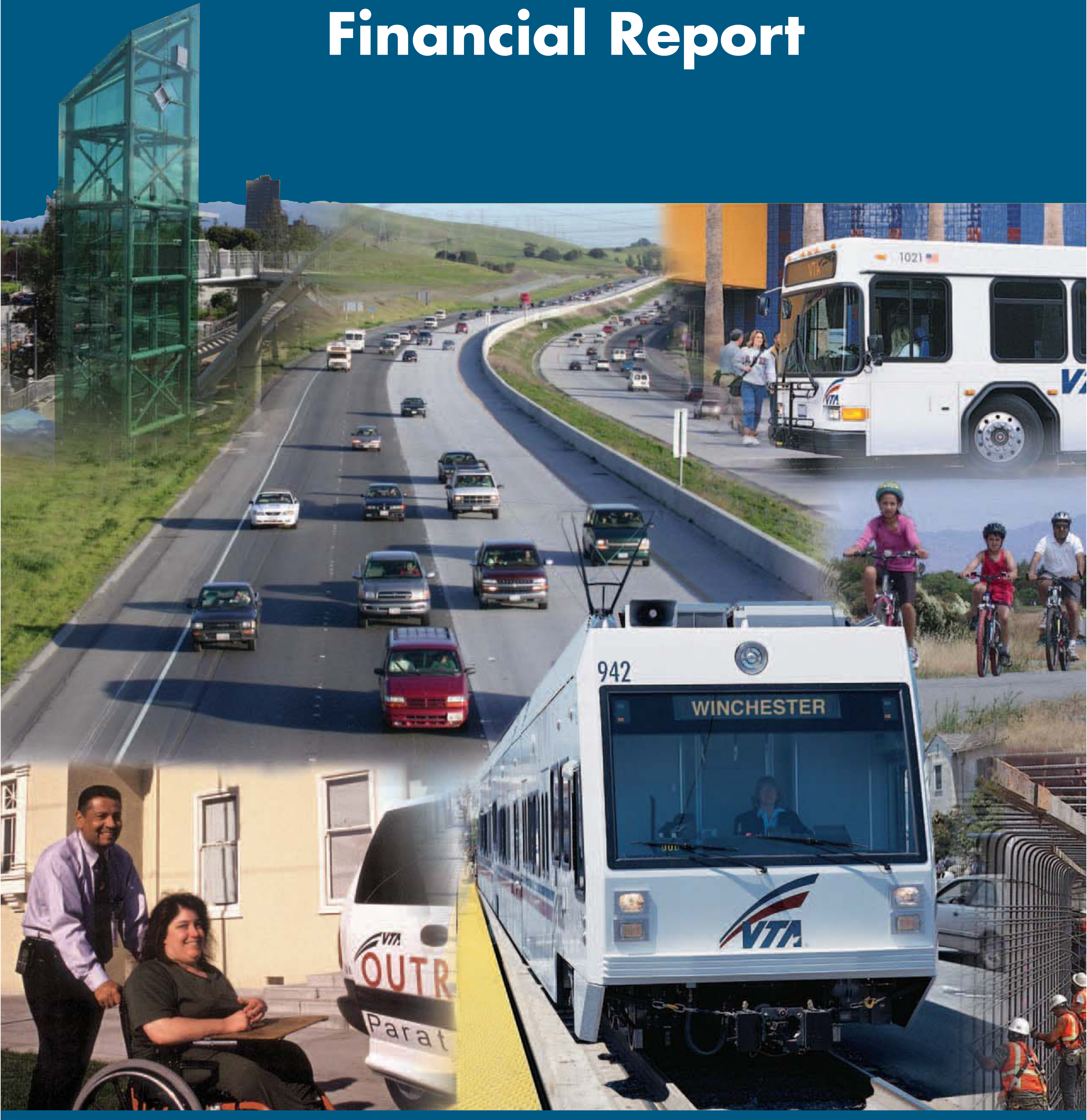
Santa Clara Valley Transportation Authority

Comprehensive Annual Financial Report



For Fiscal Year Ended June 30, 2006, Santa Clara County, California

Santa Clara Valley Transportation Authority

Comprehensive Annual Financial Report
For Fiscal Year Ended June 30, 2006

1996 Measure B U.S. 101 Widening Highway Project

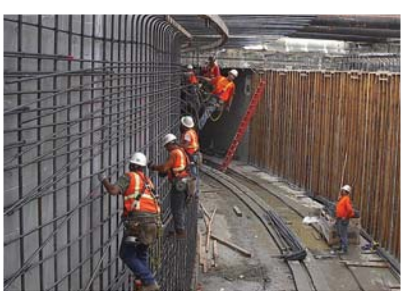
Paratransit services offer alternatives for senior & disabled customers

VTA provides service to major attractions, like the Tech Museum of Innovation

Bicycle paths provide another transportation option

Low-floor light rail vehicle on the Mountain View – Winchester Line

Elevator at the Hamilton Light Rail Station



Construction workers building the new light rail tunnel at the San Jose Diridon Station

SANTA CLARA
Valley Transportation Authority

3331 North First St., San Jose, CA 95134

SANTA CLARA VALLEY
TRANSPORTATION AUTHORITY

SAN JOSE, CALIFORNIA

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2006

Prepared by:
Fiscal Resources Division

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Santa Clara Valley Transportation Authority California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

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California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

Santa Clara Valley Transportation Authority

This certificate is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the reports were prepared.

February 24, 2006

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

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SECTION 1 — INTRODUCTION

LETTER OF TRANSMITTAL

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SANTA CLARA
Valley Transportation Authority

November 16, 2006

Board of Directors
Santa Clara Valley Transportation Authority

Subject: Comprehensive Annual Financial Report

The Santa Clara Valley Transportation Authority (VTA) Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2006 was prepared in accordance with the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA). 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, the enclosed data is reported in a manner designed to present fairly, in all material respects, VTA's financial position, changes in financial position, and cash flows, when applicable, in accordance with the requirements of accounting principles generally accepted in the United States of America as 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, a list of principal officials, and organization chart. This letter of transmittal is designed to complement the Management's Discussion and Analysis (MD&A) in the Financial Section and should be read in conjunction with this part of the report.

2. Financial Section, including the Independent Auditor's Report, MD&A, basic financial statements with accompanying footnotes, required supplementary information, and other supplementary information. Readers who desire a more detailed discussion on VTA's financial results are directed to the MD&A of the Financial Section.

3. Statistical Section, including additional data about VTA over the last 10 years.

The financial statements have been audited by Vavrinek, Trine, Day & Company LLP, a firm of licensed certified public accountants. The goal of the audit is to obtain a reasonable assurance that the financial statements are free of material misstatements. Vavrinek, Trine, Day & Company concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion for the fiscal year ended June 30, 2006, and that the financial statements are fairly presented in conformity with generally accepted accounting principles (GAAP). The independent auditor's report is presented as the first component of the financial section of this report.

In addition, Vavrinek, Trine, Day & Company also conducts the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing the Single Audit require the independent auditor to report on the fair presentation of the financial statements, agency's internal controls and compliance with legal requirements.

3331 North First Street · San Jose, CA 95134-1906 · Administration 408.321.5555 · Customer Service 408.321.2300

PROFILE OF VTA

VTA is the result of a 1995 merger between two previously separate entities: the Santa Clara County Transit District and the Congestion Management Agency for Santa Clara County (County). In January 1995, VTA was designated as the Congestion Management Agency and changed from being exclusively a transit provider to an organization responsible for countywide transportation planning, funding and congestion management within the County. VTA is also the successor organization to the Santa Clara County Traffic Authority, which terminated in March 1997.

VTA is an independent special district responsible for bus and light rail operations, Americans with Disabilities Act (ADA) paratransit service, regional commuter and inter-city rail service, congestion management, specific highway improvement projects, and countywide transportation planning. As such, VTA is both an accessible transit provider and a multi-modal transportation planning and implementation organization involved with transit, highways, roadways, bikeways and pedestrian facilities. VTA provides transit services to the 326 square mile urbanized portion of the County that is comprised of 15 cities and the County with a population totaling nearly 1.8 million residents.

Bus Transit Service

VTA has a bus fleet of 524, which includes 235 low-floor buses. The average age of the fleet is approximately 8 years. VTA's current bus fleet is equipped with devices to secure wheelchair and other mobility devices. All buses include either lifts or ramps for boarding passengers. In 1999, VTA introduced low-floor buses into the fleet. Buses purchased since 1993 are equipped with automatic annunciators to assist passengers with visual impairments. They are activated when the doors are opened at bus stops, announcing the route numbers and the destination of the vehicle. Automatic calling of stops has also been implemented as part of the Advanced Communication System project.

The bus service area of approximately 326 square miles contains 70 bus routes. There are over 4,337 bus stops and 744 bus shelters. VTA also maintains eight Park & Ride lots - five owned by VTA and three provided under a lease, permit, or joint use agreement with other agencies. Buses are operated and maintained from three operating divisions and an Overhaul and Repair (O&R) facility: Cerone Operating Division, Don Pedro Chaboya Operating Division, North Operating Division, and Cerone O&R Division.

Light Rail Transit (LRT) Service

VTA operates an approximately 42-mile LRT system connecting the Silicon Valley employment areas of Mountain View, Sunnyvale, Santa Clara, North San Jose and Milpitas to residential areas in East and South San Jose. The LRT system has a total of 62 stations and 21 park & ride lots. It operates on three alignments: service between Santa Teresa in South San Jose and Alum Rock in East San Jose, service between Mountain View and the Winchester Station, and shuttle service between Almaden and Ohlone-Chynoweth Stations in South San Jose. A fleet of 100 Kinkisharyo low floor light rail vehicles operates on these three routes and on the new Vasona route. All 100 Kinkisharyo light rail vehicles are stored and maintained at the Guadalupe Operating Division near downtown San Jose. Additionally, there are three historic trolleys that VTA periodically operates from the Civic Center Station.

Paratransit Services

As an operator of bus and light rail services, VTA is required under the Americans with Disabilities Act (ADA) to ensure that paratransit service is provided to eligible individuals with disabilities. The level of service must be comparable, in terms of hours of service and area served, to the service provided by the bus and light rail system. Since January 1997, VTA has been in full compliance with ADA paratransit provisions. VTA does not directly provide paratransit service, but contracts with Outreach and Escort, Inc., a paratransit broker service. Eligible riders call Outreach to schedule their trips. The broker receives and schedules trip requests, builds vehicle manifests, and contracts for services with taxi, sedan and accessible van service providers.

Prior to receiving service, all applicants must complete an eligibility certification process conducted by the broker. Once determined eligible, customers call the broker to schedule trips. The broker then assigns trips based on the most appropriate mode to meet the rider's needs, for example, sedan, accessible van, or transfer to and from a fixed route. During FY2006, VTA streamlined the eligibility process which allows applicants to fill-out an application on a data card and interview on the phone instead of appearing at a VTA facility. The broker also provides subscription trips according to policies developed and adopted by VTA. Although not required by ADA, VTA also provides same-day paratransit service and service beyond its area at an additional cost to the customer.

Contracted, Interagency and Other Transit Services

VTA is a partner in various ventures that expand the transportation options for our customers. These relationships include commuter rail, inter-county express bus lines, and rail feeder services. They are operated either by contract or through cooperative agreements.

Caltrain Peninsula Corridor Joint Powers Board (PCJPB)

Caltrain is a commuter rail service provided by the PCJPB, which is governed by representatives from San Francisco, San Mateo, and Santa Clara counties. It operates between Gilroy and San Francisco. There are 32 stations along the line; 15 are located in Santa Clara County. As of August 1, 2005, Caltrain operates 96 weekday trains. In addition, six peak-hour weekday trains (three northbound in the morning and three southbound in the evening) serve five stations in South San Jose, Morgan Hill, San Martin and Gilroy. VTA light rail transfers can be made at both the Tamien and Mountain View Caltrain Stations.

Funding for the operation of Caltrain comes from fares, parking revenues, and operating subsidies from the three member agencies. The PCJPB determined a formula for the amount of subsidy required by each member for operating expenses. It is based on a five year rolling average of the percentage of morning commute boardings occurring in each member county and is updated annually based on actual ridership counts. Capital replacement and enhancement project expenses are allocated equally among the JPB members for projects on the PCJPB-owned right-of-way between San Francisco and San Jose. Capital expansion project funding is determined on a case-by-case basis. VTA contributes 100 percent of capital expenses for the Caltrain San Jose to Gilroy segment.

Altamont Commuter Express Rail Service (ACE)

The ACE is an 85-mile weekday commuter rail service from Stockton to San Jose via the Tri-Valley area of Alameda County. Operating on the Union Pacific railroad track, ACE service consists of six daily trains (three round trips), two of which originate in Stockton and one morning train originating in Lathrop providing service to San Jose Diridon Station. Three afternoon trains provide return trip service from San Jose. Two of these trains return to Stockton and one terminates in Lathrop. ACE service began in 1998. ACE connects to VTA bus and light rail service, the Bay Area Rapid Transit District (BART), the Alameda-Contra Costa Transit District (AC Transit), Caltrain and the Capitol Corridor Intercity Rail Service. Stations are serviced by shuttle and feeder bus service. The San Joaquin Regional Rail Commission (SJRRC) is the owner, operator, and policymaking body for ACE service. The funding for ACE service is provided under the terms of a cooperative agreement between VTA, SJRRC, and the Alameda County Congestion Management Agency.

Capitol Corridor Intercity Rail

The Capitol Corridor Intercity Rail Service is a 185-mile train corridor from Auburn and Sacramento to San Jose, through the counties of Placer, Sacramento, Yolo, Solano, Contra Costa, Alameda and Santa Clara. Capitol Corridor service consists of four weekday round trips from Sacramento to San Jose and six weekday round trips from Sacramento to Oakland with connecting bus and passenger rail service. One round trip per day extends beyond Sacramento to Auburn.

The train service parallels the Interstate 80 corridor between Sacramento and Oakland, and Interstate 880 between Oakland and San Jose. Service includes stops in Auburn, Rocklin, Roseville, Sacramento, Davis, Suisun/Fairfield, Martinez, Richmond, Berkeley, Emeryville, Oakland, Hayward, Fremont, Santa Clara at Great America and San Jose Diridon Station. The Capitol Corridor Joint Powers Authority (CCJPA), which is comprised of representatives from the eight counties served by the corridor, is responsible for managing the service. Under contract with the CCJPA, BART manages the service and Amtrak operates it. The funding is provided by the State of California and not through member agency contributions.

Inter-County Bus Service

VTA sponsors two inter-county bus services through cooperative arrangements with other transit systems.

The Dumbarton Express is a transbay express bus route between the Union City BART Station and the Stanford Research Park in Palo Alto. It provides the only regularly scheduled public transit service over the Dumbarton Bridge. A consortium comprised of representatives from AC Transit, BART, City of Union City, San Mateo County Transit District (SamTrans) and VTA underwrite the net operating costs of the service based on the origin and destination of the passengers as determined through a biennial survey. VTA is responsible for 36% of the net operating costs and Sam Trans, AC Transit, BART and the City of Union City are responsible for the rest.

The Highway 17 Express provides direct bus service from Santa Cruz to Downtown San Jose. The service is managed and operated by Santa Cruz Metro Transit District (Metro) under a Joint Powers Authority Agreement with VTA. In 2004, Caltrans and the CCJPA joined as service partners by merging their connector bus service with the Highway 17 Express. This consolidation added new weekend and holiday service, more weekday trips and extended the route to the Downtown Santa Cruz Metro Center. These improvements are fully funded by Caltrans and CCJPA. VTA and Metro continue to share the operating subsidy for the remainder of the weekday service on a 50/50 basis.

Shuttle Program

Light Rail Shuttle

Under this program, VTA offers financial assistance to employers and entities that wish to operate shuttle bus service between light rail stations and nearby employment/activity centers. No fares are charged on these shuttles. Operating costs are instead met with combined funding from local employers served by the Shuttles, the Bay Area Air Quality Management District's Transportation Fund for Clean Air, and VTA.

Downtown Area Shuttle (DASH) and HP Pavilion Shuttle Programs

VTA operates a free Downtown Area Shuttle (DASH) on weekdays to employment, business and school locations in downtown San Jose. It serves the San Jose Diridon Train Station, thereby providing transfer connections from ACE, Caltrain, the Capital Corridor Intercity Rail Service, Highway 17 Express and VTA bus routes. The route circulates through downtown San Jose, where it connects to VTA's light rail system. The funding for this service is provided by VTA, the Transportation Fund for Clean Air Act, City of San Jose, and the San Jose Downtown Association.

San Jose Airport Flyer

VTA, in partnership with the City of San Jose, provides free Airport Flyer bus service connecting San Jose International Airport terminals and airport parking lots with VTA's Metro/Airport Light Rail Station and the Santa Clara Caltrain Station. Funding for this service is split equally between VTA and the City of San Jose.

Congestion Management

VTA, as the Congestion Management Agency for Santa Clara County, is responsible for coordinating and prioritizing projects for state and federal transportation funds, administering the Transportation Fund for Clean Air Program, and coordinating land use and other transportation planning. Adoption of a Congestion Management Program (CMP) is required to qualify for certain transportation funds made available through the state gas tax increases authorized in 1990.

GOALS, OBJECTIVES AND STANDARDS

In 1995, the VTA Board adopted the following Vision and Mission Statements:

Vision Statement

The vision of the Santa Clara Valley Transportation Authority is to provide a transportation system that allows anyone to go anywhere in the region easily and efficiently.

Mission Statement

The mission of the Santa Clara Valley Transportation Authority is to provide the public with a safe and efficient countywide transportation system. The system increases access and mobility, reduces congestion, improves the environment and supports economic development, thereby enhancing quality of life.

In addition, the VTA Board of Directors specified four key policy directions and adopted a fifth related to the 1996 Measure B program in 1999. Those five policy directions are as follows:

- Integrate land use and transportation
- Use all transportation options
- Create a safe, convenient, reliable and high quality bus/rail operation
- Build a regional perspective
- In partnership with the County of Santa Clara, implement the 1996 Measure B Transportation Improvement Program.

VTA STRATEGIC PLAN GOALS

In 2003, VTA completed a review of its services and programs, and formulated recommendations to improve its efficiency and effectiveness, while enhancing its ability to continue providing quality services and programs to its customers within the context of current Board policy, the region's current economic realities, and financial constraints.

Subsequently, previous Strategic Plan goals and objectives were revised and expanded to include recommendations from a Business Review Team and an Ad-Hoc Financial Stability Committee. On November 7, 2003, the VTA Board reviewed and approved these goals and objectives.

Maintain Financial Stability

- Secure adequate levels of funding to sustain the existing transportation system and secure new fund sources for system expansion.
- Increase the transit system's operating recovery ratio, with a target of 20-25 percent by adding new riders, increasing the average fare per passenger through a multi-year Fare Policy and annual or biennial fare reviews, and improving cost efficiencies.
- Ensure timely maintenance, replacement and/or rehabilitation of essential capital assets.
- Implement new capital programs only when operations and maintenance costs have been identified and revenue sources determined.
- Ensure the Reserve Fund policy will sustain sufficient future cash flow through changing economic cycles.

- Maintain a proactive state and federal legislative program to ensure policies and funding allocations serve the needs of VTA's mission and diverse communities.
- Pursue joint development opportunities that result in both ridership and development revenues for VTA.
- Ensure that expenditures of 2000 Measure A funds are consistent with priority projects and services as identified by the Board of Directors.

Enhance Customer Focus

- Increase ridership at least one to three percent annually.
- Maintain a high level of transit system reliability.
- Better communicate transit service information to customers and improve customer information resources as near-and long-term opportunities arise, including real-time route and schedule information, on-line trip planning, and e-commerce for VTA passes and tickets.
- Maintain a proactive media relations presence to promote services and provide awareness of VTA's benefits to the community.
- Continue to enhance transit service in order to make VTA the travel mode of first choice.
- Ensure that comprehensive public participation programs are a key element in developing transportation system plans and projects.

Improve Mobility and Access

- Provide transportation facilities and services that support and enhance the quality of life for Santa Clara County residents and the continued health of Santa Clara County's economy.
- Manage congestion by focusing investments to address the transportation system's greatest roadway, transit, bicycle and pedestrian needs.
- Increase the use of commute alternatives, especially in defined key cores, transportation corridors and station areas.
- Continually evaluate services through the Service Management Plan, using revised service standards, making necessary modifications to assure efficiency and effectiveness of transit service and expand service, as allowed by financial resources.
- Develop plans, secure environmental clearance and begin implementation of priority 2000 Measure A transit projects as funds become available.
- Complete the 1996 Measure A transit and highway projects as local, state and federal funding allows.

Integrate Transportation and Land Use

- Continue to work with the cites and County to improve the relationship between land use and transportation decisions, and advocate for the implementation of the principles and practices contained in the Community Design and Transportation Program.
- Develop and enhance partnerships with the cities and the County to ensure adoption of the Transit-Oriented Development plans and policies along existing and future transit corridors.

- Partner with private sector and the cities to develop projects at VTA station areas to intensify residential, commercial, and retail uses.
- Through the Valley Transportation Plan (VTP) 2030, strive to provide certainty to cities and private developers that priority transit projects upon which cities base land use decisions will be implemented in a timely manner.

Increase Employee Ownership

- Continue to involve employees in the refinement of VTA business practices, such as transit routes and schedule planning.
- Continue to respond to key areas of organizational improvement identified by employees.
- Continue to work with employee labor representatives to develop strategies and to implement additional operational efficiencies.
- Foster an environment that demonstrates VTA is an employer of choice.

VTP 2030 Goals and Objectives

The goals and objectives presented below provide overarching principles for VTA in the planning process for VTP 2030. They relate to building and maintaining a multi-modal transportation system that fosters a healthy economy and a high quality of life for residents and workers.

The overarching goal established for VTA's long-range planning is *"to provide transportation facilities and services that support and enhance the county's continued success by fostering: A high quality of life for Santa Clara County's residents, and continued health of Santa Clara County's economy."* While this goal remains the backbone of countywide long-range transportation planning, VTP 2030 establishes the following supporting objectives:

- Provide a policy framework where the investments made in transportation infrastructure and services with land use policy commitments from local jurisdictions that fully support those investments and allow optimal utilization and effectiveness of all transportation modes.
- Provide a balanced transportation system that supports implementation of all modes of travel.
- Provide projects, programs, and policies that develop and foster proactive partnerships between VTA and local jurisdictions.
- Provide projects, programs, and policies that encourage and support community vitality, and economic and social prosperity.
- Provide a long-range planning framework that supports and implements VTA's Strategic Goals and Objectives.

SHORT RANGE TRANSIT PLAN FY 2006-2015

As a transit operator, VTA prepares the Short Range Transit Plan (SRTP) every two years as required by the Metropolitan Transportation Commission (MTC) and Federal Transit Administration (FTA). The SRTP is used as documentation to support projects included in the Regional Transportation Plan (RTP) prepared by MTC. In addition, the SRTP supports the activities and priorities contained in the County's long-range transportation plan, Valley Transportation Plan (VTP) 2030, adopted by the VTA board in

February 2005. MTC utilizes the SRTP to develop regional transit capital programming documents that are the basis for State and Federal funding programs. Both the FTA and MTC use the SRTP as the detailed planning justification required for awarding operating and capital grants to VTA, as represented in the Transportation Improvements Program (TIP).

To comply with MTC and FTA requirements, the SRTP financial plan presents VTA's known financial condition. It reflects current VTA Board policy and budgetary decisions, as set forth in VTP 2030 and other policy documents. The SRTP is financially constrained and includes funding sources and revenues that can realistically be anticipated such as current federal and state transit grant programs, local sales tax dedicated to VTA and fare. The FY2006-2015 SRTP, approved by VTA's Board on January 5, 2006, documents VTA's ongoing transit development and planning process covering a 10-year planning horizon.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

The financial outlook for the County appears brighter. Studies show that consumer confidence is improving slightly. Housing prices are stabilizing after a sharp increase over the past few years. The unemployment rate in the County has declined and is standing at 5.0% as of July 2006, compared to 5.7% in July 2005. The County still faces the issue of high-tech engineering jobs being outsourced to other countries in order to lower costs.

The County is an important barometer of commercial activity. Taxable sales activities and office vacancy rate within the County give us valuable insight to the direction of the economic recovery. Despite the divergent messages sent by the economy, there are signs indicating that the County's economy is rebounding. According to the latest data available from the State Board of Equalization, the County's taxable sales of all outlets in the third quarter of calendar year 2005 have increased by $0.65 billion, or 9.1% compared to the same period a year earlier. According to the Silicon Valley/San Jose Business Journal, office vacancy in Silicon Valley was below 12.5% for the first quarter of 2006, slightly lower than the 14% rate of the second quarter of 2005.

Sales Tax

Local sales tax is derived from a one-half cent sales tax restricted for transit purposes, levied within the County. Sales tax is the primary source of funds for VTA's operations, maintenance, and capital needs. VTA also receives State of California Transportation Development Act (TDA) funds, which are derived from a one-quarter cent sales tax levied by the State of California and allocated on a "return to source" basis for transportation use. These two sales taxes account for 73.5% of the total enterprise fund revenue (less capital contributions) for the year ended June 30, 2006. In April, 2006, VTA began receiving revenues generated by the 2000 Measure A sales tax for financing operations and the transit projects specified in the 2000 Measure A.

The economic downturn in the County over the last few years has caused a substantial reduction in sales tax revenues used to fund the operation and maintenance of VTA's existing system. Due to the heavy dependence on the high-tech industry, the County's economy has been volatile, resulting in corresponding volatile sales tax receipts. However, the receipts of $195.5 million represent a 34.8% increase over FY2005 receipts. The primary reason for the large spike in sales tax revenue is the addition of the half-cent 2000 Measure A sales tax revenue. The collection of this voter-approved tax measure started during FY2006.

Ridership & Farebox Revenue

The FY2006 bus ridership was 30.3 million with $27.1 million in farebox revenues, a 2.1% increase from the previous year. The light rail ridership was 8.3 million with farebox revenues of $7.3 million, an increase of 22.1%. The light rail ridership has increased not only from the new Vasona line extension in FY2006 but also from higher ridership on the existing light rail lines.

There was a 7.5% increase in Paratransit ridership in FY2006 compared to FY2005. This was the first complete year that VTA provided free transportation for eligibility interview and appeals. All contracted and inter-agency ridership numbers increased in FY2006 except for the Dumbarton Express.

Federal Section 5307 Urbanized Formula Program

Federal Section 5307 allows eligible recipients (such as VTA) to claim capital grant funds for maintenance costs and other projects such as routine bus replacement. Grant applicants may apply for FTA grants in an amount up to 80% of annual vehicle maintenance costs. VTA has incorporated this policy in its grant application strategies. The funds are reflected in the financial statements as Federal Operating Assistance. Currently, VTA treats all bus maintenance costs for revenue and non-revenue vehicles as eligible expenditures.

1996 MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM

In November 1996, voters in the County overwhelmingly approved Measure A, an advisory measure listing an ambitious program of transportation improvements for the County. Also approved on the same ballot, Measure B authorized the County Board of Supervisors to collect a nine-year half-cent sales tax for general county purposes. Subsequently, the County Board of Supervisors adopted a resolution dedicating the tax for Measure B projects. Collection of the tax began in April 1997; however, use of the revenue was delayed pending the outcome of litigation challenging the legality of the sales tax. In August 1998, the California courts upheld the tax allowing the implementation of the 1996 Measure B transportation projects to move forward.

In February 2000, the VTA Board of Directors approved a Master Agreement formalizing VTA's partnership with the County to implement the 1996 Measure B Transportation Improvement Program (MBTIP). With this partnership in place, the County and VTA are in a position to complete a transportation program valued at over $1.4 billion. VTA is responsible for project implementation and management of the transit and highway projects and assists in the administration of the pavement and bicycle elements of the program. The Measure B tax expired on March 31, 2006. While tax collection has ceased, many project activities will continue, funded from the MBTIP, for several years to come.

2000 MEASURE A TRANSPORTATION IMPROVEMENT PROGRAM

In August 2000, the VTA Board of Directors approved placing a measure on the November 7, 2000 General Election ballot, which would approve a 30-year half-cent sales tax to take effect in the County after the 1996 Measure B Sales Tax expires (March 31, 2006). More than 70% of voters approved the 2000 Measure A. The tax cannot be extended past March 31, 2036 without the vote and approval of the residents of the County. Reduced taxable sales receipts over the past few years have resulted in a substantial reduction in the projected sales tax revenues expected to be generated by 2000 Measure A. In June, 2006, the Board approved a 30-year 2000 Measure A Revenue and Expenditure Plan as recommended by the board-appointed Project Advisory Committee. The Plan preserves all the projects identified on the 2000 Measure A Ballot. Currently, the Plan shows a deficit funding and staff is working with the Board to determine a possible course of action to identify additional revenue sources.

The following are descriptions of four major Measure A transportation projects:

Downtown Easy Valley Transit Improvement Plan

This project includes the extension of the light rail line along Santa Clara Street/Alum Rock Avenue from the Alum Rock-Santa Teresa LRT (Light Rail Transit) Line to Downtown San Jose; LRT along Capitol Expressway from the existing Alum Rock LRT Station to the Eastridge Mall area, and continuing along Capitol Expressway to the Alum Rock – Santa Teresa LRT Line (at SR-87); and Bus Rapid Transit (BRT) on Monterey Highway from Downtown San Jose to the Alum Rock- Santa Teresa Line on the Capitol Avenue LRT extension.

Silicon Valley Rapid Transit Corridor (SVRTC)

This project is a 16.3-mile extension of the 104-mile regional Bay Area Rapid Transit (BART) heavy rail system from the City of Fremont in Alameda County to the heart of Silicon Valley in Santa Clara County, including the cities of Milpitas, San Jose, and Santa Clara. The SVRTC would include 7 stations plus one future station. The alignment would run at-grade, above ground or in a trench, with 4.8 miles of subway through downtown San Jose. A new BART maintenance and storage facility and rail cars are also included in the project scope.

Caltrain South County Track Improvements

Various projects are proposed to improve and increase Caltrain service including $45 million in capacity improvements that will double track the UPRR track from Bailey Avenue in San Jose to Morgan Hill over the next five years, the granting of five additional commuter roundtrips on completion of the capacity improvements, and the construction of a Gilroy yard facility to accommodate storage of 10 commuter rail train sets. 2000 Measure A has allocated funds for the additional rolling stock needed for service expansion.

Dumbarton Rail Corridor

This project will provide VTA's share of matching funds for a partnership with Alameda and San Mateo counties for the rebuilding of the Dumbarton Rail Corridor. The service would run over the Dumbarton

Rail Bridge between the Union City BART Station in Alameda County and Caltrain stations in San Mateo and Santa Clara counties. The 16-mile line would connect BART, Capitol Corridor Intercity Rail, Altamont Commuter Express (ACE), and Caltrain. This project also involves the purchasing of train sets for this service.

TRANSLINK® FARE PAYMENT SYSTEM

TransLink® is a regional transit fare payment system (smart card) for the nine-county San Jose/San Francisco/Oakland Bay Area. When the system is fully implemented, the TransLink® card will be accepted for fare payment on every participating transit vehicle and at every participating transit station in the Bay Area, allowing customers to travel seamlessly throughout the region without needing to carry cash or purchase tickets. The card will allow riders to store value on the card after money is loaded electronically at sales outlets, vending machines, or by other sales channels. Once the card has a balance, the value would be deducted from the card each time it is used for travel. It offers several potential advantages to VTA and customers, including convenience, security, simplified transfers, and reduced handling of coins and bills. A regional clearinghouse was established to track all card loading and fare payment transactions, and to "settle" funds among all the participating transit operators.

