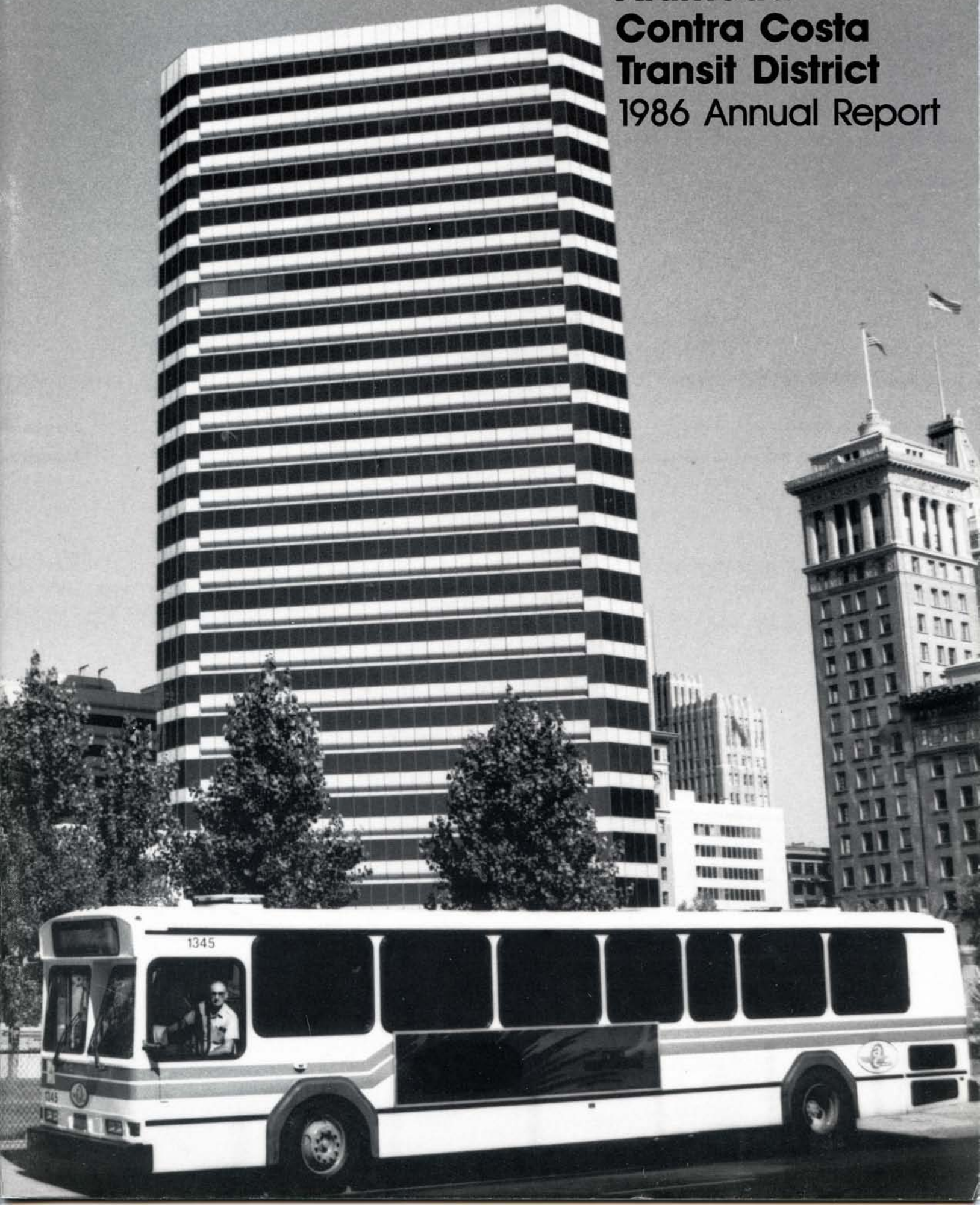


**Alameda —
Contra Costa
Transit District
1986 Annual Report**



District marks Quarter-century Service milestone

In October, AC Transit celebrated its first quarter-century of service to East Bay and transbay bus riders (though the System actually dates from the 1955 passage of law establishing California's first special transit service district). The celebration centered on the date that buses bearing AC Transit's new logo first rolled into operation — October 1, 1960 — and then-and-now contrasts abounded.

When AC Transit took over from a failing private operator in 1960, some 600 coaches were required to serve about 38 million annual riders in 200 square miles of the East Bay. By 1986, the fleet had increased to 850 buses transporting nearly 80 million passengers annually in a 750-square-mile service area.

Growth and change of the System's service area has been every bit as dramatic as expansion of the metropolitan and suburban East Bay. From an initial operating area consisting of 13 cities between Richmond and Hayward, AC Transit has grown to a network of 170 routes (some operated under contract with other jurisdictions) that extend over much of the two counties. These routes stretch from the busy metropolitan hub in Oakland through burgeoning suburbs, encompassing near-rural areas of eastern Contra Costa and Alameda counties.



This June, 1960, cartoon (left) heralded purchase of Key System Transit Lines for \$7,500,000.

