

# San Mateo County Transit District

San Carlos, California



## Comprehensive Annual Financial Report

For the Fiscal Year  
Ended June 30, 2004





**SAN MATEO COUNTY TRANSIT DISTRICT**

**San Carlos, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the Fiscal Year Ended June 30, 2004**



**Prepared by the Finance Division**

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# ***Section I***

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## **INTRODUCTORY**

Letter of Transmittal

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Board of Directors

Executive Management

Organization Chart

Maps

Table of Credits

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**December 31, 2004**

**To the Chief Executive Officer and the Board of Directors of the  
San Mateo County Transit District and the Citizens of  
San Mateo County**

**Comprehensive Annual Financial Report  
Year Ended June 30, 2004**

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the San Mateo County Transit District (the "District") for the fiscal year July 1, 2003 through June 30, 2004. 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 portion of 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. Vavrinek, Trine, Day & Company, LLP, a certified public accounting firm, expressed an opinion that the District's financial statements are fairly stated and in compliance with accounting principles generally accepted in the United States of America. This conclusion is the most favorable kind and is commonly known as an "unqualified" or "clean" opinion.

**PROFILE OF THE ORGANIZATION**

***Purpose***

The San Mateo County Transit 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. The County of San Mateo (the "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 opportunities of San Mateo County, allows effective connections to other transportation services in the San Francisco Bay Area and promotes sound growth and economic development for both the County and 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. There is no other organization within San Mateo County with a similar scope of public transportation service.

***Entity***

While the District administers various activities on behalf of other agencies, such as the Peninsula Corridor Joint Powers Board and the San Mateo County Transportation Authority, these agencies have their own separate corporate identity and governance and they are not component units of the District. Likewise, the District itself is legally separate and financially independent and is not a component unit of the County of San Mateo or any other entity. Therefore, this comprehensive annual financial report and the financial statements contained within represent solely the activities, transactions and status of San Mateo County Transit District.

***History***

On January 1, 1975, the District began consolidating 11 separate municipal bus systems and initiating 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 contracted with Greyhound Lines, Inc. to inaugurate trunkline service between Palo Alto and downtown San Francisco and introduced Redi-Wheels, a demand-response service for patrons with mobility impairments. During 28 years of operations, the District has provided transportation to special events such as the Democratic National Convention, the All Star Baseball Game, the Super Bowl, the World Series, World Cup Soccer and the American Public Transportation Association's Commuter Rail Conference.

The District has fought throughout its history to preserve passenger rail service along the San Francisco Peninsula. In 1978, it led a successful campaign to stave off an impending decision by the Southern Pacific Railroad to end this service. Two years later, the District worked with the California Department of Transportation and the counties of Santa Clara and San Francisco to negotiate a long-term agreement with the Southern Pacific to continue San Jose to San Francisco service under the name "Caltrain". By the close of the 1980s, the Southern Pacific again intended to discontinue local passenger rail service. In 1991, San Mateo, Santa Clara and San Francisco counties formed the Peninsula Corridor Joint Powers Board (JPB) and purchased the Southern Pacific right of way. The JPB selected the District as its administrative agent and overseer for Caltrain passenger service and then contracted with Amtrak, not only to operate between San Francisco and San Jose, but also to extend the line south approximately 30 miles to Gilroy.

The San Mateo County Transit District is a nationally recognized leader in the public transit industry. The District as a whole, members of its Board of Directors and individual staff have won numerous national, state and regional awards, including the Public Transportation System Outstanding Achievement Award from the American Public Transportation Association. In addition, the Metropolitan Transportation Commission, the transportation-planning agency for the San Francisco region, frequently has recognized District programs and individuals.

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***Governance***

A nine-member Board of Directors governs the District. The publicly elected County Board of Supervisors appoints two of its own and an individual having transportation expertise to the District board. The mayors of the cities throughout the county contribute three elected city officials, bringing the District board membership to six. These six members then select three members of the general public to serve on the Board, one of which must be a coastal resident. The Board of Directors meets once a month to determine overall policy for the District. A 15 member Citizens Advisory Committee and a countywide Paratransit Coordinating Council representing the elderly and persons with disabilities provide input to the Board.

***Administration***

The *Administration Division* is responsible for purchasing, contract administration, information technology, risk management, security, safety, and human resources.

The *Communications Division* is responsible for marketing, advertising, public information, distribution, sales, media relations and customer service.

The *Development Division* is responsible for strategic planning, capital and grants budgeting, legislative activities, property management and capital project engineering and construction.

The *Executive Division* is responsible for directing and overseeing all activities and for supporting the Board of Directors.

