San Mateo County Transit District

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2015
With Comparative Totals for 2014

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San Mateo County
TRANSIT DISTRICT

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2015

(With Comparative Totals for 2014)

Prepared by the Finance and Administration Division

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Section I

INTRODUCTORY

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January 15, 2016

To the General Manager/CEO, Board of Directors of the San Mateo County Transit District and the Citizens of San Mateo County

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the San Mateo County Transit District (District) for the Fiscal Year July 1, 2014 through June 30, 2015. This transmittal letter provides a summary of the District's finances, services, achievements and economic prospects for readers without a technical background in accounting or finance. Readers desiring a more detailed discussion of the District's financial results may refer to the Management's Discussion and Analysis in the Financial Section.

Management assumes sole responsibility for all the information contained in this report, including its presentation and the adequacy of its disclosures. To the best of our knowledge, we believe this report to be complete and reliable in all material respects. To provide a reasonable basis for making this representation, we have established a comprehensive system of internal controls designed to protect the District's assets from loss, to identify and record transactions accurately and to compile the information necessary to produce financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not exceed the likely benefits, the District's internal control system intends to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement.

To test the performance of the internal control system, the District contracted for independent auditing services from Vavrinek, Trine, Day & Co., LLP, a certified public accounting firm licensed to practice in the State of California. The auditor expressed an opinion that the District's financial statements are fairly stated and in compliance with accounting principles generally accepted in the United States of America. This conclusion is the most favorable kind and is commonly known as an "unmodified" or "clean" opinion.

PROFILE OF THE ORGANIZATION

Basic Information

The District is an independent political subdivision of the State of California formed by the California State Legislature on August 14, 1974 and approved by county voters in the following general election. San Mateo County is located on a peninsula south of the City and County of San Francisco, bordered on the west by the Pacific Ocean, on the east by San Francisco Bay and on the south by the counties of Santa Clara and Santa Cruz.

The overall purpose of the District is to plan, develop, finance and operate a modern, coordinated system of transportation that offers access to the many facets of San Mateo County and promotes sound growth and economic development for the region. The District provides bus transit services throughout San Mateo County, north into downtown San Francisco, and south to Palo Alto in Santa Clara County. The District also operates a paratransit service and funds shuttles, connecting rail stations to employment centers. In addition, this system works cohesively with other transportation services in the San Francisco Bay Area. No other organization within San Mateo County has a similar scope of responsibility for public transportation.

History

On January 1, 1975, the District began consolidating 11 separate municipal bus systems and initiated local bus service where none existed. By July 1976, the District had established a viable network of local bus service throughout a 446 square-mile service area in San Mateo County. In mid-1977, the District added mainline service between Palo Alto and downtown San Francisco through a contract with Greyhound Lines, Inc. and also inaugurated its Redi-Wheels demand-response service for the mobility impaired. During its history of operations, the District has provided transportation to special events such as the Democratic National Convention, the Major League Baseball World Series and All Star Games, the National Football League Super Bowl, World Cup Soccer and the American Public Transportation Association's Commuter Rail Conference.

The District has fought throughout its history to preserve passenger rail service along the San Francisco Peninsula and it led a successful campaign in 1978 to avoid an impending decision by the Southern Pacific Railroad to end service. Two years later, the California Department of Transportation negotiated a purchase of service agreement with the Southern Pacific to continue to operate the commuter rail service under the name "Caltrain" while the local counties determined if they could assume control of Caltrain. As a result, the Peninsula Corridor Joint Powers Board was formed with the three member agencies: City and County of San Francisco, San Mateo County Transit District and Santa Clara Valley Transportation Authority. The JPB purchased the Southern Pacific right of way and selected the District as the managing agency for Caltrain passenger service in 1992. Amtrak served as the JPB's operator until May 2012. The contract to operate the rail passenger service was awarded to TransitAmerica Services Inc. on September 2011 Caltrain Board of Directors meeting. TransitAmerica Services Inc. took over the operation on May 26, 2012 from the predecessor of Amtrak.

Governance

A nine-member Board of Directors governs the District. The publicly-elected County Board of Supervisors appoints two of its own members and an individual with transportation expertise to the District board. The mayors of the cities throughout the county appoint three elected city officials, bringing the District board membership to six. These six members then select the remaining three board members from the general public, one of which must be a coastal resident, due to a geographical diversity policy in place for public members. The Board of Directors meets once a month to determine overall policy for the District. In addition, the Board has created a 15-member Citizens Advisory Committee (CAC) with the principal objective of articulating the interests and needs of current and future customers.

Administration

The District operates through divisions and departments under the direction of the Executive Department.

The *Office of the District Secretary* is responsible for directing and overseeing all activities, and for providing support to the Board of Directors. The office also handles Public Records Act requests.

The *Finance Division* is responsible for financial accounting and reporting, capital and grant administration and budgeting, operational budgeting, payroll and vendor disbursements, cash and investment management, debt management, revenue control and contracts & procurement.

The *Administration Division* is responsible for human resources, risk management, information technology, security, safety, real estate and special projects.

The *Operations Division for Rail*, is responsible for the overall management of Caltrain, including contractor oversight, right of way activities, fare and schedule administration, shuttle administration, service planning and quality assurance, and accommodations for persons with mobility impairments pursuant to the requirements of the Americans with Disabilities Act (ADA), management of all capital projects, including right-of-way maintenance, from conceptual engineering planning through construction and acceptance. The contract operator, TASI, provides train service, maintains equipment and property, and prepares financial and operational reports.

The *Operations Division for Bus* is responsible for the overall management of the SamTrans, including bus operations, shuttle/CUB contract administration, vehicle and facility maintenance, stores/inventory management, fare collection systems maintenance, ITS systems maintenance, operations planning and training, and accessible services.

The *Office of Caltrain Modernization Program* is responsible for guiding the planning and implementation of projects that will upgrade the performance, operating efficiency, capacity, safety and reliability of Caltrain's commuter rail service.

The *Office of Planning, Grants and Transportation Authority* is responsible for program administration for the San Mateo County Transportation Authority, general and strategic planning, grants research and development, transit-oriented development, the Grand Boulevard Initiative and sustainability.

The *Communications Division* is responsible for all external and internal communications, media relations, legislative activities, community outreach, customer service, marketing, sales, advertising, market research, website and distribution services.

Component Units

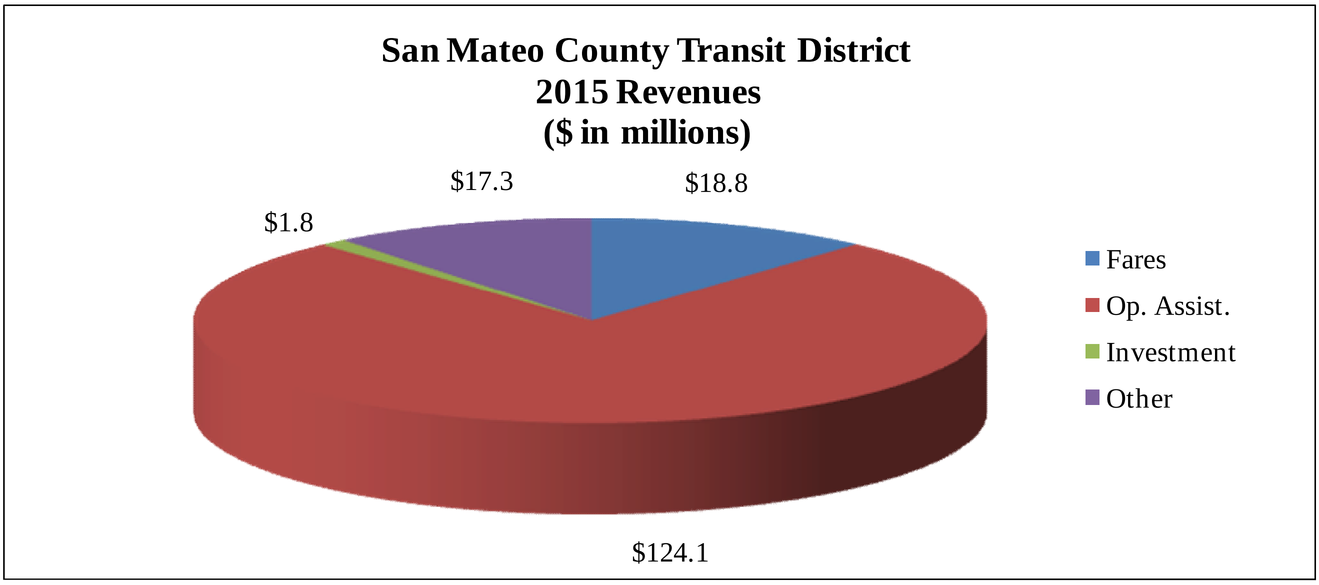
The District is a legally separate and financially independent entity that is not a component unit of San Mateo County or any other organization. While the District administers various activities on behalf of other agencies, such as the Peninsula Corridor Joint Powers Board (JPB), which operates Caltrain, and the San Mateo County Transportation Authority (TA), these agencies have their own separate corporate identity and governance, and they are not component units of the District. Therefore, this CAFR and the financial statements contained within represent solely the activities, transactions and status of the District.

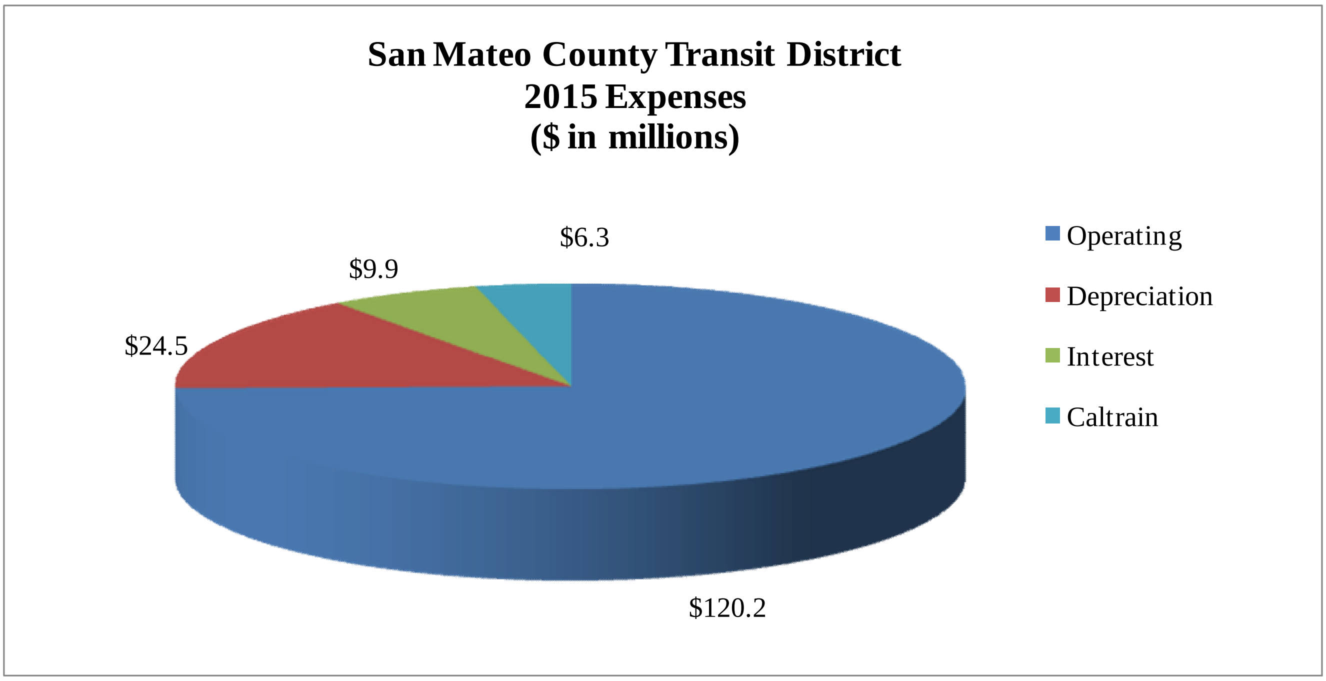
Budget

State law requires the District to adopt an annual budget by resolution of the Board of Directors. In the spring preceding the start of each fiscal year, staff presents an annual budget based on established agency goals, objectives and performance measures to the Board of Directors. The presentation may recommend using financial reserves to balance the budget when proposed expenditures exceed projected revenues. The Board of Directors monitors budget-to-actual performance through monthly staff reports. The Financial Section of this report includes a supplemental schedule that compares actual results on a budgetary basis of accounting to the final adopted budgets.

Once adopted, the Board of Directors has the authority to amend the budget. While the legal level of budgetary control is at the entity level, the District maintains stricter control at division, departmental and line item levels to serve various needs. Cost center managers monitor budget-to-actual performance monthly on an accrual basis. The Board has delegated the authority to transfer budget amounts between divisions and departments to the General Manager/CEO or his designee. However, any increase to the expenditure budget as a whole requires the approval of the Board. In addition, the District uses the encumbrance system to reduce budget balances by issuing purchase orders to avoid over-commitment of resources.

The District employs the same basis and principles for both budgeted and actual revenues and expenses, except that actual proceeds from the sale of capital assets, unrealized investment gains and losses and inter fund transfers are not included in the budget. As a special purpose organization, the District is not subject to the State of California's Gann Act requiring adherence to an annual appropriation limit. The following pie charts show actual results of the major revenue and expense categories for fiscal year 2015.





ECONOMIC CONDITION

Local Economy

Shrinking jobless rates and steadily expanding employment gains, along with a surging economy, are primarily what is boosting the employment picture for San Mateo County. San Mateo County posted a 3.3 percent unemployment rate, better than the June 2015 statewide rate of 6.1 percent and nationwide rate of 5.2 percent. The main driver is the growth of the technology sector in Silicon Valley but health care, leisure and hospitality, retail, construction and even manufacturing are growing. According to forecasts, California employment will remain steady for the rest of 2015 but will slow down slightly in 2016 and 2017.

San Mateo County remains one of the wealthiest counties in California. With significant employment in diverse industries, San Mateo County is not dependent on any one employment sector for its prosperity. This broad base is helping to ensure long-term stability for San Mateo County residents.

Long-term Financial and Strategic Planning

The District began operations in 1976 as a fixed-route bus service. Today, the District has grown into a multimodal system of coordinated transit services, including bus, paratransit, shuttles and rail, each playing an integral role in meeting the transportation needs of San Mateo County. The rising costs of providing services, coupled with the District's commitment to additional services without new revenue sources, has resulted in an unsustainable financial condition. Specifically, debt service and the costs associated with the District's commitment to BART and annual contributions to Caltrain have been significantly impacting the long term financial condition of the District. The District is currently updating its long term financial model. The upturn in the economy and reduction measures are starting to make a positive impact on SamTrans' finances, at least in the near future.

The District has been working to improve its long-term financial condition through a variety of measures. Improvement measures have included a restructuring of $211 million in debt, dissolution of the BART to SFO agreement and the reauthorization of the Measure A ½ cent sales tax. Over the past several budget cycles, the District has initiated several efforts to help keep annual expenses in line with annual revenues. Some of the deficit reduction exercises included a 7.5 percent service reduction, administrative layoffs, hiring and salary freezes, furlough days, fare increases, reduction in fringe benefit costs, reduction in its contribution to Caltrain, the implementation of a fuel hedge policy and deferring capital purchases. These various efforts have made a significant difference in looking at where the District stands today; however the District is still facing a modest structural deficit due to a decrease in transportation funding and rising costs.

The District adopted its five-year Strategic Plan in December 2014. This 2015-2019 Plan Update (which can be viewed online at www.samtrans.com/Planning/Planning and Research/StrategicPlan 2015-2019.html) provides a policy framework to help guide the District's transportation investments. The Plan helps set priorities to address three primary focus areas: expand mobility options, strengthen fiscal health, and improve organizational effectiveness. The 2015-2019 Plan builds on the District's 2009 Strategic Plan by prioritizing actions that can "move the needle", and by turning ideas into results. The Plan identifies those key factors that the District can control, and lays out a game plan for focusing District resources on achieving goals and strategies as the District embarks on implementation.

Major Initiatives

The District plans to continue providing coordinated transit services including bus, paratransit, shuttle and rail. The Association of Bay Area Governments (ABAG) projections assume there will be intensified population growth along the El Camino Real Corridor, parallel to the Caltrain line. It also is assumed that there will be higher density development in all cities along this corridor which is expected to increase demand for transportation services.

In addition to providing local transportation for municipalities, the District has committed significant resources to support other transportation modes. These include Caltrain rail services and shuttle bus service to and from the Caltrain and BART stations. Dedicated bus shuttles distributing rail patrons to regional employers will be vital to transportation over the next several years, as local agencies are encouraged to implement Transportation Systems Management plans designed to reduce highway congestion and improve air quality. Continuing a long history of serving San Mateo County residents with mobility impairments, the District also expects to meet an expanding demand for these services through a variety of paratransit activities.

Motor Bus Operations

The District designs its bus services to meet the needs of Peninsula residents, workers and visitors. Bus service is offered throughout San Mateo County and into part of San Francisco and Palo Alto. Many bus routes make key connections to Caltrain stations, BART stations and the San Francisco International Airport. Each bus has a bicycle rack, which can hold two bikes, allowing for multimodal use. Some level of service is offered throughout the day and night.

In response to ridership and revenue declines, the District reduced its bus operation from 60 routes to 58 routes in 2003. An additional four routes were eliminated in 2004 concurrent with the opening of the BART Extension to SFO and one route was added in the same year. In 2008, one more route was eliminated. In 2009, an additional seven routes were eliminated and one route was added, representing a 7.5 percent service reduction to address the fiscal year 2010 budget shortfall. In January 2014, the District completed implementation of the SamTrans Service Plan (SSP). The SSP was a realignment of service to better utilize limited resources and put more service where customers could ride SamTrans buses. The District now has 75 routes. Fixed-route bus ridership peaked in San Mateo County at 19.0 million in fiscal year 1998, but has since declined to 12.4 million in 2013, and now with SSP has seen ridership increase. It was up to 13.1 million in 2015, an increase of 2.4 percent over 2014.

The safety and maintenance improvement programs have produced extremely successful results. The safety program includes sensitivity training to familiarize operators with the special needs of mobility impaired passengers. Many bus operators have received safe-driving awards for up to 35 years of driving without an at fault accident. The maintenance program has consistently improved the average time between vehicle breakdowns from year to year and is proficient at re-powering vehicles, a task rarely undertaken by other transit operators.

Caltrain Administration

Since 1992, the District has served as staff to the JPB that operates commuter rail service on a 77-mile corridor between San Francisco in the north and Gilroy in the south. In September 2003, Caltrain instituted a “proof-of-payment” fare collection system that has increased internal controls and freed conductors from onboard ticket sales, allowing them to focus more on customer service and safety. In June 2004, Caltrain introduced limited-stop, express service, dubbed “Baby Bullet,” that reduced travel time between San Jose and San Francisco from an hour-and-a-half to just under an hour. Also in June 2004, Caltrain resumed weekend service that had been discontinued for nearly two years to allow for right of way improvements in preparation for the Baby Bullet service. After many years of planning, Caltrain broke ground on a centralized equipment maintenance and operations facility in November 2004 that consolidated several geographically separate facilities, increasing efficiency. In October 2007, the JPB issued fare box revenue bonds to fund eight new Bombardier rail cars which have been placed in service.

In the near term, Caltrain will focus on its State-of-Good Repair Program, including improvements on infrastructure, tracks, bridges, signal and communication equipment, ticket vending and validation equipment, and preventative maintenance and strategic replacement of the Caltrain rolling stock. Some of the projects that are currently underway include replacements of the San Francisco Roadway Bridges, Quint Street Bridge, Los Gatos Creek Bridge, and San Mateo Bridges, the installation of train departure monitors at terminal Stations, cable upgrading of ticket vending machines and the Bayshore Station Painting project. Projects completed in fiscal year

2015 include the upgrading of public address and visual messaging signs at 4 stations, a technology based asset management system (Caltrain Asset Management System), the purchase and commissioning (including station modifications) of used vehicles from the SCCRA (Metrolink), and the installation of outward facing cameras onboard the locomotive trains.

