# San Mateo County Transit District

## San Carlos, California


# Comprehensive Annual Financial Report

## Fiscal Year Ended June 30, 2009

San Mateo County

**TRANSIT DISTRICT**

## San Carlos, California

# *Comprehensive Annual Financial Report*

## Fiscal Year Ended June 30, 2009

**Prepared by the Finance Division**

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# *Section I*

## INTRODUCTORY

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**November 30, 2009**

**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, 2008 through June 30, 2009. 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 & Company, 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 "unqualified" or "clean" opinion.

## PROFILE OF THE ORGANIZATION

### *Purpose*

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.

### *Entity*

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.

### *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 All Star Game, the National Football League Super Bowl, the Major League Baseball World Series, 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, the JPB contracted with Amtrak to operate trains not only between San Francisco and San Jose, but also to Gilroy, approximately 30 miles south of San Jose.

### *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 *General Manager/CEO and the office of the District Secretary* are responsible for directing and overseeing all divisions, as well as providing support to the Board of Directors.

The *Finance and Administration Division* is responsible for financial accounting and reporting, capital and grant administration and budgeting, operational budgeting, payroll and vendor disbursement, fare collection, investment and cash management, debt management, revenue control, purchasing, contract administration, risk management, information technology, security, safety and human resources.

The *Operations, Engineering and Construction Division* is responsible for SamTrans bus service, Caltrain rail service, employer and other shuttles, paratransit service pursuant to the requirements of the Americans with Disabilities Act (ADA), service planning and quality assurance, managing all capital projects, including right-of-way maintenance, from conceptual engineering planning through construction and acceptance.

The *Office of Peninsula Rail Program* is responsible for working in conjunction with the High Speed Rail Authority to implement the Peninsula Rail Program along the Caltrain corridor.

The *Office of Planning and Development* is responsible for strategic planning and performance and property management.

The *Office of Public Affairs* is responsible for public information, media relations, legislative activities and community outreach.

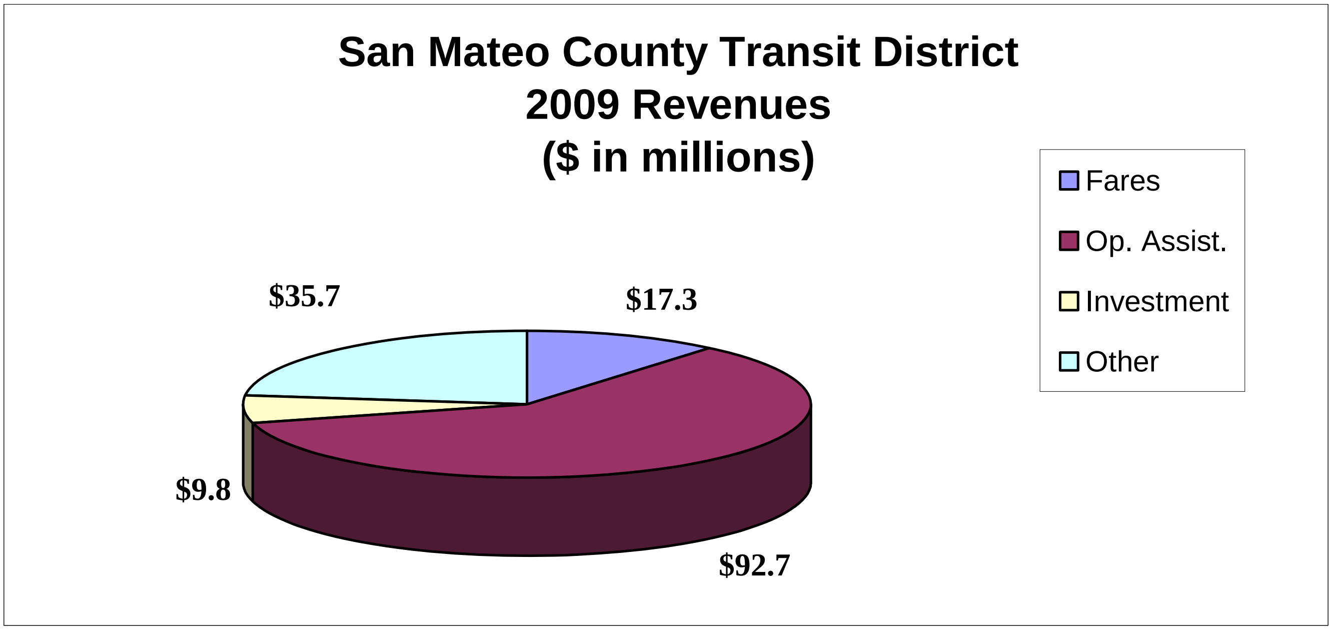
The *Office of Customer Service and Marketing* is responsible for customer service, marketing, sales, advertising, and distribution services.

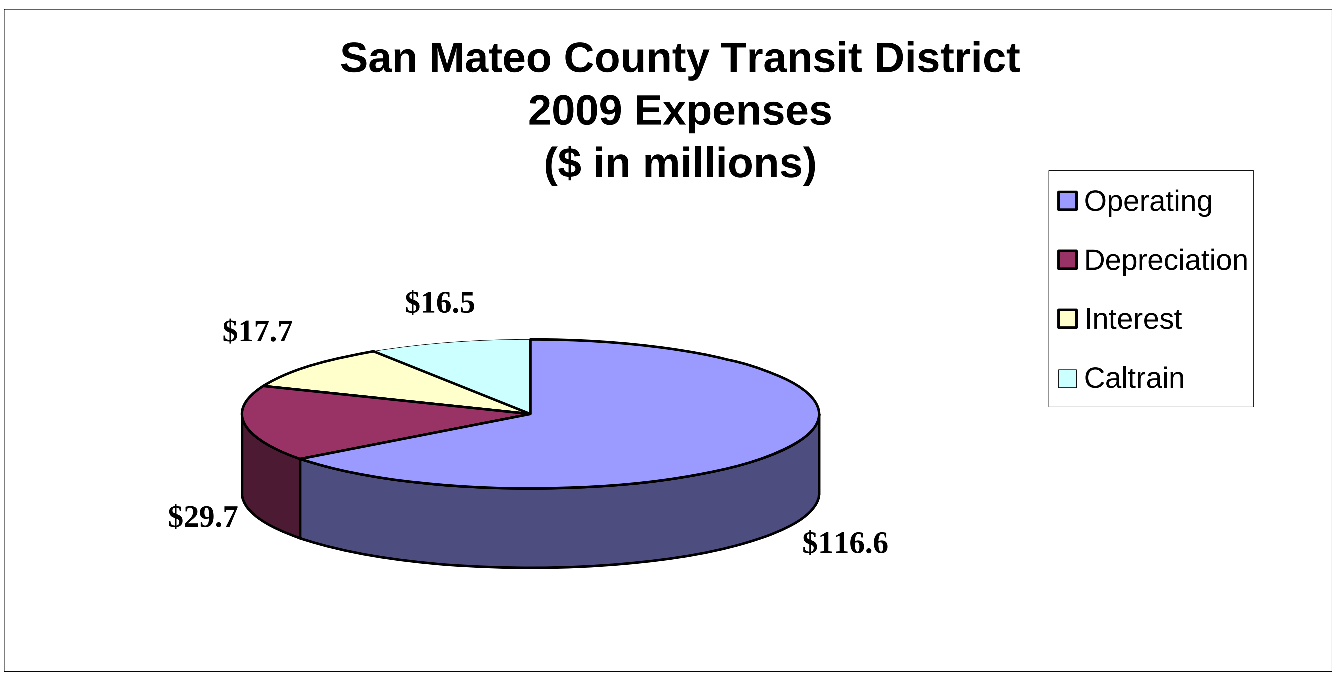
### *Budgetary Controls*

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 fixed 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 2009.



The District anticipates continuing the transition it initiated several years ago from a local and long-haul bus operator to a more diversified enterprise encompassing bus, rail, paratransit, shuttle and other transportation modes. 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 become vital over the next 20 years, as local agencies are encouraged to implement Transportation Systems Management plans designed to reduce highway congestion and improve air quality. Continuing a 33-year 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.

While operating funding sources are scarce, capital funding is available to support a bus acquisition program consistent with the District's fleet modernization standards. Each year, the District identifies and prioritizes capital improvements for bus operations that are consistent with established short-range and long-range plans.

## CURRENT PROGRAMS

### *Motor Bus Operations*

The District designs its service to meet the needs of Peninsula travelers with hundreds of daily trips along the Bayshore corridor between Palo Alto and downtown San Francisco. In addition, San Francisco service is provided along El Camino Real and Mission Street in the north area of San Mateo County. The buses also serve San Francisco International Airport (SFO), Caltrain and BART stations and stops in the 20 cities that make up San Mateo County.

In response to ridership and revenue declines suffered during the weak economy, 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 route was eliminated bringing the current total to 54 routes. Fixed-route bus ridership peaked in San Mateo County at 19.0 million in Fiscal Year 1998, but has since declined to 15.0 million in 2009. In order to address the District's Fiscal Year 2010 budget shortfall, the Board of Directors recently voted to implement a 7.5 percent reduction in service. This reduction includes the elimination of seven routes, a reduction in frequency of some service and adds one new route to connect Foster City with the Millbrae Transit Center. These reductions will be implemented in December 2009.

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 30 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. The grand opening of this facility occurred in September 2007.

In 2009, the JPB signed an agreement with the California High Speed Rail Authority (CHSRA) to establish an initial organizational framework where the CHSRA and the JPB will plan, design and construct improvements along the Caltrain corridor that will accommodate and serve the needs of High Speed Rail (HSR) and Caltrain. The Peninsula Rail Program was established to integrate Caltrain's plans towards ensuring a vital commuter rail system throughout the 21$^{st}$ century, with the program to be implemented by the CHSRA on the Caltrain corridor. A number of projects that will support Caltrain's service enhancements and interface with the eventual operation of HSR service on the corridor include but are not limited to Electrification, Positive Train Control, Terminal Station Upgrades and Grade Separations.

The strategic vision offers the opportunity for Caltrain to define itself as a preferred transportation service provider in an environment where the limits of the railroad infrastructure will soon be reached. Caltrain anticipates that there is additional latent demand yet to be captured and that adding system capacity during peak hours with increased frequency and reduced travel time will attract a significant number of new riders. Towards this goal, JPB staff issued farebox revenue bonds in October 2007 to fund eight new Bombardier rail cars which have been placed in service.

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

### *San Mateo County Transportation Authority*

The District provides staff and support for the TA, 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 TA 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 TA 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 kneeling feature to make boarding easier. 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 the fiscal year ending June 30, 2009, Redi-Wheels and RediCoast vehicles and contracted taxis provided a total of 208,545 hours of service to 322,138 customers.

## FACTORS AFFECTING FINANCIAL CONDITION

### *Local Economy*

The economy in San Mateo County is feeling the effects of a deepened recession. The Distrcit's sales tax receipts, after steadily increasing from 2004 through 2008 surpassing record high levels, dropped significantly by 12.6 percent in 2009. Recovery from this recession is likely to begin in late 2010. Some positive indicators include a recent consumer confidence survey in the state of California which shows that consumers are somewhat less pessimistic about the economy, monthly job losses have declined over the last couple of months and the housing market has shown signs of stabilizing as mortgage rates are down making housing more affordable. However, this recovery is expected to move very slowly.

In addition to the economic effect of the recession, the District faces a significant structural deficit in its operating budget. Both the federal and state governments drastically reduced operating subsidies in response to budget pressures of their own. Also, fare revenue for the District's core business, local bus service, has not recovered to the record high levels experienced in 1998. Finally, additional inflationary strains are being experienced on the growing level of expenses. These trends are challenging the District to re-examine its business model in terms of the needs of its customers versus its fiscally constrained operating budget.

Even in these recessionary times, 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 will help to ensure long-term stability for San Mateo County residents.

### *Cash Management*

The Board of Directors has adopted an investment policy as prescribed by the California Government Code. This policy emphasizes safety and liquidity over return on investment. Within these parameters, the District pursues a prudent cash management and investment program to achieve maximum return on all available funds. The District's policy is to hold securities to maturity to avoid losses from a potential sale but will sell securities prior to maturity when prudent to do so. All of the District's unrestricted cash and investments as of June 30, 2009, were on deposit in various accounts with U.S. Bank, Bank of America, the Bank of New York, or the California State Treasurer's Local Agency Investment Fund. All deposits are either insured by the Federal Deposit Insurance Corporation or covered by collateral.

### *Risk Management*

The District retains an independent consultant to conduct an annual actuarial study. The District coordinates its yearly insurance program through its broker of record, which currently provides liability and property damage per occurrence coverage of $100,000,000 in excess of $1,000,000 self-insured retention. The Risk Management department monitors the insurance program as well as reserves established by the District's contracted third party liability claims.

### *Pension and Other Post-employment Benefits*

The District provides pension and post-retirement health benefits to its employees through the California Public Employees' Retirement System (CalPERS). Pension benefits are provided according to a defined benefit formula based on 2 percent of annual compensation for each year of service at age 55. Pursuant to its employee benefits policy, the District is responsible for both the employer and employee contributions to CalPERS retirement. In Fiscal Year 2009, the District also established a trust fund through the California Employer's Retiree Benefit Trust (CERBT) Program to fund Other Post-employment Benefits (OPEB).

## 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. Although we have concerns about the current prolonged recession, the District expects the continued zeal and dedication of its transit professionals to meet the transportation challenges of the future.

The Government Finance Officers Association (GFOA) recognized the District's 2008 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 2009 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.

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**
Deputy CEO

**Patricia Reavey**
Director of Finance

# 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, 2008

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

President

Executive Director

# BOARD OF DIRECTORS

## ZOE KERSTEEN-TUCKER, Chair

## ROSE GUILBAULT, Vice Chair

## MARK CHURCH

## JERRY DEAL

## SHIRLEY HARRIS

## JIM HARTNETT

## ARTHUR L. LLOYD

## KARYL MATSUMOTO

## ADRIENNE TISSIER

**ZOE KERSTEEN-TUCKER,** public member and representative of the Coastal area, was appointed by the District Board of Directors in March 2006. Ms. Kersteen-Tucker currently serves as Chair. She holds a doctoral degree in experimental neuropsychology from University of California, Berkeley. Ms. Kersteen-Tucker is principal owner of Pacific Development Associates which specializes in leading and training nonprofit executives and boards.

**ROSE GUILBAULT,** public member, was appointed by the San Mateo County Transit District Board of Directors in March 2006. She is Vice President of Corporate Affairs and Publishing for California State Automobile Association, the AAA affiliate of Northern California, Nevada and Utah. Ms. Guilbault was nominated by Governor Schwarzenegger to serve on the Community College Board of Governors. She is also author of "Farmworker's Daughter: Growing up Mexican in America", a childhood memoir.

**MARK CHURCH,** was appointed by the San Mateo County Board of Supervisors in 2009. Mr. Church was elected to the Board of Supervisors in March 2000 and re-elected in March 2004. He represents the First District, which includes the cities of San Mateo, Hillsborough, Millbrae, San Bruno, South San Francisco, and unincorporated Burlingame Hills, Highlands/Baywood, and the San Francisco Airport. He also serves as a member of the governing body of the Peninsula Corridor Joint Powers Board. Mr. Church is a member of the California Bar and has been in private practice for over 20 years. In 1982, he established the law firm of Church and Associates in Millbrae

**JERRY DEAL,** Cities Selection Committee appointee for the central portion of San Mateo County, was appointed by the City Selection Committee in April 2009. Mr. Deal has been a member of the City Council of the City of Burlingame since 2007. Mr. Deal is principal owner of J Deal Associates, a residential design firm based in Burlingame.

**SHIRLEY HARRIS**, public member, was appointed by the District Board of Directors in January 1994 and served as the chair of the Board of Directors in 1996 and in 2001. Ms. Harris has more than 25 years of experience in telecommunications and human resource management. She is a long-time resident of Daly City.

**JIM HARTNETT,** Cities Selection Committee appointee for the southern portion of San Mateo County, was appointed by the Cities Selection Committee in December 2002. Mr. Hartnett has been a member of the City Council of Redwood City since 1994. He also serves as a member of the governing body of the Peninsula Corridor Joint Powers Board. Mr. Hartnett is an attorney with a practice in Redwood City.

**ARTHUR L. LLOYD,** "Transit Expert" member, was appointed by the San Mateo County Board of Supervisors in February 1988. Mr. Lloyd also serves as a member of the governing body of the Peninsula Corridor Joint Powers Board. Prior to his retirement, Mr. Lloyd owned a charter bus company and a travel agency and held several positions at Amtrak.

