292 retirees met the eligibility requirements. The VTA pays medical premiums for its eligible retirees. Benefits paid to participants of the ATU Program for the year ended June 30, 1996 were approximately $635,000. For the year ended June 30, 1996, the VTA made contributions to the ATU Program, which were expensed by the VTA, of approximately $2,493,000. An actuarial study as of June 30, 1996, (the latest available) projected that the present value of future VTA paid retiree medical benefits for the current group of active employees, retirees, and terminated vested employees (excluding new employees) was approximately $33,563,000, of which approximately $10,301,000 represents the unfunded actuarial liability. The actuarial study recommended a fiscal 1997 contribution of approximately $1,825,000, which was determined using the Projected Unit Credit Method, to fund the unfunded actuarial liability over an amortization period of 17 years, from June 30, 1996. The VTA's fiscal 1995 contribution approximated the actuarially determined contribution.

(Continued)

Non-ATU

All non-ATU employees upon retirement with at least five years of service and attaining age 50 are also covered under a Retiree Health Care Program (the Non-ATU Program). As of June 30, 1996, 171 retirees met the eligibility requirements. For the year ended June 30, 1996, benefits paid to participants of the non-ATU program were approximately $293,000 while contributions, which were made by the VTA, were approximately $1,108,000. An actuarial study as of June 30, 1996, (the latest available) projected that the present value of future VTA paid retiree medical benefits for the current group of active employees, retirees, and terminated vested employees (excluding new employees) was approximately $13,997,000, of which approximately $7,067,000 represents the unfunded actuarial liability. The actuarial study recommend a fiscal 1997 contribution of approximately $1,030,000, which was determined using the Projected Unit Credit Method, to fund the unfunded actuarial liability over an amortization period of 17 years, from June 30, 1996. The VTA's fiscal 1996 contribution approximated the actuarially determined contribution.

As of June 30, 1996, the VTA had restricted assets and related liabilities of approximately $15,998,000 to cover future costs of the ATU and Non-ATU Programs.

(12) Self-Insurance

The VTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors, and omissions; injuries to employees; injuries to the public; and natural disasters. Coverage provided by self-insurance and excess coverage is generally as follows as of June 30, 1996:

Type of Coverage	Self-Insurance (in aggregate)	Excess Coverage (in aggregate)
Workers' compensation	Up to $5,000,000	$5,000,000 to $10,000,000
Commercial general liability	Up to $5,000,000	$5,000,000 to $10,000,000
Property:		
Flood	Up to $200,000	$200,000 to $200,000,000
Earthquake	Up to $500,000	$500,000 to $52,000,000
Other perils	Up to $5,000,000	$5,000,000 to $200,000,000

Amounts in excess of these limits are self-insured. To date, there have been no significant reductions in any of the VTA's insurance coverage, and no losses have occurred above the self-insured retention.

(Continued)

As of July 1, 1996, self-insurance limits and excess coverage amounts were changed as follows:

Type of Coverage	Self-Insurance (in aggregate)	Excess Coverage (in aggregate)
Workers' compensation	Up to $5,000,000	$5,000,000 to $15,000,000
Commercial general liability	Up to $5,000,000	$5,000,000 to $15,000,000
Property:		
Flood	Up to $50,000	$50,000 to $5,050,000
Earthquake	All self-insured	–
Other perils	Up to $50,000	$50,000 to $195,000,000

Workers' Compensation and General Liability

The VTA took over administration of its general liability self insurance fund from the County on July 1, 1995, in connection with which the County transferred assets and liabilities of approximately $17,926,000 to the VTA.

The unpaid general liability and workers' compensation claims liabilities, included in other accrued liabilities, are based on the results of actuarial studies and include amounts for claims incurred but not reported. Claims liability discount rates are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of pay-outs, and other economic and social factors. Estimated losses for general liability and workers' compensation claims are charged to expense in the period the loss is incurred (including estimates for claims incurred but not yet reported) and are accrued as a liability based on the present value of estimated future cash payments using a 6% and 4.5% average discount rate for workers' compensation as of June 30, 1996 and 1995, respectively, and a 6% average discount rate for general liability as of June 30, 1996, until paid. It is the VTA's practice to obtain full actuarial studies annually. The VTA uses a third-party administrator to administer its workers' compensation claims processing functions.

Changes in the balances of workers' compensation claims liabilities for the years ended June 30, are as follows:

	1996	1995
Unpaid claims, beginning of fiscal year	$ 25,160,000	26,520,000
Provision for claim and claim adjustment expense	7,070,000	4,947,000
Payments for claims	(5,600,000)	(6,307,000)
Unpaid claims, end of fiscal year	$ 26,630,000	25,160,000

(Continued)

Changes in the balances of general liability claims liabilities for the year ended June 30, 1996, are as follows:

Unpaid claims, beginning of fiscal year	$ –
Transfer from County	17,926,000
Provision for claim and claim adjustment expense	5,314,000
Payments for claims	(3,604,000)
Unpaid claims, end of fiscal year	$ 19,636,000

Estimated losses on claims other than workers' compensation and general liability claims are charged to expense in the period the loss is determinable.

(13) Leases

The VTA leases various properties for use as transfer facilities, parking lots, information centers, and warehouses under lease agreements that expire at various dates through 2013. These agreements are recorded as operating leases. Rent expense was approximately $108,000 and $396,000 in 1996 and 1995, respectively.