Currently, a $1.7 billion Caltrain Modernization Program is being advanced. This program is focused on meeting the growing commuter ridership demand in the region and the necessary electrified infrastructure to support high speed rail service in the future. Caltrain is committed to the California High Speed Rail Authority (CHSRA) to share the peninsula rail system to provide both commuter rail and high-speed rail service. The advance signal project (Communications Based Overlay Signal System Positive Train Control) component of the program is under construction with revenue service scheduled for late 2015. The Peninsula Corridor Electrification component of the program is targeted for revenue service 2020-2021.

District staff produces a separate CAFR for the JPB, and readers may obtain this report upon request.

San Mateo County Transportation Authority (Transportation Authority)
The District provides staff and support for the Transportation Authority, which administers funds from a half-cent county sales tax authorized by voters in 1988 and extended in November 2004 by voters through 2033. Together with a series of highway projects, the Transportation Authority invests in Caltrain capital improvements and a paratransit trust fund to provide services for the mobility impaired, as well as allocates funds for Alternative Congestion Relief programs aimed at reducing highway congestion and air pollution.

District staff produces a separate CAFR for the Transportation Authority that readers may obtain upon request.

Paratransit Services
The District provides accessible transportation services throughout San Mateo County with fixed-route, Redi-Wheels and RediCoast services. The entire fleet of fixed-route buses is equipped with wheelchair lifts or ramps and a kneeling feature to make boarding easier. Redi-Wheels and RediCoast members and their Personal Care Attendants are allowed to ride all regular fixed-route SamTrans buses for free. For some seniors and many persons with disabilities who cannot use fixed-route buses, Redi-Wheels and RediCoast are the only means of transportation available. In fiscal year 2015, the SamTrans paratransit program provided service to 329,040 customers, a 4.8 percent increase from fiscal year 2014.

ACKNOWLEDGMENTS AND AWARDS

The staff and contracted firms of the District bring an effective combination of skill, experience and dedication to carrying out the District’s mission. Together, they plan, develop and finance the creation of a modern, coordinated multimodal transportation system offering convenient access to the many attributes of the Bay Area and beyond.

The Government Finance Officers Association (GFOA) recognized the District’s 2014 CAFR for excellence in financial reporting and the Certificate of Achievement appears immediately following this transmittal letter. To be awarded a certificate, a report must be easy to read and efficiently organized, while satisfying both generally accepted accounting principles and applicable legal requirements. We believe our fiscal year 2015 CAFR also meets the requirements for a Certificate of Achievement and have submitted it to the GFOA for evaluation. We would like to thank our independent audit firm Vavrinek, Trine, Day & Co., LLP, for its timely and expert guidance in this matter.

SAN MATEO COUNTY TRANSIT DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT
JANUARY 15, 2016

A CAFR requires the dedicated effort of many individuals working together as a team. We extend our grateful recognition to all the individuals who assisted in both the preparation of this report and the processing of financial transactions throughout the fiscal year. Finally, we wish to thank the General Manager/CEO and the Board of Directors for their interest and support in the maintenance and development of a reliable financial management and reporting system.

Respectfully submitted,

Virginia Harrington

Virginia Harrington
Deputy CEO

Rima Lobo

Rima Lobo
Director of Finance

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Mateo County Transit District

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

BOARD OF DIRECTORS

SHIRLEY HARRIS, Chair

ZOE KERSTEEN-TUCKER, Vice Chair

JEFF GEE

CAROLE GROOM

ROSE GUILBAULT

KARYL MATSUMOTO

PETER RATTO

CHARLES STONE

ADRIENNE TISSIER

SHIRLEY HARRIS, **Chair**, public member, was appointed by the District Board of Directors in January 1994 and currently serves as the chair of the Board of Directors. She is on the Board of Directors of the Service League of San Mateo County. Ms. Harris has more than 25 years of experience in telecommunications and human resource management. She is a long-time resident of Daly City.

ZOE KERSTEEN-TUCKER, **Vice Chair,** public member and representative of the Coastal area, was appointed by the District Board of Directors in March 2006. She is on the San Mateo County Planning Commission. Ms. Kersteen-Tucker is principal owner of Pacific Development Associates which specializes in leading and training nonprofit executives and boards. Ms. Kersteen-Tucker resides in Moss Beach.

JEFF GEE, City Selection Committee appointee for the southern portion of San Mateo County. Mr. Gee was appointed in June 2011. Mr. Gee has been a member of the City Council of Redwood City since 2009 and is currently mayor. He is chair of the Peninsula Congestion Relief Alliance and immediate past chair of the San Francisco Airport Community Roundtable. Mr. Gee is Vice President/General Manager of Swinerton Management & Consulting and a licensed California architect.

CAROLE GROOM was appointed by the San Mateo County Board of Supervisor in January 2011. Ms. Groom represents the Second District which includes the cities of Belmont, Foster City and San Mateo. Prior to joining the Board of Supervisors, she served nine years on the San Mateo City Council. Ms. Groom has also spearheaded Active San Mateo County, an annual conference on creating healthy communities, and Streets Alive, an annual countywide event that promotes parks and public spaces. She is also a member of the California Coastal Commission.

ROSE GUILBAULT, public member, was appointed by the San Mateo County Transit District Board of Directors in March 2006. Ms. Guilbault is a board trustee for the Mineta Transportation Institute. She is also author of "Farmworker's Daughter: Growing up Mexican in America", a childhood memoir and "The Latinas Guide to Success in the Workplace." Ms. Guilbault is a resident of Burlingame.

KARYL MATSUMOTO, City Selection Committee appointee for the northern portion of San Mateo County. Ms. Matsumoto was appointed in February 2007. Ms. Matsumoto was elected to the City of South San Francisco City Council in November 1997 and is the current mayor. Ms. Matsumoto is the representative and current chair of the governing body of the San Mateo County Transportation Authority. She is a representative on the City/County Association of Governments of San Mateo County.

PETER RATTO, transportation expert, was appointed by the Board of Supervisors in February 2015. Prior to serving on the Board, Mr. Ratto served nine years on the SamTrans Citizen Advisory Committee representing multimodal riders. Mr. Ratto holds a BA degree in Transportation Management from San Francisco State University and has over 40 years of experience in the waste management and recycling industry. A life-long public transit user, Mr. Ratto grew up in Daly City and currently resides in San Mateo.

CHARLES STONE, City Selection Committee appointee for the central portion of San Mateo County. Mr. Stone was appointed in 2014. He is an attorney in Belmont where he lives with his two daughters and wife. He has served on the Belmont City Council since 2013. Mr. Stone was born and raised on the Peninsula and grew up riding the bus in Daly City, San Bruno and San Mateo.

ADRIENNE TISSIER, was appointed by the San Mateo County Board of Supervisors in January 2005. Ms. Tissier represents the Fifth District, which includes the cities of Brisbane, Colma, Daly City, South San Francisco, and unincorporated Broadmoor Village. Ms. Tissier serves on the governing body of the Peninsula Corridor Joint Powers Board and is the current chair. She also represents San Mateo County on the Metropolitan Transportation Commission (MTC), a regional transportation financing body, representing San Mateo County.

EXECUTIVE MANAGEMENT

GENERAL MANAGER/CEO

Jim Hartnett

EXECUTIVE OFFICERS

Virginia Harrington - Deputy CEO/Chief Administrative Officer

C. H. (Chuck) Harvey - Deputy CEO/Organizational Support and Special Projects

Michelle Bouchard - Chief Operating Officer, Rail

April Chan - Chief Officer, Planning, Grants and the Transportation Authority

Marian Lee - Chief Officer, Caltrain Planning/CalMod Program

Martha Martinez - Executive Officer, Board Secretary/Executive Administration

Seamus Murphy - Chief Communications Officer

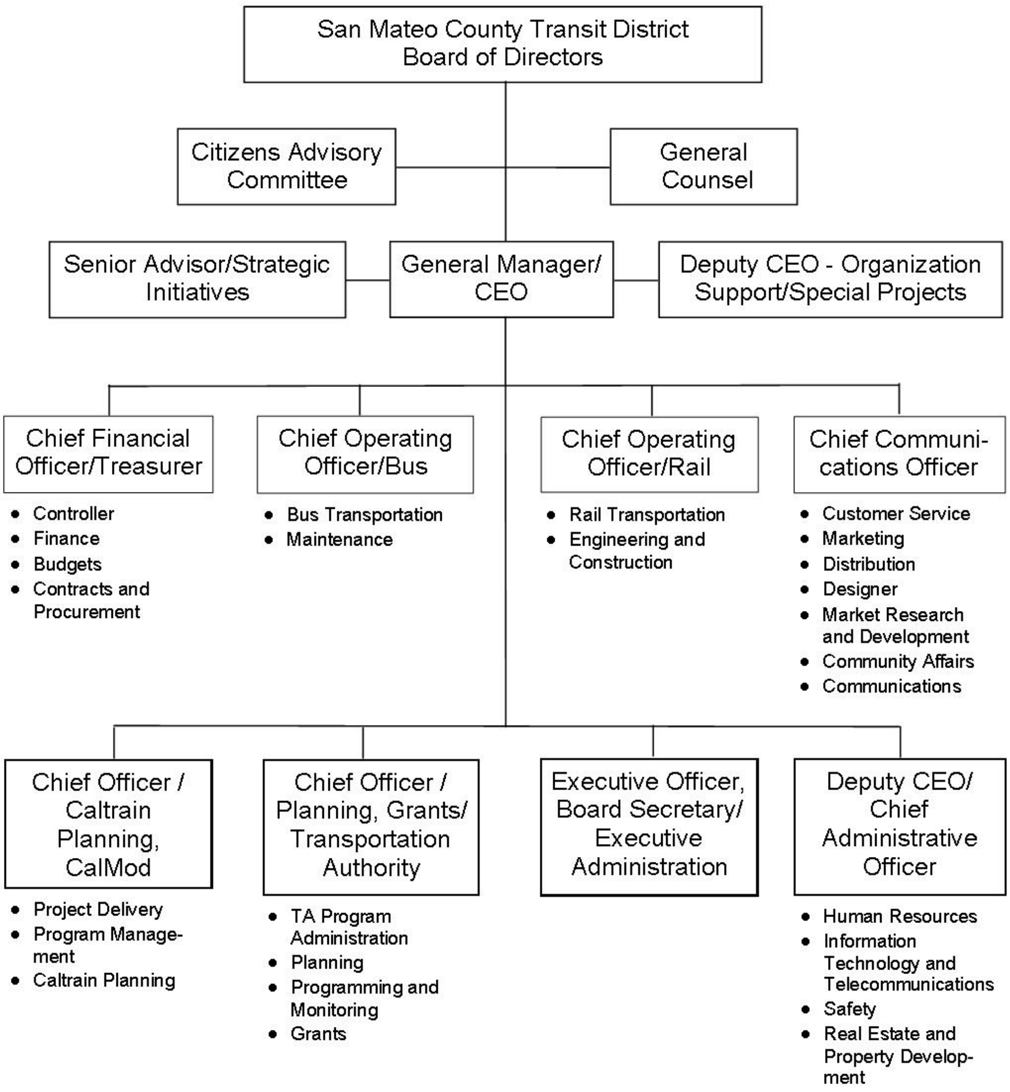
David Olmeda - Chief Operating Officer, Bus

Mark Simon - Senior Advisor, Strategic Initiatives

GENERAL COUNSEL

Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP:

Joan Cassman, Esq.


San Mateo County Transit District
Board of Directors
Citizens Advisory Committee
General Counsel
Senior Advisor/Strategic Initiatives
General Manager/ CEO
Deputy CEO - Organization Support/Special Projects
Chief Financial Officer/Treasurer
Controller
Finance
Budgets
Contracts and Procurement
Chief Operating Officer/Bus
Bus Transportation
Maintenance
Chief Operating Officer/Rail
Rail Transportation
Engineering and Construction
Chief Communi-cations Officer
Customer Service
Marketing
Distribution
Designer
Market Research and Development
Community Affairs
Communications
Chief Officer / Caltrain Planning, CalMod
Project Delivery
Program Manage-ment
Caltrain Planning
Chief Officer / Planning, Grants/ Transportation Authority
TA Program Administration
Planning
Programming and Monitoring
Grants
Executive Officer, Board Secretary/ Executive Administration
Deputy CEO/ Chief Administrative Officer
Human Resources
Information Technology and Telecommunications
Safety
Real Estate and Property Develop-ment

SAN MATEO COUNTY TRANSIT DISTRICT

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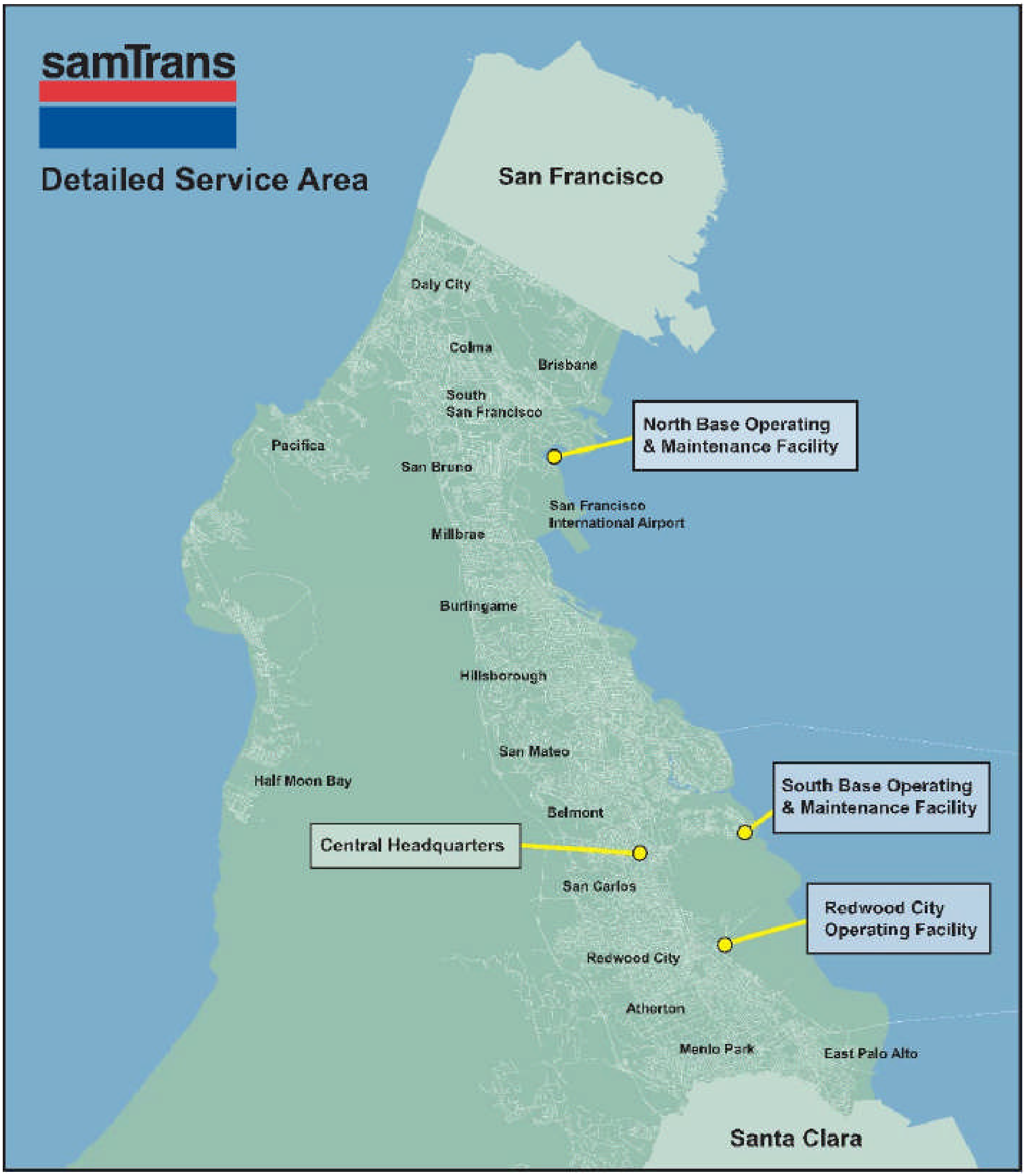

TABLE OF CREDITS

The following individuals contributed to the production of the Fiscal Year 2015 Comprehensive Annual Financial Report:

Finance:

	Manager, General Ledger	Sheila Tioyao
	Interim Manager, Treasury	Carl Cubba
	Senior Accountant	Jeannie Chen
	Interim Manager, Budgets	Elias Sissamis

Audit Firm:

	Partner	Ahmad Gharaibeh, CPA
	Manager	Nathan Edelman, CPA

Section II

FINANCIAL

Independent Auditor’s Report

Management’s Discussion and Analysis

Basic Financial Statements:

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Cash Flows
- Notes to the Financial Statements

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- Schedule of Funding Progress –Retiree Healthcare Supplementary Information
- Schedule of Changes in the Net Pension Liability and Related Ratios
- Schedule of Pension Contributions

Supplementary Information

- Supplementary Schedule of Revenues and Expenses - Comparison of Budget to Actual (Budgetary Basis)
- Notes to Supplementary Schedule

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
San Mateo County Transit District
San Carlos, California

Report on the Financial Statements

We have audited the accompanying financial statements of the San Mateo County Transit District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

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FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2015, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition For Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68,* effective July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Comparative Information

The prior year summarized comparative financial information has been derived from the District's 2014 financial statements which were audited by other auditors and whose report dated December 16, 2014, expressed an unmodified opinion on the financial statements.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations,* and budgetary comparison information, the introductory and statistical sections as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and budgetary comparison information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and budgetary comparison information, as listed in the table of contents, are fairly stated, in all material respects, in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2016 on our consideration of the District'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
January 15, 2016

MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis of the San Mateo County Transit District's (District) financial performance provides an overview of the District's activities for Fiscal Year 2015 with comparisons to the prior two fiscal years. We encourage readers to consider the information presented here in conjunction with the transmittal letter contained in the Introductory Section and with the statements and related notes contained in the Financial Section.

FINANCIAL HIGHLIGHTS

- At June 30, 2015, total assets stand at $510.6 million, an increase of $32.0 million or 6.7 percent compared to June 30, 2014. At June 30, 2014, total assets stand at $478.6 million, an increase of $22.9 million or 5.0 percent compared to June 30, 2013. The increases for 2015 were mainly due to increase in Cash and cash equivalent, investments and bus and bus equipment and the increase for 2014 was mainly due to increase in investments and bus and bus equipment.

- At June 30, 2015, total deferred outflows of resources were $16.6 million an increase of $14.5 million or 701.6 percent compared to June 30, 2014. The 2015 increase was due to refinancing and recognition of GASB 68 on pension expense. At June 30, 2014, total deferred outflows of resources were $2.1 million, a decrease of $0.5 million or 19.8 percent compared to June 30, 2013. This reduction is mainly due to amortization on deferred charge on refunding.

- At June 30, 2015, total liabilities were $386.7 million, an increase of $39.5 million or 11.4 percent compared to June 30, 2014. The 2015 increase was due to recognition of GASB 68 on pension liability and other noncurrent liabilities. At June 30, 2014, total liabilities were $347.2 million, a decrease of $16.8 million or 4.6 percent compared to June 30, 2013. The decrease for 2014 was due to reduction of insurance and long-term debt.

- For Fiscal Year 2015, passenger fares were $18.8 million, an increase of $0.3 million or 1.4 percent compared to Fiscal Year 2014. For Fiscal Year 2014, passenger fares were $18.6 million, an increase of $0.7 million or 4.2 percent compared to Fiscal Year 2013. The increase for both 2015 and 2014 were result of higher ridership.

- In Fiscal Year 2015, total operating expenses were $120.2 million, an increase of $11.9 million or 11.0 percent compared to Fiscal Year 2014. The decrease in 2014 was mainly due to reduction in Material & supplies and Insurance. In Fiscal Year 2014, total operating expenses were $108.3 million, a decrease of $5.8 million or 5.1 percent compared to Fiscal Year 2013. The results were mostly due to reduction in Material & supplies and insurance.

- For Fiscal Year 2015, nonoperating revenues net of nonoperating expenses were $127.1 million, an increase of $4.2 million or 3.4 percent compared to Fiscal Year 2014. The 2015 increase was due to increase in Other income and reduction in interest expense. In Fiscal Year 2014, nonoperating revenues net of nonoperating expenses were $122.9 million, an increase of $10.5 million or 9.3 percent compared to Fiscal Year 2013. The 2014 increase was due to increase in Operating assistance particular in sales tax and Measure A funds.