CONTENTS

FY Over-view	1-2
Facilities	3-5
Employee Recognition	6
Operational Advances	7
Funding	8
Directors	8
Administration	9
Financial Statements	11-20

Bus service in the metropolitan East Bay has come a long way since AC Transit took over operations in 1960 — in response to the voters' demand that economical, efficient, safe, high-quality mass transportation be provided for the public. AC Transit continued meeting that mandate in FY 1987, operating a high level of local and express bus service. At the same time, the Directors and management, recognizing that times (and the East Bay) are changing, also pursued carefully planned improvements geared to meet projected demands.

The District achieved major advances this fiscal year in maximizing the productivity of the workforce and in greatly improving the maintenance and support facilities utilized to sustain bus service. Over the past decade, AC Transit's Directors have devoted careful attention to the twin tasks of developing and refining the system's human resources while also revamping its aging operational facilities. These efforts yielded concrete dividends during this fiscal period.

AC Transit also made gains in establishing the foundation for undertaking a comprehensive effort to overhaul and modernize the system's bus route network — a high priority task in the coming year's action plan. The District was well advanced in efforts to chart a new course for itself — and for improving the mobility options of people throughout the East Bay in decades to come.

Like facilities and human-resources development, the District's sweeping service structure study is being pursued in carefully planned stages that are spanning several fiscal periods. The future direction is readily identifiable: AC Transit must craft an achievable route structure that's tailored to meet the needs of a growing population — that will better serve a metropolitan area in which job markets and residential centers are changing and growing.

Because bus service is the primary mobility option for many residents of the East Bay, AC Transit is of key significance to the lives of tens of thousands throughout the metropolitan area. This fact elevates the importance of the daily transportation tasks performed by District employees; and it's for this reason that the District remains committed to maximizing their individual and collective productivity.

Thus, while AC Transit can and does look to the past with pride, the District is focusing its attention clearly on the future — on planning and implementing the measures that will insure that the East Bay's public transportation needs will be served well into the coming century, and that AC Transit continues its vital contribution to the area's continued growth.



Meeting daily operational challenges, always a top priority concern, shared top billing on the FY 1986 action agenda with intensified efforts to generate stable funding sources and to build new facilities and organizational capabilities tailored to meet future needs.

There was considerable progress in FY 1986 in the \$100 million program of restructuring all operational facilities to support existing and expanded transit activities well into the 21st century. At the same time, construction got underway on new administrative offices in down-

town Oakland (under a novel lease-purchase arrangement whereby private-sector financing will lead to eventual District ownership of the building).

On entering the fiscal period, the District faced a serious threat of financial shortages in its projected operating budget. The funding challenge was compounded by efforts of the Federal and State administrations to slash mass transit support, coupled with circumstances which required complex, lengthy regional negotiations to achieve mutual agreement on disbursement of all available funding.

FOCUS

on

FACILITIES

AC Transit continues to look toward completion of its comprehensive facilities reconstruction program. A direct result of the Board of Directors' foresight, the District acted in the early 1980s to take advantage of then-ample Federal funding for this sweeping facilities modernization. In addition to four totally modern operating yards, this program also is assuring new support facilities designed to meet anticipated needs extending into the next century.

The opening of the \$2.5 million Training and Education Center in October, 1985, highlighted this year of progress toward modernized operational and support facilities. The Training Center — induction point for newly-hired bus drivers and entry-level maintenance and clerical workers — also serves to provide new drivers with behind-the-wheel experience on an off-road driving course before they face the challenge of operating buses in traffic on city streets.

This new training facility incorporates such state-of-the-art features as interactive, computerized route training systems; data- and word-processing equipment; and voice communications systems; fully-equipped maintenance bays, plus component remanufacturing classrooms which reflect actual working environments to be found in Central Maintenance Center and the operating divisions.

The Training and Education Center has an 88-seat auditorium. Its ample classroom space permits the District to undertake a wide array of instructional activities: from new-hire and refresher courses to programs teaching advanced individual skills and people-management techniques. In the process of developing the Center's programs, the District will be inviting other agencies and institutions to make use of its ideal learning environment.



Also in this fiscal year, new construction or rehabilitation projects included:

- **East Oakland Division** — presently crowded with more than 330 buses and 700 transit workers, and being completely rehabilitated. Some functions formerly located at this yard — particularly, Training Department — already have been relocated to new, more efficient sites.

Eventually, approximately 100 coaches from this locale will be moving to a new operating yard in Hayward. It is anticipated the East Oakland complex, in use since the late 1940s, will be completely revamped by FY 1987.

- **Emeryville Division** — the District's oldest operating yard, dating from the mid-1930s, faced a major challenge this year in meeting daily service demands while undergoing the heavy demolition that preceded total reconstruction.

For instance, reduction in available parking space required relocation of 100 coaches to a temporary site in Berkeley, from which they were dispatched each day. To ease the remaining crush, other buses were switched to Richmond and Newark Divisions.

When completed in early 1987, the revamped facility will accommodate comfortably some 250 buses, plus the drivers and support personnel necessary to operate and maintain them.