Minimum future annual rental payments under these lease agreements are as follows:

Year ending June 30,	
1997	$ 107,000
1998	110,000
1999	115,000
2000	121,000
2001	127,000
Thereafter	107,000
Total	$ 687,000

(14) Litigation

As of June 30, 1996 and 1995, the VTA had accrued amounts that management believes are adequate to provide for claims and litigation which arose during the normal course of business. Other claims and litigation are outstanding for which the VTA cannot determine the ultimate outcome and resulting liability, if any. However, the VTA's management believes the ultimate outcome of these claims and lawsuits will not significantly impact the VTA's financial position.

(Continued)

(15) Related Party Transactions

County of Santa Clara

Through June 30, 1996, the County continued to provide certain support services to the VTA. Amounts paid to the County for such services were approximately $3,166,000 and $3,996,000 in 1996 and 1995, respectively.

Peninsula Corridor Joint Powers Board

The VTA is a participant in the Peninsula Corridor Joint Powers Board (PCJPB), along with the San Mateo County Transit District (SamTrans) and the City and County of San Francisco (CCSF). The PCJPB is governed by a separate board composed of nine members, three from each participating agency. The PCJPB was formed in October 1991 to plan, administer, and operate the Peninsula CalTrain rail service. The PCJPB began operating the Peninsula CalTrain rail service on July 1, 1992. Prior to July 1, 1992, such rail service was operated by CalTrans.

The net operating costs and administrative expenses of the PCJPB for services provided between San Francisco and San Jose are reimbursed by the member agencies. The VTA, SamTrans, and CCSF are responsible for 38.8%, 51.0%, and 10.2%, respectively, of the member agencies' total reimbursement for such expenses. The VTA is also responsible for 100% of the operating costs between San Jose and Gilroy. During the years ended June 30, 1996 and 1995, the VTA paid approximately $11,973,000 and $11,900,000, respectively, to the PCJPB.

In 1996 and 1995, the VTA's Section 9 federal operating assistance, which is allocated through the Metropolitan Transportation Commission was allocated to the PCJPB. As a result, the VTA will be reimbursed a portion of their CalTrain operating subsidy by the PCJPB in the amount of approximately $2,086,000 and $4,972,000, which is included in "Due from other governmental agencies" as of June 30, 1996 and 1995, respectively (see Note 4).

SamTrans serves as the managing agency of the PCJPB, providing administrative personnel and facilities. The disbursement of funds received by the PCJPB is controlled by provisions of various grant contracts entered into with the U.S. government, the State, and the member agencies.

The VTA's agreement with the PCJPB expires in 2001; however, it will continue in full force and effect on a year-to-year basis thereafter, unless a member provides one year's prior written notice of withdrawal. If two or more parties to the agreement withdraw, then the agreement shall terminate at the end of the fiscal year following expiration of the one year's notice given by the second party. In this event, the property and funds of the PCJPB would be distributed to the member agencies in accordance with a separate agreement to be entered into between the parties.

(Continued)

Summary financial information (not included in the VTA's financial statements) for the PCJPB as of June 30, is as follows (unaudited):

	1996	1995
Total assets	$ 258,692,000	247,279,000
Total liabilities	26,339,000	24,015,000
Equity	$ 232,353,000	223,264,000
Operating revenue	$ 15,690,000	14,589,000
Expenses	(43,481,000)	(42,764,000)
Nonoperating revenue	27,254,000	27,111,000
Excess of expenses over revenues	$ 537,000	1,064,000

No debt has been issued by PCJPB.

(16) Congestion Management Program

On January 1, 1995, separation of the VTA from the County (see Note 1) also provided for the merger of the VTA and the Congestion Management Program (the CMP) under the VTA's new governing board.

The CMP was created in 1990 in response to Proposition 111. CMP responsibilities include studying ways to alleviate traffic congestion in the County, coordinating and prioritizing proposals for state and transportation funds, and coordinating land use and other transportation planning. Prior to January 1, 1995, the CMP was a joint powers authority with a governing board comprised of 12 locally elected officials representing the CMP member agencies. Currently, annual contributions from each member agency are based on a formula adopted by VTA's governing board. The contribution formula considers each member agency's share of Proposition 111 state gas tax monies, as well as employment within the County.

Summary financial information for the CMP included in the VTA's financial statements as of June 30, 1996 and 1995, is as follows:

	1996	1995
Total assets	$ 4,716,032	4,738,724
Total liabilities	4,111,876	4,108,957
Equity	$ 604,156	629,767
Total revenues	$ 1,267,416	1,245,149
Total expenses	1,293,027	1,440,866
Excess of expenses over revenues	$ 25,611	195,717

(Continued)

(17) Subsequent Events

Legislation

Recent legislation having an impact on the VTA and signed into law subsequent to June 30, 1996, includes SB374 (Traffic Authority), SB457 (Intercity Rail), and AB1720 (Intercity Rail). A summary of the expected impact to future activities of the VTA is provided below:

<u>SB374</u>

SB374 specifies that the VTA will be the successor entity for purposes of winding up the affairs of the Santa Clara County Traffic Authority (Traffic Authority). The California State Board of Equalization will continue its obligation to administer the collection of the Traffic Authority's special tax, including audits and prosecutions related to such tax. As the Traffic Authority was responsible for constructing certain highway improvements, the VTA would use existing Traffic Authority assets to complete such improvements.