- At June 30, 2015, net position was $124.1 million, a decrease of $9.4 million or 7.0 percent from June 30, 2014. The 2015 reduction was mainly due to recognition of GASB 68 adjustment related to pension liability. At June 30, 2014, net position was $133.5 million, an increase of $39.2 million or 41.6 percent from June 30, 2013. The 2014 increase was due to increase in cash & cash equivalents, sales tax receivable, Noncurrent investments, Restricted investments and Buses and bus equipment.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of this report presents the District's financial statements as two components: basic financial statements and notes to the financial statements. It also includes other supplemental information in addition to the basic financial statements.

Basic Financial Statements

The *Statement of Net Position* presents information about assets and liabilities with the difference between the two reported as *net position*. The change in net position over time is an indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* reports how net position have changed during the year and presents a comparison between operating revenues and operating expenses. Operating revenues and expenses are related to the District's principal business of providing bus transit services. Operating expenses include the cost of direct services to passengers, administrative expenses, contracted services and depreciation on capital assets. All other revenues and expenses not included in these categories are reported as nonoperating.

The *Statement of Cash Flows* reports inflows and outflows of cash and is classified into four major components:

- *Cash flows from operating activities* which includes transactions and events reported as components of operating income in the statement of revenues, expenses and changes in net position.

- *Cash flows from non-capital financing activitie*s which includes operating grant proceeds as well as operating subsidy payments from third parties and other nonoperating items.

- *Cash flows from capital and related financing activities* which arise from the borrowing and repayment (principal and interest) of capital-related debt, the acquisition and construction of capital assets and the proceeds of capital grants and contributions.

- *Cash flows from investing activities* which includes the proceeds from the sale of investments and receipt of interest. Outflows in this category include the purchase of investments.

Notes to the Financial Statements

Various notes provide additional information that is essential to a full understanding of the information provided in the basic financial statements and are found immediately following the financial statements to which they refer.

Other Information

This report also presents certain required supplementary information in accordance with the requirements of GASB Statements No. 45 and No. 68 providing information about the status of the District's unfunded pension liability for its public employee retirement system and other post-employment benefits. Additional supplementary information and associated notes concerning compliance with the District's annual budget appear immediately following the required supplementary information.

Analysis of Basic Financial Statements

In Fiscal Year 2015, total assets and deferred outflows were $527.2 million, an increase of $46.6 million or 9.7 percent compared to June 30, 2014. In Fiscal Year 2014, total assets and deferred outflows were $480.7 million, an increase of $22.4 million or 4.9 percent compared to June 30, 2013. Total current assets increased $54.1 million or 54.1 percent to $154.2 million on June 30, 2015 from $100.1 million on June 30, 2014 and increase of $4.3 million or 4.5 percent at June 30, 2014 compared to June 30, 2013. Capital assets – net of accumulated depreciation, Capital contribution to BART – net of amortization and all other non-current assets combined, decreased by $22.1 million or 5.8 percent in 2015 and increased $18.6 million or 5.2 percent in 2014.

Capital assets net of accumulated depreciation increased by $16.6 million or 10.4 percent to $176.6 million at June 30, 2015 compared to 2014 and increased of $13.7 million or 9.4 percent in 2014 compared to 2013. Land and right of way, buses and related equipment and building and related improvements comprise most of the District's capital assets.

In 1998, the District entered into a comprehensive agreement with BART to extend its system into San Mateo County. BART was responsible for constructing and operating new stations in the cities of South San Francisco, San Bruno and Millbrae and at the San Francisco International Airport. The District made capital contributions towards a portion of the construction costs and assumed financial responsibility for the operating results of these stations. In 2007, the District amended its agreement with BART whereby BART assumed sole operational responsibility for the San Francisco Airport extension project. Under the terms of the new agreement, the District was relieved from all obligations to pay operating or capital costs associated with the San Francisco Airport extension project and BART was relieved of the $72 million liability for the contribution made by the District to fund the San Francisco Airport extension project. The District treated the $72 million as a capital contribution with a 30-year life from its payment date to be consistent with all previous capital contributions to BART.

The amortized capital contribution to BART decreased by $7.7 million or 7.0 percent to $101.7 million in Fiscal Year 2015 compared to Fiscal Year 2014 and decreased by $7.7 million or 6.6 percent in Fiscal Year 2014 compared to Fiscal Year 2013. Additional discussion of the District's transactions with BART can be found in *Note #5 - Bay Area Rapid Transit (BART) District Extension Agreements* in the *Notes to the Financial Statements*.

SAN MATEO COUNTY TRANSIT DISTRICT
NET POSITION
(in thousands)

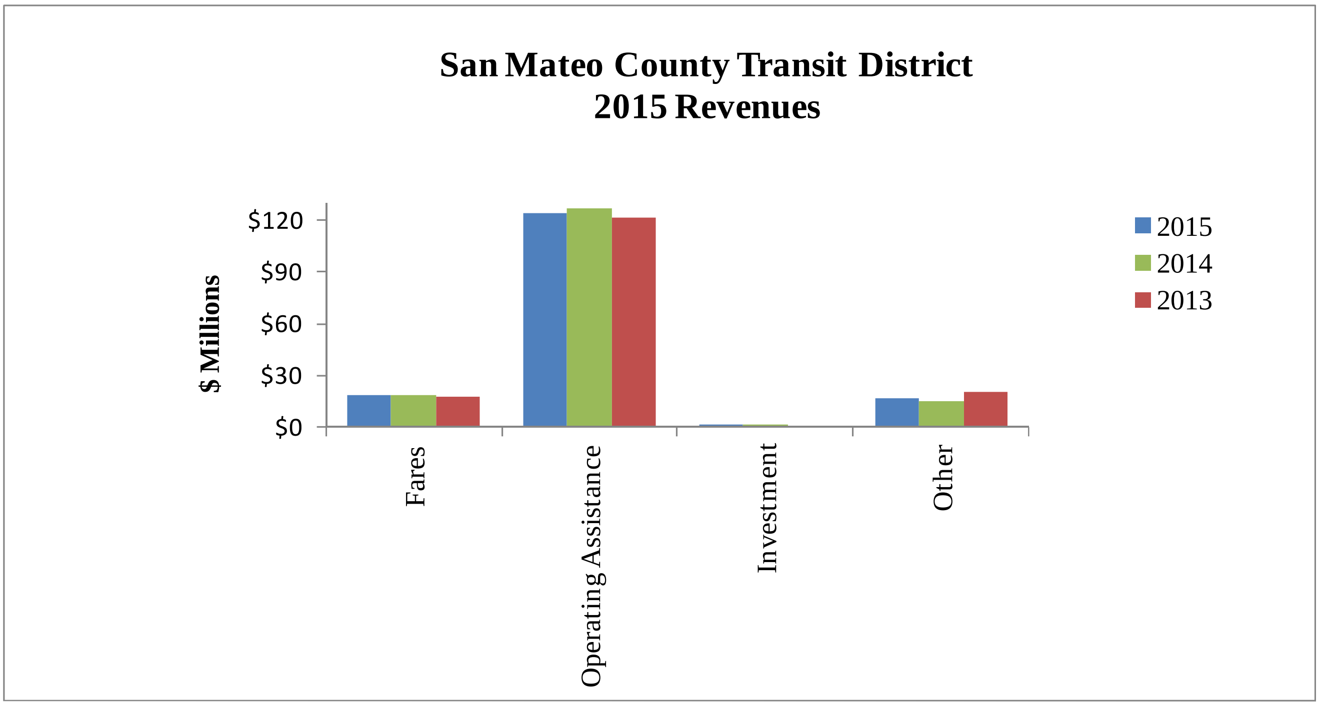
	2015	2014	2013
Current Assets	$ 154,203	$ 100,067	$ 95,769
Capital assets, net of depreciation	176,616	160,050	146,301
Contribution to BART, net of amortization	101,654	109,339	117,024
Other noncurrent assets	78,146	109,139	96,633
Total assets	510,619	478,595	455,727
Deferred outflows of resources	16,617	2,073	2,586
Current liabilities	32,633	33,846	31,291
Long-term debt	272,518	280,223	290,702
Other noncurrent liabilities	81,548	33,138	42,054
Total liabilities	386,699	347,207	364,047
Deferred inflows of resources	16,451	-	-
Net investment in capital assets	(5,858)	(20,964)	(34,446)
Restricted	26,087	25,000	27,745
Unrestricted	103,857	129,425	100,967
Total net position	$ 124,086	$ 133,461	$ 94,266

In Fiscal Year 2015, total liabilities and deferred inflows were $403.2 million, an increase of $55.9 million or 16.1 percent compared to Fiscal Year 2014. In Fiscal Year 2014, total liabilities were $347.2 million, a decrease of $16.8 million or 4.6 percent compared to 2013. The increase for 2015 was mostly due to the adoption of new accounting standards that required the District to recognize a long-term liability for pension expense, and PTMISEA grant funds that were advanced to the District, but will be utilized in future years.

At June 30, 2015, net position of $124.1 million was $9.4 million or 7.0 percent less than the $133.5 million at June 30, 2014 and was $39.2 million or 41.6 percent more than on June 30, 2014 compared to $94.3 million at June 30, 2013. The ($5.9) million invested in capital assets net of related debt at June 30, 2015 were (4.7) percent of the total net position. Total restricted assets at June 30, 2015 were $26.1 million or 21.0 percent of total net position. The remaining $103.9 million of total net position at June 30, 2015 were unrestricted and represented 83.7 percent of total net position.

Revenue Highlights

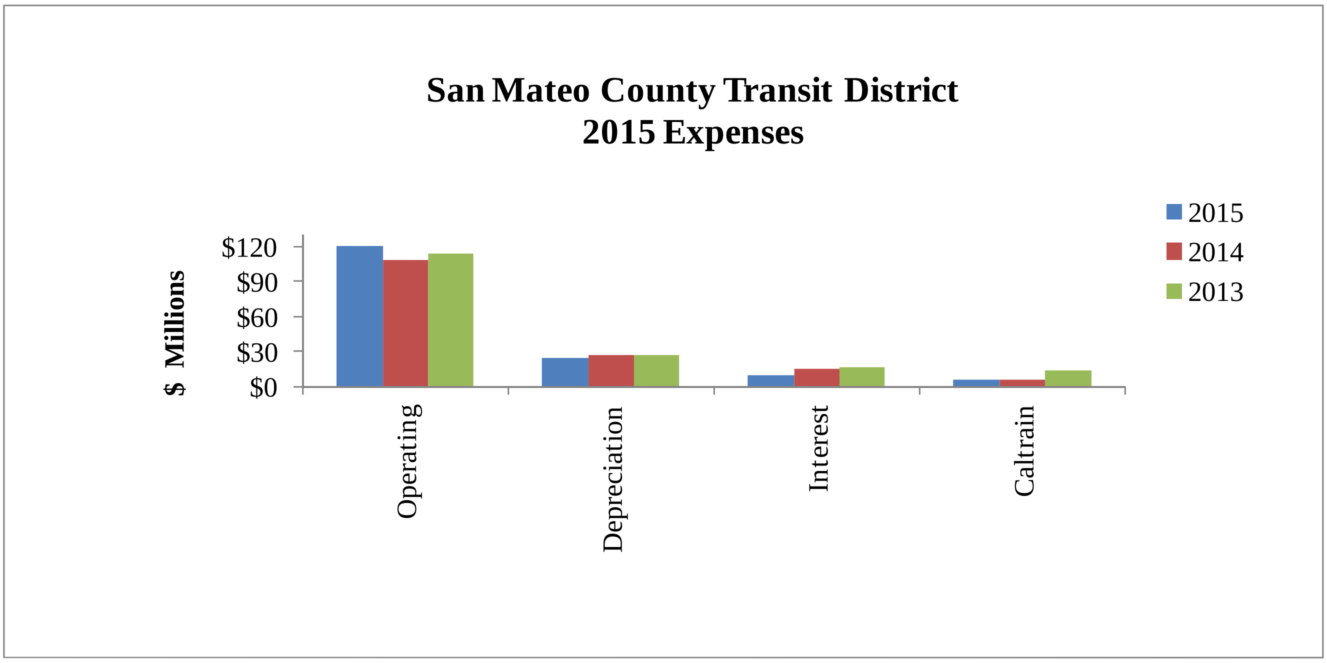
Operating revenues generated from passenger fares of $18.8 million increased by $259 thousand or 1.4 percent during Fiscal Year 2015 compared to Fiscal Year 2014 and increased by $749 thousand or 4.2 percent in Fiscal Year 2014 compared to Fiscal Year 2013. The increase for both 2015 and 2014 were the result of high ridership.



In Fiscal Year 2015, nonoperating revenues decreased by $0.6 million or 0.4 percent to $143.2 million. This decrease was mainly due to less funding from State transit assistance. Operating assistance of $124.1 million accounted for the majority of fiscal year 2015 nonoperating revenues. This amount consisted of 54.7 percent from transaction and use tax, 29.4 percent from local transportation funds, 5.8 percent from federal assistance and 10.1 percent from Measure A, state transit assistance and AB434 funds combined.

Expense Highlights

In Fiscal Year 2015, total operating expenses were $120.2 million, an increase of $11.9 million or 11.0 percent compared to Fiscal Year 2014. In Fiscal Year 2014, total operating expenses were $108.3 million, a decrease of $5.8 million or 5.1 percent compared to Fiscal Year 2013. Total operating expenses in 2015 consisted of $62.6 million or 52.1 percent for wages and benefits, $33.4 million or 27.8 percent for contract operations and other services, and $24.2 million or 20.1 percent for materials, insurance and other miscellaneous expenses combined. Depreciation and amortization expenses were $24.5 million and $27.2 million for Fiscal Year 2015 and Fiscal Year 2014 respectively, a $2.6 million or 9.7 percent decrease in Fiscal Year 2015 compared to Fiscal Year 2014 and $0.2 million or 0.9 percent increase in Fiscal Year 2014 compared to Fiscal Year 2013.



In Fiscal Year 2015, nonoperating expenses were $16.2 million, a decrease of $4.8 million or 23.1 percent compared to Fiscal Year 2014. In Fiscal Year 2014, nonoperating expenses were $21.0 million, a decrease of $9.4 million or 30.9 percent compared to Fiscal Year 2013. In Fiscal Year 2015, the District paid the JPB $6.3 million for its contribution toward the Caltrain rail service operation. A more detailed discussion of the District’s relationship with the JPB can be found in *Note #8 – Peninsula Corridor Joint Powers Board (JPB) in the Notes to the Financial Statements.*

SAN MATEO COUNTY TRANSIT DISTRICT
CHANGES IN NET POSITION
(in thousands)

	2015	2014	2013
Operating revenues-passenger fares	$ 18,816	$ 18,557	$ 17,808
Operating expenses-transit services	120,210	108,327	114,154
Operating loss before depreciation and amortization	(101,394)	(89,770)	(96,346)
Depreciation and amortization	(24,545)	(27,184)	(26,939)
Operating loss	(125,939)	(116,954)	(123,285)
Nonoperating revenues			
Operating assistance	124,097	126,786	121,793
Investment income	1,782	1,663	586
Interagency administrative income	7,224	6,552	551
Other income, net	10,119	8,866	14,928
Total Nonoperating revenues	143,222	143,867	142,808
Nonoperating expenses			
Interest expense	(9,896)	(15,559)	(16,401)
Caltrain service subsidy	(6,260)	(5,440)	(14,000)
Total Nonoperating expenses	(16,156)	(20,999)	(30,401)
Net loss before capital contributions	1,127	5,914	(10,878)
Capital contributions	33,361	33,281	10,461
Change in net position	34,488	39,195	(417)
Net position - beginning of year, as restated	89,598	94,266	94,683
Net position - end of year	$ 124,086	$ 133,461	$ 94,266

Capital Program

The District received capital contributions of $33.4 million in Fiscal Year 2015 and $33.3 million in Fiscal Year 2014, which was an increase of $0.1 million or 0.2 percent in Fiscal Year 2015 compared to Fiscal Year 2014 and an increase of $22.8 million or 218.1 percent in Fiscal Year 2014 compared to Fiscal Year 2013.

The following is a summary of the District's major capital expenditures for Fiscal Year 2015.

- Purchase of Revenue Vehicles ($14.4 million)
- Communication Information System ($12.4 million)
- Purchase of Paratransit vans and buses ($2.8 million)
- Replacement of bus parts in accordance with FTA guidelines ($1.2 million)
- Capital project development, control and monitoring ($0.6 million)

Additional information concerning the District's Capital Assets can be found in *Note #6 - Capital Assets in* the *Notes to the Financial Statements*.

Debt

At June 30, 2015, the District had $250.2 million in limited tax bonds outstanding, a decrease of $35,7 million or 12.5 percent, compared to $285.9 million in limited tax bonds outstanding at June 30, 2014. This decrease resulted from the District's issuance of $210.3 million Limited Tax Bonds Refunding 2015 Series A (2015 Series A Bonds) and $40.0million Limited Tax Bonds Refunding 2015 Series B (Federally Taxable) (2015 Series B Bonds) to refund all outstanding 1993 Series A Limited Tax Bonds, all outstanding Refunding 2005 Series A Limited Tax Bonds and all outstanding 2009 Series A Limited Tax Bonds. The District issued the 2015 Series A Bonds and the 2015 Series B Bonds on April 22, 2015. The District pledges sales tax revenues to secure the 2015 Series A Bonds and the 2015 Series B Bonds. Interest payments on the 2015 Series A Bonds and the 2015 Series B Bonds are due on June 1 and December 1 of each year, commencing June 1, 2015. Principal payments on the 2015 Series A Bonds are scheduled to begin June 1, 2016. The final maturity date for the 2015 Series A Bonds is June 1, 2034. Interest rates on the 2015 Series A Bonds range from 3.0 percent to 5.0 percent. Principal payments on the 2015 Series B Bonds are scheduled to begin June 1, 2016. The final maturity date for the 2015 Series B Bonds is June 1, 2019. Interest rates on the 2015 Series B Bonds range from 0.410 percent to 1.953 percent. More information on the District's long-term debt activity appears in *Note #11 - Long-term Debt* of the *Notes to the Financial Statements*.

Economic Factors and Next Year's Budget

The District's Board adopted the fiscal year 2016 Operating and Capital Budget on June 3, 2015. As in past years, District staff has taken extraordinary steps to reduce costs, undertake efficiencies while continuing to enhance service and revenues. The economy has slowly improved, stabilizing sales tax revenues. The Operating Budget is one of restrained optimism, planning for a future in which recent growth of revenue could level off. The District continues to work with its funding partners and employees to pursue its goals of excellent service. The Capital Budget contains projects necessary and essential to sustain the District's existing service and infrastructure network, without compromising the vision set forth in the adopted Strategic Plan.

The FY2016 Operating Budget consists of $138.9 million in revenues and expenditures. Passenger fares for both Motor Bus and ADA services are at $19.0 million based on increase in ridership from FY2015 projected actuals. Local, State, and Federal funds are projected to decrease to $45.2 million due to less Transportation Development Act (TDA) and State Transportation Assistance (STA) carryover funds available for FY2016. The District's half-cent sales tax receipts are conservatively projected to be $76.0 million. Operating costs are projected to increase by $6.0 million in FY2016. The increase is mostly due to an increase in fringe benefits, increased rates for renewed contract bus service, increased employer operated shuttle services, and an increase in demand for paratransit taxi service.

The $42.4 million Capital Budget contains projects that were reviewed and prioritized consistent with District policy directives and key Strategic Plan Initiatives. A major project being undertaken in FY2016 include the replacement of sixty 2003 Gillig low floor buses and fifty-five 2002 NABI buses as these buses have reached the end of their useful lives. This is the last increment of funding required for this project. The estimated total replacement cost is $78.0 million. The buses are scheduled for delivery in calendar year 2016. Other components of the budget include information technology software and hardware upgrade and replacement, funding to develop a Youth Mobility Management Plan, rehabilitation and improvement projects for the maintenance and administrative facilities, and security improvement projects.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate accountability for the funds the District receives. If you have questions about this report or need additional financial information, please contact the San Mateo County Transit District, attn: Deputy CEO, 1250 San Carlos Ave., P.O. Box 3006, San Carlos, California 94070-1306.