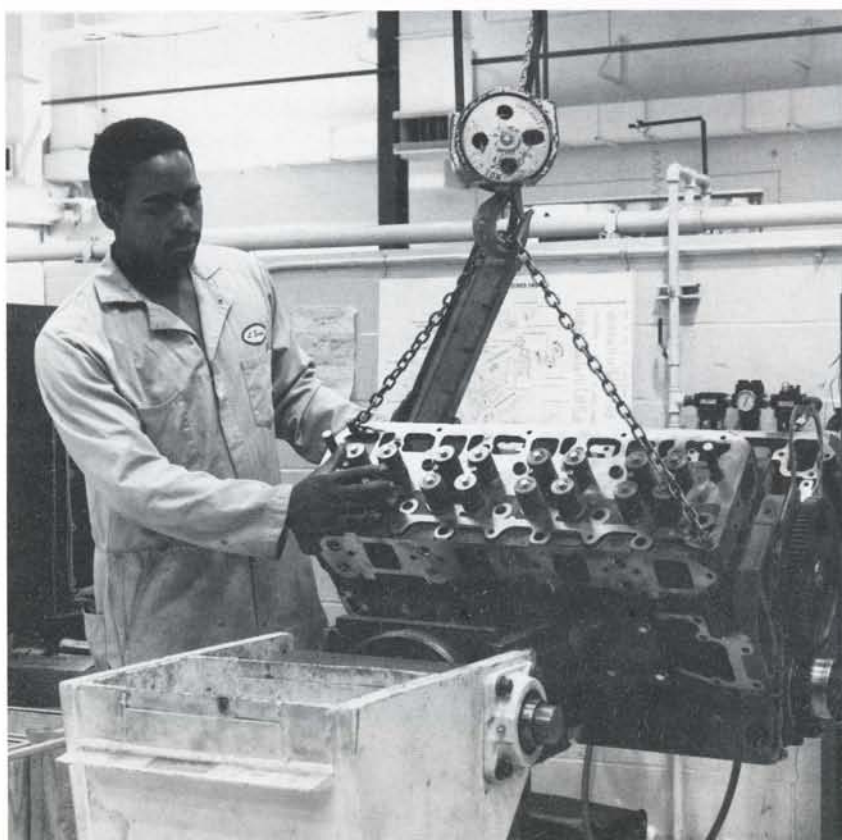
- **Hayward Division** — a brand new facility being constructed behind the Hayward Airport on a spacious site adjacent to the new Training and Education Center — will be home base for a fleet of some 200 buses and 500 transit workers. Ample space here permits expansion to meet anticipated needs in southern Alameda County for decades to come.

When opened in late 1986, Hayward Division will be absorbing all bus operating activities currently conducted from a smaller facility located in Newark, plus providing relief for overcrowded East Oakland Division.

- **Administrative and Executive Offices** — currently housed in outdated, inadequate space in downtown Oakland's Latham Square Building, will be relocated to an efficient new structure being built on land previously purchased by the District. The new downtown Oakland site, designated 1600 Franklin Street, is centrally located to give transit riders ready access to the customer services provided by their public bus system. Through innovative financing, the building is being designed and constructed with private-sector funds, but the District will eventually own the structure housing such support functions as Executive Offices, Operations Center (including Central Dispatch), Data Processing, Accounting, Legal, Marketing, Personnel, Research and Planning, and Risk and Insurance.

Patrons will be welcomed at this site for Lost-and-Found, pass and ticket sales, Discount ID Card issuance, and other Customer Services functions situated in a spacious, comfortable new Lobby Office.





MODERNIZED MAINTENANCE

Last fiscal year, in an earlier phase of this facilities program, AC Transit opened its modern Central Maintenance Center in East Oakland, occupying some 200,000 square feet of enclosed space. This Center is completely equipped for remanufacture of bus engines, transmissions and other major components; for major repair of bus bodywork, chassis, and running gear; and computerized tracking/control of bus repair activities. It also houses Purchases and Stores.

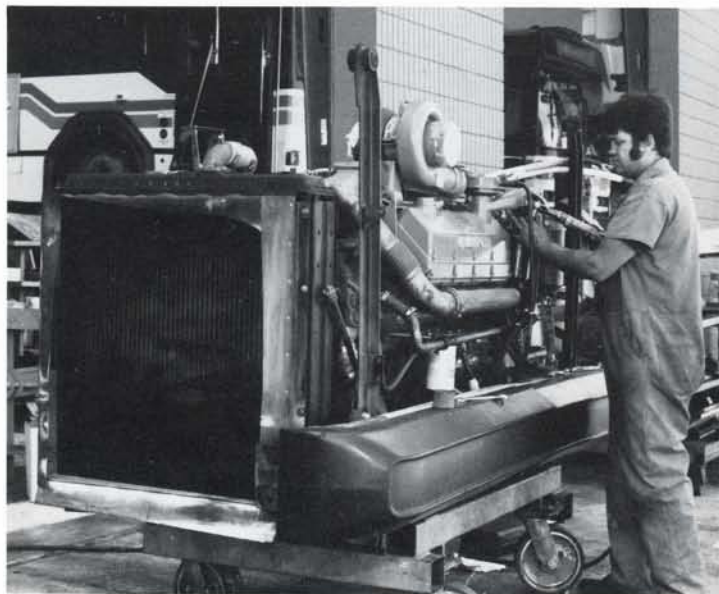
The final phase of the federally-funded facilities program will be total rehabilitation of Richmond Division, scheduled to begin in the coming fiscal year. Currently home to 160 buses and 350 transit workers (totals which are expected to remain unchanged in the immediate future), Richmond's aging facilities will be upgraded to meet anticipated 21st Century needs.