<u>SB457</u>

SB457 creates a new Capital Corridor Joint Powers Board (CCJPB) and designates Bay Area Rapid Transit (BART) as the managing agency for an initial three-year period. The VTA plans to be a member of the CCJPB. The State will provide funding for the capital corridor at a prescribed level for a three-year period. The local members of the CCJPB are authorized to augment state-provided resources to expand intercity passenger rail services or to address funding shortfalls in achieving agreed-upon performance standards. The funding commitment by the VTA has not yet been determined.

SB457 also creates a joint powers board for the San Joaquin Corridor. The funding commitment by the VTA for the San Joaquin Coordior is expected to be approximately $1,000,000 per year.

Local Measures

The following two local measures, which will impact the VTA, were approved by County voters on November 5, 1996:

<u>Measure A</u>

Measure A provides that new sales tax revenue approved by County voters shall be used to fund certain transportation improvement projects. The projects shall be implemented within nine years. Administrative expenses related to the projects would be limited to 1/2 of 1% of the sales tax revenue.

<u>Measure B</u>

Measure B enables the Board to enact a 1/2 cent sales tax for general county purposes. The tax would expire in nine years and is expected to generate approximately $1,150,000,000 in sales tax revenue. The VTA expects to seek funding for the projects approved by Measure A from the general sales tax revenue collected pursuant to Measure B.

Supplementary Information

SANTA CLARA COUNTY TRANSIT DISTRICT
(aka Santa Clara Valley
Transportation Authority or the VTA)

Analysis of Reserved Retained Earnings

June 30, 1996

	Restricted for										
	Capital and Operating	Bay Area Air Quality Management Grant	General Liability Insurance	Workers' Compensation Insurance	Deferred Compensation	Retiree Health Care	ATU Spousal Medical	Debt Service	Unemployment Insurance Fund	Transit Employee Benefit	Total
Restricted assets:											
Cash and investments	$ 32,484,859	3,911,635	19,752,063	26,162,751	20,148,651	15,733,006	2,000,845	7,303,589	10,721	87,098	127,595,218
Prepaid expenses	–	–	–	–	–	–	15,020	–	–	–	15,020
Due from other governmental agencies	–	49,533	378,332	545,523	731	265,010	38,283	–	–	16	1,277,428
Total	$ 32,484,859	3,961,168	20,130,395	26,708,274	20,149,382	15,998,016	2,054,148	7,303,589	10,721	87,114	128,887,666
Related liabilities:											
Accounts payable	$ –	–	–	78,436	–	–	–	–	–	–	78,436
Other accrued liabilities, current	1,176,253	3,961,168	360,964	7,975,150	12,809	–	–	–	10,721	87,114	13,584,179
Due to other governmental agencies	1,543,274	–	133,066	–	–	264,272	–	–	–	–	1,940,612
Long-term debt	–	–	–	–	–	–	–	7,303,589	–	–	7,303,589
Other accrued liabilities, noncurrent	600,000	–	19,636,365	18,654,688	20,136,573	15,733,744	2,054,148	–	–	–	76,815,518
Total	$ 3,319,527	3,961,168	20,130,395	26,708,274	20,149,382	15,998,016	2,054,148	7,303,589	10,721	87,114	99,722,334
Reserved retained earnings, June 30, 1996	$ 29,165,332	–	–	–	–	–	–	–	–	–	29,165,332

See accompanying independent auditors' report.

Schedule 2

SANTA CLARA COUNTY TRANSIT DISTRICT
(aka Santa Clara Valley
Transportation Authority or the VTA)

Supplemental Schedule of Budget Versus Actual Revenues
and Expenses, and Capital Program Costs

Year ended June 30, 1996

	Budget	Actual	Variance
Operating revenues:			
Passenger fares	$ 20,429,244	21,522,933	1,093,689
Advertising and other	1,532,351	1,441,355	(90,996)
Total operating revenue	21,961,595	22,964,288	1,002,693
Operating expenses:			
Labor and fringe benefits	125,542,412	118,266,516	7,275,896
Services and supplies	44,123,512	38,314,224	5,809,288
Purchased transportation	6,679,570	5,745,837	933,733
Total operating expenses excluding depreciation	176,345,494	162,326,577	14,018,917
Operating loss before depreciation	(154,383,899)	(139,362,289)	15,021,610
Nonoperating revenues (expenses):			
Sales tax revenue	103,408,000	122,274,395	18,866,395
Federal operating grants	934,500	148,296	(786,204)
State operating grants	51,651,873	52,597,357	945,484
CalTrain subsidy	(12,380,000)	(11,973,493)	406,507
CalTrain reimbursements	4,050,000	2,085,857	(1,964,143)
Interest income	4,000,000	4,140,040	140,040
Interest expense	(5,068,065)	(3,863,231)	1,204,834
Congestion Management Program expense, net	–	(25,611)	(25,611)
Other expense, net	–	(242,462)	(242,462)
Total nonoperating revenues, net	146,596,308	165,141,148	18,544,840
Net (loss) income before nonbudgeted items	(7,787,591)	25,778,859	33,566,450
Depreciation expense	–	23,265,982	23,265,982
Net income (loss)	$ (7,787,591)	2,512,877	10,300,468
Capital program costs	$ 270,274,378	11,757,109	258,517,269

See accompanying independent auditors' report.