**KARYL MATSUMOTO,** Cities Selection Committee Appointee for the northern portion of San Mateo County was appointed by the Cities Selection Committee in February 2007. Ms. Matsumoto was elected to the City of South San Francisco City Council in November 1997. She is a native Californian and has lived in South San Francisco for 27 years.

**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 also represents the county on the Metropolitan Transportation Commission (MTC), a regional transportation financing body. She is MTC's 2009-2011 vice chair.

# EXECUTIVE MANAGEMENT

## GENERAL MANAGER/CEO

Michael J. Scanlon

## EXECUTIVE TEAM

Virginia Harrington – Deputy CEO

C. H. (Chuck) Harvey – Deputy CEO

Rita Haskin – Executive Officer, Customer Service and Marketing

Marian Lee – Executive Officer, Planning and Development

Mark Simon – Executive Officer, Public Affairs

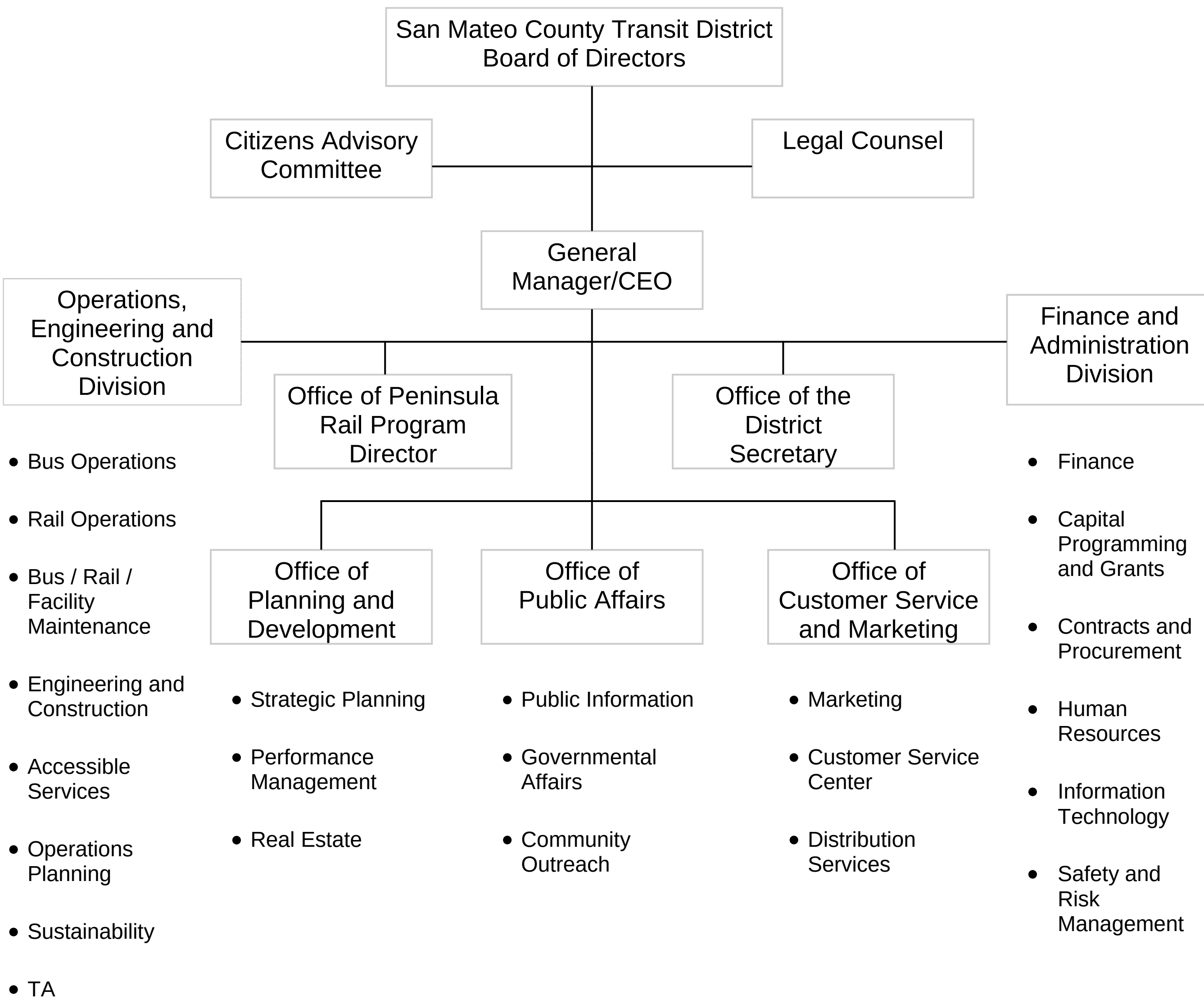
Bob Doty – Peninsula Rail Program Director

Martha Martinez – District Secretary

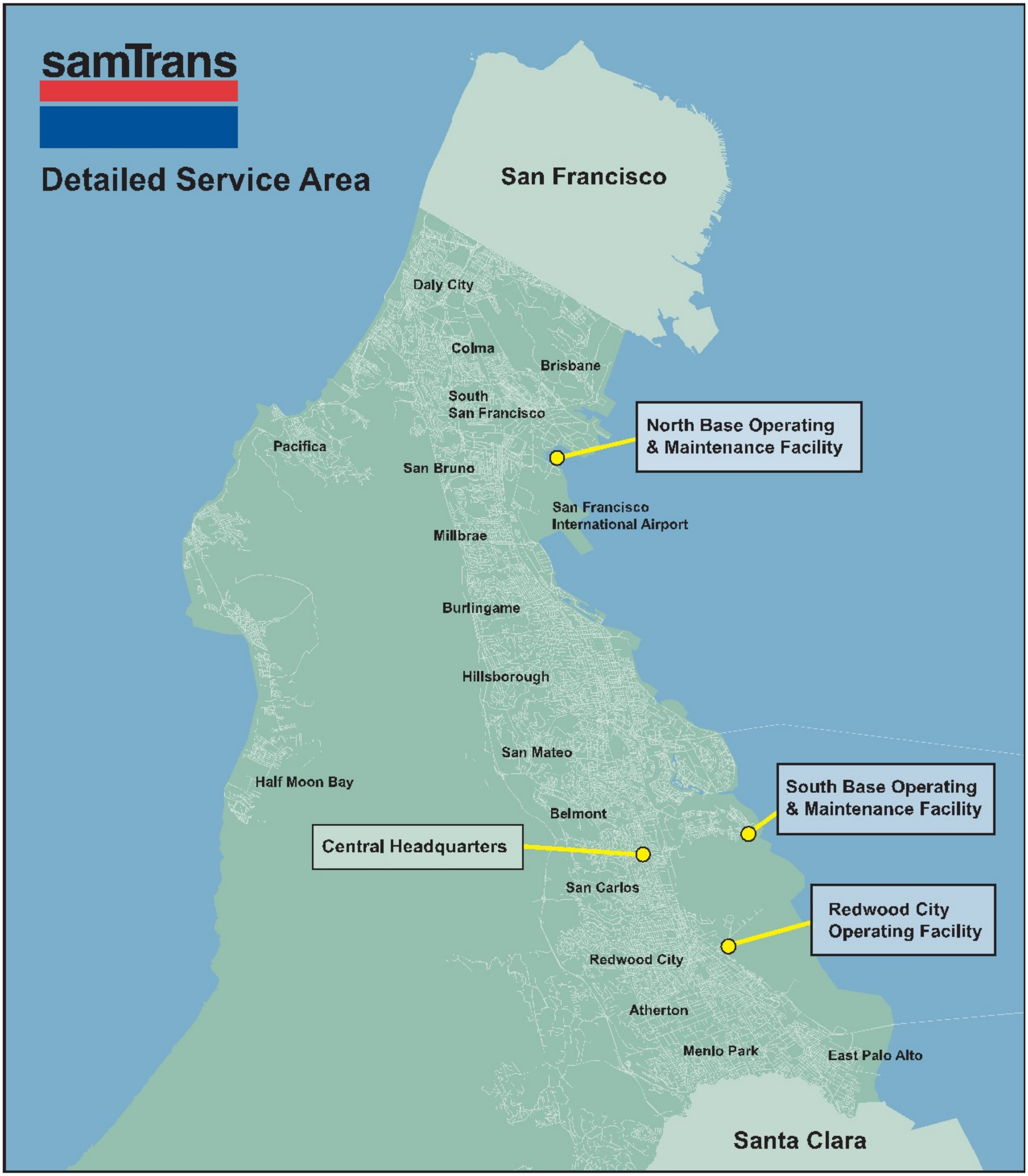
## GENERAL COUNSEL

Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP:
David J. Miller, Esq.
Joan Cassman, Esq.

# ORGANIZATION CHART




San Mateo County, California
Sacramento
San Francisco
Area of Detail
San Mateo County
Los Angeles
San Diego


samTrans
Detailed Service Area
San Francisco
Daly City
Colma
Brisbane
South
San Francisco
North Base Operating
& Maintenance Facility
Pacifica
San Bruno
San Francisco
International Airport
Millbrae
Burlingame
Hillsborough
San Mateo
Half Moon Bay
South Base Operating
& Maintenance Facility
Belmont
Central Headquarters
San Carlos
Redwood City
Operating Facility
Redwood City
Atherton
Menlo Park
East Palo Alto
Santa Clara

# TABLE OF CREDITS

The following individuals contributed to the production of the Fiscal Year 2009 Comprehensive Annual Financial Report:

| | | |
|---|---|---|
| **Finance**: | | |
| | Manager, Budgets | Eva Goode |
| | Manager, General Ledger | Rima Lobo |
| | Manager, Treasury | Lori Snow |
| | Senior Accountant | Jeannie Chen |
| | Senior Budget Analyst | Christina Tang |
| | Senior Systems Accountant | Angustia Pacumio |
| **Audit Firm**: | Partner | Leonard Danna |
| | Partner | Ahmad Gharaibeh |

# *Section II*

## FINANCIAL

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements and Notes

Required Supplementary Information

Supplementary Information and Notes

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
San Mateo County Transit District

We have audited the accompanying basic financial statements of the San Mateo County Transit District (District), as of and for the fiscal years ended June 30, 2009 and 2008. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2009 and 2008 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and schedule of funding progress listed in the table of contents are not a required part of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.



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Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The introductory section, supplementary information, statistical section and Schedule of Expenditures of Federal Awards listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the District. The supplementary information and Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
November 30, 2009

# 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 2009 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, 2009, total assets stand at $500.7 million, a decrease of $18.2 million or 3.5 percent compared to June 30, 2008. The 2009 decrease was mainly due to the disposition of fixed assets. At June 30, 2008, total assets stand at $518.9 million, a decrease of $9.2 million or 1.7 percent compared to June 30, 2007. The Fiscal Year 2008 decrease was primarily due to a decrease in cash and cash equivalents.
- At June 30, 2009, total liabilities were $366.9 million, a decrease of $4.3 million or 1.2 percent compared to June 30, 2008. The 2009 decrease was mainly due to a reduction in long-term debt. At June 30, 2008, total liabilities were $371.3 million, an increase of $2.9 million or 0.8 percent compared to June 30, 2007. Other Post-employment Benefits (OPEB) and other noncurrent liabilities account for the majority of the increase in fiscal year 2008.
- For Fiscal Year 2009, passenger fares were $17.3 million, an increase of $0.1 million or 0.7 percent compared to Fiscal Year 2008. The 2009 increase was due to fare increase. For Fiscal Year 2008, passenger fares were $17.2 million, an increase of $0.4 million or 2.2 percent compared to Fiscal Year 2007. The increase in Fiscal Year 2008 was the result of a slight increase in ridership.
- In Fiscal Year 2009, total operating expenses were $116.6 million, a decrease of $1.0 million or 0.8 percent compared to Fiscal Year 2008. The decrease in 2009 was mainly due to the allocation of OPEB obligation costs based on funding. In Fiscal Year 2008, total operating expenses were $117.5 million, an increase of $9.4 million or 8.7 percent compared to Fiscal Year 2007. The increase in Fiscal Year 2008 was primarily due to the implementation of GASB Statement No. 45 and the resulting recognition of OPEB obligations.
- For Fiscal Year 2009, nonoperating revenues net of nonoperating expenses was $104.0 million, an increase of $4.0 million or 4.0 percent compared to 2008. The 2009 increase was due to the receipt of the $25.0 million corpus of the paratransit trust fund from the TA offset by a reduction in operating assistance. In Fiscal Year 2008, nonoperating revenues net of nonoperating expenses were $100.0 million, an increase of $0.9 million or 0.9 percent compared to Fiscal Year 2007. The 2008 increase was mainly due to a decrease in BART operating support.
- At June 30, 2009, net assets were $133.8 million, a decrease of $13.9 million or 9.4 percent from June 30, 2008. The 2009 decrease was mostly due to a reduction in operating assistance, specifically Transportation Development Act, State Transit Assistance and sales tax funding. At June 30, 2008, net assets were $147.7 million, a decrease of $12.1 million or 7.6 percent from June 30, 2007. The decrease in fiscal year 2008 is mainly due to the implementation of GASB Statement No. 45, which required the District to book an additional $2.3 million in accrued expenses in addition to inflationary increases in expenses.

## 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 themselves.

## Basic Financial Statements

The *Statement of Net Assets* presents information about assets and liabilities with the difference between the two reported as *net assets*. The change in net assets 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 Assets* reports how net assets 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 assets.
- *Cash flows from non-capital financing activitie*s which includes operating grant proceeds as well as operating subsidy payments from third parties.
- *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. 25 and No. 45 providing information about the status of the District's unfunded actuarial accrued 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 2009, total assets were $500.7 million, a decrease of $18.2 million or 3.5 percent compared to June 30, 2008. In Fiscal Year 2008, total assets were $518.9 million, a decrease of $9.2 million or 1.7 percent compared to June 30, 2007. Total current assets decreased $9.3 million or 9.4 percent to $89.3 million on June 30, 2009 from $98.7 million on June 30, 2008 mostly due to a decrease in sales tax revenues resulting in a decrease of cash and decreased of $12.1 million or 10.9 percent at June 30, 2008 compared to June 30, 2007. Capital assets – net of depreciation, contribution to BART – net of amortization and other non-current assets combined, decreased by $8.9 million or 2.1 percent in 2009 and increased by $2.9 million or 0.7 percent in 2008.