An evaluation of the first six months of the demonstration (Phase I) concluded that the system worked and that customers wanted to see it extended region wide. Participants in Phase I included VTA, BART, the City and County of San Francisco, acting by and through its Municipal Transportation Agency (MTA), Golden Gate Bridge Highway and Transportation District (GGBHTD), AC Transit, Caltrain and SamTrans. The second phase is now underway with the intent of establishing a full region-wide implementation of TransLink®. VTA is expected to go live with TransLink® in revenue-ready status in October 2008.

CASH & INVESTMENT MANAGEMENT POLICIES AND PRACTICES

VTA's cash and investments are managed in accordance with California Government Code Section 53601 and other applicable state law. The Restricted and Unrestricted Investment Policy is periodically reviewed and approved by the Board of Directors. The Investment Policy defines permitted investments and prescribes investment strategies. The investment strategies are expressed through asset allocation ranges and targets. Risk tolerance and performance expectations are defined by benchmark indices.

Restricted investments are for all non-retirement assets. Restricted assets consist of monies and other resources that are either Board designated or legally restricted for the following purposes:

- Capital and Operating
- Workers' Compensation
- Debt Service
- Retiree Health Care
- General Liability Insurance
- Long-term Accrued Vacation and Sick Leave Benefits

All securities are "marked-to-market" at month-end. VTA's investment program is actively managed by professional money managers whose performance is overseen by VTA.

The Restricted/Unrestricted Investment Policy includes three asset allocations and accompanying benchmarks as shown below. In FY2006, this investment policy received certification and a Certificate of Excellence from the Association of Public Treasurers of the United States and Canada. In accordance with California Government Code Section 53620 – 53622, the assets of the Retiree Health Care Program funds may be invested in a manner similar to those made by pension funds.

Asset Allocations	Target Ranges	Actual
Operating/Non-Retirement:		
Benchmark		
US Government Intermediate Fixed Income	N/A	42%
Institutional Money Market	N/A	18%
Cash/Commingled Investments & Funds with Fiscal Agents	N/A	40%

Retiree Health:	Target Ranges	Target Asset Allocation	Actual
Benchmark			
Lehman Aggregate (Fixed Income)	25-60%	38%	39%
S&P 500 Index (Equity)	35-70%	60%	59%
Cash/Commingled Investments	0-5%	2%	2%

The VTA/ATU Pension Plan Investment Policy functions like the Restricted/Unrestricted Investment Policy, with the notable exception that Pension Plan Trustees review and approve the policy (pursuant to California State Proposition 162 enacted in November 1992). The Pension Plan is a defined benefit plan and its financial position and changes in financial position are reported in separately issued stand-alone financial statements.

The VTA/ATU Pension Plan benchmark and asset allocation range as of June 30, 2006 is shown below:

Asset Allocation	Target Ranges	Target Asset Allocation	Actual
ATU Pension Plan:			
Benchmark			
Lehman Brothers Aggregate (Fixed Income)	35-45%	39%	35%
S&P/Barra Value (Large Cap Equity)	15-25%	20%	22%
Russell 2000 Value (Small Cap Equity)	5-15%	10%	11%
S&P 500 (Large Cap Equity Index)	10-20%	15%	14%
MSCI EAFE (International Equity Index)	10-20%	15%	18%
Cash/Commingled Investments	0-5%	1%	0%

The Plan's asset allocations are reviewed relative to the targets on a monthly basis and action is taken to rebalance to within the target ranges by means of asset transfers among categories. When necessary and/or available, cash inflows/outflows are deployed in a manner consistent with the strategic asset allocation on the system.

With respect to assets still held by the County, the investment policies of the commingled pool conform to State statutes. In addition, VTA has an adopted policy 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.

RISK MANAGEMENT

VTA is exposed to various risks of loss related to tort claims, theft, damage and destruction of VTA asset and property, errors and omissions, injuries to employees and the public and natural disasters. A combination of self-insurance and commercial coverage is used by VTA to manage its risks. Further details on the types and amounts of coverage are addressed in Note 15 in the Notes to the Basic Financial Statements.

The Risk Manager obtains excess casualty and property insurance coverage for operations and also manages the Owner-Controlled Insurance Programs (OCIP) for major transit and highway construction projects. The OCIP is a fully insured program providing general liability coverage, and statutory worker's compensation coverage for construction contractors, at a reduced premium cost to VTA.

COMPLIANCE REVIEW

To comply with the state and federal funding requirements, VTA has established a system of compliance reviews. The Compliance Review Department reviews the Request for Proposals (RFP) published by VTA, the consultant proposals in response to the RFP's and the consultant accounting systems; and analyzes the consultant's financial conditions in a pre-award audit setting to ensure that VTA's contract award process is in compliance with applicable state and federal rules and regulations. The Compliance Review Department also performs post contract award compliance reviews to validate that costs incurred related to consultant contract performance are in accordance with the state and federal cost principles and contract agreement provisions. We believe VTA's Compliance Review Department contributes to protecting VTA's interests by reasonably assuring that consultants are not in potential financial distress, which would preclude the consultants from performing in government contracts. It also helps ensure that estimated project costs are not overstated during the contract award process, and actual contract costs are limited to only those allowed by the state and federal cost principles and the contract agreement.

PENSIONS AND OTHER AND OTHER POST-EMPLOYMENT BENEFITS

There are two specific pension plans offered by the VTA. All ATU employees are covered under the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan. The plan provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. The second pension plan is the State's Public Employees Retirement System (CalPERS) for non-ATU employees. Further information on the two plans can be obtained in footnotes 11 and 12 of the Notes to the Basic Financial Statements. In addition, there are Schedules of Funding Progress for the two plans within the Required Supplementary Information.

There are three health benefits programs for employees who retire directly from VTA as follows:

- ATU Medical Trust which includes a Spousal Medical Trust and Retiree Vision and Dental Trust
- ATU Retiree Health Care Program
- Non-ATU Retiree Health Care Program

Additional information can be found in footnotes 13 and 14.

AWARDS AND ACKNOWLEDGEMENTS

VTA received two awards for the Fiscal Year 2005 Comprehensive Annual Financial Report (CAFR). The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to VTA for its comprehensive annual financial report (CAFR). This was the 10th consecutive year that VTA achieved this prestigious award. The California Society of Municipal Finance Officers (CSMFO) also awarded the Certificate of Outstanding Financial Reporting for the FY2005 CAFR. This was the first year VTA submitted its CAFR for award consideration to CSMFO.

In order to receive these prestigious awards, a government agency must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate. CSMFO has discontinued its CAFR review program.

The preparation of this CAFR required a concerted team effort throughout VTA, including staff from Accounting & Compliance Review, Disbursements, Revenue Services, Contracts and Purchasing, Risk Management, Budget, Investments, Service and Operations Planning, and the Debt Administration/ Business Analysis Departments. The Copy Center and the Marketing and Customer Service Departments also made significant contributions to the form, content, and production of the report. The team members demonstrated a commendable degree of personal dedication and determination in producing this document.

In addition, special thanks to Vavrinek, Trine, Day & Company LLP, for their contribution, as well as all other VTA staff for responding positively and promptly to the request for information that occurs with each annual audit.

Michael T. Burns
General Manager

Roger Contreras
Chief Financial Officer

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2006 VTA BOARD OF DIRECTORS

VTA is an independent special district governed by its own Board of Directors. The Board consists of 12 voting members, 5 alternates, and 2 ex-officio members, all of whom are elected officials appointed to serve on the Board by the jurisdictions they represent. Board membership is based on population as follows:

1. Six city council members from the City of San Jose.
2. Four city council members from among the Cities of Los Altos, Los Altos Hills, Mountain View, Palo Alto, Santa Clara and Sunnyvale.
3. Two city councils member from among the Cities of Campbell, Cupertino, Los Gatos, Monte Sereno, and Saratoga.
4. Two city council members from among the Cities of Gilroy, Milpitas and Morgan Hill.
5. Three members from the Santa Clara County Board of Supervisors.
6. Ex-Officio, Santa Clara County's two representatives to the Metropolitan Transportation Commission (MTC).

Each of these groupings has one alternate.
The Board of Directors meets at 6 p.m. on the first Thursday of each month.

Cindy Chavez, Chairperson
Dean Chu, Vice-Chairperson

GROUP 1	
City of San Jose	Nora Campos
	Cindy Chavez
	David Cortese
	Madison Nguyen
	Forrest Williams
	Ken Yeager, Alt.

GROUP 2	
City of Los Altos	
Town of Los Altos Hills	Breene Kerr
City of Mountain View	Greg Perry
City of Palo Alto	
City of Santa Clara	Jamie Matthews, Alt.
City of Sunnyvale	Dean Chu

GROUP 3	
City of Campbell	
City of Cupertino	Dolly Sandoval
Town of Los Gatos	
City of Monte Sereno	
City of Saratoga	Norman Kline, Alt.

GROUP 4	
City of Gilroy	
City of Milpitas	Al Pinheiro, Alt.
City of Morgan Hill	Dennis Kennedy

GROUP 5	
County of Santa Clara	Don Gage
	Liz Kniss
	Pete McHugh, Alt.

GROUP 6	
Ex-Officio	
Metropolitan	Jim Beall, Jr.
Transportation	John McLemore
Commission	

The Board of Directors established three standing committees and six advisory committees. The policy committees advise on policy matters and provide in-depth review of individual issues before the Board of Directors take final action. The standing committees include:

1. Administrative and Finance Committee (A & F)

2. Congestion Management Program and Planning Committee (CMPP)

3. Transit Planning and Operations Committee (TP & O)

The advisory committees review policies under development to ensure that they meet the needs of constituents, customers, elected officials, the business community and others. The committees include:

1. Committee for Transit Accessibility (CTA)

2. Citizens Advisory Committee (CAC)

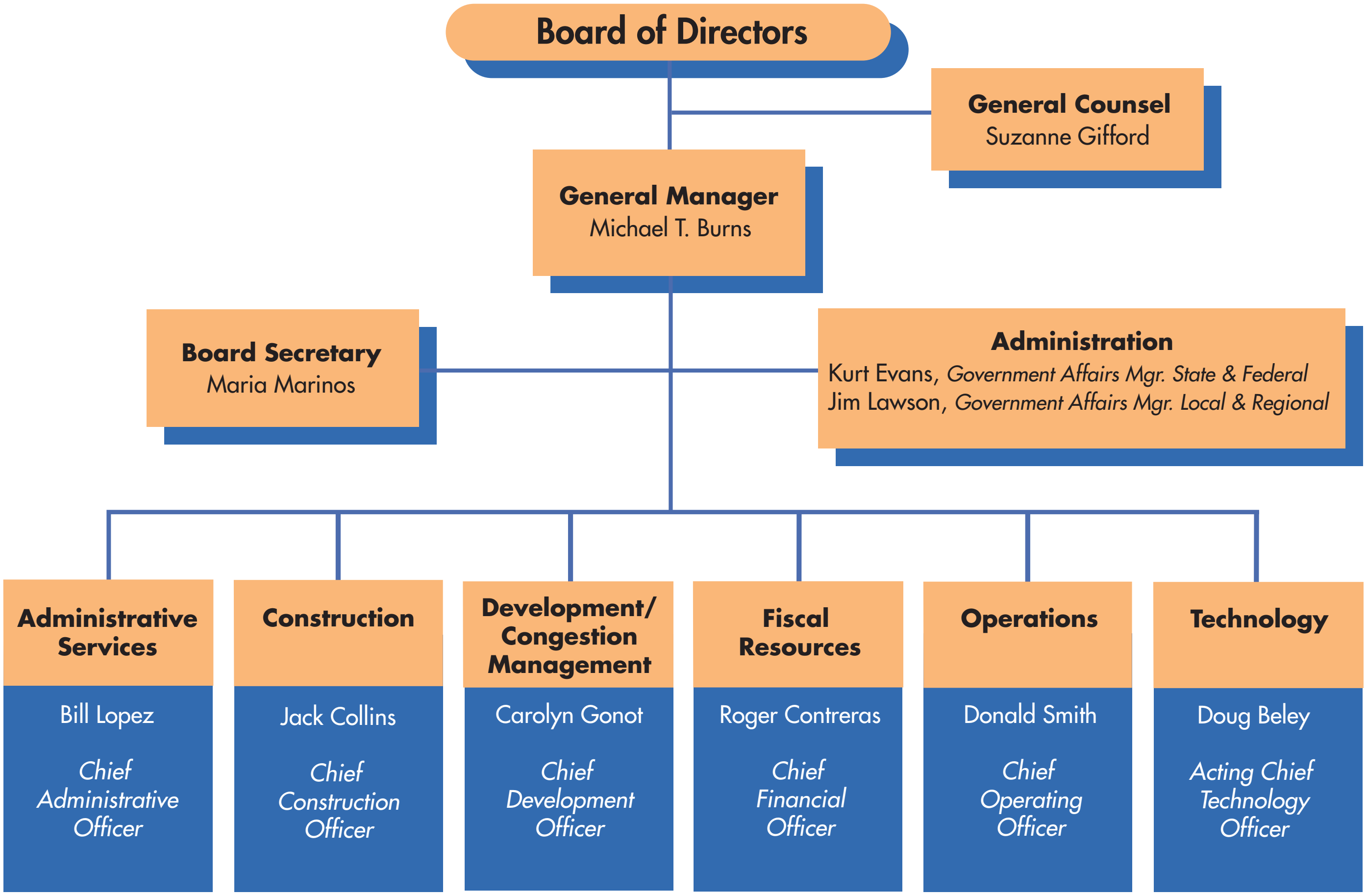
3. Bicycle and Pedestrian Advisory Committee (BPAC)

4. Technical Advisory Committee (TAC)

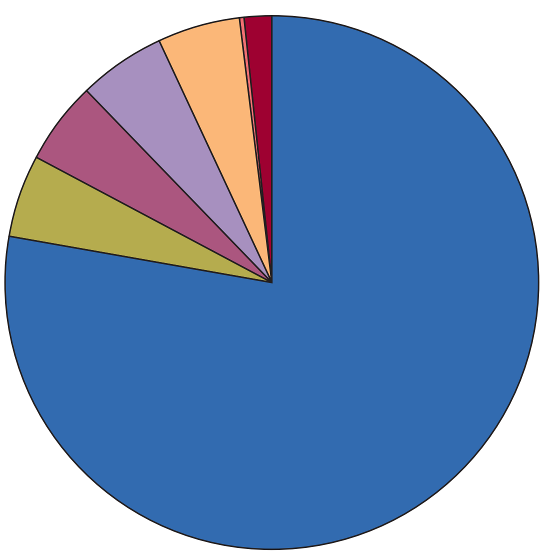
5. Policy Advisory Committee (PAC)

6. Transportation Corridor Policy Advisory Boards (PABS)

Santa Clara Valley Transportation Authority



Number of Employee Positions in Organizational Units



Operations	1597	77.8%
Development & Congestion Management	104	5.1%
Fiscal Resources	105	5.1%
Construction	107	5.2%
Administrative Services	101	4.9%
General Counsel	9	0.4%
General Manager	30	1.5%
Total	2053	100%

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Principal Officials

General Manager	**Michael T. Burns**
General Counsel	**Suzanne Gifford**
Board Secretary	**Maria Marinos**
Chief Administrative Officer	**Bill Lopez**
Chief Construction Officer	**Jack Collins**
Chief Development Officer	**Carolyn Gonot**
Chief Financial Officer	**Roger Contreras**
Chief Operating Officer	**Donald (Dan) Smith**
Acting Chief Technology Officer	**Doug Beley**
Controller	**Susan Stark**
Deputy Director, Maintenance	**Michael Hursh**
Deputy Director, Construction	**Jeff Funk**
Deputy Director, CM & Planning Program	**Vacant**
Deputy Director, Marketing & Public Affairs	**Bernice Alaniz**
Deputy Director, Operations	**Samuel Lau**
Deputy Director, Programming & Project Development	**John Ristow**
Government Affairs Manager – State & Federal	**Kurt Evans**
Government Affairs Manager – State & Regional	**Jim Lawson**

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Santa Clara County Bus and Rail Transit Service Area

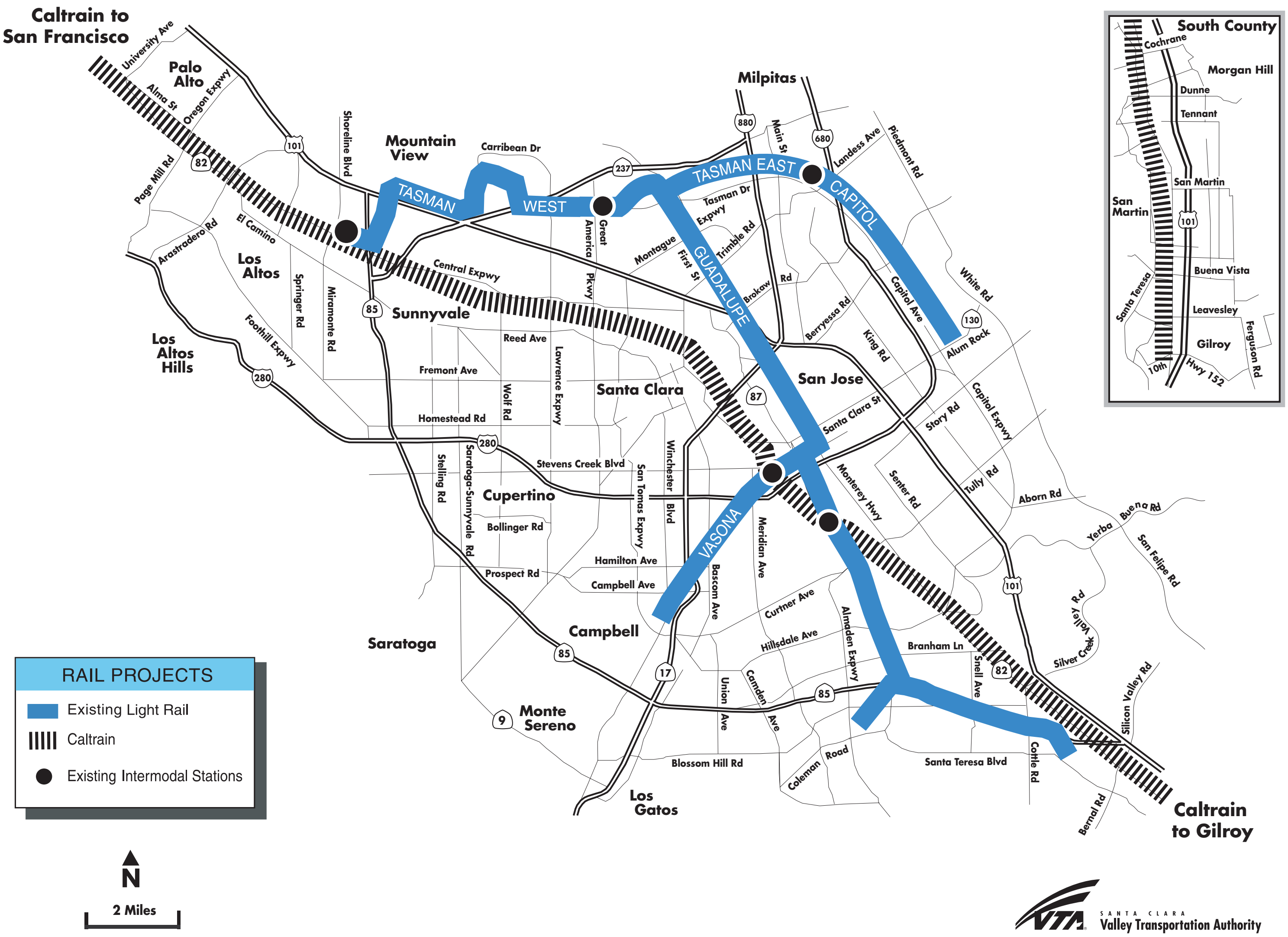

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TABLE OF CREDITS

Roger Contreras – Chief Financial Officer	Letter of Transmittal Quality Review
Susan Stark – Controller	Editing Quality Review
Grace Salandanan – Fiscal Resources Manager	Editing Quality Review
Tony Sandhu – Financial Accounting Manager	Overall Coordination Financial Statement Preparation Letter of Transmittal Statistical Section Notes to Financial Statements Management Discussion and Analysis
Olga Medina – Financial Services	Audit Coordination Editing and Formatting Printing and Assembly Coordination
Jenifer Santos – Financial Analyst	Overall Coordination Statistical Section Operating Data Statistics Graphs and Charts Editing and Formatting Printing and Assembly Coordination
Cathy Quail – Disbursements Manager Vijay Aggarwal- Accountant III	ATU Pension Plan Retiree Health Reporting
Minda Camangian – Senior Accountant	Accounts Payable Disbursements
Dino Kalugdan – Senior Accountant Julie Huang – Accountant III Sharon Li – Accountant III Ali Gulaid – Accountant III	Capital Funds Reporting Capital Grants Single Audit Notes to Financial Statements
Diana Cheng – Senior Accountant Wei Zhu- Accountant III	Cash and Investment Reporting Long-Term Debt Reporting Fiduciary and Agency Funds
Noel Paquiz – Senior Accountant Remi Thomas – Accountant III	Financial Statement Preparation Fixed Assets Reporting
Kim Koenig – Business Analysis & Debt Adm Manager Michael Gurantz – Senior Financial Analyst Heather Le – Associate Financial Analyst	Long-Term Debt Reporting Letter of Transmittal Statistical Tables
Joonie Tolosa – Senior Management Analyst	Operating Data Statistics
Roger Alfaro – Audit Manager Leonard Danna – Partner Vavrinek, Trine, Day & Company	Financial Statement Audit Quality Review
Manny Bagnas – Investment Manager Bic Nguyen – Senior Accountant	Investment Reporting Notes to Financial Statement

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INDEPENDENT AUDITOR'S REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Required Supplementary Information)

BASIC FINANCIAL STATEMENTS:

Government-wide Financial Statements:

- ◆ Statement of Net Assets
- ◆ Statement of Activities

Fund Financial Statements:

Proprietary Fund:

- ◆ Statement of Fund Net Assets
- ◆ Statement of Revenues, Expenses and Changes in Fund Net Assets
- ◆ Statement of Cash Flows

Governmental Funds:

- ◆ Balance Sheet
- ◆ Statement of Revenues, Expenditures, and Changes in Fund Balances

Fiduciary Funds:

- ◆ Statement of Fiduciary Net Assets
- ◆ Statement of Changes in Fiduciary Net Assets – Pension Trust Funds

Notes to the Basic Financial Statements

Required Supplementary Information (other than MD&A):

- ◆ Schedule of Funding Progress – ATU Pension Plan
- ◆ Schedule of Funding Progress – CalPERS Plan
- ◆ Budgetary Comparison Schedule – Congestion Management Program Special Revenue Fund
- ◆ Note to Required Supplementary Information – Budgetary Basis of Accounting

Supplementary Information – Combining and Individual Fund Statements and Schedules:

Enterprise Fund:

- ◆ Comparative Statement of Fund Net Assets
- ◆ Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets
- ◆ Comparative Statement of Cash Flows
- ◆ Budgetary Comparison Schedule
- ◆ Schedule of Restricted Assets and Related Liabilities

Fiduciary Funds:

- ◆ Combining Statement of Fiduciary Net Assets – Pension Trust Funds
- ◆ Combining Statement of Changes in Fiduciary Net Assets – Pension Trust Funds
- ◆ Combining Statement of Fiduciary Assets and Liabilities – Agency Funds
- ◆ Combining Statement of Changes in Fiduciary Assets and Liabilities – Agency Funds

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

The Board of Directors
Santa Clara Valley Transportation Authority
San Jose, California

We have audited the accompanying financial statements of the business-type activity, the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Clara Valley Transportation Authority (VTA), as of and for the year ended June 30, 2006, which collectively comprise VTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of VTA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of VTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity, the governmental activities, each major fund, and the aggregate remaining fund information of VTA as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2*(m)* to the financial statements, VTA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34* and GASB Statement No. 47, *Accounting for Termination Benefits*.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com

FRESNO • LAGUNA • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2006, on our consideration of VTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the schedules of funding progress and the budgetary comparison schedules on pages 2-3 through 2-14 and 2-65 through 2-68 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the VTA's basic financial statements. The introductory section, combining and comparative individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The VTA's financial statements for the year ended June 30, 2005, which are not presented with the accompanying financial statements, were audited by other auditors whose report thereon dated November 10, 2005, expressed unqualified opinions on the respective financial statements of the business-type activity, the governmental activities, each major fund, and the aggregate remaining fund information. Their report on the 2005 combining and individual fund financial statements and schedules stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
November 16, 2006

Management's Discussion and Analysis

This Section of the Santa Clara Valley Transportation Authority's (VTA) CAFR presents a narrative overview and analysis of the financial activities of VTA for FY2006. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

Financial Highlights

- As of June 30, 2006, VTA's assets exceeded liabilities by approximately $2.1 billion. Business-type activity (Transit Operations) and governmental activity (Congestion Management) net assets were approximately $2.1 billion and $1.9 million, respectively. Of the $2.1 billion in net assets, approximately $1.8 billion was invested in capital assets net of related debt which was associated with our capital expansion program.
- As of June 30, 2006, VTA had issued bonds in the amount of $700 million compared to $708.7 million the previous fiscal year. The decrease was due to the principal pay-off during FY2006.
- The Statement of Revenues, Expenses and Changes in Fund Net Assets reports that VTA's Enterprise Funds had a net operating loss of $328.4 million. With an addition of $262.6 million of non-operating revenues and a capital contribution of $22.5 million, net assets decreased by $43.3 million, mainly as a result of depreciation expense of $63.8 million. This can be seen on the Statement of Revenues, Expenses and Changes in Fund Net Assets, page 2-19.
- Internal Service Funds had a net operating gain of $13.9 million. With an addition of $4.1 million in non-operating revenues, net assets increased by $18.1 million to $95.4 million in FY2006. This can be seen on the Statement of Revenues, Expenses and Changes in Fund Net Assets, page 2-19.
- 1976 Sales Tax revenues increased $12.3 million or 8.5% in FY2006 compared to FY2005.
- 2000 Measure A Sales Tax revenues were $38.2 million. The collection of this voter-approved sales tax revenue started in the 4th Quarter of FY2006.
- Net assets for the Governmental Funds decreased $163 thousand primarily due to the increase in Congestion Management Program (CMP) costs and higher labor costs incurred for the CMP projects.

Overview of the Financial Statements

VTA's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. In addition to the basic financial statements, this report also includes required and other supplementary information.

Government-wide financial statements. The *government-wide financial statements* provide a top-level view of VTA's financial picture in a format resembling that of a private-sector company.

The *statement of net assets* presents information on all of VTA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of VTA is improving or deteriorating.

The *statement of activities* presents information showing how VTA's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both activities of the government-wide statements distinguish functions of VTA that are principally supported by sales tax and intergovernmental revenues. Although the transit operation's primary function is intended to recover its costs through charges for services (business-type activities), the recovery is not significant. The governmental activity of VTA is congestion management, which includes planning, programming, and construction of highway projects. The business-type activity of VTA is transit, which includes bus and light rail operations and capital project activity.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. VTA, like local and state governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of VTA can be divided into three categories: governmental funds, proprietary funds (i.e. enterprise fund and internal service fund), and fiduciary funds. The fund financial statements can be found on pages 2-17 to 2-25 of this report.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

VTA maintains three individual governmental funds and uses the governmental funds to account for the Congestion Management Program, the Congestion Management Highway and the 1996 Measure B Highway Capital Project programs. Information, on miscellaneous funds, is presented in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances.

Proprietary funds. VTA maintains two types of proprietary funds: an enterprise fund and an internal service fund. The enterprise fund is used to report the same function presented as "business-type activity" in the government-wide financial statements. The internal service fund is used to account for activities that provide services to other funds, departments or to other governments on a cost-reimbursement basis. General Liability, Workers' Compensation, Retiree Health, and Compensated Absences are accounted in the internal service fund. VTA uses the enterprise fund to account for its transit operation and capital activities, 1996 Measure B Transit projects, and 2000 Measure A capital and operating activities.

The enterprise fund provides the same type of information as the government-wide financial statements, only in more detail.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside VTA. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support VTA's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The activities of the Amalgamated Transit Union (ATU) Pension Plan, the ATU Spousal Medical Trust, and the Retiree Vision and Dental Trust are accounted for in pension trust funds. Pension trust funds are used to account for assets held by VTA as a trustee for individuals and other organizations, such as ATU.

The Bay Area Air Quality Management District (BAAQMD) program and the 1996 Measure B Ancillary Programs, which includes the Pavement Management and Bicycle Programs, are accounted for in an agency fund. Agency funds are used to account for assets held solely in a custodial capacity.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 2-26 to 2-64 of this report.

Other information. In addition to the basic financial statements and notes, *required supplementary information* is also being presented. The required supplementary information shows VTA's progress in funding its obligation to provide employees with pension benefits and also shows the Congestion Management Program Budgetary Schedule. These schedules can be found on pages 2-65 to 2-68.

There is also a section including other supplementary information such as combining statements and other individual schedules found immediately following the required supplementary information. The supplementary data presents individual fund statements and schedules for the Enterprise and Fiduciary Funds.

Government-wide Financial Analysis

The Entity-Wide Statement of Net Assets and the Statement of Activities report $25.4 million decrease in net assets. Of this, $25.2 million was in the VTA's Business-Type activities and the remaining $163 thousand was in the government-type activities. The business-type net asset decrease was primarily due to increased expenditures on transit operations and operating projects. During FY2006, VTA acquired capital assets of approximately $121.3 million (note 6). These capital assets were funded by a variety of sources such as capital contributions, federal and state grants, and local funding.

Santa Clara Valley Transportation Authority's
Condensed Statement of Net Assets
(In thousands)

	Business-type activity		Governmental activity		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	$ 429,749	$ 504,632	$ 42,439	$ 36,180	$ 472,188	$ 540,812
Capital assets, net	2,500,211	2,470,374	-	-	2,500,211	2,470,374
Total assets	2,929,960	2,975,006	42,439	36,180	2,972,399	3,011,186
Current liabilities	51,279	66,198	40,509	33,996	91,788	100,194
Long-term liabilities outstanding	781,034	785,922	-	-	781,034	785,922
Total liabilities	832,313	852,120	40,509	33,996	872,822	886,116
Net assets:						
Invested in capital assets, net of related debt	1,817,396	1,867,513	-	-	1,817,396	1,867,513
Restricted	35,153	44,400	-	-	35,153	44,400
Unrestricted	245,098	210,973	1,930	2,184	247,028	213,157
Total net assets	$ 2,097,647	$ 2,122,886	$ 1,930	$ 2,184	$ 2,099,577	$ 2,125,070

The largest portion of VTA's net assets (approximately 87%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related outstanding debt used to acquire those assets. VTA uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although VTA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot reasonably be used to liquidate these liabilities.