STATISTICAL

FINANCIAL RATIOS:

- CURRENT RATIOS,
- DEBT AND EQUITY RATIOS

TEN YEAR COMPARISONS:

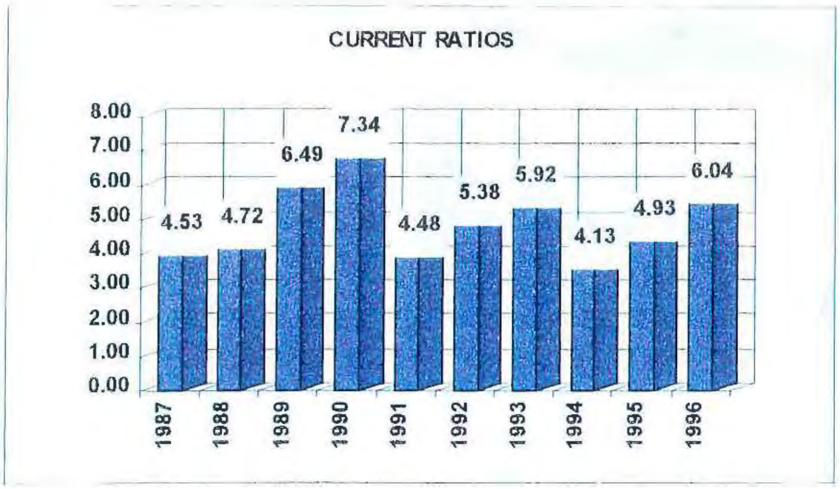
- OPERATING ASSISTANCE AND INTEREST INCOME,
- ACTUAL RESERVE TO TARGET RESERVE,
- OPERATING EXPENSES AND FAREBOX REVENUE,
- VEHICLE REVENUE MILES,
- PASSENGER MILES,
- SCHEDULE OF DEBT SERVICE TO PLEDGED SALES TAX REVENUE,
- SELECTED FINANCIAL DATA,
- SELECTED STATISTICAL DATA

Santa Clara County Transit District aka (VTA)

FINANCIAL RATIOS 1987 - 1996

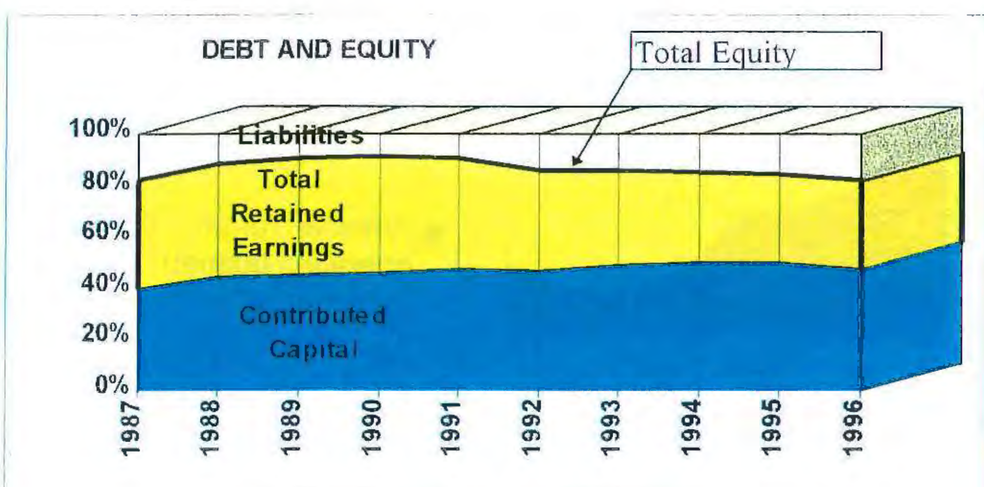
Current Ratios

This measure of the District's ability to meet short term obligation is determined by dividing total current assets restricted and unrestricted by all current liabilities restricted and unrestricted, and payable from current restricted assets. A ratio of 2 to 1 is usually considered to be an indication that an organization is liquid enough to pay its obligations of the upcoming year on a timely basis.



Debt and Equity Ratios

These ratios indicate the percentage of assets financed through borrowing, capital contributions, and District equity. They are determined by showing liabilities and equity as a percentage of total assets. Total Equity is shown as the solid line in the chart below. This indicates VTA has issued a relatively small amount of debt to finance its assets.