Capital assets net of accumulated depreciation decreased by $12.2 million or 8.3 percent to $135.3 million at June 30, 2009 compared to 2008 and $0.2 million or 0.1 percent in 2008 compared to 2007. 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 $6.4 million or 4.2 percent to $145.0 million in Fiscal Year 2009 compared to Fiscal Year 2008 and decreased by $7.3 million or 4.6 percent in Fiscal Year 2008 compared to Fiscal Year 2007. 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 ASSETS**
**(in thousands)**

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Current Assets | $ 89,346 | $ 98,669 | $ 110,734 |
| Capital assets, net of depreciation | 135,280 | 147,455 | 147,640 |
| Contribution to BART, net of amortization | 145,021 | 151,451 | 158,729 |
| Other noncurrent assets | 131,096 | 121,352 | 110,995 |
| **Total assets** | 500,743 | 518,927 | 528,098 |
| | | | |
| Current liabilities | 26,990 | 24,921 | 24,641 |
| Long-term debt | 323,451 | 331,195 | 337,805 |
| Other noncurrent liabilities | 16,499 | 15,154 | 5,919 |
| **Total liabilities** | 366,940 | 371,270 | 368,365 |
| Net assets | | | |
| Invested in capital assets, net of related debt | (46,833) | (35,006) | (33,619) |
| Restricted | 28,058 | 3,517 | 3,569 |
| Unrestricted | 152,578 | 179,146 | 189,783 |
| **Total net assets** | $ 133,803 | $ 147,657 | $ 159,733 |

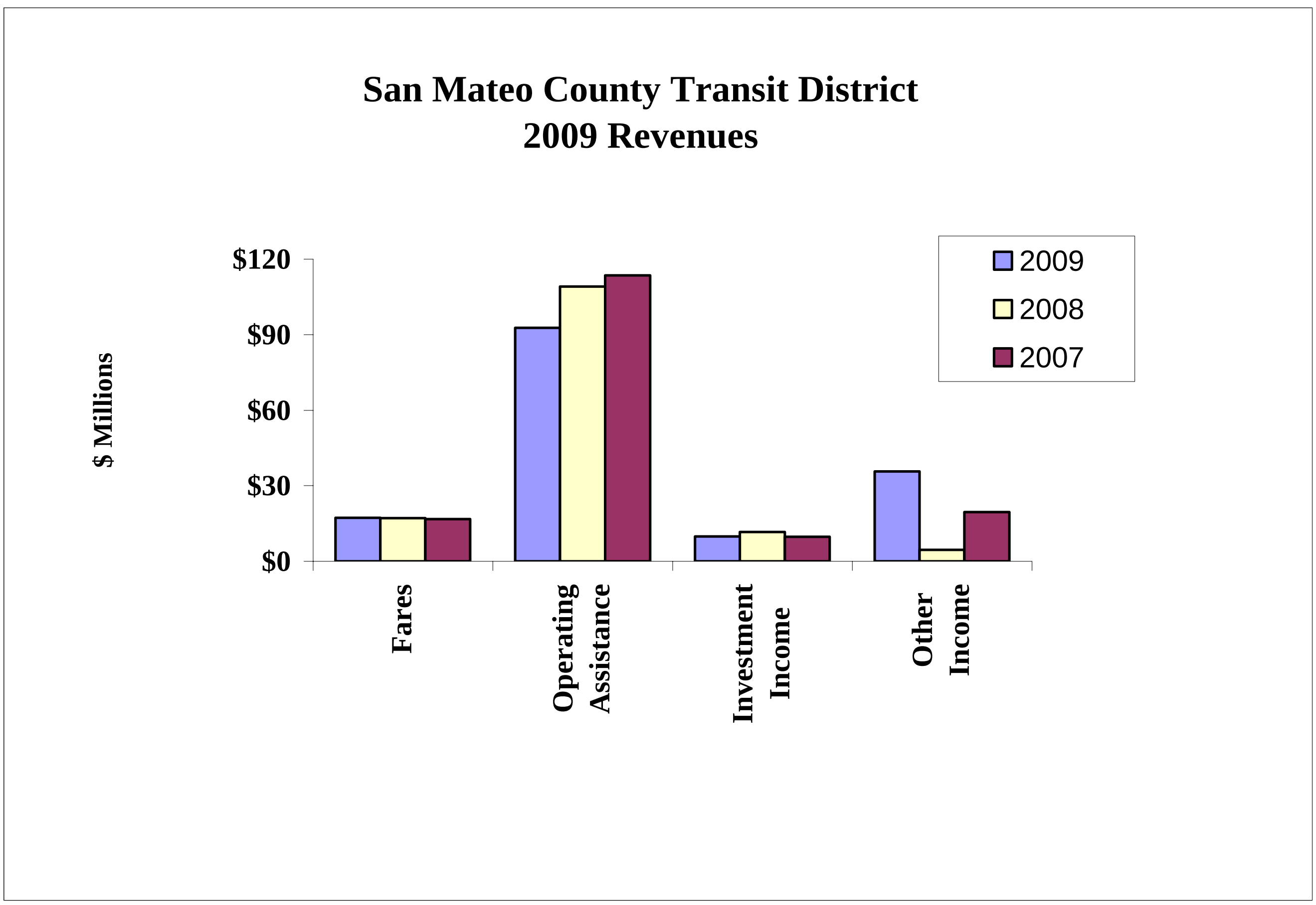
In Fiscal Year 2009, total liabilities were $366.9 million, a decrease of $4.3 million or 1.2 percent compared to Fiscal Year 2008. The 2009 decrease was mainly due to scheduled payments of principal on long-term debt. In

Fiscal Year 2008, total liabilities were $371.3 million, an increase of $2.9 million or 0.8 percent compared to 2007. An increase in other non-current liabilities related to a property acquisition accounts for the majority of the increase in Fiscal Year 2008.

At June 30, 2009, net assets of $133.8 million were $13.9 million or 9.4 percent less than the $147.7 million at June 30, 2008 and were $12.1 million or 7.6 percent less on June 30, 2008 compared to $159.7 million at June 30, 2007. The ($46.8) million invested in capital assets net of related debt at June 30, 2009 were (35.0) percent of the total net assets. Total restricted net assets at June 30, 2009 were $28.1 million or 21.0 percent of total net assets. The remaining $157.6 million of total net assets at June 30, 2009 were unrestricted and represented 114.0 percent of total net assets.

## Revenue Highlights

Operating revenues generated from passenger fares of $17.3 million increased by $0.1 million or 0.7 percent during Fiscal Year 2009 compared to Fiscal Year 2008 and increased by $0.4 million or 2.2 percent in Fiscal Year 2008 compared to Fiscal Year 2007. This change was the result of a fare increase in 2009 and a slight increase in ridership for both fiscal years.

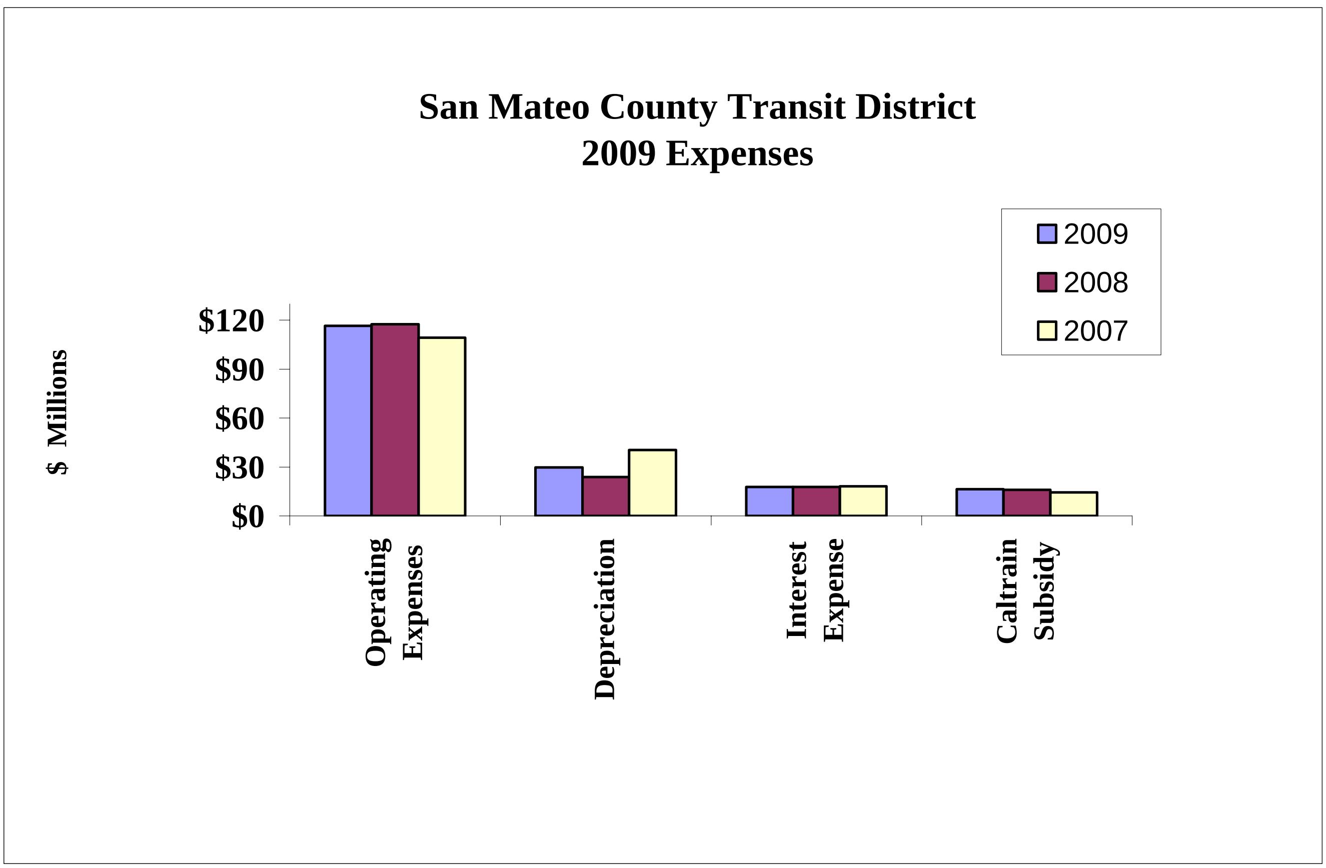



In Fiscal Year 2009, nonoperating revenues increased by $4.4 million or 3.3 percent to $138.2 million. This increase was mostly due to the transfer of $25 million corpus of the paratransit trust fund to the District from the TA. Operating assistance of $92.7 million accounted for the majority of fiscal year 2009 nonoperating revenues.

This amount consisted of 56.4 percent from transaction and use tax, 33.0 percent from local transportation funds, 6.9 percent from federal assistance and 3.7 percent from Measure A, state transit assistance and AB434 funds combined.

## Expense Highlights

In Fiscal Year 2009, total operating expenses were $116.6 million, an increase of $1.0 million or 0.8 percent compared to Fiscal Year 2008. In Fiscal Year 2008, total operating expenses were $117.5 million, an increase of $9.4 million or 8.7 percent compared to Fiscal Year 2007. Total operating expenses in 2009 consisted of $62.7 million or 53.8 percent for wages and benefits, $33.4 million or 28.6 percent for contract operations and other services, and $20.5 million or 17.6 percent for materials, insurance and other miscellaneous expenses combined. Depreciation and amortization expenses were $29.7 million and $23.9 million for Fiscal Year 2009 and Fiscal Year 2008 respectively, a $5.8 million or 24.2 percent increase in Fiscal Year 2009 compared to Fiscal Year 2008 and $16.5 million or 40.8 percent decrease in Fiscal Year 2008 compared to Fiscal Year 2007. The decrease in Fiscal Year 2008 was due to an adjustment in 2007 related to a change in accounting estimates concerning estimates of asset life.




In Fiscal Year 2009, nonoperating expenses were $34.2 million, an increase of $0.4 million or 1.1 percent compared to Fiscal Year 2008. In Fiscal Year 2008, nonoperating expenses were $33.8 million, a decrease of $4.0 million or 10.6 percent compared to Fiscal Year 2007. In Fiscal Year 2009, the District paid the JPB $16.5 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 ASSETS**
**(in thousands)**

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Operating revenues-passenger fares | $ 17,325 | $ 17,203 | $ 16,830 |
| Operating expenses-transit services | 116,563 | 117,537 | 108,123 |
| Operating loss before depreciation and amortization | (99,238) | (100,334) | (91,293) |
| Depreciation and amortization | (29,687) | (23,899) | (40,399) |
| Operating loss | (128,925) | (124,233) | (131,692) |
| Nonoperating revenues | | | |
| Operating assistance | 92,673 | 109,227 | 108,836 |
| Investment income | 9,830 | 11,637 | 9,745 |
| Interagency administrative income | 3,151 | 8,327 | 6,944 |
| Other income, net | 32,520 | 4,587 | 11,407 |
| Total Nonoperating revenues | 138,174 | 133,778 | 136,932 |
| Nonoperating expenses | | | |
| SFO/Colma BART station revenue (deficit) | - | - | (5,289) |
| Interest expense | (17,674) | (17,783) | (18,075) |
| Caltrain service subsidy | (16,521) | (16,040) | (14,478) |
| Total Nonoperating expenses | (34,195) | (33,823) | (37,842) |
| Net loss before capital contributions | (24,946) | (24,278) | (32,602) |
| Capital contributions | 11,092 | 12,202 | 7,033 |
| Change in net assets | (13,854) | (12,076) | (25,569) |
| Net assets - beginning of year | 147,657 | 159,733 | 185,302 |
| Net assets - end of year | $ 133,803 | $ 147,657 | $ 159,733 |

## Capital Program

The District received capital contributions of $11.1 million in Fiscal Year 2009 and $12.2 million in Fiscal Year 2008, which was a decrease of $1.1 million or 9.1 percent in Fiscal Year 2009 compared to Fiscal Year 2008 and an increase of $5.2 million or 73.5 percent in Fiscal Year 2008 compared to Fiscal Year 2007. The increase in 2008 was mostly due to a fair value gain related to the acquisition of property located in San Carlos along the Caltrain right of way received from the TA.

The following is a summary of the District's major capital expenditures for Fiscal Year 2009.

- Communication Information System ($2.3 million)
- VTA-SamTrans Zero Emission Bus Program ($1.5 million)

- Purchase of El Dorado Amerivans ($1.3 million)
- Replacement of bus parts in accordance with FTA guidelines ($1.0 million)
- Maintenance Facility Rehab/Repavement project ($0.8 million)
- Planning study for transit-oriented development ($0.7 million)
- Purchase of paratransit buses and vans ($0.7 million)
- Capital project development, control and monitoring ($0.5 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

The District had $329.9 million in bonds and notes outstanding at June 30, 2009 compared to $338.1 million at June 30, 2008, a decrease of $8.7 million or 2.6 percent. The scheduled payment of $6.9 million and the refinancing of the District's California Transportation Finance Authority (CTFA) variable rate debt with the 2009 Series A fixed rate Bonds during Fiscal Year 2009 accounts for this reduction. The District pledges sales tax revenues to secure its bonds and also has purchased insurance on the 1993 and 2005 Series A Bonds and setup a Bond Reserve fund on the 2009 Series A Bonds to secure the payment of principal and interest on due dates. The District retains a trustee to maintain its bond fund. 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

The nation is experiencing one of the longest recessions on record since World War II and experts cannot agree on how long this recession will last. San Mateo County has not been spared in this national recession. The unemployment rate in San Mateo County began Fiscal Year 2009 at 5.0 percent and shot up at a tremendous rate ending the fiscal year at 9.0 percent. Job losses were widely dispersed across industries. Growing job losses, rising unemployment, failing personal income and the loss of consumer confidence account for the plummeting of the District's sales tax receipts in Fiscal Year 2009 by 12.6 percent to $60 million; compared to a record high level in Fiscal Year 2008 of $68.7 million. Recovery from this recession is expected to begin in 2010; however, it is expected to move very slowly. The District is feeling the strain in every aspect of revenues including sales tax, state and federal funding, and farebox revenues. The resulting effects on the operating budget are expected to exacerbate the structural deficit problem the District is facing.

## 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, San Carlos, California 94070-1306.

**SAN MATEO COUNTY TRANSIT DISTRICT**
**STATEMENTS OF NET ASSETS**
**JUNE 30, 2009 AND 2008 (in thousands)**

| **ASSETS** | **2009** | **2008** |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents (Notes 1 & 2) | $ 22,054 | $ 24,942 |
| Investments (Notes 1 & 2) | 33,517 | 39,727 |
| Restricted investments (Notes 1 & 2) | 7,173 | 2,633 |
| Receivables: | | |
| Transaction and use tax | 9,742 | 13,045 |
| Receivable from Peninsula Corridor Joint Powers Board (Note 8) | 1,578 | 2,788 |
| Federal grants (Note 4) | 6,122 | 1,277 |
| Interest | 1,311 | 1,641 |
| Other | 4,257 | 9,634 |
| Allowance for doubtful accounts | (90) | (90) |
| Total Receivables - Net | 22,920 | 28,295 |
| Inventories (Note 1) | 1,650 | 1,772 |
| Prepaid expenses | 2,032 | 1,300 |
| Total Current Assets | 89,346 | 98,669 |
| | | |
| NONCURRENT ASSETS: | | |
| Noncurrent investments (Note 2) | 104,022 | 113,862 |
| Restricted investments (Notes 1 & 2) | 21,750 | 2,210 |
| Capital assets | | |
| Buses and bus equipment | 140,767 | 142,856 |
| Buildings and building improvements | 73,868 | 73,686 |
| Maintenance and other equipment | 14,591 | 24,718 |
| Furniture and fixtures | 14,447 | 13,033 |
| Shelters and bus stop signs | 3,165 | 3,271 |
| Other vehicles | 2,343 | 2,015 |
| Total capital assets | 249,181 | 259,579 |
| Less accumulated depreciation | (182,304) | (182,331) |
| Land and right of way (Note 7) | 51,435 | 51,435 |
| Construction in progress | 16,968 | 18,772 |
| Capital assets - Net (Note 6) | 135,280 | 147,455 |
| Capital contribution to BART, net of amortization (Note 5) | 145,021 | 151,451 |
| Bond issuance costs | 4,317 | 4,224 |
| Other assets (Note 9) | 1,007 | 1,056 |
| Total Noncurrent Assets | 411,397 | 420,258 |
| Total Assets | $ 500,743 | $ 518,927 |

See accompanying notes to the financial statements.