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

The *Operations Division* is responsible for Samtrans bus service, Caltrain rail service, employer and other shuttles, BART service in San Mateo County, paratransit service pursuant to the requirements of the Americans with Disabilities Act (ADA), service planning and quality assurance.

***Budgetary Control***

State law requires the adoption of an annual budget by resolution of the Board of Directors. In the spring preceding the July 1 start of each fiscal year, staff presents an annual budget based on established agency goals, objectives and performance measures to the Board of Directors. Where proposed expenditures exceed projected revenues, the presentation may include the use of financial reserves to balance the budget. The Board of Directors monitors budget-to-actual performance through monthly reports provided by staff. A supplemental schedule comparing the adopted budget to actual results on a budgetary basis of accounting for fiscal year 2004 is included in the Financial Section of this report.

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

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The District employs the same basis and principles for both budgeted and actual revenues and expenditures, with the exceptions 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 established pursuant to joint powers legislation, the District is not subject to the State of California's Gann Act requiring adherence to an annual appropriation limit. The pie charts in this letter show actual results for the major revenue and expense categories of fiscal year 2004 budget.

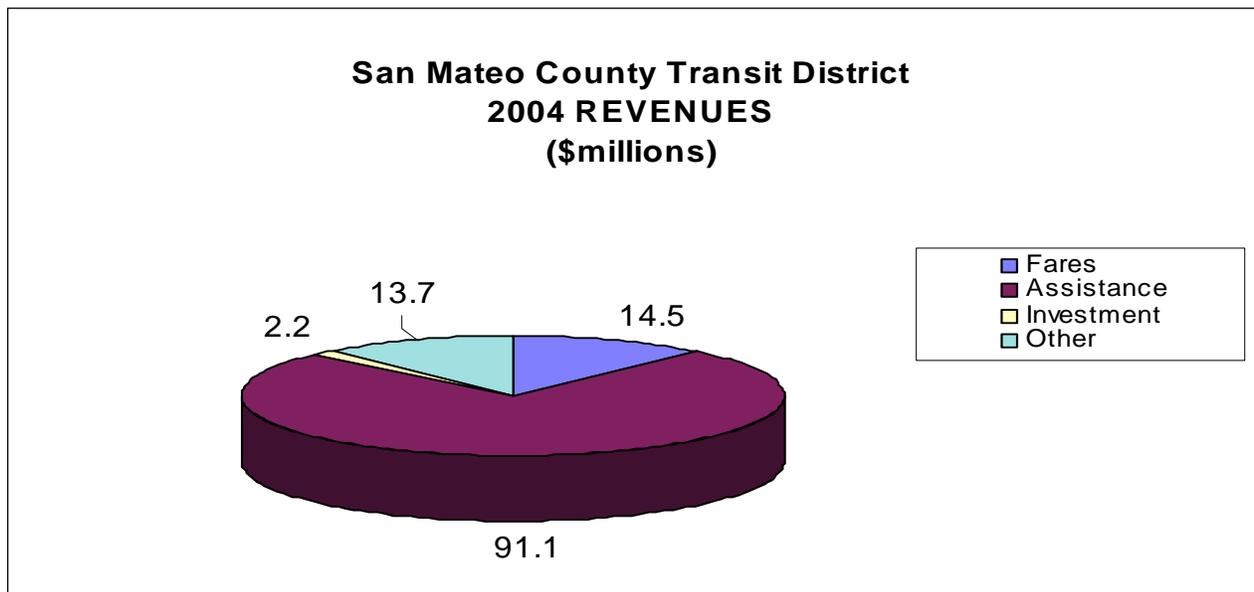
**STRATEGIC PLANNING**

***Goals***

The Board of Directors adopts goals, objectives and performance measures and then monitors staff implementation of District programs and policies against these standards. This strategic planning process also provides the basis for the operating budget and the 10-year capital improvement program. The District organizes its goals under eight general categories:

1. Service quality
2. Service productivity
3. Service coordination
4. Future service plan
5. Planning
6. Marketing and public information
7. Financial
8. Administrative