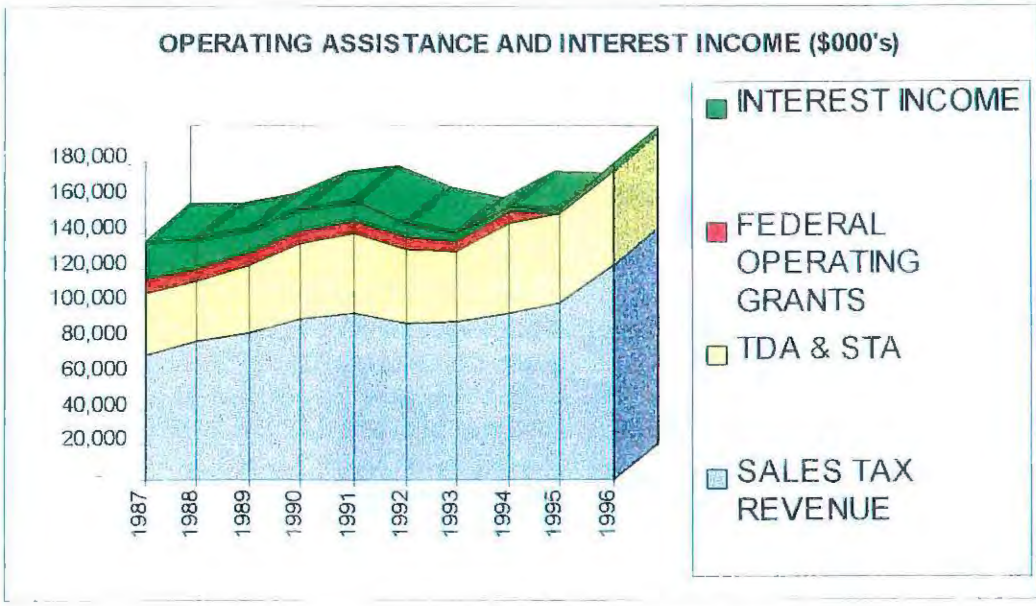


TEN - YEAR COMPARISONS

1987 - 1996

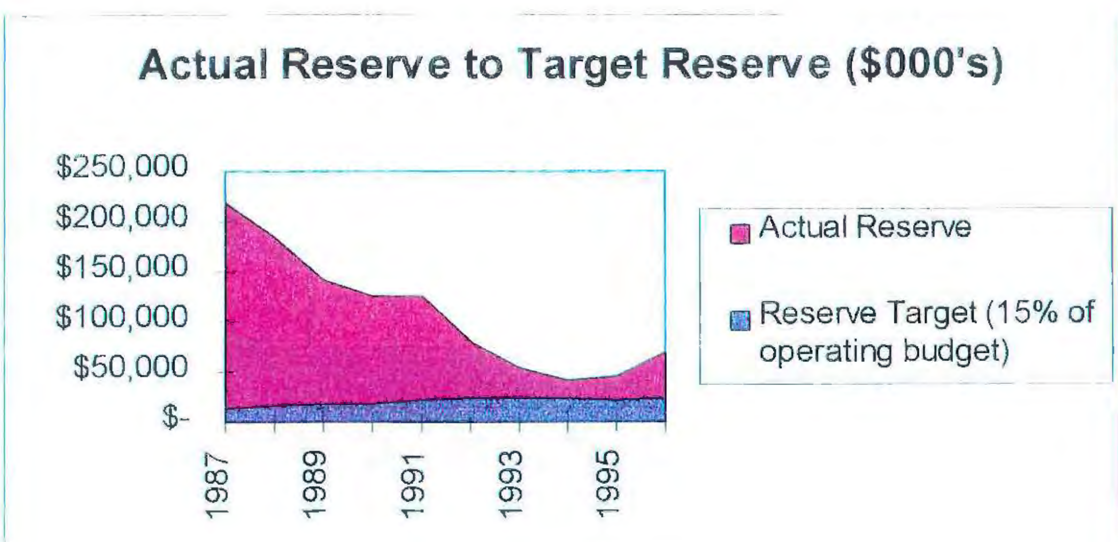
Operating Assistance and Interest Income

The following chart illustrates trends in selected material non-operating revenue sources.



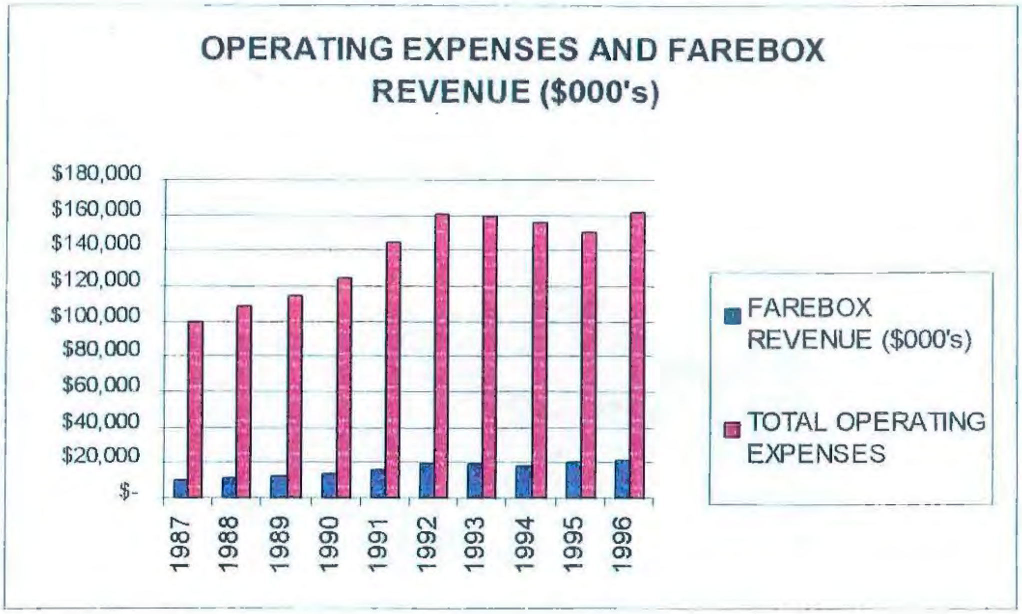
Actual Reserves to Target Reserves

This table compares the actual reserve to the minimum target level reserve. Reserves are the difference between current unrestricted assets and current unrestricted liabilities. For long term planning purposes the Authority strives to maintain reserves at a minimum level of 15% of the operating budget. The following chart illustrates the trend in reserves resulting primarily from the implementation of light rail capital expansion programs (1987-1992).



