

San Mateo County Transit District

San Carlos, California



Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2010

San Mateo County
TRANSIT DISTRICT

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2010

Prepared by the Finance and Administration Division

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Section I

INTRODUCTORY

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November 30, 2010

**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, 2009 through June 30, 2010. 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 Maze & Associates, 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

Basic Information

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

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

History

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

The District has fought throughout its history to preserve passenger rail service along the San Francisco Peninsula and it led a successful campaign in 1978 to avoid an impending decision by the Southern Pacific Railroad to end service. Two years later, the California Department of Transportation negotiated a purchase of service agreement with the Southern Pacific to continue to operate the commuter rail service under the name "Caltrain" while the local counties determined if they could assume control of Caltrain. As a result, the Peninsula Corridor Joint Powers Board was formed with the three member agencies: City and County of San Francisco, San Mateo County Transit District and Santa Clara Valley Transportation Authority. The JPB purchased the Southern Pacific right of way and selected the District as the managing agency for Caltrain passenger service. In 1992, 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.

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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 *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.

Component Units

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

Budget

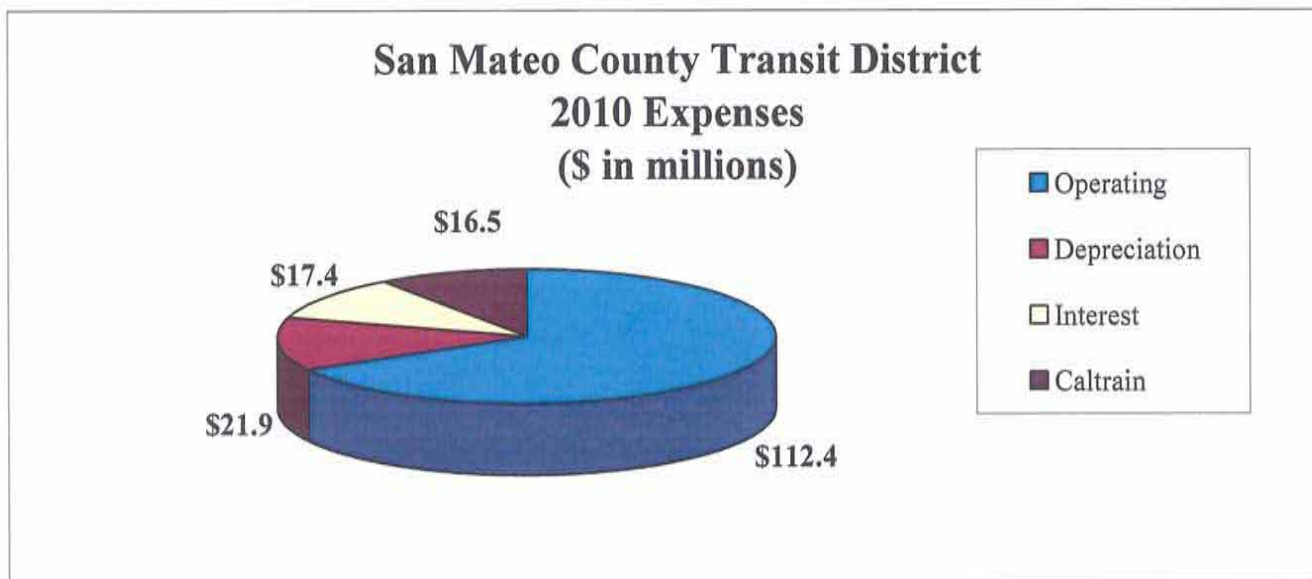
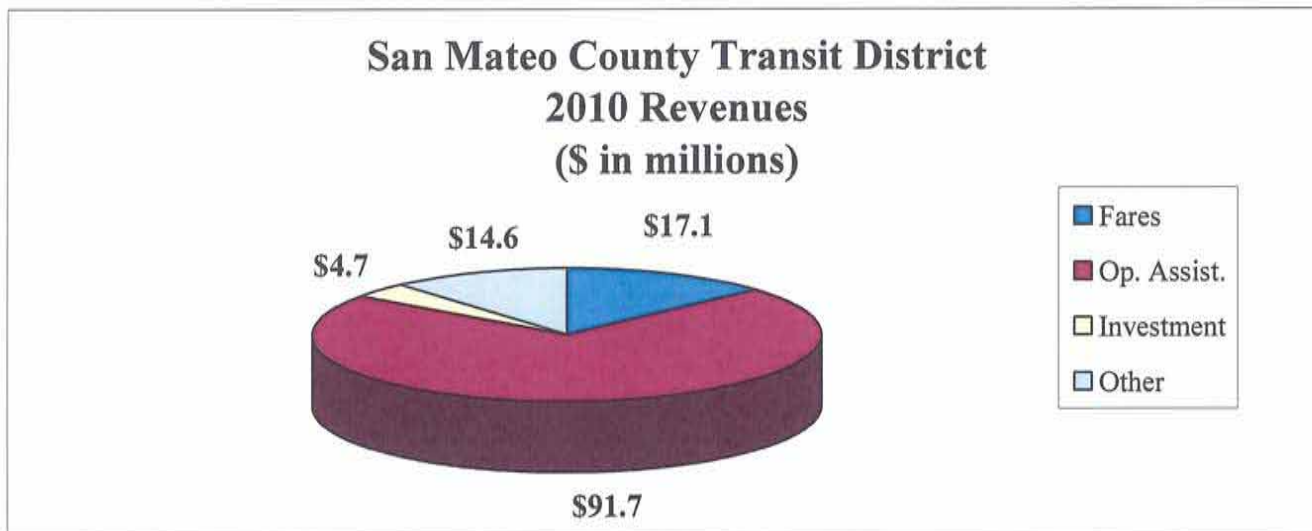
State law requires the District to adopt an annual budget by resolution of the Board of Directors. In the spring preceding the start of each fiscal year, staff presents an annual budget based on established agency goals, objectives and performance measures to the Board of Directors. The presentation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

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

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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 2010.



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ECONOMIC CONDITION

Local Economy

Unemployment in San Mateo County had risen to 9.2 percent by June 2010 from 9.0 percent in June 2009 and 4.8 percent in June 2008. This compares to 12.2 percent in June 2010 in the state of California and 11.6 and 6.9 percent in June 2009 and 2008, respectively. The District's sales tax receipts decreased 2.5 percent in Fiscal Year 2010 from Fiscal Year 2009 levels which were down by 12.6 percent from the prior year after steadily increasing in 2004 through 2008.

San Mateo County remains one of the wealthiest counties in California. With significant employment in diverse industries including air travel, technology, biotechnology, finance, education, conventions, tourism, agriculture and manufacturing, 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.

According to the National Bureau of Economic Research's Business Cycle Dating Committee, the recession which began in December 2007 ended as of June 2009. However by the end of Fiscal Year 2010, San Mateo County was still feeling the effects. Nationally, the recession is said to have eliminated more than seven million jobs, reduced economic output by 4.1 percent and decreased household net worth by 21 percent over 18 months. It is likely that the recovery will be very slow moving with continued slow growth and high unemployment.

Long-term Financial and Strategic Planning

The District began operations in 1976 as a fixed-route bus service. Today, the District has grown into a multimodal system of coordinated transit services, including bus, paratransit, shuttles and rail, each playing an integral role in meeting the transportation needs of San Mateo County. The rising costs of providing services, coupled with the District's commitment to additional services without new revenue sources, has resulted in an unsustainable financial condition. Specifically, debt service and the costs associated with the District's commitment to BART and annual growing contributions to Caltrain are significantly impacting the long-term financial condition of the District. The District has the means to balance its budget with supplemental revenue sources through 2013; however by 2014 the District will have a budget shortfall that cannot be funded by supplemental revenue sources.

The District has been working to improve its long-term financial condition through a variety of measures. Staff has initiated several efforts to help draw annual expenses in line with annual revenues. Some of the deficit reduction exercises implemented over the last couple of years include a 7.5 percent service reduction, administrative layoffs, hiring and salary freezes, furlough days, fare increases, the implementation of a fuel hedge policy and program and deferring capital purchases. Over the longer term, improvement measures have included a restructuring of \$211 million in debt, dissolution of the BART to SFO agreement and the reauthorization of the Measure A half cent sales tax. These efforts have made a significant difference when looking at where the District stands today; however the District is still facing a structural deficit due to a decrease in transportation funding and rising costs.

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The District has recently published an updated strategic plan to guide the District through 2013. The strategic plan, which readers can view online at www.samtrans.com, is a policy framework that will guide the District's investments over the next few years. It focuses on addressing the District's structural deficit, reinventing the SamTrans family of services, linking transportation and land use investments, evolving business practices, partnering with its communities and investing in District employees to continue to achieve excellence. In going through the strategic planning process, the District decided that it needed to broaden its focus beyond operating transit to addressing mobility management, enhancing peoples' quality of life and addressing sustainability. The District's new vision is: "The District is a mobility leader, providing transportation choices and a sustainable future that meets the needs of our diverse communities." To meet the financial integrity goal of the strategic plan, the focus will be to structure the District's services in a way that maximizes efficiencies and fare revenue while continuing to meet the needs of our transit-dependent customers.

Major Initiatives

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

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

Motor Bus Operations

The District designs its 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, the District reduced its bus operation from 60 routes to 58 routes in 2003. An additional four routes were eliminated in 2004 concurrent with the opening of the BART Extension to SFO and one route was added in the same year. In 2008, one more route was eliminated. In 2009, an additional seven routes were eliminated and one route was added, representing a 7.5 percent service reduction to address the Fiscal Year 2010 budget shortfall, bringing the current total to 48 routes. Fixed-route bus ridership peaked in San Mateo County at 19.0 million in Fiscal Year 1998, but has since declined to 13.9 million in 2010.

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 33 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.

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In Fiscal Year 2009 after completing a competitive bid process, the District Board authorized the award of a contract to Gillig for the purchase and delivery of 132 new heavy-duty buses, which are consistent with the District's adopted bus fleet emissions reduction program, to replace 1993 Gillig buses and other buses in the fleet which are at the end of their useful life. Also in Fiscal Year 2009, the District Board authorized the purchase of four 30-foot Gillig buses to operate on Route 17 in the Half Moon Bay/Coastside area. The District began taking delivery of the new buses in August 2009 and had received all of the 135 new buses by the end of Fiscal Year 2010.

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 21st 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.

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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 Fiscal Year 2010, Redi-Wheels and RediCoast vehicles and contracted taxis provided a total of 253,240 hours of service to 310,032 customers.

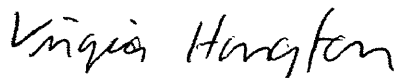
ACKNOWLEDGMENTS AND AWARDS

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 expect sales tax growth to be minimal in the coming years as we emerge from the recession, the District expects the continued enthusiasm and dedication of its transit professionals to meet the transportation challenges of the future.

The Government Finance Officers Association (GFOA) recognized the District's 2009 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 2010 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 Maze & Associates, 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, 2009

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

ROSE GUILBAULT, Chair

KARYL MATSUMOTO, Vice Chair

OMAR AHMAD

MARK CHURCH

JERRY DEAL

SHIRLEY HARRIS

ZOE KERSTEEN-TUCKER

ARTHUR L. LLOYD

ADRIENNE TISSIER

ROSE GUILBAULT, public member, was appointed by the San Mateo County Transit District Board of Directors in March 2006. Ms. Guilbault currently serves as Chair. 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.

KARYL MATSUMOTO, City Selection Committee appointee for the northern portion of San Mateo County, was appointed 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.

OMAR AHMAD, City Selection Committee appointee for the southern portion of San Mateo County, was appointed in December 2009. Mr. Ahmad was elected to the City of San Carlos City Council in November 2007. He also serves as a member of the governing body of the Peninsula Corridor Joint Powers Board. Mr. Ahmad is currently the CEO of a new Silicon Valley technology startup.

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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 more than 20 years. In 1982, he established the law firm of Church and Associates in Millbrae.

JERRY DEAL, City 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.

ZOE KERSTEEN-TUCKER, public member and representative of the Coastal area, was appointed by the District Board of Directors in March 2006. 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.

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.

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 vice chair of the MTC.