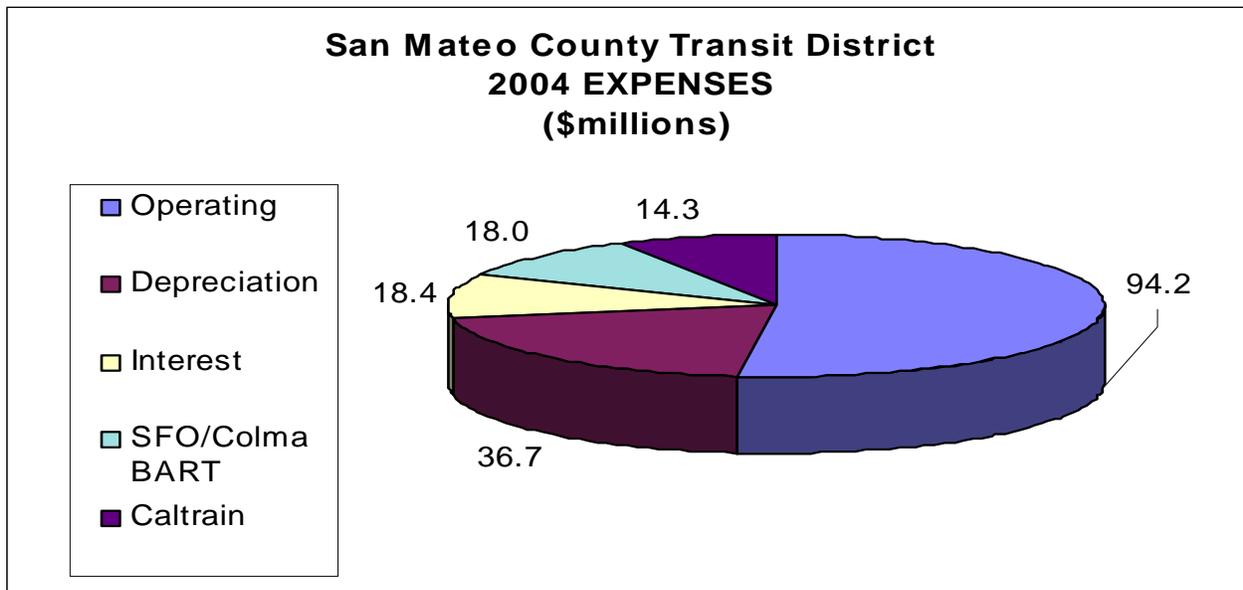
The District anticipates continuing its transition over the past decade from a local and long haul bus operator to a more diversified enterprise encompassing rail, bus, paratransit, shuttle and rail modes. Notwithstanding the recent economic downturn, the Association of Bay Area Governments (ABAG) projects a six percent increase in the county's population and a nine percent increase in its inventory of jobs by 2010 that will increase demand for transportation services.



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In addition to providing local transportation for municipalities, the District has committed significant resources to support other transportation modes. These include Caltrain and BART rail services and shuttle bus service to and from these stations. Dedicated bus shuttles distributing rail patrons to regional employers are particularly vital over the next 20 years, as local agencies are encouraged to implement transportation system management plans designed to reduce highway congestion and improve air quality. Continuing a 28-year history of serving San Mateo County residents with mobility impairments, the District also expects to meet an expanding demand for these services through a variety of paratransit activities.

While operating funding sources are tight, capital funding is available to support a bus acquisition program consistent with the District's fleet modernization standards. Each year, the District identifies and prioritizes capital improvements to bus operations with reference to formal plans, such as the Financial Capacity Plan, the Short-Range Transit Plan and the Bus Improvement Plan. One project of particular note is the Advanced Communication, launched in 2002 and completed during 2004. This system includes GPS tracking of vehicles allowing real-time monitoring of actual route performance. This year's enhancement added an onboard announcement system, which is a major step forward for all riders, especially for those with visual impairments.



**CURRENT PROGRAMS**

***Motor Bus Operations***

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

In response to ridership and revenue declines suffered during the weak economy, the District reduced its bus operation from 60 routes to 53 in 2003. An additional four routes were eliminated in 2004, bringing total routes down to 49. Six mainline routes and one coastal route operated by MV Transportation Company. Bus

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ridership in San Mateo County escalated from four million in fiscal year 1976 to 18.0 million in 2001, but has since declined to 14.8 million during 2004. The District continues to provide special service to 49er football games, the San Francisco Examiner's "Bay to Breakers" foot race and the Año Nuevo State Reserve near Santa Cruz where visitors can observe an elephant seal colony.

The safety and maintenance improvement programs have produced extremely successful results. The safety program includes empathy training to familiarize operators with the special needs of District passengers with mobility impairments. Many bus operators have received safe-driving awards for up to 25 years of driving without an at-fault accident. The maintenance program has achieved consistent improvement in mean times between vehicle breakdowns from year to year and has become proficient at repowering vehicles.