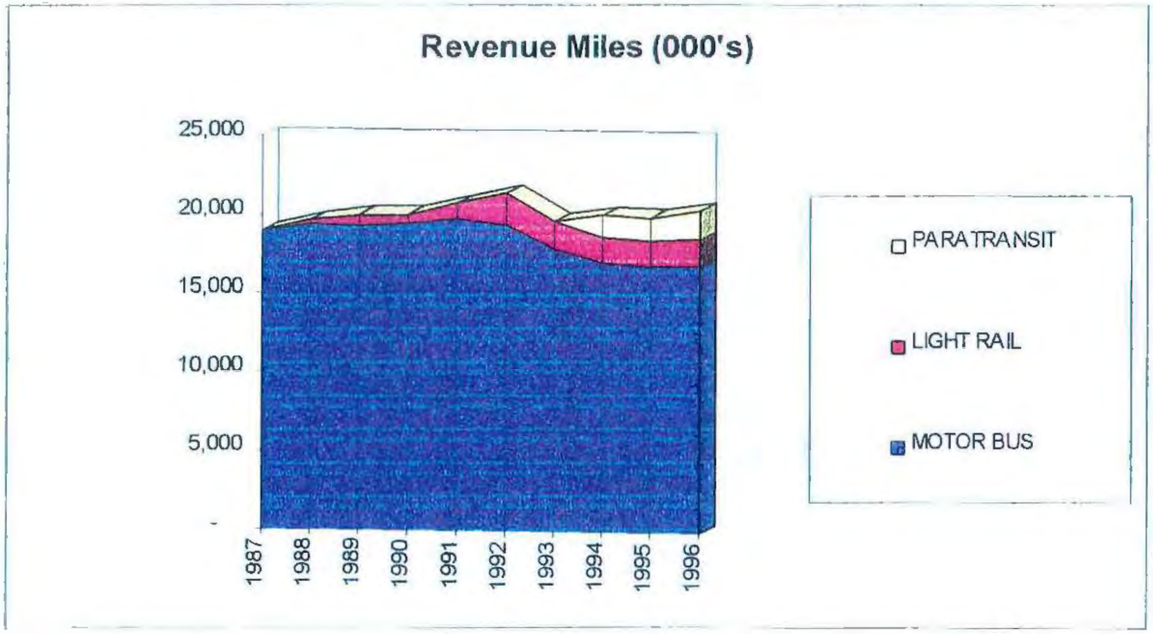
Operating Expenses and Farebox Revenue

The following chart demonstrates the proportion of operating expense recoved through fares.



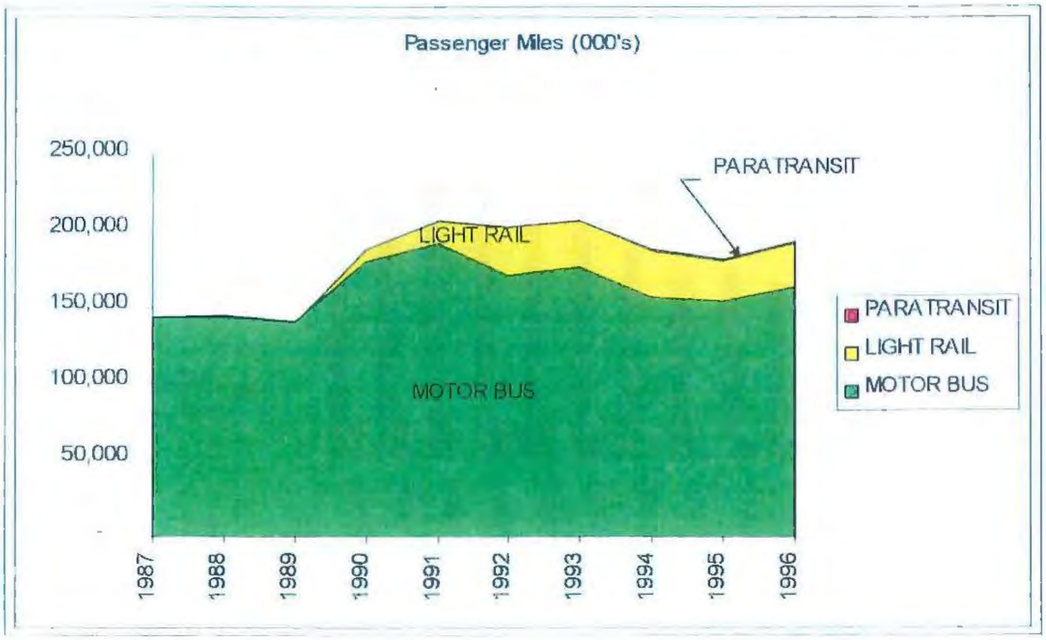
Vehicle Revenue Miles

The following chart depicts vehicle miles in revenue service. Service cuts of 5% and 10% were implemented during fiscal years 1992 and 1993, respectively. Demand response-purchased transportation vehicle revenue miles will increase as the District implements expanded service to become compliant with the federal Americans with Disabilities Act by January 1, 1997.