Santa Clara Valley Transportation Authority's
Statement of Activities
(In thousands)

	Business-type activity		Governmental activity		Total	
	2006	2005	2006	2005	2006	2005
Expenses:						
Operations and operating projects	$ 339,857	$ 300,430	$ 5,982	$ 4,735	$ 345,839	$ 305,165
Caltrain subsidy & capital contribution	42,200	14,112	-	-	42,200	14,112
Altamont Commuter Express subsidy	2,470	2,470	-	-	2,470	2,470
Interest Expense	11,562	13,761	-	-	11,562	13,761
Other non-operating expenses	6,972	3,316	-	-	6,972	3,316
Benefit payments	11,538	21,370	-	-	11,538	21,370
Capital projects for the benefit of other agencies	-	-	80,763	94,146	80,763	94,146
Total expenses	414,599	355,459	86,745	98,881	501,344	454,340
Program revenues:						
Charges for services	36,926	34,692	2,290	2,231	39,216	36,923
Operating grants	114,764	113,925	850	1,190	115,614	115,115
Capital grants	22,522	96,860	83,207	95,746	105,729	192,606
Total program revenues	174,212	245,477	86,347	99,167	260,559	344,644
Net program revenues	(240,387)	(109,982)	(398)	286	(240,785)	(109,696)
General revenues:						
Sales tax revenue	195,453	145,008	-	-	195,453	145,008
Investment income	10,537	11,206	207	174	10,744	11,380
Other income	9,158	2,628	28	19	9,186	2,647
Total general revenues	215,148	158,842	235	193	215,383	159,035
Special items:						
Loss from sublease of vehicles	-	(7,773)	-	-	-	(7,773)
Change in net assets	(25,239)	41,087	(163)	479	(25,402)	41,566
Net assets beginning of year	2,122,886	2,081,799	2,093	1,705	2,124,979	2,083,504
Net assets, end of year	$2,097,647	$2,122,886	$ 1,930	$ 2,184	$2,099,577	$2,125,070

Business-type activity. Despite an additional $50.4 million in sales tax receipts in FY2006, there was a decrease in total revenue of $15 million in comparison to FY2005 due to a drop in capital grants as a result of the completion of various Measure B projects. Total net assets decreased by $25.2 million due to lower capital grants and increased expenditures in operations due to higher depreciation expenses as a number of capital projects were capitalized in FY2006. In addition, VTA's capital contribution to Caltrain was higher as a large capital project was placed in service and handed over to Caltrain.

Comparison of Business-Type Activity Revenue for FY2006 and FY2005

(In thousands)	2006	2005	Change Amount	Change Percent
Charges for services	$ 36,926	$ 34,692	$ 2,234	6.4%
Operating grants	114,764	113,925	839	0.7%
Capital grants	22,522	96,860	(74,338)	-76.7%
Sales tax revenue	195,453	145,008	50,445	34.8%
Investment income	10,537	11,206	(669)	-6.0%
Other income	9,158	2,628	6,530	248.5%
TOTAL	$ 389,360	$ 404,319	$ (14,959)	-3.7%

- Business-type activity (Transit Operations) net assets were $2.1 billion. Approximately $1.8 billion of the net assets were invested in capital assets net of related debt.

- Charges for services, derived from bus fare box receipts, light rail ticket vending machine receipts, the sale of monthly passes (including ECO Pass & tokens) and the sale of advertising space, were up $2.2 million (6.4%) compared to FY2005. This was mainly due to an increase in ridership with the opening of Vasona Light Rail service in FY2006.

- Operating grants include the one-quarter of one percent of State sales tax from the California Transportation Development Act (TDA), State Transit Assistance (STA) funding, federal grants converted to operating assistance under the Federal Transit Administration Preventative Maintenance Program, State vehicle license fees (AB434), and federal planning grants. In FY2006, they increased by $839 thousand or 0.7% to $114.8 million.

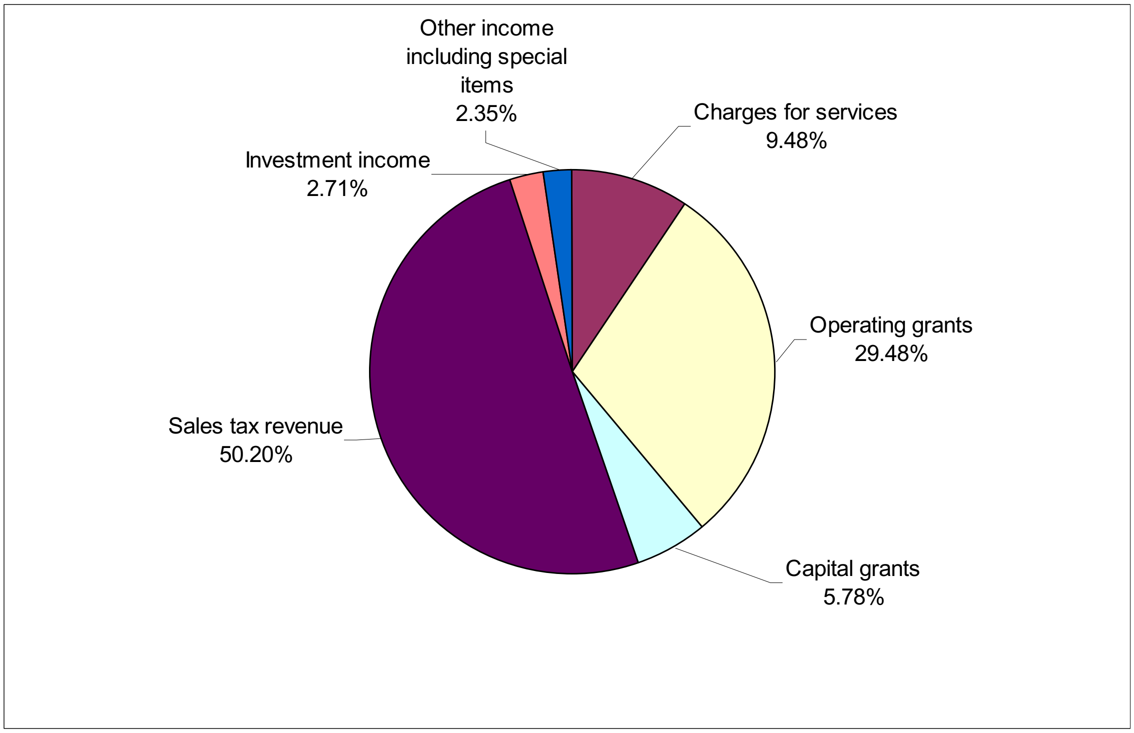
- The half-cent local sales tax and the quarter-cent state sales tax (TDA) are driven by the local economy and are the two most important revenue sources to VTA for funding operations. The 1976 Sales Tax revenues increased $12.3 million or 8.5% in FY2006 compared to FY2005. The 2000 Measure A Sales Tax revenues were $38.2 million. The collection of this voter-approved sales tax revenue started in the 4th Quarter of FY2006. TDA funds rose by $3.9 million or 5.9% to $71 million in FY2006. STA funds, which are allocated to VTA from the State sales tax on gasoline and diesel fuel, increased by approximately $452 thousand (6.2%) to a total of $7.7 million.

- Capital grants decreased $74.3 million or 76.7% compared to FY2005. The decrease is a result of completion of two major capital projects - Capitol Corridor and Vasona light rail extension. Federal grant project revenues were $7 million, State capital grants were $3.9 million, and 1996 Measure B and other local funding consisted of $11.6 million.

- Investment income decreased by $669 thousand or 6% compared to FY2005 due primarily to unrealized investments losses, the result of mark to market activities.

- Other income increased by $6.5 million in FY2006 due primarily to a one-time refund of capital contributions made to Peninsula Corridor Joint Powers Board in prior fiscal years.

Revenues By Source – Business-type Activity



Comparison of Business-Type Activity Expenses for FY2006 and FY2005

(In thousands)	2006	2005	Change Amount	Change Percent
Operations and operating projects	$ 339,857	$ 300,430	$ 39,427	13.1%
Caltrain subsidy & capital contribution	42,200	14,112	28,088	199.0%
Altamont Commuter Express subsidy	2,470	2,470	-	0.0%
Interest expense	11,562	13,761	(2,199)	-16.0%
Other non-operating expenses including special items	6,972	11,089	(4,117)	-37.1%
Benefit payments	11,538	21,370	(9,832)	-46.0%
TOTALS	$ 414,599	$ 363,232	$ 51,367	14.1%

Operations and operating project expenses are incurred for personnel, support services, contracted services, insurance, purchased transportation and other overhead costs related to bus and light rail operations, services, and support programs. The implementation of the goals of VTA's Strategic Plan is set forth in the Short-Range Transit Plan (SRTP). The SRTP adopted by VTA outlined a number of transit service reliability and headway improvements, network expansion, and the expansion of the light rail system. The resulting expenses for the year are representative of the implementation efforts throughout the organization.

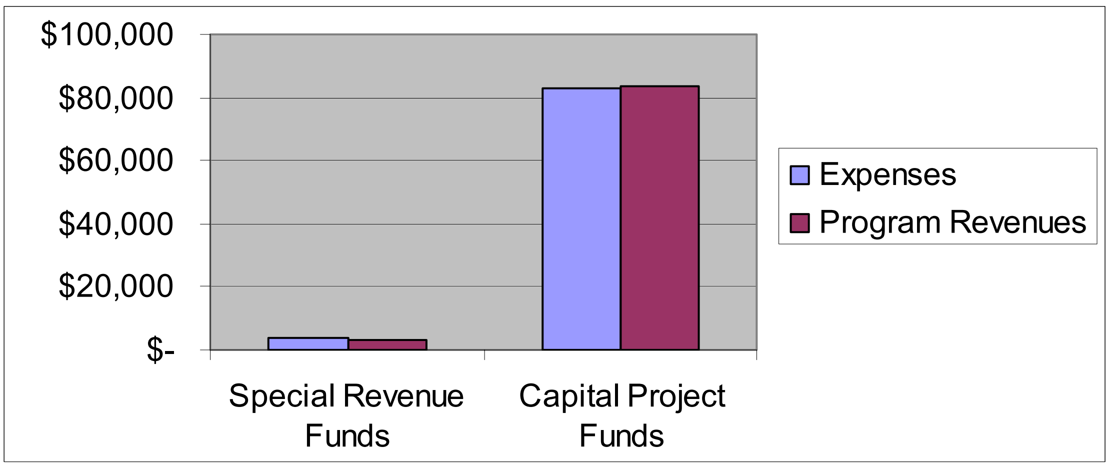
Expenses in FY2006 increased by $51.4 million or 14.1% compared to the prior fiscal year. The higher expenses reflect an increase in labor costs and higher operating expenses with the opening of Vasona light rail extension. The decreases in non-operating expenses during FY2006, namely interest expense and payments for workers compensation (benefit payments) and general liability claims, helped to offset the overall increase in operating expenses.

Governmental activity. The governmental activity net assets decreased by $163 thousand in FY2006, with an ending balance of $1.9 million. Elements of this decrease are as follows:

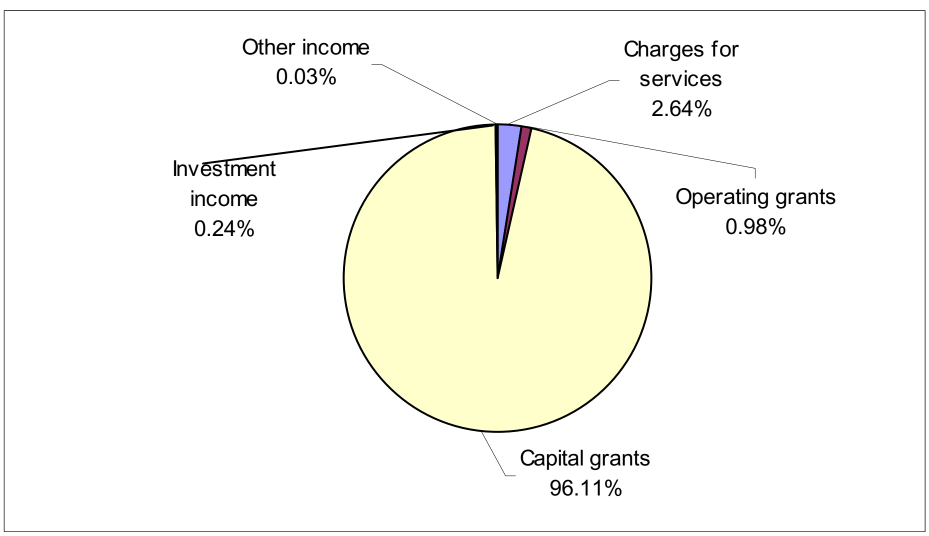
- Local grant revenues were $12.5 million lower with the completion of major highway projects.
- Federal operating assistance grant decreased $415 thousand compared to prior fiscal year.
- Labor costs were $1 million or 24% higher compared to prior fiscal year resulting mainly from reorganization of Development and Congestion Management Division.
- Capital project expenses were $13.3 million lower in FY2006 due to the completion of various highway projects.

Expenses and Program Revenues – Governmental Activity

(In thousands)



Revenues By Source – Governmental Activity



Financial Analysis of VTA's Funds

VTA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Proprietary funds. VTA maintains two types of proprietary funds – Enterprise Fund and Internal Service Fund.

Enterprise fund. The Enterprise Fund is used to account for activities for which a fee is charged to external users for goods or services (a) where the activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (b) where laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (c) where the pricing policies of the activity establish fees and charges designated to recover its costs, including capital costs (such as depreciation or debt service).

VTA uses the Enterprise Fund to account for its transit service operation. For FY2006, operating revenues were $36.9 million, up $2.2 million or 6.4% from prior fiscal year resulting from higher ridership in its transit service. Operating expenses were $33.1 million or 10% higher than FY2005 mainly due to higher labor, material, supplies and services, and depreciation costs. Net non-operating revenues totaled $262.6 million during this fiscal year. Total Enterprise Fund net assets were $2 billion, a decrease of approximately $43.3 million compared to FY2005.

Internal service fund. VTA also maintains an Internal Service Fund to account for the activities related to Retiree Health, Workers' Compensation, General Liability, and Compensated Absences. The cost of these activities are accounted for in this fund and then charged to other VTA funds. As of June 30, 2006, total net assets for this fund were $95.4 million which reflect an increase of $18 million over prior fiscal year.

Governmental funds. The focus of VTA's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing VTA's financing requirements. In particular, unreserved fund balance may serve as a useful measure of VTA's net resources available for spending at the end of the fiscal year. VTA maintains two governmental funds – Special Revenue Fund and Capital Project Fund.

Special revenue fund. This fund accounts for the activities of the Congestion Management Agency. Total fund revenues, which mainly include member assessments and federal grants, were $3.2 million in FY2006, $237 thousand lower than prior year. Total expenses were $3.6 million, an increase of $830 thousand due to staff reorganization within the Development and Congestion Management Agency. The ending fund balance was $1.9 million.

Capital project fund. This fund accounts for VTA's two major capital programs – Congestion Management Highway Program and Measure B Highway Program. As of June 30, 2006, total revenues were $83.4 million which represent the total amount expended on the projects during the fiscal year and billed to other governmental agencies. There is no fund balance in this fund.

Capital Assets and Debt Administration

Capital assets. VTA's investment in capital assets for its business-type activity as of June 30, 2006, amounts to $2.5 billion net of accumulated depreciation. VTA has no capital assets invested in the governmental activities. This investment in capital assets includes: Land and Right-of-Way, Buildings, Improvements, Equipment & Furniture, Vehicles, the Caltrain-Gilroy Extension, Light Rail Tracks/Electrification, and Other Operating Equipment

Some of the significant changes in the capital assets during FY2006 are as follows:

- The $305 million Vasona Corridor Light Rail Project was completed and put in service during FY2006.
- The North Yard Reconstruction, Cerone Improvement, and the Cerone Rehabilitation and Expansion Projects ($110 million) were completed in FY2006.
- The preliminary engineering phase of the BART project continued in FY2006 with $91 million in capital expenditures.

Capital Assets
(Net of Accumulated Depreciation)

	Business-type Activity	
(In thousands)	2006	2005
Land and Right-of-way	$ 1,131,579	$ 761,818
Construction in Progress	380,776	775,711
Buildings & Improvements Equipment & Furniture	309,931	211,901
Vehicles	344,318	386,054
Caltrain-Gilroy Extension	45,580	46,082
Light Rail Tracks/Electrification	277,317	275,929
Other Operating Equipment	10,710	12,879
Total	$ 2,500,211	$ 2,470,374

Additional information on VTA's capital assets can be found in Note 6 on page 2-39 of this report.

Long-term debt. At the end of the current fiscal year, VTA had total bonded debt outstanding of $700 million. Of this amount, $390 million represents bonds secured solely by the 2000 Measure A Sales Tax revenues.

Outstanding Debt

(In thousands)	Business-type activity 2006	Business-type activity 2005
Jr. Lien Sales Tax Revenue Bonds	$ 77,720	$ 80,100
Sr. Lien Sales Tax Revenue Bonds (1976 Tax)	202,599	208,658
Sr. Lien Sales Tax Revenue Bonds (2000 Tax)	390,036	390,309
Equipment Trust Certificates	29,660	29,660
Total	$ 700,015	$ 708,727

VTA maintains uninsured ratings of "AAA" from Standard & Poor's (S&P), an "A+" rating from Fitch, and an "Aa3" rating from Moody's for its Senior Lien Sales Revenue Bonds secured by 1976 Sales Tax.

The ratings for the Senior Lien Sales Tax Revenue Bonds secured by the 2000 Measure A sales tax are "Aa3" from Moody's and "AA+" from S&P. Ambac Financial Group, Inc. insures these bonds. Ambac is rated "AAA/Aaa."

The Equipment Trust Certificates have a rating of Aaa/VMIG-1 from Moody's and AAA from S&P.

Additional information on VTA's long-term debt can be found in note 7 starting on page 2-40 of this report.

Economic Factors

The economic outlook for the County has brightened since this region saw one of the worst economic downturns in recent history. Studies show that consumer confidence has improved. The unemployment rate in the County was 5% in June 2006 compared to 5.7% a year earlier. Housing prices stabilized after double-digit gains in recent years. Commercial real estate is also recovering after years of high vacancy rates, with office vacancy rates in Silicon Valley dipping below 12.5 percent for the first quarter of 2006 compared to 14 percent during the second quarter of 2005.

Lower unemployment and higher consumer confidence are helping to improve VTA's revenue base. VTA's major revenue sources are dependent upon taxable sales activity in the County. After taking a major hit after the dot.com crash, taxable sales have improved in recent quarters. According to State Board of Equalization, County's taxable sales increased 9.1 percent in the 3rd Quarter of 2005 compared to the same period a year earlier. VTA's major revenue source, 1976 half-cent sales tax, increased $12.3 million or 8.5 percent to $157.3 million in FY 2006. However, this revenue source is still well below the $184 million VTA received in FY 2001. Fares is another improving revenue source, due in part to increasing ridership on both existing service as well as due to the opening of new light rail extensions.

VTA also started collecting 2000 Measure A sales tax revenue, approved by county voters in 2000. In June 2006, the VTA Board approved a long-term Revenue and Expenditure Plan for the 30-year 2000

Measure A Sales Tax Program. Currently, the Plan is reflecting a deficit to complete all projects included in the Plan. VTA staff is working with the Board to determine possible options to address this deficit.

FY2006 was the first year of the Biennial Budget adopted by the Board in June 2005. Since its initial adoption, the Board revised the FY 2006 Budget on April 6, 2006, increasing expenditure appropriations by $3.5 million and revenue estimations by $6.5 million.

Requests for Information

Please address all questions or requests for additional information to the Accounting and Compliance Review Department, Office of the Fiscal Resources Manager, Santa Clara Valley Transportation Authority, 3331 North First Street Building C, Second Floor, San Jose, CA 95134-1927.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Net Assets
June 30, 2006
(In thousands)

	Business-Type Activity	Governmental Activity	Total
ASSETS			
Cash and investments	$ 195,628	$ 2,749	$ 198,377
Receivables, net	3,081	-	3,081
Internal balances	862	(862)	-
Due from fiduciary funds	1,152	-	1,152
Due from other governmental agencies	68,270	915	69,185
Inventories	20,361	-	20,361
Other current assets	790	-	790
Restricted assets:			
Cash and investments	92,893	23,399	116,292
Receivables, net	76	-	76
Due from other governmental agencies	30,189	16,238	46,427
Deferred charges	16,447	-	16,447
Capital assets:			
Nondepreciable	1,512,355	-	1,512,355
Depreciable, net of accumulated depreciation	987,856	-	987,856
Total assets	2,929,960	42,439	2,972,399
LIABILITIES			
Accounts payable	12,368	170	12,538
Other accrued liabilities	14,730	156	14,886
Due to other governmental agencies	10	1,383	1,393
Liabilities payable from restricted assets:			
Accounts payable	12,849	13,691	26,540
Other accrued liabilities	4,409	-	4,409
Due to other government agencies	6,913	25,109	32,022
Long term debt payable from restricted assets	43,182	-	43,182
Long-term liabilities:			
Due within one year	33,858	-	33,858
Debt due in more than one year	703,994	-	703,994
Total liabilities	832,313	40,509	872,822
NET ASSETS			
Invested in capital assets, net of related debt	1,817,396	-	1,817,396
Restricted for capital projects	35,153	-	35,153
Unrestricted	245,098	1,930	247,028
Total net assets	$ 2,097,647	$ 1,930	$ 2,099,577

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Activities
For the Year Ended June 30, 2006
(In thousands)

	Business-Type Activity Transit	Governmental Activity Congestion Management	Total
Expenses:			
Operations and operating projects	$ 339,857	$ 5,982	$ 345,839
Caltrain subsidy & capital contribution	42,200	-	42,200
Altamont Commuter Express subsidy	2,470	-	2,470
Interest expense	11,562	-	11,562
Other non-operating expenses	6,972	-	6,972
Benefit payments	11,538	-	11,538
Capital projects for the benefit of other agencies	-	80,763	80,763
Total expenses	414,599	86,745	501,344
Program revenues:			
Charges for services	36,926	2,290	39,216
Operating grants	114,764	850	115,614
Capital grants	22,522	83,207	105,729
Total program revenues	174,212	86,347	260,559
Net program revenues (expenses)	(240,387)	(398)	(240,785)
General revenues:			
Sales tax revenue	195,453	-	195,453
Investment income	10,537	207	10,744
Other income	9,158	28	9,186
Total general revenues	215,148	235	215,383
Change in net assets	(25,239)	(163)	(25,402)
Net assets beginning of year	2,122,886	2,093	2,124,979
Net assets, end of year	$ 2,097,647	$ 1,930	$ 2,099,577

Net assets before deferred revenue 6/30/2005	$ 2,184
Less deferred revenue on 6/30/2005	91
Net assets beginning of year	$ 2,093

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fund Net Assets
Proprietary Funds (Business-type Activity)
June 30, 2006
(In thousands)

	Enterprise Fund	Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,424	$ 155
Investments	17,093	175,956
Receivables, net	2,765	316
Due from other funds	2,014	-
Due from other governmental agencies	68,270	-
Inventories	20,361	-
Other current assets	790	-
Restricted assets:		
Cash and cash equivalents	6,255	-
Cash and investments with fiscal agent	51,485	-
Investments	35,153	-
Receivables	76	-
Due from other governmental agencies	30,189	-
Total current assets	236,875	176,427
Noncurrent assets:		
Deferred charges	16,447	-
Capital Assets		
Non-depreciable:		
Land and right of way	1,131,579	-
Construction in progress	380,776	-
Depreciable:		
CalTrain - Gilroy extension	52,990	-
Buildings, improvements, furniture, and fixtures	462,448	-
Vehicles	457,616	-
Light-rail tracks and electrification	384,435	-
Other	29,002	-
Less accumulated depreciation	(398,635)	-
Net capital assets	2,500,211	-
Total noncurrent assets	16,447	-
Total assets	2,753,533	176,427

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fund Net Assets (Continued)
Proprietary Funds (Business-type Activity)
June 30, 2006
(In thousands)

	Enterprise Fund	Internal Service Fund
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	10,855	-
Accounts payable	12,368	-
Other accrued liabilities	14,712	16,618
Due to other governmental agencies	10	-
Liabilities payable from restricted assets:		
Current portion of long-term debt	6,385	-
Accounts payable	12,849	-
Other accrued liabilities	4,409	-
Due to other governmental agencies	6,913	-
Long term debt, excluding current portion	43,182	-
Total current liabilities	111,683	16,618
Non-current liabilities		
Long-term debt, excluding current portion	639,593	-
Other accrued liabilities	18	64,401
Total non-current liabilities	639,611	64,401
Total liabilities	751,294	81,019
NET ASSETS		
Invested in capital assets, net of related debt	1,817,396	-
Restricted for capital projects	35,153	-
Unrestricted	149,690	95,408
Total net assets	$ 2,002,239	$ 95,408

Reconciliation of the Statement of Net Assets to the Statement of Fund Net Assets:	
Net Assets of Enterprise Fund	$ 2,002,239
Net Assets of Internal Service Fund, which benefits Business-type Activity	95,408
Net Assets (page 2-16)	$ 2,097,647

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds (Business-type Activity)

For the Year Ended June 30, 2006

(In thousands)

	Enterprise Fund	Internal Service Fund
Operating revenues:		
Passenger fares	$ 34,335	$ -
Advertising and other	2,591	-
Charges for services	-	28,402
Total operating revenues	36,926	28,402
Operating expense:		
Labor cost	237,997	
Materials and supplies	27,777	-
Services	20,141	-
Utilities	6,186	-
Casualty and liability	6,114	-
Purchased transportation	27,395	-
Leases and rentals	205	-
Miscellaneous	2,000	2,917
Depreciation expense	63,766	-
Costs allocated to capital and other programs	(26,239)	-
Benefit payments	-	11,538
Total operating expense	365,342	14,455
Operating income/(loss)	(328,416)	13,947
Non-operating revenues (expenses):		
Sales tax revenue	195,453	-
Federal operating assistance grants	33,565	-
State and local operating assistance grants	81,199	-
CalTrain subsidy	(14,801)	-
CalTrain capital contribution	(27,399)	-
Altamont Commuter Express subsidy	(2,470)	-
Investment earnings	6,457	4,080
Interest expense	(11,562)	-
Other income	9,158	-
Other expense	(6,972)	-
Non-operating revenues, net	262,628	4,080
Change in net assets before capital contributions	(65,788)	18,027
Capital contributions	22,522	-
Change in net assets	(43,266)	18,027
Net assets, beginning of year	2,045,505	77,381
Net assets, end of year	$ 2,002,239	$ 95,408

Reconciliation of the Statement of Revenues, Expenses and Changes in Fund Net Assets to the Statement of Activities:

Change in net assets of the Enterprise Fund	$ (43,266)
Change in net assets of the Internal Service Fund, which benefits Business-type Activity	18,027
Change in net assets of the Business-type Activity (page 2-16)	$ (25,239)

See accompanying notes to basic financial statements

Santa Clara Valley Transportation Authority
Statement of Cash Flows
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2006
(In thousands)

	Enterprise Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger fares	$ 34,335	$ -
Cash received from advertising	2,591	-
Cash paid to employees	(211,758)	-
Cash paid to suppliers	(62,730)	-
Cash paid for purchased transportation	(27,395)	-
Cash received from contributions	-	28,402
Payments made to beneficiaries	-	(11,067)
Payments made to third party contractors	-	(2,917)
Net cash provided by/(used in) operating activities	(264,957)	14,418
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	114,764	-
Sales tax received	195,453	-
Caltrain subsidy and contribution	(18,836)	-
Altamont Commuter Express subsidy	(2,470)	-
Receipts for services provided to other agencies	220	-
Contributions to other agencies	(1,860)	-
	287,271	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of long-term debt	(10,955)	-
Proceeds from issuance of bonds	172,530	-
Payoff of 2001 Series A Bonds	(171,000)	
Interest paid on long-term debt	(11,562)	-
Cost of bond issuance	(1,527)	-
Acquisition and construction of capital assets	(121,321)	-
Capital contribution from other governments	22,522	-
Proceeds from sale of capital assets	214	-
	(121,099)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	521,436	12,623
Purchases in investments	(518,996)	(33,522)
Interest income received	3,351	6,143
	5,791	(14,756)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(92,994)	(338)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	153,158	493
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 60,164	$ 155
Reconciliation to Statement of Fund Net Assets:		
Unrestricted:		
Cash and cash equivalents	$ 2,424	$ 155
Restricted:		
Cash and cash equivalents	6,255	-
Cash and investments with fiscal agent	51,485	-
	$ 60,164	$ 155

See accompanying notes to basic financial statements

Santa Clara Valley Transportation Authority
Statement of Cash Flows (Continued)
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2006
(In thousands)

	Enterprise Fund	Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:		
Operating income/(loss)	$ (328,416)	$ 13,947
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	63,766	-
Changes in operating assets and liabilities:		
Receivables	3,879	97
Due from other governmental agencies	(5,037)	-
Inventories	(1,648)	-
Accounts payable	523	-
Other accrued liabilities	2,761	374
Other Current assets	(399)	-
Due to other funds	(386)	-
Net cash provided by/(used in) operating activities	$ (264,957)	$ 14,418
NONCASH INVESTING ACTIVITIES:		
(Decrease) in fair value of investments	$ (474)	$ (1,982)

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Balance Sheet
Governmental Funds
June 30, 2006
(In thousands)

	Special Revenue Fund	Capital Projects Funds		
	Congestion Management Program	Congestion Management & Highway Program	Measure B Highway Program	Total
ASSETS				
Investments	$ 2,749	$ -	$ -	$ 2,749
Due from other governmental agencies	915	-	-	915
Restricted assets:				
Cash and cash equivalents	-	10,853	-	10,853
Cash and investments with fiscal agent	-	2,187	10,359	12,546
Due from other governmental agencies	-	15,557	681	16,238
Total assets	$ 3,664	$ 28,597	$ 11,040	$ 43,301
LIABILITIES				
Accounts payable	$ 170	$ -	$ -	170
Other accrued liabilities	156	-	-	156
Due to other funds	25	-	-	25
Due to other government agencies	1,383	-	-	1,383
Liabilities payable from restricted assets:	-			
Accounts payable	-	7,785	5,906	13,691
Due to other funds	-	527	310	837
Due to other governmental agencies	-	20,285	4,824	25,109
Total liabilities	1,734	28,597	11,040	41,371
FUND BALANCES				
Unreserved, reported in special revenue fund	1,930	-	-	1,930
Unreserved deficit	-	-	-	-
Total fund balances	1,930	-	-	1,930
Total liabilities and fund balances	$ 3,664	$ 28,597	$ 11,040	$ 43,301

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006
(In thousands)

	Special Revenue Fund	Capital Projects Funds		
	Congestion Management Program	Congestion Management & Highway Program	Measure B Highway Program	Total
REVENUES:				
Member agency assessment revenue	$ 2,250	$ -	$ -	$ 2,250
Federal technical studies operating assistance grants	621	-	-	621
Administrative fees	40	-	-	40
State operating assistance grants	229	-	-	229
Local grant revenue	-	41,438	41,769	83,207
Other revenues	28	-	-	28
Investment earnings	39	168	-	207
Total revenues	3,207	41,606	41,769	86,582
EXPENDITURES:				
Current:				
Congestion management:				
Salaries and benefits	2,823	2,356	-	5,179
Services	803	-	-	803
Capital outlay:				
Capital improvement projects	2	38,992	41,769	80,763
Total expenditures	3,628	41,348	41,769	86,745
CHANGE IN FUND BALANCES	(421)	258	-	(163)
FUND BALANCES, BEGINNING OF YEAR	2,351	(258)	-	2,093
FUND BALANCES, END OF YEAR	$ 1,930	$ -	$ -	$ 1,930

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006
(In thousands)

	Pension Trust Funds	Agency Funds
ASSETS		
Restricted assets:		
Commingled Index	$ 109,629	$ -
Fixed Income	104,285	-
Money Market	4,617	4,066
Equity Securities	98,014	-
Cash with fiscal agent	-	4,798
Receivables	1,073	-
Due from other funds	-	25
Total assets	317,618	8,889
LIABILITIES		
Liabilities payable from restricted assets:		
Accounts payable	203	3,983
Due to other funds	1,177	-
Due to other governmental agencies	-	4,906
Other accrued liabilities - noncurrent	-	-
Total liabilities	$ 1,380	$ 8,889
NET ASSETS		
Net assets held in trust for:		
Pension benefits	304,904	
Spousal medical benefits	8,696	
Retiree dental and vision benefits	2,638	
Total net assets	$ 316,238	

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AGENCY
Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2006
(In thousands)

ADDITIONS		
Employer Contributions	$	16,453
Investment earnings:		
Investment income		7,530
Net appreciation in the fair value of investments		19,884
Investment expense		(1,114)
Net investment income		26,300
Other revenue		220
Total additions		42,973
DEDUCTIONS		
Benefit payments		17,077
Other benefits paid to participants		59
Total deductions		17,136
Net increase		25,837
NET ASSETS HELD IN TRUST		
Beginning of year		290,401
End of year	$	316,238

See accompanying notes to financial statements

NOTE 1 – THE FINANCIAL REPORTING ENTITY

Santa Clara Valley Transportation Authority (VTA), which was established in 1972, develops, maintains, and operates a public mass transit system for the benefit of the residents of the County of Santa Clara (County), California (State). VTA's governing board consists of two members of the 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 the County.