Through a strengthened program of encouraging individual efforts to improve system productivity, AC Transit's first "Employee of the Year" was selected.

Emeryville Division Mechanic Herman Lawrence won this top honor while a dozen others, from all functional areas of the District, received quarterly awards in the program — based on exceptional on-the-job achievements and commendation of peers and/or public.

Excellence in the skill of driving buses safely also resulted in recognition for several individuals, particularly John Zorman, who earned a singular 35-Year Safe Driving Award in December, 1985. The number of AC Transit drivers who have earned 25-Year awards totalled 59, including two — Henry Christi and Edith D. Stiles — who became the 10th and 11th to earn rare 30-Year Safe Driving Awards.



OPERATIONAL ADVANCES

In this fiscal period, the District's service planners and operational personnel turned their energies to the task of fine-tuning the current on-street bus service network. While much remains to be done, major advances were made toward comprehensive monitoring of both bus service and related internal support activities.

In FY 1986, the capabilities of the District's computerized Maintenance and Materials Management Information Systems were utilized to facilitate the task of tracking performance. The data systems permitted monitoring selected key performance indicators on virtually a daily basis and processing of the information in the forms and formats that communicated clearly, to all, the District's operational elements.

In addition to detailed data, this systematic process gives the District a clearer understanding of trends in relevant factors, such as driver-absenteeism, mechanical break-downs, and reliability of wheelchair access systems and equipment. With such detailed information, management was able to focus intense efforts on improving performance in these specific areas and in others.

In this fiscal year, no major service changes were required but several modest adjustments produced improved passenger convenience in specific areas. For example, in Albany's Pierce Street area, existing Line L transbay commuter service was supplemented by Line 43A local buses. And the Line DB-Palo Alto-Union City schedule was extended to include midday service.

Although the peak-hour requirement of 708 buses remained unchanged this year, the number of one-way route miles increased by about one percent: from 2,145 to 2,223 miles. The number of bus stops being maintained along 169 peak-hour routes increased to a total of 7,554 this year. Revenue service miles operated in FY 1986 totalled 29,411,000.

FUNDING

This past year, AC Transit actively sought support from legislators in Sacramento and on Capitol Hill in efforts to establish a long-term funding base to support future bus service in the East Bay. Having long contended that there was sufficient discretionary funding available in the region to maintain current levels of mass operations, AC Transit asserted that the need was to formulate a regional consensus on equitable distribution of said funding. That position became the focal point of efforts to gain a long-term solution to the District's annual funding struggle.

Spearheading the District's effort was Board President Linda Shepard, selected by fellow Directors to lead the policy-making body in this period of trying fiscal challenges. The seven publicly-elected Board members devoted considerable attention and energy to these efforts, which included:

- Personally communicating to the State Legislature and Congress AC Transit's funding facts — giving the lawmakers a clear understanding of the impacts of budget cuts on mass transit and the quality of life in the greater East Bay.
- Acquiring the services of reputable independent consultants with expertise in two vital areas — legislative advocacy and public-sector financing — to assist in drawing up State legislation to address the funding problem and to generate the backing necessary to secure passage of such supportive legislation.
- Initiating a sweeping Deficit Reduction Plan, geared to increasing revenues and reducing operating costs through actions that included:
 - Increases in transbay fares January 1, with follow-up adjustment of local and intercity express fares set for July 1st.
 - Successful negotiation of an inter-agency agreement which garnered more than \$6 million in additional revenues.
 - Continuing strict internal financial controls, in place for several years to minimize expenditures in all cost centers not directly involved in on-street bus service.



Linda Shepard
President



Michael Fajans
Vice President



William J. Bettencourt



John McDonnell



Roy Nakadegawa



Ray Rinehart



J.G. "Jerry" Wiggins

BOARD OF DIRECTORS

This fiscal period, Directors selected Linda Shepard and Michael Fajans to serve, respectively, as President and Vice President of the District's policy-making body. The new Board President moved quickly to establish a comprehensive agenda placing major emphasis on getting people — the system's transit professionals, and its patrons and public — directly involved in the District's daily operational and long-term planning activities. (In addition to leading the District's policy-makers this year, Board President Shepard also served as 1986 Vice President-Human Resources for the American Public Transit Association, North America's leading transit advocacy organization.)

ADMINISTRATION

Directors moved this year to streamline and revitalize the District's management structure and to enhance its operational capabilities through selection of a new chief executive officer, Gene P. Gardiner.

There followed selection of executive-level Directors of Operations and Administration, and a restructuring of the District's support functions to conform more closely to newly-revised Operating departments and divisions.