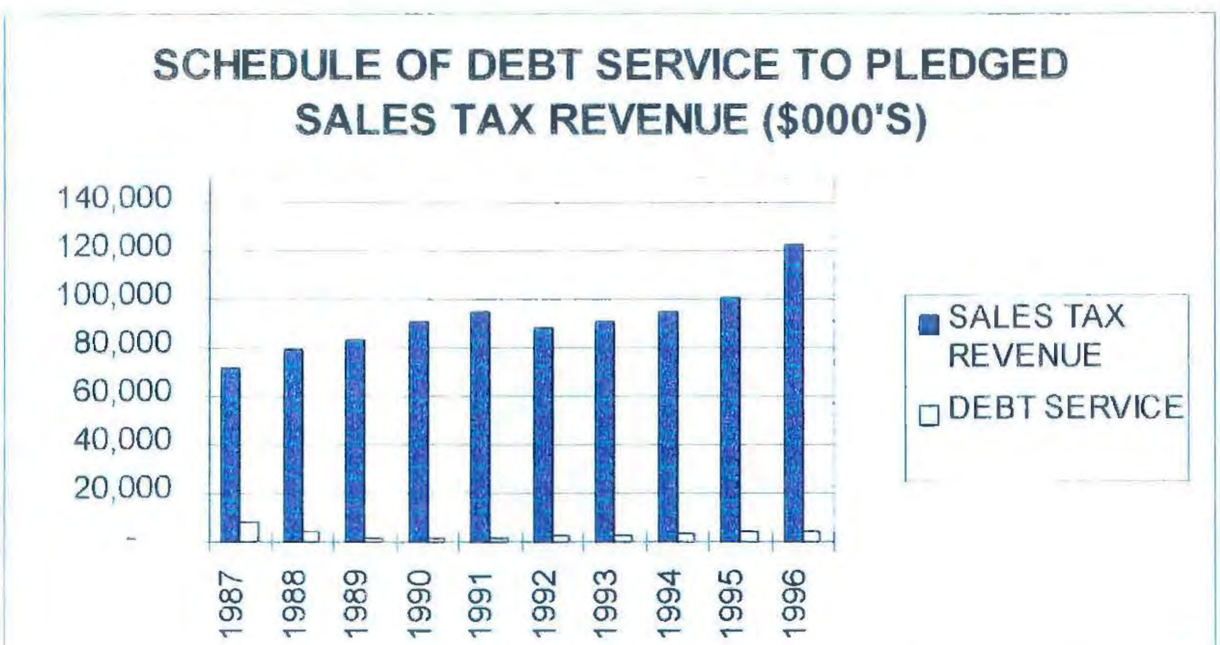
Passenger Miles

Passenger mile statistics are presented in the chart below. Service cuts of 5% and 10% were implemented during fiscal years 1992 and 1993, respectively.



Debt Service

The following schedule of debt service to pledged sales tax revenues reflects historically the pledged sales tax has adequately covered the principal and interest payments, and similar to the debt to equity indicator, shows that VTA has a relatively minor amount of debt outstanding.



SELECTED FINANCIAL DATA

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
OPERATING REVENUES ($000's)	$ 10,130	$ 11,390	$ 13,074	$ 14,653	$ 16,752	$ 19,484	$ 19,705	$ 19,279	$ 21,096	$ 22,964
OPERATING EXPENSES ($000's)										
LABOR	48,837	52,412	56,329	59,842	64,702	68,361	67,458	67,387	68,533	71,810
FRINGE BENEFITS	27,494	28,105	29,810	32,466	41,759	54,235	50,719	44,100	39,146	46,457
MATERIALS AND SUPPLIES	9,603	11,603	10,309	14,340	14,960	13,599	13,536	15,455	14,582	16,649
SERVICES	8,654	10,475	10,277	9,798	14,714	15,343	13,954	12,449	10,400	12,310
UTILITIES	758	1,104	1,567	1,422	2,117	2,775	3,300	3,152	3,337	3,277
CASUALTY AND LIABILITY	2,754	3,278	3,406	2,986	3,184	3,641	5,419	6,102	7,200	4,120
PURCHASED TRANSPORTATION	-	179	-	761	1,096	238	3,240	4,340	4,714	5,746
LEASES & RENTALS	1,047	1,338	1,233	1,621	1,619	1,535	1,710	1,448	1,079	773
MISCELLANEOUS	729	489	1,015	975	1,068	854	779	1,592	1,576	1,184
TOTAL OPERATING EXPENSES	99,876	108,983	113,946	124,211	145,219	160,581	160,115	156,025	150,567	162,326
DEPRECIATION EXPENSE	8,221	10,490	11,629	12,262	12,060	13,187	14,784	15,043	17,263	23,266
NONOPERATING REVENUES (EXPENSES)										
SALES TAX REVENUE	71,421	78,776	83,429	90,819	95,077	88,731	90,547	95,134	100,638	122,274
FEDERAL OPERATING GRANTS	6,989	6,762	6,739	6,313	6,524	6,324	6,042	6,067	146	110
TDA & STA	35,091	33,974	38,609	43,231	45,091	41,954	38,897	50,411	50,007	52,597
CALTRAIN SUBSIDY	(3,335)	(3,257)	(3,099)	(4,282)	(3,770)	(4,733)	(4,803)	(11,793)	(11,900)	(11,973)
CALTRAIN	0	0	0	0	0	0	0	0	4,972	2,086
INTEREST INCOME	22,062	16,362	12,735	13,258	10,626	7,932	4,236	2,310	2,554	4,148
INTEREST EXPENSE	(7,927)	(3,763)	(2,041)	(1,655)	(1,284)	(2,786)	(2,915)	(2,932)	(3,640)	(3,863)
OTHER (EXPENSES)/REVENUE	(8,725)	6,155	704	(2,075)	(8,125)	(3,246)	(7,525)	291	(1,355)	(231)
OTHER NON-OPERATING										
TOTAL NON OPERATING REVENUES - NET	115,576	135,009	137,076	145,609	144,139	134,176	124,479	139,488	141,422	165,148
OTHER NON-OPERATING										
NET INCOME (LOSS)	$ 17,609	$ 26,926	$ 24,575	$ 23,789	$ 3,612	$ (20,108)	$ (30,715)	$ (12,301)	$ (5,312)	$ 2,520