SAN MATEO COUNTY TRANSIT DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR 2014) in thousands

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 1E & 2)	$ 64,568	$ 48,958
Restricted cash (Notes 1G & 2)	10,911	7,086
Subtotal	75,479	56,044
Investments (Notes 1F & 2)	37,812	9,659
Restricted investments (Notes 1G & 2)	6,096	2,038
Receivables:		
Transaction and use tax	14,484	14,667
Receivable from Peninsula Corridor Joint Powers Board (Note 8)	7,210	4,207
Receivable from San Mateo County Transportation Authority (Note 9)	2,237	2,051
Federal grants (Note 4)	2,025	2,135
State and local grants	3,442	2,869
Interest	223	233
Other	1,771	2,571
Allowance for doubtful accounts	(98)	(98)
Total Receivables - Net	31,294	28,635
Inventories (Note1I)	1,688	1,820
Prepaid expenses	1,834	1,871
Total Current Assets	154,203	100,067
NONCURRENT ASSETS:		
Noncurrent investments (Notes 1F & 2)	58,485	86,078
Restricted investments (Notes 1G & 2)	19,618	22,242
Capital assets (Notes 1J & 6):		
Buses and bus equipment	167,272	149,751
Buildings and building improvements	64,838	64,815
Maintenance and other equipment	6,523	5,822
Furniture and fixtures	19,656	20,272
Shelters and bus stop signs	592	579
Other vehicles	2,159	2,226
Total capital assets	261,040	243,465
Less accumulated depreciation	(173,582)	(158,594)
Land and right of way (Note 7)	53,855	53,855
Construction in progress (Note 1K)	35,303	21,324
Capital assets - Net (Note 6)	176,616	160,050
Capital contribution to BART, net of amortization (Note 5)	101,654	109,339
Other assets (Note 9)	43	819
Total Noncurrent Assets	356,416	378,528
Total Assets	510,619	478,595

The accompanying notes are an integral part of these financial statements

SAN MATEO COUNTY TRANSIT DISTRICT

STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR 2014) in thousands

	2015	2014
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	12,425	2,073
Deferred outflows from pension activities (Note 1T&12)	4,192	-
Total Deferred Outflows of Resources	16,617	2,073
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	9,242	10,650
Current portion of compensated absences (Note 1O)	5,813	6,829
Current portion of self-insurance liabilities (Note 14)	4,364	4,291
Accrued interest	1,604	1,946
Current portion of long-term debt (Note 11)	11,610	10,130
Total Current Liabilities	32,633	33,846
NONCURRENT LIABILITIES:		
Long-term debt, less current portion (Note 11)	272,518	280,223
Self-insurance liabilities, less current portion (Note 14)	6,407	7,437
Other noncurrent liabilities (Note 10)	33,338	16,115
Compensated absences, less current portion (Note 1O)	2,423	872
Postemployment benefits (Note 13)	8,736	8,714
Net pension liability (Note 1R&12)	30,644	-
Total Noncurrent Liabilities	354,066	313,361
Total Liabilities	386,699	347,207
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pension (Note 1T&12)	16,451	-
NET POSITION		
Net investment in capital assets	(5,858)	(20,964)
Restricted for:		
Debt service	1,087	-
Paratransit fund (Note 16)	25,000	25,000
Unrestricted	103,857	129,425
Total Net Position	$ 124,086	$ 133,461

The accompanying notes are an integral part of these financial statements

SAN MATEO COUNTY TRANSIT DISTRICT

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR 2014) in thousands

	2015	2014
OPERATING REVENUES:		
Passenger fares	$ 18,816	$ 18,557
Total operating revenues	18,816	18,557
OPERATING EXPENSES:		
Salaries and benefits	62,606	60,001
Contract operations and maintenance services	33,399	31,471
Other services	6,092	4,666
Materials and supplies	8,158	8,769
Provisions for claims and claims adjustments	4,171	(2,094)
Miscellaneous	5,784	5,514
Total operating expenses	120,210	108,327
Operating loss before depreciation and amortization and administrative expenses capitalized	(101,394)	(89,770)
Depreciation and amortization	(24,545)	(27,184)
OPERATING LOSS	(125,939)	(116,954)
NONOPERATING REVENUES (EXPENSES):		
Operating assistance (Note 3)	124,097	126,786
Investment income	1,782	1,663
Interest expense	(9,896)	(15,559)
Caltrain service subsidy (Note 8)	(6,260)	(5,440)
Interagency administrative income	7,224	6,552
Other income, net	10,119	8,866
Total nonoperating revenues, net	127,066	122,868
Net income (loss) before capital contributions	1,127	5,914
Capital contributions (Note 1P)	33,361	33,281
CHANGE IN NET POSITION	34,488	39,195
Net position - beginning of year	133,461	94,266
Adjustment to beginning net position for pension restatement (Note 19)	(43,863)	-
Net position - beginning of year, as restated	89,598	94,266
Net position - end of year	$ 124,086	$ 133,461

SAN MATEO COUNTY TRANSIT DISTRICT

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS) in thousands

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passenger fares	$ 19,616	$ 18,631
Payments to vendors for services	(58,067)	(55,121)
Payments to employees	(63,966)	(58,191)
Receipts for rental and other income	17,343	19,245
Net cash (used for) operating activities	(85,074)	(75,436)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received, including transaction and use tax	138,314	124,187
Caltrain service outlays	(6,260)	(5,440)
Net cash provided by non-capital financing activities	132,054	118,747
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(33,426)	(36,398)
Capital contributions from grants	32,898	29,987
Bond principal paid	(6,225)	(9,655)
Interest and cost of issuance paid	(20,590)	(16,032)
Net cash provided (used) in capital and related financing activities	(27,343)	(32,098)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investment securities	45,831	91,064
Purchases of investment securities	(47,825)	(86,600)
Investment income received on all interest-bearing investments	1,792	1,757
Net cash provided by investing activities	(202)	6,221
Net increase (decrease) in cash and cash equivalents	19,435	17,434
Cash and cash equialents, beginning of year	56,044	38,610
Cash and cash equivalents, end of year	$ 75,479	$ 56,044

The accompanying notes are an integral part of these financial statements

SAN MATEO COUNTY TRANSIT DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS) in thousands

	2015	2014
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED) IN OPERATING ACTIVITIES:		
Operating loss	$ (125,939)	$ (116,954)
Other nonoperating items	-	-
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:		
Depreciation and amortization	24,545	27,184
Rental and other income	17,343	18,631
Effect of changes in:		
Accounts receivable	800	(142)
Inventories	132	32
Prepaid expenses	37	(104)
Other assets	776	-
Accounts payable and accrued expenses	(1,408)	(5,726)
Other postemployment liability	22	428
Net pension liability	(13,219)	-
Compensated absences	535	(58)
Self-insurance liabilities	(957)	1,273
Deferred inflows and outflows from pension activities	12,259	-
Net cash used in operating activities	$ (85,074)	$ (75,436)
NONCASH INVESTING ACTIVITIES:		
Change in fair value of investments	$ 33	$ 263

The accompanying notes are an integral part of these financial statements

SAN MATEO COUNTY TRANSIT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

INDEX TO THE NOTES

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Operations

The San Mateo County Transit District (District) was formed by the California State Legislature and approved by the electorate in 1974 to meet the public transit needs of San Mateo County. The District operates buses throughout San Mateo County and also provides, through purchased service with independent contractors, demand-responsive transportation services and certain other fixed route bus service. The District also shares in the costs of operating the Caltrain rail service. The District provided the local costs of extending the San Francisco Bay Area Rapid Transit District (BART) rail system into San Mateo County as well as the net cost to operate the extension. On April 27, 2007, the District and BART entered into a Settlement Agreement and Release of Claims to relieve the District of any and all responsibility for payment of past and future operating costs, as well as capital costs, associated with the SFO Extension.

B. Financial Reporting Entity

The District's reporting entity includes only the San Mateo County Transit District.

C. Basis of Accounting

The District is a single enterprise fund and maintains its records using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

D. Net Position

Net position is reported on the statement of net position in the following categories:

Net investment in capital assets - This category includes all capital assets, net of accumulated depreciation, reduced by related debt.

Restricted net position - This category represents assets that are legally restricted to be maintained into perpetuity.

Unrestricted net position - This category represents net position of the District that is not restricted for any project or other purpose.

E. Cash and Cash Equivalents

For purpose of the statement of cash flows, the District considers all highly liquid investments with an initial maturity of 90 days or less when purchased to be cash equivalents.

F. Investments

Current investments represent securities which mature within the next 12 months. Noncurrent investments represent the portion of the District's investment portfolio that is not expected to be liquidated during the next 12 months. Investments in nonparticipating interest-earning investment contracts (guaranteed investment contracts) are reported at cost and all other investments are at fair value. The fair value of investments is determined annually and is based on current market prices. Investments are regulated by state and statutes and could be further restricted by the Board of Directors.

G. Restricted Cash and Investments

Restricted cash and investments represent unused bond proceeds, bond reserves and other funds designated for financing the District's principal capital projects and related debt service. These funds are held as liquid investments or have been invested in U.S. Treasury notes, mutual funds or guaranteed investment contracts.

H. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for the same purpose (e.g. a construction project), the District's policy is to use all available restricted resources first before unrestricted resources are utilized.

I. Inventories

Inventories consist primarily of bus replacement parts and fuel and are stated at average cost. Inventories are charged to expense at the time that individual items are withdrawn from inventory.

J. Capital assets

Capital assets are stated at historical cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

Buses and bus equipment	2 to 12 Years
Other vehicles, shelters and bus stops, maintenance and other equipment, and furniture and fixtures	3 to 20 Years
Building	30 Years
Building improvements	2 to 5 Years

The District's policy is to capitalize all capital assets with a cost greater than $5,000 and a useful life of more than one year.

K. Construction in progress

Construction in progress consists of the following projects at June 30 (in thousands):

	2015	2014
Information technology support	$ 20,136	$ 13,220
Bus communication system	10,511	6,185
Transit-oriented development	1,083	586
Administration building improvement	1,226	643
Bus fleet improvements	1,552	154
Other	795	536
Total Construction in Progress	$ 35,303	$ 21,324

L. State and Local Operating Assistance

State and local operating assistance are recorded as revenue upon approval by the granting agencies. The District serves as the cash conduit for State Transit Assistance received on behalf of the Joint Powers Board (see Note 8) and does not recognize revenues or expenses associated with this agency function.

M. Bond Issuance Costs

Bond issuance costs are expensed upon the issuance of related debt. Bond discounts and premiums are amortized over the life of the bonds.

N. Arbitrage

Arbitrage is reviewed on an annual basis and the corresponding liability is accrued accordingly.

O. Compensated Absences

Employees accrue compensated absence time by reason of tenure at annual rates ranging from 160 to 312 hours per year. Employees are allowed to accumulate from 800 hours up to 1,440 hours of compensated absence time, depending upon the number of years of service. In fiscal years ending June 30, 2015 and 2014, employees of the District accrued and used balances of compensated absences in the amount of $5,632,868 and $5,498,058 respectively and in fiscal years ending June 30, 2015 and 2014, employees of the District used 5,633,000 and 5,498,000, respectively. At June 30, 2015 and 2014, accrued compensated absences for all District employees amounted to $8,236,000 and $7,701,000, respectively. The current portion of the compensated absences liability is reflected as a current liability in the statement of net position and is expected to be used within one year. Compensated absences as of June 30, are included on the statement of net position.

The changes in compensated absences were as follows for fiscal year ended June 30 (in thousands):

	2015	2014
Beginning Balance	$ 7,701	$ 7,715
Additions	6,168	5,484
Payments	(5,633)	(5,498)
Ending Balance	8,236	7,701
Current Portion	5,813	6,829
Non-current Portion	$ 2,423	$ 872

P. Capital Contributions

The District receives grants from the Federal Transit Administration (FTA), State, and local transportation funds for the acquisition of buses and other equipment and improvements. Capital contributions are recorded as revenues and the cost of the related assets are included in property and equipment. Depreciation on assets acquired with capital grant funds is included in the statement of revenues, expenses and changes in net position.

Capital contributions for the years ended June 30 were as follows (in thousands):

	2015	2014
Federal grants	$ 14,736	$ 16,739
State grant (Prop 1B)	5,248	5,580
Local assistance - sales tax	13,377	10,962
Total	$ 33,361	$ 33,281

Q. Operating and Nonoperating Revenues and Expenses

The District distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from directly providing services in connection with the District’s principal operations of bus transit services. These revenues are primarily passenger fares. Operating expenses include cost of sales and services, administrative expenses, contracted services and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

R. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the District’s California Public Employees’ Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

S. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

T. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position also reports deferred outflows of resources and deferred inflows of resources. This separate element represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The District reports deferred outflows from pension activities and bond refunding.

In addition to liabilities, the statement of net position also reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows from pension activities.

U. New Accounting Pronouncements

GASB Statement No. 68 – In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The District implemented the provisions of this Statement as of July 1, 2014.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to improve accounting and financial reporting by State and local governments for government combinations and disposals of government operations. The Statement provides authoritative guidance on a variety of government combinations including mergers, acquisitions, and transfers of operations. This Statement is effective for the fiscal year ended June 30, 2015. This Statement did not impact the District's June 30, 2015 financial statements.

GASB Statement No. 71 - In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB 68*. The objective of this Statement is to address an issue regarding the application of the transition provisions of Statement 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The District implemented the provisions of this Statement as of July 1, 2014.

GASB Statement No. 72 - In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements related to fiscal years beginning after June 15, 2015.

GASB Statement No. 73 - In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The requirements of this Statement are effective for financial statements related to fiscal years beginning after June 15, 2016.

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The requirements of this Statement are effective for financial statements related to fiscal years beginning after June 15, 2016.

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, Accounting *and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The requirements of this Statement are effective for financial statements related to fiscal years beginning after June 15, 2017.

GASB Statement No. 76 – In June 2015, GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this statement is to reduce the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55. The Statement is effective for the periods beginning after June 15, 2015, or the 2015-2016 fiscal year.

GASB Statement No. 77 – In August 2015, GASB issued Statement No 77, Tax Abatement Disclosures. The Statement requires state and local governments to disclose information about tax abatement agreements. The Statement is effective for the periods beginning after December 15, 2015, or the 2016-2017 fiscal year.

NOTE 2 – CASH AND INVESTMENTS

Policies

The District's investments are carried at fair value, as required by GAAP. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end and includes the effects of these adjustments as a component of interest expense for that fiscal year. The District is in compliance with the Board approved Investment Policy and California Government Code requirements.

Classification

The District's cash and investments as of June 30 are classified in the statement of net position as follows (in thousands):

	2015	2014
Cash and cash equivalents	$ 75,479	$ 56,044
Current investments	37,812	9,659
Current restricted investments	6,096	2,038
Noncurrent investments	58,485	86,078
Noncurrent restricted investments	19,618	22,242
Total	$ 197,490	$ 176,061

The District's cash and investments consist of the following at June 30 (in thousands):

	2015	2014
Cash on hand	$ 19	$ 19
Deposits with financial institutions	25,406	20,503
Investments	172,065	155,539
Total	$ 197,490	$ 176,061

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code or the District's investment policy, where more restrictive. The table also identifies certain provisions of the California Government Code or the District's investment policy, where more restrictive, that addresses interest rate risk, credit risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the Districts investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	11 years	None	None
U.S. Agency Securities	11 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-through Securities	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Investment Trust of California (CalTRUST)	N/A	None	None

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt covenants, rather than the general provisions of the California Government Code or the District’s investment policy. These provisions allow for the acquisition of investment agreements, repurchase agreements and U.S. Treasury Securities with maturities of up to 30 years.

Interest Rate Risk

Interest rate risk is the risk incurred when market interest rates adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. With respect to this metric, the District’s policies are as follows:

- No investment shall be made in securities with a remaining useful life exceeding 11 years.
- No more than 25 percent of the portfolio shall be invested in securities with a remaining life of 5 to 11 years.
- The weighted average maturity of the portfolio shall not exceed 5 years.

The District's weighted average maturity of its investment portfolio at June 30, 2015 was as follows:

Investment Type	Amount (in thousands)	Weighted Average Maturity (in years)
U.S. Agency Securities	$ 45,312	0.65
U.S. Government Securities	75,210	1.54
Local Agency Investment Fund (LAIF)	50,054	0.65
Held by bond trustee:		
Money Market Mutual Funds	1,489	0.00
Total	$ 172,065	
Portfolio Weighted Average Maturity		1.03

The District's weighted average maturity of its investment portfolio at June 30, 2014 was as follows:

Investment Type	Amount (in thousands)	Weighted Average Maturity (in years)
U.S. Agency Securities	$ 43,728	2.28
U.S. Government Securities	71,961	1.48
Local Agency Investment Fund (LAIF)	35,523	2.70
Held by bond trustee:		
Money Market Mutual Funds	2,046	0.00
U.S. Agency Securities	2,281	0.00
Total	$ 155,539	
Portfolio Weighted Average Maturity		1.98

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30 for each investment type.

Investment Type	Amount (in thousands)	Rating as of June 30, 2015 AAA	AA	Not Rated
U.S. Agency Securities	$ 45,312	$ -	$ 45,312	$ -
U.S. Government Securities	75,210	-	75,210	-
Local Agency Investment Fund (LAIF)	50,054	-	-	50,054
Held by bond trustee:				
Money Market Mutual Funds	1,489	-	-	1,489
Total	$ 172,065	$ -	$ 120,522	$ 51,543

Investment Type	Amount (in thousands)	Rating as of June 30, 2014 AAA	AA	Not Rated
U.S. Agency Securities	$ 43,728	$ -	$ 43,728	$ -
U.S. Government Securities	71,961	71,961	-	-
Local Agency Investment Fund (LAIF)	35,523	-	-	35,523
Held by bond trustee:				
Money Market Mutual Funds	2,046	-	-	2,046
U.S. Agency Securities	2,281	-	2,281	-
Total	$ 155,539	$ 71,961	$ 46,009	$ 37,569

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5 percent or more of the District's total investments are as follows at June 30 (in thousands):

Issuer	Investment Type	2015	2014
Federal Home Loan Mortgage Corp (FHLMC)	U.S. Agency Securities	$ 13,509	$ 23,149
Federal National Mortgage Association (FNNIE)	U.S. Agency Securities	20,020	-
Federal National Mortgage Association (FNMA)	U.S. Agency Securities	10,806	50,419
Total		$ 44,335	$ 73,568

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that in the event of the failure of the counter party (e.g. broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in possession of another party.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110 percent of the District's cash on deposit, or first trust deed mortgage notes with a market value of 150 percent of the deposit, as collateral for these deposits. Under California law, this collateral is held in a separate investment pool by another institution in the District's name and places the District ahead of general creditors of the institution.

The District invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the District employs the Trust Department of a bank or trustee as the custodian of certain District managed investments, regardless of their form.

As of June 30, 2015 and 2014, the District had $30,336,000 and $20,501,000, respectively, of deposits with financial institutions recorded on the financial statements. Additionally, the District is required to hold certain capital fund amounts in interest bearing accounts. These balances are in excess of the federal depository insurance limits, and are collateralized with securities held by the pledging financial institution. The amount of deposits exposed to custodial credit risk at June 30, 2015 and 2014 was $29,836,000 and $20,002,000, respectively.

Investment in State Investment Pool

The District is a voluntary participant in the LAIF which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. LAIF is not registered with the Securities and Exchange Commission. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

As of June 30, 2015 and June 30, 2014, the District had a contractual withdrawal value in LAIF of $50,035,000 and $35,512,000, respectively. The total value invested by all public agencies in LAIF at June 30, 2015 and 2014 was $69,641,162,000 and $64,896,336,000, respectively.

NOTE 3 – OPERATING ASSISTANCE

The District receives operating assistance from various federal, state and local sources. The District receives a half-cent transaction and use tax levied on all taxable sales in San Mateo County, which is collected and administered by the State Board of Equalization. Transportation Development Act funds are received from San Mateo County to meet, in part, operating and capital requirements based on annual claims filed by the District and approved by the Metropolitan Transportation Commission (MTC). Federal funds are distributed to the District by the Federal Transportation Administration (FTA) after approval by MTC. The District also receives TA funds as a result of the approval and re-authorization of Measure A (half-cent county sales tax) for funding of transportation projects.