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

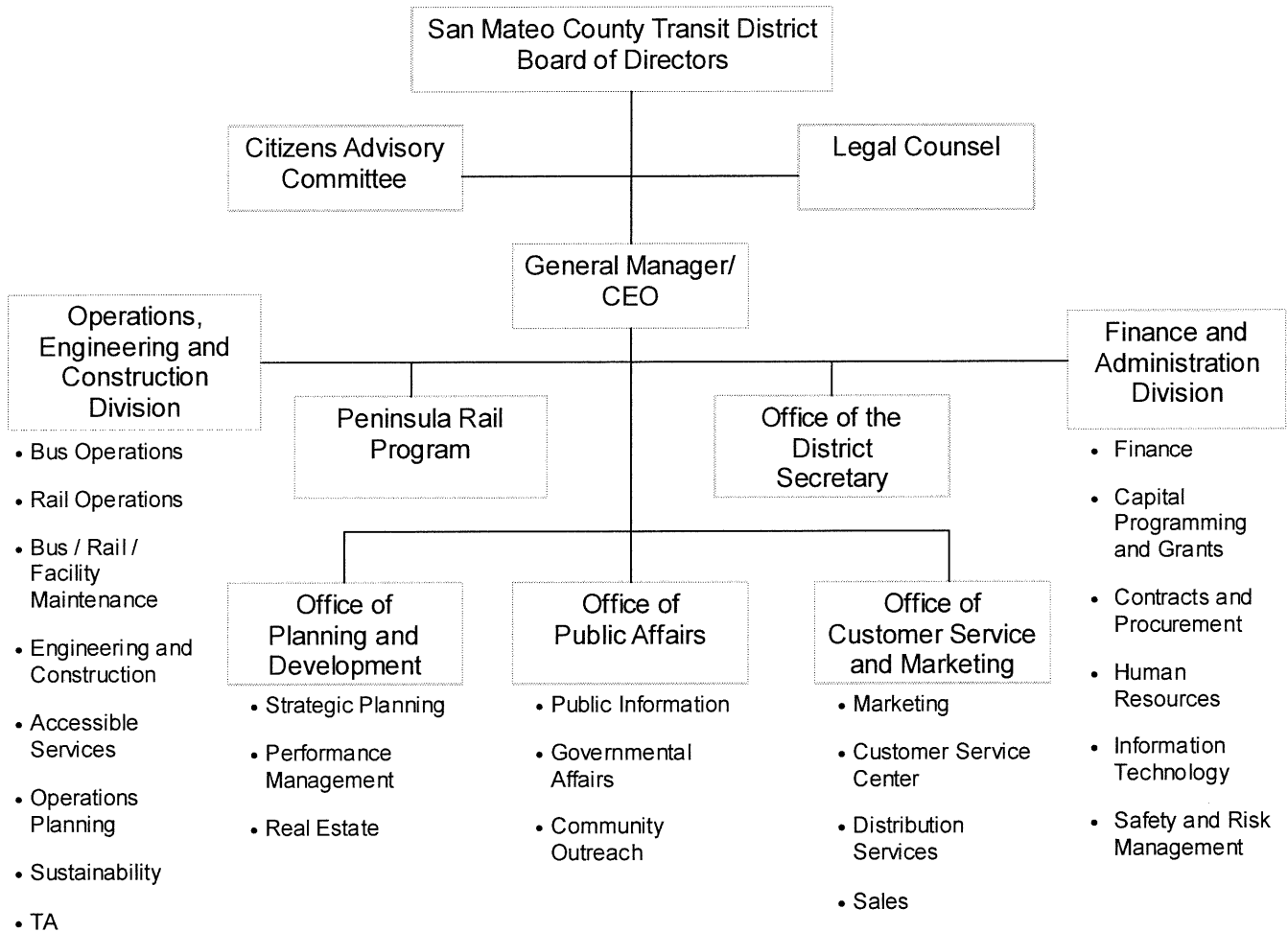
Martha Martinez – District Secretary

Mark Simon – Executive Officer, Public Affairs

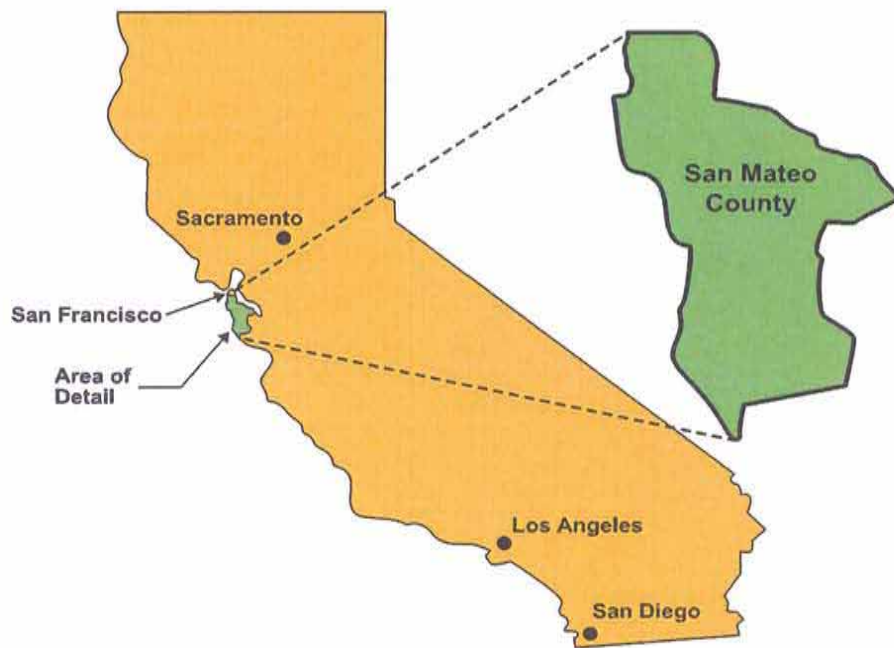
GENERAL COUNSEL

Hanson, Bridgett, LLP:
David J. Miller, Esq.
Joan Cassman, Esq.

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TABLE OF CREDITS

The following individuals contributed to the production of the Fiscal Year 2010 Comprehensive Annual Financial Report:

Finance:

| | |
|---------------------------|------------------|
| Manager, Budgets | Ladi Bhuller |
| Manager, General Ledger | Rima Lobo |
| Manager, Treasury | Lori Snow |
| Senior Accountant | Jeannie Chen |
| Senior Budget Analyst | Angela Ho |
| Senior Budget Analyst | Chris Petak |
| Senior Systems Accountant | Angustia Pacumio |

Audit Firm:

| | |
|---------|--------------------|
| Partner | Vikki C. Rodriguez |
|---------|--------------------|

Section II

FINANCIAL

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements and Notes

Required Supplementary Information

Supplementary Information and Notes

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of the business-type activities and the major fund of the San Mateo County Transit District (District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These basic 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. The prior year comparative information has been derived from the District's June 30, 2009 financial statements which were audited by other auditors whose unqualified opinion was dated November 30, 2009.

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

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the business-type activities and the major fund of the San Mateo County Transit District at June 30, 2010 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2010 on our consideration of the San Mateo County Transit District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The Supplemental Information 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 basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Introductory Section and Statistical Section have not been subjected to the auditing procedure applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Maze & Associates

October 15, 2010

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 2010 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, 2010, total assets stand at \$511.0 million, an increase of \$10.3 million or 2.1 percent compared to June 30, 2009. The 2010 increase was mainly due to the acquisition of 135 new 2009 Gillig buses. 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 primarily due to the disposition of capital assets.
- At June 30, 2010, total liabilities were \$362.7 million, a decrease of \$4.2 million or 1.1 percent compared to June 30, 2009. 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 decrease was due to a reduction in long-term debt.
- For Fiscal Year 2010, passenger fares were \$17.1 million, a decrease of \$0.2 million or 1.0 percent compared to Fiscal Year 2009. The 2010 decrease was due to service cuts and a decrease in ridership. 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 an increase in fares.
- In Fiscal Year 2010, total operating expenses were \$112.4 million, a decrease of \$4.2 million or 3.6 percent compared to Fiscal Year 2009. The results were mostly due to a decrease in Salaries & Benefits, Other Services and Materials & Supplies. 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.
- For Fiscal Year 2010, nonoperating revenues net of nonoperating expenses were \$77.1 million, a decrease of \$26.9 million or 25.9 percent compared to Fiscal Year 2009. In Fiscal Year 2009, nonoperating revenues net of nonoperating expenses were \$104.0 million, an increase of \$4.0 million or 4.0 percent compared to Fiscal Year 2008. The decrease in 2010 and the increase in 2009 were mainly due to the receipt of the \$25.0 million corpus of the paratransit trust fund from the San Mateo County Transportation Authority in 2009.
- At June 30, 2010, net assets were \$148.3 million, an increase of \$14.5 million or 10.8 percent from June 30, 2009. The 2010 increase was due to increase in capital contributions for the purchase of new buses. 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.

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.

**SAN MATEO COUNTY TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2010**

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 activities* which includes operating grant proceeds as well as operating subsidy payments from third parties and other nonoperating items.
- *Cash flows from capital and related financing activities* which arise from the borrowing and repayment (principal and interest) of capital-related debt, the acquisition and construction of capital assets and the proceeds of capital grants and contributions.
- *Cash flows from investing activities* which includes the proceeds from the sale of investments and receipt of interest. Outflows in this category include the purchase of investments.

Notes to the Financial Statements

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

Other Information

This report also presents certain required supplementary information in accordance with the requirements of GASB Statements No. 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 2010, total assets were \$511.0 million, an increase of \$10.3 million or 2.1 percent compared to June 30, 2009. 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. Total current assets increased \$4.8 million or 5.3 percent to \$94.1 million on June 30, 2010 from \$89.3 million on June 30, 2009 and a decreased of \$9.3 million or 9.4 percent at June 30, 2009 compared to June 30, 2008. Capital assets – net of accumulated depreciation, Capital contribution to BART – net of amortization and all other non-current assets combined, increased by \$5.5 million or 1.3 percent in 2010 and decreased by \$8.9 million or 2.1 percent in 2009.

**SAN MATEO COUNTY TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2010**

Capital assets net of accumulated depreciation increased by \$45.1 million or 33.3 percent to \$180.4 million at June 30, 2010 compared to 2009 and decreased \$12.2 million or 8.3 percent in 2009 compared to 2008. 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 \$4.6 million or 3.2 percent to \$140.4 million in Fiscal Year 2010 compared to Fiscal Year 2009 and decreased by \$6.4 million or 4.2 percent in Fiscal Year 2009 compared to Fiscal Year 2008. 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)**

| | 2010 | 2009 | 2008 |
|---|-------------------|-------------------|-------------------|
| Current Assets | \$ 94,109 | \$ 89,346 | \$ 98,669 |
| Capital assets, net of depreciation | 180,370 | 135,280 | 147,455 |
| Contribution to BART, net of amortization | 140,386 | 145,021 | 151,451 |
| Other noncurrent assets | 96,150 | 131,096 | 121,352 |
| Total assets | 511,015 | 500,743 | 518,927 |
| Current liabilities | 26,868 | 26,990 | 24,921 |
| Long-term debt | 315,245 | 323,451 | 331,195 |
| Other noncurrent liabilities | 20,628 | 16,499 | 15,154 |
| Total liabilities | 362,741 | 366,940 | 371,270 |
| Net assets | | | |
| Invested in capital assets, net of related debt | 1,204 | (46,833) | (35,006) |
| Restricted | 31,875 | 37,048 | 3,517 |
| Unrestricted | 115,195 | 143,588 | 179,146 |
| Total net assets | \$ 148,274 | \$ 133,803 | \$ 147,657 |

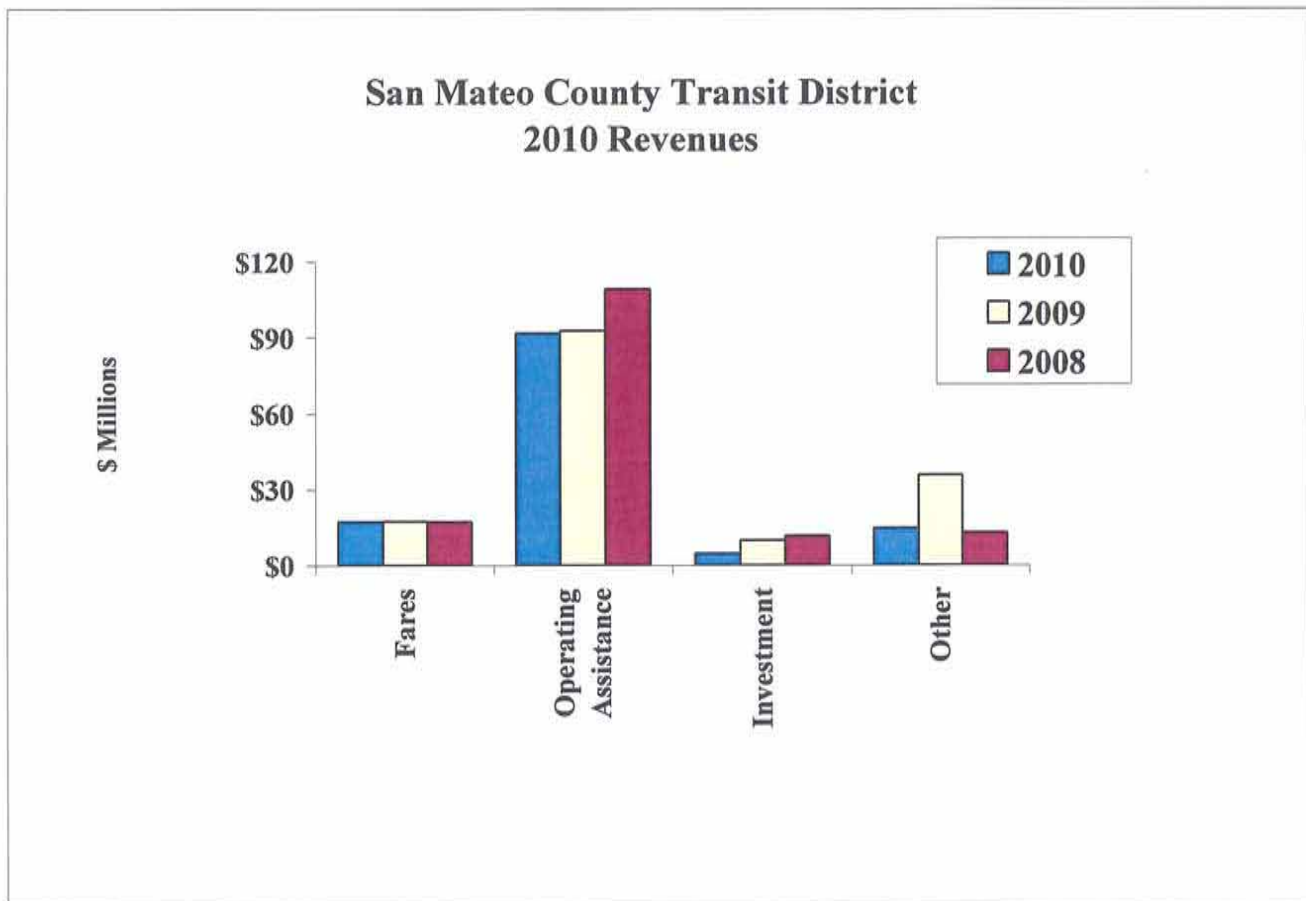
In Fiscal Year 2010, total liabilities were \$362.7 million, a decrease of \$4.2 million or 1.1 percent compared to Fiscal Year 2009. In Fiscal Year 2009, total liabilities were \$366.9 million, a decrease of \$4.3 million or 1.2 percent compared to 2008. The decrease for both 2010 and 2009 were mainly due to scheduled payments of principal on long-term debt.

**SAN MATEO COUNTY TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2010**

At June 30, 2010, net assets of \$148.3 million were \$14.5 million or 10.8 percent less than the \$133.8 million at June 30, 2009 and were \$13.9 million or 9.4 percent less on June 30, 2009 compared to \$147.7 million at June 30, 2008. The \$1.2 million invested in capital assets net of related debt at June 30, 2010 were 0.8 percent of the total net assets. Total restricted net assets at June 30, 2010 were \$31.9 million or 21.5 percent of total net assets. The remaining \$115.2 million of total net assets at June 30, 2010 were unrestricted and represented 77.7 percent of total net assets

Revenue Highlights

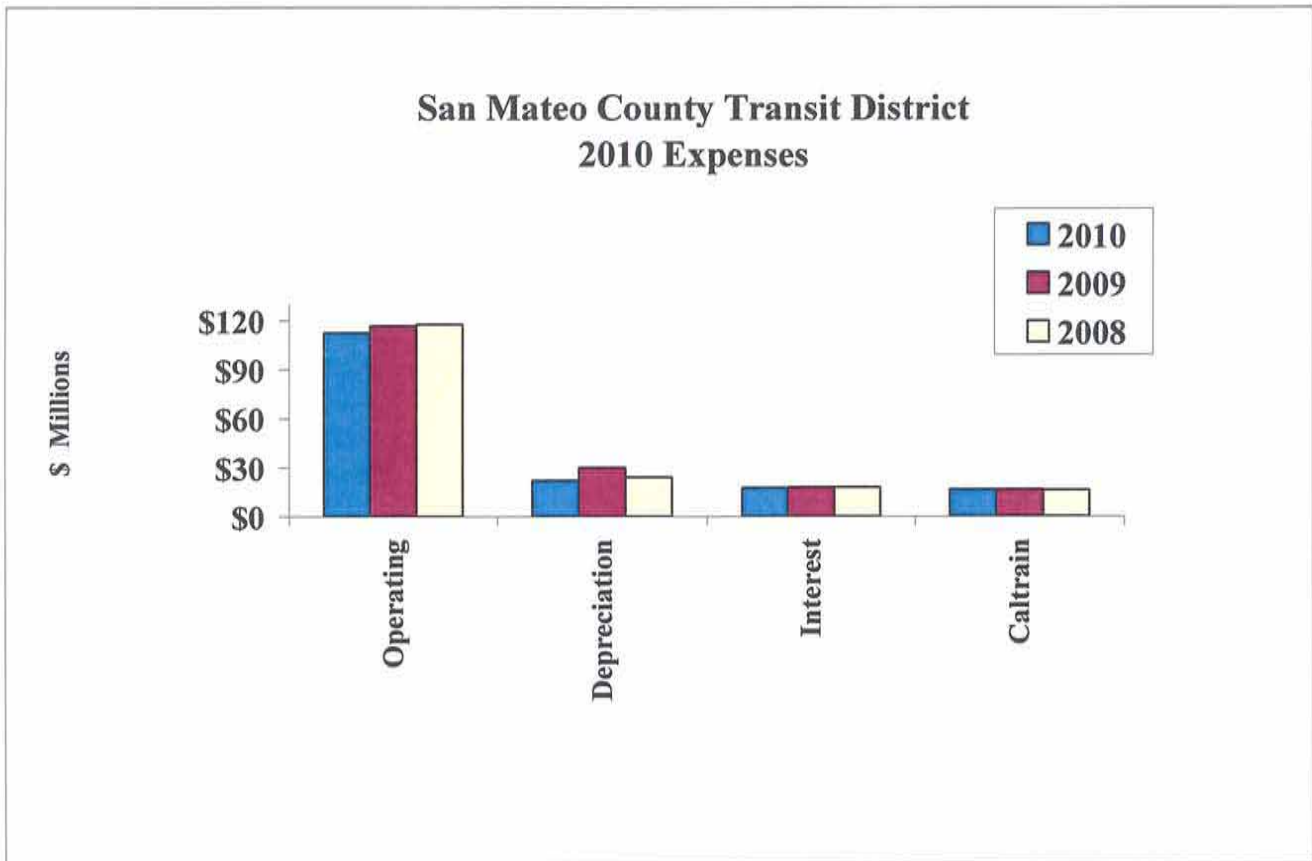
Operating revenues generated from passenger fares of \$17.1 million decreased by \$0.2 million or 1.0 percent during Fiscal Year 2010 compared to Fiscal Year 2009 and increased by \$0.1 million or 0.7 percent in Fiscal Year 2009 compared to Fiscal Year 2008. The 2010 decrease was due to service cuts and the 2009 increase was the result of a fare increase.