***Caltrain Administration***

Since 1992, the District has served as staff to the tri-county Peninsula Corridor Joint Powers Board 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. After many years of planning, Caltrain broke ground on a centralized equipment maintenance and operations facility in November 2004 that will consolidate several geographically separate facilities, increasing efficiency. In June 2004, Caltrain introduced limited stop, express service, dubbed "Baby Bullet", that reduced travel time between San Jose and San Francisco approximately 20 minutes to just under one hour. Also in June 2004, Caltrain resumed weekend service that had been discontinued for two years to allow for right of way improvements in preparation for the Baby Bullet service. District staff produces a separate Comprehensive Annual Financial Report for the Peninsula Corridor Joint Powers Board that operates Caltrain service and readers may obtain this report upon request.

***San Mateo County Transportation Authority***

The District provides staff and support for the San Mateo County Transportation Authority, which administers funds from a half-cent sales tax authorized by voters in 1988. Together with a series of highway projects, the Authority underwrites Caltrain capital improvements and a paratransit trust fund for persons with mobility impairments, as well as allocating funds for Transportation Systems Management programs aimed at reducing highway congestion and air pollution. District staff produces a separate Comprehensive Annual Financial Report for the San Mateo County Transportation Authority that readers may obtain upon request.

***Elderly and Paratransit Services***

The District provides accessible transportation services throughout San Mateo County with fixed route, Redi-Wheels and Redi-Coast programs. For many county residents, especially seniors and those with disabilities, these are the only means of transportation within the county. The entire fleet of vehicles is equipped with wheelchair lifts and a kneeling feature. In fiscal year ended June 30, 2004, District-owned Redi-Wheels, Redi-Coast vehicles and contracted taxi and lift vans provided a total of 232,253 hours of service.

***Bay Area Rapid Transit District (BART) Extensions***

In March 1990, the District entered a joint venture to extend BART from its Daly City station to Caltrain and the San Francisco International Airport (SFO) via new stations at Colma, South San Francisco, San Bruno and Millbrae. This extension opened for service in June 2003. While first year cost to the District was significantly higher than initially budgeted, recent months have shown a steady gain in ridership and promise for the future.

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**FACTORS AFFECTING FINANCIAL CONDITION**

***Local Economy***

Ranking second in affluence among Northern California counties, San Mateo County has a growing and maturing economy. With significant employment in industries such as computer technology, biotechnology, finance, education, conventions, tourism, agriculture, and manufacturing, the District's service area does not depend on any one sector for its prosperity. Despite the recent economic downturn, this broad employment base promises long-term stability and job growth for its residents. Three years ago, the economy began to slow, as unemployment rose, real estate prices fell and consumers curtailed spending. Although real estate prices recovered quickly, jobs continued to be lost and retail sales declined into 2004. Both District motor bus and Caltrain ridership reflected this trend, declining moderately. In the last half of 2004, modest employment gains signaled the beginning of economic recovery. Consumer spending also improved, as the District's sales tax receipts increased slightly in 2004 and are projected to increase further in 2005 by three percent. However, this recovery has been slower than in other regions of California and the nation.

Despite the favorable long-term outlook, the District faces a significant structural deficit in its operating budget. Sales tax receipts have declined \$11.3 million from their record high in 2001 of \$66.7 million to \$55.4 million in 2004. Both the federal and state governments drastically reduced operating subsidies in response to budget pressures of their own. Finally, fare revenue for the District's core business, local bus service, shrunk during the economic slowdown and ridership has not yet responded to the incipient recovery. On the expense side, intermodal support, paratransit costs and employee fringe benefits have increased at a greater rate than originally anticipated. In addition, wages and other costs also are expected to increase over time due to two to three percent annual inflation. These trends are challenging the District to re-examine its business model in terms of the needs of its customers and its fiscally constrained operating budget.

***Cash Management***

The Board of Directors has adopted an investment policy as prescribed by State of California law. This policy emphasizes safety and liquidity over return on investment. Within these parameters, the District pursues a prudent, cash management and investment program to achieve maximum return on all available funds. The District's policy is to hold securities to maturity to avoid losses from a potential sale. All of the District's unrestricted cash and investments as of June 30, 2004 were on deposit with either Bank of America, the San Mateo County Treasurer's investment pool or the State of California State Treasurer's Local Agency Investment Fund. Deposits are insured by the federal depository or covered by collateral.

***Risk Management***

The District retains an independent consultant to conduct an actuarial study every other year and to perform a review of the District's risk management programs every five years. The District implements the recommendations and coordinates the annual insurance program. Current insurance policies provide public liability coverage to \$100,000,000 in excess of the \$1,000,000 self-insured retention. For property damage, the coverage limit is \$100,000,000, with \$1,000,000 per occurrence self-insured. Staff monitors the program and the reserves throughout the year.