Operating assistance is summarized as follows for the years ended June 30 (in thousands):

	2015	2014
Transaction and use tax	67,916	$ 66,644
Local transportation funds	36,512	36,797
Federal operating and planning assistance	7,182	7,917
State transit assistance	3,087	5,357
Measure A funds - local	7,562	8,105
Measure M funds - local	1,400	1,400
AB434 and other	438	566
Total	$ 124,097	$ 126,786

NOTE 4 – FEDERAL CAPITAL GRANTS

The District has nine grant contracts with the FTA that provide federal funds for the acquisition of buses and other equipment and improvements. Capital additions at June 30, 2015 and 2014 applicable to these projects are $22,113,154 and $24,171,857, respectively. The related federal participation is $14,736,217 and $16,738,993, respectively.

The District has recorded receivables of $321,294 and $195,997, at June 30, 2015 and 2014, respectively, for qualifying capital project expenditures under FTA grant contracts in excess of reimbursements.

Under the terms of the grants, contributions for equipment sold or retired during its useful life are refundable to the federal government in proportion to the related capital grant funds received, unless the net book value or proceeds from sale is under grant-prescribed limits.

NOTE 5 – BAY AREA RAPID TRANSIT (BART) DISTRICT EXTENSION AGREEMENTS

The District entered into a comprehensive agreement with the San Francisco Bay Area Rapid Transit (BART) on March 1, 1990. The purpose was to extend BART from the Daly City station to Caltrain and the San Francisco International airport via new stations at Colma, South San Francisco, San Bruno, Millbrae, and the San Francisco International Airport (SFO Extension).

The agreement called for two projects. The first was the Colma Project, approximately 1.6 miles from the existing Daly City station to the new Colma station. The second was the SFO Extension, which included construction of 10.1 miles of additional track, four additional stations and related facilities.

Under the terms of the agreement, BART agreed to construct and operate the SFO Extension Project. The District was responsible for the net operating costs arising from operation and maintenance expenses of the Colma and SFO Extension. The Agreement also provided for a shared allocation of capital costs.

The initial comprehensive agreement provided that the District would pay 25 percent of the capital costs. On June 19, 1996, the comprehensive agreement was amended to shift the District's financial contribution from 25 percent to a capped amount of $197 million, of which $185 million was scheduled to be paid out of net revenues derived exclusively from the SFO Extension net operation surplus, the same funding source for the $133 million that the

District agreed to contribute in recognition of BART's prior infrastructure investments as full payment for the District's remaining project costs and capital contribution.

Pursuant to the fourth amendment to the comprehensive agreement entered into on August 31, 1999, the District loaned $72 million to fund the SFO Extension Project as a result of higher than anticipated construction costs. In addition, the MTC provided a $76.5 million loan, and BART provided a $50 million loan to finance the SFO Extension project.

BART to SFO

On June 22, 2003, the SFO Extension opened, providing service to South San Francisco, San Bruno, San Francisco International and Millbrae stations. Pursuant to the comprehensive agreement and amendments, operating deficits (or surpluses) of the SFO Extension are borne by (or benefit) the District.

In May 2004, the District and BART further amended the terms of the comprehensive agreement to revise the District's commitment for operating deficits of the SFO Extension (Fiscal Year 2005 Agreement).

As a result of disputes that arose regarding the interpretation of the comprehensive agreement, on April 27, 2007, the District and BART entered into a Settlement Agreement and Release of Claims (Settlement Agreement). The Settlement Agreement provides for a permanent resolution of the aforementioned disputes. The following terms are included in the Settlement Agreement:

- Terminated the Comprehensive Agreement and the Fiscal Year 2005 Agreement;
- Relieved the District of any and all responsibility for payment of past and future operating costs, as well as capital costs, associated with the SFO Extension with the exception of $5.0 million of operating costs incurred during the Fiscal Year 2007;
- Required BART to repay the District $5,600,517 for right of way acquisition costs previously advanced by the District for right of way acquisition and other SFO Extension costs and required the District to transfer SFO Extension property to BART upon full payment of said sum by BART;
- BART made the agreed upon payment and the property will be transferred upon preparation of transfer documents by BART;

- Required the District to pay $221,341 to BART for costs related to construction of a Bike Path;

- Released BART from its obligation to repay amounts loaned by the District pursuant to the August 31, 1999 amendment to the Comprehensive Agreement; and

- Required the District to remain responsible for providing paratransit services in the SFO Extension Project corridor.

In relation to this agreement, the District also is affected by a three-party agreement entered into in February 2007 between MTC, BART, and the District. In this agreement, the District has assigned $32 million to BART from the State Infrastructure bonds authorized by voter approved passage of Proposition 1B on November 7, 2006 and possibly in part from “spillover” funds allocated by MTC.

Capital Contribution to BART

Amounts capitalized as “Capital Contribution to BART” are presented below (in thousands). These capital contributions were being amortized over a period of 15 years. Due to a change in accounting estimates in Fiscal Year 2007, the amortization on these capital contributions were prospectively amended to amortize the book value over what remains in the useful life of 30 years.

	2015	2014
BART system contribution	$ 100,000	$ 100,000
Colma extension - local share	52,352	52,352
South of Colma extension - local share	181,534	181,534
SFO BART- local share	76,396	76,396
	410,282	410,282
Less: Accumulated amortization	(308,628)	(300,943)
Total	$ 101,654	$ 109,339

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows (in thousands):

	Balance at July 1, 2014	Additions	Deletions	Balance at June 30, 2015
Depreciable Capital Assets				
Buses and bus equipment	$ 149,751	$ 17,791	$ (270)	$ 167,272
Buildings and building improvements	64,815	319	(296)	64,838
Maintenance and other equipment	5,822	1,008	(307)	6,523
Furniture and fixtures	20,272	316	(932)	19,656
Shelters and bus stop signs	579	13	-	592
Other vehicles	2,226	-	(67)	2,159
Total Depreciable Capital Assets	243,465	19,447	(1,872)	261,040
Less Accumulated Depreciation for:				
Buses and bus equipment	(86,158)	(11,686)	270	(97,574)
Buildings and building improvements	(49,387)	(2,510)	296	(51,601)
Maintenance and other equipment	(4,015)	(1,007)	307	(4,715)
Furniture and fixtures	(16,765)	(1,408)	932	(17,241)
Shelters and bus stop signs	(558)	(17)	-	(575)
Other vehicles	(1,711)	(232)	67	(1,876)
Total Accumulated Depreciation	(158,594)	(16,860)	1,872	(173,582)
Nondepreciable Capital Assets				
Land and right of way	53,855	-	-	53,855
Construction in progress	21,324	33,425	(19,446)	35,303
Total Nondepreciable Capital Assets	75,179	33,425	(19,446)	89,158
Capital Assets, Net	$ 160,050	$ 36,012	$ (19,446)	$ 176,616

Capital asset activity for the fiscal year ended June 30, 2014, was as follows (in thousands):

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
Depreciable Capital Assets				
Buses and bus equipment	$ 135,297	$ 19,640	$ (5,186)	$ 149,751
Buildings and building improvements	71,935	1,516	(8,636)	64,815
Maintenance and other equipment	9,470	1,061	(4,709)	5,822
Furniture and fixtures	23,584	1,166	(4,478)	20,272
Shelters and bus stop signs	3,178	23	(2,622)	579
Other vehicles	2,183	81	(38)	2,226
Total Depreciable Capital Assets	245,647	23,487	(25,669)	243,465
Less Accumulated Depreciation for:				
Buses and bus equipment	(80,138)	(11,206)	5,186	(86,158)
Buildings and building improvements	(55,168)	(2,855)	8,636	(49,387)
Maintenance and other equipment	(7,740)	(984)	4,709	(4,015)
Furniture and fixtures	(17,083)	(4,160)	4,478	(16,765)
Shelters and bus stop signs	(3,177)	(3)	2,622	(558)
Other vehicles	(1,457)	(292)	38	(1,711)
Total Accumulated Depreciation	(164,763)	(19,500)	25,669	(158,594)
Nondepreciable Capital Assets				
Land and right of way	53,855	-	-	53,855
Construction in progress	11,562	33,249	(23,487)	21,324
Total Nondepreciable Capital Assets	65,417	33,249	(23,487)	75,179
Capital Assets, Net	$ 146,301	$ 37,236	$ (23,487)	$ 160,050

NOTE 7 – LAND AND RIGHT OF WAY

Dumbarton Land and Right of Way

In November 1994, the San Mateo County Transportation Authority (Transportation Authority) contributed the Dumbarton land and right of way to the District. The basis of this property is $7,134,000. In December 2001, the Transportation Authority contributed the Redwood City Wye land and right of way, adjacent to the Dumbarton parcels, to the District. The basis of this property is $7,103,000.

San Carlos Land and Right of Way

On December 27, 2007, the District acquired four acres of property located in San Carlos along the Caltrain right of way from the Transportation Authority for a promissory note of $4,343,404. The fair market value for the land, accounting for the risk associated with hazardous materials, is $7,739,455. The District recognized the difference of the fair market value and the promissory note as a local grant contribution from the Transportation Authority. Originally, the property had been acquired by the Transportation Authority for the purpose of constructing a railroad grade separation structure. Having completed the grade separation, the Transportation Authority Board of Directors agreed to sell the property to the District. Under the terms of the transaction, the District is permitted to pay the purchase price over time subject to the payment of interest prospectively at the current rate of return earned by the Transportation Authority on its investment portfolio until the principal is paid in full before December 1, 2033.

Caltrain Right of Way

On October 31, 2008, all three of the JPB member agencies signed an agreement with the District to fully resolve all outstanding financial issues related to the acquisition of the right of way. Both City and County of San Francisco (CCSF) and Santa Clara Valley Transportation Authority (VTA) have agreed to reimburse the District using gasoline “spillover” funds. The population based “spillover” funds are to be paid directly to the District from the Metropolitan Transportation Commission (MTC), and revenue based “spillover” funds are to be paid to the District from the San Francisco Municipal Transportation Agency (SFMTA) and VTA. The parties agreed to make best efforts to allocate the funds in full within two to four years and, in no event, later than 10 years. As of June 30, 2015, the District has received a total of $33.5 million from “spillover”, Federal Transportation Improvement Program funds as well as local VTA and SFMTA funds. In consideration for the District’s reduction in the interest rate applied to the District’s advance of funds to purchase the right of way, the parties amended the Joint Powers Agreement (Agreement) to designate the District as the managing agency of the Peninsula Corridor Joint Powers Board. The Agreement further provides that the District “will serve in that capacity unless and until it no longer chooses to do so.”

Out of the total $53.3 million per this agreement, $33.5 million has been collected. The District still has a commitment from MTC on behalf of CCSF and VTA for the remaining amount of $19.8 million. As the funding sources change, the multi-party agreement may need to be modified to ensure the District is repaid in full for the right of way. Ultimately, when all payments have been received by the District, the District will reconvey to the JPB all of its interests in the title to the right of way.

NOTE 8 – PENINSULA CORRIDOR JOINT POWERS BOARD (JPB)

The District is a member in the Peninsula Corridor Joint Powers Board (JPB) along with the VTA and the CCSF. The JPB is governed by a separate board comprised of nine members – three from each member agency. The JPB was established in 1988 to keep Caltrain operating after the state’s responsibility ended. The JPB was formed to plan, administer and operate the Caltrain service. The JPB began operating the Caltrain service on July 1, 1992. Prior to July 1, 1992, such rail service was operated by the California Department of Transportation (Caltrans) and Southern Pacific Railroad.

During Fiscal Year 1992, the District advanced CCSF's and VTA's initial contribution in the amount of $8,294,000 and $34,652,000, respectively, to facilitate completion of the acquisition of the rail corridor right of way between San Francisco and San Jose and perpetual trackage rights between San Jose and Gilroy. The District and the JPB are tenants in common to all right of way property located in San Mateo County until the District receives the full reimbursement of the initial contribution plus interest from CCSF and VTA. CCSF and VTA agreed to use their best efforts individually and collectively to advocate for and obtain grants from non-local sources to reimburse the District for their additional contribution.

The District has been appointed as managing agency for JPB, providing administrative personnel and facilities. The District is responsible for 31.57 percent of the mainline net operating costs and the administrative expenses of the JPB for the years ended June 30, 2015 and 2014. The District recognizes the entire amount of contributions paid to the JPB as an expense in the year disbursed. During the years ended June 30, 2015 and 2014, the District contributed $6,260,000 and $5,440,000 respectively, to the JPB for operating needs.

The District has total receivables from the JPB of $7,209,688 and $4,207,055 at June 30, 2015 and 2014 respectively, for advances of staff support and operating costs.

The following is summary financial information (not included in the District's financial statements) for the JPB as of June 30 (in thousands):

	2015	2014
Total Assets	$ 1,452,214	$ 1,389,395
Total Liabilities	(135,238)	(112,394)
Total Net Position	$ 1,316,976	$ 1,277,001
Operating Revenues	$ 90,762	$ 82,145
Operating Expenses	(195,410)	(189,212)
Nonoperating Revenues, Net	29,398	34,380
Net Before Capital Contributions	(75,250)	(72,687)
Capital Contributions	115,225	111,349
Increase in Net Position	$ 39,975	$ 38,662

Complete financial statements for the JPB can be obtained from the Peninsula Corridor Joint Powers Board at 1250 San Carlos Ave., San Carlos, California 94070.

NOTE 9 – RELATED PARTY TRANSACTIONS

Note Receivable from Officer

In 2001, the District entered into an employment agreement with an officer of the District, which included an advance for personal housing loan in the principal amount of $1,200,000. The loan was documented in the form of a promissory note secured by a deed of trust on the Property. The note bears interest at 4 percent and interest is payable monthly with a maturity at September 15, 2030. In November 2001, the District amended the terms of the note to a stated interest rate of 2.5 percent (effective rate of 2.08 percent) calculated only on the first $1 million of the note. In December 2002, the District modified the housing note by forgiving $40,000 of the loan principal. The District also introduced a provision to absorb any losses on the home, should the fair market value, at note termination, be less than the principal then outstanding. In fiscal year 2014, the District forgave $40,000 of principal on the housing note. As of June 30, 2014, the outstanding principal balance on the aforementioned loan was $760,000. During fiscal year 2015, the entirety of the outstanding principal balance of the housing note in the amount of $760,000 was paid back to the District. A deed of full reconveyance was recorded with the county clerk in San Mateo County on July 23, 2014.

San Mateo County Transportation Authority

The Transportation Authority was formed in June 1988 as a result of the approval of Measure A (half-cent county sales tax and Transportation Expenditure Plan) by the voters of San Mateo County pursuant to the Bay Area County Traffic and Transportation Funding Act. The Transportation Authority was to be responsible for the administration of funds to be used for transportation projects collected over a period of 20 years by the half-cent county sales tax. The District was designated as the entity responsible for overall management of the Transportation Authority. In November 2004, the voters reauthorized the Transportation Authority and its publicly developed expenditure plan for an additional 25 years beyond the original expiration date of December 31, 2008. The Transportation Authority will continue to fund vital transportation improvements for the benefit of San Mateo County residents through 2033.

The District provides administrative personnel and facilities. Complete financial statements for the Transportation Authority can be obtained from the San Mateo County Transportation Authority at 1250 San Carlos Ave., San Carlos, California, 94070.

The Transportation Authority has funded various real estate acquisitions, which are necessary for transportation projects. Generally, the Transportation Authority has chosen not to hold title to real estate. The District holds title to properties, both as an accommodation to Transportation Authority as well as for use in transit. The District has recorded these parcels as Capital Assets.

NOTE 10 – OTHER NONCURRENT LIABILITIES

On December 27, 2007, the District acquired from the Transportation Authority four acres of property located in San Carlos along the Caltrain right of way for a promissory note of $4,343,404, which is included in other noncurrent liabilities on the statement of net position. The District also has an accrued interest liability of $767,471 and $726,156, respectively, as of June 30, 2015 and 2014 for the promissory note. See *Note 7 –Land* and Right of Way.

NOTE 11 – LONG TERM DEBT

Composition and Changes

The District generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The District's debt issues and transactions are summarized below and discussed in detail thereafter.

Long-term debt activity for the year ended June 30, 2015 is as follows (in thousands):

	Original Issue Amount	Balance at July 1, 2014	Additions	Deletions	Balance at June 30, 2015	Current Balance at June 30, 2015
Limited Tax Bonds						
1993 Series A Bonds 5.00-8.00%, due 6/01/20	$ 150,555	$ 56,420	$ -	$ (56,420)	$ -	$ -
2005 Series A Bonds 3.00-5.00%, due 6/01/34	218,990	218,990	-	(218,990)	-	-
2009 Series A Bonds 4.375-5.00%, due 6/01/19	19,040	10,505	-	(10,505)	-	-
2015 Series A Refunding Bonds 3.00%-5.00%, due 6/1/2034	210,280	-	210,280	-	210,280	-
2015 Series B Refunding Bonds 0.41%-1.953%, due 6/1/2019	39,965	-	39,965	-	39,965	11,610
Total debt		285,915	250,245	(285,915)	250,245	$ 11,610
Unamortized bond premium		4,568	34,504	(5,189)	33,883	
Unamortized bond discount		(130)	-	130	-	
Current portion		(10,130)	-	10,130	-	
Net bonds payable		$ 280,223	$ 284,749	$ (280,844)	$ 284,128	

Long-term debt activity for the year ended June 30, 2014 is as follows (in thousands):

	Original Issue Amount	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014	Current Balance at June 30, 2014
Limited Tax Bonds						
1993 Series A Bonds 5.00-8.00%, due 6/01/20	$ 150,555	$ 64,225	$ -	$ (7,805)	$ 56,420	$ 8,215
2005 Series A Bonds 3.00-5.00%, due 6/01/34	218,990	218,990	-	-	218,990	-
2009 Series A Bonds 4.375-5.00%, due 6/01/19	19,040	12,355	-	(1,850)	10,505	1,915
Total debt		295,570	-	(9,655)	285,915	$ 10,130
Unamortized bond premium		4,939	-	(371)	4,568	
Unamortized bond discount		(152)	-	22	(130)	
Current portion		(9,655)	-	-	(10,130)	
Net bonds payable		$ 290,702	$ -	$ (10,004)	$ 280,223	

Description of the District's Long-Term Debt Issues

1993 Series A Bonds – In June 1993, the District issued $150,555,000 of 1993 Series A Limited Tax Bonds (1993 Series A Bonds) to refund a portion of the 1990 Series A Bonds (pursuant to a crossover refunding) and to reimburse the District for prior capital project expenditures. The 1993 Series A Bonds, with interest rates ranging from 5.0 to 8.0 percent, were limited obligations of the District, were be payable from, and secured by, a pledge of sales tax revenues received by the District on and after June 1993. $104,939,000 of the proceeds from the 1993 Series A Bonds were used to purchase U.S. government securities which were placed into an irrevocable trust to be used to advance refund the 1990 Series A Bonds at a redemption price of 102 percent on June 1, 1998 (crossover date). The 1993 Series A Bonds were refunded and legally defeased in the current year.

2005 Series A Refunding Bonds – In October 2005, the District issued $218,990,000 in 2005 Series A Bonds to advance refund and legally defease the outstanding 1997, 1998 and 1999 Series A Bonds by placing the net proceeds of $220,888,820 (including $5,190,525 additional bond premium less $3,291,703 in underwriting fees, insurance and other issuance costs) in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old Series A Bonds which have been removed from the District's financial statements.

Both the 1999 and 1998 Series A Bonds were fully redeemed on June 1, 2010 and June 1, 2009, respectively. The 1997 Series A bonds will be escrowed to maturity. The 2005 Series A Refunding Bonds were refunded and legally defeased in the current year.

2009 Series A Refunding Bonds – During Fiscal Year 2009, the District refunded its California Transit Finance Authority (CTFA) variable rate 1998 Junior Lien Sales Tax Revenue Bonds (CTFA Bonds) due to volatility in the financial markets to limit the District's exposure to changes in interest rates. In December 2008, the District purchased $20,780,000 of its own outstanding CTFA bonds; $18,364,368 of funding came from the District and the balance from CTFA bond principal and reserve funds held by the trustee.

On March 4, 2009, the District issued $19,040,000 in fixed rate 2009 Series A Bonds to reimburse the District for the December 2008 purchase of the CTFA bonds. Net proceeds were $20,420,709 including the bond premium less issuance costs. The refinancing of the CTFA Bonds decreased the length of the existing debt service obligations by nine years, from 2028 to 2019. The 2009 Series A Refunding Bonds were refunded and legally defeased in the current year.