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Current Assets ($000's)	$ 268,853	$ 201,354	$ 178,950	$ 176,599	$ 142,994	$ 168,608	$ 151,356	$ 145,373	$ 164,755	$ 219,762
Current Liabilities	59,381	42,700	27,554	24,058	31,908	31,364	25,546	35,175	33,443	36,375
Net Working Capital	$ 209,472	$ 158,654	$ 151,396	$ 152,541	$ 111,086	$ 137,244	$ 125,810	$ 110,198	$ 131,312	$ 183,387
Current Ratio	4.53	4.72	6.49	7.34	4.48	5.38	5.92	4.13	4.93	6.04
Total Assets ($000's)	$ 656,868	$ 697,174	$ 735,325	$ 809,455	$ 873,449	$ 915,941	$ 931,217	$ 966,761	$ 1,007,266	$ 1,046,516
Contributed Capital	262,031	309,575	330,127	372,902	411,938	425,256	460,037	483,864	505,388	501,599
Retained Earnings Restricted	81,609	83,680	80,702	67,995	59,133	39,453	31,531	25,451	31,693	29,165
Retained Earnings UnRestricted	197,937	225,052	257,813	299,024	316,220	323,523	308,871	313,100	311,910	326,650
Total Retained Earnings	279,546	308,732	338,515	367,019	375,353	362,976	340,402	338,551	343,603	355,815
Liabilities	118,291	78,867	66,683	69,535	83,159	127,709	130,778	144,345	158,275	189,101
Actual Reserve	$ 217,700	$ 184,000	$ 141,300	$ 125,300	$ 125,900	$ 80,900	$ 54,600	$ 41,800	$ 46,006	$ 70,102

SELECTED STATISTICAL DATA

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
FAREBOX REVENUE ($000's)	$ 9,809	$ 11,253	$ 12,689	$ 13,716	$ 15,535	$ 18,702	$ 18,841	$ 18,343	$ 19,884	$ 21,523
VEHICLE REVENUE MILES (000's)										
MOTOR BUS	18,968	19,390	19,373	19,536	19,815	19,445	18,027	17,112	16,896	16,931
LIGHT RAIL		225	662	553	981	2,080	1,724	1,715	1,662	1,868
PARATRANSIT								1,406	1,511	1,729
PASSENGER MILES (000's)										
MOTOR BUS	143,932	144,066	140,541	180,636	191,953	171,642	176,029	156,872	153,902	163,348
LIGHT RAIL		880	534	7,527	14,566	31,396	30,183	29,501	26,413	28,428
PARATRANSIT								1,937	1,795	1,881
FLEET										
ACTIVE BUS	540	509	499	508	542	512	605	464	460	460
LIGHT RAIL	-	32	50	53	55	55	56	55	55	55
CASH FARE										
ADULT	$ 0.60	$ 0.75	$ 0.75	$ 0.75	$ 1.00	$ 1.00	$ 1.00	$ 1.10	$ 1.10	$ 1.10
YOUTH	$ 0.30	$ 0.50	$ 0.50	$ 0.50	$ 0.50	$ 0.50	$ 0.50	$ 0.55	$ 0.55	$ 0.55
SENIOR	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.25	$ 0.25	$ 0.25	$ 0.35	$ 0.35	$ 0.35
SANTA CLARA COUNTY SELECTED DEMOGRAPHIC DATA (000's)										
Labor Force	807	839	847	841	828	836	856	860	861	881
Employment	771	806	815	807	780	778	798	806	818	848
Unemployment	36	33	32	34	48	58	58	54	43	34
U.E. Rate	4.50%	3.90%	3.80%	4.00%	5.70%	6.90%	6.80%	6.20%	5.00%	3.90%
POPULATION	1,427	1,445	1,471	1,498	1,516	1,535	1,560	1,582	1,595	1,612