Gene P. Gardiner
General Manager



Richard W. Meier
*Attorney for the
District*



Lawrence A. Rosenberg
*District Secretary/
Assistant to G.M.*



Michal Settles
*Director of
Administration*



Nathaniel A. Gage
*Director of
Finance*



George E. Grandison
Director of Operations

One Kaiser Plaza
Oakland, California 94612-3688
(415) 452-0250
Telex: 176470
ITT Telex: 4995708

505 - 14th Street, Suite 950
Oakland, California 94612
(415) 832-0257

INDEPENDENT AUDITORS' OPINION

The Board of Directors,
Alameda-Contra Costa Transit District:

We have examined the combined balance sheets of the Alameda-Contra Costa Transit District as of June 30, 1986 and 1985 and the related combined statements of revenues and expenses, changes in capital, and changes in financial position for the years then ended (collectively, the general purpose financial statements). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the general purpose financial statements referred to above present fairly the financial position of the Alameda-Contra Costa Transit District as of June 30, 1986 and 1985 and the results of its operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental schedule of certain revenues and expenses by special transit service district and contract service area for the year ended June 30, 1986 has been presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such supplemental information has been subjected to the auditing procedures applied in the examination of the general purpose financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

Deloitte Haskins + Sells

September 19, 1986

Adams, Grant, Werner & Co.

COMBINED BALANCE SHEETS

JUNE 30, 1986 and 1985 (In Thousands)

ASSETS	NOTES	1986	1985
CURRENT ASSETS:			
Cash and investments	3	\$ 18,767	\$ 17,641
Accounts receivable and accrued revenues:	4,5,6		
Federal grants		12,691	13,003
Other, principally state and local assistance		9,581	8,091
Materials and supplies, at cost		7,460	5,335
Prepaid expenses		1,313	680
Total current assets		49,812	44,750
DEFERRED COMPENSATION PLAN ASSETS	9	2,052	1,508
CASH AND INVESTMENTS RESTRICTED FOR PAYMENT OF ACCRUED PENSION COSTS	3,8	78,728	70,861
PROPERTY, PLANT AND EQUIPMENT:			
Land		11,298	11,298
Buildings, structures and improvements		24,145	23,683
Revenue equipment		103,438	103,683
Shop, office and other equipment and service vehicles		18,598	16,992
Acquisitions in progress		45,861	13,014
Total property, plant and equipment		203,340	168,670
Accumulated depreciation		(58,543)	(41,975)
Property, plant and equipment — net		144,797	126,695
TOTAL		\$275,389	\$243,814
LIABILITIES AND CAPITAL			
CURRENT LIABILITIES:			
Accounts payable		\$ 3,406	\$ 4,560
Salaries, wages and vacations		6,060	5,774
Other accrued liabilities		2,506	2,154
Advances under grants		4,721	2,826
Self-insurance reserves:			
Workers' compensation		4,315	2,631
Public liability and property damage		4,838	2,600
Total current liabilities		25,846	20,545
DEFERRED COMPENSATION	9	2,052	1,508
ACCRUED PENSION COSTS	8	78,728	70,861
CAPITAL:			
District equity — designated	7	27,991	31,322
Contributed capital:			
Federal grants		103,592	86,386
State toll bridge funds		25,499	21,437
Local transportation funds		11,681	11,755
Total capital		168,763	150,900
TOTAL		\$275,389	\$243,814

See notes to combined financial statements.

COMBINED STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 1986 and 1985 (In Thousands)

	NOTES	1986	1985
REVENUES:			
Fares		\$ 30,537	\$ 30,691
Property taxes		16,362	14,627
Contract service		12,171	9,313
Other operating revenues		789	745
Operating assistance:	5,6		
Local sales tax (AB 1107)		10,800	11,400
Local transportation funds		28,043	20,199
Federal		8,250	8,111
State Transit Assistance Fund		2,260	3,093
Interest earned on designated			
District funds and working capital,			
less amounts allocated pension funds	8	2,115	3,541
Gain (loss) on disposal of property,			
plant and equipment		6	(2,941)
TOTAL		111,333	98,779
EXPENSES:			
Operator wages		34,320	33,885
Other wages		20,589	18,678
Fringe benefits		29,614	26,362
Fuel and oil		5,121	6,172
Other materials and supplies		8,841	6,704
Services		4,578	4,957
Insurance		4,771	1,683
Other		3,279	3,393
TOTAL		111,113	101,834
EXCESS OF REVENUES (EXPENSES)			
 BEFORE DEPRECIATION		220	(3,055)
DEPRECIATION		16,976	16,586
EXCESS OF EXPENSES AND DEPRECIATION			
 OVER REVENUES		\$ (16,756)	\$ (19,641)

See notes to combined financial statements.

COMBINED STATEMENTS OF CHANGES IN CAPITAL
FOR THE YEARS ENDED JUNE 30, 1986 and 1985 (In Thousands)

CONTRIBUTED CAPITAL

	NOTES	DISTRICT EQUITY	FEDERAL GRANTS	STATE TOLL BRIDGE FUNDS	LOCAL TRANSPORTATION FUNDS	TOTAL
BALANCE, JUNE 30, 1984		\$36,314	\$ 71,633	\$17,409	\$ 8,780	\$134,136
Excess of expenses over revenues		(19,641)				(19,641)
Depreciation Expense of contributed assets transferred from District equity to contributed capital		14,649	(10,830)	(2,646)	(1,173)	
Capital grant funds earned	4	<u> </u>	<u>25,583</u>	<u>6,674</u>	<u>4,148</u>	<u>36,405</u>
BALANCE, JUNE 30, 1985		31,322	86,386	21,437	11,755	150,900
Excess of expenses over revenues		(16,756)				(16,756)
Depreciation Expense of contributed assets transferred from District equity to contributed capital		13,425	(9,769)	(2,813)	(843)	
Capital grant funds earned	4	<u> </u>	<u>26,975</u>	<u>6,875</u>	<u>769</u>	<u>34,619</u>
BALANCE, JUNE 30, 1986		<u>\$27,991</u>	<u>\$103,592</u>	<u>\$25,499</u>	<u>\$11,681</u>	<u>\$168,763</u>

See notes to combined financial statements.