2015 Series A and Series B Refunding Bonds – During Fiscal Year 2015, the District issued $210,280,000 of the Limited Tax Bonds, Refunding 2015 Series A (the 2015 Series A Bonds) and $39,965,000 of the Limited Tax Bonds, Refunding 2015 Series B (Federally Taxable) (the 2015 Series B Bonds, and, together with the 2015 Series A Bonds, the 2015 Series Bonds) to advance refund the 1993 Series A Bonds, the 2005 Series A Bonds, and the 2009 Series A Bonds, all of which were issued to assist in the financing or refinancing of facilities necessary or convenient for the provision of transit services.

The 2015 Series Bonds were issued pursuant to an Indenture, dated as of April 1, 2015, as supplemented and amended from time to time pursuant to its terms (the Indenture), between the District and U.S. Bank National Association, as trustee (the Trustee).

The District issued the 2015 Series Bonds in order to advance refund all of its prior debt secured by the Sales Tax, comprised of $56,420,000 aggregate principal amount of the 1993 Series A Bonds, $218,990,000 aggregate principal amount of the 2005 Series A Bonds and $10,505,000 aggregate principal amount of the 2009 Series A Bonds. The proceeds of the 2015 Series Bonds, together with funds held on deposit under the 1990 Indenture, to refund and legally defease all of the 1993 Series A Bonds, the 2005 Series A Bonds and the 2009 Series A Bonds (hereinafter collectively referred to as the Prior Bonds). In connection with the refunding and defeasance of the Prior Bonds, the District entered into an Escrow Agreement, dated as of April 1, 2015 (the Escrow Agreement), with U.S. Bank National Association, as trustee and escrow agent (the Escrow Agent), pursuant to which the Escrow Agent established an escrow funds (each, an Escrow Fund) to provide for the payment of the principal of and interest on the Prior Bonds to their date of redemption or maturity, as applicable. Amounts deposited in each Escrow Fund are expected to be invested in direct obligations of, or obligations which are unconditionally guaranteed by, the United States of America (the Escrow Securities), the principal of and interest on which, together with any cash held uninvested in such Escrow Fund, will be sufficient to pay the principal of and interest on the Prior Bonds secured by such Escrow Fund to the date of their redemption or maturity, as applicable. Amounts deposited in each Escrow Fund are pledged to the payment of the Prior Bonds secured by such Escrow Fund and will not be available for the payment of any bonds other than the Prior Bonds secured by such Escrow Fund.

Interest on the 2015 Series Bonds is payable on June 1, 2015 and semiannually thereafter on December 1 and June 1 of each year. The 2015 Series Bonds are subject to optional redemption prior to their respective stated maturities. Principal on the 2015 Series A is payable on June 1, 2019 and annually thereafter on June 1 of each year through 2034. Principal on the 2015 Series B is payable on June 1, 2016 and annually thereafter on June 1 of each year through 2019. As of June 30, 2015, the amount of interest paid to the trustee is $1,059,318.

The 2015 Refunding Bonds were used to purchase U.S. Government Securities and were placed in an irrevocable trust, in an amount necessary to satisfy principal and interest payments on the 1993 Series A Bonds and 2009 Series A Refunding Bonds. The 2015 Series A Bond issuance proceeds of $243,737,091 and 2015 Series B Bond issuance proceeds of $39,771,902 were placed with the Trustee (Escrow Agent).

The difference in cash flows from the refunding is favorable over the life of the 2015 Series Bonds in the amount of $56 million.

The 2015 Series Bonds are special obligations of the District payable from the receipts of a sales tax to assist in the financing or refinancing of facilities necessary or convenient for the provision of transit services. The amount and terms of pledged revenue is the outstanding secured debt service as noted on the debt service requirement schedule in the following paragraph. The amount of pledged revenues recognized during fiscal year 2015 related to the principal and interest requirements for the secured debt were $81 million.

The amount of economic gain that resulted from the 2015 refunding bonds is reflected as $65,208, the NPV of the favorable cash flows over the life of the 2015 Series Bonds less the issuance expense of $717,044.

Debt Service Requirements to Maturity

Debt Service requirements for as of June 30, 2015 are as follows (in thousands):

Fiscal Year Ending June 30,	2015 Series A Principal	2015 Series A Interest	2015 Series A Total	2015 Series B Principal	2015 Series B Interest	2015 Series B Total
2016	$ -	$ 9,617	$ 9,617	$ 11,610	$ 418	$ 12,028
2017	-	9,617	9,617	11,660	371	12,031
2018	-	9,617	9,617	11,765	263	12,028
2019	7,000	9,617	16,617	4,930	96	5,026
2020	10,060	9,337	19,397	-	-	-
2021-2025	56,605	39,343	95,948	-	-	-
2026-2030	71,890	24,061	95,951	-	-	-
2031-2034	64,725	5,944	70,669	-	-	-
Total debt service	$ 210,280	$ 117,156	$ 327,436	$ 39,965	$ 1,148	$ 41,113

NOTE 12 – PENSION PLAN

Plan Description

General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the District's defined benefit pension plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The plan provisions and benefits in effect at June 30, 2015, are summarized as follows:

Benefit formula	2.0% at 55
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50 - 55
Required employee contribution rates	6.834%
Required employer contribution rates	8.983%

Employees Covered – At June 30, 2015, the following employees were covered by the plan:

Inactive employees (or their beneficiaries) currently receiving benefits	416
Inactive employees entitled to but not yet receiving benefits	361
Active employees	674
Total number of employees covered by the benefit terms	1,451

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Net Pension Liability

The District's net pension liability for is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	2.75%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.50% (2)
Mortality	(3)
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds (3)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) Varies by Entry-Age and Service.
(2) Net of pension plan investment and administrative expenses, including inflation.
(3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Stretegic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.3%	5.7%
Global Fixed Income	19.0%	1.0%	2.4%
Inflation Sensitive	6.0%	0.5%	3.4%
Private Equity	12.0%	6.8%	7.0%
Real Estate	11.0%	4.5%	5.1%
Infrastructure and Forestland	3.0%	4.5%	5.1%
Liquidity	2.0%	-0.6%	-1.1%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

Changes in the Net Pension Liability

The changes in the Net Pension Liability follow (in thousands):

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2014	$ 253,892	$ 206,006	$ 47,886
Changes recognized for the measurement period			
Service cost	7,062	-	7,062
Interest on the total pension liability	18,965	-	18,965
Changes of assumptions			
Contributions from the employer	-	4,023	(4,023)
Contributions from employees	-	3,312	(3,312)
Net investment income	-	35,934	(35,934)
Employee contributions	(9,115)	(9,115)	-
Net changes	16,912	34,154	(17,242)
Balance at June 30, 2015	$ 270,804	$ 240,160	$ 30,644

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability calculated using the plan discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate (in thousands):

	1% Decrease	Current	1% Increase
Discount Rate	6.50%	7.50%	8.50%
Net Pension Liability	$64,891	$30,644	$1,880

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the District recognized pension expense of $3,232,165. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 4,192	$ -
Net differences between projected and actual earnings on plan investments	-	(16,451)
Total	$ 4,192	$ (16,451)

Deferred outflows of resources related to contributions subsequent to the measurement date is $4,191,955, which will be recognized as a reduction of the net pension liability and a component of pension expense in the year ended June 30, 2016.

Other amounts reported as deferred inflows of resources related to pensions will be recognized as a reduction to pension expense as follows (in thousands):

Year Ended June 30	
2016	$ 4,113
2017	4,113
2018	4,113
2019	4,112
	$ 16,451

NOTE 13 – POST-RETIREMENT HEALTH CARE BENEFITS

Plan Description

In August 1993, the District's Board of Directors adopted the San Mateo County Transit District Retiree Healthcare Plan (Plan). The Plan is an agent plan administered by the CalPERS system. The Plan provides post retirement medical care insurance to qualified retirees and their surviving spouses, those who have attained 50 years of age and have at least five years of District service. Benefit allowance provisions are established, and may be amended, through agreements and memorandums of understanding (MOU) between the District, its management employees and unions representing District employees. The benefit provides a lifetime allowance to eligible plan members and their lifetime beneficiaries.

The District participates in the California Employers' Retirement Benefit Trust (CERBT), an irrevocable trust established to fund postemployment healthcare benefits. The CERBT fund is an agent multiple employer plan that is established by CalPERS, and is managed by an appointed board not under the control of the District. This trust is not considered a component unit of the District and is excluded from these financial statements. The CERBT issues a publicly available annual financial report, which may be obtained from the CalPERS website, or by calling 888-225-7377.

Funding Policy

In April 2008, the District's Board of Directors adopted an Other Post Employment Benefit (OPEB) funding plan authorizing the establishment of an Internal Revenue Code (IRC) tax qualified trust which was established through the CalPERS California Employer's Retiree Benefit Trust (CERBT) in April 2009. The Plan also called for increasing amounts to be funded into the trust each year until the full Annual Required Contribution (ARC) can be funded on an annual basis. The District is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 8.0% of annual covered payroll.

Since January 1991, the District's contribution to the health care plan was based on prior year's retiree contribution plus 10 percent of active contribution based on the "unequal method" for all levels of coverage.

Effective January 2009, the District's medical plan changed in several ways due to the new union negotiated contract. The District established a PERS cafeteria plan which includes an employer contribution, an employee cafeteria benefit contribution and an Extended Illness Benefit. Employer contributions to the plan are based on the "equal method." The District's contribution towards medical premiums for Bay Area HMO's is 85 percent of the 2009 premiums for all coverage levels and is fixed at that rate. For active employees, the District contributes to the cafeteria benefit in an amount, that when added to the employer's contribution, will equal 90 percent of the PERS Bay Area HMO plan premiums. Annual increases to the Bay Area HMO plan premiums will be added to the employee's cafeteria benefit each year to equal the monthly premium. Eligible employees who elect not to participate in PERS medical can receive a monthly Cafeteria Plan benefit that may only be used to purchase the Cafeteria Plan Extended Illness Benefit. The Extended Illness Benefit may only be used by an employee who is on an approved leave of absence pursuant to FMLA, California's Family Right Act ("CFRA") or the Pregnancy Disability Act ("PDA") and has used all accrued paid time off.

The District established a retiree medical reimbursement trust for active employees to make tax exempt payroll contributions to help employees save for future retiree medical costs. These funds can only be used upon separation for internal revenue code deductible expenses (e.g. premium contributions and unreimbursed medical expenses).

In fiscal year ended June 30, 2015, the District contributed $1,600,000 to the established trust fund through CERBT. In addition, the District contributed $2,072,000 in pay-as-you-go amounts for the year ended June 30, 2015.

In fiscal year ended June 30, 2014, the District contributed $1,400,000 to the established trust fund through CERBT. In addition, the District contributed $1,891,000 in pay-as-you-go amounts for the year ended June 30, 2014.

Annual OPEB Cost and Net Obligation

The District's annual OPEB cost (expense) is calculated based on the ARC of the employer. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan (in thousands) for the fiscal years ended June 30, 2015 and June 30, 2014:

	For the year ended June 30, 2015	For the year ended June 30, 2014
Annual required contribution	$ 3,929	$ 3,878
Interest on net OPEB obligation	580	521
Adjustment to annual required contribution	(815)	(759)
Annual OPEB cost (expense)	3,694	3,640
Contribution made	(3,672)	(3,291)
Increase in net OPEB obligation	22	349
Net OPEB obligation, beginning of year	8,714	8,365
Net OPEB obligation, end of year	$ 8,736	$ 8,714

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows (in thousands):

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2015	$ 3,694	$ 3,672	99.4%	$ 8,736
2014	3,640	3,291	90.4%	8,714
2013	3,830	3,062	79.9%	8,365

Funded Status and Funding Progress

The funded status of the plan as of the June 30, 2013 most recent valuation date is as follows (in thousands):

Actuarial accrued liability (AAL)	$ 38,409
Actuarial value of plan assets	4,881
Unfunded actuarial accrued liability (UAAL)	$ 33,528
Funded ratio (actuarial value of plan assets/AAL)	12.7%
Covered payroll (active plan members)	$ 47,607
UAAL as a percentage of covered payroll	70.43%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress located in the required supplementary information section shows multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefit for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

In the June 30, 2013 actuarial valuation, the Entry Age Normal (EAN) cost method was used. The actuarial assumptions included a discount rate of 6.25 percent in 2014 and 6.75 percent in 2015 based on the Board approved funding plan which gradually increases funding in an IRC Irrevocable Trust and a three percent inflation rate. Healthcare cost trends rates ranged from an initial rate of 7.8 to 5.0 percent after 3 years. Cost of living adjustment for retirees is 3.25%. The actuarial value of the District's assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over 15 years. The UAAL is being amortized as a level percent of payroll on a closed basis. The remaining amortization period at June 30, 2015 was 23 years.

NOTE 14 – SELF-INSURANCE

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District is self-insured for a portion of its public liability, property damage and workers' compensation liability. As of June 30, 2015, coverage provided by self-insurance and excess coverage is generally as follows:

Type of Coverage	Self-Insurance (in Aggregate)	Excess Coverage (in Aggregate)
Public Liability and Property Damage	Up to $1,000,000 per occurrence	$100,000,000 per occurrence/annual aggregate
Workers' Compensation	Up to $1,000,000 per occurrence	$10,000,000 per occurrence

All property is insured at full replacement value. To date, there have been no significant reductions in any of the District's insurance coverage. In the past three years, there has been only one settlement in excess of the District's self insured retentions.

The unpaid claims liabilities are based on the results of actuarial studies and include amounts for claims incurred but not reported and incremental claim expenses. Allocated and unallocated claims adjustment expenses are included in the claims liability balances. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

Annual expense is charged using various allocation methods that include actual costs, trends in claims experience, and number of participants. It is the District's practice to obtain full actuarial studies annually.

Changes in the balances of claims liabilities for the two years ended June 30 for public liability, property damage and workers' compensation are as follows (in thousands):

	2015	2014
Self-insurance liabilities, beginning of year	$ 11,728	$ 18,195
Incurred claims and changes in estimates	2,472	(5,564)
Claim payments and related costs	(3,429)	(903)
Total Self-insurance claims liabilities	10,771	11,728
Less current portion	(4,364)	(4,291)
Noncurrent portion	$ 6,407	$ 7,437

NOTE 15 – JAPANESE OPERATING LEASE

In Fiscal Year 2002, the District entered into two Japanese operating lease transactions (Leasing Transactions) with respect to 145 and 54 buses (Equipment), respectively, valued, in the aggregate, at $48.2 million. In each Leasing Transaction, the District transferred title to the Equipment to a Japanese entity (Investor) and simultaneously leased the Equipment from the Investor for the District's operating use pursuant to an Equipment Lease Agreement. The District also put in place mechanisms to remind the District of its option to purchase the leased buses for a specified price at the end of the Agreement and, at that time, it also set aside and invested funds with American International Group (AIG) for these future purchases. The District received aggregate net proceeds of $1.5 million representing the difference between the appraised value of the buses and the net present value of the District's obligations under each Equipment Lease Agreement, including the purchase option price. The net proceeds of the Leasing Transactions were recorded as income in fiscal year 2002.

In March 2010, the first Japanese lease transaction expired by its terms, and the District exercised its option to purchase all 145 buses for the specified price of $25.1 million. Of these 145 buses, 73 are 1993 Gillig forty-foot buses and 72 are 1998 Gillig forty-foot buses. The second lease expired in August 2010 and the District again exercised its option to purchase all 54 thirty five-foot 1993 Gillig buses for the specified price of $5.4 million.

After more than seventeen years of service, the 1993 buses had reached the end of their useful life and were replaced by newer more energy efficient buses in 2011. The District put the 73 forty foot 1993 buses and the 54 thirty five-foot 1993 buses up for sale at auction, and as of August 31, 2013 had sold 127 buses for total net proceeds of $728,219. The District elected to sell 24 of the 1998 Gillig forty-foot buses, also at auction for total net proceeds of $79,317, the remaining 48 1998 buses are still in service.

NOTE 16 – PARATRANSIT TRUST FUND

Early in calendar year 2009, the Transportation Authority transferred the $25 million corpus of the paratransit trust fund to the District for oversight. The Transportation Authority established the trust fund to continue in perpetuity from Measure A sales tax revenues. The Transportation Authority was required to transfer the corpus of the paratransit trust fund to the District for administration upon expiration of Measure A on December 31, 2008 per the 1988 Transportation Expenditure Plan. The District now administers the fund and utilizes earnings on the corpus to fund paratransit activities.

NOTE 17 – COMMITMENT AND CONTINGENT LIABILITIES

Legal

The District is directly and indirectly involved in various litigation matters relating principally to claims arising from construction contracts, personal injury and property damage. In addition, the District has identified several sites which require environmental assessment and could result in undetermined cleanup costs. The potential costs to the District related to these environmental sites are highly uncertain, and the determination of the District’s liability is dependent on the extent, if any, to which such costs are recoverable from insurance or other parties. In the opinion of District management, the ultimate resolution of these matters will not materially affect the District’s financial position.

Grants

The District’s grants are subject to review and audit. Such audits could lead to requests for reimbursement for expenditures disallowed under the terms of the grants. In the opinion of management, such allowances, if any, will not materially affect the District’s financial position.

Fuel Hedge Program

In June 2015, the District entered into a diesel fuel price cap agreement with Barclays Bank to hedge the cost of fuel for fiscal year 2016 which capped the price of fuel hedged by the District at $2.00 per gallon. The District’s fiscal year 2016 adopted budget for fuel expenses is $6.3 million. The District purchases fuel based on the average weekly spot price for Oil Price Information Service (OPIS) index. This method leaves the District open to fluctuation in the market for diesel fuel. The primary goal of the fuel hedging program is to reduce volatility and uncertainty in the fuel budget. The District hedged 1.2 million gallons, which represents approximately 70 percent of estimated fuel consumption for fiscal year 2016. In order to maximize the hedging program’s potential for economic efficiency, the District partnered with the JPB, which hedged 2.3 million gallons. To provide protection to the District, the agreement document require the District’s fuel hedge counterparty to collateralize its exposure to the District in connection with the diesel fuel price cap in the event that the rating assigned to the fuel hedge counterparty by any nationally assigned statistical rating agency falls to or below "A. Implementing this fuel hedging program allowed the District to reduce uncertainty in the fuel budget for fiscal year 2016 and to take advantage of the relatively low market prices on the closing date of the transaction. Staff will return to the Board with results of the fiscal year 2016 fuel hedging program and a recommendation on whether to continue the program in fiscal year 2017.

The fuel hedge program was inaugurated in fiscal year 2010 and had been consistently implemented for fiscal years 2010 through 2016.

PTMISEA Grants

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, approved by the voters as Proposition 1B on November 7, 2006, includes a program of funding in the amount of $4 billion to be deposited in the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA). Of this amount, $3.6 billion in the PTMISEA is available to project sponsors in California for allocation to eligible public transportation projects.

The following table shows the changes in activity related to the PTMISEA grant funds during the fiscal year as well as the remaining commitment as of June 30, 2015 (in thousands):

	PTMISEA 2010 Various Projects Allocation (Fund 3606)	PTMISEA 2011 Various Projects Allocation (Fund 3622)	PTMISEA 2012 Various Projects Allocation (Fund 3618)	PTMISEA 2015 Various Projects Allocation (Fund 3643)	PTMISEA 2015 Various Projects Allocation (Fund 3639)	Various PTMISEA Grant Interest (Fund 3636)
Available proceeds June 30, 2014	$ 873,248	$ 515,911	$ 3,498,457	$ -	$ -	$ 209,378
Allocations received	-	-	-	7,657,921	5,708,022	-
Interest Income	-	-	-	-	-	11,950
Total Expenditures	(45,276)	(165)	(1,680,736)	-	-	-
Available proceeds June 30, 2015	$ 827,972	$ 515,746	$ 1,817,721	$ 7,657,921	$ 5,708,022	$ 221,328

NOTE 18 – SUBSEQUENT EVENTS

Bargaining Units

The District has two bargaining units with the Amalgamated Trust Union (ATU). One unit consists of approximately 375 bus operators and maintenance employees and the other unit consists of 23 customer service representatives. In the spring of 2015 Bus Maintenance Supervisors and Utility Supervisors, nine employees total, signed cards to be members of Teamsters Local 856 and the District recognized them as a bargaining unit. There are already three other bargaining units with Teamsters Local 856; the bus transportation supervisory unit, bus contracts and the transit instructors. All total the Teamsters represent 34 employees.