In Fiscal Year 2010, nonoperating revenues decreased by \$27.2 million or 19.7 percent to \$110.9 million. This decrease was due to the transfer of \$25 million corpus of the paratransit trust fund to the District from TA in 2009. Operating assistance of \$91.7 million accounted for the majority of Fiscal Year 2010 nonoperating revenues. This amount consisted of 55.9 percent from transaction and use tax, 29.5 percent from local transportation funds, 10.9 percent from federal assistance and 3.7 percent from Measure A, state transit assistance and AB434 funds combined.

Expense Highlights

In Fiscal Year 2010, total operating expenses were \$112.4 million, a decrease of \$4.2 million or 3.6 percent compared to Fiscal Year 2009. 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. Total operating expenses in 2010 consisted of \$59.8 million or 53.2 percent for wages and benefits, \$32.4 million or 28.8 percent for contract operations and other services, and \$20.2 million or 18.0 percent for materials, insurance and other miscellaneous expenses combined. Depreciation and amortization expenses were \$21.9 million and \$29.7 million for Fiscal Year 2010 and Fiscal Year 2009 respectively, a \$7.8 million or 26.3 percent decrease in Fiscal Year 2010 compared to Fiscal Year 2009 and \$5.8 million or 24.2 percent increase in Fiscal Year 2009 compared to Fiscal Year 2008.



In Fiscal Year 2010, nonoperating expenses were \$33.9 million, a decrease of \$0.3 million or 0.9 percent compared to Fiscal Year 2009. 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 2010, 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
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2010**

**SAN MATEO COUNTY TRANSIT DISTRICT
CHANGES IN NET ASSETS**

(in thousands)

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|-------------------|-------------------|-------------------|
| Operating revenues-passenger fares | \$ 17,149 | \$ 17,325 | \$ 17,203 |
| Operating expenses-transit services | <u>112,406</u> | <u>116,563</u> | <u>117,537</u> |
| Operating loss before depreciation and amortization | (95,257) | (99,238) | (100,334) |
| Depreciation and amortization | <u>(21,887)</u> | <u>(29,687)</u> | <u>(23,899)</u> |
| Operating loss | (117,144) | (128,925) | (124,233) |
| Nonoperating revenues | | | |
| Operating assistance | 91,672 | 92,673 | 109,227 |
| Investment income | 4,659 | 9,830 | 11,637 |
| Interagency administrative income | 4,375 | 3,151 | 8,327 |
| Other income, net | <u>10,241</u> | <u>32,520</u> | <u>4,587</u> |
| Total Nonoperating revenues | 110,947 | 138,174 | 133,778 |
| Nonoperating expenses | | | |
| Interest expense | (17,371) | (17,674) | (17,783) |
| Caltrain service subsidy | <u>(16,521)</u> | <u>(16,521)</u> | <u>(16,040)</u> |
| Total Nonoperating expenses | <u>(33,892)</u> | <u>(34,195)</u> | <u>(33,823)</u> |
| Net loss before capital contributions | (40,089) | (24,946) | (24,278) |
| Capital contributions | <u>54,560</u> | <u>11,092</u> | <u>12,202</u> |
| Change in net assets | 14,471 | (13,854) | (12,076) |
| Net assets - beginning of year | <u>133,803</u> | <u>147,657</u> | <u>159,733</u> |
| Net assets - end of year | <u>\$ 148,274</u> | <u>\$ 133,803</u> | <u>\$ 147,657</u> |

Capital Program

The District received capital contributions of \$54.6 million in Fiscal Year 2010 and \$11.1 million in Fiscal Year 2009, which was an increase of \$43.5 million or 391.9 percent in Fiscal Year 2010 compared to Fiscal Year 2009 and a decrease of \$1.1 million or 9.1 percent in Fiscal Year 2009 compared to Fiscal Year 2008.

The following is a summary of the District's major capital expenditures for Fiscal Year 2010.

- Purchase of Gillig buses (\$54.1 million)
- Communication Information System (\$1.5 million)
- Maintenance Facility Rehab/Repavement project (\$1.2 million)
- Replacement of bus parts in accordance with FTA guidelines (\$0.8 million)
- Planning study for transit-oriented development (\$0.5 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*.

**SAN MATEO COUNTY TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2010**

Debt

The District had \$321.9 million in bonds and notes outstanding at June 30, 2010 compared to \$329.9 million at June 30, 2009, a decrease of \$8.0 million or 2.4 percent. The scheduled payment of \$8.0 million during Fiscal Year 2010 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

In September, the National Bureau of Economic Research's Business Cycle Dating Committee announced that the recession, which began in December 2007 and lasted 18 months, ended in June 2009. However, the District's sales tax revenues decreased \$1.5 million or 2.5 percent in FY2010 to \$58.5 million after having decreased \$8.7 million or 12.6 percent in FY2009. A similar result was experienced with unemployment in San Mateo County reaching 9.2 percent in June 2010. This was up from 9.0 percent in June 2009 and 4.8 percent in June 2008. The District continues to feel the pressure from decreasing revenues, not only from sales tax, but also in relation to federal and state funding and farebox revenues. While the District is still feeling the affects of the recession, the decrease has slowed over the last fiscal year. Consequently, the District has taken this trend into account in its FY2011 budget projections.

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 – Finance and Administration, 1250 San Carlos Ave, San Carlos, California 94070-1306.

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2010
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2009 (in thousands)

| ASSETS | 2010 | 2009 |
|--|------------|------------|
| Current Assets: | | |
| Cash and cash equivalents (Note 1E & 2) | \$ 10,230 | \$ 12,228 |
| Restricted cash (Note 1G & 2) | 3,705 | 9,826 |
| Sub-total | 13,935 | 22,054 |
| Investments (Note 1F & 2) | 30,158 | 33,517 |
| Restricted investments (Note 1G & 2) | 7,530 | 7,173 |
| Receivables: | | |
| Transaction and use tax | 11,189 | 9,742 |
| Receivable from Peninsula Corridor Joint Powers Board (Note 8) | 4,360 | 1,578 |
| Federal grants | 14,071 | 6,122 |
| Interest | 1,011 | 1,311 |
| Other | 8,541 | 4,257 |
| Allowance for doubtful accounts | (90) | (90) |
| Total Receivables, Net | 39,082 | 22,920 |
| Inventories (Note 1I) | 1,741 | 1,650 |
| Prepaid expenses | 1,663 | 2,032 |
| Total Current Assets | 94,109 | 89,346 |
| Noncurrent Assets: | | |
| Noncurrent investments (Note 2) | 69,144 | 104,022 |
| Restricted investments (Note 1G and 2) | 21,980 | 21,750 |
| Capital Assets (Note 6): | | |
| Buses and bus equipment | 164,448 | 140,767 |
| Buildings and building improvements | 76,150 | 73,868 |
| Maintenance and other equipment | 15,125 | 14,591 |
| Furniture and fixtures | 20,831 | 14,447 |
| Shelters and bus stop signs | 3,166 | 3,165 |
| Other vehicles | 2,026 | 2,343 |
| Less accumulated depreciation | (189,236) | (182,304) |
| Subtotal | 92,510 | 66,877 |
| Land and right of way | 51,435 | 51,435 |
| Construction in progress | 36,425 | 16,968 |
| Total Capital Assets, Net | 180,370 | 135,280 |
| Capital contribution to BART, net of amortization (Note 5) | 140,386 | 145,021 |
| Bond issuance costs (Note 1I) | 4,064 | 4,317 |
| Other assets (Note 9) | 962 | 1,007 |
| Total Noncurrent Assets | 416,906 | 411,397 |
| Total Assets | \$ 511,015 | \$ 500,743 |

See accompanying notes to basic financial statements

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF NET ASSETS (Continued)
JUNE 30, 2010
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2009 (in thousands)

| LIABILITIES | 2010 | 2009 |
|--|-------------------|-------------------|
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 8,692 | \$ 9,567 |
| Current portion of compensated absences (Note 10) | 5,949 | 5,809 |
| Current portion of self-insurance liabilities (Note 14) | 2,044 | 1,912 |
| Accrued interest | 1,813 | 1,702 |
| Current portion of long-term debt (Note 11) | 8,370 | 8,000 |
| Total Current Liabilities | <u>26,868</u> | <u>26,990</u> |
| Noncurrent liabilities: | | |
| Long-term debt, less current portion (Note 11) | 315,245 | 323,451 |
| Self-insurance liabilities, less current portion (Note 14) | 8,591 | 5,881 |
| Other noncurrent liabilities (Note 10) | 5,292 | 5,315 |
| Compensated absences, less current portion (Note 10) | 1,411 | 1,530 |
| Post-employment benefits (Note 13) | 5,334 | 3,773 |
| Total Noncurrent Liabilities | <u>335,873</u> | <u>339,950</u> |
| Total Liabilities | <u>362,741</u> | <u>366,940</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 1,204 | (46,833) |
| Restricted For: | | |
| Debt service | 3,625 | 2,728 |
| Capital projects | 3,250 | 9,320 |
| Paratransit fund | 25,000 | 25,000 |
| Total Restricted Assets | <u>31,875</u> | <u>37,048</u> |
| Unrestricted | <u>115,195</u> | <u>143,588</u> |
| Total Net Assets | <u>\$ 148,274</u> | <u>\$ 133,803</u> |

See accompanying notes to basic financial statements

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009 (in thousands)

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|-------------------|
| OPERATING REVENUES | | |
| Passenger fares | \$ 17,149 | \$ 17,325 |
| Total Operating Revenues | <u>17,149</u> | <u>17,325</u> |
| OPERATING EXPENSES | | |
| Salaries and benefits | 59,835 | 62,708 |
| Contract operations and maintenance services | 28,706 | 28,710 |
| Other services | 3,651 | 4,655 |
| Materials and supplies | 7,344 | 8,432 |
| Insurance | 6,607 | 5,621 |
| Miscellaneous | 6,263 | 6,437 |
| Total Operating Expense | <u>112,406</u> | <u>116,563</u> |
| Operating loss before depreciation and amortization and administrative expenses capitalized | (95,257) | (99,238) |
| Depreciation and amortization | <u>(21,887)</u> | <u>(29,687)</u> |
| OPERATING (LOSS) | <u>(117,144)</u> | <u>(128,925)</u> |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Operating assistance (Note 3) | 91,672 | 92,673 |
| Investment income | 4,659 | 9,830 |
| Interest expense | (17,371) | (17,674) |
| Caltrain service subsidy (Note 8) | (16,521) | (16,521) |
| Interagency administrative income | 4,375 | 3,151 |
| Other income, net | 10,241 | 7,520 |
| Paratransit Trust Fund | - | 25,000 |
| Total Non-Operating Revenues, Net | <u>77,055</u> | <u>103,979</u> |
| Net Loss Before Capital Contributions | (40,089) | (24,946) |
| Capital contributions (Note 1P) | <u>54,560</u> | <u>11,092</u> |
| CHANGE IN NET ASSETS | 14,471 | (13,854) |
| NET ASSETS: | | |
| Beginning of year | <u>133,803</u> | <u>147,657</u> |
| End of year | <u>\$ 148,274</u> | <u>\$ 133,803</u> |

See accompanying notes to basic financial statements

**SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009 (in thousands)**

| | 2010 | 2009 |
|--|-------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from passenger fares | \$ 17,195 | \$ 17,467 |
| Payments to vendors for services | (51,543) | (54,501) |
| Payments to employees | (60,862) | (59,564) |
| Other | - | 9,923 |
| Net cash (used for) operating activities | <u>(95,210)</u> | <u>(86,675)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Operating grants received, including transaction and use tax | 84,955 | 97,193 |
| Caltrain service outlays | (16,521) | (16,521) |
| Rental and other income | 14,589 | - |
| Net cash provided by noncapital and financing activities | <u>83,023</u> | <u>80,672</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition and construction of capital assets | (66,242) | (12,807) |
| Capital contributions from grants | 48,637 | 11,317 |
| Bond principal paid | (8,000) | (6,723) |
| Interest and cost of issuance paid | (16,962) | (15,887) |
| Transfers from other agencies | | 25,000 |
| Net cash provided by capital and related financing activities | <u>(42,567)</u> | <u>900</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of investment securities | 74,596 | 64,603 |
| Purchases of investment securities | (37,760) | (70,824) |
| Investment income received on all interest-bearing investments | 9,799 | 8,436 |
| Net cash provided by investing activities | <u>46,635</u> | <u>2,215</u> |
| NET (DECREASE) IN CASH AND CASH EQUIVALENTS | (8,119) | (2,888) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 22,054 | 24,942 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 13,935</u> | <u>\$ 22,054</u> |

See accompanying notes to basic financial statements

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009 (in thousands)

| | <u>2010</u> | <u>2009</u> |
|---|-------------------|--------------------|
| Reconciliation of operating (loss) to net cash | | |
| (used) by operating activities: | | |
| Operating loss | \$(117,144) | \$(128,925) |
| Other nonoperating items | - | 9,917 |
| Adjustments to reconcile operating (loss) to net cash | | |
| (used for) operating activities: | | |
| Depreciation and amortization | 21,887 | 29,687 |
| Effect of changes in: | | |
| Accounts receivable | (2,679) | 1,441 |
| Inventories | (91) | 122 |
| Prepaid expenses | 372 | (734) |
| Other assets | - | 4 |
| Accounts payable and accrued expenses | (2,579) | 1,206 |
| Other postemployment liability | 2,161 | 845 |
| Compensated absences | 21 | 297 |
| Self-insurance liabilities | 2,842 | (535) |
| Net cash (used in) operating activities | <u>(95,210)</u> | <u>\$ (86,675)</u> |
| NONCASH INVESTING ACTIVITIES: | | |
| Increase in fair value of investments | \$ (1,430) | \$ 3,963 |
| Change in liabilities due to 2009 debt refinancing | | |
| Increase in current portion of long-term debt | - | 780 |
| (Decrease) in long-term debt | - | (2,520) |
| | <u>\$ (1,430)</u> | <u>\$ 2,223</u> |

See accompanying notes to basic financial statements

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

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NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Operations

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

B. 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. 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. This Statement 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 did not have an impact on the District's financial statements.