The accompanying basic financial statements also include the financial activities of the Santa Clara Valley Transportation Authority Amalgamated Transit Union (ATU) Pension Plan (Plan) (Note 11) in the Pension Trust Fund. The financial activities of the Plan are blended in the basic financial statements because the Plan exclusively serves the employees of VTA. Due to the fact that the Plan is fiscally dependent on VTA, it is considered a component unit.

The Santa Clara Valley Transportation Authority Congestion Management Program (CMP) was created in 1990 in response to Proposition 111. The CMP is not legally separate from VTA. The CMP is responsible for development and implementation of the Valley Transportation Plan 2030 (VTP2030), the long-range transportation and land use plan for the County, and for preparing and implementing the State-mandated Congestion Management Program. It is also responsible for the programming and oversight of discretionary federal, State and local funds, and for serving as the program manager for certain county-wide grant funds, including the Transportation Fund for Clean Air (TFCA) and the County's Measure B Transportation Improvement Program's (MBTIP) Ancillary Program. 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. The CMP is included as a major governmental fund in the accompanying basic financial statements.

Complete financial statements for the Congestion Management Program can be obtained from Fiscal Resources Division, Santa Clara Valley Transportation Authority, 3331 North First Street Building C, Second Floor, San Jose, CA 95134-1927.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about VTA as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *business-type* and *governmental activities* of VTA. Business-type activities, which normally rely to a significant extent on fees charged to external parties, are reported separately from governmental activities, which normally are supported by taxes and inter-governmental revenues.

The statement of activities presents a comparison between direct expenses and program revenues for the business-type and governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about VTA's funds, including fiduciary funds. Separate statements for each fund category – *proprietary, governmental,* and *fiduciary* – are presented. The emphasis of fund financial statements is on the major governmental and the enterprise funds, each displayed in separate columns.

VTA reports the following major funds:

- The *Proprietary Fund (Enterprise Fund)* is used to account for activities for which a fee is charged to external users for goods or services (a) where the activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (b) where laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (c) where the pricing policies of the activity establish fees and charges designated to recover its costs, including capital costs (such as depreciation or debt service). VTA's transit operations, the activities of the Measure B Transit Projects and 2000 Measure A operations and transit projects are accounted for in the Enterprise Fund.

- The *Governmental Funds* are used to account for VTA's general governmental activities where the proceeds of specific revenue sources are legally restricted to expenditures for specific purposes and for the acquisition of capital assets or construction of major capital projects (other than those financed by the Enterprise Fund).

  - The *Congestion Management Program Special Revenue Fund* is used to account for the congestion management planning, programming, and development services for Santa Clara County.

  - *The Congestion Management and Highway Program Capital Projects Fund* is used to account for the acquisition of capital assets and construction of highway projects administered on behalf of State and other local governments (other than those accounted for in the Measure B Highway Program Capital Projects Fund).

  - The *Measure B Highway Program Capital Projects Fund* is used to account for acquisition of capital assets or construction of Measure B Highway projects.

VTA reports the following additional funds:

- The *Proprietary Fund (Internal Service Fund)* is used to account for activities that provide goods or services to other funds, departments or to other governments, on a cost-reimbursement basis. General Liability, Workers' Compensation, Retiree Health, and Compensated Absences are accounted for in the Internal Service Fund.

- The *Fiduciary Funds* are used to account for assets held by VTA as a trustee or as an agent for others and which assets cannot be used to support its own programs. VTA's trust and agency funds include the VTA/ATU Pension Plan, ATU Medical Trust, the Bay Area Air Quality Management District (BAAQMD) Program, and the Measure B Ancillary Program. The VTA/ATU Pension Plan and the ATU Medical Trust are reported as pension (other employees benefit) trust funds. The BAAQMD and the Measure B Ancillary Programs are reported as agency funds. The BAAQMD agency fund accounts for the activities that relate to the Transportation Fund for Clean Air (TFCA) Program. The Measure B Ancillary Program agency fund was established to administer the 1996 Measure B funds.

(b) Basis of Accounting

The government-wide, proprietary funds and fiduciary funds financial statements are reported using the accrual basis of accounting and the economic resources exchange measurement focus (except agency funds since agency funds only report assets and liabilities, they cannot be said to have a measurement focus). Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which VTA gives (or receives) value without directly receiving (or giving) equal value in exchange, include sales tax and grants. Revenues from sales tax are recognized when the underlying transactions take place. Therefore, recorded sales taxes include an estimate for amounts collected by merchants at the end of the fiscal year, but not remitted to the State until subsequent to that time. Revenues from grants are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements for the purchase of right-of-way are considered met once the acquisition has settled.

VTA's operating revenues are generated directly from its transit operations and consist principally of passenger fares. Operating expenses for the transit operations included all costs related to providing transit services. These costs include labor, fringe benefits, materials, supplies, services, utilities, leases and rentals, purchased transportation, and depreciation on capital assets. All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Interest, certain State and federal grants, and charges for services are accrued if their receipt occurs within 180 days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, compensated absences are recorded only when payment is due.

When both restricted and unrestricted net assets are available, unrestricted resources are used only after the restricted resources are depleted.

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 (FASB), the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes accounting principles generally accepted in the United States of America (GAAP) for governmental units. VTA has elected not to follow subsequent private-sector guidance of FASB after November 30, 1989.

(c) Cash and Investments

VTA contracts with money management firms to manage its investment portfolio. VTA's investment program manager has oversight responsibility for investments managed by these firms. The securities are held by a third-party custodial bank. Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned.

The remaining cash balances in certain VTA funds are invested in the State Pool of California (LAIF) and the County Treasury. Unless there are specific legal or contractual requirements for specific allocations, income earned or losses arising from investments are allocated on a monthly basis (except for the local agency investment fund (LAIF) which is quarterly) to the appropriate fund(s) based on their average daily balances.

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments, which are readily convertible to known amounts of cash. Restricted and unrestricted cash and cash equivalents and cash and investments with fiscal agents are considered to be cash and cash equivalents for purposes of the accompanying statement of cash flows. Access to cash and investments with fiscal agents is similar to that of a demand deposit account and, therefore, investments are considered to be cash equivalents.

VTA has reported its investments at fair value based on quoted market information obtained from Bloomberg Pricing Service, from its fiscal agent for actively managed accounts and from management firms for commingled accounts.

The fair value of VTA's investments commingled in County Treasury and LAIF State Pool are based on VTA's cash positions in the commingled accounts as of the end of the fiscal year.

(d) Inventories

Inventories are stated at the lower of average cost/market and are charged to expense at the time individual items are withdrawn from inventory (consumption method). Inventory consists primarily of parts and supplies relating to transportation vehicles and facilities.

(e) Restricted Assets

Restricted assets consist of monies and other resources, the use of which is legally restricted for capital and operating, as well as debt service.

(f) Bond Issuance Costs, Discounts, Premiums and Deferred Amount on Refundings

Bond issuance costs, discounts, premiums and deferred amount on refundings for the government-wide statement of net assets and the enterprise fund are deferred and amortized over the term of the bonds using a method that approximates the interest method. Government-wide statement and enterprise fund bond discounts, premiums and deferred amount on refundings are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as a deferred cost (asset).

(g) Capital Assets

It is VTA's policy that assets with a value of $5,000 or more, and a useful life beyond one year are capitalized, included in the capital asset accounting system and depreciated accordingly. 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 assets.

Depreciation is computed using the straight-line method over estimated useful lives as follows:

Buildings, improvements, furniture and fixtures	5 to 50 years
Vehicles (excluding light-rail vehicles)	5 to 12 years
Light-rail tracks, electrification and light-rail vehicles	25 to 45 years
Other operating equipment	5 to 10 years

Depreciation on such assets is included in the accompanying statement of activities and statement of revenues, expenses, and changes in fund net assets.

Interest is capitalized on construction in progress. Accordingly, interest capitalized is the total interest cost from the date of the borrowing until the specified asset is ready for its intended use. In the current year, VTA capitalized total interest expense of $21.8 million relating to the BART and Downtown East Valley projects.

(h) *Vacation and Sick Leave Benefits*

It is the policy of VTA to permit employees to accumulate unused vacation and sick leave benefits up to the limit designated in the various collective bargaining agreements. As vacation and sick leave are used during the year, they are reported as expenses. Additionally, there is an amount charged each month to accrue the estimated increase in unused vacation and sick leave. The balance is adjusted annually to reflect the year-end value of unused vacation and sick leave.

(i) *Self-Insurance*

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 reported in the Internal Service Fund based on an actuarial determination of the present value of estimated future cash payments (see Notes 14 and 15).

(j) *Net Assets*

The government-wide and enterprise fund financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt) and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category consists of VTA's local contribution to capital projects, debt reserve funds, bond proceeds for future capital projects, and net assets pertaining to Measure B Transit and 2000 Measure A.

- *Unrestricted Net Assets* – This category represents net assets of VTA, not restricted for any project or other purpose.

The business-type statement of net assets reports $2,097,647,000 of total net assets, of which $14,563,000 is restricted by enabling legislation for the 2000 Measure A Sales Tax Programs. The 2000 Measure A half-cent sales tax was approved by Santa Clara County voters to fund certain transportation related projects.

(k) *Cost Allocated to Capital and Other Programs*

On the Statement of Revenues, Expenses and Changes in Fund Net Assets, the Enterprise Fund reports $26.2 million as costs allocated to capital and other programs. This amount represents a credit for direct and indirect labor and associated fringe benefits, reproduction and mileage costs, and other costs that were capitalized as construction in progress.

(l) *Estimates*

VTA's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, revenues, expenses, expenditures and the disclosure of contingent liabilities to prepare the basic financial statements in conformity with GAAP. Actual results could differ from those estimates.

(m) New ***GASB Pronouncements***

During FY2006, VTA implemented the Government Accounting Standard Board (GASB) Statement Number 44, "*Economical Condition Reporting: The Statistical Section*," which provides guidance on the tables and narrative explanations in the statistical section, and Statement No. 42, *"Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."* This Statement establishes accounting and financial reporting standards for impairment of capital assets. In addition, VTA implemented Statement No. 46, *"Net Assets Restricted by Enabling Legislation,"* which requires that any constraints on the use of net assets as a result of enabling legislation be reported as restricted net assets, and Statement No. 47, "*Accounting for Termination Benefits,"* which requires an employer to establish an accounting standard of recognizing a liability and expense for voluntary termination benefits.

GASB also requires Statements No. 43, "*Financial Reporting for Postemployment Benefit Plans Other than Pension Plans,"* and No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*." As required by GASB, VTA will implement GASB 43 and 45 statements by no later than the FY08 CAFR.

NOTE 3 - CASH AND INVESTMENTS

Total cash and investments as of June 30, 2006, are reported in the accompanying basic financial statements as follows (in thousands):

	Business-type Activity		Governmental Activity	Fiduciary Funds		
	Enterprise Fund	Internal Service Fund	Governmental Funds	Pension Trust Funds	Agency Funds	Total
Unrestricted:						
Cash and cash equivalents	$ 2,424	$ 155	$ -	$ -	$ -	$ 2,579
Investments	17,093	175,956	2,749	-	-	195,798
Total unrestricted	19,517	176,111	2,749	-	-	198,377
Restricted:						
Cash and cash equivalents	6,255	-	10,853	-	-	17,108
Cash and cash equivalents with fiscal agents	51,485	-	12,546	-	4,798	68,829
Investments	35,153	-	-	316,545	4,066	355,764
Total restricted	92,893	-	23,399	316,545	8,864	441,701
Total cash and investments	$ 112,410	$ 176,111	$ 26,148	$ 316,545	$ 8,864	$ 640,078

As of June 30, 2006, total cash and investments among all funds consisted of the following (in thousands):

Cash and equivalents	$ 19,687
Cash and cash equivalents with fiscal agents	68,829
Investments	551,562
	$ 640,078

Cash and Equivalents

VTA maintains checking accounts for unrestricted operations, the Congestion Management and Highway Programs (CM&HP) and the Measure B Transportation Improvement Program (Measure B account). These checking accounts earn interest based on the bank's monthly sweep average repurchase agreement rate. At June 30, 2006, the carrying amount of these cash balances are shown below (in thousands):

Unrestricted operations account	$ 2,580
CM&HP account	10,852
Measure B account (Enterprise Fund)	6,255
Total deposits	$ 19,687

Investments

Government code requires that the primary objective of the trustee is to safeguard the principal, secondarily meet the liquidity needs of the depositors, and then achieve a reasonable return on the funds under the trustee's control. Further, the intent of the Government Code is to minimize risk of loss on held investments from:

1. Credit risk
2. Custodial credit risk
3. Concentration of credit risk
4. Interest rate risk

Specific restrictions of investment are noted below:

VTA's investment policies (Unrestricted/Restricted Funds and ATU Pension Plan) conform to State statutes, and provide written investment guidance regarding the types of investments that may be made and amounts which may be invested in any one financial institution or amounts which may be invested in any one long-term instrument. VTA's permissible investments include obligations of Federal Agencies and U.S. Government sponsored enterprises, State of California obligations, local agency obligations, bonds issued by VTA, bankers' acceptances, commercial paper, repurchase and reverse repurchase agreements, medium-term corporate notes, insured savings/money market accounts, negotiable certificates of deposit, mortgage and asset-back obligations, mutual funds, State of California's Local Agency agreements, and qualified structured investment. The ATU pension plan's asset allocation includes investments in bonds, equity securities, and cash.

The County Treasury commingled pool is subject to the County's Investment Policy and State law and is reviewed by the County's Investment Committee. The value of the pool shares in the commingled pool which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of VTA's position in the pool.

The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of VTA's position in the pool.

VTA's portfolio includes asset-backed securities, which are invested directly by VTA and structured notes which are invested indirectly through LAIF. At June 30, 2006, investment in LAIF is $29.2 million. LAIF is part of the State of California Pooled Money Investment Account (PMIA), whose balance at June 30, 2006 is $63.3 billion. Of that amount, 2.6% is in structured notes and asset-backed securities. None of this amount was invested in derivative instruments. PMIA is not a Securities and Exchange Commission (SEC) registered pool, but it is required to invest in accordance with the guidelines established by the California Government Code. The weighted-average to maturity of the investments in PMIA at June 30, 2006 was 152 days. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

The value of the pool shares in investment earnings are paid quarterly based on the average daily balance. Withdrawals from LAIF are completed on a dollar for dollar basis.

Interest rate risk – This is the risk of loss due to the fair value of an investment falling due to interest rates rising. Of VTA's (Unrestricted/Restricted Funds and ATU Pension Plan) $552 million in investments, over 59% of the investments have a maturity of less than 1 year. Of the remainder, only 14% have a maturity of more than 10 years. Long-term securities of more than five years are limited to 40% of the portfolio.

Credit risk – VTA is permitted to hold investments in commercial paper 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 Bankwatch Rating, Inc. rating service. Purchases of mortgage and asset-back obligations do not exceed 20% of VTA's portfolio. In addition, VTA is permitted to invest in the State's Local Agency Investment Fund, money market and mutual funds that are non-rated.

Custodial Credit Risk - Deposits - For deposits, custodial credit risk is the risk that in the event of a bank failure, VTA's deposits may not be returned to it. The California Government Code Section 53652 requires California banks and savings and loan associations to secure governmental deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of VTA's deposits. California law also allows financial institutions to secure governmental deposits by pledging first trust deed mortgage notes having a value of 150% of the VTA's total deposits. At June 30, 2006, VTA's deposits were collaterized by securities held by the financial institutions, but not in VTA's name.

Custodial Credit Risk – Investments – For investments, custodial credit risk is the risk that in the event of a failure of the counter-party, the VTA may not be able to recover the value of its investments. All securities owned by VTA are kept in safekeeping with "perfected interest" in the name of VTA by a third-party bank trust department, acting as agent for VTA under the terms of a custody agreement executed between the bank and VTA. All securities are received and delivered using the standard deliver versus payment procedure. At year-end, VTA did not participate in reverse securities lending that would result in any possible risk in this area.

Concentration of Credit Risk - Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on VTA. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement, as they are normally diversified themselves. About 36% of VTA's investments at year-end are in U.S. Government or Agencies issues. There is no limitation on amounts invested in these types of issues. At June 30, 2006, VTA had $36.8M and $57.5M, representing 6.03% and 9.41% of VTA's portfolio invested in debt securities issued by the Federal Home Loan Mortgage Corporation (FHLM) and the Federal National Mortgage Association (FNMA), respectively. Of the 17.8% of the portfolio invested in equities, no investment in a single issuer exceeds 5%. The investments in guaranteed investment contracts include one agreement with FSA Capital Management Services, in the amount of $26.4 million, which is approximately 5% of the investment portfolio and represents money held by a fiscal agent to pay debt service when due, in accordance with bond indentures.

The following schedules indicate the interest rate and credit risk at June 30, 2006. Certain investments such as obligations, which are backed by full faith and credit of the United States Treasury, are not subjected to credit rating.

Investments are categorized below in keeping with GASB 40 which disclose investment rating and maturity (in thousands):

	Maturity				
Type of Investment	Less than 1 year	1-5 Years	6-10 Years	Over 10 Years	Market Value
Commercial Paper Payden	$ 1,298	$ -	$ -	$ -	$ 1,298
Corporate Bonds – Operations	2,809	20,488	-	-	23,297
Corporate Bonds - Pension Plan	-	4,409	13,751	13,245	31,405
Corporate Bonds - Retiree Health	250	1,326	4,049	3,710	9,335
US Government Agency Bonds:					
Operations	15,008	25,217	-	-	40,225
Pension Plan	172	863	4,583	45,019	50,637
Retiree Health	45	265	1,219	13,447	14,976
U.S. Treasury:					
Operations	9,260	35,932	17,432	-	62,624
Pension Plan	5,657	12,597	3,990	-	22,244
Retiree Health	149	6,212	249	-	6,610
SUBTOTAL	34,648	107,309	45,273	75,421	262,651
Money Market Funds - Operations	1,046	-	-	-	1,046
Money Market Funds - Pension	4,088	-	-	-	4,088
Cash with Fiscal Agents - GIC	8,066	23,280	-	7,461	38,807
Cash with Fiscal Agents- Money Market Funds	9,424	-	-	-	9,424
TOTAL INVESTMENTS with Money Managers	57,292	130,589	45,273	82,882	316,016
LAIF	29,227	-	-	-	29,227
TOTAL INVESTMENTS	$ 86,499	$ 130,589	$ 45,273	$ 82,882	345,243
Investment commingled in County					1,837
Equity-based investments					254,551
Retention fund at escrow agents (deposits)					18,760
Cash deposits					19,687
					$ 640,078

The following is a summary of the credit quality distribution for investments with credit exposure as a percentage of total investments as rated by Standards and Poors:

Ratings	Fair Value (In Thousands)	Percentage of Portfolio
Unrated	$ 343,236	53.63%
Not Applicable	217,004	33.90%
BB	2,424	0.38%
BB-	2,556	0.40%
BBB-	1,320	0.21%
BBB	7,188	1.12%
BBB+	9,275	1.45%
A-	4,824	0.75%
A-1	1,298	0.20%
A	15,926	2.49%
A+	10,518	1.64%
AA-	1,250	0.20%
AA	633	0.10%
AAA	22,626	3.53%
Total	$ 640,078	100.00%

As of June 30, 2006, the Pension Trust fund's restricted investments consisted of the following (in thousands):

ATU Pension Plan investments	$ 305,211
ATU Medical – investment	10,805
Pooled investments with VTA	529
Total	$ 316,545

NOTE 4 – INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2006 is as follows (in thousands):

Due from	Due to	Amount	
VTA Transit	Congestion Management & Highway Program	$ 527	(a)
VTA Transit	Measure B Highway Program	310	(a)
VTA Transit	ATU Pension Program	1,177	(b)
Measure B Ancillary Program	Congestion Management Program	25	(c)
		$ 2,039	

(a) represents labor and internal charges for the program
(b) represents the investment management fee
(c) represents the swap project cost under CMP program

NOTE 5 – DUE FROM AND DUE TO OTHER GOVERNMENTAL AGENCIES

Due from other governmental agencies as of June 30, 2006 consisted of the following (in thousands):

	Business-Type Activity	Governmental Activity			
	Enterprise Fund	Congestion Management Program	Congestion Management and Highway Program	Measure B Highway Program	Total
Current:					
Federal government	$ 34,625	$ -	$ -	-	$ 34,625
State government	61,346	915	11,469	641	74,371
County of Santa Clara					
Court deposits:					
Measure B Highway	-	-	-	-	-
Measure B Transit	-	-	-	40	40
Total court deposits	-	-	-	40	40
Measure B Ancillary Program - SWAP	302	-	1,796	-	2,098
Others	11	-	-	-	11
Total County of Santa Clara	313	-	1,796	40	2,149
Others	2,175	-	2,292	-	4,467
Total	$ 98,459	$ 915	$ 15,557	$ 681	$ 115,612

Due from other governmental agencies as of June 30, 2006, is reported in the accompanying basic financial statements as follows (in thousands):

	Business-Type Activity	Governmental Activity			
	Enterprise Fund	Congestion Management Program	Congestion Management and Highway Program	Measure B Highway Program	Total
Current assets (unrestricted)	$ 68,270	$ 915	$ -	$ -	$ 69,185
Restricted assets	30,189	-	15,557	681	46,427
Total	$ 98,459	$ 915	$ 15,557	$ 681	$ 115,612

Due to other governmental and other agencies as of June 30, 2006, consisted of the following (in thousands):

	Business-Type Activity	Governmental Activity				
	Enterprise Fund	Congestion Management Program	Congestion Management and Highway Program	Measure B Highway Program	Agency Fund	Total
State government	$ 10	$ -	$ -	$ -	$ -	$ 10
County of Santa Clara	6,913	1,383	-	4,824	4,906	18,026
City of Santa Clara	-	-	380	-	-	380
City of Sunnyvale	-	-	500	-	-	500
City of San Jose	-	-	2,005	-	-	2,005
City of Milpitas	-	-	200	-	-	200
City of Mountain View	-	-	250	-	-	250
Yerba Buena Opco, Inc.	-	-	300	-	-	300
Measure B Ancillary Program	-	-	16,650	-	-	16,650
Total	$ 6,923	$ 1,383	$ 20,285	$ 4,824	$ 4,906	$ 38,321

Due to other governmental agencies as of June 30, 2006, is reported in the accompanying basic financial statements as follows (in thousands):

	Business-type Activity	Governmental Activity				
	Enterprise Fund	Congestion Management Program	Congestion Management and Highway Program	Measure B Highway Program	Agency Fund	Total
Current Liabilities	$ 10	$ 1,383	$ -	$ -	$ -	$ 1,393
Liabilities payable from restricted assets	6,913	-	20,285	4,824	4,906	36,928
Total	$ 6,923	$ 1,383	$ 20,285	$ 4,824	$ 4,906	$ 38,321

NOTE 6 – CAPITAL ASSETS

Capital asset changes for VTA's business-type activity for the year ended June 30, 2006 were as follows (in thousands):

	July 1, 2005	Additions	Retirements	Transfers	June 30, 2006
Capital assets, not being depreciated:					
Land and right of way	$ 761,818	$ -	$ -	$ 369,761	$ 1,131,579
Construction in progress	775,711	121,321	-	(516,256)	380,776
Total capital assets, not being depreciated	1,537,529	121,321	-	(146,495)	1,512,355
Capital assets, being depreciated:					
Buildings, improvements, furniture and fixtures	340,546	-	-	121,902	462,448
Vehicles	480,174	-	(535)	(22,023)	457,616
Light-rail tracks and electrification	365,505	-	-	18,930	384,435
Caltrain – Gilroy extension	52,990	-	-	-	52,990
Other operating equipment	28,830	-	(27,514)	27,686	29,002
Total capital assets, being depreciated	1,268,045	-	(28,049)	146,495	1,386,491
Less accumulated depreciation for:					
Buildings, improvements, furniture and fixtures	(128,645)	(23,872)	-	-	(152,517)
Vehicles	(94,120)	(19,508)	330	-	(113,298)
Light-rail tracks and electrification	(89,576)	(17,542)	-	-	(107,118)
Caltrain – Gilroy extension	(6,908)	(502)	-	-	(7,410)
Other operating equipment	(15,951)	(2,341)	-	-	(18,292)
Total accumulated depreciation	(335,200)	(63,765)	330	-	(398,635)
Total capital assets, being depreciated, net	932,845	(63,765)	(27,719)	146,495	987,856
Total capital assets, net	$ 2,470,374	$ 57,556	$ (27,719)	$ -	$ 2,500,211

Construction in progress (CIP), includes capitalized costs and right-of-way acquisitions associated with the following projects as of June 30, 2006 (in thousands):

Silicon Valley Rapid Transit Corridor	$ 326,000
Facilities Modifications	17,680
Guadalupe Corridor	1,044
Capitol Corridor Projects	14,281
Study Projects	10,142
Caltrain Service Improvements	7,569
New Rail Vehicles	1,930
Coach and Vehicle Replacements	1,360
Vasona Corridor Projects	33
Software Development	19
Tasman Corridor Project Extensions	718
Total project costs expended to date	$ 380,776

Additional information regarding projects in progress as of June 30, 2006 is as follows (in thousands):

Total Board approved project budget	$ 533,794
Expended to date	(380,776)
Remaining budget available for CIP	$ 153,018
Anticipated funding sources are as follows:	
Federal, State, and other local assistance (Note 10)	$ 40,414
Local contributions (Note 10)	112,604*
Total funding sources	$ 153,018

*Includes approximately $77.5 million in 2000 Measure A Bond Proceeds

VTA has outstanding commitments of about $51 million as of June 30, 2006, related to the above capital projects.

NOTE 7 - LONG-TERM LIABILITIES

Long-term debt as of June 30, 2006, consisted of the following (in thousands):

Secured by VTA's 1976 ½ Cent Sales Tax	
Series 1985A Equipment Trust Certificates	$ 29,660
1997 Series A Refunding ($31,440, less unamortized discount of $249 and unamortized deferred amount on refunding of $2,286)	28,905
1998 Series A Junior Lien	42,780
2000 Series A Junior Lien	34,940
2001 Series A Senior Lien ($19,145 less unamortized discount of $128)	19,017
2005 Series A-C Refunding ($170,860 less unamortized discount and deferred amount on refunding of $16,183)	154,677
Secured by VTA's 2000 Measure A ½ Cent Sales Tax	
2003 Series A Senior Lien ($131,240, plus unamortized premium of $6,681)	137,921
2004 Series A Senior Lien ($104,710, plus unamortized premium of $6,795)	111,505
2004 Series B Senior Lien ($135,165, plus unamortized premium of $5,445)	140,610
Total long-term debt	700,015
Less current portion of long-term debt	(16,890)
Long-term debt, excluding current portion	683,125
Less portion of long-term debt payable from restricted assets	(43,182)
Long-term debt, excluding current & restricted portion	$ 639,943

(a) Equipment Trust Certificates

- $52.5 million 1985A Certificates (1985 ETC's) were issued to finance the retirement of the Series 1984A Equipment Trust Certificates, originally issued to finance the acquisition of light-rail vehicles. The 1985 ETC's bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the 1985 ETC's at par value. The 1985 ETC's are subject to mandatory redemption before their maturity date on each June 1 on or after June 1, 2007, in part or by lot, solely from sinking fund payments and interest earnings deposited in the 1985 ETC Sinking Fund Account. In August 1998, VTA entered into an interest rate swap agreement. Pursuant to the terms of the swap agreement, VTA owes interest at a fixed rate of 4.355% to the counterparty to the swap. In return, the counterparty owes VTA interest based on the actual variable rate of the 1985 ETC's. The outstanding 1985 ETC principal is used as the basis on which the interest payments are calculated. Under certain circumstances, the agreement is subject to termination before maturity of the 1985 ETC's. A termination of the swap agreement may result in VTA making or receiving a termination payment.

(b) Sales Tax Revenue Bonds, secured by 1976 ½ Cent Sales Tax Revenues

- In November 1997, VTA issued $40.6 million of 1997 Series A Sales Tax Revenue Refunding Bonds (1997 Bonds), at a true interest cost of 5.17%, to advance refund $33.3 million of the outstanding principal amount of its 1991 Series A Bonds, advance refund $4 million of the outstanding principal amount of its Series C Certificates, and to pay for certain capital expenditures. Their maturities extend to June 1, 2015 and are subject to mandatory and optional redemption provisions.

- In March 1998, through the California Transit Variable Rate Program of the California Transit Finance Authority (CTFA) (Note 19d), VTA issued $50 million of 1998 Series A Junior Lien Sales Tax Revenues Bonds (1998 Bonds) to finance certain capital expenditures). The 1998 Bonds bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the bonds at par value. Their maturities extend to October 1, 2027 and are subject to mandatory and optional redemption provisions.

- In November 2000, through the California Transit Variable Rate Program of the California Transit Finance Authority (CTFA) (Note 19d), VTA issued $40 million of 2000 Series A Junior Lien Sales Tax Revenue Bonds to finance certain capital expenditures. The 2000 Bonds bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the bonds at par value. Their maturities extend to October 1, 2027 and are subject to mandatory and optional redemption provisions.

- In June 2001, VTA issued $200 million of 2001 Series A Senior Lien Sales Tax Revenue Bonds (2001 Bonds), at a true interest cost of 5.08% to finance portions of the Tasman East, Vasona, and Capitol Corridor Light Rail projects. Their maturities extended through June 1, 2026. Maturities through June 1, 2011 are not subject to redemption before their maturities. However, maturities from June 1, 2012 through June 1, 2026 are subject to optional redemption and will be redeemed on June 1, 2012 from proceeds of refunding bonds.

- In July 2005, VTA issued Sales Tax Revenue Refunding Bonds, 2005 Series A, B & C, at variable rates, in an aggregate amount of $172.5 million (2005 Bonds) to advance refund $155.3 million of VTA's Sales Tax Revenue Bonds, 2001 Series A that mature on June 1, 2012 through June 1, 2026 (Defeased Bonds). Their maturities extend to June 1, 2026 and are subject to optional and mandatory redemption and optional and mandatory tender for purchase before maturity. Proceeds of the 2005 Bonds were placed in an escrow account held by a

Trustee to provide for future debt service payments on the Defeased Bonds. The advance refunding met the requirement of an in-substance debt defeasance, and the Defeased Bonds were removed from VTA's long-term debt. Accordingly, the escrow account assets and the liabilities from the Defeased Bonds are not included in VTA's financial statements. The amount outstanding on the Defeased Bonds was $155.3 million as of June 30, 2006. VTA would realize debt service savings of approximately $16.9 million in net present value by refunding the 2001 Series A Bonds. Concurrent with the issuance and sale of the 2005 Bonds, VTA entered into three separate interest rate swap agreements. Pursuant to the terms of the swap agreements, VTA owes interest at a fixed rate of 3.033% to the counterparties to the swaps. In return, the counterparties owe VTA interest based on a percentage of LIBOR[1]. The outstanding principal is used as the basis on which the interest payments are calculated. Under certain circumstances, the agreements are subject to termination before maturity of the 2005 Bonds. A termination of the swap agreement may result in VTA making or receiving a termination payment.