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

The District provides pension and post-retirement health benefits to its employees through the Public Employees Retirement System of the State of California (PERS). Pension benefits are provided according to a defined benefit formula based on two percent of annual compensation for each year of service at age 55. Pursuant to its employee benefits policy, the District is responsible for both the employer and employee contributions to PERS retirement.

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**ACKNOWLEDGMENTS AND AWARDS**

A comprehensive annual financial report 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. We also thank our independent audit firm, Vavrinek, Trine, Day and Company LLP, for its timely and expert guidance that has been invaluable to our financial reporting success.

The Government Finance Officers Association (GFOA) recognized the District's 2003 Comprehensive Annual Financial Report for excellence in financial reporting. 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. The Certificate of Achievement appears immediately following this transmittal letter and is valid for one year. We believe our 2004 Comprehensive Annual Financial Report also meets the requirements for the Certificate of Achievement award.

The employees of the San Mateo County Transit District and its contracted service providers bring an effective combination of skills, experience and dedication to carrying out the District's mission. Together, they plan, develop and finance the operation of a modern, coordinated multimodal transportation system offering convenient access to the many opportunities of the Bay Area and beyond. As the region recovers from the economic downturn of the past few years, the San Mateo County Transit District expects the continued zeal and dedication of its transit professionals to meet the transportation challenges of the future.

Finally, we wish to thank the General Manager/Chief Executive Officer and the Board of Directors for their interest and support in the development of a strong financial system.

Respectfully submitted,



**Virginia Harrington**  
Chief Financial Officer



**Stanley B. Arend, III**  
Director, Accounting

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**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, 2003

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.



*Nancy L. Zjella*

President

*Jeffrey R. Enos*

Executive Director

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**BOARD OF DIRECTORS**

**MICHAEL D. NEVIN**, Chair

**JERRY HILL**, Vice Chair

**JOHN D. BARBOUR**

**MICHAEL P. GUINGONA**

**SHIRLEY HARRIS**

**JIM HARTNETT**

**MARK HERSHMAN**

**ARTHUR L. LLOYD**

**ALBERT M. TEGLIA**

San Mateo County Supervisor **Michael D. Nevin** represents the board of supervisors on the SamTrans Board of Directors. He was appointed to the SamTrans board in 1993 and has been reappointed twice. He currently chairs the board, a post he has held twice before. He is a member of the Peninsula Corridor Joint Powers Board, which oversees the operation of Caltrain, and the county's Transportation Task Force. Mr. Nevin was elected to the San Mateo County Board of Supervisors in 1992 and has been re-elected twice. He represents the 5<sup>th</sup> District, which includes the cities of Brisbane, Colma, Daly City and South San Francisco. Mr. Nevin was elected to the Daly City City Council in 1982 and was re-elected twice. He has assumed an active leadership role in a number of local, regional and statewide organizations, including the California State Association of Counties, the San Mateo County Health Commission, the Bay Area Air Quality Management District, Californians for Better Transportation, and the San Mateo County Health Center board of directors. A resident of Daly City, Mr. Nevin was a San Francisco police officer for 27 years, rising to the rank of inspector.

San Mateo County Supervisor **Jerry Hill** represents the board of supervisors on the SamTrans Board of Directors. He was appointed to the board in 1999 and reappointed in 2004. He was chair of the SamTrans board in 2002 and currently serves as vice chair. Mr. Hill was elected to the San Mateo County Board of Supervisors in 1998 and re-elected in 2002. He represents the 2<sup>nd</sup> District, which includes the cities of San Mateo, Foster City, and Belmont. Mr. Hill was elected to the San Mateo City Council in 1990 and re-elected in 1994. He was mayor of San Mateo in 1994. Mr. Hill also serves on the Local Agency Formation Commission, the board of the Bay Area Air Quality Management District and the board of the San Mateo County Medical Center, and represents the supervisors on several boards and commissions, including the Commission on Disabilities, the San Mateo County Historical Association and the Library Joint Powers Board. He also serves as county liaison to the cities of San Mateo County, a post he created. A resident of San Mateo, Mr. Hill is a business owner and a commercial pilot.

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Businessman **John D. Barbour**, serves on the SamTrans Board of Directors as the public representative from the county's Coastsides. He was appointed in January 2000 and reappointed in 2004. Mr. Barbour's business background encompasses a wide variety of industries, including painting contractor, corporate finance executive, founder and manager of two highly successful private telephone and communications equipment companies, and manager of various investment portfolios specializing in real estate. A resident of El Granada, Mr. Barbour owns and operates the Moss Beach Distillery Restaurant.