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

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

GASB Statement No. 58 – In December 2009, the GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This Statement establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of United States Bankruptcy Code. This Statement requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The requirements of this Statement are effective for financial statements for period beginning after June 15, 2009. This Statement did not have an impact on the District’s financial statements.

E. Cash and Cash Equivalents

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

F. Investments

Current investments represent securities which mature within the next 12 months. 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 and statutes and could be further restricted by the Board of Directors.

G. Restricted Cash and Investments

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

H. Restricted and Unrestricted Resources

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

I. Inventories

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

**SAN MATEO COUNTY TRANSIT DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010 AND 2009**

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

J. 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.

K. Construction in progress

Construction in progress consists of the following projects at June 30 2010 and 2009 (in thousands):

| | <u>2010</u> | <u>2009</u> |
|-------------------------------------|------------------|------------------|
| Bus fleet improvements | \$ 25,124 | \$ 6,048 |
| Dumbarton rail | 2,420 | 2,420 |
| Bus Communication | 2,220 | 1,805 |
| Information technology support | 1,492 | 1,679 |
| Transit-oriented development | 1,656 | 1,501 |
| Pavement rehabilitation | 671 | 762 |
| Administration building improvement | 814 | 898 |
| Other | 2,028 | 1,855 |
| Total Construction in Progress | <u>\$ 36,425</u> | <u>\$ 16,968</u> |

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 2010 or 2009.

L. State and Local Operating Assistance

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

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

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

M. Bond Issuance Costs

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

N. Arbitrage

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

O. Compensated Absences

Employees accrue compensated absence time by reason of tenure at annual rates ranging from 160 to 312 hours per year. Employees are allowed to accumulate from 800 hours up to 1,440 hours of compensated absence time, depending upon the number of years of service. In fiscal year ending June 30, 2010, employees of the District accrued and used balances of compensated absences in the amount of \$5,617,243 and \$5,596,634, respectively. At June 30, 2010 and 2009, accrued compensated absences for all District employees amounted to \$7,359,813 and \$7,339,204, 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. Compensated absences as of June 30 are included on the Statement of Net Assets.

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

| | <u>2010</u> | <u>2009</u> |
|---------------------|-----------------|-----------------|
| Beginning Balance | \$ 7,339 | \$ 7,043 |
| Additions | 5,618 | 5,809 |
| Payments | <u>(5,597)</u> | <u>(5,513)</u> |
| Ending Balance | <u>\$ 7,360</u> | <u>\$ 7,339</u> |
| Current Portion | <u>\$ 5,949</u> | <u>\$ 5,809</u> |
| Non-current portion | <u>\$ 1,411</u> | <u>\$ 1,530</u> |

**SAN MATEO COUNTY TRANSIT DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010 AND 2009**

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

P. Capital Contributions

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

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

| | 2010 | 2009 |
|----------------------------------|------------------|------------------|
| Federal grants | \$ 43,731 | \$ 2,760 |
| State grant (Prop 1B) | 2,409 | - |
| Local assistance - sales tax | 7,230 | 7,726 |
| Other local transportation funds | 1,190 | 606 |
| | <u>\$ 54,560</u> | <u>\$ 11,092</u> |

Q. Operating and Nonoperating Revenues and Expenses

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

R. 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 Generally Accepted Accounting Principles (GAAP). Actual results could differ from those estimates.

S. Reclassifications

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

**SAN MATEO COUNTY TRANSIT DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 2 – CASH AND INVESTMENTS

Policies

The District's investments are carried at fair value, as required by GAAP. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end and includes the effects of these adjustments in income for that fiscal year.

The District is in compliance with the Board approved Investment Policy and California Government Code requirements.

Classification

The District's cash and investments as of June 30 are classified in the Statement of Net Assets as follows (in thousands):

| | <u>2010</u> | <u>2009</u> |
|-----------------------------------|-------------------|-------------------|
| Cash and cash equivalents | \$ 13,935 | \$ 22,054 |
| Current investments | 30,158 | 33,517 |
| Current restricted investments | 7,530 | 7,173 |
| Noncurrent investments | 69,144 | 104,022 |
| Noncurrent restricted investments | <u>21,980</u> | <u>21,750</u> |
| Total Cash and Investments | <u>\$ 142,747</u> | <u>\$ 188,516</u> |

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

| | <u>2010</u> | <u>2009</u> |
|--------------------------------------|-------------------|-------------------|
| Cash on hand | \$ 15 | \$ 9 |
| Deposits with financial institutions | 1,449 | 9,533 |
| Investments | <u>141,283</u> | <u>178,974</u> |
| Total Cash and Investments | <u>\$ 142,747</u> | <u>\$ 188,516</u> |

**SAN MATEO COUNTY TRANSIT DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010 AND 2009**

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 addresses interest rate risk, credit risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the District's investment policy.

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

Investments Authorized by Debt Agreements

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

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 2 - CASH AND INVESTMENTS (continued)

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, 2010 was as follows:

| Investment Type | Amount (in thousands) | Weighted Average Maturity (in years) |
|-------------------------------------|--------------------------|--|
| U.S. Agency Securities | \$ 102,136 | 1.84 |
| U.S. Government Securities | 17,033 | 1.94 |
| Repurchase Agreements | 1,099 | 0.00 |
| Medium-term Notes | 5,161 | 1.31 |
| Local Agency Investment Fund (LAIF) | 11,372 | 0.56 |
| Held by bond trustee: | | |
| Money Market Mutual Funds | 2,173 | 0.00 |
| U.S. Agency Securities | 2,309 | 1.73 |
| | <u>\$ 141,283</u> | |
| Portfolio Weighted Average Maturity | | 1.68 |

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 2 - CASH AND INVESTMENTS (continued)

Interest Rate Risk (continued)

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 Mutual Funds | 2,123 | - |
| U.S. Agency Securities | 2,274 | 2.73 |
| | <u>\$ 178,974</u> | |
| Portfolio Weighted Average Maturity | | 2.10 |

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 actual rating as of June 30 for each investment type.

| Investment Type | Amount (in thousands) | Rating as of June 30, 2010 | | |
|-------------------------------------|--------------------------|----------------------------|-----------------|------------------|
| | | AAA | AA | Not Rated |
| U.S. Agency Securities | \$ 102,136 | \$ 100,335 | \$ 1,801 | |
| U.S. Government Securities | 17,033 | | | \$ 17,033 |
| Repurchase Agreements | 1,099 | | | 1,099 |
| Medium-term Notes | 5,161 | 5,161 | | |
| Local Agency Investment Fund (LAIF) | 11,372 | | | 11,372 |
| Held by bond trustee: | | | | |
| Money Market Mutual Funds | 2,173 | | | 2,173 |
| U.S. Agency Securities | 2,309 | 2,309 | | |
| Total | <u>\$ 141,283</u> | <u>\$ 107,805</u> | <u>\$ 1,801</u> | <u>\$ 31,677</u> |

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 2 - CASH AND INVESTMENTS (continued)

Disclosures Relating to Credit Risk (continued)

| Investment Type | Amount (in thousands) | Rating as of June 30, 2009 | | | |
|--|--------------------------|----------------------------|-----------------|-----------------|------------------|
| | | 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 | - |
| Local Agency Investment Fund (LAIF) held by bond trustee: | 3,006 | - | - | - | 3,006 |
| Money Market Mutual Funds | 2,123 | - | - | - | 2,123 |
| U.S. Agency Securities | 2,274 | 2,274 | - | - | - |
| Totals | <u>\$ 178,974</u> | <u>\$ 158,667</u> | <u>\$ 3,038</u> | <u>\$ 2,635</u> | <u>\$ 14,634</u> |

Concentration of Credit Risk

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

| Issuer | Investment Type | 2010 | 2009 |
|--|------------------------|-------------------|-------------------|
| Federal Home Loan Mortgage Corporation (FHLMC) | U.S. Agency Securities | \$ 24,071 | \$ 34,572 |
| Federal Home Loan Bank (FHLB) | U.S. Agency Securities | 34,906 | 54,944 |
| Federal National Mortgage Association (FNMA) | U.S. Agency Securities | 29,831 | 38,490 |
| Federal Farm Credit Bank (FFCB) | U.S. Agency Securities | 11,527 | 11,609 |
| | | <u>\$ 100,335</u> | <u>\$ 139,615</u> |

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 2 - CASH AND INVESTMENTS (continued)

Custodial Credit Risk

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

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

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

As of June 30, 2010 and 2009, the District had \$1,449,273 and \$9,533,174, respectively, of deposits with financial institutions recorded on the financial statements which included excess bank balances of \$3,015,839 and \$10,231,208, respectively. These excess balances are uninsured because the cash balances are over the Federal Depository Insurance limits. However, due to California State Law, these excess 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.

As of June 30, 2010 and June 30, 2009, the District had a contractual withdrawal value of \$11,353,785 and \$3,002,051 at June 30, 2010 and 2009, respectively, that is recorded at \$11,372,448 and \$3,005,968 on the balance sheet after the adjustment for unrealized gains/losses for Fiscal Years 2010 and 2009, respectively. The total value invested by all public agencies in LAIF at June 30, 2010 and 2009 was \$69,555,776,591 and \$50,853,707,566, respectively. Of these amounts, as of June 30, 2010 and 2009, 94.6 and 85.3 percent, respectively, was invested in non-derivative financial products, and 5.4 and 14.7 percent, respectively, was 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.

**SAN MATEO COUNTY TRANSIT DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 3 – OPERATING ASSISTANCE

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

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

| | <u>2010</u> | <u>2009</u> |
|---|------------------|------------------|
| Transaction and use tax | \$ 51,258 | \$ 52,288 |
| Local transportation funds | 27,041 | 30,570 |
| Federal operating and planning assistance | 10,009 | 6,388 |
| Measure A funds - local | 2,339 | 1,071 |
| State transit assistance | 478 | 1,725 |
| AB434 | 547 | 631 |
| Total | <u>\$ 91,672</u> | <u>\$ 92,673</u> |

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, 2010 and 2009 applicable to these projects are \$53,821,428 and \$3,335,054, respectively. The related federal participation is \$43,731,189 and \$2,760,280, respectively.

The District has recorded receivables of \$6,870,863 and \$818,120, at June 30, 2010 and 2009, 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.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

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

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

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

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

The initial Comprehensive Agreement provided that the District would pay 25 percent of the capital costs. On June 19, 1996, the Comprehensive Agreement was amended to shift the District's financial contribution from 25 percent to a capped amount of \$197 million, of which \$185 million was scheduled to be paid out of net revenues derived exclusively from the SFO Extension net operation surplus, the same funding source for the \$133 million that the District agreed to contribute in recognition of BART's prior infrastructure investments as full payment for the District's remaining project costs and capital contribution.

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

BART SFO

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

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

**SAN MATEO COUNTY TRANSIT DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010 AND 2009**

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

BART SFO (continued)

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 the Fiscal Year 2007;
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 required 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 the State Infrastructure bonds authorized by voter approved passage of Proposition 1B on November 7, 2006 and possibly in part from “spillover” funds allocated by MTC.

Capital Contribution to BART

Amounts capitalized as “Capital Contribution to BART” are presented below (in thousands). 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.

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|-------------------|
| BART system contribution | \$ 100,000 | \$ 100,000 |
| Colma extension - local share | 52,352 | 52,352 |
| South of Colma extension - local share | 181,534 | 181,534 |
| SFO BART - local share | 76,159 | 73,051 |
| | <u>410,045</u> | <u>406,937</u> |
| Less: Accumulated amortization | <u>(269,659)</u> | <u>(261,916)</u> |
| Total | <u>\$ 140,386</u> | <u>\$ 145,021</u> |

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows (in thousands):

| | Balance at July 1, 2009 | Additions | Deletions | Balance at June 30, 2010 |
|---|----------------------------|------------------|--------------------|-----------------------------|
| Depreciable Capital Assets | | | | |
| Buses and bus equipment | \$ 140,767 | \$ 30,169 | \$ (6,488) | \$ 164,448 |
| Buildings and building improvements | 73,868 | 2,286 | (4) | 76,150 |
| Maintenance and other equipment | 14,591 | 814 | (280) | 15,125 |
| Furniture and fixtures | 14,447 | 6,402 | (18) | 20,831 |
| Shelters and bus stop signs | 3,165 | 1 | - | 3,166 |
| Other vehicles | 2,343 | 105 | (422) | 2,026 |
| Total Depreciable Capital Assets | <u>249,181</u> | <u>39,777</u> | <u>(7,212)</u> | <u>281,746</u> |
| Less Accumulated Depreciation for: | | | | |
| Buses and bus equipment | (102,625) | (9,086) | 6,488 | (105,223) |
| Buildings and building improvements | (51,205) | (2,782) | 4 | (53,983) |
| Maintenance and other equipment | (11,454) | (723) | 280 | (11,897) |
| Furniture and fixtures | (12,286) | (1,327) | 18 | (13,595) |
| Shelters and bus stop signs | (3,148) | (8) | - | (3,156) |
| Other vehicles | (1,586) | (218) | 422 | (1,382) |
| Total Accumulated Depreciation | <u>(182,304)</u> | <u>(14,144)</u> | <u>7,212</u> | <u>(189,236)</u> |
| Nondepreciable Capital Assets | | | | |
| Land and right of way | 51,435 | - | - | 51,435 |
| Construction in progress | 16,968 | 62,341 | (42,884) | 36,425 |
| Total Nondepreciable Capital Assets | <u>68,403</u> | <u>62,341</u> | <u>(42,884)</u> | <u>87,860</u> |
| Capital Assets, Net | <u>\$ 135,280</u> | <u>\$ 87,974</u> | <u>\$ (42,884)</u> | <u>\$ 180,370</u> |

During the fiscal year ended June 30, 2010, the District contributed \$3.1 million in completed capital assets, previously recorded in Construction in Progress, to BART.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 6 – CAPITAL ASSETS (continued)

Capital asset activity for the fiscal 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 | <u>259,579</u> | <u>12,896</u> | <u>(23,294)</u> | <u>249,181</u> |
| 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 | <u>(182,331)</u> | <u>(23,267)</u> | <u>23,294</u> | <u>(182,304)</u> |
| 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 | <u>70,207</u> | <u>11,092</u> | <u>(12,896)</u> | <u>68,403</u> |
| Capital Assets, Net | <u>\$ 147,455</u> | <u>\$ 721</u> | <u>\$ (12,896)</u> | <u>\$ 135,280</u> |

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 7 – LAND AND RIGHT OF WAY

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.

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. Originally, the property 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.