(c) Sales Tax Revenue Bonds, Secured by 2000 Measure A ½ Cent Sales Tax

- In November 2003, VTA issued $131.2 million of 2003 Measure A Sales Tax Revenue Bonds (2003 Bonds) to: 1) finance the repayment of the 2002 Bonds and Grant Anticipation Notes that matured on December 4, 2003, 2) reimburse VTA for certain debt service payments made in connection with the 2001 Bonds, and 3) finance capitalized interest payments through October 2006. The 2003 Bonds were issued as long-term variable rate bonds, with an initial fixed rate term through October 2, 2006, at which time there is a mandatory tender for purchase of the 2003 Bonds. If the 2003 Bonds are not remarketed or refunded by the mandatory tender date, the bonds will continue to be owned by current bondholders and will commence to pay an interest rate of 150% of one year LIBOR for successive periods of one year until VTA elects to adjust the interest rate mode to weekly adjustable, auction rate security or fixed rate and there is a successful remarketing of the bonds.

- In May 2004, VTA issued $104.7 million of Measure A Sales Tax Revenue Bonds (2004A Bonds) to pay certain working capital and capital expenditures and to finance capitalized interest payment through October 2006. The 2004A Bonds were issued as long-term variable rate bonds, with an initial fixed rate term through October 2, 2006, at which time there is a mandatory tender for purchase of the 2004A Bonds. If the 2004A Bonds are not remarketed or refunded by the mandatory tender date, the bonds will continue to be owned by current bondholders and will commence to pay an interest rate of 150% of one year LIBOR for successive periods of one year until VTA elects to adjust the interest rate mode to weekly adjustable, auction rate security or fixed rate and there is a successful remarketing of the bonds.

- In December 2004, VTA issued $135.2 million of Measure A Senior Lien Sales Tax Revenue Bonds (2004B Bonds) to pay certain working capital and capital expenditures and to finance capitalized interest payment through October 2006. The 2004A Bonds were issued as long-

[1] London Interbank Offered Rate

term variable rate bonds, with an initial fixed rate term through October 2, 2006, at which time there is a mandatory tender for purchase of the 2004A Bonds. If the 2004B Bonds are not remarketed or refunded by the mandatory tender date, the bonds will continue to be owned by current bondholders and will commence to pay an interest rate of 150% of one year LIBOR for successive periods of one year until VTA elects to adjust the interest rate mode to weekly adjustable, auction rate security, or fixed rate and there is a successful remarketing of the bonds.

(d) Interest Rate Swaps

VTA has entered into four interest rate swap agreements. Of the agreements, one requires VTA pay a fixed interest rate and receive interest at the actual variable interest rate of the underlying bonds; and three require that VTA pay fixed interest rates and receive interest at a percentage of LIBOR.

***Objective of the Swaps**:* The objective of the swaps was to take advantage of low interest rates in the marketplace at costs anticipated to be less than what VTA otherwise would have paid to issue fixed rate debt in the tax-exempt municipal bond market.

***Summary**:* The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2006 were as follows:

(Dollars in thousands)

Associated Bonds	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value[2]	Swap Termination Date	Counterparty Credit Rating[3]
1985 ETC	$ 29,660	9/11/98	4.355%	1985 ETC	$(768)	6/01/15	Aa1, AAA, AA+
STRRB[4] 2005A	68,490	7/07/05	3.033%	Cal-E[5]	4,182	6/01/26	Aaa, AAA, ---
STRRB 2005B	51,185	7/07/05	3.033%	Cal-E	3,085	6/01/26	Aa1, AA, AA+
STRRB 2005C	51,185	7/07/05	3.033%	Cal-E	3,090	6/01/26	Aa3, A+, AA-
	$200,520				$9,589[6]		

Terms: The notional amounts of swaps match the principal amounts of the associated debt in total. VTA's swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled reductions in the associated long-term debt.

***Fair Values**:* At June 30, 2006, the swap associated with the 1985 ETCs had a negative fair value. This is because interest rates have declined since the execution of the swap in 1998. The swaps associated with the 2005 Series A, B, and C bonds (2005 Bonds) have a positive fair value, resulting in an aggregate fair value of the swap portfolio of $9.6 million. The fair values include

[2] Includes accrued interest
[3] Moody's, Standard and Poor's and Fitch, respectively
[4] Sales Tax Revenue Refunding Bonds
[5] Lower of 1 month LIBOR (London Interbank Offered Rate) *or* a rate equal to the greater of 63.5% of 1 month LIBOR or 55.5% of 1 month LIBOR plus 0.44%
[6] Total may not add due to rounding

accrued interest. Because the coupons on VTA's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases or decreases.

Credit Risks: As of June 30, 2006, VTA was not exposed to credit risk on the swap associated with the 1985 ETC's because the swap had a negative fair value. As of June 30, 2006, VTA was exposed to $10.4 million of credit risk, spread among the three counterparties to the swaps associated with the 2005 Bonds. All swap agreements, with the exception of the swap associated with the 1985 ETC's, contain specific collateral levels based on credit ratings and the fair value of the swap. Generally, the fair value threshold levels are reduced as credit ratings are reduced. The swap agreement associated with the 1985 ETC's requires the counterparty to post collateral in the event that ratings are suspended, withdrawn or falls below "Aa3" in the case of Moody's and "AA-" in the case of S&P. Collateral on all swaps must be in the form of US government securities and, in the case of the swap associated with the 1985 ETC's, must be held by a third party collateral agent; otherwise, collateral posted pursuant to all other swap agreements, may be held by the counterparty.

Each swap contains cross-default provisions that allow the non-defaulting party to accelerate and terminate all outstanding transactions and to net the transactions' fair values into a single sum to be owed by, or owed to, the non-defaulting party.

Basis Risk: VTA has no basis risk for the swap associated with the 1985 ETC's, as the interest rate received from the counterparty is equal to the interest paid to the 1985 ETC bondholders. For the other swaps, the interest rate on VTA's variable rate bonds are expected to be equivalent, but not necessarily equal to the variable rate payments received from counterparties. To the extent these variable payments differ, VTA is exposed to basis risk. As of June 30, 2006, the interest rates of the variable rate debt associated with these swap transactions were 3.90%, 3.88%, and 3.90%. However, VTA's variable rate payments received from the counterparties of these swaps was 3.41%. For the year ended June 30, 2006, basis risk represented a cost of approximately $16,420 to VTA.

Termination Risk: VTA has the right to terminate any swap if the counterparty fails to post any collateral that may be required under the swap agreements in the event of ratings downgrade, or, if the counterparty's ratings are downgraded below investment grade. Each counterparty has the right to terminate the swap if VTA's bond insurer's (who has insured VTA's swap payments) financial strength rating falls below Aa3 by Moody's Investors Service, its claims paying ability rating falls below AA- by Standard and Poor's, it fails to maintain a rating of AA- by Fitch Ratings, or, if VTA's long-term debt obligations fall below "Baa2" by Moody's Investors Service, "BBB" by Standard and Poor's or "BBB" by Fitch Ratings. If the swaps were terminated, the associated variable rate bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, VTA would be liable to the counterparty for payment equal to the swap's fair value.

Tax Risk: As with other forms of variable rate exposure and the relationship between the taxable and tax-exempt markets, VTA is exposed to tax risk should tax-exempt interest rates on variable rate debt issued in conjunction with the swaps rise faster than taxable interest rates received by the swap counterparties, due particularly to reduced federal or state income tax rates, over the term of the swaps.

(e) Swap Payments and Associated Debt

Using rates as of June 30, 2006, debt service requirements on VTA's swap-related variable rate debt and net swap payments are as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

	Variable Rate Bonds			
(Dollars in thousands)	Principal	Interest	Interest Rate Swap, Net	Total
Year Ending June 30:				
2007	$ 1,580	$ 7,816	$ 956	$ 10,352
2008	3,855	7,754	949	12,558
2009	4,095	7,604	931	12,630
2010	4,335	7,443	913	12,691
2011	4,675	7,274	893	12,842
2012-2016	45,820	32,030	3,958	81,808
2017-2021	55,520	22,313	2,773	80,606
2022-2026	80,640	9,621	1,196	91,457
	$ 200,520	$ 101,855	$ 12,569	$ 314,944

(f) Long-term Debt Obligation Summary

Interest Rates on all outstanding fixed-rate obligations range from 3.85% to 5.25%. Interest on the variable rate debt is reset weekly based upon market conditions. Future principal and interest obligations as of June 30, 2006 are as follows:

(Dollars in thousands)	Principal	Interest[7]	Total
Year ending June 30:			
2007	$ 17,240	$ 32,927	$ 50,167
2008	16,990	32,097	49,087
2009	17,760	31,324	49,084
2010	18,555	30,513	49,068
2011	19,385	29,664	49,049
2012-2016	110,545	134,243	244,788
2017-2021	135,825	107,138	242,963
2022-2026	165,910	74,088	239,998
2027-2031	91,830	41,913	133,743
2032-2036	105,900	17,307	123,207
	$ 699,940	$ 531,214	$ 1,231,154
Unamortized bond discount, premium and deferred amount on refunding, net	$ 75		
Total debt	$ 700,015		
Less current portion	$ (16,890)		
Long-term portion of debt	$ 683,125		

[7] Rates as of 6/30/06 were used to determine variable rate interest expense.

(g) Restrictions and Limitations

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

(h) Long-term Liabilities

Long-term liability activity for fiscal years ending June 30, 2006 and 2005 is shown on the following table.

Changes in long-term liabilities for the business-type activity are shown below (in thousands):

	July 1, 2005	Additions	Retirements	June 30, 2006	Amounts Due Within One Year
Equipment Trust Certificates:	$29,660	$ -	$ -	$29,660	$ 460
Sales Tax Revenue Bonds Secured by VTA's 1976 ½ Cent Sales Tax:					
1998 Series A Junior Lien	44,085	-	(1,305)	42,780	1,350
2000 Series A Junior Lien	36,015	-	(1,075)	34,940	1,110
2001 Series A	179,990	-	(160,845)	19,145	5,375
Sales Tax Revenue Refunding Bonds Secured by 1976 ½ Cent Sales Tax:					
1997 Series A	32,800	-	(1,360)	31,440	1,440
2005 Series A-C	-	172,530	(1,670)	170,860	1,120
Sales Tax Revenue Bonds Secured by VTA's 2000 Measure A ½ Cent Sales Tax:					
2003 Series A	131,240	-	-	131,240	2,705
2004 Series A	104,710	-	-	104,710	1,395
2004 Series	135,165	-	-	135,165	2,285
Total outstanding debt	693,665	172,530	(166,255)	699,940	17,240
Plus (less) premiums, deferred amount on refundings and discounts	15,062	(15,700)	713	75	(350)
Outstanding debt, net	708,727	156,830	(165,542)	700,015	16,890
Claims liability:					
General liability, worker's compensation & Compensated absences	77,194	18,280	(14,455)	81,019	16,618
Total long-term liabilities	$785,921	$175,110	$(179,997)	$781,034	$33,508

NOTE 8 –SALES TAX REVENUES

Sales tax revenue represents sales tax receipts from the California State Board of Equalization, which, under voter-approved 1976 and 2000 Sales Tax Measures, collect a half-cent 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 long-term debt as described in Note 7. Collection fees charged by the State Board of Equalization were approximately $1.5 million in FY2006. The amount of the 1976 Sales Tax and 2000 Measure A Sales Tax earned during FY2006 was $157.3 million and $38.2 million respectively, totaling $195.5 million.

NOTE 9 – VTA PROGRAMS FUNDED THROUGH LOCAL SALES TAX MEASURES

Measure B Transportation Improvement Program (MBTIP)

In November 1996, the voters of the County approved Measure A - an advisory measure listing an ambitious program of transportation improvements for the County. Also approved on the same ballot, Measure B authorized the County Board of Supervisors to collect a nine-year half-cent sales tax for general County purposes. The tax was identified as a funding source for Measure A projects. Collection of the tax began in April 1997; however, use of the revenue was delayed pending the outcome of litigation challenging the legality of the sales tax. In August 1998, the California courts upheld the tax allowing the Measure A transportation program to move forward.

In March 1999, the VTA Board of Directors and the County Board of Supervisors approved a Memorandum of Understanding (MOU) formalizing the partnership to implement Measure A. With this partnership in place, the County and VTA are in a position to complete a transportation program valued at $2.1 billion. The County will administer the funding, and VTA will be responsible for project management of the transit and highway projects and will assist in the administration of the pavement management and bicycle elements of the program.

The Measure B Transit Projects, which consist mainly of light-rail extensions and new rail vehicles, become the property of VTA. The Measure B Highway Projects, which consist primarily of widening highways and improvements become the property of the State. The accompanying basic financial statements include the financial activities of the Measure B Transit Projects in the Enterprise Fund and in the business-type activity, Measure B Highway Projects in a capital projects fund and in the governmental activity and the Measure B Ancillary Program, which includes pavement management and bicycle elements, in an agency fund. The Ancillary Program was created to administer the Measure B Pavement & Bikeways Program and Measure B local projects, also known as the Local Program Reserves.

In fiscal year 2001, VTA and the County entered into two agreements for Fund Swap arrangements, whereby VTA agreed to secure federal and/or State grant funds and program them for certain 1996 MBTIP Projects in exchange for the County to release the corresponding 1996 MBTIP Project funds for other local projects. The Tasman East Light Rail Project was programmed for $72.8 million in grant funds with $67.9 million being available for other local projects, the Vasona Light Rail Project was programmed for $51.6 million with the same amount being available for other local projects, and the Routes 237/880 Interchange Highway Project was programmed for $22.5 million with the same amount being available for other local projects.

A third agreement provided for a simultaneous exchange of funds. VTA secured 2001 Series A Senior Lien Sales Tax Revenue Bonds to reimburse the County approximately $184.1 million of 1996 MBTIP project costs, namely the Tasman East, Vasona and Capitol Corridor Light Rail Projects. The reimbursement of 1996 MBTIP project costs made $184.1 million available for the acquisition of low floor vehicles. On February 15, 2002, amendment #1 to the agreement was executed to increase the amount of reimbursement to $198.3 million. As of June 30, 2002, full reimbursement of the $198.3 million was made to the Measure B Ancillary Program Agency Fund. As of June 30, 2006 approximately $198.3 million have been expended for the acquisition of low floor vehicles, which includes $17.3 million in current year additions.

During the year, VTA paid approximately $66.8 million for current year costs for the program. Of this amount, the County contributed approximately $59.5 million; namely $8 million ($8.8 million Measure B funding and ($0.8 million) Measure B swap fund) for transit projects in the Enterprise Fund; $38.1 million ($33 million Measure B fund & $5.1 million Measure B swap fund) for highway projects in the Measure B Highway Capital Projects Fund; and $13.4 million for the Ancillary Program (Measure B Projects, Pavement and Bikeways). The remaining balance was received from various Federal, State and local fund sources.

2000 Measure A Program

The Santa Clara Valley Transportation Authority 2000 Measure A Program (MAP) was created in response to the Measure A ballot approved by the voters of Santa Clara County on November 7, 2000. The MAP is responsible for a number of key capital transit projects, including the connection of rapid transit to San Jose, increased bus and light rail service and partially providing for related operating expenses.

The MAP is funded by the half-cent sales tax to be imposed for a period of 30 years and to take effect upon expiration of the current County of Santa Clara 1996 Measure B half-cent sales tax, April 1, 2006. During FY06, VTA received $38.2 million in sales tax for 2000 Measure A Program.

NOTE 10 – FEDERAL, STATE, AND LOCAL ASSISTANCE

VTA is dependent upon the receipt of funds from several sources to meet its operating, maintenance, and capital 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.

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

(a) Federal Grants

Federal grants are approved principally by the Federal Transportation Administration (FTA) and the Federal Highway Administration (FHWA). Federal grants for the year ended June 30, 2006 are summarized as follows (in thousands):

	Business-type Activity	Governmental Activity
	Enterprise Fund	Congestion Management Program
Operating assistance grants:		
FTA Section 9	$ 33,021	$ -
Job Access and Reverse Commute Program	488	-
Federal Technical Studies	56	621
Total Operating Assistance Grants	33,565	621
Capital Grants		
FTA Section 3	2,552	-
FTA Section 9	4,491	-
Total Capital Grants	7,043	-
Total Operating Assistance and Capital Grants	$ 40,608	$ 621

FTA and FHWA reserve the right to audit expenditures financed by their grants to determine if such expenditures comply with the conditions of the grant agreements. VTA's management believes the results of such audits would not have a material adverse effect on 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.

The Job Access and Reverse Commute Program was authorized in Section 3037 of the Transportation Equity Act for the 21st Century (TEA-21). This program, administered by the FTA, is intended to implement a variety of transportation services that will connect welfare recipients to employment and other job-related activities and opportunities.

FTA Section 3 capital grants represent the transit capital investment program (49 U.S.C. 5309), which provides capital assistance for three primary activities:

- New and replacement of buses and facilities
- Modernization of existing rail systems, and
- New fixed guideway systems

FTA Section 9 grants represent the federal program (49 U.S.C. 5307), which makes federal resources available to urbanized areas and to Governors for transit capital and operating assistance in urbanized areas and for transportation related planning.

The grants from the following passthrough fund agreements are presented as part of the Capital Grants – FTA Section 9:

- MTC-TLC represents funds received from the Metropolitan Transportation Commission – Transportation for Livable Communities program capital grants for the San Fernando Station Plaza/Los Gatos Creek Trail Improvement Project. Funds for this program come from the federal transportation funds pursuant to TEA-21 Restoration Act.

- TransLink® fees are funds received from the Metropolitan Transportation Commission in accordance with the TransLink® Phase II site preparation fund agreement whereby VTA is to perform site preparation on its premises for the implementation of TransLink® Phase II project. The agreement is funded in whole or in part from the proceeds of a grant from the United States Department of Transportation.

- Intelligent Transportation System (ITS) fees are received from the California Department of Transportation pursuant to TEA-21, Section 5208 Funding for California ITS Integration Projects with VTA being the implementing agency for ITS integration activities in Santa Clara County and the Silicon Valley.

(b) State and Local Grants and Assistance

State and local grants for the year ended June 30, 2006, are summarized as follows (in thousands):

		Business-type Activity	Governmental Activity
		Enterprise Fund	Congestion Management Program
Operating assistance grants:			
Transportation Development Act		$ 71,044	$ -
State Operating Assistance Grants		8,814	229
AB434		1,341	-
Total operating assistance grants		$ 81,199	$ 229
Capital grants:			
Traffic Congestion Relief Program		3,213	-
State of California, General Fund		652	-
AB434		117	-
Other Local Grants:			
Santa Clara County (Measure B Program) – (Note 9)		8,844	-
Santa Clara County (Fund Swap Program)			
VTA Transit	$2,806		
Measure B Transit Program	(785)	2,021	-
Various cities, counties and others		632	-
Total capital grants		15,479	-
Total state and local grants		$ 96,678	$ 229

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

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 VTA on a cost-reimbursement basis.

AB434 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.

The Traffic Congestion Relief Program (TCRP) provides funds for projects throughout the State of California to reduce traffic congestion, provide for safe and efficient movement of goods, and provide system connectivity. TCRP is being implemented by the California Transportation Commission, in consultation with State Department of Transportation.

General funds are received from the State of California through its Business Transportation and Housing Agency, Department of Transportation. The funds are to be used to reimburse project costs relating to the Vasona Light Rail-Winchester Extension Project.

Santa Clara County Fund Swap is Measure B revenue received by VTA for local projects in exchange for federal and/or State grant funds and program them for certain 1996 MBTIP Projects. Additional information on the 1996 MBTIP can be found in Note 9.

Various cities, counties and others contribute revenue to light rail projects for project enhancements and to procurement of zero emission buses and the corresponding facility improvements.

NOTE 11 – SANTA CLARA VALLEY TRANSPORTATION AUTHORITY AMALGAMATED TRANSIT UNION PENSION PLAN

(a) Plan Description

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

VTA enhanced the Pension benefits for ATU represented employees effective February 1, 2001 and they were enhanced again on February 1, 2003. The enhancement scheduled for February 1, 2004 was accelerated to July 1, 2002.

Separately issued audited GAAP basis financial statements of the Plan are available and can be obtained from Santa Clara Valley Transportation Authority, Accounting and Compliance Review, 3331 North First Street, Building C-2, San Jose, California 95134-1906.

The current membership of the Plan as of June 30, 2006, is comprised of the following:

Retirees and beneficiaries currently receiving benefits	852
Terminated vested members not yet receiving benefits	181
Active members	1,394
Total	2,427

(b) Basis of Accounting

Contributions are recognized as revenue in the period in which employee services are performed. Benefits (distributions to participants) and refunds of prior contributions are recognized when due and payable in accordance with the terms of the Plan.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates. Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned.

(c) Actuarial Methods and Assumptions

Description	*Methods/Assumptions*	
Valuation date	January 1, 2006	
Actuarial cost method	Aggregate entry age normal	
Amortization method	Level dollar open method	
Remaining amortization period	20 years (Level dollar open method)	
Actuarial asset valuation method	Market value less unrecognized investment gain or losses during the prior four years, phased in at 20% per year, subject to a minimum of 80% and a maximum of 110% of market value.	
Actuarial assumptions	Investment rate of return	8.00%
	Projected salary increases	19.03% for the first three years of service, 4.28% thereafter.
	Inflation rate	3.50%
	Cost of living adjustments	NONE

(d) Concentration

Investments in the commingled State Street Bank and Trust Company, S&P 500 Conservative Index Fund and commingled Fidelity Fund represented 14.37% and 18.1%, respectively, of the Plan's net assets as of June 30, 2006.

(e) Funding Policy

VTA contributes to the Plan at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vesting benefits. VTA's contributions to the Plan for the year ended June 30, 2006 were made in accordance with actuarially determined requirements computed as of January 1, 2005. VTA's contribution rate as a percentage of payroll was 16.51% for fiscal year FY2006. The schedule of funding progress can be found on page 2-65.

(f) Net Pension Obligation

VTA's net pension obligation to the Plan was zero as of June 30, 2006. The three-year trend information is shown below (in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	$12,071	100%	$ -
6/30/05	14,292	100%	-
6/30/06	15,278	100%	-

NOTE 12 – PUBLIC EMPLOYEES' RETIREMENT PLAN

(a) Plan Description

All eligible non-ATU employees of VTA participate in the California Public Employees Retirement System (CalPERS). Prior to separation from the County on January 1, 1995, all eligible VTA employees participated in CalPERS through the County. As a result of the separation from the County, certain administrative employees were transferred from the County to VTA. All of those administrative employees' service credits earned during the period they worked for the County's transportation agency were transferred to VTA's CalPERS account. The transfer of related assets at a market value totaling approximately $52,300,000 was completed by CalPERS in FY1999.

CalPERS 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 California. CalPERS 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 VTA resolutions. VTA contracts with CalPERS to administer these benefits.

Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814. A separate report for VTA's plan is not available.

(b) Actuarial Methods and Assumptions

Description	*Methods/Assumptions*
Valuation date	June 30, 2003
Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percent of Payroll
Average Remaining Period	17 years as of the Valuation Date
Asset Valuation Method	3 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%

(c) Funding Policy

Active members in VTA's CalPERS Plan are not required to contribute to the CalPERS Plan. VTA elected to contribute the actuarially determined amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required contribution rate from July 1, 2005 through August 14, 2005, was 11.925% and for August 15, 2005 through June 30, 2006 was 13.029% for the employer and 7.0% for employees. The required employee contribution was paid by VTA. The contribution requirements of the CalPERS Plan are established by State statute and the employer contribution is established and may be amended by CalPERS. The amortization period used is closed which means that amortization periods for initial unfunded liability, benefit change, and assumption change decline every year. The schedule of funding progress can be found on page 2-66.

(d) Net Pension Obligation

VTA's net pension obligation to the CalPERS Plan was zero as of June 30, 2006. For FY2006, VTA's annual pension cost was approximately $6.5 million, which was fully contributed. The required contribution for FY2006 was determined as part of the June 30, 2003, actuarial valuation using the entry age normal cost method with the contributions determined as a percent of pay. Three-year trend information follows (in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	$ 3,750	100%	$ -
6/30/05	5,171	100%	-
6/30/06	6,501	100%	-

NOTE 13 – ATU SPOUSAL MEDICAL AND VISION/DENTAL TRUST

VTA had assets and related liabilities as of June 30, 2006 of approximately $8.7 million for the ATU Spousal Medical Trust and $2.6 million for the Retiree Vision and Dental Trust.

The Spousal Medical Trust is a medical insurance benefit for eligible pensioners' spouses. Pursuant to a collective bargaining agreement, contribution to the Spousal Trust was changed from $.20 to $.25 per hour worked by all ATU employees, effective February 4, 2002. As of June 30, 2006, there were 215 participating spouses who were eligible for benefits from the Spousal Medical Trust. Contributions, which were expensed by VTA, were approximately $840 thousand. Benefit payments made by the Trust for FY2006 were approximately $1 million.

The Retiree Vision and Dental Trust is a vision and dental benefit for eligible pensioners. Effective February 8, 1999 and pursuant to a collective bargaining agreement, VTA is required to contribute $0.10 per hour worked by ATU employees. As of June 30, 2006, there were 730 eligible participants. Contributions, which were expensed by VTA, were approximately $336 thousand for the Retiree Vision and Dental Trust.

NOTE 14 – INTERNAL SERVICE FUND

As of June 30, 2006, the composition of assets and liabilities by individual components of the Internal Service Fund were as follows (in thousands)

	Workers' Compensation	General Liability	Retiree Health	Compensated Absences	Total
Assets	$ 66,334	$ 8,967	$ 79,285	$ 21,841	$ 176,427
Liabilities	(50,211)	(8,967)	-	(21,841)	(81,019)
Net assets (reserve)	$ 16,123	$ -	$ 79,285	$ -	$ 95,408

Workers' Compensation and General Liability

The claim processing function is performed by third-party administrators. VTA's annual contribution to General Liability is based on a budgeted self-insured expense amount. Contributions to Workers' Compensation fund occur every pay period. Actuarial studies for both activities are obtained on an annual basis.

Actuarial Information

An actuarial analysis as of December 31, 2004 disclosed that the present values of estimated outstanding losses, at 5% average discount rate using a 75% confidence level, are $47.7 million and $6.5 million for Workers' Compensation and General Liability, respectively. Based on individual claims for the period January 1 through June 30, 2005, there is an increase in claim amount percentages of 5.35% for Workers' Compensation and a decrease of 65.60% for General Liability. The accrued liabilities for Workers' Compensation and General Liability claims were based on the actuarial estimates. It is VTA's practice to obtain full actuarial studies annually.

Changes in the balance of Workers' Compensation and General Claims Liabilities for the two years ended June 30, 2006, are as follows (in thousands):

	Workers' Compensation	General Liability
Unpaid claims at June 30, 2004	$ 46,757	$ 6,368
Provision for claims and claims adjustment expense	18,948	2,684
Payment for claims	(15,494)	(2,684)
Unpaid claims at June 30, 2005	50,211	6,368
Provision for claims and claims adjustment expense	19,751	5,164
Payment for claims	(19,751)	(2,565)
Unpaid claims at June 30, 2006	$ 50,211	$ 8,967

Retiree Health

(a) ATU

VTA provides an ATU Retiree Health Care Program (the ATU Program), a post-employment benefit, in accordance with the agreement between VTA and the ATU, to all ATU represented employees who retire from 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, 2006, 771 retirees met the eligibility requirements. VTA pays medical premiums for its eligible retirees.

(b) Non-ATU

All non-ATU represented 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, 2006, 254 retirees met the eligibility requirements.

(c) Actuarial Information

An actuarial study as of July 1, 2006 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 $172.3 million and $69 million, for the ATU and Non-ATU Programs, respectively. VTA's contributions are advance funded on an actuarial determined basis. For the year ended June 30, 2006, VTA made contributions to both the ATU and Non-ATU programs, which were expensed, of approximately $11.3 million. Benefits paid to participants of the program were approximately $5.3 million.

The actuarial cost method used for determining the benefit obligations is the projected unit benefit cost method. The significant economic assumptions used were as follows: 1) a discount rate of 7.0%, 2) a projected salary increase of 5.0%, and 3) a health cost inflation assumption of 8.0% pre-65 and 11.0% post-65 in the first year (increase from 2006 to 2007), 10.0% from 2007-2008 and then graded down 1.0% per year for the next 5 years, and 5.0% thereafter.

As of June 30, 2006, VTA had assets of $79.3 million to cover costs of the ATU and Non-ATU Programs.

Compensated Absences

This represents the amount charged each month to accrue the estimated increase in unused vacation and sick leave. This account is adjusted annually to reflect the year-end value of unused vacation and sick leave. Compensated absences are limited to leaves that are attributable to services already rendered and are not contingent on a specific event that is outside the control of the employer and employee. At June 30, 2006, the outstanding balance of compensated absence liability was $21.8 million.

NOTE 15 –INSURANCE

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. For the past three fiscal years, settlement amounts have not exceeded commercial insurance coverage. For additional information on workers' compensation and general liability, see Note 14. Coverage provided by self-insurance/insurance and excess coverage as of June 30, 2006, is shown below:

Type of Coverage	Self-Insurance/Deductible	Excess Coverage (in aggregate)
Workers' compensation	Self-Insured	None
Employer's liability	$3,000,000	$23,000,000 per accident
Excess public liability/property damage	$3,000,000	$22,000,000
Property, boiler, and machinery	$100,000	$70,000,000 combined blanket limit
National Flood Insurance (eligible locations)	$5,000	$500,000
Light rail vehicles include spare parts coverage, no earthquake coverage	$250,000	$20,000,000
Buses	$100,000	$20,000,000
Vans and mobile equipment	$25,000	Included in the $20,000,000 with buses
Owner-controlled insurance programs:		
Highway construction projects	$-0-	$52,000,000
Builder's risk	$25,000 - Highway	$200,000,000 - Highway
Public officials liability	Self-Insured $3,000,000	$22,000,000

NOTE 16 – LEASES

VTA leases various properties for use as transfer facilities, parking lots, information centers, and warehouses under lease agreements that expire at various dates through 2030. These agreements are accounted for as operating leases. Rent expense was approximately $560 thousand in FY2006. The future lease payments under noncancellable lease agreements are as follows (in thousands):

Year ending June 30,	
2007	$ 268
2008	194
2009	198
2010	203
2011	207
2012-2016	989
2017-2021	1,051
2022-2026	1,129
2027-2030	1,070
Total	$5,309

NOTE 17 – LITIGATION

The projected costs which would settle by June 30, 2007 are approximately $687 thousand. VTA's management believes its actuarially determined reserves and excess insurance coverage will adequately cover estimated potential material adverse losses as of June 30, 2006.

NOTE 18 – CONTRACTED SERVICES PROVIDED BY THE COUNTY OF SANTA CLARA

The County provides support services to VTA for protection (Office of the Sheriff), fuel for vehicles and vehicle maintenance and repairs. Amounts paid to the County for such services were approximately $4.7 million during FY2006.

NOTE 19 – JOINT VENTURES

(a) Peninsula Corridor Joint Powers Board

VTA is a member agency of 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 Corridor rail service (Caltrain), which began operating 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. In FY2006, VTA, SamTrans, and CCSF are responsible for 40.24%, 41.70%, and 18.06%, respectively, of the member agencies' total reimbursement for such expenses. During the year ended June 30, 2006, VTA paid $14.8 million to the PCJPB for operating costs.

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.

VTA's agreement with the PCJPB expired in 2001 and continues in full force and effect on a year-to-year basis, until any member provides a 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 that 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.

Summary financial information (not included in VTA's financial statements) for the PCJPB as of and for the year ended June 30, 2005, is as follows [a]:

	(in thousands)
Total assets	$982,021
Total liabilities	(62,364)
Total net assets	$ 919,657
Operating revenues	$ 26,092
Operating expenses	(70,098)
Non-operating revenues, net	14,030
Capital contributions	69,828
Change in net assets	$ 39,852

[a] Latest audited information available.

Complete financial statements for the PCJPB can be obtained from SamTrans at 1250 San Carlos Avenue, San Carlos, California 94070.