Daly City City Councilman **Michael P. Guingona** represents San Mateo County's cities on the SamTrans Board of Directors from the county's Northern district. He was first appointed in 1997 and has been reappointed twice. He was chair of the SamTrans Board of Directors in 2003. He currently chairs the board's Community Relations Committee. He also serves on the board of directors of the San Mateo County Transportation Authority. Mr. Guingona is serving his third term on the Daly City City Council; his term expires in 2006. He has been mayor of Daly City three times. He is an attorney with offices in San Francisco.

Community leader **Shirley Harris** was first appointed to the SamTrans Board of Directors in 1994 as a public member and has been reappointed twice. Ms. Harris was chair of the SamTrans board in 1996 and 2001. In 2003, she was named chair of the Leadership Committee of the American Public Transportation Association, an international organization that has been representing the transit industry for more than 100 years. She also serves on APTA's Executive Council of the Transit Board Members Committee Region 6, representing California, Idaho, Nevada, Arizona, Washington, Oregon, Alaska and Hawaii. A resident of Daly City, Ms. Harris has more than 25 years of experience in telecommunications and human resource management and has served on the Daly City Rent Review, Parks and Recreation and Planning commissions. Ms. Harris has served on numerous fund-raising committees for the United Way, seniors, children with developmental disability and the AIDS foundation. She is a member of the board of directors of Florence Crittenton Services, a nonprofit organization that serves young women and children.

Redwood City City Councilman **Jim Hartnett** represents San Mateo County's cities on the SamTrans Board of Directors from the county's Southern District. He was appointed to the board in 2002. He currently chairs the board's Legislative Committee. Mr. Hartnett was elected to the Redwood City City Council in 1994. He was re-elected in 1997 and appointed to a term in 2001. He was mayor of Redwood City in 1995. Mr. Hartnett was a member of the Redwood City Housing & Human Concerns Committee for eight years and a member of the Planning Commission. His involvement in civic activities includes chairmanship of the San Mateo Business Development Commission, past chair of the Redwood City-San Mateo County Chamber of Commerce, and past chair of the City/County Association of Governments in San Mateo County. He also is active in supporting youth sports, and is currently a coach in a post-Little League baseball league and a member of the Redwood City National Little League board of directors. Mr. Hartnett is an attorney with a practice in Redwood City.

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Millbrae City Councilman **Marc I. Hershman** represents San Mateo County's cities on the SamTrans Board of Directors from the county's Central District. He was appointed in 2004. He was elected to the Millbrae City Council in 1997 and has been re-elected twice. He was mayor of Millbrae in 2001-02. He is a member of the board of directors of the City/County Association of Governments, the Bay Area Water Supply and Conservation Agency and the San Francisco Bay Area Regional Water System Financing Authority, and trustee of the Millbrae Community Foundation. Mr. Hershman is an attorney with a practice in San Mateo. Prior to becoming an attorney, Mr. Hershman was a legislative assistant in the Washington, D.C., office of Representative Robert T. Matsui, Democrat of Sacramento. He worked as a community aide to Representative Tom Lantos, Democrat of San Mateo, while in law school.

Veteran transit activist **Arthur Lloyd** was first appointed to the SamTrans board in 1988 as the designated Transit Expert. He was chair of the board in 1993. He is chair of the Planning and Development Committee. Mr. Lloyd also serves on the Peninsula Corridor Joint Powers Board, which oversees the operation of Caltrain. In 2002, he was appointed secretary of the Transit Board Committee of the American Public Transportation Committee, an international organization that has been representing the transit industry for more than 100 years. A resident of Portola Valley, Mr. Lloyd is president of California Operation Lifesaver, a statewide organization that works to prevent injuries and fatalities at rail-highway crossings and on rail rights of way. He is a past director of the National Association of Rail Passengers and is a member of the California State Railroad Museum Foundation and an adviser to the Golden Gate Railroad Museum. He was a founding officer of the Peninsula Commuter Club when Southern Pacific was operating the Peninsula rail corridor. Mr. Lloyd owned a charter bus company and a travel agency and worked in several key positions for Amtrak before retiring as director of Public Affairs in 1991.