Caltrain Right of Way

On October 31, 2008, all three of the JPB member agencies signed an agreement with the District to fully resolve all outstanding financial issues related to the acquisition of the right of way. Both City and County of San Francisco (CCSF) and Santa Clara Valley Transportation Authority (VTA) have agreed to reimburse the District 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 agreed to make best efforts to allocate the funds in full within two to four years and, in no event, later than 10 years. As of June 30, 2010, the District had received \$5.2 million of the total \$53.3 million outstanding per this agreement. With the elimination of “spillover” funding due to a recent legislative change that impacts how certain tax revenues are generated and made available for transportation operations and projects, the multi-party agreement may need to be modified to ensure the District is repaid in full for the right of way. Ultimately, when all payments have been received by the District, the District will reconvey to the JPB all of its interests in the title to the right of way.

NOTE 8 – PENINSULA CORRIDOR JOINT POWERS BOARD (JPB)

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

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

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

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

The District has been appointed as managing agency for JPB, providing administrative personnel and facilities. The District is responsible for 41.92 percent of the mainline net operating costs and the administrative expenses of the JPB for the years ended June 30, 2010 and 2009. The District recognizes the entire amount of contributions paid to the JPB as an expense in the year disbursed. During the years ended June 30, 2010 and 2009, the District contributed \$16,521,290 and \$16,521,290 respectively, to the JPB for operating needs.

The District has total receivables from the JPB of \$4,360,068 and \$1,577,609 at June 30, 2010 and 2009 respectively, for advances of staff support and operating costs.

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

| | 2010 | 2009 |
|----------------------------------|---------------------|---------------------|
| Total Assets | \$ 1,222,379 | \$ 1,191,493 |
| Total Liabilities | (75,379) | (61,087) |
| Total Net Assets | <u>\$ 1,147,000</u> | <u>\$ 1,130,406</u> |
| Operating Revenues | \$ 46,462 | \$ 46,719 |
| Operating Expenses | (145,983) | (143,451) |
| Nonoperating Revenues, Net | 44,535 | 41,407 |
| Net Before Capital Contributions | <u>(54,986)</u> | <u>(55,325)</u> |
| Capital Contributions | 71,579 | 71,241 |
| Increase in Net Assets | <u>\$ 16,593</u> | <u>\$ 15,916</u> |

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

NOTE 9 – RELATED PARTY TRANSACTIONS

Note Receivable from Officer

In 2001, the District entered into an employment agreement with an officer of the District, which included an advance for personal housing. 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.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 9 – RELATED PARTY TRANSACTIONS (continued)

Note Receivable from Officer (continued)

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, 2010, the District has forgiven \$320,000 of principal on the housing note. Pursuant to this arrangement, the District has a note receivable included in Other Assets with a balance of \$880,000 and \$920,000, as of June 30, 2010 and 2009, respectively.

San Mateo County Transportation Authority

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 was to be responsible for the administration of funds to be used for transportation projects collected over a period of 20 years by the half-cent county sales tax. The District was designated as the entity responsible for overall management of the 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 for 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.

San Bruno Grade Separation Project - Condemnation Deposit

On January 22, 2010, The District entered into a cooperative agreement with the JPB to act as JPB's agent for right of way certification purposes in connection with the acquisition of property in the City of San Bruno as part of the JPB's San Bruno Grade Separation Project as the JPB is not legally authorized to file condemnation actions. Per the agreement, the JPB is the lead agency responsible for acquisition of the property by negotiated agreement. The District is responsible for providing all right of way related, necessary certification services including submission to appropriate authorities of all required right of way certification documentation. The District is also responsible for reviewing the Project right of way appraisal and acquisition process to assure such activities are proper and in accordance with Caltrans right of way certification requirements. Property that needs to be acquired by eminent domain shall be condemned by the District. The District shall take title to property acquired by eminent domain and transfer title to the JPB. The JPB is responsible for paying 100 percent of the acquisition costs as well as all costs of staff, consultants and legal counsel.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 9 – RELATED PARTY TRANSACTIONS (continued)

San Bruno Grade Separation Project - Condemnation Deposit (continued)

At the April 14, 2010 District Board of Directors meeting, the Board authorized an amendment to the budget allowing for up to \$1.2 million to be spent in relation to the JPB’s San Bruno Grade Separation Project. On April 15, 2010, the District wired \$1.048 million to the California State Treasurer for the condemnation deposit on property being acquired by eminent domain for the San Bruno Grade Separation Project. The JPB promptly reimbursed the District on May 10, 2010. However, to date, no property acquired for the San Bruno Grade Separation Project has required the use of eminent domain.

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 an accrued interest liability of \$473,073 and \$330,786, respectively as of June 30, 2010 and 2009 for the promissory note. See *Note 7 –Land and Right of Way*.

NOTE 11 – LONG - TERM DEBT

Composition and Changes

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

Long-term debt activity for the year ended June 30, 2010 is as follows:

| | Original Issue Amount | Balance June 30, 2009 | Additions | Retirements | Balance June 30, 2010 | Current Portion |
|---------------------------------------|--------------------------|--------------------------|-------------------|---------------|--------------------------|--------------------|
| Limited Tax Bonds: | | | | | | |
| 1993 Series A Bonds, | | | | | | |
| 5.00-8.00%, due 12/01/20 | \$ 150,555 | \$ 91,875 | \$ - | \$ (6,410) | \$ 85,465 | \$ 6,735 |
| 2005 Series A Refunding Bonds, | | | | | | |
| 3.00-5.00%, due 12/01/19 | 218,990 | 218,990 | - | - | 218,990 | - |
| 2009 Series A Refunding Bonds, | | | | | | |
| 4.375-5.00%, due 12/01/34 | 19,040 | 19,040 | - | (1,590) | 17,450 | 1,635 |
| Total Long-Term Debt | | 329,905 | - | (8,000) | 321,905 | <u>\$ 8,370</u> |
| Plus: Unamortized bond premium | | 6,421 | - | (371) | 6,050 | |
| Less: | | | | | | |
| Current portion of long term debt | | (8,000) | (8,370) | 8,000 | (8,370) | |
| Bond refunding loss | | (4,637) | - | 514 | (4,123) | |
| Unamortized bond discount | | (238) | - | 21 | (217) | |
| Total Long-Term Debt, Net | | <u>\$ 323,451</u> | <u>\$ (8,370)</u> | <u>\$ 164</u> | <u>\$ 315,245</u> | |

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 11 – LONG - TERM DEBT (continued)

Composition and Changes (continued)

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

| | Original Issue Amount | Balance June 30, 2008 | Additions | Retirements | Balance June 30, 2009 | Current Portion |
|---------------------------------------|--------------------------|--------------------------|------------------|--------------------|--------------------------|--------------------|
| Limited Tax Bonds: | | | | | | |
| 1993 Series A Bonds, | | | | | | |
| 5.00-8.00%, due 12/01/20 | \$ 150,555 | \$ 98,030 | \$ - | \$ (6,155) | \$ 91,875 | \$ 6,410 |
| 1998 Junior Lien | 27,000 | 21,565 | - | (21,565) | - | - |
| 2005 Series A Refunding Bonds, | | | | | | |
| 3.00-5.00%, due 12/01/19 | 218,990 | 218,990 | - | - | 218,990 | - |
| 2009 Series A Refunding Bonds, | | | | | | |
| 4.375-5.00%, due 12/01/34 | 19,040 | | 19,040 | - | 19,040 | 1,590 |
| Total Long-Term Debt | | 338,585 | 19,040 | (27,720) | 329,905 | <u>\$ 8,000</u> |
| Plus: Unamortized bond premium | | 4,708 | 1,957 | (244) | 6,421 | |
| Less: | | | | | | |
| Current portion of long term debt | | (6,940) | (1,060) | | (8,000) | |
| Bond refunding loss | | (4,898) | (236) | 497 | (4,637) | |
| Unamortized bond discount | | (260) | - | 22 | (238) | |
| Total Long-Term Debt, Net | | <u>\$ 331,195</u> | <u>\$ 19,701</u> | <u>\$ (27,445)</u> | <u>\$ 323,451</u> | |

Description of the District's Long-Term Debt Issues

1993 Series A Bonds – In June 1993, the District issued \$150,555,000 of 1993 Series A Limited Tax Bonds (1993 Series A Bonds) to refund a portion of the 1990 Series A Bonds (pursuant to a crossover refunding) and to reimburse the District for prior capital project expenditures. The 1993 Series A Bonds, with interest rates ranging from 5.0 to 8.0 percent, 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).

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

Both the 1999 and 1998 Series A Bonds were fully redeemed on June 1, 2010 and June 1, 2009, respectively. As of June 30, 2010 the outstanding balance on the 1997 Series A Bonds was \$30,605,000 with available investment balance held by the bond trustee of \$31,915,335.

The 2005 Series A Bonds, with interest rates ranging from 4.375 to 5.0 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. Interest payments are due on June 1 and December 1 of each year. Principal payments will commence on June 1, 2021 and will mature on June 1, 2034.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 11 – LONG - TERM DEBT (continued)

Description of the District's Long-Term Debt Issues (continued)

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

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

The 2009 Series A Bonds, with interest rates ranging from 3.0 to 5.0 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. Interest payments are due on June 1 and December 1 of each year. The bonds will mature on June 1, 2019.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 11 – LONG - TERM DEBT (continued)

Debt Service Requirements

Debt Service requirements for long-term debt as of June 30, 2010 are as follows (in thousands):

| Fiscal Year Ending June 30, | 1993 Series A Bonds | | | 2005 Series A Refunding Bonds | | |
|--------------------------------|---------------------|-----------|------------|-------------------------------|------------|------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 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 | 8,215 | 3,258 | 11,473 | - | 10,555 | 10,555 |
| 2016-2020 | 48,205 | 9,349 | 57,554 | - | 52,777 | 52,777 |
| 2021-2025 | - | - | - | 63,975 | 46,988 | 110,963 |
| 2026-2030 | - | - | - | 80,905 | 30,062 | 110,967 |
| 2031-2034 | - | - | - | 74,110 | 8,570 | 82,680 |
| Total | \$ 85,465 | \$ 29,422 | \$ 114,887 | \$ 218,990 | \$ 191,172 | \$ 410,162 |

| Fiscal Year Ending June 30, | 2009 Series A Refunding Bonds | | | Total | | |
|--------------------------------|-------------------------------|----------|-----------|------------|------------|------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 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 | 1,915 | 505 | 2,420 | 10,130 | 14,318 | 24,448 |
| 2016-2020 | 8,590 | 1,078 | 9,668 | 56,795 | 63,204 | 119,999 |
| 2021-2025 | - | - | - | 63,975 | 46,988 | 110,963 |
| 2026-2030 | - | - | - | 80,905 | 30,062 | 110,967 |
| 2031-2034 | - | - | - | 74,110 | 8,570 | 82,680 |
| Total | \$ 17,450 | \$ 4,365 | \$ 21,815 | \$ 321,905 | \$ 224,959 | \$ 546,864 |

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 12 – PENSION PLAN

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 and can receive the maximum benefit of 2 percent of annual salary at age 55. 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 the CalPERS' executive office: Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

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 2010 and 2009 were 7.703 and 8.171 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.

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 over a 30 year period.

**SAN MATEO COUNTY TRANSIT DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 12 – PENSION PLAN (continued)

Annual Pension Cost (continued)

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-----------------------|---------------------------------|-------------------------------------|------------------------------|
| 6/30/2008 | \$ 6,447 | 100% | \$ - |
| 6/30/2009 | 7,064 | 100% | - |
| 6/30/2010 | 6,709 | 100% | - |

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010, was as follows (in thousands):

| | |
|---|-----------------|
| Actuarial accrued liability (AAL) | \$ 189,495 |
| Actuarial value of plan assets | 181,811 |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 7,684</u> |
| Funded ratio (actuarial value of plan assets/AAL) | <u>95.90%</u> |
| Covered payroll (active plan members) | \$ 47,646 |
| UAAL as a percentage of covered payroll | 16.13% |

NOTE 13 – POST-RETIREMENT HEALTH CARE BENEFITS

Plan Description

In August 1993, the District’s Board of Directors adopted the San Mateo County Transit District Retiree Healthcare Plan (Plan). The Plan is an agent plan administered by the CalPERS system. The Plan provides post-retirement medical care insurance to qualified retirees and their surviving spouses, those who have attained 50 years of age and have at least five years of District service. As of June 30, 2010 and 2009, there are 204 and 182 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.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

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

Funding Policy

In April 2008, the District's Board of Directors adopted an Other Post Employment Benefit (OPEB) funding plan authorizing the establishment of an Internal Revenue Code (IRC) tax qualified trust which was established through the CalPERS California Employer's Retiree Benefit Trust (CERBT) in April 2009. The Plan also called for increasing amounts to be funded into the trust each year until the full Annual Required Contribution (ARC) can be funded on an annual basis. The District is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 8.0 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, 2010, the District contributed \$600,000 to the newly established trust fund through CERBT. In addition, the District contributed \$1,388,814 in pay-as-you-go amounts for the year ended June 30, 2010.

In fiscal year ended June 30, 2009, the District contributed \$600,000 to the newly established trust fund through CERBT. In addition, the District contributed \$1,267,000 in pay-as-you-go amounts for the year ended June 30, 2009.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

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

Annual OPEB Cost and Net Obligation

The District’s annual OPEB cost (expense) is calculated based on the ARC of the employer. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District’s net OPEB obligation to the Plan (in thousands) for the fiscal year ended June 30, 2010 and 2009:

| | 2010 | 2009 |
|--|-----------------|-----------------|
| Annual required contribution | \$ 3,660 | \$ 3,391 |
| Interest on net OPEB obligation | 204 | 125 |
| Adjustment to annual required contribution | (314) | (204) |
| Annual OPEB cost (expense) | 3,550 | 3,312 |
| Contribution made | (1,989) | (1,867) |
| Increase in net OPEB obligation | 1,561 | 1,445 |
| Net OPEB obligation, beginning of year | 3,773 | 2,328 |
| Net OPEB obligation, end of year | \$ 5,334 | \$ 3,773 |

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 | Annual OPEB Cost (AOC) | Actual Contribution | Percentage of AOC Contributed | Net OPEB Obligation |
|-------------|---------------------------|---------------------|----------------------------------|------------------------|
| 6/30/2008 | \$ 3,228 | \$ 900 | 27.9% | \$ 2,328 |
| 6/30/2009 | 3,312 | 1,867 | 56.4% | 3,773 |
| 6/30/2010 | 3,550 | 1,989 | 56.0% | 5,334 |

**SAN MATEO COUNTY TRANSIT DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010 AND 2009**

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

Funded Status and Funding Progress

The funded status of the plan as of June 30, was as follows (in thousands):

| | 2010 | 2009 |
|---|------------------|------------------|
| Actuarial accrued liability (AAL) | \$ 34,906 | \$ 31,938 |
| Actuarial value of plan assets | 1,280 | 613 |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 33,626</u> | <u>\$ 31,325</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 3.7% | 1.9% |
| Covered payroll (active plan members) | \$ 45,847 | \$ 48,510 |
| UUAL as a percentage of covered payroll | 73.3% | 64.6% |

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

Actuarial Methods and Assumptions

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

In the June 30, 2010 and 2009 actuarial valuations, 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 and 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 trends rates ranged from an initial rate of 8.5 to 4.5 percent after 5 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 15 years. The UAAL is being amortized as a level percent of payroll on a closed basis. The remaining amortization period at June 30, 2010 was 28 years.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

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, 2010, coverage provided by self-insurance and excess coverage is generally as follows:

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

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

The unpaid claims liabilities are based on the results of actuarial studies and include amounts for claims incurred but not reported and incremental claim expenses. Allocated and unallocated claims adjustment expenses are included in the claims liability balances. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. Annual expense is charged using various allocation methods that include actual costs, trends in claims experience, and number of participants. It is the District’s practice to obtain full actuarial studies biennially.