(b) Altamont Commuter Express

The Altamont Commuter Express (ACE) is a commuter rail service covering over 85 miles between Stockton and San Jose with stops in Manteca, Tracy, Livermore, Pleasanton, Fremont, Santa Clara, and San Jose. ACE is funded by VTA, the Alameda County Congestion Management Agency and the San Joaquin Regional Rail Commission which also serves as the managing agency.

ACE commenced operations in October 1998, and now provides three daily round trip commuter rail service from San Joaquin County through the Tri-Valley Area of Alameda County to Santa Clara County. The operating maintenance and management costs of the service is reimbursed by the members at a rate of approximately 42% from VTA, 28% from San Joaquin Regional Rail Commission and 30% from the Alameda County Congestion Management Agency. In June 2003, VTA entered into a Cooperative Service Agreement with the San Joaquin Regional Rail Commission (SJRRC) and the Alameda County Congestion Management Agency (ACCMA) for continued VTA funding of Altamont Commuter Express (ACE) commuter rail service. The cooperative agreement replaced the ACE Joint Powers Agreement (JPA) executed by the ACE member agencies – VTA, SJRRC and ACCMA. During the year ended June 30, 2006, VTA contributed approximately $2.5 million for operating costs.

Complete financial statements for ACE can be obtained from the San Joaquin Regional Rail Commission at 949 East Channel Street, Stockton, California 95202.

(c) Capitol Corridor Intercity Rail Service

VTA is a member agency of the Capitol Corridor Joint Powers Authority, which provides intercity rail service between Sacramento and San Jose. The Capitol Corridor intercity rail service is provided by the Capitol Corridor Joint Powers Board, which is comprised of members of the governing bodies of VTA, the Sacramento Regional Transit District, the Placer County Transportation Planning Agency, the congestion management agencies of Solano and Yolo counties, and the Bay Area Rapid Transit District. BART is the managing agency for the Capitol Corridor Service. VTA offers no funds to the operation of this service.

Complete financial statements for the Capitol Corridor Service can be obtained from the San Francisco Bay Area Rapid Transit District (BART) at P.O. Box 12688, Oakland, California 94606-2688.

(d) California Transit Finance Authority

VTA is a participant of the California Transit Finance Authority (CTFA), which was formed in 1998 through a joint powers agreement for the purpose of establishing the California Transit Variable Rate Finance Program (Program). The Program makes low-cost, variable rate financing available to the members of the California Transit Association for the acquisition of transit equipment and facilities. Through the Program, VTA issued $50,000,000 of Junior Lien Sales Tax Revenues Bonds in March 1998 and $40,000,000 in November 2000 (Note 7).

Complete financial statements for the CTFA can be obtained from Shaw/Yoder Inc. at 1414 K Street, Suite 320, Sacramento, California 95814.

NOTE 20 – OTHER FINANCING TRANSACTIONS

(a) Lease-Leaseback

In September 1998, VTA simultaneously entered into two transactions to lease out 50 vehicle cars to investors (Headlease), U.S. Bank National Association (Successor Trustee), and simultaneously subleased the vehicles back from the investors for a period of 32 to 33 years. VTA maintains ownership of the vehicles and is obligated to insure and maintain the vehicles throughout the term of the lease. VTA has the right to buy out the lease after 16.5 and 18.5 years depending on the equity investor and the condition of the equipment.

VTA received a prepayment of approximately $92,286,000, which represented certain rental obligations owed by the investors under the Headlease. Investors made equity contributions of approximately 20% and a financial institution made loans to the trust for the balance of the Headlease rental prepayment amount. VTA is required to make annual rental payments pursuant to the sublease.

Simultaneously, VTA entered into a payment agreement with a financial institution. VTA made a payment to the financial institution for $68,149,000 in consideration of the agreement by the financial institution to make payments equal to the debt portion of future rental payments, the debt portion of the early buy-out option and its absolute, unconditional and irrevocable guarantee of the prompt payment of such amounts when due.

VTA used an additional $16,853,000 of the Headlease prepayment to purchase obligations of the United States government in various dollar amounts and maturities, which coincide with the due dates of the equity portion of the sublease rental obligations and the equity portion of the early buy-out option. The investments have been transferred to a custodian. Additionally, VTA acquired a financial guaranty insurance policy to secure part of the equity portion of the sublease termination obligations.

VTA paid $1,683,000 in appraisal, legal advisor and other fees. The pecuniary benefit to VTA in fiscal 1999 was $5,600,000.

(b) Japanese Operating Lease

In June 2000, VTA had entered into a Japanese Operating Lease (JOL) transaction covering 285 buses of various vintages manufactured by Gillig and Flexible (Buses). VTA received payments totaling $55.4 million and VTA is obligated to make semi-annual rental payments throughout the term of the lease. VTA paid $53.4 million to financial institutions to assume the rental obligations. As a result of the JOL transaction, VTA realized a financial benefit of $2,022,000.

VTA has the ability to terminate the lease on the Buses after 6 years with respect to some of the Buses, and after 8 years with respect to the remainder of the Buses. VTA will continue to operate, maintain, and insure the Buses throughout the term of the lease.

(c) Sublease Agreement with Utah Transit Authority (UTA) and Sacramento Regional Transit District (RT)

In May 2003, the VTA Board approved the execution of the sublease agreements with the Utah Transit Authority (UTA) and Sacramento Regional Transit District (RT) for the sublease of 50 UTDC Light Rail Vehicles (LRVs) with aggregate prepaid rent in the amount of $9.3 million. In 1998, VTA entered into a US leveraged lease (1998 LILO) with respect to VTA's UTDC light rail vehicles. VTA implemented this transaction by entering into two transactions:

1) lease out the UTDC LRVs to investors, documented in a head lease for a period of approximately 33 years, and
2) to lease back the same UTDC LRVs from the investors (documented in a sublease).

Per the sublease agreement, VTA would ship 29 LRV cars to UTA and 21 LRV cars to Sacramento. The UTA/RT Agreements provide that UTA and RT would pay the prorated portion of the prepaid rent for the UTDC LRVs upon the delivery of each vehicle to UTA or RT. The aggregate amount of rental payments for UTA and RT are $5.2 million and $4.1 million, respectively. During FY06, VTA shipped 14 cars to UTA, 21 cars to Sacramento, and the remaining 15 cars were shipped to UTA with total proceeds of approximately $2.3 million.

Because the sublease agreement contains a bargain purchase option, the transaction is considered a capital lease. VTA maintains ownership of the LRVs and is obligated to operate, maintain and insure the LRVs throughout the term of the Sublease. During any event of loss, the following alternatives are available:

1) UTA or RT shall pay to VTA on the first Stipulated Loss Value Determination Date occurring after UTA/RT delivers the Election Notice.
2) Provided no event of default, UTA/RT shall substitute or replace within 170 days of giving of the Election Notice.

The basic sublease term is approximately 13 years with a sublease renewal term of 9 years thereafter. The sublease transaction was recorded as a capital lease during FY2004. The net book value of assets amounting to $23 million was taken out from the books and a loss in the amount of $16 million was immediately recognized as a special item in FY2004 and FY2005 respectively.

(d) Lease to Service Contracts

In August and December 2003, VTA entered into four "lease to service" agreements covering 66 Kinkisharyo low floor light rail vehicles. These agreements included four head leases to lease the vehicles to trusts created by equity and simultaneously lease them back under separate leases. Under certain conditions there could be 12-19 year service periods following the lease periods, which range from 24-30 years. VTA received prepayments of the head lease rents from the investors of approximately $291.2 million, of which $221.5 million was invested with a debt payment undertaker, who will make the scheduled lease rent payments and $33.5 million was invested in fixed rate securities or payment undertakers to fund purchase options at the end of the lease terms, should VTA decide to exercise its purchase options. Approximately $30 million represents considerations for tax benefits net of $6.2 million in expenses, and is reported as revenue from head lease in the enterprise fund.

VTA is obligated to insure and maintain the light rail vehicles. The lease agreements provide for VTA's right to continue to use and control the light rail vehicles. VTA has also agreed to indemnify the lessor from any taxes imposed by United States taxing authorities and from any other increased costs.

(e) Excise Tax on Lease/Leaseback Transactions

On May 17, 2006, President Bush signed into law the Tax Increase Prevention and Reconciliation Act of 2005 (the "2005 Tax Act"). Pursuant to the 2005 Tax Act, a new Section 4965 was added to the Internal Revenue Code of 1986, as amended (the "Code"). Section 4965 imposes a federal excise tax (the "New Excise Tax") on the net income or proceeds of certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions, such as the VTA. Some of the VTA's leasing transactions described in Note 20 could be subject to the New Excise Tax.

The U.S. Treasury Department and the IRS are in the process of drafting regulations that will further clarify which transactions are subject to the New Excise Tax and the calculation of the New Excise Tax. The VTA is evaluating the New Excise Tax and is awaiting these regulations. At this time, the magnitude of the VTA's liability, if any, under the New Excise Tax is unclear. Accordingly, the VTA is unable to determine at this time whether the imposition of the New Excise Tax will have a material adverse effect on its financial results or condition.

NOTE 21 – SUBSEQUENT EVENT

On August 10, 2006, VTA issued the 2006 Measure A Sales Tax Revenue Bonds, Series A-G, aggregating to $428,375,000 (2006 Bonds). The proceeds were used to refund on a current basis $131,240,000 of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, Series 2003, $104,710,000 of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, Series 2004 A and $135,165,000 Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, Series 2004 B. In addition, a portion of the proceeds of the 2006 Bonds will be applied to finance a portion of the costs associated with the 2000 Measure A Program, debt service reserve funds for Series F and G, and to pay the costs of issuance of the 2006 Bonds.

The 2006 Bonds are limited obligations of the VTA secured by a pledge of 2000 Measure A sales tax revenues. The 2006 Bonds were structured as auction rate securities (ARS) insured by Ambac Assurance Corporation. Series A-E were structured as 7 day ARS with initial auction dates of September 8-11, 2006; Series F&G were structured as three month ARS, with an initial auction date of August 3 and 6, 2007.

The 2006 Bonds were rated Aaa by Moody's and AAA by Standard & Poor's, with underlying ratings of "Aa3" and "AA", respectively.

On August 1, 2006, VTA entered into variable to fixed interest rate swaps on Series A-D of the 2006 Bonds, to effectively change VTA's variable interest rate for these series to a synthetic fixed rate of 3.765%. For a discussion regarding associated risks on VTA swaps, see Note 7. On August 1, 2006, VTA entered into an interest rate cap agreement on Series E of the 2006 Bonds. Pursuant to the terms of the interest rate cap agreement, which will expire August 10, 2011, the variable interest rate on Series E of the 2006 Bonds is capped at 8%. Series F and G will remain unhedged.

Basis Risk. VTA bears the risk that the variable rate payment received from the counterparties may be less than the variable rate VTA pays to the bondholder. VTA will mitigate this risk in two ways. First, VTA's swap payments are based on a swap formula that closely matches the historical trading value of VTA's variable rate bonds in all markets. Second, VTA has created a "basis" stabilization fund -- which allows VTA to offset any shortfalls in swap receipts with any positive payments received.

Credit Risk. VTA bears the risk that the swap providers will not be able to make its offsetting payments to VTA. VTA has mitigated this potential risk in three ways. First, VTA has diversified credit exposure by entering into interest rate swaps with four counterparties. Second, each counterparty carries credit ratings at or above "Aa3" and/or "AA-" by at least two nationally recognized rating agencies (i.e. Moody's, Standard & Poor's or Fitch). Third, in the event of ratings downgrade, each counterparty is required to post collateral in an amount at least equal to the loss in market value between the par value of the swap (or its "notional value") and current valuation.

Termination Risk. VTA bears the risk that one of its swap counterparties will terminate the interest rate swap prior to maturity at a time when there would be a cost to VTA – i.e., rates have declined from the time the swap was executed. VTA has mitigated this risk through bond insurance from Ambac Assurance Corporation. The counterparties are not given the right to terminate the swap absent (a) an event of VTA default or (b) downgrade of VTA below investment grade and the bond insurer below "A3" from Moody's Investors Service, Inc. (or an equivalent rating determined by a nationally-recognized ratings service acceptable to VTA).

VTA has the ability to terminate, at market value, any of the interest rate swaps at any time.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information
Schedule of Funding Progress [a]

Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan

(Unaudited)

(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
1/1/2004	247,694	325,530	77,836	76%	91,255	85%
1/1/2005	268,429	350,895	82,466	76%	88,449	93%
1/1/2006	288,829	363,114	74,285	80%	92,663	80%

[a] The schedule of funding progress presents the most recent actuarial information regarding the funding progress of the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information
Schedule of Funding Progress

Santa Clara Valley Transportation Authority CalPERS Plan

(Unaudited)

	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Actuarial Accrued Liability (AAL)	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) AAL as a Percentage of Covered Payroll
6/30/2002	$ 103,253	$ 98,352	$ 4,901	95.3%	$56,796	8.6%
6/30/2003	126,069	107,061	19,009	84.9%	56,006	33.9%
6/30/2004	142,663	119,709	22,954	83.9%	50,877	45.1%

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Required Supplementary Information
Budgetary Comparison Schedule
Congestion Management Program Special Revenue Fund
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Positive (Negative) Variance
Revenues:				
Assessments to member agencies	$ 2,250	$ 2,250	$ 2,250	$ -
Federal grant revenues	686	686	621	(65)
Administrative fees	115	115	40	(75)
State operating assistance grants	229	229	229	-
Other revenues	15	15	28	13
Total revenues	3,295	3,295	3,168	(127)
Expenditures:				
VTA labor and overhead costs	2,680	2,680	2,823	(143)
Services and other:				
Materials and supplies	2	2	-	2
Professional services	875	875	525	350
Other services	215	215	61	154
Data processing	45	45	84	(39)
Office expense	15	15	67	(52)
Communication and telephone services	3	3	2	1
Employee related expense	40	40	22	18
Lease and rentals	8	8	5	3
Miscellaneous	133	133	37	96
Other expenses	12	12	2	10
Total expenditures	4,028	4,028	3,628	400
Change in fund balance, on a budgetary basis	$ (733)	$ (733)	(460)	$ 273
Revenues not budgeted:				
Investment earnings			39	
Change in fund balance, on a GAAP basis			(421)	
Fund balance, beginning of year			2,351	
Fund balance, end of year			$ 1,930	

Note to Required Supplementary Information
For the Year Ended June 30, 2006

Budgetary Basis of Accounting

State law requires the adoption of an annual budget, which must be approved by the Board of Directors. VTA budgets annually for its Congestion Management Program Special Revenue Fund. The budget for the Special Revenue Fund is prepared on a modified accrual basis.

Budgetary control is maintained at the fund level. Line item reclassification amendments to the budget must be authorized by the responsible director. Operating expenses 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. Annual appropriations for the operating budget lapse at the end of the fiscal year to the extent that they have not been expended. The unexpended capital budget at fiscal year end is carried forward from year to year until the project is completed.

Santa Clara Valley Transportation Authority
Comparative Statement of Fund Net Assets
Enterprise Fund
June 30, 2006 and 2005

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,424	$ 484
Investments	17,093	31,278
Receivables, net	2,765	6,644
Due from other funds	2,014	1,628
Due from other governmental agencies	68,270	67,506
Inventories	20,361	18,713
Other current assets	790	391
Total current assets	113,717	126,644
Restricted assets:		
Cash and cash equivalents	6,255	6,580
Cash and equity with fiscal agent	51,485	146,094
Investments	35,153	42,956
Receivables, net	76	583
Due from other governmental agencies	30,189	11,123
Total other non-current assets	123,158	207,336
Other non-current assets:		
Deferred charges	16,447	16,161
Capital Assets		
Nondepreciable:		
Land and right-of-way	1,131,579	761,818
Construction in progress	380,776	775,709
Depreciable		
Buildings, improvements, furniture, and fixtures	462,448	340,546
Vehicles	457,616	480,174
Light-rail tracks and electrification	384,435	365,506
CalTrain - Gilroy extension	52,990	52,990
Other	29,002	28,830
Less: Accumulated depreciation	(398,635)	(335,199)
Net capital assets	2,500,211	2,470,374
Total assets	$ 2,753,533	$ 2,820,515

Santa Clara Valley Transportation Authority
Comparative Statement of Fund Net Assets (Continued)
Enterprise Fund
June 30, 2006 and 2005

	2006	2005
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$ 10,855	$ 9,683
Accounts payable	12,368	11,845
Other accrued liabilities	14,712	11,951
Due to other governmental agencies	10	4,283
Total current liabilities	37,945	37,762
Liabilities payable from restricted assets:		
Current portion of long-term debt	6,385	-
Accounts payable	12,849	20,885
Other accrued liabilities-current	4,409	6,002
Due to other funds	-	85
Due to other governmental agencies	6,913	11,209
Restricted portion of long-term debt	43,182	124,755
Total liabilities payable from restricted assets	73,738	162,936
Non-current liabilities		
Long-term debt, excluding current portion	639,593	574,289
Other accrued liabilities	18	23
Total non-current liabilities	639,611	574,312
Total liabilities	751,294	775,010
NET ASSETS		
Investment in capital assets, net of related debt	1,817,396	1,867,513
Restricted capital projects	35,153	44,400
Unrestricted	149,690	133,592
Total net assets	$ 2,002,239	$ 2,045,505

Santa Clara Valley Transportation Authority
Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Fund
June 30, 2006 and 2005

	2006	2005
OPERATING REVENUES:		
Passenger fares	$ 34,335	$ 32,061
Advertising and other	2,591	2,631
Total operating revenues	36,926	34,692
OPERATING EXPENSES:		
Labor cost	237,997	229,323
Materials and supplies	27,777	19,996
Services	20,141	18,226
Utilities	6,186	5,795
Casualty and Liability	6,114	3,763
Purchased transportation	27,395	25,538
Leases and rentals	205	580
Miscellaneous	2,000	1,773
Depreciation expense	63,766	56,557
Costs Allocated to Capital and Other Programs	(26,239)	(29,346)
Total operating expense	365,342	332,205
Operating loss	(328,416)	(297,513)
NON-OPERATING REVENUES (EXPENSES)		
Sales tax revenue	195,453	145,008
Federal operating assistance grants	33,565	34,416
State and local operating assistance grants	81,199	79,509
Caltrain subsidy	(14,801)	(14,112)
Caltrain capital contribution	(27,399)	-
Altamont Commuter Express subsidy	(2,470)	(2,470)
Investment earnings	6,457	5,666
Interest expense	(11,562)	(13,761)
Other income	9,158	2,628
Other expense	(6,972)	(3,316)
Non-operating revenue, net	262,628	233,568
Change in net assets before capital contributions and special items	(65,788)	(63,945)
Capital contributions	22,522	96,860
Special items	-	(7,773)
Change in net assets	(43,266)	25,142
Net assets, beginning of year	2,045,505	2,020,363
Net assets, end of year	$ 2,002,239	$ 2,045,505

Santa Clara Valley Transportation Authority
Comparative Statement of Cash Flows
Proprietary Funds (Business-type Activity)
For the Years Ended June 30, 2006 and 2005
(In thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger fares	$ 34,335	$ 28,318
Cash received from advertising	2,591	2,631
Cash paid to employees	(211,758)	(199,980)
Cash paid to suppliers	(62,730)	(67,632)
Cash paid for purchased transportation	(27,395)	(25,538)
Net cash provided by/(used in) operating activities	(264,957)	(262,201)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	114,764	113,925
Sales tax received	195,453	143,784
Caltrain subsidy and contribution	(18,836)	(14,112)
Altamont Commuter Express subsidy	(2,470)	(2,470)
Receipts for services provided to other agencies	220	2,630
Contributions to other agencies	(1,860)	(12,101)
	287,271	231,656
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of long-term debt	(10,955)	(9,290)
Proceeds from issuance of bonds	172,530	140,900
Payoff of 2001 Series A Bonds	(171,000)	(13,762)
Interest paid on long-term debt	(11,562)	-
Cost of bond issuance	(1,527)	(985)
Acquisition and construction of capital assets	(121,321)	(228,782)
Capital contribution from other governments	22,522	106,674
Proceeds from sale of capital assets	214	224
Proceeds from sublease of vehicles	-	2,290
	(121,099)	(2,731)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	521,436	667,584
Purchases in investments	(518,996)	(669,989)
Interest income received	3,351	1,091
	5,791	(1,314)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(92,994)	(34,590)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	153,158	187,748
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 60,164	$ 153,158

Santa Clara Valley Transportation Authority
Comparative Statement of Cash flows (Continued)
Proprietary Funds (Business-type Activity)
For the Years Ended June 30, 2006 and 2005
(In thousands)

	2006	2005
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:		
Operating income/(loss)	$ (328,416)	$ (297,513)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	63,766	56,557
Changes in operating assets and liabilities:		
Receivables	3,879	(3,743)
Due from other governmental agencies	(5,037)	-
Inventories	(1,648)	6,230
Accounts payable	523	(12,445)
Other accrued liabilities	2,761	(3,542)
Other Current assets	(399)	(7,745)
Due to other funds	(386)	-
Net cash provided by/(used in) operating activities	$ (264,957)	$ (262,201)
Reconciliation of cash and cash equivalents to the Statement of Fund Net Assets:		
Cash and cash equivalents, end of year:		
Unrestricted	$ 2,424	$ 484
Restricted	57,740	152,674
	$ 60,164	$ 153,158
NONCASH INVESTING ACTIVITIES:		
Increase/(Decrease) in fair value of investments	$ (474)	$ 454
OTHER NONCASH ACTIVITIES:		
Net book value of subleased vehicles	$ -	$ -

Santa Clara Valley Transportation Authority
Budgetary Comparison Schedule
Enterprise Fund
For the year ended June 30, 2006
(In thousands)

	FY06 Adopted Budget	Final Budget	Actual	Favorable (Unfavorable)
REVENUES				
Fares	$ 36,732	$ 35,120	34,335	(785)
1976 1/2 Cent Sales Tax	148,865	150,765	157,283	6,518
Transportation Development Act funds	71,044	71,044	71,044	-
2000 Measure A Sales Tax	6,869	6,869	7,045	176
State Transit Assistance funds	6,331	8,909	7,737	(1,172)
Federal Operating Grants	33,381	33,381	33,565	184
State Operating Grants	1,100	1,100	1,518	418
Local Operating Assistance	474	500	900	400
Investment Earnings	2,425	2,920	3,351	431
Advertising Income	1,921	1,921	1,899	(22)
Other Income	16,345	19,496	23,058	3,562
Total revenues	**325,487**	**332,025**	**341,735**	**9,710**
OPERATING EXPENSES				
Labor Costs	238,612	238,854	237,997	857
Materials & Supplies	12,783	11,947	12,615	(668)
Security	7,880	7,360	6,730	630
Professional & Special Services	5,807	5,676	3,745	1,931
Other Services	7,567	7,408	7,787	(379)
Fuel	9,976	11,476	10,907	569
Traction Power	3,441	3,441	2,802	639
Tires	1,050	1,292	1,172	120
Utilities	2,321	2,321	2,387	(66)
Insurance	3,899	3,813	6,114	(2,301)
Data Processing	2,708	2,708	2,493	215
Office Expense	422	404	392	12
Communications	1,138	1,033	997	36
Employee Related Expense	1,017	990	777	213
Leases & Rents	638	638	482	156
Miscellaneous	1,258	1,152	1,322	(170)
Reimbursements	(35,710)	(34,717)	(33,180)	(1,537)
Total operating expenses	**264,807**	**265,796**	**265,539**	**257**
OTHER EXPENSES				
Americans with Disability Act programs	26,661	26,527	26,309	218
Caltrain Subsidy	15,461	15,461	15,485	(24)
Light Rail Shuttles	906	1,551	1,732	(181)
Altamont Commuter Express subsidy	3,842	3,842	3,785	57
Highway 17 Express	427	427	353	74
Dumbarton Express	449	449	411	38
Contribution to Other Agencies	567	567	508	59
Debt Service	23,336	24,566	23,449	1,117
Miscellaneous expenses	219	219	14	205
Contingencies	2,000	2,000	-	2,000
Total other expenses	**73,868**	**75,609**	**72,046**	**3,563**
Total operating and other expenses	**338,675**	**341,405**	**337,585**	**3,820**
Net income, on a budgetary basis	**$ (13,188)**	**(9,380)**	**4,150**	**$ 13,530**

Reconciliation of net income on a budgetary basis to net income on a GAAP Basis:	
Project Revenue - VTA Enterprise	7,008
Capital Contributions to Caltrain	(26,258)
Project Expenditures	(7,611)
Bond Principal Payment	10,955
Measure A Repayment Obligation	(13,410)
Unrealized Loss in investment	(474)
Cost of Parts Sold	(240)
Depreciation	(63,766)
Surplus of Measure B Transit	10,469
Surplus of Measure A Program	35,911
Net Income, on a GAAP Basis	**$ (43,266)**

Santa Clara Valley Transportation Authority
Schedule of Restricted Assets and Related Liabilities
Enterprise Fund
June 30, 2006
(In thousands)

	Capital & Operating	Debt Service	Total Enterprise
Restricted assets:			
Cash and cash equivalents	$ 6,255	$ -	$ 6,255
Cash and equity with fiscal agent	1,918	49,567	51,485
Investments	35,153	-	35,153
Receivable	76	-	76
Due from other gov agencies	30,189	-	30,189
Total assets	$ 73,591	$ 49,567	$ 123,158
Liabilities payable from restricted assets:			
Accounts payable	$ 12,849	$ -	$ 12,849
Other accr liab - current	4,409	-	4,409
Due to other fund	-	-	-
Due to other gov agencies	6,913	-	6,913
Long-term debt	-	49,567	49,567
Total liabilities	$ 24,171	$ 49,567	$ 73,738

Santa Clara Valley Transportation Authority
Combining Statement of Fiduciary Net Assets
Pension Trust Funds
June 30, 2006
(In thousands)

	ATU Pension	ATU Medical			Total
		Spousal Medical	Retiree Vision/Dental	Total ATU Medical	
ASSETS					
Restricted assets:					
Investments	$ 305,211	$ 8,696	$ 2,638	$ 11,334	$ 316,545
Receivables	1,073	-	-	-	1,073
Total assets	306,284	8,696	2,638	11,334	317,618
LIABILITIES					
Restricted liabilities:					
Accounts payable	203	-	-	-	203
Due to other funds	1,177	-	-	-	1,177
Total liabilities payable from restricted assets	1,380	-	-	-	1,380
Total liabilities	1,380	-	-	-	1,380
NET ASSETS					
Net assets held in trust for:					
Pension benefits	304,904	-	-	-	304,904
Spousal medical benefits	-	8,696	-	8,696	8,696
Retiree dental and vision benefits	-	-	2,638	2,638	2,638
Total net assets	$ 304,904	$ 8,696	$ 2,638	$ 11,334	$ 316,238

Santa Clara Valley Transportation Authority
Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2006
(In thousands)

	ATU Pension Trust	ATU Medical Trust: Spousal Medical	ATU Medical Trust: Vision/ Dental	ATU Medical Trust: Total Medical Trust	Total
ADDITIONS					
Contributions	$ 15,278	$ 839	$ 336	$ 1,175	$ 16,453
Investment earnings:					
Investment income	7,513	15	2	17	7,530
Net appreciation in the fair value of investments	19,416	470	(2)	468	19,884
Investment expense	(1,114)	-	-	-	(1,114)
Net investment income	25,815	485	-	485	26,300
Other revenue	220	-	-	-	220
Total additions	41,313	1,324	336	1,660	42,973
DEDUCTIONS					
Benefit payments	16,069	1,008	-	1,008	17,077
Other benefits paid to participants	59	-	-	-	59
Total deductions	16,128	1,008	-	1,008	17,136
Net increase	25,185	316	336	652	25,837
NET ASSETS HELD IN TRUST					
Beginning of year	279,719	8,380	2,302	10,682	290,401
End of year	$ 304,904	$ 8,696	$ 2,638	$ 11,334	$ 316,238

Santa Clara Valley Transportation Authority
Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006

(In thousands)

	BAAQMD Program	Measure B Ancillary Program	Total
Assets			
Restricted assets:			
Cash and equity with fiscal agent	$ -	$ 4,798	$ 4,798
Investments	3,983	83	4,066
Due from other funds	-	25	25
Total assets	3,983	4,906	8,889
Liabilities			
Liabilities payable from restricted assets:			
Accounts payable	3,983	-	3,983
Due to other governmental agencies	-	4,906	4,906
Total liabilities payable from restricted assets	$ 3,983	$ 4,906	$ 8,889

Santa Clara Valley Transportation Authority
Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2006

(In thousands)

	Balance 30-Jun-05	Increase	Decrease	Balance 30-Jun-06
BAAQMD Program				
Restricted assets:				
Investments	$ 5,779	$ -	$ 1,796	$ 3,983
Liabilities payable from restricted assets:				
Accounts payable	5,779		1,796	3,983
Due to other governmental agencies	-	-	-	-
Total liabilities payable from restricted assets	5,779	-	1,796	3,983
Measure B Ancillary Program				
Restricted assets:				
Cash with fiscal agent	1,008	3,790	-	4,798
Investments	2,649	-	2,566	83
Due from other funds	-	25	-	25
Total restricted assets	3,657	3,815	2,566	4,906
Liabilities payable from restricted assets:				
Due to other funds	-	-	-	-
Due to other governmental agencies	3,657	1,249	-	4,906
Other accrued liabilities-noncurrent	-	-	-	-
Total liabilities payable from restricted assets	$ 3,657	$ 1,249	-	4,906
Total - All Agency Funds				
Restricted assets:				
Cash with fiscal agent	$ 1,008	$ 3,790	$ -	$ 4,798
Investments	8,428	-	4,362	4,066
Due from other funds	-	25	-	25
Total restricted assets	9,436	3,815	4,362	8,889
Liabilities payable from restricted assets:				
Accounts payable	5,779		1,796	3,983
Due to other funds	-	-	-	-
Due to other governmental agencies	3,657	1,249	-	4,906
Other accrued liabilities	-	-	-	-
Total liabilities payable from restricted assets	$ 9,436	$ 1,249	$ 1,796	$ 8,889

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SECTION 3 — STATISTICAL SECTION

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TABLE 1

Santa Clara Valley Transportation Authority
Financial Trends - Changes in Net Assets
Fiscal Year Ended June 30, 2006
(accrual basis of accounting)
(In thousands)

	Fiscal Year				
	2002 [1]	2003	2004	2005	2006
Expenses					
Business-type activities:					
Operations and operating projects	$ 341,209	$ 335,760	$ 286,098	$ 300,430	$ 339,857
CalTrain subsidy & capital contributions	25,315	22,298	16,805	14,112	42,200
Altamont Commuter Express subsidy	1,740	2,715	2,392	2,470	2,470
Interest expense	14,717	14,222	13,690	13,761	11,562
Other expenses	2,838	4,858	3,022	3,316	6,972
Benefit payments	-	-	14,816	21,370	11,538
Total business-type activities expenses	385,819	379,853	336,823	355,459	414,599
Governmental activities:					
Operations and operating projects	2,740	3,582	2,858	4,735	5,982
Capital projects for the benefit of other agencies	112,697	141,271	115,262	94,146	80,763
Total governmental activities expenses	115,437	144,853	118,120	98,881	86,745
Total primary government expenses	$ 501,256	$ 524,706	$ 454,943	$ 454,340	$ 501,344
Program Revenues					
Business-type activities:					
Charges for services	$ 37,122	$ 34,376	$ 33,422	$ 34,692	$ 36,926
Operating grants	127,373	104,132	111,577	113,925	114,764
Capital grants	226,125	316,997	217,053	96,860	22,522
Total business-type activates program revenues	390,620	455,505	362,052	245,477	174,212
Governmental activities:					
Charges for services	1,686	2,177	1,862	2,231	2,290
Operating grants	2,405	852	517	1,190	850
Capital grants	112,668	141,364	116,012	95,746	83,207
Total governmental activates program revenues	116,759	144,393	118,391	99,167	86,347
Total primary government revenues	$ 507,379	$ 599,898	$ 480,443	$ 344,644	$ 260,559
Net (Expense)/Revenue					
Business-type activities	$ 4,801	$ 75,652	$ 25,229	$(109,982)	$ (240,387)
Governmental activities	1,322	(460)	271	286	(398)
Total primary government net expense	$ 6,123	$ 75,192	$ 25,500	$(109,696)	$ (240,785)
General Revenues and Other Changes in Net Assets					
Business-type activities:					
Sales tax revenue	$ 144,218	$ 132,632	$ 138,917	$ 145,008	$ 195,453
Investment income	24,512	14,245	6,382	11,206	10,537
Other income	2,883	4,104	2,102	2,628	9,158
Special items:					
Loss from sublease of vehicles	-	-	(15,918)	(7,773)	-
Revenue from headlease	-	-	29,999	-	-
Gain on sale of land	-	12,224	-	-	-
Total business-type activities	171,613	163,205	161,482	151,069	215,148
Governmental activities:					
Sales tax revenue	-	61	-	-	-
Investment income	30	99	79	174	207
Other income	8	12	18	19	28
Total governmental activities	38	172	97	193	235
Total primary government	$ 171,651	$ 163,377	$ 161,579	$ 151,262	$ 215,383
Change in Net Assets					
Business-type activities	176,414	238,857	186,711	41,087	(25,239)
Governmental activities	1,360	(288)	368	479	(163)
Total primary government	$ 177,774	$ 238,569	$ 187,079	$ 41,566	$ (25,402)

Notes:

[1] The data is shown retroactively to fiscal years when VTA implemented GASB Statement No. 34.