**Albert M. Teglia** was appointed to the SamTrans Board in 1980 to represent the county's cities. In 1997, he was appointed by the board as a public representative. He retired from the board in 1996 and was appointed to a new term in 1998. Mr. Teglia was appointed the SamTrans representative to the San Mateo County Transportation Board of Directors in 1988, becoming one of the first nine members of that board. He has a long and distinguished career of public service. He served for 10 years as member of the Board of Trustees of the Jefferson Union High School District. He served for 20 years as a member of the Daly City Council, from 1976 to 1996, including four terms as mayor. He also worked on the staff of San Mateo County Supervisor Mike Nevin. Since his retirement from the county, Mr. Teglia has been a volunteer with the Human Services Agency of San Mateo County, working as a "child advocate" and on behalf of Jobs for Youth, a youth job-training program.

**EXECUTIVE MANAGEMENT**

**GENERAL MANAGER/CHIEF EXECUTIVE OFFICER**

**Michael J. Scanlon**

**SPECIAL ASSISTANT TO THE CEO**

**Mark Simon**

**CHIEF OFFICERS**

George Cameron, Chief Administrative Officer

Virginia Harrington, Chief Financial Officer

C. H. (Chuck) Harvey, Chief Operating Officer

Rita Haskin, Chief Communications Officer

Ian McAvoy, Chief Development Officer

**ADMINISTRATIVE & BOARD SUPPORT**

Martha Martinez, Manager, Executive/Governing Boards Support

Aurora Jose, Administrative/Board Secretary

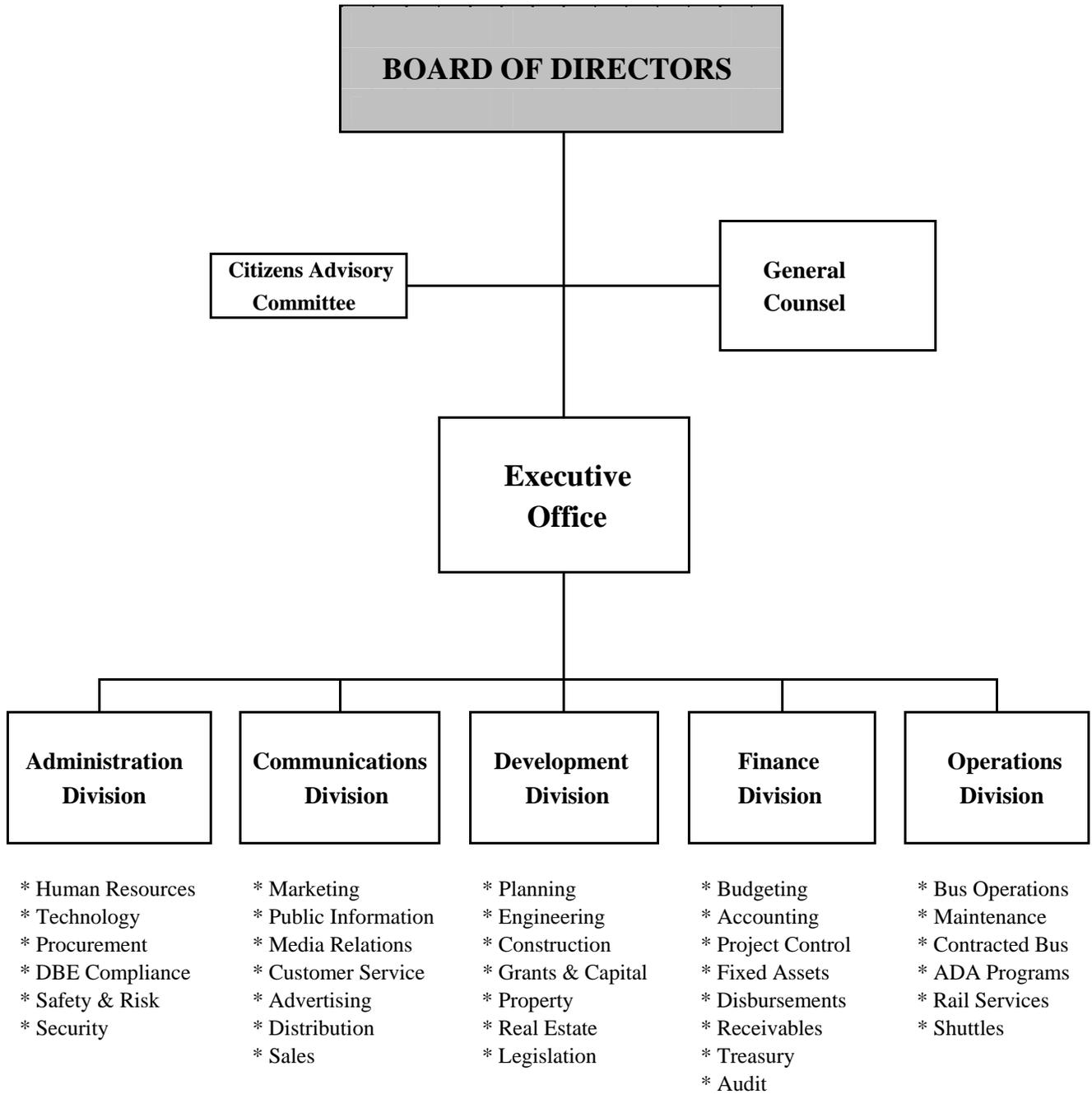
**GENERAL COUNSEL**

Hanson, Bridgett, Marcus, Vlahos & Rudy

David J. Miller, Esquire

Joan Cassman, Esquire

**ORGANIZATION CHART**



## **San Mateo County, California**





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**SAN MATEO COUNTY TRANSIT DISTRICT  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2004**

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**TABLE OF CREDITS**

The following individuals contributed to the production of the fiscal year 2004 Comprehensive Annual Financial Report:

<b><u>Finance:</u></b>	Donna Fong	Manager, Capital & Grant Accounting
	Carol Lawson	Manager, Treasury
	Rima Lobo	Senior Accountant
	Neng Pacumio	Senior Accountant
	David Ramires	Accountant
	Dina Stewart	Manager, General Ledger
<b><u>Information Technology:</u></b>	Rosalie Ganoy,	IT Help Desk Specialist
<b><u>Audit Firm:</u></b>	Roger Alfaro	Managing Auditor
	Leonard Danna	Partner

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**SAN MATEO COUNTY TRANSIT DISTRICT  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2004**

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# ***Section II***

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## **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 AUDITORS' REPORT

The Board of Directors of the  
San Mateo County Transit District

We have audited the accompanying statements of net assets, statements of revenues, expenses and changes in net assets and statements of cash flows of the San Mateo County Transit District (the District), as of and for the fiscal years ended June 30, 2004 and 2003. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 8, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

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