COMBINED STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 1986 and 1985 (In Thousands)

	1986	1985
CASH PROVIDED (USED) BY OPERATIONS:		
Excess of expenses over revenues	\$(16,756)	\$(19,641)
Items not using cash:		
Depreciation	16,976	16,586
Noncurrent liabilities — increase	8,411	8,700
Effect of working capital items:		
Receivables	(1,178)	(10,280)
Other current assets	(2,758)	(2,681)
Trade accounts payable	(515)	1,936
Self-insurance liabilities	3,923	379
Other current liabilities	1,894	(9,102)
Cash provided (used) by operations	<u>9,997</u>	<u>(14,103)</u>
CASH PROVIDED BY CAPITAL GRANTS	<u>34,618</u>	<u>36,405</u>
CASH USED FOR INVESTMENT ACTIVITIES:		
Property additions — net	(35,078)	(33,753)
Cash and investments restricted for pensions	(7,867)	(8,251)
Deferred compensation plan assets — increase	(544)	(449)
Cash used for investment activities	<u>(43,489)</u>	<u>(42,453)</u>
CASH AND SHORT-TERM INVESTMENTS:		
Increase (decrease) for the year	1,126	(20,151)
Balance, beginning of year	<u>17,641</u>	<u>37,792</u>
BALANCE, END OF YEAR	<u>\$ 18,767</u>	<u>\$ 17,641</u>

See notes to financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

Description of Reporting Entity - Alameda-Contra Costa Transit District (the District) is a political subdivision of the State of California established in 1956 and subject to transit district law as codified in the California Public Utilities Code.

For financial reporting purposes, the District's general purpose financial statements include the combined financial position, results of operations, and changes in financial position of the District's Special Transit Service Districts No. 1 and No. 2 and other areas in which the District has contracted to provide transit service.

2. Significant Accounting Policies

Contracted Services - The District has contracted to provide transit service for the Bay Area Rapid Transit District (BART) and several cities and other areas in Contra Costa County. The allocated cost of providing such service, less related operating revenue, is funded from local transportation funds, Federal operating assistance and, for BART express service, by direct reimbursement which is recorded as contract service revenue.

Investments are stated at amortized cost which approximates current (market) value, except for investments of the deferred compensation plan which are stated at current (market) value.

Property, plant and equipment is stated at cost and depreciated using the straight-line method. Estimated useful lives of property, plant and equipment were revised effective July 1, 1985 to more closely approximate actual experience:

	Commencing July 1, 1985	Prior to July 1, 1985
Buildings, structures and improvements	30 years	10 to 35 years
Revenue equipment	12 years	15 years
Shop, office and other equipment and service vehicles	3 to 10 years	5 to 20 years

Revising the estimated useful lives increased depreciation and the excess of expenses over revenues in 1985 by \$8,517,000.

Self-Insurance Reserves - The District is self-insured for public liability and property damage up to \$2,000,000 and workers' compensation claims up to \$150,000 for each occurrence. Claims in excess of these amounts are insured with commercial carriers. The District provides, in each period, reserves for the estimated costs of the self-insured portion of these claims.

Pensions - The District has three noncontributory pension plans, one for all union employees and another providing similar benefits for nonunion employees. Provisions for pension costs are based on percentages of gross payroll which provide for the normal cost of the plans plus amortization of prior service cost over a period of not more

than forty years. Cash and investments equal to such provisions are appropriated annually by the Board of Directors to provide for the payment of benefits. The District's policy is to fund pension costs as accrued.

Contributed Capital - The District periodically receives Federal grants from the Urban Mass Transportation Administration (UMTA) of the U.S. Department of Transportation, local transportation funds and state toll bridge revenues for the acquisition of buses and other equipment and improvements. Capital grant funds earned, less amortization equal to annual and accumulated depreciation of the related assets, are included in contributed capital. Advances received on capital grants are recorded as liabilities until the funds are expended for capital acquisitions.

3. Cash and Investments

The District maintains a cash and investment pool that is available for general use and is used for the funding of pension plan.

Cash - At June 30, 1986, the carrying amount of the District's deposits exclusive of certificates of deposit was \$1,597,500 and the bank balance was \$4,990,945.

Investments - Statutes authorize the District to invest in obligations of the U.S. Treasury, its agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, and the State Treasurer's investment pool. The District is also authorized to enter into reverse repurchase agreements. The District did not enter into any reverse repurchase agreements during 1986.

The District's investments are categorized below to give an indication of the risk assumed by the District at June 30, 1986. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District's name.