Source: Comprehensive Annual Financial Reports

TABLE 2

Santa Clara Valley Transportation Authority
Financial Trends - Net Assets by Component
Fiscal Year Ended June 30, 2006
(accrual basis of accounting)
(In thousands)

	Fiscal Year				
	2002 [1]	2003	2004	2005	2006
Business-type activities					
Invested in capital assets, net of related debt	$ 1,367,401	$ 1,686,313	$ 1,846,221	$ 1,867,513	$ 1,817,396
Restricted	-	-	65,780	44,400	35,153
Unrestricted	242,699	162,644	169,798	210,973	245,098
Total business-type activities net assets	1,610,100	1,848,957	2,081,799	2,122,886	2,097,647
Governmental activities					
Invested in capital assets, net of related debt	-	-	-	-	-
Restricted	-	-	-	-	-
Unrestricted	1,624	1,336	1,705	2,184	1,930
Total governmental activities net assets	1,624	1,336	1,705	2,184	1,930
Primary government					
Invested in capital assets, net of related debt	1,367,401	1,686,313	1,846,221	1,867,513	1,817,396
Restricted	-	-	65,780	44,400	35,153
Unrestricted	244,323	163,980	171,503	213,157	247,028
Total primary government net assets	$ 1,611,724	$ 1,850,293	$ 2,083,504	$ 2,125,070	$ 2,099,577

Notes:
[1] The data is shown retroactively to fiscal years when VTA implemented GASB Statement No. 34.
Source: Comprehensive Annual Financial Reports

TABLE 3

Santa Clara Valley Transportation Authority
Financial Trends - Fund Balances and Changes in Fund Balances, Governmental Funds
Fiscal Year Ended June 30, 2006
(modified accrual basis of accounting)
(In thousands)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [1]
Revenues										
Member agency assessment revenue	$ 1,240	$ 1,240	$ 1,240	$ 1,240	$ 1,240	$ 1,587	$ 2,032	$ 1,783	$ 2,174	$ 2,250
Federal technical studies operating assistance grants	-	-	1,089	1,042	453	452	453	223	1,036	621
Federal grants	1,258	6,486	3,310	27	-	-	-	-	-	-
Other contributions	-	-	-	390	-	-	-	-	-	-
Sales tax	217	1,410	1,262	-	71	-	60	-	-	-
Administrative fees	36	55	-	85	53	99	145	80	57	40
State operating assistance grants	-	833	62	31	118	1,953	400	293	63	229
Local grant revenue	-	-	767	15,888	41,107	112,668	141,364	116,013	95,746	83,207
Other revenues	3	265	-	2	35	8	12	17	19	28
Investment earnings	201	497	106	15	37	30	99	79	174	207
Program reimbursement	94	514								
Total revenues	3,049	11,300	7,836	18,720	43,114	116,797	144,565	118,488	99,269	86,582
Expenditures										
Current:										
Congestion management:										
Salaries and benefits	526	644	1,711	1,296	1,551	1,388	2,604	2,733	4,177	5,179
Services	564	1,041	1,626	1,786	1,469	1,283	919	390	640	803
Program expenditures	2,521	9,946	7,226	70	-	-	-	-	-	-
Other	32	37	-	-	-	-	-	-	-	-
Capital outlay:										
Capital improvement projects	-	-	-	15,888	40,963	112,697	141,271	115,262	94,064	80,763
Total expenditures	3,643	11,668	10,563	19,040	43,983	115,368	144,794	118,385	98,881	86,745
Excess (deficiency) of revenues over expenditures	(594)	(368)	(2,727)	(320)	(869)	1,429	(229)	103	388	(163)
Other financing sources (uses):										
Transfer in	-	-	-	-	-	-	-	-	86	-
Transfer out	-	-	-	-	-	-	-	-	(86)	-
Sale of fixed assets	4	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	4	-	-	-	-	-	-	-	-	-
Net change in fund balances	$ (590)	$ (368)	$ (2,727)	$ (320)	$ (869)	$ 1,429	$ (229)	$ 103	$ 388	$ (163)
Total Governmental Funds										
Reserved	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unreserved	4,549	4,180	1,453	1,133	402	1,831	1,602	1,705	2,093	1,930
Total Governmental Funds	$ 4,549	$ 4,180	$ 1,453	$ 1,133	$ 402 [2]	$ 1,831	$ 1,602	$ 1,705	$ 2,093	$ 1,930

Notes:

[1] The major changes to prior fiscal years are explained in Management Discussion & Analysis.

[2] FY2001 restated for changes in accounting principles.

Source: Comprehensive Annual Financial Reports

TABLE 4

Santa Clara Valley Transportation Authority
Financial Trends – Current Ratio
Enterprise Fund
Fiscal Year Ended June 30, 2006

The Current Ratio indicates VTA's ability to meet all of its short-term liabilities with liquid assets and is determined by dividing total current assets and restricted assets, by all current liabilities and liabilities payable from restricted assets. A Current Ratio of 1 or higher is an indication of financial strength. In FY2006 VTA's current ratio was 2.1, the third consecutive year there had been an increase in this ratio.

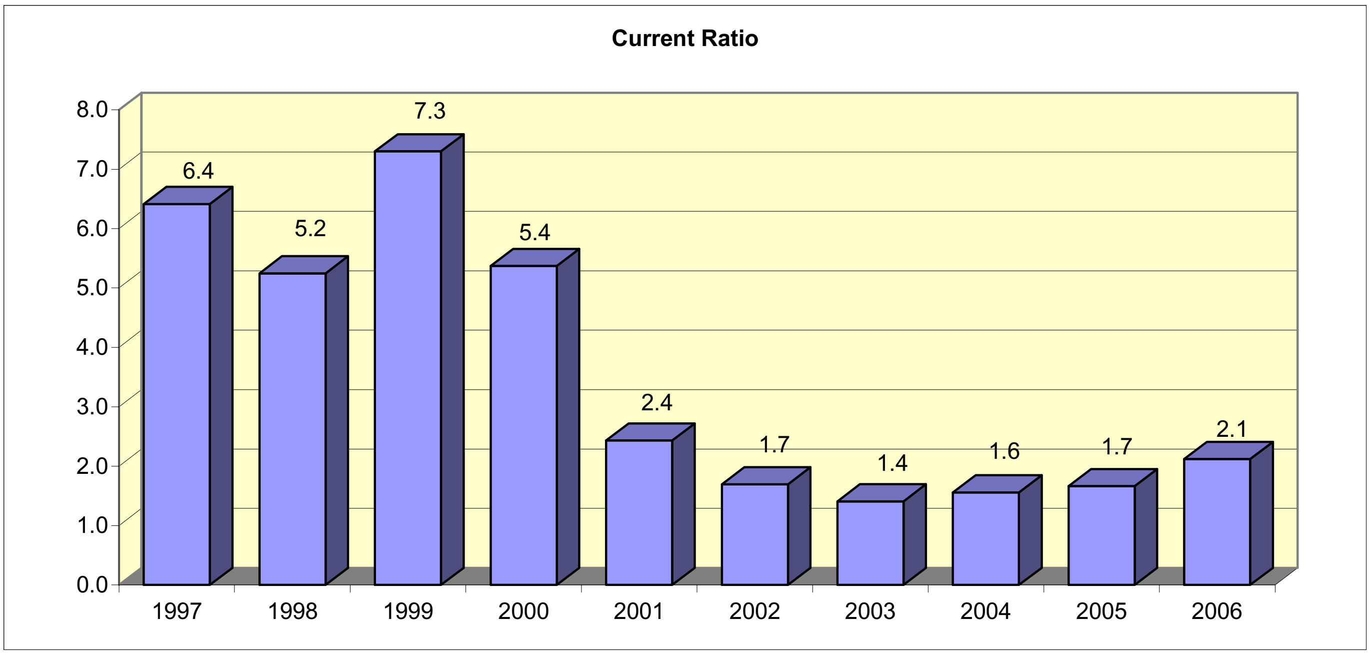


TABLE 5

Santa Clara Valley Transportation Authority
Financial Trends - Operating Revenues and Operating Expenses
Enterprise Fund
Fiscal Year Ended June 30, 2006

The chart below shows a comparison of operating revenue to expenses. Operating expenses are exclusive of purchased transportation and depreciation to more accurately reflect operating expenses related to directly operated service.

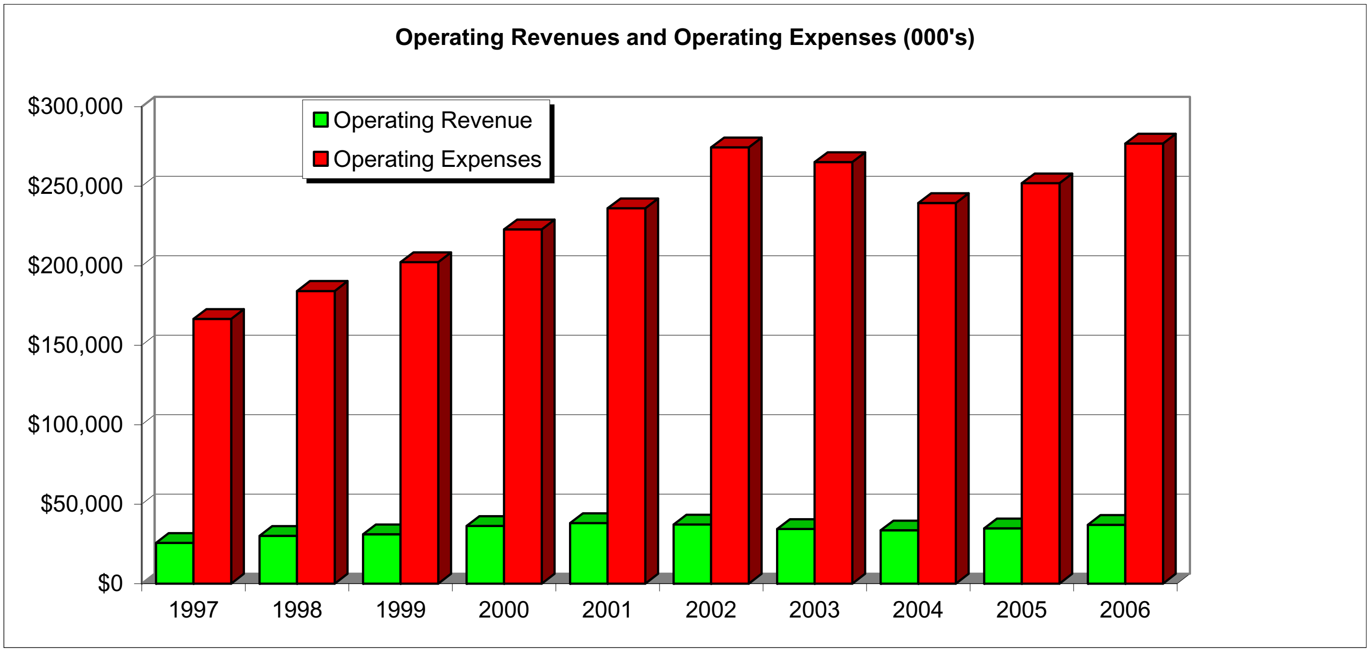


TABLE 6

Santa Clara Valley Transportation Authority
Financial Trends - Non-Operating Assistance and Interest Income
Enterprise Fund
Fiscal Year Ended June 30, 2006

The following chart illustrates trends in selected non-operating revenue sources. Sales tax revenue is the largest non-operating revenue source shown in the following graph. As mentioned previously, this is the first year 2000 Measure A ½ cent sales tax revenue has been collected. FY2006 marks the third consecutive year sales tax income has increased. TDA and STA also showed positive growth.

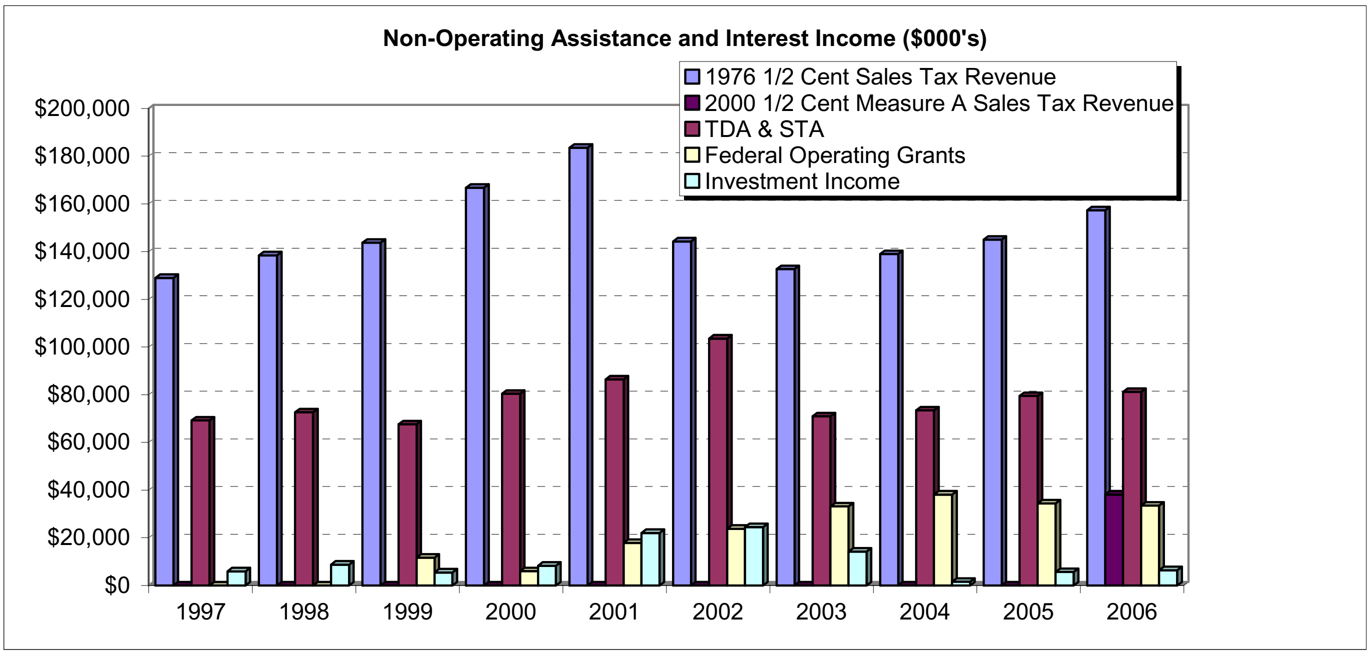
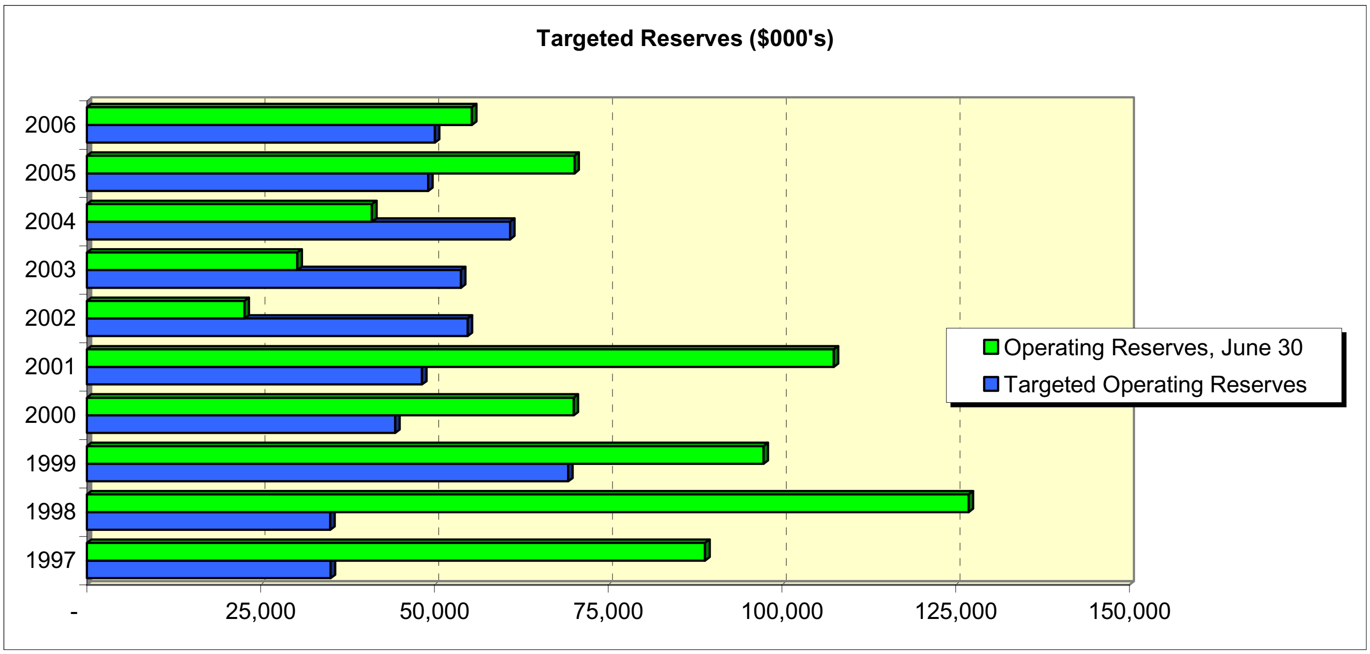


TABLE 7

Santa Clara Valley Transportation Authority
Financial Trends - Targeted Operating Reserves
Enterprise Fund
Fiscal Year Ended June 30, 2006

The policy adopted by the VTA Board established an operating reserve goal of 15% of budgeted expenses. To calculate the actual reserve at fiscal year end, total current assets are reduced by total current liabilities to determine current net assets. Current Net Assets are then reduced by inventory to reach a current operating reserve total. During the last two fiscal years, VTA's operating reserves surpassed its targeted reserve goal.

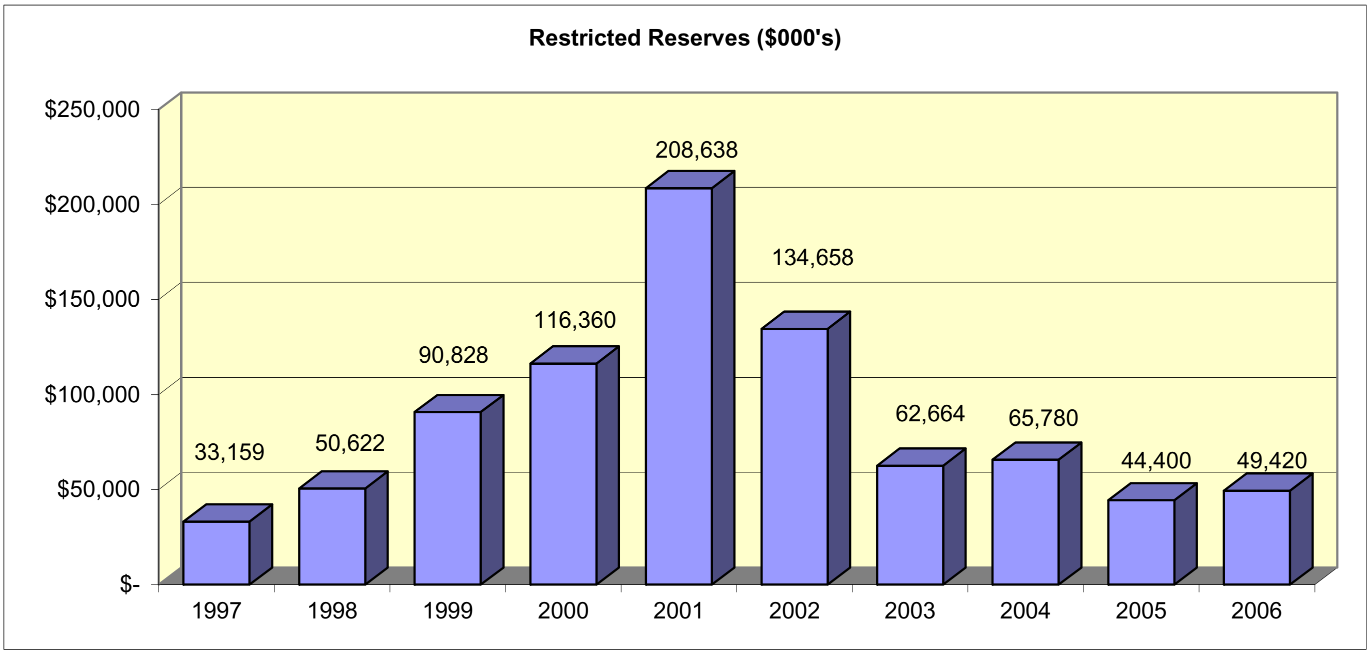


	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total Current Assets	$ 125,297	$180,799	$ 120,689	$ 113,002	$ 169,905	$ 84,793	$ 96,026	$ 111,232	$ 126,644	$ 113,717
Total Current Liabilities	(25,285)	(42,302)	(11,085)	(25,941)	(46,804)	(41,876)	(43,785)	(45,865)	(37,762)	(37,945)
Net Current Assets	100,012	138,497	109,604	87,061	123,101	42,917	52,241	65,367	88,882	75,772
Less: Inventory	(11,054)	(11,609)	(12,229)	(17,006)	(15,634)	(20,239)	(21,951)	(24,335)	(18,713)	(20,361)
Operating Reserves, June 30	$ 88,958	$126,888	$ 97,375	$ 70,055	$107,467	$ 22,678	$ 30,290	$ 41,032	$ 70,169	$ 55,411
Operating Reserves Target (15% of Budgeted Expenses)	$ 35,081	$ 35,033	$ 69,257	$ 44,366	$ 48,221	$ 54,784	$ 53,843	$ 60,899	$ 49,112	$ 50,081

TABLE 8

Santa Clara Valley Transportation Authority
Financial Trends - Restricted Reserves
Enterprise Fund
Fiscal Year Ended June 30, 2006

Restricted reserves are calculated by reducing restricted current assets by restricted current liabilities. The restricted reserves' use is limited in whole or in part for specific purposes bound by legal contracted agreements or Board policies.



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total Restricted Current Assets	$ 120,546	$153,349	$ 207,666	$ 251,199	$393,284	$ 348,500	$ 300,038	$ 254,175	$ 207,336	$ 123,158
Total Restricted Current Liabilities	(87,387)	(102,727)	(116,838)	(134,839)	(184,646)	(213,842)	(237,374)	(188,395)	(162,936)	(73,738)
Restricted Reserves	$ 33,159	$ 50,622	$ 90,828	$ 116,360	$208,638	$ 134,658	$ 62,664	$ 65,780	$ 44,400	$ 49,420

TABLE 9

Santa Clara Valley Transportation Authority
Revenue Capacity - Revenue Base and Revenue Rates
Fiscal Year Ended June 30, 2006

	Fiscal Year									
Revenue Rates (In thousands)	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
Passenger Fares [(1)]	$ 34,335	$ 32,061	$ 30,625	$ 30,960	$ 31,282	$ 33,838	$ 32,325	$ 27,070	$ 27,201	$ 23,633
Percentage Increase/(Decrease) from Prior Year	7.1%	4.7%	-1.1%	-1.0%	-7.6%	4.7%	19.4%	-0.5%	15.1%	9.8%
Revenue Base										
Number of Passengers [(2)]	39,217,851	37,077,149	38,375,374	45,221,844	52,690,092	56,474,822	54,921,324	54,349,470	53,028,298	52,616,342
Percentage Increase/(Decrease) from Prior Year	5.8%	-3.4%	-15.1%	-14.2%	-6.7%	2.8%	1.1%	2.5%	0.8%	7.8%
Fare Structure										
Adult Local Fare	$ 1.75	$ 1.75	$ 1.50	$ 1.40	$ 1.25	$ 1.25	$ 1.25	$ 1.10	$ 1.10	$ 1.10
Youth Local Fare	$ 1.50	$ 1.50	$ 1.25	$ 0.85	$ 0.70	$ 0.70	$ 0.70	$ 0.60	$ 0.60	$ 0.55
Senior/Disabled Local Fare	$ 0.75	$ 0.75	$ 0.75	$ 0.45	$ 0.40	$ 0.40	$ 0.40	$ 0.35	$ 0.35	$ 0.35
Half-Cent Sales Tax Revenues (In thousands)										
1976 1/2 Cent Sales Tax [(3)]	$ 157,283	$ 145,008	$ 138,917	$ 132,632	$ 144,218	$ 183,540	$ 166,764	$ 143,712	$ 138,429	$ 128,969
2000 Measure A 1/2 Cent Sales Tax [(4)]	38,170	-	-	-	-	-	-	-	-	-
Total Sales Tax Revenue Receipts [(5)]	$ 195,453	$ 145,008	$ 138,917	$ 132,632	$ 144,218	$ 183,540	$ 166,764	$ 143,712	$ 138,429	$ 128,969
Percentage Increase/(Decrease) from Prior Year										
1976 1/2 Cent Sales Tax	8.5%	4.4%	4.7%	-8.0%	-21.4%	10.1%	16.0%	3.8%	7.3%	4.9%
2000 Measure A 1/2 Cent Sales Tax	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total Sales Tax Revenue Receipts										

Notes:

[(1)] Includes fares for directly operated transit services such as bus, light rail, and shuttle services.

[(2)] Source: VTA Operations Division.

[(3)] The 1976 half-cent Sales Tax was approved by County voters in 1976 to fund VTA's transit operations and transportation improvements.

[(4)] The 2000 Measure A half-cent Sales Tax was approved by County voters in 1996 to fund specific transportation improvement projects . The collection of this half-cent tax measure started in April 2006.

[(5)] VTA receives the sales tax based on the total taxable sales activity in the County.

TABLE 10

Santa Clara Valley Transportation Authority
Revenue Capacity - Overlapping Revenue
Sales Tax Rates
Fiscal Year Ended June 30, 2006

Fiscal Year	State	City	County (1)	VTA (2)	Total
2006	6.25%	1.00%	0.0%	1.00%	8.25%
2005	6.25%	1.00%	0.5%	0.5%	8.25%
2004	6.25%	1.00%	0.5%	0.5%	8.25%
2003	6.25%	1.00%	0.5%	0.5%	8.25%
2002	6.25%	1.00%	0.5%	0.5%	8.25%
2001	6.25%	1.00%	0.5%	0.5%	8.25%
2000	6.25%	1.00%	0.5%	0.5%	8.25%
1999	6.25%	1.00%	0.5%	0.5%	8.25%
1998	6.25%	1.00%	0.5%	0.5%	8.25%
1997	6.25%	1.00%	0.5%	0.5%	8.25%

Notes:

(1) Measure B, approved by Santa Clara County voters in the November 1996 General Election, authorized the Santa Clara County Board of Supervisors to collect a half-cent sales tax for nine years. The 1996 sales tax would fund specific county-wide transportation projects approved by voters under Measure A during the same election. The 1996 sales tax expired on March 31, 2006.

(2) VTA has two specific sales tax measures approved by the voters. The 1976 half-cent sales tax measure was approved by voters in 1976 and does not have a sunset clause. The 2000 Measure A half-cent sales tax was approved in the 2000 General Election and became effective on April 1, 2006. The 30-year sales tax measure will sunset on March 31, 2036.

Source: California Board of Equalization

TABLE 11

Santa Clara Valley Transportation Authority
Revenue Capacity - Principal Sales Tax Payers
Fiscal Year Ended June 30, 2006
(In millions)

	Fiscal Year 2005 (1)			Fiscal Year 1996		
Principal Revenue Payers	**Rank**	**Percentage of Taxable Sales**	**Amount**	**Rank**	**Percentage of Taxable Sales**	**Amount**
Total all Other Outlets	1	33.4%	$ 10,075.8	1	43.1%	$ 11,094.8
Automotive (1)	2	17.5%	5,289.9	4	8.8%	2,263.8
Specialty Stores	3	11.2%	3,377.9	2	9.4%	2,429.7
General Merchandise	4	9.4%	2,839.9	3	8.8%	2,269.6
Eating and Drinking	5	8.1%	2,440.4	6	6.6%	1,709.8
Apparel Stores	6	3.9%	1,169.1	10	2.8%	719.4
Building Material	7	5.2%	1,577.2	8	3.3%	854.6
Business and Personal Services	8	4.0%	1,214.6	5	7.0%	1,810.7
Household Group	9	2.8%	850.6	9	2.8%	727.1
Food Stores	10	2.8%	830.5	11	2.7%	689.4
Other Retail Stores (2)	11	1.7%	528.1	13	0.0%	-
Service Stations (3)				7	4.1%	1,048.4
Package Liquor Stores (2)				12	0.5%	123.5
Total (4)		100.0%	$ 30,194.0		100.0%	$ 25,740.5

Notes:
(1) Latest data available.
(2) After 1997, "Other Retail Stores" includes package Liquor Stores
(3) After 1997, "Automotive" includes Service Stations.
(4) Total may not add due to independent rounding.
Source: State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

TABLE 12

Santa Clara Valley Transportation Authority
Debt Capacity - Total Outstanding Debt by Type
Fiscal Year Ended June 30, 2006
(In thousands)

Fiscal Year	Series 1985 A Equipment Trust Certificates	1976 Sales Tax Revenue Bonds	2000 Sales Tax Revenue Bonds	Total Outstanding Debt
2006	$ 29,660	$ 280,319	$ 390,036	$ 700,015
2005	29,660	288,758	390,309	708,727
2004	29,660	297,415	250,042	577,117
2003	29,660	387,810	-	417,470
2002	29,660	313,641	-	343,301
2001	29,660	321,354	-	351,014
2000	29,660	85,008	-	114,668
1999	29,660	85,790	-	115,450
1998	29,660	86,515	-	116,175
1997	29,660	36,968	-	66,628

TABLE 13

Santa Clara Valley Transportation Authority
Debt Capacity - Ratio of Outstanding Debt
Fiscal Year Ended June 30, 2006
(In thousands)

Fiscal Year	Total Outstanding Debt	Santa Clara County Taxable Sales [1]	Debt % of Total County Taxable Sales	Sales Tax Revenue [2]	Total Annual Debt Service [3]	Coverage [4]
2006	$ 700,015	$ 31,099,820	2.25%	$ 195,453	$ 22,517	8.7
2005	708,727	30,194,000	2.35%	145,008	$ 23,051	6.3
2004	577,117	28,491,600	2.03%	138,917	$ 22,585	6.2
2003	417,470	27,062,700	1.54%	132,632	$ 22,381	5.9
2002	343,301	27,453,900	1.25%	144,218	$ 22,669	6.4
2001	351,014	32,133,200	1.09%	183,540	$ 8,930	20.6
2000	114,668	37,303,700	0.31%	166,764	$ 5,398	30.9
1999	115,450	30,348,640	0.38%	143,712	$ 5,488	26.2
1998	116,175	27,488,820	0.42%	138,429	$ 4,382	31.6
1997	66,628	26,951,580	0.25%	128,969	$ 4,232	30.5

Notes:

The total VTA outstanding debt is pledged by its sales tax revenues. VTA has two sales tax revenue measures approved by the voters. The 1976 1/2 cent Sales Tax measure was approved in 1976 and the 2000 Measure A 1/2 cent Sales Tax was passed by County voters in the 2000 general election. The collection of this tax measure started in April 2006.