Changes in the balances of claims liabilities for the two years ended June 30, 2010 and 2009 for public liability, property damage and workers’ compensation are as follows:

| | 2010 | 2009 |
|---|----------------|----------------|
| Self-insurance liabilities, beginning of year | \$7,793 | \$8,328 |
| Incurred claims and changes in estimates | 5,060 | 3,980 |
| Claim payments and related costs | <u>(2,218)</u> | <u>(4,515)</u> |
| Total self-insurance claims liabilities | 10,635 | 7,793 |
| Less: current portion | <u>(2,044)</u> | <u>(1,912)</u> |
| Noncurrent portion | <u>\$8,591</u> | <u>\$5,881</u> |

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 15 – JAPANESE OPERATING LEASE

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

In March 2010, the first Japanese operating lease transaction expired by its terms, and the District exercised its option to purchase all 145 buses for the specified price of \$25.1 million. Of these 145 buses, 73 are 1993 Gillig forty-foot buses and 72 are 1998 Gillig forty-foot buses. After seventeen years of service, the 1993 buses had reached the end of their useful life and were to be replaced by newer, more energy efficient buses. The District promptly put them up for sale and auction and as of October 31, 2010 had sold 67 buses for total net proceeds of \$163,223. The 1998 buses will remain in service. The second lease expired August 2010. (See Note #18 – Subsequent Events for more information.)

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 – COMMITMENT AND CONTINGENT LIABILITIES

Legal

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

Grants

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

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 17 – COMMITMENT AND CONTINGENT LIABILITIES (continued)

Fuel Hedge

In June 2010, the District entered into a diesel fuel price cap agreement with Barclays Capital to hedge the cost of fuel for FY2011 which capped the price of fuel hedged by the District at \$2.25 per gallon keeping the cost for fuel in the FY2011 budget approximately the same as the FY2010 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 is to reduce volatility and uncertainty in the fuel budget. The District hedged 0.9 million gallons, which represents approximately 50 percent of estimated fuel consumption. In order to maximize the hedging program's potential for economic efficiency, the District partnered with the JPB, which hedged 2.1 million gallons. The agreement documents include a Credit Support Annex which provides protection to the District in the event that the rating of Barclays Capital falls to or below A3/A-/A- by Moody's, Standard and Poor's or Fitch. Implementing this fuel hedging program allowed the District to reduce uncertainty in the fuel budget for FY2011 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 FY2011 fuel hedging program and a recommendation on whether to continue the program in FY2012.

BART

The District entered into a three-party agreement between MTC, BART, and the District in February 2007. In this three-party 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. Since entering into the three-party agreement, the District has fulfilled its obligations under the agreement leaving a balance remaining to be assigned at June 30, 2010 of \$13.4 million through the following actions:

In FY2008 -

- The District received \$8.1 million in Prop 1B funds from the State and forwarded the equivalent amount in sales tax revenue on to BART; and
- MTC forwarded \$1.4 million in STA spillover funds originally designated for the District to BART.

In FY2010 -

- The District received \$2.6 million in Prop 1B funds from the State and forwarded the equivalent amount in sales tax revenue on to BART; and
- The District assigned \$6.5 million of FY2009 Proposition 1B funds originally designated for the District to BART.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010 AND 2009**

NOTE 18 – SUBSEQUENT EVENTS

Bargaining Units

A group of 23 Customer Service Representatives have organized to create their own bargaining unit in the Amalgamated Trust Union (ATU). The District works with one additional unit in the ATU which includes approximately 375 bus operators and maintenance employees. The District is currently in negotiations with ATU leaders in order to come to an agreement on contract issues. Negotiations began early in Fiscal Year 2010 and are progressing slowly. Discussions have covered many topics including working conditions and schedules; however, economic discussions have not yet been resolved. The District currently expects a contract with the ATU for Customer Services Representatives to be in place by the spring of 2011.

A group of 21 Bus Transportation Supervisors, Dispatchers and Radio Controllers have organized to join the Teamster's Union. The District is currently in negotiations with Teamster leaders in order to come to an agreement on contract issues. Negotiations began early in Fiscal Year 2010 and are progressing slowly. Discussions have covered many topics including working conditions and schedules; however, economic discussions have not yet been addressed. The District currently expects a contract with the Teamster's Union for Bus Transportation Supervisors, Dispatchers and Radio Controllers to be in place by the spring of 2011.

Japanese Operating Lease

In August 2010, the second Japanese operating lease expired by its terms (see Note #15) and the District exercised its option to purchase all 54 buses for the specified price of \$5.4 million. All 54 buses are 1993 thirty five-foot Gillig buses and are in the process of being sold or auctioned off as they have reached the end of their useful life.

**SAN MATEO COUNTY TRANSIT DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010**

**SCHEDULE OF FUNDING PROGRESS
MISCELLANEOUS PLAN OF THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT
SYSTEM^[1] (in thousands)**

| Actuarial | | | | | | | Unfunded (Overfunded) |
|-------------------|-----------------------------------|------------------------------|---------------------------------------|-----------------|------------------------------|--|--------------------------|
| Valuation Date | Entry Age Accrued Liability | Actuarial Value of Assets | Unfunded (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | Unfunded (Overfunded) Liability as % of Payroll | |
| 6/30/2007 | \$ 157,183 | \$ 155,929 | \$ 1,254 | 99.2% | \$ 32,468 | 3.9% | |
| 6/30/2008 | 170,303 | 170,139 | 164 | 99.9% | 45,034 | 0.4% | |
| 6/30/2009 | 189,495 | 181,811 | 7,684 | 95.9% | 47,646 | 16.1% | |

[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 | \$ - | \$ 30,456 | | \$ 45,584 | 66.8% |
| 6/30/2009 | 31,938 | 613 | 31,325 | 1.9% | 48,510 | 64.6% |
| 6/30/2010 | 34,906 | 1,280 | 33,626 | 3.7% | 45,847 | 73.3% |

**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)
FOR THE YEAR ENDED JUNE 30, 2010**

| | Budget (Unaudited) | Actual | Variance Positive/ (Negative) |
|---|--------------------------|--------------------------|-------------------------------------|
| OPERATING REVENUES - Passenger fares | \$ 17,375 | \$ 17,149 | \$ (226) |
| OPERATING EXPENSES: | | | |
| Salaries and benefits | 56,832 | 58,274 | 1,442 |
| Contract operations and maintenance services | 29,950 | 28,706 | (1,244) |
| Other services | 4,143 | 3,651 | (492) |
| Materials and supplies | 7,962 | 7,344 | (618) |
| Insurance | 6,634 | 6,607 | (27) |
| Miscellaneous | 6,656 | 6,263 | (393) |
| Total operating expense | <u>112,177</u> | <u>110,845</u> | <u>(1,332)</u> |
| Operating (loss) | (94,802) | (93,696) | 1,106 |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Operating assistance | 96,081 | 91,672 | (4,409) |
| Investment income | 676 | 713 | 37 |
| Interest expense | (148) | (164) | (16) |
| Caltrain service subsidy | (16,521) | (16,521) | - |
| Interagency administrative income | 3,205 | 4,375 | 1,170 |
| Other income, net | 10,159 | 10,241 | 82 |
| Total nonoperating income | <u>93,452</u> | <u>90,316</u> | <u>(3,136)</u> |
| Income (loss) before capital outlay and long-term debt principal payments | <u>(1,350)</u> | <u>(3,380)</u> | <u>(2,030)</u> |
| CAPITAL OUTLAY: | | | |
| Capital assistance | 4,447 | 54,560 | 50,113 |
| Capital expenditures | (8,624) | (62,341) | (53,717) |
| Net capital outlay | <u>(4,177)</u> | <u>(7,781)</u> | <u>(3,604)</u> |
| Long-term debt principal payment | <u>(8,031)</u> | <u>(8,031)</u> | <u>-</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND NONOPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENTS | <u><u>\$(13,558)</u></u> | <u><u>\$(19,192)</u></u> | <u><u>\$ (5,634)</u></u> |

SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO SUPPLEMENTARY SCHEDULE
JUNE 30, 2010 AND 2009

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 payments | | \$ (19,192) |
| Capital expenditures | \$ 62,341 | |
| Interest expense | (16,909) | |
| Depreciation and amortization | (21,887) | |
| Postemployment benefits accrual | (1,561) | |
| Long-term debt principal payments | 8,031 | |
| GASB 31 unrealized gain/loss | (1,430) | |
| Reimbursed investment interest | 4,374 | |
| Capital gain on investment | 632 | |
| Capital (loss) on investment | (298) | |
| Gain from property acquisition | <u>370</u> | |
| Sub-total reconciling items | | <u>33,663</u> |
| Change in net assets, GAAP basis | | <u>\$ 14,471</u> |

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 Asset**

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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 2001 THROUGH 2010 (in thousands)

| Fiscal year | 2010 | 2009 | 2008 | 2007 |
|---|-------------|-------------|-------------|-------------|
| OPERATING REVENUES - Passenger Fares | \$ 17,149 | \$ 17,325 | \$ 17,203 | \$ 16,830 |
| OPERATING EXPENSES: | | | | |
| Salaries and benefits | 59,835 | 62,708 | 64,175 | 58,521 |
| Contract operations and maintenance | 28,706 | 28,710 | 27,902 | 26,482 |
| Other services | 3,651 | 4,655 | 3,747 | 3,580 |
| Materials and supplies | 7,344 | 8,432 | 9,589 | 8,151 |
| Insurance | 6,607 | 5,621 | 6,074 | 6,010 |
| Miscellaneous | 6,263 | 6,437 | 7,269 | 6,585 |
| Total operating expenses | 112,406 | 116,563 | 118,756 | 109,329 |
| Operating loss before depreciation, amortization and administrative expenses capitalized | (95,257) | (99,238) | (101,553) | (92,499) |
| Depreciation and amortization | (21,887) | (29,687) | (23,899) | (40,399) |
| OPERATING LOSS | (117,144) | (128,925) | (125,452) | (132,898) |
| NONOPERATING REVENUES (EXPENSES): | | | | |
| Operating assistance | 91,672 | 92,673 | 115,004 | 113,565 |
| Investment income | 4,659 | 9,830 | 11,637 | 9,745 |
| Interest expense | (17,371) | (17,674) | (17,783) | (18,075) |
| Caltrain service subsidy | (16,521) | (16,521) | (16,040) | (14,478) |
| SFO/Colma BART station revenue/(deficit) | - | - | - | (5,289) |
| Lease-leaseback income | - | - | - | - |
| Interagency administrative income | 4,375 | 3,151 | 8,327 | 6,944 |
| Other income, net | 10,241 | 7,520 | 5,806 | 12,613 |
| Paratransit Trust Fund | - | 25,000 | - | - |
| Total nonoperating revenues, net | 77,055 | 103,979 | 106,951 | 105,025 |
| Net income (loss) before capital contributions | (40,089) | (24,946) | (18,501) | (27,873) |
| Capital contributions | 54,560 | 11,092 | 6,425 | 2,304 |
| CHANGE IN NET ASSETS | 14,471 | (13,854) | (12,076) | (25,569) |
| NET ASSET COMPONENTS | | | | |
| Invested in capital assets, net of related debt | 1,204 | (46,833) | (35,006) | (33,619) |
| Restricted | 31,875 | 37,048 | 3,517 | 3,569 |
| Unrestricted | 115,195 | 143,588 | 179,146 | 189,783 |
| NET ASSETS | \$ 148,274 | \$ 133,803 | \$ 147,657 | \$ 159,733 |

Source: CAFRs.

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

SAN MATEO COUNTY TRANSIT DISTRICT
FINANCIAL TRENDS – NET ASSETS AND CHANGES IN NET ASSETS
FISCAL YEARS 2001 THROUGH 2010 (in thousands)

| 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| \$ 16,296 | \$ 13,863 | \$ 14,542 | \$ 15,273 | \$ 14,779 | \$ 15,919 |
| 56,944 | 53,420 | 53,521 | 49,339 | 41,918 | 36,611 |
| 24,338 | 22,751 | 23,365 | 22,982 | 23,567 | 20,342 |
| 3,948 | 3,546 | 2,568 | 2,548 | 3,184 | 3,152 |
| 7,102 | 4,943 | 4,683 | 5,157 | 4,507 | 5,225 |
| 4,927 | 3,774 | 4,360 | 3,568 | 3,248 | 2,578 |
| 6,433 | 5,684 | 5,667 | 7,966 | 5,571 | 4,006 |
| <u>103,692</u> | <u>94,118</u> | <u>94,164</u> | <u>91,560</u> | <u>81,995</u> | <u>71,914</u> |
| (87,396) | (80,255) | (79,622) | (76,287) | (67,216) | (55,995) |
| <u>(42,635)</u> | <u>(40,232)</u> | <u>(36,675)</u> | <u>(37,275)</u> | <u>(39,338)</u> | <u>(38,744)</u> |
| <u>(130,031)</u> | <u>(120,487)</u> | <u>(116,297)</u> | <u>(113,562)</u> | <u>(106,554)</u> | <u>(94,739)</u> |
| 99,827 | 92,899 | 91,062 | 81,464 | 102,543 | 102,987 |
| 6,690 | 5,770 | 2,244 | 16,131 | 20,767 | 28,333 |
| (17,969) | (17,948) | (18,440) | (19,146) | (19,836) | (20,733) |
| (12,929) | (14,588) | (14,296) | (14,296) | (14,355) | (13,820) |
| (9,620) | (8,095) | (18,000) | 311 | 923 | 1,311 |
| - | - | - | - | 1,513 | - |
| 6,054 | 6,595 | 8,654 | 10,239 | 2,855 | 1,775 |
| 5,901 | 6,785 | 5,033 | 7,254 | 5,989 | 3,623 |
| - | - | - | - | - | - |
| <u>77,954</u> | <u>71,418</u> | <u>56,257</u> | <u>81,957</u> | <u>100,399</u> | <u>103,476</u> |
| (52,077) | (49,069) | (60,040) | (31,605) | (6,155) | 8,737 |
| 4,764 | 4,853 | 24,056 | 30,567 | 12,685 | 1,461 |
| <u>(47,313)</u> | <u>(44,216)</u> | <u>(35,984)</u> | <u>(1,038)</u> | <u>6,530</u> | <u>10,198</u> |
| (20,253) | 10,533 | 25,045 | 40,150 | 22,638 | 59,680 |
| 3,390 | 13,659 | 19,171 | 20,998 | 22,081 | 78,694 |
| 202,165 | 208,423 | 232,615 | 251,667 | 269,134 | 168,949 |
| <u>\$ 185,302</u> | <u>\$ 232,615</u> | <u>\$ 276,831</u> | <u>\$ 312,815</u> | <u>\$ 313,853</u> | <u>\$ 307,323</u> |

**SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 2001 THROUGH 2010**

| Fiscal year ending | 2010 | 2009 | 2008 |
|--|------------------------------|------------------------------|------------------------------|
| Passenger fares (in thousands) | \$ 17,149 | \$ 17,325 | \$ 17,203 |
| Revenue Base | | | |
| Number of passengers (in thousands) | 13,934 | 15,284 | 14,915 |
| Fare structure | | | |
| Adults local fare | 2.00 | 1.75 | 1.50 |
| Senior citizen / disabled/ Medicare cardholder | 1.00 | 0.75 | 0.75 |
| Youth | 1.25 | 1.00 | 1.00 |
| Redi-Wheels (Paratransit) | 3.00 | 3.00 | 2.50 |
| Sales tax rate | 0.50% | 0.50% | 0.50% |
| Sales tax revenue (in thousands) | \$ 58,488 | \$ 60,015 | \$ 68,667 |
| Taxable sales in San Mateo County (in thousands) | \$ 11,697,600 ^[1] | \$ 12,003,091 ^[1] | \$ 13,733,324 ^[1] |

[1] 2008, 2009 and 2010 taxable sales are estimates based on 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 2001 THROUGH 2010

| 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| \$ 16,830 | \$ 16,296 | \$ 13,863 | \$ 14,542 | \$ 15,273 | \$ 14,779 | \$ 15,919 |
| 14,669 | 14,508 | 14,510 | 15,069 | 16,432 | 17,236 | 18,170 |
| 1.50 | 1.50 | 1.25 | 1.25 | 1.25 | 1.10 | 1.10 |
| 0.75 | 0.75 | 0.60 | 0.60 | 0.60 | 0.50 | 0.50 |
| 1.00 | 1.00 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| 2.50 | 2.50 | 2.00 | 2.00 | 2.00 | 1.50 | 1.50 |
| 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% |
| \$ 66,198 | \$ 63,813 | \$ 59,958 | \$ 55,397 | \$ 54,862 | \$ 57,156 | \$ 66,739 |
| \$ 13,326,306 | \$ 12,900,391 | \$ 12,451,350 | \$ 11,808,074 | \$ 11,358,439 | \$ 11,614,809 | \$ 12,859,589 |

**SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – OVERLAPPING REVENUE
FISCAL YEARS 2001 THROUGH 2010**

| Fiscal year | State | City and County | Other Special Districts | San Mateo County Transit District ^[1] | City of San Mateo Transactions and Use Tax ^[3] | Total |
|--------------------|--------------|------------------------|--------------------------------|---|--|--------------|
| 2010 | 7.25% | 1.00% | 0.50% | 0.50% | 0.25% | 9.50% |
| 2009 | 7.25% | ^[2] 1.00% | 0.50% | 0.50% | | 9.25% |
| 2008 | 6.25% | 1.00% | 0.50% | 0.50% | | 8.25% |
| 2007 | 6.25% | 1.00% | 0.50% | 0.50% | | 8.25% |
| 2006 | 6.25% | 1.00% | 0.50% | 0.50% | | 8.25% |
| 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% |

[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.

Source: California State Board of Equalization

[2] 2009 State portion includes 1% Proposition 1A 1-cent sales tax increase effective on April 1, 2009.

[3] 2010 City of San Mateo Transactions and Use Tax (SMTG), tax rates effective on April 1, 2010.

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 2010 AND 2001 (in thousands)**

| Principal Revenue Payers | FY 2009* | | | FY 2001* | | |
|---------------------------------|-----------------|---------------------------|---------------------|-----------------|---------------------------|---------------------|
| | Rank | Percent of Taxable | | Rank | Percent of Taxable | |
| | | Sales | Amount | | Sales | Amount |
| All other outlets | 1 | 35.0% | \$ 975,047 | 1 | 33.7% | \$ 4,710,908 |
| All other retail stores | 12 | 0.4% | 12,108 | 3 | 12.0% | 1,680,495 |
| Automotive group | 3 | 8.7% | 243,050 | 2 | 13.2% | 1,839,587 |
| General merchandise stores | 4 | 7.6% | 211,899 | 4 | 9.0% | 1,250,564 |
| Specialty stores | 7 | 6.2% | 172,411 | | | - |
| Food Services/Drinking | 2 | 11.2% | 310,605 | 5 | 7.2% | 999,003 |
| Service stations | 5 | 7.4% | 204,916 | 6 | 5.8% | 813,817 |
| Building materials group | 6 | 6.8% | 190,615 | 7 | 5.7% | 794,908 |
| Business and personal services | 11 | 2.1% | 58,848 | 8 | 4.5% | 629,613 |
| Home furnishings/appliance | 8 | 5.1% | 142,676 | 9 | 3.4% | 479,495 |
| Food/Beverage stores | 10 | 4.4% | 123,435 | 10 | 3.0% | 412,230 |
| Apparel stores | 9 | 4.9% | 137,216 | 11 | 2.5% | 350,957 |
| Total | | 100.0% | \$ 2,782,826 | | 100.0% | \$13,961,577 |

Source: California State Board of Equalization

*Principal tax payer information for the year 2010 is not available.

This table ranks the top 12 principal tax payers in industry.

**SAN MATEO COUNTY TRANSIT DISTRICT
DEBT CAPACITY – RATIO OF OUTSTANDING BONDS
FISCAL YEARS 2001 THROUGH 2010 (in thousands)**

| Fiscal Year | Revenue Bonds for samTrans^[1] | Personal Income for San Mateo County^[2] | As a Percent of Personal Income |
|--------------------|---|---|--|
| 2010 | \$ 321,905 | \$ 55,469,728 | 0.58% |
| 2009 | 329,905 | 53,854,105 | 0.61% |
| 2008 | 337,800 | 52,285,539 | 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% |

[1] CAFRs

[2] U.S. Department of Commerce, Bureau of Economic Analysis, calendar year figures. Data for 2009 and 2010 are based on an estimated three percent annual increase over 2008.

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 2001 THROUGH 2010 (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 |
|--------------------|---------------------------------------|--|--|
| 2010 | \$ 321,905 | \$ 11,697,600 ^[1] | 2.75% |
| 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% |

[1] 2008 and 2009 taxable sales are estimates based on sales tax revenues received.

Source: CAFRs & California State Board of Equalization

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

**SAN MATEO COUNTY TRANSIT DISTRICT
DEBT CAPACITY – DIRECT AND OVERLAPPING DEBT AND DEBT LIMITATION
YEAR ENDED JUNE 30, 2010**

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 2001 THROUGH 2010 (in thousands)**

| Fiscal Year | Sales Tax Revenue | Principal | Interest | Total | Coverage |
|--------------------|--------------------------|------------------|-----------------|--------------|-----------------|
| 2010 | \$ 58,488 | \$ 8,031 | \$ 16,419 | 24,450 | 2 |
| 2009 | 60,015 | 6,940 | 16,115 | 23,055 | 3 |
| 2008 | 68,667 | 6,620 | 16,801 | 23,421 | 3 |
| 2007 | 66,198 | 6,315 | 17,265 | 23,580 | 3 |
| 2006 | 63,813 | 6,025 | 13,175 | 19,200 | 3 |
| 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 |

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 YEAR 2008 AND 2000**

| | 2008* | 2000* | Percent Change 2000 - 2008 |
|---|--------------------------|----------------------|---------------------------------------|
| Total Population | 703,730 | 707,161 | -0.5% |
| Persons Per Household | 2.74 | 2.74 | 0.0% |
| Median Household Income | \$ 84,684 | \$ 70,819 | 19.6% |
| Personal Income (in millions) | \$ 52,286 ^[1] | \$ 41,730 | 25.3% |
| Per Capita Income | \$ 73,839 ^[1] | \$ 58,905 | 25.4% |
| Minority Population: | | | |
| Black | 21,816 | 24,840 | -12.2% |
| Hispanic | 162,562 | 154,708 | 5.1% |
| Asian | 166,784 | 141,684 | 17.7% |
| Native American | 2,815 | 3,140 | -10.4% |
| Total | 353,976 | 324,372 | 9.1% |
| Percent of Minority Population to Total Population | 50.3% | 45.9% | 9.7% |
| Population by Age: | | | |
| 4 years and younger | 48,557 | 45,374 | 7.0% |
| 5 to 17 years | 110,486 | | N/A |
| 5 to 19 years | | 131,912 | N/A |
| 18 to 64 years | 451,795 | | N/A |
| 20 to 64 years | | 441,790 | N/A |
| 65-plus | 92,892 | 88,085 | 5.5% |
| Percent of Employed Residents to Total Population | 51.5% | 52.9% | -2.7% |
| Percent of Residents Working Outside of San Mateo County | 40.9% ^[2] | 41.8% ^[2] | -2.2% |
| Percent of People Commuting to the San Mateo County for Work | 40.1% ^[3] | 41.5% ^[2] | -3.4% |

[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, American Community Survey and Bureau of Economic Analysis.

*U.S. Census Bureau information for the year 2001 is not available and 2008 is the most current information available.

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

**SAN MATEO COUNTY TRANSIT DISTRICT
DEMOGRAPHICS AND ECONOMIC INFORMATION – UNEMPLOYMENT RATES
FISCAL YEAR 2001 THROUGH 2010**

| Year | Unemployment Rates |
|-------------|---------------------------|
| 2010 | 9.2% |
| 2009 | 9.0% |
| 2008 | 4.7% |
| 2007 | 3.8% |
| 2006 | 3.7% |
| 2005 | 4.3% |
| 2004 | 4.9% |
| 2003 | 5.8% |
| 2002 | 5.7% |
| 2001 | 3.8% |

Source: California Employment Development Department

This table presents the unemployment rates for San Mateo County.

**SAN MATEO COUNTY TRANSIT DISTRICT
 DEMOGRAPHICS AND ECONOMIC INFORMATION – PRINCIPAL EMPLOYERS
 FISCAL YEAR 2009 AND 2000**

| Employers in San Mateo County | 2009* | | | 2000* | | |
|---|---------------------|------|------------------------------------|---------------------|------|------------------------------------|
| | 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% | 17,700 | 1 | 4.61% |
| Genentech Inc. | 8,250 | 2 | 2.37% | 3,700 | 4 | 0.96% |
| Oracle Corporation | 5,642 | 3 | 1.62% | 7,400 | 2 | 1.93% |
| County of San Mateo | 5,443 | 4 | 1.56% | 4,944 | 3 | 1.29% |
| Kaiser Permanente | 3,780 | 5 | 1.09% | | | |
| Safeway Inc. | 2,273 | 6 | 0.65% | | | |
| Electronic Arts Inc. | 2,000 | 7 | 0.57% | | | |
| San Mateo County Community College District | 1,950 | 8 | 0.56% | | | |
| Mills-Peninsula Health Services | 1,800 | 9 | 0.52% | 2,474 | 6 | 0.64% |
| United States Postal Service | 1,671 | 10 | 0.48% | 1,898 | 7 | 0.49% |
| Visa USA/Visa International | | | | 2,677 | 5 | 0.70% |
| Applied Biosystems | | | | 1,765 | 8 | 0.46% |
| Siebel Systems Inc. | | | | 1,626 | 9 | 0.42% |
| San Francisco International Airport | | | | 1,497 | 10 | 0.39% |
| Total | 42,409 | | 12.18% | 45,681 | | 11.89% |

Source: County of San Mateo.

*Principal employer information for the years 2001 and 2010 are not available.

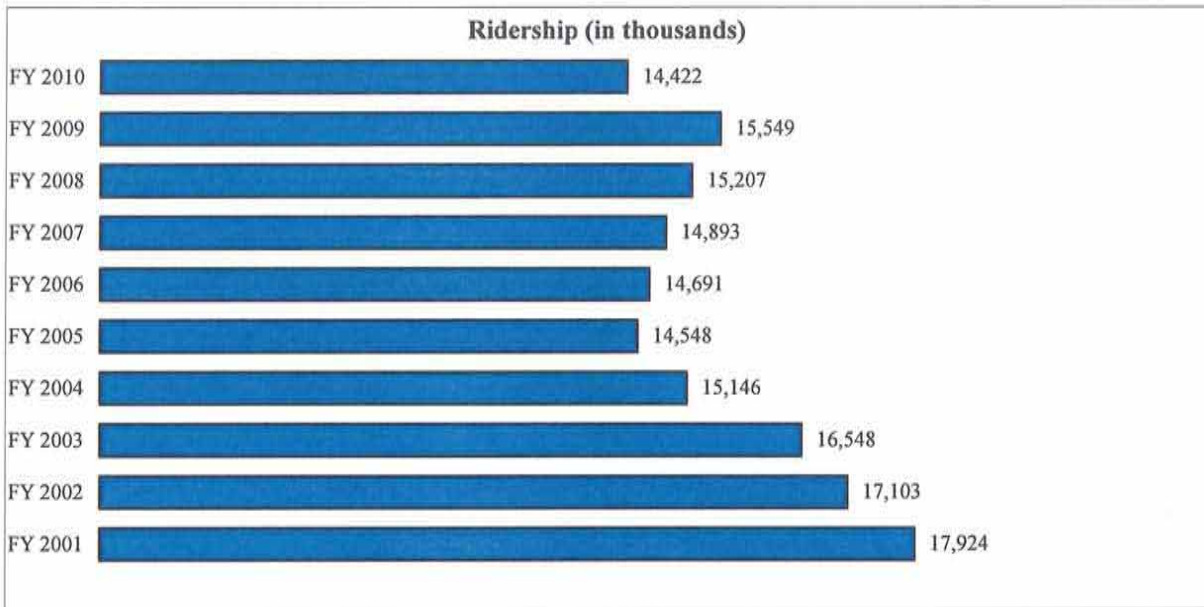
This table presents the top 10 principal employers in San Mateo County for 2009 and 2000

**SAN MATEO COUNTY TRANSIT DISTRICT
 OPERATING INFORMATION – FAREBOX RECOVERY AND MILES
 FISCAL YEARS 2001 THROUGH 2010**

FIXED -ROUTE RIDERSHIP

Ridership decreased between FY2009 and FY2010.

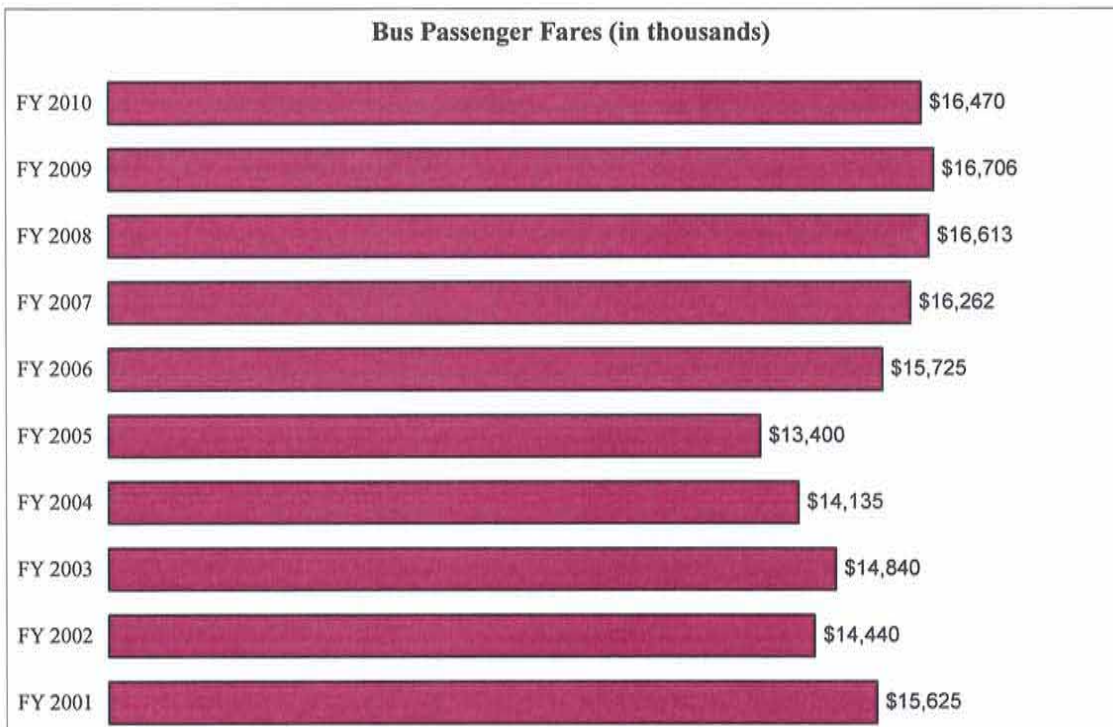
The District reduced fixed-route bus service by approximately 7.5% effective December 2009



FIXED-ROUTE PASSENGER FARES

The District made modest fare adjustments in January 1991, January 1992,

February 1996, July 1998, July 2002, September 2005 and February 2009 and February 2010.