**SAN MATEO COUNTY TRANSIT DISTRICT**
**STATEMENTS OF NET ASSETS**
**JUNE 30, 2009 AND 2008 (in thousands)**

| **LIABILITIES** | **2009** | **2008** |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | $ 9,567 | $ 7,775 |
| Current portion of compensated absences | 5,809 | 5,079 |
| Current portion of self-insurance liabilities (Note 14) | 1,912 | 3,627 |
| Accrued interest | 1,702 | 1,500 |
| Current portion of long-term debt (Note 11) | 8,000 | 6,940 |
| Total Current Liabilities | 26,990 | 24,921 |
| | | |
| NONCURRENT LIABILITIES: | | |
| Long-term debt (Note 11) | 323,451 | 331,195 |
| Self-insurance liabilities less current portion (Note 14) | 5,881 | 4,701 |
| Other noncurrent liabilities (Note 10) | 5,315 | 6,160 |
| Compensated absences less current portion | 1,530 | 1,965 |
| Post-employment benefits (Note 13) | 3,773 | 2,328 |
| Total Noncurrent Liabilities | 339,950 | 346,349 |
| Total Liabilities | 366,940 | 371,270 |
| | | |
| **NET ASSETS** | | |
| Invested in capital assets, net of related debt | (46,833) | (35,006) |
| Restricted | 28,058 | 3,517 |
| Unrestricted | 152,578 | 179,146 |
| Total Net Assets | $ 133,803 | $ 147,657 |

See accompanying notes to the financial statements.

**SAN MATEO COUNTY TRANSIT DISTRICT**
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**
**YEARS ENDED JUNE 30, 2009 AND 2008 (in thousands)**

| | 2009 | 2008 |
|---|---|---|
| OPERATING REVENUES - Passenger fares | $ 17,325 | $ 17,203 |
| OPERATING EXPENSES: | | |
| Salaries and benefits | 62,708 | 64,175 |
| Contract operations and maintenance services | 28,710 | 27,902 |
| Other services | 4,655 | 3,747 |
| Materials and supplies | 8,432 | 9,589 |
| Insurance | 5,621 | 6,074 |
| Miscellaneous | 6,437 | 6,050 |
| Total operating expenses | 116,563 | 117,537 |
| Operating loss before depreciation and amortization and administrative expenses capitalized | (99,238) | (100,334) |
| Depreciation and amortization | (29,687) | (23,899) |
| OPERATING LOSS | (128,925) | (124,233) |
| NONOPERATING REVENUES (EXPENSES): | | |
| Operating assistance (Note 3) | 92,673 | 109,227 |
| Investment income | 9,830 | 11,637 |
| Interest expense | (17,674) | (17,783) |
| Caltrain service subsidy (Note 8) | (16,521) | (16,040) |
| Interagency administrative income | 3,151 | 8,327 |
| Other income, net | 7,520 | 4,587 |
| Paratransit Trust Fund (Note 17) | 25,000 | - |
| Total nonoperating revenues, net | 103,979 | 99,955 |
| Net loss before capital contributions | (24,946) | (24,278) |
| Capital contributions (Note 1) | 11,092 | 12,202 |
| CHANGE IN NET ASSETS | (13,854) | (12,076) |
| Net assets, beginning of year, as restated | 147,657 | 159,733 |
| Net assets, end of year | $ 133,803 | $ 147,657 |

See accompanying notes to the financial statements.

**SAN MATEO COUNTY TRANSIT DISTRICT**
**STATEMENTS OF CASH FLOWS**
**YEARS ENDED JUNE 30, 2009 AND 2008 (in thousands)**

| | 2009 | 2008 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from passenger fares | $ 17,467 | $ 17,129 |
| Payments to vendors for services | (54,501) | (52,617) |
| Payments to employees | (59,564) | (61,907) |
| Other | 9,923 | 15,040 |
| Net cash used in operating activities | (86,675) | (82,355) |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: | | |
| Operating grants received, including transaction and use tax | 97,193 | 109,855 |
| Caltrain service outlays | (16,521) | (16,040) |
| Net cash provided by non-capital financing activities | 80,672 | 93,815 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition and construction of capital assets | (12,807) | (12,114) |
| Capital contributions from grants | 11,317 | 5,864 |
| Bond principal paid | (6,723) | (6,620) |
| Interest and cost of issuance paid | (15,887) | (17,213) |
| Transfers from other agencies | 25,000 | - |
| Net cash provided by in capital and related financing activities | 900 | (30,083) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of investment securities | 64,603 | 56,451 |
| Purchases of investment securities | (70,824) | (55,584) |
| Investment income received on all interest-bearing investments | 8,436 | 7,012 |
| Net cash provided by investing activities | 2,215 | 7,879 |
| Net decrease in cash and cash equivalents | (2,888) | (10,744) |
| Cash and cash equialents, beginning of year | 24,942 | 35,686 |
| Cash and cash equivalents, end of year | $ 22,054 | $ 24,942 |

See accompanying notes to the financial statements.

**SAN MATEO COUNTY TRANSIT DISTRICT**
**STATEMENTS OF CASH FLOWS**
**YEARS ENDED JUNE 30, 2009 AND 2008 (in thousands)**

| | **2009** | **2008** |
|---|---|---|
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES: | | |
| Operating loss | $ (128,925) | $ (124,233) |
| Other nonoperating items | 9,917 | 15,040 |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation and amortization | 29,687 | 23,899 |
| Effect of changes in: | | |
| Accounts receivable | 1,441 | (231) |
| Inventories | 122 | (317) |
| Prepaid expenses | (734) | 939 |
| Other assets | 4 | 31 |
| Accounts payable and accrued expenses | 1,206 | (1,488) |
| Other postemployment liability | 845 | 2,328 |
| Compensated absences | 297 | 246 |
| Self-insurance liabilities | (535) | 2,650 |
| Net cash used in operating activities | $ (86,675) | $ (81,136) |
| | | |
| NONCASH INVESTING ACTIVITIES: | | |
| Increase in fair value of investments | $ 3,963 | $ 4,914 |

See accompanying notes to the financial statements.

***INDEX TO THE NOTES*** ***Pages***



Notes are essential to present fairly the information contained in the overview level of the basic financial statements. Narrative explanations are intended to communicate information that is not readily apparent or cannot be included in the statements and schedules themselves, and to provide additional disclosures as required by the Governmental Accounting Standards Board.

## 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 services. 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. *Entity*

The District's reporting entity includes only the District.

### C. *Basis of Accounting*

The District is a single enterprise fund and maintains its records on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. The District has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

### *D. Implementation of Governmental Accounting Standards Board Statements*

**GASB Statement No. 49** – In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligation, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanup. This statement is effective June 30, 2009. The provision of this statement did not impact the District's financial statements.

**GASB Statement No. 51** – In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. The guidance in this statement is effective for financial statements with reporting periods beginning after June 15, 2009. The District has not determined its effect on the financial statements.

**NOTE #1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***

***D. Implementation of Governmental Accounting Standards Board Statements (continued)***

**GASB Statement No. 52 –** In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments.* This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The guidance in this statement is effective for financial statements with reporting periods beginning after June 15, 2008, with earlier application encouraged. The requirement of this pronouncement did not have an impact on the District's financial statements.

**GASB Statement No. 53 –** In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement is intended to improve how state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements. The statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this statement also addresses hedge accounting requirement and is effective for financial statements with reporting periods beginning after June 15, 2009, with earlier application encouraged. This statement is not expected to impact the District's financial statements.

**GASB Statement No. 54 –** In March 2009, the GASB issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for financial statements with reporting periods beginning after June 15, 2010. This statement will not impact the District's financial statements.

**E. *Cash and Cash Equivalents***

For purposes 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. Non-current 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 statutes and could be further restricted by the Board of Directors.

**NOTE #1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***

**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 have been invested in U.S. Treasury notes, mutual funds and guaranteed investment contracts.

**H. *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.

**I. *Property and equipment***

Property and equipment 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 property and equipment with a cost greater than $5,000 and a useful life of more than one year.

**J. *Construction in progress***

Construction in progress consists of the following projects at June 30, 2009 and 2008 (in thousands):

**Construction in Progress**

| | 2009 | 2008 |
|---|---|---|
| Bus fleet improvements | $ 6,048 | $ 4,546 |
| Dumbarton rail | 2,420 | 2,465 |
| Bus communications system | 1,805 | 1,320 |
| Information technology support | 1,679 | 3,301 |
| Transit-oriented development | 1,501 | 2,227 |
| Pavement rehabilitation | 762 | 507 |
| Administration building improvement | 898 | 318 |
| Other | 1,855 | 4,088 |
| Total Construction in progress | $ 16,968 | $ 18,772 |

## NOTE #1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### J. ***Construction in progress (continued)***

Interest is capitalized on construction in progress in accordance with the Statement of Financial Accounting Standards No. 62, Capitalization of Interest Cost in Situations Involving Certain Tax-exempt Borrowings and Certain Gifts and Grants. Accordingly, interest capitalized is the total interest cost from the date of the borrowing net of any allowable interest earned on temporary investments of the proceeds of those borrowings until the specified asset is ready for its intended use. There was no interest capitalized in fiscal years 2009 or 2008.

### K. ***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 JPB (see *Note 8*) and does not recognize revenues or expenses associated with this agency function.

### L. ***Bond issuance costs***

Bond issuance costs are being amortized on a straight-line basis over the life of the related debt.

### M. ***Arbitrage***

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

### N. ***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 absences time, depending upon the number of years of service. In fiscal years ending June 30, 2009 and 2008, employees of the District accrued and used balances of compensated absences in the amount of $5,809,400 and $5,513,002, respectively. At June 30, 2009 and 2008, accrued compensated absences for all District employees amounted to $7,339,204 and $7,042,806, respectively. The current portion of the compensated absences liability is reflected as a current liability in the statement of net assets and is expected to be used within one year.

### O. ***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 assets.

## NOTE #1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### O. *Capital Contributions (continued)*

Capital contributions for the years ended June 30, 2009 and 2008 were as follows (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Federal grants | $ 2,760 | $ 2,002 |
| Local assistance - Sales tax | 7,726 | 5,777 |
| Other local transportation funds | 605 | 4,423 |
| Total | $ 11,092 | $ 12,202 |

### P. *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 the 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.

### Q. *Use of Estimates*

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

### R. *Reclassifications*

Certain amounts in the prior year financial statements may have been reclassified to conform to current year presentation.

## NOTE #2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2009 and 2008 are classified in the statement of net assets as follows (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Cash and cash equivalents | $ 22,054 | $ 24,942 |
| Investments | 33,517 | 39,727 |
| Restricted investments - current | 7,173 | 2,633 |
| Noncurrent investments | 104,022 | 113,862 |
| Restricted investments - noncurrent | 21,750 | 2,210 |
| Total | $ 188,516 | $ 183,374 |

Cash and investments as of June 30, 2009 and 2008 consist of the following (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Cash on hand | $ 9 | $ 9 |
| Deposits with financial institutions | 9,533 | (452) |
| Investments | 178,974 | 183,817 |
| Total | $ 188,516 | $ 183,374 |

## NOTE #2 – CASH AND INVESTMENTS *(continued)*

### 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 address 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 District's investment policy.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 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 |
| Asset-backed securitities | 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 trustee 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.

***NOTE #2 – CASH AND INVESTMENTS (continued)***

**Disclosures Relating to 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, 2009 was as follows:

| Investment Type | Amount (in thousands) | Weighted Average Maturity (in years) |
|---|---|---|
| U.S. Agency Securities | $ 137,341 | 2.34 |
| U.S. Government Securities | 19,052 | 2.04 |
| Repurchase Agreements | 9,505 | - |
| Medium-term Notes | 5,673 | 1.46 |
| Local Agency Investment Fund (LAIF) | 3,006 | 0.64 |
| Held by bond trustee: | | |
| Money market | 2,123 | 0.00 |
| U.S. Agency Securities | 2,274 | 2.73 |
| Total | $ 178,974 | |
| Portfolio Weighted Average Maturity | | 2.10 |

***NOTE #2 – CASH AND INVESTMENTS (continued)***

The District's weighted average maturity of its investment portfolio at June 30, 2008 was as follows:

| Investment Type | Amount (in thousands) | Weighted Average Maturity (in years) |
|---|---|---|
| U.S. Agency Securities | $ 123,418 | 2.77 |
| Repurchase Agreements | 1,286 | - |
| Medium-term Notes | 30,168 | 1.36 |
| Local Agency Investment Fund (LAIF) | 24,099 | 0.58 |
| Held by bond trustee: | | |
| Money market | 718 | 0.05 |
| Mutual funds | 1,958 | 0.50 |
| Investment contracts | 2,170 | 19.35 |
| Total | $ 183,817 | |
| Portfolio Weighted Average Maturity | | 2.39 |

**Disclosures Relating to 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 minimum rating required by (where applicable) the California Government Code and the District's investment policy and the actual rating as of year end for each investment type:

| | | Rating as of June 30, 2009 | | | |
|---|---|---|---|---|---|
| Investment Type | Amount (in thousands) | AAA | AA | A | Not Rated |
| U.S. Agency Securities | $ 137,341 | $ 137,341 | $ - | $ - | $ - |
| U.S. Government Securities | 19,052 | 19,052 | - | - | - |
| Repurchase Agreements | 9,505 | - | - | - | 9,505 |
| Medium-term Notes | 5,673 | - | 3,038 | 2,635 | - |
| LAIF | 3,006 | - | - | - | 3,006 |
| Held by bond trustee: | | | | | |
| Money market | 2,123 | - | - | - | 2,123 |
| U.S. Agency Securities | 2,274 | 2,274 | - | - | - |
| Total | $ 178,974 | $ 158,667 | $ 3,038 | $ 2,635 | $ 14,634 |

***NOTE #2 – CASH AND INVESTMENTS (continued)***

| | | Rating as of June 30, 2008 | | | |
|---|---|---|---|---|---|
| Investment Type | Amount (in thousands) | AAA | AA | A | Not Rated |
| U.S. Agency Securities | $ 123,418 | $ 123,418 | $ - | $ - | $ - |
| Repurchase Agreements | 1,286 | - | - | - | 1,286 |
| Medium-term Notes | 30,168 | 19,681 | 7,816 | 2,671 | - |
| LAIF | 24,099 | - | - | - | 24,099 |
| Held by bond trustee: | | | | | |
| Money market | 718 | 718 | - | - | - |
| Mutual funds | 1,958 | - | - | - | 1,958 |
| Investment contracts | 2,170 | - | - | - | 2,170 |
| Total | $ 183,817 | $ 143,817 | $ 7,816 | $ 2,671 | $ 29,513 |

**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 five percent or more of the District's total investments are as follows:

As of June 30, 2009:

| Issuer | Investment Type | Reported Amount |
|---|---|---|
| Federal Home Loan Mortgage Corp (FHLMC) | U.S. Agency Securities | $ 34,572 |
| Federal Home Loan Bank (FHLB) | U.S. Agency Securities | 54,944 |
| Federal National Mortgage Association (FNMA) | U.S. Agency Securities | 38,490 |
| Federal Farm Credit Bank (FFCB) | U.S. Agency Securities | 11,609 |
| Total | | $ 139,615 |

***NOTE #2 – CASH AND INVESTMENTS (continued)***

As of June 30, 2008:

| Issuer | Investment Type | Reported Amount |
|---|---|---|
| Federal Home Loan Mortgage Corp (FHLMC) | U.S. Agency Securities | $ 21,593 |
| Federal Home Loan Bank (FHLB) | U.S. Agency Securities | 63,121 |
| Federal National Mortgage Association (FNMA) | U.S. Agency Securities | 24,450 |
| Federal Farm Credit Bank (FFCB) | U.S. Agency Securities | 11,100 |
| Tennessee Valley Authority | Medium-term Notes | 11,007 |
| Total | | $ 131,271 |

**Custodial of Credit Risk**

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 counterparty (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 the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

As of June 30, 2009 and June 30, 2008, the District had $9,533,174 and ($452,270) respectively, of deposits with financial institutions recorded on the financial statements which included excess bank balances of $10,231,208 and $398,942, respectively. Since these excess cash balances are amounts over the Federal Deposit Insurance limits, the excess cash balances are uninsured. However, due to California state law, the excess cash balances are collateralized by securities pledged by the financial institutions holding the District's deposits.

**Investment in State Investment Pool**

The District is a voluntary participant in 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.

***NOTE #2 – CASH AND INVESTMENTS (continued)***

As of June 30, 2009 and June 30, 2008, the District's investments in LAIF were $3,005,968 and $24,098,800, respectively. The total value invested by all public agencies in LAIF at June 30, 2009 and 2008 were $50,853,707,566 and $70,024,464,150, respectively. Of these amounts, as of June 30, 2009 and 2008, 85.3 and 85.3 percent, respectively, is invested in non-derivative financial products, and 14.7 and 14.7 percent, respectively, are invested in structured notes and asset-backed securities. The District relied upon information provided by the State Treasurer in estimating the District's fair value position of its holdings in LAIF.