As of this writing the District is in negotiations with the Teamsters for the Maintenance and Utility Supervisor bargaining unit. The other labor agreements are amendable in 2017.

NOTE 19 – PRIOR PERIOD ADJUSTMENT

As discussed under Note 1, the District implemented GASB 68 effective July 1, 2014. Refer to Note 12 for further disclosures related to the plan and related balances. As a result of the implementation, the District restated beginning net position as noted below (in thousands):

Beginning of the year, net position as previously reported	$	133,461
Contributions after the measurement date - deferred outflows of resources		4,023
Net pension liability as of the measurement date of June 30, 2013		(47,886)
Beginning of the year, net position as restated	$	89,598

The following is the pro forma effect of the retrospective application:

	June 30, 2014 Previously Presented	Restatement	June 30, 2014 Restatement
Deferred Outflows of resources	$ -	$ 4,023	$ 4,023
Net Pension liability	-	(47,886)	(47,886)
Net Position	-	(89,598)	(89,598)

In accordance with GASB Statement No. 68, the restatement of all deferred outflows and inflows was not practicable and therefore not included in the statement of the beginning balances.

SAN MATEO COUNTY TRANSIT DISTRICT

REQUIRED SUPPLEMETARY INFORMATION
POST EMPLOYMENT HEALTHCARE SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2015

Amounts in thousands

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as % of Payroll
6/30/2013 [1]	$ 38,409	$ 4,881	$ 33,528	12.7%	$ 47,607	70.4%
6/30/2011	34,906	1,280	33,626	6.2%	49,055	68.8%
6/29/2010	34,906	1,280	33,626	3.7%	45,847	73.3%

(1) Most recent information available

SAN MATEO COUNTY TRANSIT DISTRICT

REQUIRED SUPPLEMETARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2015

Amounts in thousands	2015 [1]
Total pension liability	
Service cost	$ 7,062
Interest on the total pension liability	18,965
Benefit payments, including refunds of employee contributions	(9,115)
Net change in total pension liability	16,912
Total pension liability - beginning of year	253,892
Total pension liability - end of year (a)	$ 270,804
Plan fiduciary net position	
Contributions from the employer	$ 4,023
Contributions from employees	3,312
Net investment income	35,934
Benefit payments, including refunds of employee contributions	(9,115)
Net change in fiduciary net position	34,154
Fiduciary net position - beginning of year	206,006
Fiduciary net position - end of year (b)	$ 240,160
Net pension liability	$ 30,644

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

SAN MATEO COUNTY TRANSIT DISTRICT

REQUIRED SUPPLEMETARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015

Amounts in thousands		**2015** [1]
Contractually required contribution (actuarially determined)	$	4,023
Contributions in relation to the actuarially determined contributions		(4,023)
Contribution deficiency (excess)	$	-
Covered-employee payroll	$	47,169
Contributions as a percentage of covered-employee payroll		8.53%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

SAN MATEO COUNTY TRANSIT DISTRICT

SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, CAPITAL OUTLAY, AND LONG- TERM DEBT PAYMENT COMPARISON OF BUDGET TO ACTUAL (BUDGETARY BASIS)

FOR THE YEAR ENDED JUNE 30, 2015

	Budget	Actual	Variance Over (Under)
OPERATING REVENUES - Passenger fares	$ 18,368	$ 18,816	$ 448
OPERATING EXPENSES:			
Salaries and benefits	63,748	62,584	1,164
Contract operations and maintenance services	34,462	33,399	1,063
Other services	7,706	6,092	1,614
Materials and supplies	10,418	8,158	2,260
Insurance	7,295	4,171	3,124
Miscellaneous	6,981	5,784	1,197
Total operating expenses	130,609	120,188	10,421
Operating loss	(112,241)	(101,372)	10,869
NONOPERATING REVENUES (EXPENSES):			
Operating assistance	100,057	124,097	24,040
Investment income	949	924	(25)
Interest expense	(14,348)	(9,175)	5,173
Caltrain service subsidy	(6,260)	(6,260)	-
Interagency administration income	7,995	7,224	(771)
Other income, net	9,636	10,119	483
Transfers, net		-	-
Total nonoperating income	98,029	126,929	28,900
Income (loss) before capital outlay and long-term debt principal payments	(14,212)	25,557	39,769
CAPITAL OUTLAY:			
Capital assistance	55,562	33,361	(22,201)
Capital expenditures	(55,562)	(33,417)	22,145
Net capital outlay	-	(56)	(56)
Long-term debt principal or interest payment	(9,409)	(9,409)	-
EXCESS (DEFICIENCY) OF REVENUES AND NONOPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENTS	$ (23,622)	$ 16,092	$ 39,714

NOTES TO SUPPLEMANTARY SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The District prepares its budget on a basis of accounting that differs from Generally Accepted Accounting Principles (GAAP). The actual results of operations are presented in the supplemental schedule on the budgetary basis to provide a meaningful comparison of actual results with budget. In addition, certain budget amounts have been reclassified to conform to the presentation of actual amounts in the supplemental schedule. Budgeted amounts presented are the original adopted budget. The primary difference between the budgetary basis of accounting and GAAP concerns capital assets. Depreciation and amortization expense per GAAP is not budgeted and budgeted capital expenditures are not recorded as an expense per GAAP. In addition, unrealized gains and losses under GASB Statement No. 31 are not recognized.

NOTE 2 – RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

A reconciliation of the budgetary basis of accounting to GAAP is as follows (in thousands):

Excess of revenues and non-operating income over expenses, capital outlay and debt principal payment		$ 16,092
Capital expenditures	$ 33,417	
Recollectible expense	3	
Depreciation and amortization	(24,545)	
Postemployment benefits accrual	(22)	
Long-term debt principal payments	9,409	
GASB 31 unrealized gain/loss	(33)	
Capital gain on investment	(10)	
Bond amortization expense	(721)	
Bond premium amortization - interest income	898	
Sub-total reconciling items		18,396
Change in net assets, GAAP basis		$ 34,488

Section III

STATISTICAL

Financial Trends

- **Net Position and Change in Net Position**

Revenue Capacity

- **Revenue Base and Revenue Rate**
- **Overlapping Revenue**
- **Principal Revenue Payers**

Debt Capacity

- **Ratio of Outstanding Bonds**
- **Bonded Debt**
- **Direct and Overlapping Debt and Debt Limitations**
- **Pledged Revenue Coverage**

Demographics and Economic Information

- **Population, Income, and Unemployment Rates**
- **Principal Employers**

Operating Information

- **Ridership and Fares**
- **Farebox Recovery and Miles**
- **Employees (Full-time Equivalents)**
- **Capital Assets**

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STATISTICAL SECTION

The Statistical Section of the District's CAFR presents detailed information as a context for understanding the information in the financial statement, notes disclosure, required supplementary information and other supplementary information for assessing the District's economic condition.

Financial Trends

These schedules contain trend information to assist readers in understanding and assessing how the District's financial position has changed over time.

Revenue Capacity

These schedules contain information to assist readers in understanding and assessing the factors affecting the District's ability to generate passenger fares.

Debt Capacity

These schedules assist readers in understanding and assessing the District's debt burden and its capacity to issue future debt.

Demographics and Economic Information

These schedules present socioeconomic indicators to assist readers in understanding the environment within which the District's financial activities take place.

Operating Information

These schedules contain contextual information about the District's operations and resources to assist readers in using financial statement information to understand and assess the District's economic condition.

SAN MATEO COUNTY TRANSIT DISTRICT

FINANCIAL TRENDS – NET POSITION AND CHANGE IN NET POSITION
FISCAL YEARS 2006 THROUGH 2015 (in thousands)

Fiscal year	2015	2014	2013	2012
OPERATING REVENUES - Passenger Fares	$ 18,816	$ 18,557	$ 17,808	$ 17,452
OPERATING EXPENSES:				
Salaries and benefits	62,606	60,001	57,227	58,921
Contract operations and maintenance	33,399	31,471	30,152	29,851
Other services	6,092	4,666	5,580	5,866
Materials and supplies	8,158	8,769	9,487	8,768
Insurance	4,171	(2,094)	6,770	7,430
Miscellaneous	5,784	5,514	4,935	4,433
Total operating expenses	120,210	108,327	114,151	115,269
Operating loss before depreciation, amortization and administrative expenses capitalized	(101,394)	(89,770)	(96,343)	(97,817)
Depreciation and amortization	(24,545)	(27,184)	(26,939)	(24,297)
OPERATING LOSS	(125,939)	(116,954)	(123,282)	(122,114)
NONOPERATING REVENUES (EXPENSES):				
Operating assistance	124,097	126,786	121,788	110,672
Investment income	1,782	1,663	586	1,375
Interest expense	(9,896)	(15,559)	(16,400)	(16,247)
Caltrain service subsidy	(6,260)	(5,440)	(14,000)	(10,620)
SFO/Colma BART station revenue/(deficit)	-	-	-	-
Lease-leaseback income	-	-	-	-
Interagency administrative income	7,224	6,552	5,501	3,483
Other income, net	10,119	8,866	13,941	13,152
Transfers, net	-	-	-	-
Total nonoperating revenues, net	127,066	122,868	111,416	101,815
Net income (loss) before capital contributions	1,127	5,914	(11,866)	(20,299)
Capital contributions	33,361	33,281	-	11,049
CHANGE IN NET POSITION	34,488	39,195	(11,866)	(9,250)
NET ASSET COMPONENTS				
Invested in capital assets	(5,858)	(20,964)	(34,446)	(23,448)
Restricted	26,087	25,000	27,745	33,982
Unrestricted	147,720	129,425	100,967	87,706
Restatement	(43,863) [2]	-	-	(3,557) [1]
NET POSITION	$ 124,086	$ 133,461	$ 94,266	$ 94,683

SAN MATEO COUNTY TRANSIT DISTRICT

FINANCIAL TRENDS – NET POSITION AND CHANGE IN NET POSITION
FISCAL YEARS 2006 THROUGH 2015 (in thousands)

2011	2010	2009	2008	2007	2006
$ 17,373	$ 17,149	$ 17,325	$ 17,203	$ 16,830	$ 16,296
58,473	59,835	62,708	64,175	58,521	56,944
29,250	28,706	28,710	27,902	26,482	24,338
4,004	3,651	4,655	3,747	3,580	3,948
7,873	7,344	8,432	9,589	8,151	7,102
6,900	6,607	5,621	6,074	6,010	4,927
4,628	6,263	6,437	7,269	6,585	6,433
111,128	112,406	116,563	118,756	109,329	103,692
(93,755)	(95,257)	(99,238)	(101,553)	(92,499)	(87,396)
(41,838)	(21,887)	(29,687)	(23,899)	(40,399)	(42,635)
(135,593)	(117,144)	(128,925)	(125,452)	(132,898)	(130,031)
98,173	91,672	92,673	115,004	113,565	99,827
2,197	4,659	9,830	11,637	9,745	6,690
(16,940)	(17,371)	(17,674)	(17,783)	(18,075)	(17,969)
(14,708)	(16,521)	(16,521)	(16,040)	(14,478)	(12,929)
-	-	-	-	(5,289)	(9,620)
-	-	-	-	-	-
3,342	4,375	3,151	8,327	6,944	6,054
8,349	10,241	7,520	5,806	12,613	5,901
-	-	25,000	-	-	-
80,413	77,055	103,979	106,951	105,025	77,954
(55,180)	(40,089)	(24,946)	(18,501)	(27,873)	(52,077)
14,396	54,560	11,092	6,425	2,304	4,764
(40,784)	14,471	(13,854)	(12,076)	(25,569)	(47,313)
(18,519)	1,204	(46,833)	(35,006)	(33,619)	(20,253)
32,702	31,875	37,048	3,517	3,569	3,390
93,307	115,195	143,588	179,146	189,783	202,165
-	-	-	-	-	-
$ 107,490	$ 148,274	133,803	$ 147,657	$ 159,733	$ 185,302

SAN MATEO COUNTY TRANSIT DISTRICT

REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 2006 THROUGH 2015

Fiscal year ending	**2015**	**2014**	**2013**	**2012**
Passenger fares (in thousands)	$ 18,816	$ 18,557	$ 17,808	$ 17,452
Revenue Base				
Number of passengers (in thousands) [2]	13,488	12,784	12,752	12,995
Fare structure				
Adults local fare	$ 2.00	$ 2.00	$ 2.00	$ 2.00
Senior citizen / disabled/ Medicare cardholder	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Youth	$ 1.25	$ 1.25	$ 1.25	$ 1.25
Redi-Wheels (Paratransit)	$ 3.75	$ 3.75	$ 3.75	$ 3.75
Sales tax rate	0.50%	0.50%	0.50%	0.50%
Sales tax revenue (in thousands)	$ 80,975	$ 77,606	$ 73,859	$ 69,370
Taxable sales in San Mateo County (in thousands) [1]	$16,194,800	$15,521,200	$14,771,800	$13,906,978

[1] 2013, 2014 and 2015 taxable sales are estimates based on sales tax revenues received;
2012 taxable sales amount is the most current information available.

[2] 2014 adusted to actual.

This table presents passenger fares, number of passengers and revenue fare structure, the half-cent transaction and use tax received by the District and the total taxable sales in San Mateo County

Source: California State Board of Equalization and CAFRs.

SAN MATEO COUNTY TRANSIT DISTRICT

REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 2006 THROUGH 2015

2011	2010	2009	2008	2007	2006
$ 17,373	$ 17,149	$ 17,325	$ 17,203	$ 16,830	$ 16,296
13,531	14,255	15,284	14,915	14,669	14,508
$ 2.00	$ 2.00	$ 1.75	$ 1.50	$ 1.50	$ 1.50
$ 1.00	$ 1.00	$ 0.75	$ 0.75	$ 0.75	$ 0.75
$ 1.25	$ 1.25	$ 1.00	$ 1.00	$ 1.00	$ 1.00
$ 3.50	$ 3.00	$ 3.00	$ 2.50	$ 2.50	$ 2.50
0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
$ 63,514	$ 58,488	$ 60,015	$ 68,667	$ 66,198	$ 63,813
$ 13,020,643	$ 11,966,338	$ 11,327,022	$ 13,137,913	$ 13,326,306	$ 12,900,391

SAN MATEO COUNTY TRANSIT DISTRICT

REVENUE CAPACITY – OVERLAPPING REVENUE
FISCAL YEARS 2006 THROUGH 2015

Fiscal year	State	City and County	Other Special Districts	San Mateo County Transit District [1]	City of San Mateo Transactions and Use Tax	City of Half Moon Bay Transactions and Use Tax	San Mateo County Transactions and Use Tax	Total
2015	6.50%	1.00%	0.50%	0.50%	0.25%	0.50%	0.50%	9.75%
2014	6.50%	1.00%	0.50%	0.50%	0.25%	0.50%	0.50%	9.75%
2013	6.50% [5]	1.00%	0.50%	0.50%	0.25%	0.50% [6]	0.50% [7]	9.75%
2012	6.25%	1.00%	0.50%	0.50%	0.25%			8.50%
2011	6.25% [4]	1.00%	0.50%	0.50%	0.25%			8.50%
2010	7.25%	1.00%	0.50%	0.50%	0.25% [3]			9.50%
2009	7.25% [2]	1.00%	0.50%	0.50%				9.25%
2008	6.25%	1.00%	0.50%	0.50%				8.25%
2007	6.25%	1.00%	0.50%	0.50%				8.25%
2006	6.25%	1.00%	0.50%	0.50%				8.25%

[1] State legislation requires the District to obtain the approval of a majority of the voters in a public election to approve any sales tax measure.
[2] 2009 State portion includes 1% Proposition 1A 1-cent sales tax increase effective on April 1, 2009.
[3] 2010 City of San Mateo Transactions and Use Tax (SMTG), tax rates effective on April 1, 2010.
[4] State sales tax reduced to 6.25% effective July 1, 2011.
[5] State sales tax increased to 6.50% effective January 1, 2013.
[6] City of Half Moon Bay Transactions and Use Tax (HMBG), tax rates effective on April 1, 2013.
[7] San Mateo County Transactions and Use Tax (SMGT), tax rates effective on April 1, 2013.

This table presents the tax rates for local authorities in San Mateo County. The District receives a half-cent county transaction and use tax.

Source: California State Board of Equalization

SAN MATEO COUNTY TRANSIT DISTRICT

REVENUE CAPACITY – PRINCIPAL REVENUE PAYERS
FISCAL YEARS 2006 AND 2014 (in thousands)

	FY2014*			FY2006		
Principal Revenue Payers	**Rank**	**Percent of Taxable Sales**	**Amount**	**Rank**	**Percent of Taxable Sales**	**Amount**
All other outlets	1	32.2%	$1,228,366	1	27.1%	$3,499,262
Automotive group	2	11.6%	443,755	2	12.9%	1,666,602
Food Services/drinking places	3	11.6%	442,330	10	3.2%	$411,438
Gasoline (Service) stations	4	8.8%	333,936	6	7.1%	917,482
General merchandise stores	5	6.8%	260,257	3	10.2%	1,313,029
Building materials group	6	6.0%	229,898	7	7.0%	908,205
Apparel stores	7	5.0%	191,863	11	3.1%	398,192
Food/Beverage stores	8	3.9%	148,225	5	9.0%	1,158,608
Miscellaneous Store Retailers	9	3.7%	139,430	8	5.3%	677,986
Electronics & Appliance stores	10	2.7%	103,139			
Furniture/Home furnishings	11	2.4%	90,563	9	4.0%	512,423
Health and personal services	12	2.0%	75,358			
Sporting Goods, Hobby, Book &	13		70,713	4		1,249,966
Music Stores (Specialty stores)		1.9%			9.7%	
Nonstore Retailers	14	1.4%	54,575	12	1.4%	187,198
Total		100.0%	$3,812,408		100.0%	$12,900,391

* Principal tax payers information for 2nd Quarter, 2014 is the most current information available.

This table ranks the top 14 principal tax payers by industry.

Source: California State Board of Equalization

SAN MATEO COUNTY TRANSIT DISTRICT

DEBT CAPACITY – RATIO OF OUTSTANDING BONDS
FISCAL YEARS 2006 THROUGH 2015

Fiscal Year	Revenue Bonds for SamTrans (in thousands)[1]	Personal Income for San Mateo County[2]	As a Percent of Personal Income
2015	$ 284,128	$ 63,346,079	0.45%
2014	290,353	61,501,048	0.47%
2013	300,357	59,709,755	0.50%
2012	306,802	58,665,994	0.52%
2011	315,409	51,745,573	0.61%
2010	323,615	47,469,961	0.68%
2009	331,451	46,381,026	0.71%
2008	338,135	48,856,877	0.69%
2007	344,425	49,894,436	0.69%
2006	350,410	47,184,337	0.74%

[1] Current and prior years' CAFRs

[2] U.S. Department of Commerce, Bureau of Economic Analysis, calendar year figures. Personal Income data for 2014 and 2015 are based on an estimated three percent annual increase over 2013.

This table presents the relationship between the revenue bonds and the total personal income of the residents of San Mateo County.

SAN MATEO COUNTY TRANSIT DISTRICT

DEBT CAPACITY –BONDED DEBT
FISCAL YEARS 2006 THROUGH 2015

Fiscal Year	Revenue Bonds for Sam Trans (in thousands)	Total Taxable Sales in San Mateo County		As a Percent of Total Taxable Sales in San Mateo County
2015	$ 284,128	$ 16,194,800	[1]	1.75%
2014	290,353	15,525,153	[1]	1.87%
2013	300,357	14,771,800	[1]	2.03%
2012	306,802	13,906,978		2.21%
2011	315,409	13,020,643		2.42%
2010	323,615	11,966,338		2.70%
2009	331,451	11,327,022		2.93%
2008	338,135	13,137,913		2.57%
2007	344,425	13,326,306		2.58%
2006	350,410	12,900,391		2.72%

[1] 2013, 2014 and 2015 taxable sales are estimates based on sales tax revenues received; 2012 taxable sales amount is the most current information available.