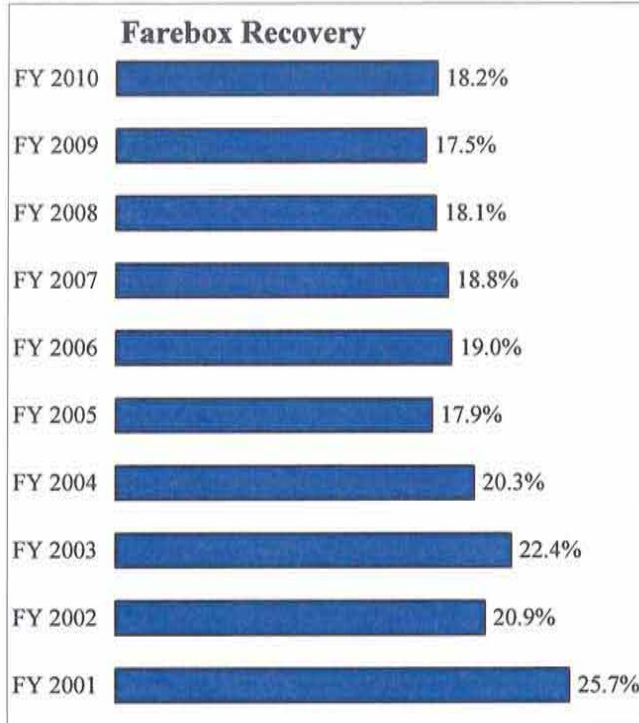


Bus passenger fares table presents the total bus fare revenue for each year.

**SAN MATEO COUNTY TRANSIT DISTRICT
OPERATING INFORMATION – FAREBOX RECOVERY AND MILES
FISCAL YEARS 2001 THROUGH 2010**

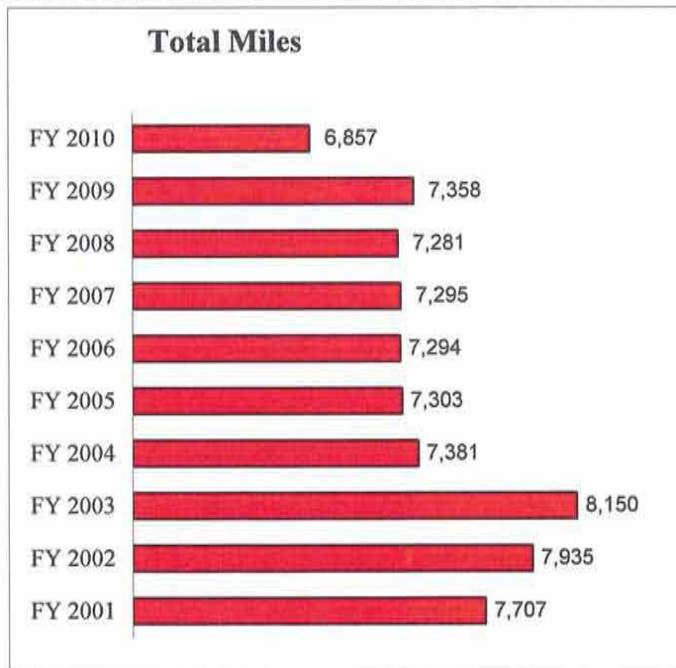
FIXED-ROUTE FAREBOX RECOVERY

Farebox recovery is based on fixed-route fare revenues divided by fixed-route total operating expenses. The farebox recovery ratio increased slightly from FY2009 to FY2010.



FIXED-ROUTE REVENUE MILES (in thousands)

Fixed-route total miles decreased between FY2009 and FY2010



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 2010**

| Division | Full-Time Equivalents | |
|--|------------------------------|--|
| | 2010 | |
| Customer Service and Marketing | 20.90 | |
| Executive | 3.55 | |
| Finance and Administration | 67.88 | |
| Operations, Engineering and Construction | 453.37 | |
| Planning and Development | 6.00 | |
| Public Affairs | 3.25 | |
| Total | <u>554.95</u> | |

Note: The organization went through a reorganization in FY2010.

| Division | Full-Time Equivalents | | | | | |
|-----------------|------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| 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 |
| Executive | 4.55 | 4.80 | 4.80 | 6.00 | 6.00 | 6.00 |
| 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 | <u>628.04</u> | <u>627.38</u> | <u>631.32</u> | <u>625.11</u> | <u>623.57</u> | <u>655.58</u> |

Note: Employee counts are for Full-time Equivalents (FTEs) for the District. Data for 2001 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 2001 THROUGH 2010 (in thousands)

| | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Depreciable Capital Assets | | | | |
| Buses and bus equipment | \$ 164,448 | \$ 140,767 | \$ 142,856 | \$ 158,180 |
| Buildings and building improvements | 76,150 | 73,868 | 73,686 | 73,237 |
| Maintenance and other equipment | 15,125 | 14,591 | 24,718 | 25,500 |
| Furniture and fixtures | 20,831 | 14,447 | 13,033 | 13,875 |
| Shelters and bus stop signs | 3,166 | 3,165 | 3,271 | 3,313 |
| Other vehicles | 2,026 | 2,343 | 2,015 | 2,363 |
| Total depreciable capital assets | <u>281,746</u> | <u>249,181</u> | <u>259,579</u> | <u>276,468</u> |
| Accumulated Depreciation for*: | | | | |
| Buses and bus equipment | (105,223) | (102,625) | (97,768) | (105,380) |
| Buildings and building improvements | (53,983) | (51,205) | (48,862) | (46,734) |
| Maintenance and other equipment | (11,897) | (11,454) | (22,538) | (22,350) |
| Furniture and fixtures | (13,595) | (12,286) | (8,244) | (8,474) |
| Shelters and bus stop signs | (3,156) | (3,148) | (3,248) | (3,200) |
| Other vehicles | (1,382) | (1,586) | (1,671) | (2,098) |
| Total accumulated depreciation | <u>(189,236)</u> | <u>(182,304)</u> | <u>(182,331)</u> | <u>(188,236)</u> |
| Nondepreciable Capital Assets | | | | |
| Land and right of way | 51,435 | 51,435 | 51,435 | 43,695 |
| Construction in progress | 36,425 | 16,968 | 18,772 | 15,713 |
| Total nondepreciable capital assets | <u>87,860</u> | <u>68,403</u> | <u>70,207</u> | <u>59,408</u> |
| Capital Assets, Net | <u><u>\$ 180,370</u></u> | <u><u>\$ 135,280</u></u> | <u><u>\$ 147,455</u></u> | <u><u>\$ 147,640</u></u> |

Source: CAFRs.

* The District used weighted average from 2001 through 2005 to categorize the accumulated depreciation by asset for years 1998 through 2001.

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 2001 THROUGH 2010 (in thousands)

| 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| \$ 154,924 | \$ 151,580 | \$ 137,885 | \$ 116,500 | \$ 100,419 | \$ 95,704 |
| 72,619 | 72,083 | 70,029 | 68,643 | 64,854 | 64,486 |
| 23,710 | 22,883 | 20,117 | 19,613 | 17,458 | 11,419 |
| 13,087 | 13,329 | 13,229 | 13,143 | 7,613 | 10,861 |
| 3,304 | 3,304 | 2,830 | 2,564 | 2,226 | 2,202 |
| 2,472 | 2,354 | 2,354 | 2,613 | 2,204 | 2,199 |
| <u>270,116</u> | <u>265,533</u> | <u>246,444</u> | <u>223,076</u> | <u>194,774</u> | <u>186,871</u> |
| (94,768) | (82,326) | (69,185) | (80,959) | (72,520) | (65,096) |
| (44,194) | (41,654) | (38,733) | (35,848) | (32,453) | (28,701) |
| (20,877) | (18,852) | (17,137) | (16,770) | (15,173) | (11,836) |
| (7,421) | (7,358) | (6,765) | (6,186) | (5,138) | (4,195) |
| (2,986) | (2,755) | (2,394) | (2,248) | (2,073) | (1,829) |
| (2,323) | (2,196) | (2,088) | (2,117) | (1,865) | (1,572) |
| <u>(172,569)</u> | <u>(155,141)</u> | <u>(136,302)</u> | <u>(144,128)</u> | <u>(129,222)</u> | <u>(113,229)</u> |
| 43,695 | 43,695 | 43,695 | 43,695 | 43,695 | 36,592 |
| 15,417 | 10,957 | 18,750 | 32,410 | 18,366 | 8,526 |
| <u>59,112</u> | <u>54,652</u> | <u>62,445</u> | <u>76,105</u> | <u>62,061</u> | <u>45,118</u> |
| <u>\$ 156,659</u> | <u>\$ 165,044</u> | <u>\$ 172,587</u> | <u>\$ 155,053</u> | <u>\$ 127,613</u> | <u>\$ 118,760</u> |

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Section IV

SINGLE AUDIT

Schedule of Findings and Questioned Costs

Summary of Auditor's Results

Financial Statement Findings

Federal Award Findings and Questioned Costs

Status of Prior Year Findings and Questioned Costs

Schedule of Expenditures of Federal Awards

Notes to Schedule of Expenditures of Federal Awards

Report On Internal Control over Financial Reporting and On Compliance And Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133

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**SAN MATEO COUNTY TRANSIT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes x No
- Significant deficiency identified that are not considered to be material weaknesses? Yes x None Reported

Noncompliance material to financial statements noted? Yes x No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unqualified

Internal control over major programs:

- Material weakness identified? Yes x No
- Significant deficiency identified that are not considered to be material weaknesses? Yes x None Reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes x No

Identification of major programs:

| <u>CFDA#(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-------------------|--|
| 20.500, 20.507 | Department of Transportation – Federal Transit Capital Investment Grants and Federal Transit Formula Grants (Urbanized Area Formula Program) |

Dollar threshold used to distinguish between type A and type B programs: \$1,612,197

Auditee qualified as low-risk auditee? x Yes No

**SAN MATEO COUNTY TRANSIT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any significant deficiencies, or material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated October 15, 2010 which is an integral part of our audits and should be read in conjunction with this report.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Financial Statement Prior Year Findings

There were no prior year Financial Statement Findings reported.

Federal Award Prior Year Findings and Questioned Costs

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

**SAN MATEO COUNTY TRANSIT DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

| Federal Grantor/ Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Identifying Number | Federal Expenditures |
|---|---------------------------|---------------------------------------|-------------------------|
| Federal Transit Cluster: | | | |
| Federal Transit Administration - U.S. Dept of Transportation | | | |
| Federal Transit Formula Grants (Urbanized Area Formula Program) | 20.507 | | |
| CA-90-Y154 Capital Grant | | | \$ (70,374) |
| CA-90-Y154 Operating Grant | | | 129,611 |
| CA-90-Y344 Capital Grant | | | 207,935 |
| CA-90-Y344 Operating Grant | | | 269,808 |
| CA-90-Y448 Capital Grant | | | 22,116 |
| CA-90-Y448 Operating Grant | | | 127,979 |
| CA-90-Y525 Capital Grant | | | (197,610) |
| CA-90-Y525 Operating Grant | | | 1,043,500 |
| CA-90-Y612 Capital Grant | | | 19,332,463 |
| CA-90-Y612 Operating Grant | | | 60,982 |
| CA-90-Y768 Capital Grant | | | 16,215,182 |
| CA-90-Y768 Operating Grant | | | 1,207,376 |
| CA-90-Y789 Capital Grant | | | 4,119,652 |
| CA-90-Y789 Operating Grant | | | 6,325,368 |
| ARRA - CA-96-X021 Capital Grant | | | 3,928,706 |
| Program Subtotal | 20.507 | | <u>52,722,694</u> |
| Capital Investment | | | |
| CA-04-0020 Capital Grant | 20.500 | | 32,121 |
| High Priority Program ("HPP") earmark for Project #1942 | | | 140,998 |
| Program Subtotal | 20.500 | | <u>173,119</u> |
| Total Federal Transit Cluster - Federal Transit Formula Grants | | | <u>52,895,813</u> |
| Transit Services Program Cluster: | | | |
| Job Access - Reverse Commute | | | |
| CA-37-X066 - JARC Operating | 20.516 | | 148,708 |
| Program Subtotal | 20.516 | | <u>148,708</u> |
| New Freedom Program | | | |
| Section 5317 - New Freedom Grant | 20.521 | | 97,444 |
| Program Subtotal | 20.521 | | <u>97,444</u> |
| Total Transit Services Program Cluster | | | <u>246,152</u> |
| Nonurbanized Area Formula Program | | | |
| ARRA Non-Urban FTA Section 5311 | 20.509 | | 126,125 |
| Section 5311(f) - Operating | | | 174,925 |
| Program Subtotal | 20.509 | | <u>301,050</u> |

SAN MATEO COUNTY TRANSIT DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | | |
|---|--------|-----------------------------|
| Federal Transit Technical Studies Grants | | |
| CA-81-2003(01) - Section 5303 - Operating | 20.505 | <u>35,159</u> |
| Program Subtotal | 20.505 | <u>35,159</u> |
| State Planning and Research | 20.515 | |
| Section 5304 - Grand Blvd Multimodal TCP | | <u>125,992</u> |
| Program Subtotal | 20.515 | <u>125,992</u> |
| Total Department of Transportation | | <u>53,604,166</u> |
| U.S. Department of Homeland Security | | |
| Rail and Transit Security Grant | 97.075 | |
| FY 06 TSGP 206-RL-T6-0001 - Operating | | <u>135,750</u> |
| Program Subtotal | 97.075 | <u>135,750</u> |
| Total Expenditures of Federal Awards | | <u><u>\$ 53,739,916</u></u> |

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 1-REPORTING ENTITY

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

NOTE 2-BASIS OF ACCOUNTING

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

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

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

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

Honorable Members of the Board of Directors
San Mateo County Transit District
San Mateo, California

We have audited the financial statements of San Mateo County Transit District as of and for the year ended June 30, 2010, and have issued our report thereon dated October 15, 2010. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 or other matters that are required to be reported under Government Auditing Standards.

As part of our audit, we prepared and issued our separate Memorandum on Internal Control dated October 15, 2010.

This report is intended solely for the information and use of management, Board of Directors, others within the District, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

October 15, 2010

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited San Mateo County Transit District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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. 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 of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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, 2010, and have issued our report thereon dated October 15, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the District's basic financial statements. 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 management, Board Members, federal awarding agencies, and passthrough entities and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

October 15, 2010