**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, 2009 and 2008 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Transaction and use tax | $ 52,288 | $ 62,890 |
| Local transportation funds | 30,570 | 31,969 |
| State transit assistance | 1,725 | 9,538 |
| Federal operating and planning assistance | 6,388 | 1,474 |
| Measure A funds - local | 1,071 | 2,780 |
| AB434 | 631 | 576 |
| Total | $ 92,673 | $ 109,227 |

**NOTE #4 – FEDERAL CAPITAL GRANTS**

The District has seven grant contracts with the FTA that provide federal funds for the acquisition of buses and other equipment and improvements. Capital additions at June 30, 2009 applicable to these projects are $3,335,054. The related federal participation is $2,760,280.

The District has recorded receivables of $818,120 and $449,098, at June 30, 2009 and 2008, 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 is 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 during the four-year construction period and was paid. The remaining $12 million was 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.

### A. ***BART SFO***

On June 22, 2003, the SFO Extension opened, providing service to South San Francisco, San Bruno, San Francisco International Airport 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, specifically, the Settlement Agreement:

1. Terminated the Comprehensive Agreement and the Fiscal Year 2005 Agreement;
2. 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 Fiscal Year 2007;

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

3. 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 requires the District to transfer SFO Extension property to BART upon full payment of said sum by BART.
4. BART made the agreed upon payment and the property will be transferred upon preparation of transfer documents by BART.
5. Required the District to pay $221,341 to BART for costs related to construction of a Bike Path;
6. Released BART from its obligation to repay amounts loaned by the District pursuant to the August 31, 1999 amendment to the Comprehensive Agreement; and
7. 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 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.

### B. ***Capital Contribution to BART***

Amounts capitalized as “Capital Contribution to BART” are presented below (in thousands). As a result of the Settlement Agreement referenced above, the District recorded an additional $72 million in capital contributions to BART in 2007. Previously 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.

| | 2009 | 2008 |
|---|---|---|
| BART system contribution | $ 100,000 | $ 100,000 |
| Colma extension - local share | 52,352 | 52,352 |
| South of Colma extension - local share | 181,534 | 181,530 |
| SFO BART- local share | 73,050 | 72,000 |
| | 406,936 | 405,882 |
| Less: Accumulated amortization | (261,916) | (254,431) |
| Total | $ 145,020 | $ 151,451 |

**NOTE #6 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2009, was as follows (in thousands):

| | Balance at July 1, 2008 | Additions | Deletions | Balance at June 30, 2009 |
|---|---|---|---|---|
| Depreciable Capital Assets | | | | |
| Buses and bus equipment | $ 142,856 | $ 2,677 | $ (4,766) | $ 140,767 |
| Buildings and building improvements | 73,686 | 247 | (65) | 73,868 |
| Maintenance and other equipment | 24,718 | 2,695 | (12,822) | 14,591 |
| Furniture and fixtures | 13,033 | 6,693 | (5,279) | 14,447 |
| Shelters and bus stop signs | 3,271 | 16 | (122) | 3,165 |
| Other vehicles | 2,015 | 568 | (240) | 2,343 |
| Total Depreciable Capital Assets | 259,579 | 12,896 | (23,294) | 249,181 |
| Less Accumulated Depreciation for: | | | | |
| Buses and bus equipment | (97,768) | (9,623) | 4,766 | (102,625) |
| Buildings and building improvements | (48,862) | (2,408) | 65 | (51,205) |
| Maintenance and other equipment | (22,538) | (1,738) | 12,822 | (11,454) |
| Furniture and fixtures | (8,244) | (9,321) | 5,279 | (12,286) |
| Shelters and bus stop signs | (3,248) | (22) | 122 | (3,148) |
| Other vehicles | (1,671) | (155) | 240 | (1,586) |
| Total Accumulated Depreciation | (182,331) | (23,267) | 23,294 | (182,304) |
| Nondepreciable Capital Assets | | | | |
| Land and right of way | 51,435 | - | - | 51,435 |
| Construction in progress | 18,772 | 11,092 | (12,896) | 16,968 |
| Total Nondepreciable Capital Assets | 70,207 | 11,092 | (12,896) | 68,403 |
| Capital Assets, Net | $ 147,455 | $ 721 | $ (12,896) | $ 135,280 |

**NOTE #6 – CAPITAL ASSETS *(continued)***

Capital asset activity for the year ended June 30, 2008, was as follows (in thousands):

| | Balance at July 1, 2007 | Additions | Deletions | Balance at June 30, 2008 |
|---|---|---|---|---|
| Depreciable Capital Assets | | | | |
| Buses and bus equipment | $ 158,180 | $ 3,397 | $ (18,721) | $ 142,856 |
| Buildings and building improvements | 73,237 | 845 | (396) | 73,686 |
| Maintenance and other equipment | 25,500 | 900 | (1,682) | 24,718 |
| Furniture and fixtures | 13,875 | 383 | (1,225) | 13,033 |
| Shelters and bus stop signs | 3,313 | - | (42) | 3,271 |
| Other vehicles | 2,363 | 204 | (552) | 2,015 |
| Total Depreciable Capital Assets | 276,468 | 5,729 | (22,618) | 259,579 |
| Less Accumulated Depreciation for: | | | | |
| Buses and bus equipment | (105,380) | (11,109) | 18,721 | (97,768) |
| Buildings and building improvements | (46,734) | (2,524) | 396 | (48,862) |
| Maintenance and other equipment | (22,350) | (1,870) | 1,682 | (22,538) |
| Furniture and fixtures | (8,474) | (995) | 1,225 | (8,244) |
| Shelters and bus stop signs | (3,200) | (90) | 42 | (3,248) |
| Other vehicles | (2,098) | (125) | 552 | (1,671) |
| Total Accumulated Depreciation | (188,236) | (16,713) | 22,618 | (182,331) |
| Nondepreciable Capital Assets | | | | |
| Land and right of way | 43,695 | 7,740 | - | 51,435 |
| Construction in progress | 15,713 | 8,788 | (5,729) | 18,772 |
| Total Nondepreciable Capital Assets | 59,408 | 16,528 | (5,729) | 70,207 |
| Capital Assets, Net | $ 147,640 | $ 5,544 | $ (5,729) | $ 147,455 |

## NOTE #7 – LAND AND RIGHT OF WAY

### A. ***Dumbarton Land and Right of Way***

In November 1994, the San Mateo County Transportation Authority (TA) contributed the Dumbarton land and right of way to the District. The basis of this property is $7,134,000. In December 2001, the TA 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. The TA is responsible for the preparation of a comprehensive Dumbarton Rail Corridor Study.

### B. ***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 TA 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 TA for the fiscal year ended June 30, 2008. The property originally had been acquired by the TA for the purpose of constructing a railroad grade separation structure. Having completed the grade separation, the TA 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 TA on its investment portfolio until the principal is paid in full before December 1, 2033.

### C. ***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 and Santa Clara County Transportation Authority have agreed to reimburse the District through a combination of gasoline tax “spillover” funds and population based “spillover” funds to be paid directly to the District from the MTC and revenue based “spillover” funds to be paid to the District from the San Francisco Municipal Transportation Agency (SFMTA) and VTA. The parties have agreed to make best efforts to allocate the funds in full within two to four years and, in no event, later than 10 years. 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. As of June 30, 2009, the District had received $5.2 million of the total $53.3 million outstanding per this agreement.

## NOTE #8 – PENINSULA CORRIDOR JOINT POWERS BOARD (JPB)

The District is a member in the JPB along with the VTA and the City and County of San Francisco (CCSF). The JPB is governed by a separate board comprised of nine members, three from each member agency. The Peninsula Corridor Joint Powers Board 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 l, 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

## NOTE #8 – PENINSULA CORRIDOR JOINT POWERS BOARD (JPB) *(continued)*

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 41.92 percent of the mainline net operating costs and the administrative expenses of the JPB for the years ended June 30, 2009 and 2008. The District recognizes the entire amount of contributions paid to the JPB as expense in the year disbursed. During the years ended June 30, 2009 and 2008, the District contributed $16,521,290 and 16,040,087 respectively, to the JPB for operating needs.

The District has total receivables from the JPB of $1,577,609 and $2,787,547 at June 30, 2009 and 2008, respectively, for advances of staff support and operating costs.

Summary financial information (not included in the District's financial statements) for the JPB as of June 30, 2009 and 2008 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Total Assets | $ 1,188,338 | $ 1,175,491 |
| Total Liabilities | (61,087) | (64,157) |
| Total Net Assets | $ 1,127,251 | $ 1,111,334 |
| Operating Revenues | $ 46,719 | $ 43,760 |
| Operating Expenses | (143,450) | (133,249) |
| Nonoperating Revenues, Net | 41,407 | 43,220 |
| Net Before Capital Contributions | (55,324) | (46,269) |
| Capital Contributions | 71,241 | 82,552 |
| Increase in Net Assets | $ 15,917 | $ 36,283 |

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

### A. ***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. 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 per year 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.

As of June 30, 2009, the District has forgiven $280,000 of principal on the housing note. Pursuant to this arrangement, the District has a note receivable included in Other Assets with a balance of $920,000 and $960,000, as of June 30, 2009 and 2008, respectively.

### B. ***San Mateo County Transportation Authority (TA)***

The TA 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 TA is 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 TA. In November 2004, the voters reauthorized the TA and its publicly developed expenditure plan for an additional 25 years beyond the original expiration date of December 31, 2008. The TA will continue to fund vital transportation improvements to the benefit of San Mateo County Residents through 2033.

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

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

## NOTE #10 – OTHER NONCURRENT LIABILITIES

On December 27, 2007, the District acquired from the TA four acres of property located in San Carlos along the Caltrain right of way for a promissory note of $4,343,404. The District also has accrued interest liability of $330,786 and $174,127, respectively as of June 30, 2009 and June 30, 2008 for the promissory note. See *Note #7 – Land and Right of Way*, paragraph B.

## NOTE #11 – LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2009 is as follows (in thousands):

| | Balance at July 1, 2008 | Adjustments/ Additions | Deletions | Balance at June 30, 2009 | Amounts Due within One Year |
|---|---|---|---|---|---|
| Bonds Payable | | | | | |
| 1993 Series A Bonds | $ 98,030 | $ - | $ (6,155) | $ 91,875 | $ 6,410 |
| 1998 Junior Lien | 21,565 | - | (21,565) | - | - |
| 2005 Series A Bonds | 218,990 | - | - | 218,990 | - |
| 2009 Series A Bonds | - | 19,040 | - | 19,040 | 1,590 |
| Total Debt | 338,585 | 19,040 | (27,720) | 329,905 | 8,000 |
| Bond refunding loss | (4,898) | (236) | 497 | (4,637) | - |
| Unamortized bond premium | 4,708 | 1,957 | (244) | 6,421 | - |
| Unamortized bond discount | (260) | - | 22 | (238) | - |
| Net Bonds Payable | $ 338,135 | $ 20,761 | $ (27,445) | $ 331,451 | $ 8,000 |

Long-term debt activity for the year ended June 30, 2008 is as follows (in thousands):

| | Balance at July 1, 2007 | Adjustments/ Additions | Deletions | Balance at June 30, 2008 | Amounts Due within One Year |
|---|---|---|---|---|---|
| Bonds Payable | | | | | |
| 1993 Series A Bonds | $ 103,895 | $ - | $ (5,865) | $ 98,030 | $ 6,155 |
| 1998 Junior Lien | 22,320 | - | (755) | 21,565 | 785 |
| 2005 Series A Bonds | 218,990 | - | - | 218,990 | - |
| Total Debt | 345,205 | - | (6,620) | 338,585 | 6,940 |
| Bond refunding loss | (5,387) | - | 489 | (4,898) | - |
| Unamortized bond premium | 4,889 | - | (181) | 4,708 | - |
| Unamortized bond discount | (282) | - | 22 | (260) | - |
| Net Bonds Payable | $ 344,425 | $ - | $ (6,290) | $ 338,135 | $ 6,940 |

**NOTE #11 – LONG-TERM DEBT *(continued)***

**A. *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 to 8 percent, are limited obligations of the District, and shall be payable from, and secured by, a pledge of sales tax revenues received by the District on and after June 1, 1993. Interest payments are due on June 1 and December 1 of each year. $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).

**B. *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. The 2005 Series A Bonds carry a coupon rate ranging from 4.375 to 5.0 percent and mature on June 1, 2034.

As of June 30, 2009 and 2008, the outstanding balance on the 1997, 1998 and 1999 Series A Bonds was $160,500,000 and $174,050,000, respectively with available investment balance held by the bond trustee of $117,692,954 and $177,207,939, respectively.

**C. *2009 Series A Refunding Bonds***

In Fiscal Year 2009, the District decided to refund 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 Bonds carry a coupon rate ranging from 3.0 to 5.0 percent and mature on June 1, 2019.

## NOTE #11 – LONG-TERM DEBT *(continued)*

Debt service requirements for long-term debt as of June 30, 2009 are as follows (in thousands):

| Fiscal Year Ending June 30, | 1993 Series A Bonds Principal | 1993 Series A Bonds Interest | 1993 Series A Bonds Total | 2005 Series A Refunding Bonds Principal | 2005 Series A Refunding Bonds Interest | 2005 Series A Refunding Bonds Total |
|---|---|---|---|---|---|---|
| 2010 | $ 6,410 | $ 5,047 | $ 11,457 | $ - | $ 10,555 | $ 10,555 |
| 2011 | 6,735 | 4,726 | 11,461 | - | 10,555 | 10,555 |
| 2012 | 7,075 | 4,389 | 11,464 | - | 10,555 | 10,555 |
| 2013 | 7,430 | 4,036 | 11,466 | - | 10,555 | 10,555 |
| 2014 | 7,805 | 3,664 | 11,469 | - | 10,555 | 10,555 |
| 2015-2019 | 45,645 | 11,745 | 57,390 | - | 52,777 | 52,777 |
| 2020-2024 | 10,775 | 862 | 11,637 | 49,965 | 49,359 | 99,324 |
| 2025-2029 | - | - | - | 77,165 | 33,802 | 110,967 |
| 2030-2034 | - | - | - | 91,860 | 13,015 | 104,875 |
| Total | $ 91,875 | $ 34,469 | $ 126,344 | $ 218,990 | $ 201,728 | $ 420,718 |

| Fiscal Year Ending June 30, | 2009 Series A Refunding Bonds Principal | 2009 Series A Refunding Bonds Interest | 2009 Series A Refunding Bonds Total | Total Principal | Total Interest | Total Total |
|---|---|---|---|---|---|---|
| 2010 | $ 1,590 | $ 848 | $ 2,438 | $ 8,000 | $ 16,450 | $ 24,450 |
| 2011 | 1,635 | 801 | 2,436 | 8,370 | 16,082 | 24,452 |
| 2012 | 1,695 | 735 | 2,430 | 8,770 | 15,679 | 24,449 |
| 2013 | 1,765 | 667 | 2,432 | 9,195 | 15,258 | 24,453 |
| 2014 | 1,850 | 579 | 2,429 | 9,655 | 14,798 | 24,453 |
| 2015-2019 | 10,505 | 1,583 | 12,088 | 56,150 | 66,105 | 122,255 |
| 2020-2024 | - | - | - | 60,740 | 50,221 | 110,961 |
| 2025-2029 | - | - | - | 77,165 | 33,802 | 110,967 |
| 2030-2034 | - | - | - | 91,860 | 13,015 | 104,875 |
| Total | $ 19,040 | $ 5,213 | $ 24,253 | $ 329,905 | $ 241,410 | $ 571,315 |

## NOTE #12 – PENSION PLAN

### A. *Plan Description*

All permanent employees are eligible to participate in the Public Employees' Retirement Fund (the Fund) of the State of California's Public Employees' Retirement System (CalPERS). The Fund is an agent multiple-employer defined benefit plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by state statute and District ordinance. Copies of the Fund's annual financial report may be obtained from CalPERS' executive office: Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

### B. *Funding Policy*

District employees have an obligation to contribute 7 percent of their salary to the Fund. The District makes the contributions required of the District and its employees on their behalf. The District is required to contribute at an actuarially determined rate. The required employer contribution rate for both fiscal years 2009 and 2008 was 8.171 and 8.025 percent of annual covered payroll, respectively. The contribution requirements of the plan members are established by state statute and the employer contribution rate is established and may be amended by CalPERS.

### C. *Annual Pension Cost*

The District's annual pension cost was equal to the District's required and actual contributions, which were determined as part of the June 30, 2008 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included the following:

| | |
|---|---|
| Investment rate of return | 7.75% (net of administrative services) |
| Projected salary increase | 3.25% to 14.45% depending on age, service and type of employment |
| Inflation | 3.00% |
| Payroll growth | 3.25% |
| Individual salary growth | A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.0% and an annual production growth of 0.25% |

The actuarial value of assets was determined using a technique that smoothes the effect of short–term volatility in the market value of investments over a two to five-year period depending on the size of investment gains and/or losses. Unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis for a period not more than 30 years.