	CATEGORY 1	CATEGORY 2	CATEGORY 3	CARRYING AMOUNT	MARKET VALUE
Repurchase agreements	\$21,500,000			\$21,500,000	\$21,500,000
U.S. Government securities	9,508,700			9,508,700	9,229,998
Bankers' acceptances	37,838,051			37,838,051	37,838,051
Certificates of deposit	11,100,000			11,100,000	11,100,000
	<u>\$79,946,751</u>	<u>—</u>	<u>—</u>	79,946,751	79,668,049
Investment in money market				15,950,927	15,950,927
Cash in bank				1,597,500	1,597,500
Less - restricted for pensions				<u>(78,728,329)</u>	<u>(78,728,329)</u>
Total cash and investments				<u>\$18,766,849</u>	<u>\$18,488,147</u>

NOTES TO COMBINED FINANCIAL STATEMENTS (Cont.)

4. Capital Grants

The District has sixteen grant contracts in process with UMTA which provide Federal funds for the acquisition of buses and other equipment and improvements. These grants are summarized at June 30, 1986 as follows (in thousands):

Total approved project costs	<u>\$188,011</u>
Total approved federal funds	\$148,384
Less	
Amounts received	(108,536)
Amounts receivable — net	<u>(4,418)</u>
Remaining amount available under Federal grants	<u>\$ 35,430</u>

The District is committed to purchase additional equipment at a cost of approximately \$28,191,000 in connection with these projects.

Under the terms of the grants, proceeds from equipment sold during its useful life in proportion to the related Federal capital grant funds are refundable to the Federal government.

The District has also received allocations of funds generated from net toll bridge revenues of the San Francisco Bay Bridge. These funds are received under provisions of the California Streets and Highways Code and are allocated based on claims approved by the Metropolitan Transportation Commission (MTC).

Local transportation funds received for capital grant projects include allocations received pursuant to the Transportation Development Act of 1971, certain property tax revenues, and certain local sales tax funds.

5. State and Local Operating Assistance

The District receives state and local operating assistance from two principal sources. Transportation Development Act funds amounting to \$28,043,299 and \$20,199,067 were allocated to the District for the years ended June 30, 1986 and 1985, respectively. These funds are received from Alameda and Contra Costa counties to meet, in part, the District's operating requirements based on annual claims filed by the District and approved by MTC. State Transit Assistance funds of \$2,455,968 and \$2,884,224 were allocated to the District for the years ended June 30, 1986 and 1985. These funds are received directly from MTC based on the ratio of the District's transit operation revenue and local support to the revenue and local support of all state transit agencies.

6. Federal Operating Assistance

The District was allocated \$7,956,734 and \$7,855,248 of Federal operating assistance for the years ended June 30, 1986 and 1985, and \$293,519 and \$256,409 of Federal planning assistance for the years ended June 30, 1986 and 1985, respectively. These funds are distributed to the District by UMTA after approval by MTC.

7. Designated District Equity

The Board of Directors has authorized the designation of portions of equity for the replacement of facilities and equipment and other expenditures, as follows (in thousands):

	<u>Balance June 30, 1986</u>
Amounts designated:	
Restricted Fund	\$ 4,500
Self-Insurance Retention	4,000
Building Fund	8,000
Working Capital Fund	<u>11,491</u>
TOTAL	<u>\$27,991</u>

Designated funds are to be used for the following purposes:

Restricted Fund - To provide for unusual or otherwise necessary expenditures for repair, improvements to or replacement of essential elements of the District's facilities or for operating requirements.

Self-Insurance Retention - To provide funds for the uninsured deductible of potential losses.

Building Fund - To assist in meeting the District's potential financial requirements associated with the purchase, construction or rehabilitation of a building to provide adequate permanent accommodations for the District's general offices consistent with the master Facilities Improvement Program. These funds have previously been obligated by the Board to be used for the construction of a general office facility.

Working Capital Fund - To provide sufficient funds to meet the District's operating requirements for approximately one month. District management deems this designation to be prudent due to the uncertainty relating to the timing of receipt of public operating assistance funds.

8. Pensions

The provision for pension accrual for the year ended June 30, 1986 was \$5,280,000 (1985, \$5,134,000) plus an allocation of \$6,784,000 of interest earned on District investments (1985, \$6,888,000). Benefit payments for the year were \$4,197,000 (1985, \$3,772,000). Based on the most recent actuarial valuation, it is estimated the contribution made during fiscal year 1986 is below the required level for full funding. The District intends to have an actuarial valuation study in fiscal year 1987 at which time the District will adjust its contribution amount as necessary.

A summary of accumulated plan benefits and cash and investments restricted for accrued pension costs as of January 1, 1983, the date of the most recent actuarial valuation, follows (in thousands):

Actuarial present value of accumulated plan benefits:	
Vested	\$54,933
Nonvested	<u>5,555</u>
TOTAL	<u>\$60,488</u>

Cash and investments appropriated for accrued pension costs as of January 1, 1983 \$51,499

NOTES TO COMBINED FINANCIAL STATEMENTS (Cont.)

Pensions (cont.)

The entry-age-normal actuarial cost method is used assuming an 8% rate of return on investments and retirement age of 65.