This table presents the capacity of the District to issue revenue bonds based on total taxable sales in San Mateo County.

Source: Current and prior years' CAFRs & California State Board of Equalization

DEBT CAPACITY – DIRECT AND OVERLAPPING DEBT AND DEBT LIMITATIONS YEAR ENDED JUNE 30, 2015

The District does not have overlapping debt with other governmental agencies. Additionally, the District does not have a legal debt limit.

SAN MATEO COUNTY TRANSIT DISTRICT

DEBT CAPACITY – PLEDGED REVENUE COVERAGE
FISCAL YEARS 2006 THROUGH 2015 (in thousands)

Fiscal Year	Sales Tax Revenue	Principal	Interest	Total	Coverage
2015	$ 80,975	$ -	$ 9,145	$ 9,145	9
2014	77,606	9,655	14,799	24,454	3
2013	73,859	9,233	15,220	24,453	3
2012	69,370	8,770	15,680	24,450	3
2011	63,514	8,370	16,082	24,452	3
2010	58,488	8,031	16,419	24,450	2
2009	60,015	6,940	16,115	23,055	3
2008	68,667	6,620	16,801	23,421	3
2007	66,198	6,315	17,265	23,580	3
2006	63,813	6,025	13,175	19,200	3

This table presents the relationship between total sales tax revenue, debt service payments and the capacity of the District to meet its debt obligations.

* The District's outstanding bonds were restructured in 2015 and those amounts are intended to reflect the full annual economic impact, including measurements of restructuring, on the District's finnacial position. Other years are cash-basis measures of the District's debt service. The *Long Term Debt note* in the *Notes To Basic Financial Statements* in the Financial Section of this CAFR provides further details.

Source: Current and prior years' CAFRs

SAN MATEO COUNTY TRANSIT DISTRICT

DEMOGRAPHICS AND ECONOMIC INFORMATION – POPULATION, INCOME AND UNEMPLOYMENT RATES
FISCAL YEARS 2006 THOUGH 2015

Year	Population [1]	Total Personal Income (in thousands) [2]	Per Capita Personal Income [2]	Average Unemployment Rates [3]
2015	753,123	$ 63,346,079 *	$ 84,758 *	3.3%
2014	745,635	61,501,048 *	82,290 *	4.2%
2013	736,647	59,709,755	79,893	5.7%
2012	727,795	58,665,994	79,420	7.0%
2011	722,372	51,745,573	71,051	8.3%
2010	718,614	47,469,961	65,953	8.9%
2009	713,818	46,381,026	64,994	8.9%
2008	707,820	48,856,877	69,416	4.8%
2007	701,838	49,894,436	71,910	4.0%
2006	699,347	47,184,337	68,366	3.8%

[1] Data include retroactive revisions by the State of California Department of Finance, Demographic Research Unit.
[2] Data include retroactive revisions by the U.S. Department of Commerce Bureau of Economic Analysis.
[3] Data include retroactive revisions by the State of California Employment Development Department. Unemployment rates are non-seasonally adjusted for June.

*Personal Income & Per Capital Personal Income data for 2014 and 2015 is based on an estimated three percent annual increase over 2013.

This table highlights San Mateo County's total population, total personal and per capita income, and percentage of employed residents.

SAN MATEO COUNTY TRANSIT DISTRICT

DEMOGRAPHICS AND ECONOMIC INFORMATION – PRINCIPAL EMPLOYERS FISCAL YEARS 2005 AND 2013

	2013*			2005*		
Employers in San Mateo County	Number of Employees	Rank	Percent of Total County Employment	Number of Employees	Rank	Percent of Total County Employment
United Airlines	10,000	1	2.62%	10,328	1	2.95%
Genentech Inc.	8,800	2	2.30%	5,763	2	1.65%
Oracle Corp.	6,524	3	1.71%	7,000	4	2.00%
County of San Mateo	5,929	4	1.55%	5,288	3	1.51%
Kaiser Permanente	3,911	5	1.02%	3,992	5	1.14%
Visa USA/Visa International	2,895	6	0.76%	1,901	9	0.54%
Facebook Inc.	2,865	7	0.75%			
Gilead Sciences Inc.	2,596	8	0.68%			
Mills-Peninsula Health Services	2,200	9	0.58%			
Safeway Inc.	2,195	10	0.57%	2,140	7	0.61%
United States Postal Service				2,396	6	0.68%
Applera (Applied Biosystems)				2,000	8	0.57%
Electronic Arts Inc.				1,800	10	0.51%
Total	47,915		12.55%	42,608		12.16%

* The latest information available for principal employers in the County.

This table presents the top 10 principal employers in San Mateo County for 2013 and 2005.

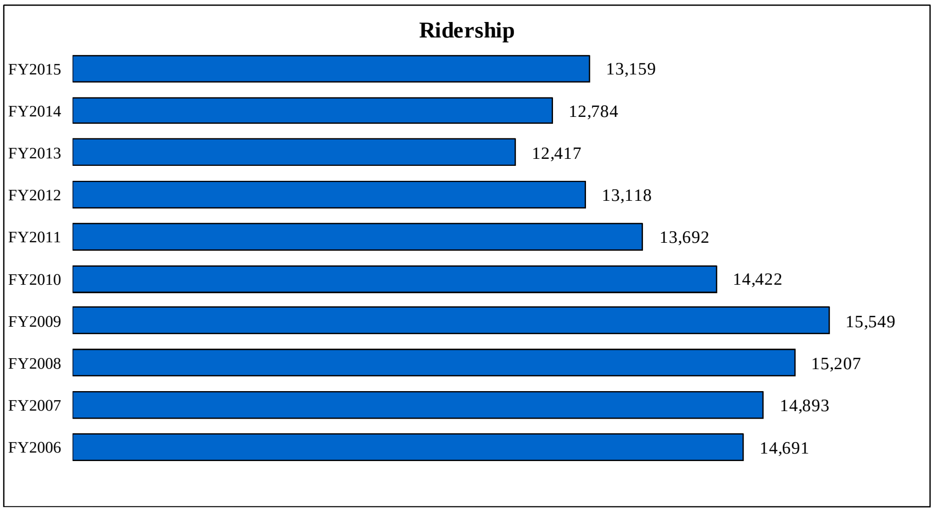
Source: San Francisco Business Times - 2015 Book of Lists; California Employment Development Department (provided by San Mateo County Controller's office)

SAN MATEO COUNTY TRANSIT DISTRICT

OPERATING INFORMATION – RIDERSHIP AND FARES
FISCAL YEARS 2006 THROUGH 2015

FIXED-ROUTE RIDERSHIP*

The District reduced fixed-route bus service by approximately 7.5% effective December 2009.



Ridership data presents total ridership for motor bus service and shuttle service.

FIXED-ROUTE PASSENGER FARES

The District made modest fare adjustments in January 1991, January 1992, February 1996, July 1998, July 2002, September 2005, February 2009 and February 2010.

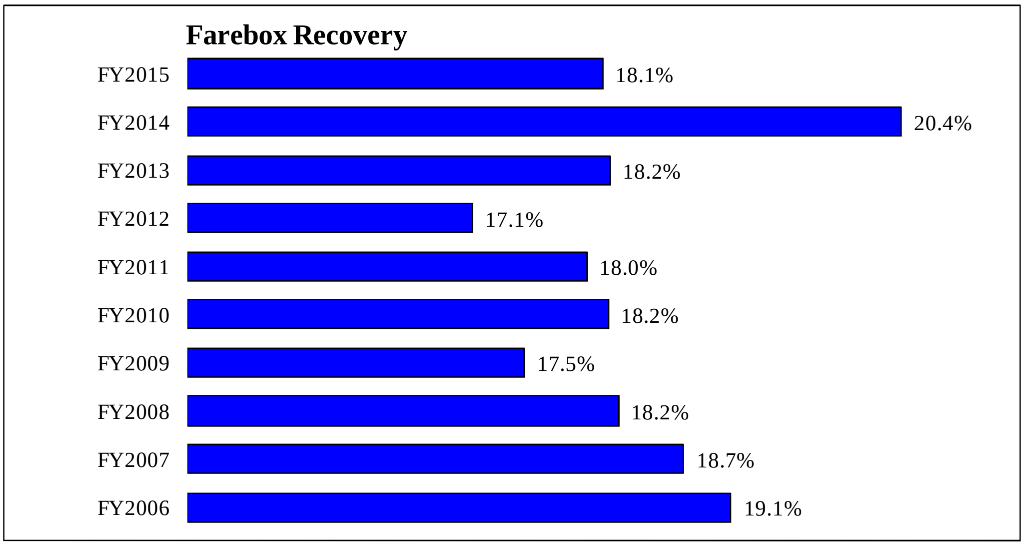
Bus passenger fares data presents the total bus fare revenue for each year.

*Ridership data presents total ridership for motor bus service and shuttle service, which makes up less than 5% of the total data.

SAN MATEO COUNTY TRANSIT DISTRICT

OPERATING INFORMATION – FAREBOX RECOVERY AND MILES
FISCAL YEARS 2006 THROUGH 2015

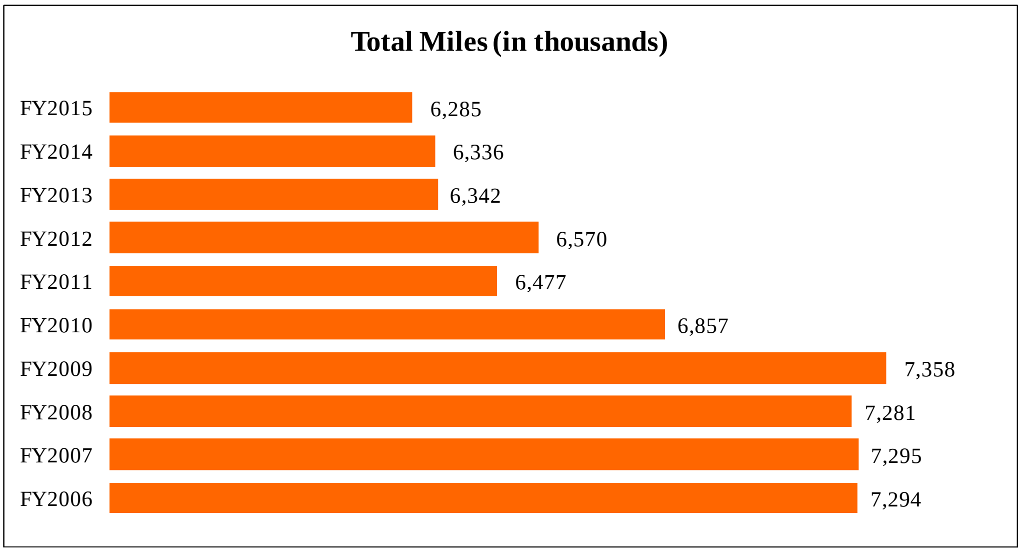
FIXED-ROUTE FAREBOX RECOVERY



Farebox recovery data presents the percentage of fixed-route fare revenue collected compared to fixed-route operating expenses.

FIXED-ROUTE REVENUE MILES*

The District reduced fixed-route bus service by approximately 7.5% effective December 2009.



The revenue miles data presents the total fixed-route miles traveled.

*Fixed-route data includes La Honda and shuttle service, which makes up less than 5% of the total data.

SAN MATEO COUNTY TRANSIT DISTRICT

OPERATING INFORMATION – EMPLOYEES (FULL-TIME EQUIVALENTS) FISCAL YEARS 2006 THROUGH 2015

	Full-Time Equivalents									
Division	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Caltrain Modernization Program	0.05	0.05	0.48	-	-	-	-	-	-	-
Customer Service and Marketing	25.34	28.22	30.31	29.56	24.43	20.90	-	-	-	-
Executive	3.67	3.55	3.58	3.52	3.60	3.55	-	-	-	-
Finance and Administration	68.50	66.72	66.53	66.51	66.83	67.88	-	-	-	-
Operations, Engineering and Construction	454.27	457.54	449.27	448.83	451.77	453.37	-	-	-	-
Planning and Development	8.20	7.80	5.03	6.64	6.04	6.00	-	-	-	-
Public Affairs	5.00	5.00	4.60	4.44	4.20	3.25	-	-	-	-
Administration	-	-	-	-	-	-	42.85	43.35	42.70	38.76
Communication	-	-	-	-	-	-	29.97	29.58	33.75	35.77
Development	-	-	-	-	-	-	15.12	13.75	11.57	14.84
Executive	-	-	-	-	-	-	4.55	4.80	4.80	6.00
Finance	-	-	-	-	-	-	33.30	33.40	31.30	29.37
Operations	-	-	-	-	-	-	502.25	502.50	507.20	500.37
Total	565.03	568.88	559.80	559.50	556.87	554.95	628.04	627.38	631.32	625.11

Note: The organization went through a reorganization in FY2010; Caltrain Modernization Program division was added in FY2013 as a replacement for the Peninsula Rail department.

Note: Employee counts are for Full-time Equivalents (FTEs) for the District.

This table presents total Full-time Equivalents by division.

Source: Operating and capital budgets.

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SAN MATEO COUNTY TRANSIT DISTRICT

OPERATING INFORMATION – CAPITAL ASSETS
FISCAL YEARS 2006 THROUGH 2015 (in thousands)

	2015	2014	2013	2012
Depreciable Capital Assets				
Buses and bus equipment	$ 167,272	$ 149,751	$ 135,297	$ 138,638
Buildings and building improvements	64,838	64,815	71,935	79,294
Maintenance and other equipment	6,523	5,822	9,470	16,927
Furniture and fixtures	19,656	20,272	23,584	26,686
Shelters and bus stop signs	592	579	3,178	3,190
Other vehicles	2,159	2,226	2,183	2,263
Total depreciable capital assets	261,040	243,465	245,647	266,998
Accumulated Depreciation for:				
Buses and bus equipment	(97,574)	(86,157)	(80,138)	(75,080)
Buildings and building improvements	(51,601)	(49,387)	(55,168)	(61,157)
Maintenance and other equipment	(4,715)	(4,015)	(7,740)	(15,035)
Furniture and fixtures	(17,241)	(16,765)	(17,083)	(20,094)
Shelters and bus stop signs	(575)	(558)	(3,177)	(3,183)
Other vehicles	(1,876)	(1,711)	(1,457)	(1,417)
Total accumulated depreciation	(173,582)	(158,593)	(164,763)	(175,966)
Nondepreciable Capital Assets				
Land and right of way	53,855	53,855	53,855	53,855
Construction in progress	35,303	21,323	11,563	10,201
Total nondepreciable capital assets	89,158	75,178	65,418	64,056
Capital Assets, Net	$ 176,616	$ 160,050	$ 146,302	$ 155,088

This table presents total non-depreciable capital assets, total depreciable capital assets and total accumulated depreciation.

Source: Current and prior years' CAFRs.

SAN MATEO COUNTY TRANSIT DISTRICT

OPERATING INFORMATION – CAPITAL ASSETS
FISCAL YEARS 2006 THROUGH 2015 (in thousands)

2011	2010	2009	2008	2007	2006
$ 132,855	$ 164,448	$ 140,767	$ 142,856	$ 158,180	$ 154,924
78,844	76,150	73,868	73,686	73,237	72,619
15,542	15,125	14,591	24,718	25,500	23,710
25,927	20,831	14,447	13,033	13,875	13,087
3,185	3,166	3,165	3,271	3,313	3,304
2,031	2,026	2,343	2,015	2,363	2,472
258,384	281,746	249,181	259,579	276,468	270,116
(68,406)	(105,223)	(102,625)	(97,768)	(105,380)	(94,768)
(58,006)	(53,983)	(51,205)	(48,862)	(46,734)	(44,194)
(13,258)	(11,897)	(11,454)	(22,538)	(22,350)	(20,877)
(17,768)	(13,595)	(12,286)	(8,244)	(8,474)	(7,421)
(3,176)	(3,156)	(3,148)	(3,248)	(3,200)	(2,986)
(1,245)	(1,382)	(1,586)	(1,671)	(2,098)	(2,323)
(161,859)	(189,236)	(182,304)	(182,331)	(188,236)	(172,569)
53,855	51,435	51,435	51,435	43,695	43,695
9,805	36,425	16,968	18,772	15,713	15,417
63,660	87,860	68,403	70,207	59,408	59,112
160,185	180,370	135,280	147,455	147,640	156,659

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Section VI

SINGLE AUDIT

INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*, THE TRANSPORTATION DEVELOPMENT ACT AND CALIFORNIA GOVERNMENT CODE SECTION 8879.50

To the Board of Directors of the
San Mateo County Transit District
San Carlos, California

We have audited, in accordance with the 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, the financial statements of the San Mateo County Transit District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 15, 2016. Our report contains an emphasis of matter regarding adoption of Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and reporting for pension liabilities* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* as of July 1, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements including the applicable provisions of section 6667 of Title 21 of California Code of Regulation and California Governmental Code Section 8879.50, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, Section 6667 of Title 21 of the California Regulations or the California Government Code 8879.50 et seq.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
January 15, 2016

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of the
San Mateo County Transit District
San Carlos, California

Report on Compliance for Each Major Federal Program

We have audited the San Mateo County Transit District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major Federal program for the year ended June 30, 2015. The major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major Federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major Federal program. However, our audit does not provide a legal determination of the District's compliance.

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Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District 's internal control over compliance with the types of requirements that could have a direct and material effect on the major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal controls over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
January 15, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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SAN MATEO COUNTY TRANSIT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS	
Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	N/A
FEDERAL AWARDS	
Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No

Identification of major prograı

CFDA Numbers	Name of Federal Program or Cluster
20.500/20.507	Department of Transportation-Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 657,538
Auditee qualified as low-risk auditee?	Yes

SAN MATEO COUNTY TRANSIT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any significant deficiencies, or material weaknesses or instances of noncompliance material to the basic financial statements.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit did not disclose any findings or questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Financial Statement Prior Year Findings

There were no prior year Financial Statement Findings reported.

Federal Award Prior Year Findings and Questioned Costs

There were no prior year Federal Award Findings and Questioned Costs reported.

SAN MATEO COUNTY TRANSIT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

Federal Grantor/Program Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION			
Federal Transit Cluster:			
Direct Grants			
Federal Transit Capital Investment Grants	20.500	CA-04-0220	$ 278,459
Federal Transit Capital Investment Grants	20.500	CA-04-0221	129,559
Pass through the California Department of Transportation			
Federal Transit Formula Grants	20.500	TCSPL-6014(015)	20,940
Federal Transit Formula Grants	20.500	HPLUL-6014(005)	100,008
Total Federal Transit Capital Investment Grants			528,966
Direct Grants			
Federal Transit Formula Grants			
Federal Transit Formula Grants	20.507	CA-90-Y-612	414,462
Federal Transit Formula Grants	20.507	CA-90-Y-612	1,050,181
Federal Transit Formula Grants	20.507	CA-90-Y-0768	164,291
Federal Transit Formula Grants	20.507	CA-95-X-187	1,883,423
Federal Transit Formula Grants	20.507	CA-95-X-187	3,187,246
Federal Transit Formula Grants	20.507	CA-90-Z-043	9,113,178
Federal Transit Formula Grants	20.507	CA-90-Z-043	2,267,417
Federal Transit Formula Grants	20.507	CA-90-Z-124	2,543,228
Federal Transit Formula Grants	20.507	CA-95-X-144	322,508
Federal Transit Formula Grants	20.507	CA-57-X-073	49,914
Total Federal Transit Formula Grants			20,995,848
Total Federal Transit Cluster			21,524,814
Direct Grants			
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	Sec 5303	10,000
Transit Services Programs Cluster:			
Direct Grants			
Formula Grants for Rural Areas	20.509	641563-10	115,089
Formula Grants for Rural Areas	20.509	64B015-00269	156,796
Total Formula Grants for Rural Areas Grants			271,885
New Freedom Grant	20.521	CA-57-X023	16,718
Total Transit Services Program Cluster			288,603
State Planning and Research	20.515	74A0628	94,528
Total U.S. Department of Transportation			21,917,945
Total Expenditures of Federal Awards			$ 21,917,945

SAN MATEO COUNTY TRANSIT DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

NOTE 1 – REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the San Mateo County Transit District, and as disclosed in the notes to the Financial Statements.

NOTE 2 – BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures of expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

NOTE 3 - DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the District by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the District. The Schedule includes both of these types of Federal award programs when they occur.