## NOTE #12 – PENSION PLAN *(continued)*

### C. *Annual Pension Cost (continued)*

Three-year Trend Information for CalPERS (in thousands)

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 6/30/2007 | $ 6,264 | 100.0% | - |
| 6/30/2008 | $ 6,447 | 100.0% | - |
| 6/30/2009 | $ 7,064 | 100.0% | - |

### D. *Funded Status and Funding Progress*

The funded status of the plan as of June 30, 2009, was as follows:

| | |
|---|---|
| Actuarial accrued liability (AAL) | $ 170,303 |
| Actuarial value of plan assets | 170,139 |
| Unfunded actuarial accrued liability (UAAL) | $ 164 |
| Funded ratio (actuarial value of plan assets/AAL) | 99.9% |
| Covered payroll (active plan members) | $ 43,468 |
| UAAL as a percentage of covered payroll | 0.4% |

## NOTE #13 – POST-RETIREMENT HEALTH CARE BENEFITS

### A. *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. As of June 30, 2009 and 2008, there are 182 and 162 qualified retirees and spouses of deceased retirees, respectively. Benefit allowance provisions are established 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.

### B. *Funding Policy*

In April 2008, the District's Board of Directors adopted an OPEB funding plan authorizing the establishment of an Internal Revenue Code (IRC) tax qualified trust which was established through the CalPERS California Employers' Retiree Benefit Trust (CERBT) in April 2009. The plan also called for increasing amounts to be

**NOTE #13 – POST-RETIREMENT HEALTH CARE BENEFITS *(continued)***

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 7.0 percent of annual covered payroll. CalPERS will publish aggregated GASB 43 compliant financial statements, notes and required supplementary information.

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 100 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 retirement for internal revenue code deductible expenses (e.g. premium contributions and unreimbursed medical expenses).

In fiscal year ended June 30, 2009, the District contributed $600,000 to the newly established trust fund through the CERBT. In addition, the District contributed $1,267,000 in pay-as-you-go amounts for the year ended June 30, 2009. As of June 30, 2008 the District had not established the irrevocable trust fund and therefore amounts contributed of $900,366 represents only the pay-as-you-go amount for the year ended June 30, 2008.

***C. <u>Annual OPEB Cost and Net Obligation</u>***

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, 2009 and June 30, 2008:

## NOTE #13 – POST-RETIREMENT HEALTH CARE BENEFITS *(continued)*

| | For the year ended June 30, 2009 | For the year ended June 30, 2008 |
|---|---|---|
| Annual Required contribution | $3,391 | $3,228 |
| Interest on net OPEB obligation | 125 | - |
| Adjustment to annual required contributions | (204) | - |
| Annual OPEB cost (expense) | 3,312 | 3,228 |
| Contributions made | (1,867) | (900) |
| Increase in net OPEB obligation | 1,445 | 2,328 |
| Net OPEB obligation, beginning of year | 2,328 | - |
| Net OPEB obligation, end of year | $3,773 | $2,328 |

### *C Annual OPEB Cost and Net Obligation (continued)*

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

| Fiscal Year Ended June 30, | Annual OPEB Costs | Amount Contributed | Percentage Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| 2008 | $3,228 | $900 | 27.9% | $2,328 |
| 2009 | $3,312 | $1,867 | 56.4% | $3,773 |

### *D. Funded Status and Funding Progress*

The funded status of the plan as of June 30, 2009, was as follows:

| | |
|---|---|
| Actuarial accrued liability (AAL) | $31,938 |
| Actuarial value of plan assets | 613 |
| Unfunded actuarial accrued liability (UAAL) | $31,325 |
| Funded ratio (actuarial value of plan assets/AAL) | 1.9% |
| Covered payroll (active plan members) | $48,510 |
| UAAL as a percentage of covered payroll | 64.6% |

## NOTE #13 – POST-RETIREMENT HEALTH CARE BENEFITS *(continued)*

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.

### *E. Actuarial Methods and Assumptions*

Projections of benefits 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 in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2009 and June 30, 2008, actuarial valuation, the Entry Age Normal (EAN) cost method was used. The actuarial assumptions included a variable investment return rate ranging from 4.5 percent in 2008 to 7.75 percent in 2016 based on the Board approved funding plan which gradually increases funding in an IRC Irrevocable Trust and a three percent inflation rate. Healthcare cost trend rates ranged from an initial rate of 10.1 to 4.5 percent after 7 years. 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 a 15-years. The UAAL is being amortized as a level percent of payroll on a closed basis. The remaining amortization period at June 30, 2009 was 28 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, 2009, 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.

## NOTE #14 – SELF-INSURANCE *(continued)*

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 biennially.

Changes in the balances of claims liabilities for the two years ended June 30, 2009 and 2008 for public liability, property damage and workers' compensation are as follows (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Self-insurance liabilities, beginning of year | $ 8,328 | $ 5,679 |
| Incurred claims and changes in estimates | 941 | 4,755 |
| Claim payments and related costs | (1,476) | (2,106) |
| Total Self-insurance claims liabilities | 7,793 | 8,328 |
| Less current portion | (1,912) | (3,627) |
| Noncurrent portion | $ 5,881 | $ 4,701 |

## 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. At the end of the Equipment Lease Agreement term (in 2010), the District has an option to purchase the Equipment for a specified price. 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.

## NOTE #16 – PARATRANSIT TRUST FUND

Early in calendar year 2009, the TA transferred the $25 million corpus of the paratransit trust fund to the District for oversight. The TA established the trust fund to continue in perpetuity from Measure A sales tax revenues. The TA 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 – COMMITMENTS AND CONTINGENCIES

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.

**NOTE #17 – COMMITMENTS AND CONTINGENCIES *(continued)***

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 disallowances, if any, will not materially affect the District's financial position.

As part of the separation agreement with BART, in February 2007 the District entered into a three-party agreement between MTC, BART, and the District. In this agreement, the District has assigned $32 million to BART from 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 to come to the $32 million. In fiscal year 2008, the District received $8.1 million from MTC and forwarded the equivalent amount in sales tax revenue on to BART. MTC also forwarded an additional $1.4 million in STA spillover funds originally designated for the District to BART in fiscal year 2008.

**NOTE #18 – SUBSEQUENT EVENT**

On July 17, 2009, the District entered into a diesel fuel price cap agreement with Deutsche Bank to hedge the cost of fuel which capped the price of fuel hedged by the District at $2.00 per gallon saving the District approximately $1.0 million in the Fiscal Year 2010 budget. The District purchases fuel based on the weekly spot price for ultra-low sulfur diesel. This method leaves the District open to fluctuation in the market for diesel fuel. The goal for the fuel hedging program was to reduce volatility and uncertainty in the fuel budget for Fiscal Year 2010. The District hedged 1.0 million gallons, which represents 50 percent of 11 months of estimated fuel consumption. In order to maximize the hedging program's potential for economic efficiency, the District partnered with the JPB, which hedged 2.0 million gallons. The agreement documents include a Credit Support Annex which provides protection to the District in the event that the rating of Deutsche Bank falls to or below A3/A-/A- by Moody's, Standard and Poor's or Fitch. Implementing a fuel hedging program at this time allowed the District to reduce uncertainty in the fuel budget for Fiscal Year 2010 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 2010 fuel hedging program and a recommendation on whether to continue the program in Fiscal Year 2011.

## SCHEDULE OF FUNDING PROGRESS
## MISCELLANEOUS PLAN OF THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM[1]

(in thousands)

| Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded (Overfunded) Liability (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a % of Payroll |
|---|---|---|---|---|---|---|
| 6/30/2006 | $ 144,755 | $ 141,062 | $ 3,693 | 97.4% | $ 41,575 | 8.9% |
| 6/30/2007 | $ 157,183 | $ 155,929 | $ 1,254 | 99.2% | $ 43,468 | 2.9% |
| 6/30/2008 | $ 170,303 | $ 170,139 | $ 164 | 99.9% | $ 45,034 | 0.4% |

[1] Most recent information available.

## SCHEDULE OF FUNDING PROGRESS
## RETIREE HEALTHCARE

(in thousands)

| Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded (Overfunded) Liability (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a % of Payroll |
|---|---|---|---|---|---|---|
| 6/30/2008 | $30,456 | $0 | $30,456 | 0.0% | $45,584 | 66.8% |
| 6/30/2009 | 31,938 | 613 | 31,325 | 1.9% | 48,510 | 64.6% |

**SAN MATEO COUNTY TRANSIT DISTRICT**
**SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, CAPITAL OUTLAY, AND LONG-TERM DEBT PRINCIPAL PAYMENTS – COMPARISON OF BUDGET TO ACTUAL (BUDGETARY BASIS)**
**YEAR ENDED JUNE 30, 2009**

| | Budget (Unaudited) | Actual | Variance Positive/ (Negative) |
|---|---|---|---|
| OPERATING REVENUES - Passenger fares | $ 17,112 | $ 17,325 | $ 213 |
| OPERATING EXPENSES: | | | |
| Salaries and benefits | 60,191 | 61,063 | (872) |
| Contract operations and maintenance services | 31,306 | 28,710 | 2,596 |
| Other services | 4,592 | 4,655 | (63) |
| Materials and supplies | 11,466 | 8,432 | 3,034 |
| Insurance | 6,505 | 5,621 | 884 |
| Miscellaneous | 7,185 | 5,069 | 2,116 |
| Total operating expenses | 121,245 | 113,550 | 7,695 |
| Operating loss | (104,133) | (96,225) | 7,908 |
| NONOPERATING REVENUES (EXPENSES): | | | |
| Operating assistance | 112,673 | 92,673 | (20,000) |
| Investment income | 864 | 1,164 | 300 |
| Interest expense | (111) | (483) | (372) |
| Caltrain service subsidy | (16,521) | (16,521) | - |
| Interagency administration income | 4,558 | 3,151 | (1,407) |
| Other income, net | 7,503 | 6,152 | (1,351) |
| Total nonoperating income | 108,966 | 86,136 | (22,830) |
| Income before capital outlay and long-term debt principal payments | 4,833 | (10,089) | (14,922) |
| CAPITAL OUTLAY: | | | |
| Capital assistance | 23,772 | 11,092 | (12,680) |
| Capital expenditures | (34,802) | (11,092) | 23,710 |
| Net capital outlay | (11,030) | - | 11,030 |
| Long-term debt principal payment | (6,982) | (6,845) | 137 |
| EXCESS (DEFICIENCY) OF REVENUES AND NONOPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENT | $ (13,179) | $ (16,934) | $ (3,755) |

## 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 | | $ (16,934) |
| Capital expenditures | $ 11,092 | |
| Interest expense | (17,191) | |
| Depreciation and amortization | (29,687) | |
| Postemployment benefits accrual (unfunded) | (1,645) | |
| Long-term debt principal payment | 6,845 | |
| GASB 31 unrealized gain/loss | 3,963 | |
| Reimbursed investment interest | 6,074 | |
| Capital gain/loss on investment | (1,371) | |
| Transfer of Paratransit Trust Fund Corpus | 25,000 | |
| Sub-total reconciling items | | 3,080 |
| Change in net assets, GAAP basis | | $ (13,854) |

# *Section III*

# STATISTICAL

## Financial Trends

- **Net Assets and Change in Net Assets**

## Revenue Capacity

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

## Debt Capacity

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

## Demographics and Economic Information

- **Population and Income**
- **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.

## Demographic 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 ASSETS AND CHANGES IN NET ASSETS**
**FISCAL YEARS 2000 THROUGH 2009 (in thousands)**

| **Fiscal year** | **2009** | **2008** | **2007** | **2006** |
|---|---|---|---|---|
| OPERATING REVENUES - Passenger Fares | $ 17,325 | $ 17,203 | $ 16,830 | $ 16,296 |
| OPERATING EXPENSES: | | | | |
| Salaries and benefits | 62,708 | 64,175 | 58,521 | 56,944 |
| Contract operations and maintenance | 28,710 | 27,902 | 26,482 | 24,338 |
| Other services | 4,655 | 3,747 | 3,580 | 3,948 |
| Materials and supplies | 8,432 | 9,589 | 8,151 | 7,102 |
| Insurance | 5,621 | 6,074 | 6,010 | 4,927 |
| Miscellaneous | 6,437 | 6,050 | 5,379 | 5,288 |
| Total operating expenses | 116,563 | 117,537 | 108,123 | 102,547 |
| Operating loss before depreciation, amortization and administrative expenses capitalized | (99,238) | (100,334) | (91,293) | (86,251) |
| Depreciation and amortization | (29,687) | (23,899) | (40,399) | (42,635) |
| OPERATING LOSS | (128,925) | (124,233) | (131,692) | (128,886) |
| NONOPERATING REVENUES (EXPENSES): | | | | |
| Operating assistance | 92,673 | 109,227 | 108,836 | 95,015 |
| Investment income | 9,830 | 11,637 | 9,745 | 6,690 |
| Interest expense | (17,674) | (17,783) | (18,075) | (17,969) |
| Caltrain service subsidy | (16,521) | (16,040) | (14,478) | (12,929) |
| SFO/Colma BART station revenue/(deficit) | - | - | (5,289) | (9,620) |
| Lease-leaseback income | - | - | - | - |
| Interagency administrative income | 3,151 | 8,327 | 6,944 | 6,054 |
| Other income, net | 7,520 | 4,587 | 11,407 | 4,756 |
| Paratransit Trust Fund (Note 17) | 25,000 | - | - | - |
| Total nonoperating revenues, net | 103,979 | 99,955 | 99,090 | 71,997 |
| Net income (loss) before capital contributions | (24,946) | (24,278) | (32,602) | (56,889) |
| Capital contributions | 11,092 | 12,202 | 7,033 | 9,576 |
| CHANGE IN NET ASSETS | (13,854) | (12,076) | (25,569) | (47,313) |
| NET ASSET COMPONENTS | | | | |
| Invested in capital assets, net of related debt | (46,833) | (35,006) | (33,619) | (20,253) |
| Restricted | 28,058 | 3,517 | 3,569 | 3,390 |
| Unrestricted | 152,578 | 179,146 | 189,783 | 202,165 |
| NET ASSETS | $ 133,803 | $ 147,657 | $ 159,733 | $ 185,302 |

Source: CAFRs.

This table presents revenues and expenses, contributions, depreciation and amortization and net asset components.