(1) 2006 assumes a 3% growth rate over 2005 taxable sales.

(2) FY2006 includes both 1976 and 2000 1/2 cent sales tax. 2000 Measure A 1/2 cent sales tax became effective April 1, 2006.

(3) Interest included in debt service does not include capitalized interest or interest paid from bond proceeds.

(4) Bond indenture require VTA to maintain coverage ratio from 1.3 to 2.0 times on its outstanding bonds.

TABLE 14

Santa Clara Valley Transportation Authority
Debt Capacity – Direct and Overlapping Debt and Debt Limitation
Fiscal Year Ended June 30, 2006

PLEASE NOTE:

Santa Clara Valley Transportation Authority does not have overlapping debt with other governments.

Santa Clara Valley Transportation Authority does not have a legal debt limit.

TABLE 15

Santa Clara Valley Transportation Authority
Debt Capacity - Pledged Revenue Coverage
Fiscal Year Ended June 30, 2006
(In thousands)

	Available Revenue	Annual Debt Service			
Fiscal Year	Sales Tax Revenue (1)	Principal	Interest (2)	Total	Coverage (3)
2006	$ 195,453	$ 10,955	$ 11,562	$22,517	8.7
2005	145,008	9,290	13,761	23,051	6.3
2004	138,917	8,894	13,691	22,585	6.2
2003	132,632	8,159	14,222	22,381	5.9
2002	144,218	7,952	14,717	22,669	6.4
2001	183,540	2,124	6,806	8,930	20.6
2000	166,764	782	4,616	5,398	30.9
1999	143,712	725	4,763	5,488	26.2
1998	138,429	368	4,014	4,382	31.6
1997	128,969	501	3,731	4,232	30.5

Notes:

(1) FY2006 includes both 1976 and 2000 1/2 cent sales tax. 2000 Measure A 1/2 cent sales tax became effective April 1, 2006.

(2) Interest does not include capitalized interest or interest paid from bond proceeds.

(3) Bond indenture require VTA to maintain coverage ratio from 1.3 to 2.0 times on its outstanding bonds.

TABLE 16

Santa Clara Valley Transportation Authority
Debt Capacity - Projected Pledged Revenue Coverage
Fiscal Year Ended June 30, 2006

The table below presents a five-year projection of forecasted debt service coverage for the Bonds and the Equipment Trust Certificates, based on estimates of the 1976 Sales Tax Revenues for the five years ending June 30, 2007 through 2011.

Santa Clara Valley Transportation Authority
1976 Sales Tax Revenues and Debt Service Coverage
Fiscal Years Ending June 30, 2007 – 2011
(000's)

Fiscal Year Ending June 30	Projected Sales Tax Revenue (1)	Percent Increase	Aggregate Debt Service (2)	Projected Coverage (3)
2007	$158,020	------	$17,375	9.09
2008	164,969	4.4%	17,376	9.49
2009	174,393	5.7%	17,380	10.03
2010	184,431	5.8%	17,384	10.61
2011	195,126	5.8%	17,384	11.22

(1) Source: Growth rates provided by Center for Continuing Study of the California Economy.
(2) Includes debt service on the 1985 Equipment Trust Certificates at the swap rate of 4.335% and actual debt service on the 1997, 2001, and the 2005 Bonds. Debt Service on the 2005 Bonds is calculated based on the rate established pursuant to the 2005 Swap Agreement, 3.033%.
(3) Does not include any additional Parity Debt.

The table below presents a five-year projection of forecasted debt service coverage for the 2003, 2004A and 2004B Bond, based on estimates of the 2000 Measure A Sales Tax Revenues for the five years ending June 30, 2007 through 2011.

Santa Clara Valley Transportation Authority
2000 Measure A Sales Tax Revenues and Debt Service Coverage
Fiscal Years Ending June 30, 2007 – 2011
(000's)

Fiscal Year Ending June 30	Projected Sales Tax Revenue (1)	Percent Increase	Aggregate Debt Service (2)	Projected Coverage (3)
2007	$158,020	------	$25,943	6.09
2008	164,969	4.4%	24,896	6.63
2009	174,393	5.7%	24,892	7.01
2010	184,431	5.8%	24,888	7.41
2011	195,126	5.8%	24,882	7.84

(1) Source: Growth rates provided by Center for Continuing Study of the California Economy.
(2) Includes debt services on the 2003A, 2004A, and 2004B at the RBI fixed rate 5.27 on 6/30/06.
(3) Does not include any additional Parity Debt.

TABLE 17

Santa Clara Valley Transportation Authority
Demographic and Economic Data – Population Trends
Fiscal Year Ended June 30, 2006

The number of Santa Clara county residents is gradually increasing on a yearly basis according to population estimates provided by the State of California. In 2006, the County's population increased by approximately 5.4% in comparison to the 2000 Census. Revised estimates show a 1.2% gain in the population of Santa Clara County as well as the State of California from 2005 to 2006. By the year 2050, it is predicted that the County's population will grow to 2-3 million.

The following table provides a historical summary of population in the County and its incorporated cities.

County of Santa Clara Population

	1960	1970	1980	1990	2000	2006
Campbell	11,863	24,731	26,843	36,048	38,138	38,408
Cupertino	3,664	18,216	34,297	40,263	50,546	53,840
Gilroy	7,348	12,665	21,641	31,487	41,464	48,527
Los Altos	19,696	24,872	25,769	26,303	27,693	27,608
Los Altos Hills	3,412	6,862	7,421	7,514	7,902	8,482
Los Gatos	9,036	23,466	26,906	27,357	28,592	28,989
Milpitas	6,572	27,149	37,820	50,686	62,698	65,276
Monte Sereno	1,506	3,074	3,434	3,287	3,483	3,512
Morgan Hill	3,151	6,485	17,060	23,928	33,556	37,091
Mountain View	30,889	54,206	58,655	67,460	70,708	71,995
Palo Alto	52,475	55,999	55,225	55,900	58,598	62,148
San Jose	204,196	445,779	629,400	782,248	894,943	953,679
Santa Clara	58,880	87,717	87,700	93,613	102,361	110,771
Saratoga	14,861	27,199	29,261	28,061	29,843	30,835
Sunnyvale	51,898	95,408	106,618	117,229	131,760	133,544
Unincorporated	162,056	152,181	127,021	106,193	100,300	98,553
County Total*	641,503	1,066,009	1,295,071	1,497,577	1,682,585	1,773,258
California	15,717,204	18,136,045	23,668,145	29,760,021	33,871,648	37,172,015

*Totals may not be precise due to independent rounding.
Source: U.S. Census; State of California, Department of Finance, Demographic Research Unit

Sources: Department of Finance, Statistics & Demographic Research
California Employment Development Department

TABLE 18

Santa Clara Valley Transportation Authority
Demographic and Economic Data - Income and Unemployment Rates
Fiscal Year Ended June 30, 2006

Year	Santa Clara County Personal Income (In millions) [1][2]	Santa Clara County Per Capita Personal Income [1][2]	Unemployment Rate [3]
2006	$ 87,671,627	$ 52,124	5.0%
2005	$ 85,118,085	$ 50,606	5.5%
2004	$ 82,638,917	$ 49,132	6.6%
2003	$ 77,680,349	$ 46,363	8.5%
2002	$ 77,548,912	$ 46,305	8.5%
2001	$ 83,838,707	$ 49,615	5.1%
2000	$ 91,386,181	$ 54,195	3.1%
1999	$ 73,045,821	$ 43,701	3.1%
1998	$ 64,850,110	$ 39,091	3.2%
1997	$ 60,003,613	$ 36,645	3.1%

Sources:
California Employment Development Department - Santa Clara County Profile
(1) Bureau of Economic Analysis U.S. Department of Commerce.
(2) 2005 and 2006 assume a 3% increase in personal income.
(3) Not Seasonally Adjusted.

TABLE 19

Santa Clara Valley Transportation Authority
Demographic and Economic Data – Wage and Salary Employment by Industry (Annual Average)
Fiscal Year Ended June 30, 2006
(In thousands)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Civilian Labor Force *	895.0	937.5	958.8	965.5	1,001.8	1,005.8	958.2	895.1	828.8	823.7
Civilian Employment	862.8	909.2	927.9	936.3	982.0	960.0	877.6	821.6	774.2	778.7
Civilian Unemployment	32.2	28.3	30.9	29.2	19.8	45.8	80.6	73.5	54.6	45.0
Civilian Unemployment Rate										
County	3.6%	3.0%	3.2%	3.0%	2.0%	4.6%	8.5%	8.2%	6.6%	5.5%
State of California	7.2%	6.3%	5.9%	5.2%	4.9%	5.3%	6.7%	6.5%	6.5%	5.4%
Wage and Salary Employment **										
Total Farm Agriculture	5.1	5.1	5.2	5.3	5.0	4.6	4.5	4.2	4.1	3.8
Construction and Mining	32.7	36.5	41.3	44.8	47.6	48.0	42.5	39.0	40.1	42.7
Manufacturing	237.7	247.2	246.1	234.9	251.7	240.5	201.2	177.0	167.9	168.6
Transportation & Public Utilities	16.1	16.7	17.0	17.3	17.6	16.3	15.0	14.2	13.3	13.0
Wholesale Trade	39.2	41.9	42.4	42.3	42.2	40.7	35.7	33.5	34.0	35.1
Retail Trade	79.9	82.5	83.8	86.6	90.6	88.2	83.6	81.0	80.2	81.7
Finance, Insurance & Real Estate	31.4	32.4	33.8	34.2	34.0	35.2	35.0	34.8	34.7	35.9
Services	355.2	380.9	403.0	419.8	451.8	440.0	391.7	379.9	385.0	384.8
Government	87.7	88.5	88.9	91.4	94.5	94.6	98.1	94.8	91.7	93.0
Total ***	885.0	931.7	961.5	976.6	1,035.0	1,008.1	907.3	858.4	851.0	858.6

* Labor force data are based upon place of residence. Employment includes self-employed, unpaid family, workers domestics, and workers involved in labor-management disputes. Data are Benchmarked to 2005.

** Wage and salary employment is reported by place of work. Data are benchmarked to 2005.

*** Totals may not be precise due to independent rounding.

Sources: State of California, Employment Development Department
Department of Finance, Statistics & Demographic Research.

In 2005, the County had 858,600 wage and salary jobs. This marked the first time since the year 2000 that there had been an increase in that figure when compared to the previous year. Manufacturing jobs make up approximately one out of every five workers (20%) of the labor force in Santa Clara County. San Jose in particular is ranked high in manufacturing strength and productivity among other large metropolitan areas.

Unemployment figures are improving significantly also. In June 2006, Santa Clara County's unemployment rate was 5%. Although there had been a lot of speculation about what would result from outsourcing work to other countries, there has not been a negative effect on the job market. Over the next decade, reported estimates indicate an increase in tech jobs by 1 million or 30% throughout the U.S. according to the Bureau of Labor Statistics.

Sources: State of California, Employment Development Department
San Jose-Silicon Valley Chamber of Commerce
http://msnbc.msn.com, Newsweek – Outsourcing: Silicon Valley East, March 6, 2006

TABLE 20

Santa Clara Valley Transportation Authority
Demographic and Economic Data –Silicon Valley Major Employers
Fiscal Year Ended June 30, 2006

Company Name	Number of Employees	Nature of Operations
Santa Clara County	15,279	County government
Cisco Systems, Inc.	13,860	Computer network equipment manufacturer
Stanford University	12,000	Academic research institution, hospital, medical research
Hewlett-Packard, Co.	9,000	Technology solutions provider
Lockheed Martin Space Systems Co.	7,780	Aerospace systems
State of California	7,536	State government
Oracle Corp.	7,400	Software
IBM Corp.	7,000	Information technology provider
Intel Corp	6,878	Microprocessor manufacturer
City of San Jose	6,672	Municipal government
AT&T Inc. (formerly SBC California)	6,400	Voice, data, networking, e-business, directory publishing and advertising services
New United Motor Manufacturing Inc.	5,440	Automotive manufacturing
Applied Materials Inc.	4,230	Semiconductor manufacturing equipment and services
Yahoo Incorporated	4,000	Internet services
Ebay Inc.	3,200	Online global trading platform
Fujitsu America Inc.	3,000	Software/services, computing/communications platforms, electronic devices
Google Inc.	2,882	Web search engine and advertising
San Jose Unified School District	2,793	Public education
San Jose State University	2,533	Education
Santa Cruz County	2,500	County government
Adobe Systems	2,400	Software
Maxtor Corp.	2,100	Hard disk drive design and manufacturing
Santa Clara Valley Transportation Authority	2,092	Bus, light rail and paratransit operations; transportation planning
National Semiconductor Corp.	2,000	Design, manufacture and market analog and mixed-signal integrated circuits

Source: Silicon Valley/San Jose Business Journal, (Books of Lists July 28, 2006)

Although public-sector employers continue to top the list of the largest employers in the Valley, the concentration of Santa Clara County's productivity is derived primarily from numerous high-technology and bioscience companies. As depicted in the following chart, as an employer, Santa Clara County itself, continues to have the largest employee base with 15,279 workers. The City of San Jose alone has almost 6,700 full-time employees. The public-sector employers continue to remain more stable in this slowly rebounding job market.

The table above lists the largest employers in the Silicon Valley, which encompasses the County and surrounding areas.

TABLE 21

Santa Clara Valley Transportation Authority
Operating Information - Operating Indicators
Fiscal Year Ended June 30, 2006

BUS

Fiscal Year	Total Ridership	Average Weekday Ridership	Scheduled Miles	Scheduled Hours	Vehicle Revenue Miles	Passenger Miles	Peak Buses	Active Buses	Bus Fleet
2006	30,938,044	99,966	18,499,971	1,346,841	15,573	120,581	345	440	524
2005	30,296,718	97,117	18,259,119	1,330,707	15,315	125,953	344	441	525
2004	32,902,350	105,588	18,681,967	1,359,608	15,755	136,693	345	457	523
2003	39,169,325	126,030	20,556,769	1,497,846	17,471	152,036	375	454	524
2002	44,900,522	144,823	22,043,527	1,589,200	18,714	177,883	402	491	491
2001	47,237,748	152,708	22,640,485	1,616,941	19,177	182,187	418	502	502
2000	47,007,594	151,480	22,923,518	1,623,603	19,373	178,688	427	512	512
1999	47,486,765	154,082	22,399,973	1,565,500	18,950	179,561	415	522	520
1998	46,118,198	150,437	21,184,990	1,464,964	18,026	201,818	398	506	508
1997	45,887,950	150,224	20,721,892	1,407,689	17,605	185,226	386	468	470

LIGHT RAIL

Fiscal Year	Total Ridership [1]	Average Weekday Ridership	Scheduled Miles	Scheduled Hours	Vehicle Revenue Miles	Passenger Miles	Peak Cars	Light Rail Fleet
2006	8,279,807	26,137	2,129,189	138,348	2,810	41,913	39	100
2005	6,780,431	21,436	1,774,543	114,663	2,460	32,290	34	100
2004	5,473,024	17,636	1,464,325	98,930	1,372	24,166	26	80
2003	6,052,519	19,772	1,567,594	106,416	1,499	26,815	29	98
2002	7,789,570	25,573	2,032,588	137,087	1,962	34,656	41	68
2001	9,237,074	30,383	1,986,763	136,483	1,926	42,462	41	54
2000	7,913,730	25,673	1,648,334	112,202	1,608	35,758	43	55
1999	6,862,705	22,579	1,359,589	88,800	1,334	32,820	33	55
1998	6,910,100	22,727	1,368,229	87,285	1,336	32,993	33	55
1997	6,728,392	22,006	1,339,564	84,909	1,305	31,037	32	55

Note:
Source: VTA Operations Division.
[1] Light rail ridership increased in FY2006 with the opening of the Vasona Light Rail Extension.

TABLE 22

Santa Clara Valley Transportation Authority
Operating Information - Farebox Recovery Ratio
Fiscal Year Ended June 30, 2006

The farebox recovery ratio is a measure capturing the percentage of system operated expenses recovered by fare revenue. This ratio is calculated by fare revenue generated from directly operated service (motor bus and light rail) divided by expenses for these same services. Operating expenses consist of bus and light rail modal operating expenses reported annually in the National Transit Database.

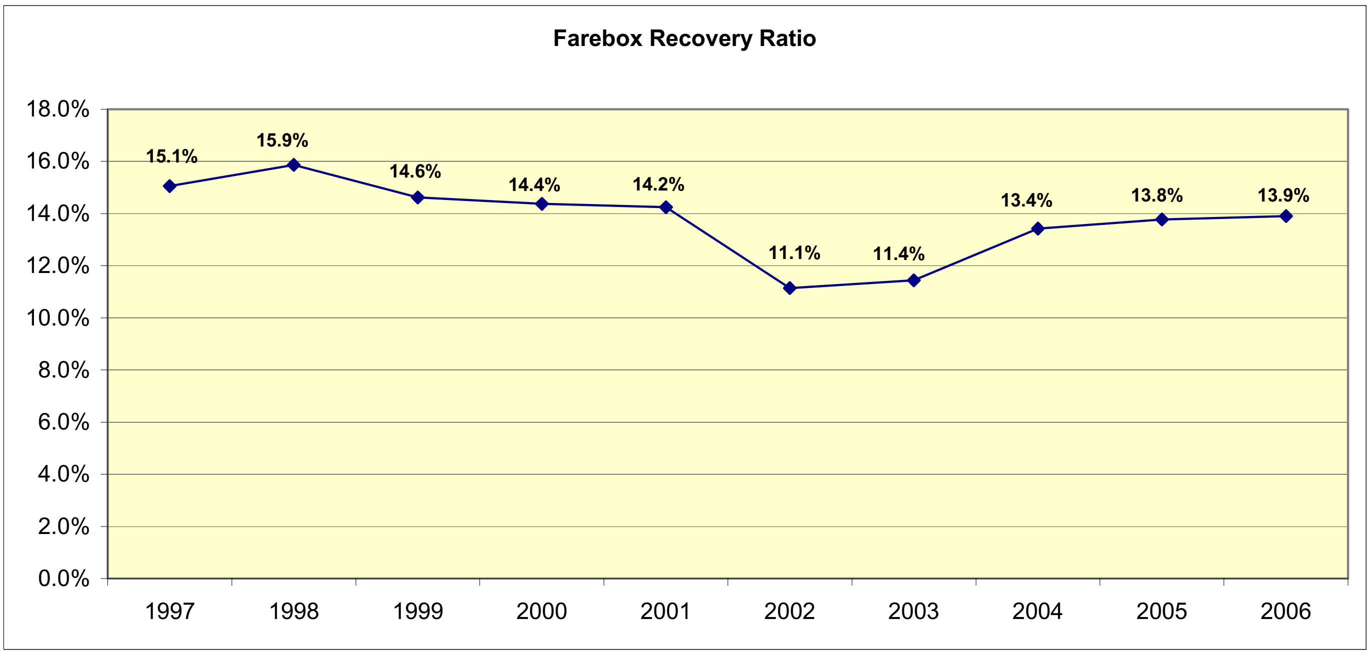


TABLE 23

Santa Clara Valley Transportation Authority
Operating Information - Revenue Miles
Fiscal Year Ended, June 30, 2006

The following chart shows total vehicle miles in revenue service. During FY2006 total revenue miles increased with the opening of the Vasona light rail extension between the San Fernando and Winchester stations.

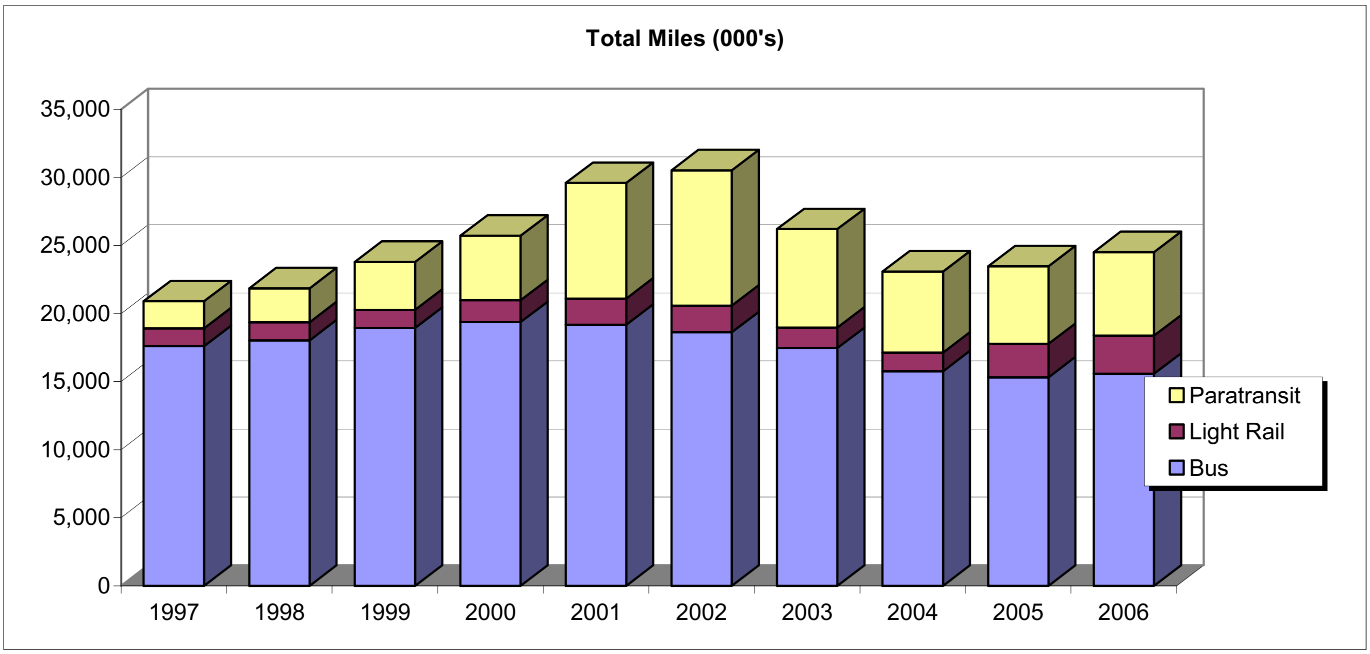


TABLE 24

Santa Clara Valley Transportation Authority
Operating Information - Passenger Miles
Fiscal year Ended June 30, 2006

Passenger mile statistics are presented in the chart below. Despite the decline in total passenger miles in recent years due to a continued drop in employment and service cuts, the light rail passenger miles have increased due to the opening of new system lines. The increase in total passenger miles during FY2006 is due to the increase in ridership which was a result of the opening of the Vasona light rail extension.

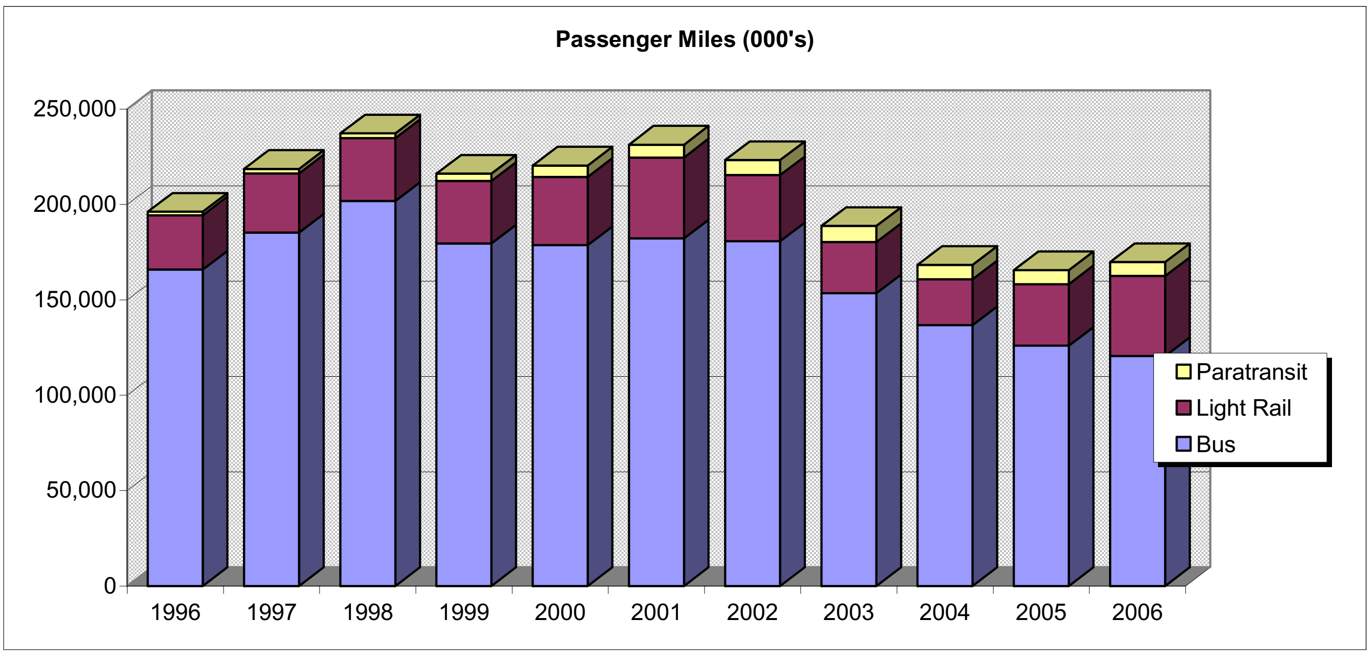


TABLE 25

Santa Clara Valley Transportation Authority
Operating Information – Selected Statistical Data
Fiscal Year Ended June 30, 2006

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
FAREBOX REVENUE ($000's)*	$ 23,633	$ 27,201	$ 27,070	$ 32,326	$ 33,837	$ 31,282	$ 30,959	$ 30,625	$ 32,061	$ 34,335
VEHICLE REVENUE MILES (000's)										
BUS	17,605	18,026	18,950	19,373	19,177	18,714	17,471	15,755	15,315	15,573
LIGHT RAIL	1,305	1,336	1,334	1,608	1,926	1,962	1,499	1,372	2,460	2,810
PARATRANSIT	1,994	2,494	3,523	4,748	8,495	9,937	7,233	5,967	5,702	6,126
PASSENGER MILES (000's)										
BUS	185,226	201,818	179,561	178,688	182,187	177,883	152,036	136,693	125,953	120,581
LIGHT RAIL	31,037	32,993	32,820	35,758	42,462	34,656	26,815	24,166	32,290	41,913
PARATRANSIT	2,420	2,494	3,798	6,013	6,711	7,947	8,497	7,546	7,314	7,896
FLEET SIZE										
ACTIVE BUS	470	508	520	512	502	491	524	523	525	524
LIGHT RAIL	55	55	55	55	54	68	98	80	100	100
CASH FARE SINGLE RIDE										
ADULT	$1.10	$1.10	$1.10	$1.25	$1.25	$1.25	$1.40	$1.50	$1.75	$1.75
YOUTH	$0.60	$0.60	$0.60	$0.70	$0.70	$0.70	$0.85	$1.25	$1.50	$1.50
SENIOR	$0.35	$0.35	$0.35	$0.40	$0.40	$0.40	$0.45	$0.75	$0.75	$0.75

* Note: Includes fare revenue from motor bus, light rail and shuttle services.

TABLE 26

Santa Clara Valley Transportation Authority
Operating Information - System Data
Fiscal Year Ended June 30, 2006

Urbanized Area (UZA):

326 Square Miles

Routes:

Type of Route	Number of Routes
Local	51
Limited Stop	5
Express	10
Rapid	1
Light Rail	3
Total	70

Hours of Operation:

Monday-Sunday 24 hours

Park and Ride Lots:

	Bus	Light Rail	Caltrain	Total
Number of Lots	8	21	16	45
Parking Spaces	558	6,471	5,029	12,058

Facilities:

Type of Facility	Number of Facilities
Bus Stops	4,337
Shelters	744
Benches	2,254
Trash Receptacles	938
Transit Centers	16

TABLE 27

Santa Clara Valley Transportation Authority
Operating Information - Employees
Fiscal Year Ended June 30, 2006

Full-time Equivalent Employees (1)

Fiscal Year	Operations	Development & Congestion Management	Fiscal Resources	Construction	Administrative Services	General Counsel	General Manager	Total
2006	1,597	104	105	107	101	9	30	2,053
2005	1,665	111	113	114	106	9	37	2,155
2004	1,720	114	118	119	116	9	34	2,230
2003	1,850	125	122	130	126	8	37	2,398
2002	2,170	135	132	125	139	8	36	2,745

Note:
(1) A full-time employee is scheduled to work 2,088 hours per year (including vacation and sick leave). Full-time equivalent employment is calculated by dividing total labor hours by 2,088. The table shows the total full-time equivalent by division.

TABLE 28

Santa Clara Valley Transportation Authority
Operating Information - Capital Assets
Fiscal Year Ended June 30, 2006
(In thousands)

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Capital assets, not being depreciated:										
Land and right of way	$1,131,579	$ 761,818	$ 747,679	$ 570,715	$ 572,665	$ 571,682	$ 515,329	$ 442,330	$ 457,060	$ 456,893
Construction in Progress	380,776	775,711	690,853	923,872	608,403	332,370	217,897	376,556	229,992	128,334
Total capital assets, not being depreciated	1,512,355	1,537,529	1,438,532	1,494,587	1,181,068	904,052	733,226	818,886	687,052	585,227
Capital assets, being depreciated:										
Buildings, improvements, furniture and fixtures	462,448	340,546	337,565	237,239	227,826	229,820	204,247	164,480	140,434	139,373
Vehicles	457,616	480,174	363,270	306,328	220,504	185,851	178,103	177,720	176,688	152,395
Light-rail tracks and electrification	384,435	365,505	375,049	281,182	276,398	272,750	245,809	64,438	71,913	71,913
Caltrain – Gilroy extension	52,990	52,990	52,990	48,962	48,775	48,775	48,763	48,763	33,498	33,498
Other operating equipment	29,002	28,830	28,830	28,706	28,366	27,452	29,010	7,957	15,014	15,015
Total capital assets, being depreciated	1,386,491	1,268,045	1,157,704	902,417	801,869	764,648	705,932	463,358	437,547	412,194
Less accumulated depreciation										
Total accumulated depreciation	(398,635)	(335,200)	(289,653)	(270,924)	(242,026)	(239,635)	(208,592)	(184,339)	(162,218)	(138,937)
Total capital assets, being depreciated, net	987,856	932,845	868,051	631,493	559,843	525,013	497,340	279,019	275,329	273,257
Total capital assets, net	$2,500,211	$2,470,374	$ 2,306,583	$ 2,126,080	$ 1,740,911	$ 1,429,065	$ 1,230,566	$ 1,097,905	$ 962,381	$ 858,484

Source: Comprehensive Annual Financial Reports