9. Deferred Compensation Plan

The District has a deferred compensation plan, adopted pursuant to Internal Revenue Code Section 457 (b), which provides for the deferral of a portion of participating employees' compensation until retirement, termination, or certain other covered events. Plan assets totaled \$2,052,000 and \$1,508,000 at June 30, 1986 and 1985. The benefits due under the plan are fully funded. Plan assets are held by an administrator in a segregated fund. As required by IRC Section 457, however, plan assets remain the property of the District until paid or made available to the participants, subject only to the District's general creditors.

10. Litigation

There are claims and litigation pending which are considered normal to the District's operation of the transit systems. The District maintains insurance coverage for such incidents, and provision has been made in the financial statements for estimated losses under the deductible limits of insurance policies.

**SUPPLEMENTAL SCHEDULE OF CERTAIN REVENUES AND EXPENSES
BY SPECIAL TRANSIT SERVICE DISTRICT AND CONTRACT SERVICE AREA
FOR THE YEAR ENDED JUNE 30, 1986 (In Thousands)**

	SPECIAL TRANSIT SERVICE DISTRICT		CONTRACT SERVICE AREAS		
	DISTRICT NO. 1	DISTRICT NO. 2	BART	WESTERN CONTRA COSTA COUNTY	COMBINED
CERTAIN REVENUES:					
Fares	\$ 28,589	\$ 1,038	\$ 879	\$ 31	\$ 30,537
BART transfers	1,700	123			1,823
Property taxes	14,539	1,823			16,362
Contract service	3,800		6,671		10,471
Operating assistance:					
Local sales tax (TDA)	23,752	4,168			27,920
Local sales tax (AB 1107)	10,800				10,800
State Transit Assistance Fund	1,684	49			1,733
STA-Regional and Demo projects	527				527
Federal	7,143	894		213	8,250
Other operating revenue:					
Advertising	381	36	39	1	457
Charter	20				20
Other transit fares	81				81
Other	231				231
Interest earned on working capital funds	128	42			170
Gain on disposal of property, plant and equipment	6				6
TOTAL	93,381	8,173	7,589	245	109,388
EXPENSES:					
Operator wages	29,746	2,432	2,076	66	34,320
Other wages	17,408	1,559	1,571	51	20,589
Fringe benefits	25,457	2,153	1,942	62	29,614
Fuel and oil	4,320	390	398	13	5,121
Other materials and supplies	7,473	672	674	22	8,841
Services	3,878	350	339	11	4,578
Insurance	4,025	363	371	12	4,771
Other	2,715	338	218	8	3,279
TOTAL	95,022	8,257	7,589	245	111,113
EXCESS OF EXPENSES BEFORE DEPRECIATION					
	(1,641)	(84)			(1,725)
DEPRECIATION					
	14,279	1,292	1,363	42	16,976
EXCESS OF EXPENSES (AND DEPRECIATION) OVER CERTAIN REVENUES					
	\$(15,920)	\$(1,376)	\$(1,363)	\$(42)	\$(18,701)
STATISTICAL DATA:					
Hours	1,862	160	138	4	2,164
Miles	25,536	2,438	3,004	96	31,074
Farebox recovery ratio	33.30%	14.06%	11.58%	12.44%	30.24%
Operating revenue ratio	36.77%	15.01%	100.00%	13.06%	39.43%

See notes to supplemental schedule of certain revenues and expenses by special transit service district and contract service area.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO SUPPLEMENTAL SCHEDULE OF CERTAIN REVENUES AND EXPENSES BY SPECIAL TRANSIT SERVICE DISTRICT AND CONTRACT SERVICE AREA

1. Basis of Presentation

The accompanying schedule includes certain revenues and expenses of the District's Special Transit Service Districts No. 1 and No. 2 and other areas in which the District has contracted to provide transit service. Interest earned by the District on nonworking capital designated funds (\$1,945,000) has been excluded from the accompanying schedule.

2. Allocation of Revenues and Expenses

Operator wages and fringe benefit costs are based on actual costs incurred. Other expenses are allocated based on vehicle mileage and hours. The following costs are not allocated to the contract service areas and have been charged to Special Transit Service Districts No. 1 and No. 2 as follows:

	<u>District No. 1</u>	<u>District No. 2</u>
Interest	100%	
Charter Office	100	
Purchased transportation services for elderly and handicapped patrons		100%
Board of Directors	80	20
General Manager	80	20
Meetings and memberships	80	20
Transbay Terminal	100	

Marketing expenses are allocated to all Contract Service Areas except BART.

Fare revenue is allocated based on vehicle mileage and hours and passenger test counts. Advertising revenue is allocated based on vehicle miles. The allocated cost of providing transit service, less related operating revenue, is funded from local transportation funds, state and Federal operating assistance and, for BART express service, by direct reimbursement which is recorded as contract service revenue.

3. Statistical Data

Hours and miles represent the standard operating time and distance for each route multiplied by the number of times each route is traveled in the production of revenue.

Included is a standard allowance for vehicles traveling to and from the beginning and end of each route.

Farebox recovery ratio is the sum of fares, BART transfers, and other transit fares divided by total expenses before depreciation, excluding the expense of BART feeder bus service which is reimbursed by BART. Operating revenue ratio is the sum of fares, contract service, BART transfers, other operating revenue and interest earned on unrestricted funds divided by total expenses before depreciation.



25th ANNIVERSARY 1960-1985