**SAN MATEO COUNTY TRANSIT DISTRICT**
**REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE**
**FISCAL YEARS 2000 THROUGH 2009**

| 2005 | | 2004 | | 2003 | | 2002 | | 2001 | | 2000 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $ 13,863 | | $ 14,542 | | $ 15,273 | | $ 14,779 | | $ 15,919 | | $ 15,196 | |
| | | | | | | | | | | | |
| 53,420 | | 53,521 | | 49,339 | | 41,918 | | 36,611 | | 32,293 | |
| 22,751 | | 23,365 | | 22,982 | | 23,567 | | 20,342 | | 17,151 | |
| 3,546 | | 2,568 | | 2,548 | | 3,184 | | 3,152 | | 3,188 | |
| 4,943 | | 4,683 | | 5,157 | | 4,507 | | 5,225 | | 4,995 | |
| 3,774 | | 4,360 | | 3,568 | | 3,248 | | 2,578 | | 3,413 | |
| 5,004 | | 5,088 | | 7,436 | | 5,359 | | 4,006 | | 3,871 | |
| 93,438 | | 93,585 | | 91,030 | | 81,783 | | 71,914 | | 64,911 | |
| (79,575) | | (79,043) | | (75,757) | | (67,004) | | (55,995) | | (49,715) | |
| | | | | | | | | | | | |
| (40,232) | | (36,675) | | (37,275) | | (39,338) | | (38,744) | | (36,198) | |
| (119,807) | - | (115,718) | - | (113,032) | - | (106,342) | - | (94,739) | - | (85,913) | - |
| | | | | | | | | | | | |
| 85,337 | | 82,550 | | 67,330 | | 87,903 | | 87,640 | | 82,785 | |
| 5,770 | | 2,244 | | 16,131 | | 20,767 | | 28,333 | | 13,092 | |
| (17,948) | | (18,440) | | (19,146) | | (19,836) | | (20,733) | | (21,170) | |
| (14,588) | | (14,296) | | (14,296) | | (14,355) | | (13,820) | | (13,224) | |
| (8,095) | | (18,000) | | 311 | | 923 | | 1,311 | | 1,613 | |
| - | | - | | - | | 1,513 | | - | | - | |
| 6,595 | | 8,654 | | 10,239 | | 2,855 | | 1,775 | | 1,311 | |
| 6,105 | | 4,454 | | 6,724 | | 5,777 | | 3,623 | | 1,988 | |
| - | | - | | - | | - | | - | | - | |
| 63,176 | | 47,166 | | 67,293 | | 85,547 | | 88,129 | | 66,395 | |
| | | | | | | | | | | | |
| (56,631) | | (68,552) | | (45,739) | | (20,795) | | (6,610) | | (19,518) | |
| 12,415 | | 32,568 | | 44,701 | | 27,325 | | 16,808 | | 13,240 | |
| (44,216) | | (35,984) | | (1,038) | | 6,530 | | 10,198 | | (6,278) | |
| | | | | | | | | | | | |
| 10,533 | | 25,045 | | 40,150 | | 22,638 | | 59,680 | | 66,538 | |
| 13,659 | | 19,171 | | 20,998 | | 22,081 | | 78,694 | | 86,399 | |
| 208,423 | | 232,615 | | 251,667 | | 269,134 | | 168,949 | | 144,188 | |
| $ 232,615 | | $ 276,831 | | $ 312,815 | | $ 313,853 | | $ 307,323 | | $ 297,125 | |

## SAN MATEO COUNTY TRANSIT DISTRICT
## REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
## FISCAL YEARS 2000 THROUGH 2009

| **Fiscal year ending** | **2009** | | **2008** | | **2007** |
|---|---|---|---|---|---|
| Passenger fares (in thousands) | $ 17,325 | | $ 17,203 | | $ 16,830 |
| | | | | | |
| Revenue Base | | | | | |
| Number of passengers (in thousands) | 15,284 | | 14,915 | | 14,669 |
| | | | | | |
| Fare structure | | | | | |
| Adults local fare | $ 1.75 | | $ 1.50 | | $ 1.50 |
| Senior citizen / disabled/ Medicare cardholder | $ 0.75 | | $ 0.75 | | $ 0.75 |
| Youth | $ 1.00 | | $ 1.00 | | $ 1.00 |
| Redi-Wheels (Paratransit) | $ 3.00 | | $ 2.50 | | $ 2.50 |
| | | | | | |
| Sales tax rate | 0.50% | | 0.50% | | 0.50% |
| Sales tax revenue (in thousands) | $ 60,015 | | $ 68,667 | | $ 66,198 |
| Taxable sales in San Mateo County (in thousands) | $ 12,003,091 | [1] | $ 13,733,324 | [1] | $ 13,326,306 |

[1] 2008 and 2009 taxable sales are estimates derived from sales tax revenues received.

Source: California State Board of Equalization and CAFRs.

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.

**SAN MATEO COUNTY TRANSIT DISTRICT**
**REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE**
**FISCAL YEARS 2000 THROUGH 2009**

| 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| $ 16,296 | $ 13,863 | $ 14,542 | $ 15,273 | $ 14,779 | $ 15,919 | $ 15,196 |
| 14,508 | 14,510 | 15,069 | 16,432 | 17,236 | 18,170 | 17,871 |
| $ 1.50 | $ 1.25 | $ 1.25 | $ 1.25 | $ 1.10 | $ 1.10 | $ 1.10 |
| $ 0.75 | $ 0.60 | $ 0.60 | $ 0.60 | $ 0.50 | $ 0.50 | $ 0.50 |
| $ 1.00 | $ 0.75 | $ 0.75 | $ 0.75 | $ 0.75 | $ 0.75 | $ 0.75 |
| $ 2.50 | $ 2.00 | $ 2.00 | $ 2.00 | $ 1.50 | $ 1.50 | $ 1.50 |
| 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% |
| $ 63,813 | $ 59,958 | $ 55,397 | $ 54,862 | $ 57,156 | $ 66,739 | $ 63,069 |
| $12,900,391 | $12,451,350 | $11,808,074 | $11,358,439 | $11,614,809 | $12,859,589 | $14,044,016 |

**SAN MATEO COUNTY TRANSIT DISTRICT**
**REVENUE CAPACITY – OVERLAPPING REVENUE**
**FISCAL YEARS 2000 THROUGH 2009**

| Fiscal year | State | City and County | Other Special Districts | San Mateo County Transit District [1] | Total |
|---|---|---|---|---|---|
| 2009 | 7.25% [2] | 1.00% | 0.50% | 0.50% | 2.00% |
| 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% |
| 2005 | 6.25% | 1.00% | 0.50% | 0.50% | 8.25% |
| 2004 | 6.00% | 1.25% | 0.50% | 0.50% | 8.25% |
| 2003 | 6.00% | 1.25% | 0.50% | 0.50% | 8.25% |
| 2002 | 6.00% | 1.25% | 0.50% | 0.50% | 8.25% |
| 2001 | 5.75% | 1.25% | 0.50% | 0.50% | 8.00% |
| 2000 | 6.00% | 1.25% | 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 percent Proposition 1A one-cent sales tax increase effective on April 1, 2009.

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

**SAN MATEO COUNTY TRANSIT DISTRICT**
**REVENUE CAPACITY – PRINCIPAL REVENUE PAYERS**
**FISCAL YEARS 2008 and 2001 (in thousands)**

| | 2008 | | | 2001 | | |
|---|---|---|---|---|---|---|
| **Principal Revenue Payers** | **Rank** | **Percent of Taxable Sales** | **Amount** | **Rank** | **Percent of Taxable Sales** | **Amount** |
| Total all other outlets | 1 | 29.2% | $ 3,937,226 | 1 | 33.7% | $ 4,710,908 |
| Other retail stores | 2 | 11.4% | 1,537,179 | 3 | 12.0% | 1,680,495 |
| Automotible, boat, motorcycle and plane | 3 | 10.7% | 1,438,850 | 2 | 13.2% | 1,839,587 |
| General merchandise stores | 4 | 10.1% | 1,358,858 | 4 | 9.0% | 1,250,564 |
| Eating/drinking | 5 | 9.5% | 1,276,493 | 5 | 7.2% | 999,003 |
| Service stations | 6 | 7.9% | 1,068,760 | 6 | 5.8% | 813,817 |
| Building materials and farm implements | 7 | 6.0% | 810,547 | 7 | 5.7% | 794,908 |
| Business and personal services | 8 | 5.0% | 668,717 | 8 | 4.5% | 629,613 |
| Home furnishings and appliances | 9 | 3.8% | 513,869 | 9 | 3.4% | 479,495 |
| Food stores | 10 | 3.3% | 445,192 | 10 | 3.0% | 412,230 |
| Apparel stores | 11 | 3.2% | 426,676 | 11 | 2.5% | 350,957 |
| Total | | 100.0% | $ 13,482,367 | | 100.0% | $13,961,577 |

Source: California State Board of Equalization

This table ranks the top 11 principal tax payers by industry.

**SAN MATEO COUNTY TRANSIT DISTRICT**
**DEBT CAPACITY – RATIOS OF OUTSTANDING BONDS**
**FISCAL YEARS 2000 THROUGH 2009 (in thousands)**

| Fiscal Year | Revenue Bonds for SamTrans [1] | Personal Income for San Mateo County [2] | As a Percent of Personal Income |
|---|---|---|---|
| 2009 | $ 329,905 | $ 53,413,393 | 0.62% |
| 2008 | 337,800 | 51,857,663 | 0.65% |
| 2007 | 345,205 | 50,347,246 | 0.69% |
| 2006 | 351,520 | 46,881,900 | 0.75% |
| 2005 | 349,800 | 42,846,390 | 0.82% |
| 2004 | 366,985 | 39,408,618 | 0.93% |
| 2003 | 383,460 | 36,466,977 | 1.05% |
| 2002 | 399,260 | 36,736,603 | 1.09% |
| 2001 | 414,405 | 39,395,344 | 1.05% |
| 2000 | 428,935 | 41,730,460 | 1.03% |

[1] CAFRs

[2] U.S. Department of Commerce, Bureau of Economic Analysis, calendar year figures. Data for 2008 and 2009 are based on an estimated three percent annual increase over 2007.

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 2000 THROUGH 2009 (in thousands)

| Fiscal Year | Revenue Bonds for SamTrans | Total Taxable Sales in San Mateo County | | As a Percent of Total Taxable Sales in San Mateo County |
|---|---|---|---|---|
| 2009 | $329,905 | $12,003,091 | [1] | 2.75% |
| 2008 | 337,800 | 13,733,324 | [1] | 2.46% |
| 2007 | 345,205 | 13,326,306 | | 2.59% |
| 2006 | 351,520 | 12,900,391 | | 2.72% |
| 2005 | 349,800 | 12,451,350 | | 2.81% |
| 2004 | 366,985 | 11,808,074 | | 3.11% |
| 2003 | 383,460 | 11,358,439 | | 3.38% |
| 2002 | 399,260 | 11,614,809 | | 3.44% |
| 2001 | 414,405 | 12,859,589 | | 3.22% |
| 2000 | 428,935 | 14,044,016 | | 3.05% |

[1] 2008 and 2009 taxable sales are estimates derived from sales tax revenues received.

Source: CAFRs & California State Board of Equalization based on sales tax revenues received

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

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 2000 THROUGH 2009 (in thousands)**

| Fiscal Year | Sales Tax Revenue | Principal | Interest | Total | Coverage |
|---|---|---|---|---|---|
| 2009 | $60,012 | $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 |
| 2005 | 59,958 | 17,185 | 17,489 | 34,674 | 2 |
| 2004 | 55,397 | 16,475 | 17,976 | 34,451 | 2 |
| 2003 | 54,862 | 15,800 | 18,686 | 34,486 | 2 |
| 2002 | 57,156 | 15,145 | 19,407 | 34,552 | 2 |
| 2001 | 66,739 | 14,530 | 20,451 | 34,981 | 2 |
| 2000 | 63,069 | 13,340 | 20,441 | 33,781 | 2 |

Source: CAFRs.

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

**SAN MATEO COUNTY TRANSIT DISTRICT**
**DEMOGRAPHICS AND ECONOMIC INFORMATION – POPULATION AND INCOME**
**FISCAL YEARS 2007 AND 2000**

| | 2007 | | 2000 | | Percent Change 2000 - 2007 |
|---|---|---|---|---|---|
| **Total Population** | 706,984 | | 707,161 | | 0.0% |
| **Persons Per Household** | 2.82 | | 2.74 | | 2.9% |
| **Median Household Income** | $ 82,913 | | $ 70,819 | | 17.1% |
| **Personal Income (in millions)** | $ 50,347 | [1] | $ 41,730 | | 20.7% |
| **Per Capita Income** | $ 71,753 | [1] | $ 58,905 | | 21.8% |
| **Minority Population:** | | | | | |
| Black | 23,292 | | 24,840 | | -6.2% |
| Hispanic | 162,508 | | 154,708 | | 5.0% |
| Asian | 170,528 | | 141,684 | | 20.4% |
| Native American | 3,480 | | 3,140 | | 10.8% |
| **Total** | 359,808 | | 324,372 | | 10.9% |
| **Percent of Minority Population to Total Population** | 50.9% | | 45.9% | | 11.0% |
| **Population by Age:** | | | | | |
| 4 years and younger | 47,076 | | 45,374 | | 3.8% |
| 5 to 17 years | 157,575 | | | | N/A |
| 5 to 19 years | | | 131,912 | | N/A |
| 18 to 64 years | 409,243 | | | | N/A |
| 20 to 64 years | | | 441,790 | | N/A |
| 65-plus | 93,090 | | 88,085 | | 5.7% |
| **Percent of Employed Residents to Total Population** | 80.1% | | 52.9% | | 51.4% |
| **Percent of Residents Working Outside of San Mateo County** | 42.9% | [2] | 41.8% | [2] | 2.6% |
| **Percent of People Commuting to San Mateo County for Work** | 41.0% | [3] | 41.5% | [2] | -1.2% |

[1] Bureau of Economic Analysis, BEARFACTS 1997 - 2007, San Mateo, California [06081], most current information available.

[2] Metropolitan Transportation Commission

[3] San Francisco Business Times, "Transit agencies try to do more with less," August 29, 2008.

Source: United States Census Bureau.

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

| Year | Unemployment Rates |
|---|---|
| 2009 | 9.0% [1] |
| 2008 | 4.7% |
| 2007 | 3.8% |
| 2006 | 3.7% |
| 2005 | 4.3% |
| 2004 | 4.9% |
| 2003 | 5.8% |
| 2002 | 5.7% |
| 2001 | 3.8% |
| 2000 | 2.9% |

Source: California Employment Development Department.

[1] 2009 rate is as of June 2009.

This table presents the unemployment rates for San Mateo County.

## SAN MATEO COUNTY TRANSIT DISTRICT
## DEMOGRAPHICS AND ECONOMIC INFORMATION – PRINCIPAL EMPLOYERS
## FISCAL YEARS 2009 AND 1999

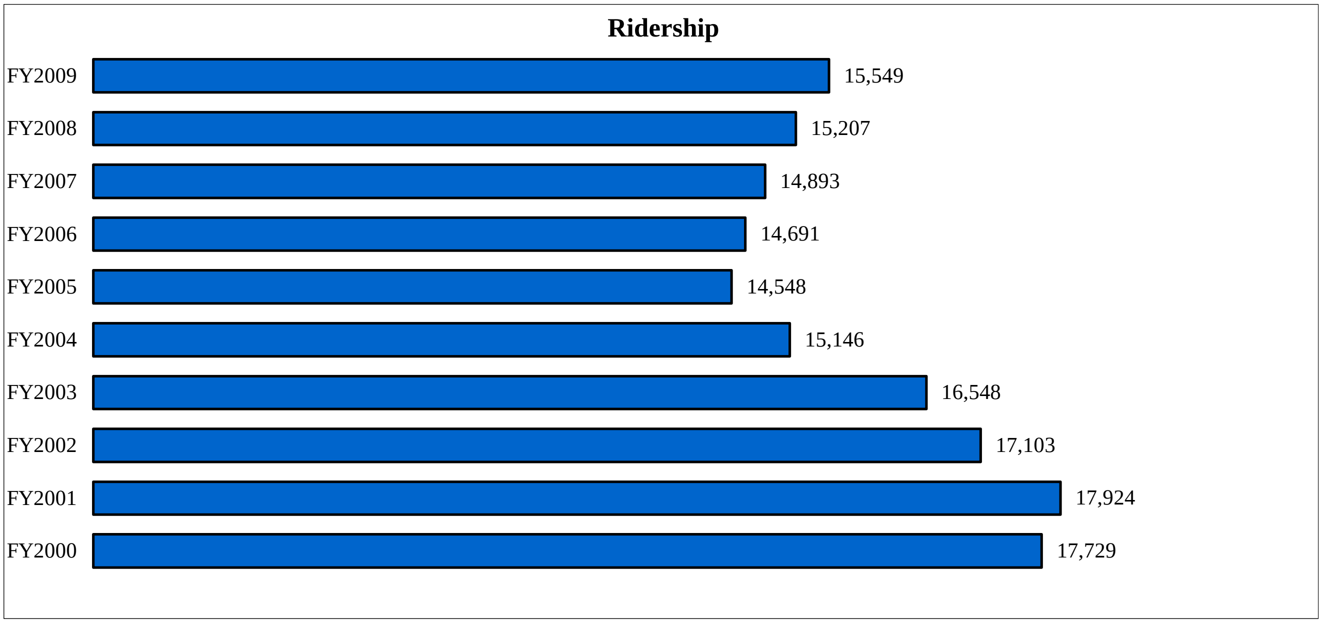
| | 2009 | | | 1999 | | |
|---|---|---|---|---|---|---|
| Employers in San Mateo County | Number of Employees | Rank | Percent of Total County Employment | Number of Employees | Rank | Percent of Total County Employment |
| United Airlines | 9,600 | 1 | 2.76% | 17,400 | 1 | 4.46% |
| Genentech Inc. | 8,250 | 2 | 2.37% | 2,839 | 7 | 0.73% |
| Oracle Corporation | 5,642 | 3 | 1.62% | 14,000 | 2 | 1.22% |
| County of San Mateo | 5,443 | 4 | 1.56% | 4,761 | 3 | 3.59% |
| Kaiser Permanente | 3,780 | 5 | 1.09% | | | |
| Safeway Inc. | 2,273 | 6 | 0.65% | 1,973 | 10 | 0.51% |
| Electronic Arts | 2,000 | 7 | 0.57% | | | |
| San Mateo County Community College District | 1,950 | 8 | 0.56% | | | |
| Mills Peninsula Health | 1,800 | 9 | 0.52% | | | |
| United States Postal Service | 1,671 | 10 | 0.48% | 2,937 | 4 | 0.75% |
| Raychem Corporation | | | | 2,900 | 5 | 0.74% |
| American Airlines | | | | 2,700 | 8 | 0.69% |
| Franklin Templeton Corporation | | | | 2,849 | 6 | 0.73% |
| CHW West Bay Hospital | | | | 2,373 | 9 | 0.61% |
| Total | 42,409 | | 12.18% | 54,732 | | 14.03% |

Source: County of San Mateo.

This table presents the top 10 principal employers in San Mateo County for 2009 and 1999.

FIXED -ROUTE RIDERSHIP

Ridership increased minimally between FY2008 and FY2009.



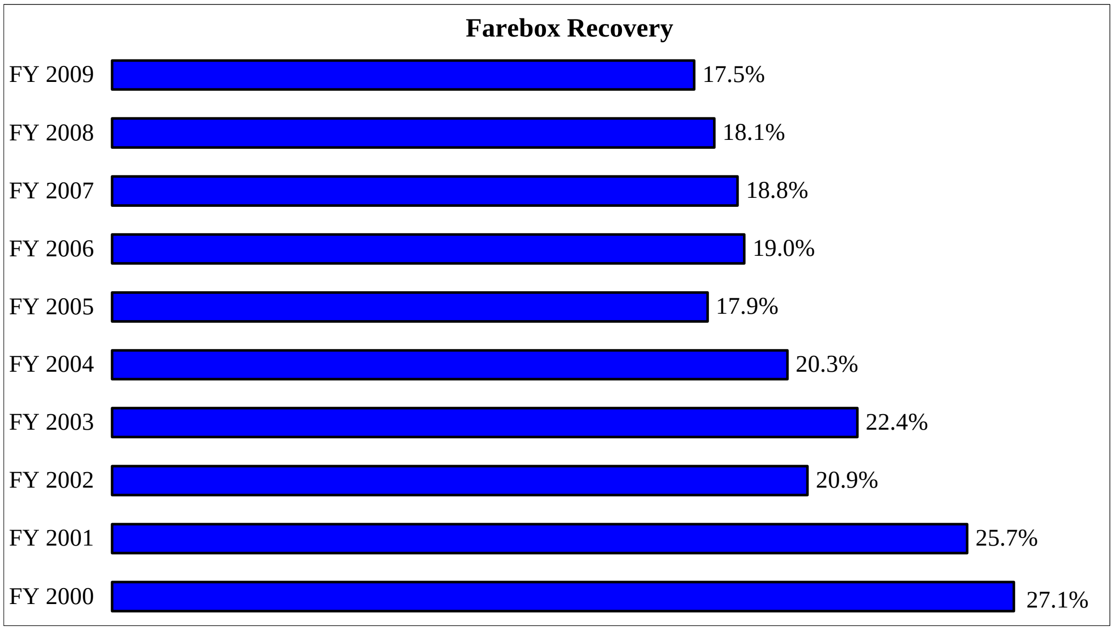

FIXED-ROUTE PASSENGER FARES

The District made modest fare adjustments in July 2002, September 2005 and February 2009.


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

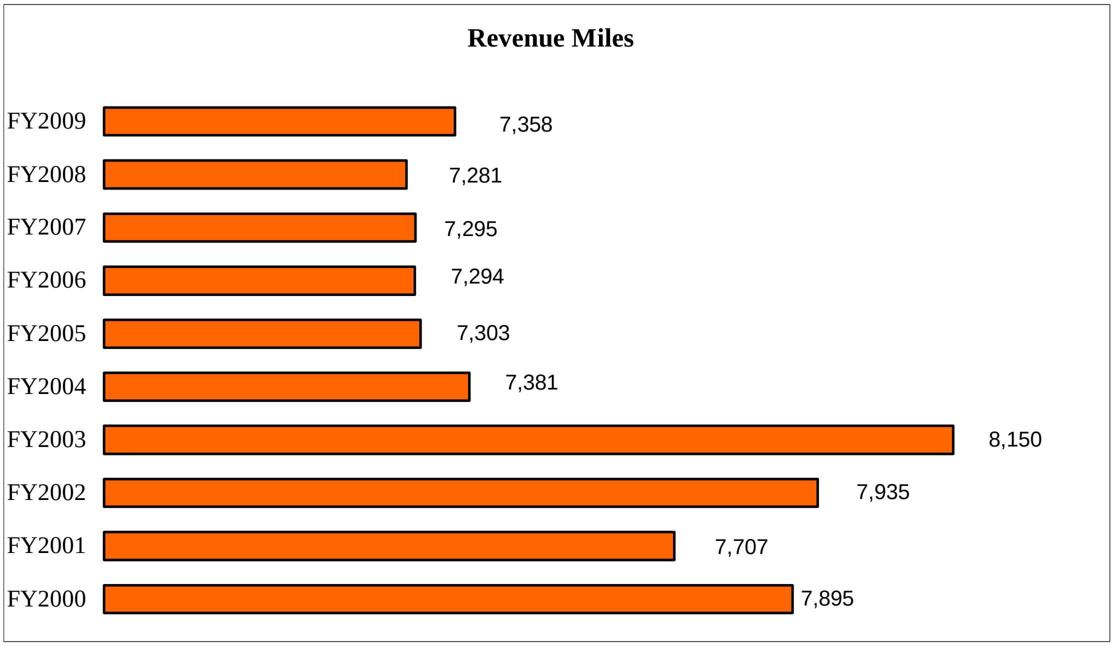
FIXED-ROUTE FAREBOX RECOVERY

Farebox recovery is based on fixed-route fare revenues divided by fixed-route total operating expenses. The farebox recovery ratio decreased slightly from FY2008 to FY2009.




FIXED-ROUTE REVENUE MILES (in thousands)

Fixed-route total miles increased minimally between FY2008 and FY2009.




Fixed-route data includes La Honda and shuttle service, which makes up less than 5 percent of the total data. The table presents the total fixed-route miles traveled.

## SAN MATEO COUNTY TRANSIT DISTRICT
## OPERATING INFORMATION – EMPLOYEES (FULL-TIME EQUIVALENTS)
## FISCAL YEARS 2004 THROUGH 2009

| | Full-time Equivalents | | | | | |
|---|---|---|---|---|---|---|
| **Division** | **2009** | **2008** | **2007** | **2006** | **2005** | **2004** |
| Executive | 4.55 | 4.80 | 4.80 | 6.00 | 6.00 | 6.00 |
| Administration | 42.85 | 43.35 | 42.70 | 38.76 | 36.56 | 46.29 |
| Communication | 29.97 | 29.58 | 33.75 | 35.77 | 36.17 | 43.76 |
| Development | 15.12 | 13.75 | 11.57 | 14.84 | 13.40 | 14.83 |
| Finance | 33.30 | 33.40 | 31.30 | 29.37 | 18.31 | 21.88 |
| Operations | 502.25 | 502.50 | 507.20 | 500.37 | 513.13 | 522.82 |
| Total | 628.04 | 627.38 | 631.32 | 625.11 | 623.57 | 655.58 |

Note: Employee counts are for Full-time Equivalents (FTEs) for the District. Data for 2000 through 2003 was not available.

Source: Operating and capital budgets.

This table presents total Full-time Equivalents by division.

**SAN MATEO COUNTY TRANSIT DISTRICT**
**OPERATING INFORMATION – CAPITAL ASSETS**
**FISCAL YEARS 2000 THROUGH 2009 (in thousands)**

| | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Depreciable Capital Assets | | | | |
| Buses and bus equipment | $ 140,767 | $ 142,856 | $ 158,180 | $ 154,924 |
| Buildings and building improvements | 73,868 | 73,686 | 73,237 | 73,237 |
| Maintenance and other equipment | 14,591 | 24,718 | 25,500 | 23,710 |
| Furniture and fixtures | 14,447 | 13,033 | 13,875 | 13,875 |
| Shelters and bus stop signs | 3,165 | 3,271 | 3,313 | 3,313 |
| Other vehicles | 2,343 | 2,015 | 2,363 | 2,363 |
| Total depreciable capital assets | 249,181 | 259,579 | 276,468 | 271,422 |
| Accumulated Depreciation* | | | | |
| Buses and bus equipment | (102,625) | (97,768) | (105,380) | (105,380) |
| Buildings and building improvements | (51,205) | (48,862) | (46,734) | (46,734) |
| Maintenance and other equipment | (11,454) | (22,538) | (22,350) | (22,350) |
| Furniture and fixtures | (12,286) | (8,244) | (8,474) | (8,474) |
| Shelters and bus stop signs | (3,148) | (3,248) | (3,200) | (3,200) |
| Other vehicles | (1,586) | (1,671) | (2,098) | (2,098) |
| Total accumulated depreciation | (182,304) | (182,331) | (188,236) | (188,236) |
| Nondepreciable Capital Assets | | | | |
| Land and right of way | 51,435 | 51,435 | 43,695 | 43,695 |
| Construction in progress | 16,968 | 18,772 | 15,713 | 15,713 |
| Total nondepreciable capital assets | 68,403 | 70,207 | 59,408 | 59,408 |
| Capital Assets, Net | $ 135,280 | $ 147,455 | $ 147,640 | $ 142,594 |

Source: CAFRs.

* The District used weighted average from 2001 through 2005 to categorize accumulated depreciation by asset for fiscal year 2000.

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

**SAN MATEO COUNTY TRANSIT DISTRICT**
**OPERATING INFORMATION – CAPITAL ASSETS**
**FISCAL YEARS 2000 THROUGH 2009 (in thousands)**

| | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| | $ 151,580 | $ 137,885 | $ 116,500 | $ 100,419 | $ 95,704 | $ 95,960 |
| | 72,083 | 70,029 | 68,643 | 64,854 | 64,486 | 55,341 |
| | 22,883 | 20,117 | 19,613 | 17,458 | 11,419 | 8,849 |
| | 13,329 | 13,229 | 13,143 | 7,613 | 10,861 | 9,593 |
| | 3,304 | 2,830 | 2,564 | 2,226 | 2,202 | 1,999 |
| | 2,354 | 2,354 | 2,613 | 2,204 | 2,199 | 2,055 |
| | 265,533 | 246,444 | 223,076 | 194,774 | 186,871 | 173,797 |
| | (82,326) | (69,185) | (80,959) | (72,520) | (65,096) | (55,000) |
| | (41,654) | (38,733) | (35,848) | (32,453) | (28,701) | (26,294) |
| | (18,852) | (17,137) | (16,770) | (15,173) | (11,836) | (12,123) |
| | (7,358) | (6,765) | (6,186) | (5,138) | (4,195) | (4,543) |
| | (2,755) | (2,394) | (2,248) | (2,073) | (1,829) | (1,697) |
| | (2,196) | (2,088) | (2,117) | (1,865) | (1,572) | (1,410) |
| | (155,141) | (136,302) | (144,128) | (129,222) | (113,229) | (101,067) |
| | 43,695 | 43,695 | 43,695 | 43,695 | 36,592 | 35,759 |
| | 10,957 | 18,750 | 32,410 | 18,366 | 8,526 | 13,325 |
| | 54,652 | 62,445 | 76,105 | 62,061 | 45,118 | 49,084 |
| | $ 165,044 | $ 172,587 | $ 155,053 | $ 127,613 | $ 118,760 | $ 121,814 |

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# Section IV

## SINGLE AUDIT

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 *Governmental Auditing Standards*

Independent Auditor's Report On Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Independent Auditor's Report on Compliance with Requirements Applicable to the Transportation Development Act

Schedule of Expenditures of Federal Awards and Notes

Summary of Auditor's Results

Financial Statement Findings and Recommendations

Schedule of Federal Award Findings and Questioned Costs

Status of Prior Year Findings and Recommendations

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



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

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

We have audited the financial statements of the San Mateo County Transit District (District) as of and for the year ended June 30, 2009, and have issued our report thereon, dated November 30, 2009. 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors, management, federal granting agencies and the Controller of the State of California, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
November 30, 2009

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

VALUE THE DIFFERENCE

REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

**Compliance**

We have audited the compliance of the San Mateo County Transit District (District) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The District's major federal programs are identified in the Schedule of Expenditures of Federal Awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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 the District's 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. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2009.

**Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

A *control deficiency* in the District's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the JPB's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

**Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the District as of and for the year ended June 30, 2009, and have issued our report thereon dated November 30, 2009. Our audit was performed for the purpose of forming an opinion on the financial statements of the District. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, federal awarding agencies and the Controller of the State of California, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
November 30, 2009

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

VALUE THE DIFFERENCE

COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE
TRANSPORTATION DEVELOPMENT ACT

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

We have audited the financial statements of the San Mateo County Transit District (District) as of and for the year ended June 30, 2009, and have issued our report thereon, dated November 30, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants is the responsibility of the management of the District. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of the Transportation Development Act, as amended and allocation instructions and resolutions of the Metropolitan Transportation Commission as required by Section 6667 of Title 21 of the California Code of Regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The result of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and the standards referred to in the second and third paragraphs.

This report is intended solely for the information and use of the Board of Directors and management of the District and for filing with the Metropolitan Transportation Commission and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
November 30, 2009

SAN MATEO COUNTY TRANSIT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

| Grant Program | Federal Catalog Number | Expenditures |
|---|---|---|
| U.S. Department of Transporation, Federal Transit Administration | | |
| Federal Transit Cluster: | | |
| Federal Transit - Formula Grants [1] | | |
| CA-90-Y154 Capital Grant | 20.507 | $ 199,686 |
| CA-90-Y344 Capital Grant | 20.507 | 442,907 |
| CA-90-Y344 Operating Grant | 20.507 | 137,663 |
| CA-90-Y-448 Capital Grant | 20.507 | 50,067 |
| CA-90-Y-525 Capital Grant | 20.507 | 149,691 |
| CA-90-Y-525 Operating Grant | 20.507 | 62,337 |
| CA-90-Y-612 Capital Grant | 20.507 | 1,270,451 |
| CA-90-Y-612 Operating Grant | 20.507 | 640,885 |
| CA-90-Y-0768 Operating Grant | 20.507 | 28,800 |
| CA-96-X021 Operating Grant - ARRA | 20.507 | 4,787,827 |
| CA-04-0020 Capital Grant | 20.507 | 141,924 |
| CA-37-X066 - Job Acess Reverse Commute - Operating Grant | 20.516 | 270,198 |
| High Priority Program ("HPP") earmark for Project #1942 | 20.500 | 162,616 |
| Subtotal | | 8,345,052 |
| Nonurbanized Area Formula Grants: | | |
| Section 5311(f) - Operating | 20.509 | 138,000 |
| Section 5311 - Operating | 20.509 | 138,650 |
| Subtotal | | 276,650 |
| Passed through the California Metropolitan Transportation Commission | | |
| CA-81-2003(01) - Section 5303 - Operating | 20.505 | 14,841 |
| GBI TCP - Section 5304 | 20.505 | 103,362 |
| New Freedom Grant - Section 5317 | 20.521 | 61,274 |
| | | 179,477 |
| U.S. Department of Homeland Security [1] | | |
| FY06 Transit Security Grant - Operation Training | 97.075 | 3,500 |
| FY06 Transit Security Grant - Capital | 97.075 | 342,937 |
| Subtotal | | 346,437 |
| Total Expenditures of Federal Awards | | $ 9,147,616 |

[1] Major Program

## *NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

### A. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the San Mateo County Transit District (District). The District's reporting entity is defined in Note #1 in the District's financial statements. All federal awards received directly from federal agencies,well as federal awards passed through other governmental agencies to the District are included in the accompanying schedule.

### B. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note #1 in the District's financial statements.

### C. Relationship to the Basic Financial Statements

Federal financial assistance is reported in the District's financial statements as federal operating assistance and capital contributions.

### D. Relationship to Federal Financial Reports

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with the amounts reported in the related federal financial reports. However, certain federal financial reports are filed based on cash expenditures. As such, certain timing differences may exist in the recognition of revenues and expenditures between the Schedule of Expenditures of Federal Awards and the federal financial reports.

**SAN MATEO COUNTY TRANSIT DISTRICT**
**SUMMARY OF AUDITOR'S RESULTS**
**YEAR ENDED JUNE 30, 2009**

| | |
|---|---|
| FINANCIAL STATEMENTS | |
| Type of auditors' report issued: | Unqualified |
| 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? | No |
| 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 programs: | |

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| 20.500 and 20.507 | Federal Transit Cluster |
| 97.075 | Transit Security Grants |
| | |
| | |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 300,000 |
| Auditee qualified as low-risk auditee? | Yes |

There were no reportable conditions, material weaknesses, or instances of noncompliance related to the financial statements that are required to be reported in accordance with generally accepted government auditing standards.

There were no findings representing reportable conditions, material weaknesses, or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

There were no prior year findings or recommendations.