Varrinek Trime Day + Co. LLP

San Jose, California  
October 8, 2004

## **MANAGEMENT'S DISCUSSION & ANALYSIS**

This discussion and analysis of the San Mateo County Transit District's financial performance provides an overview of the District's activities for the fiscal year ended June 30, 2004 with comparisons to the prior year ended June 30, 2003. 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. All amounts have been rounded to the nearest one hundred thousand dollars and one-tenth of a percent.

### **FINANCIAL HIGHLIGHTS**

- Total assets stand at \$668.3 million as of June 30, 2004, a decrease of \$50.5 million or 7.0 percent compared to fiscal year 2003.
- Year-end net assets are \$276.8 million at June 30, 2004, a decrease of \$35.9 million or 11.5 percent from the fiscal year 2003 amount.
- Total liabilities at June 30, 2004 decreased \$14.4 million or 3.6 percent between fiscal years to \$391.5 million. Repayments of bonds and notes payable totaling \$16.5 million account for the majority of this reduction, however partially offset by a \$2.4 million or 38.2 percent increase within accounts payable and accrued expenses.
- Operating revenue from passenger fares for fiscal year 2004 was \$14.5 million, a decrease of \$0.8 million or 5.2 percent compared to fiscal year 2003. The decrease is due to a decline in ridership as a result of the continued economic slowdown.
- Total operating expenses increased by \$2.6 million or 2.8 percent compared to fiscal year 2003. Salaries and benefits costs accounted for \$4.2 million of this increase which was offset by a \$2.3 million decrease in miscellaneous expenses.
- In fiscal year 2004, the District's capital outlay, net of capital contributions, was \$9.1 million.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The Financial Section of this report presents the District's financial statements as two components: 1) basic financial statements, and 2) notes to the financial statements. It also includes other supplemental information in addition to the basic financial statements themselves.

#### **Basic Financial Statements**

The *statement of net assets* presents information on the District's 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. When both restricted and unrestricted net assets are available for the same purpose, the District uses restricted resources only after unrestricted resources are depleted.

The *statement of revenues, expenses and changes in net assets* reports how the District's net assets have changed during the fiscal year ended on June 30, 2004 and presents a comparison between operating revenues and related operating expenses. Operating revenues and expenses are connected with the District's principal business of providing bus transit services.

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**SAN MATEO COUNTY TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2004**

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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 non-operating.

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

- *Cash flows from operating activities* include transactions and events reported as components of the operating income in the statement of revenues, expenses and changes in net assets.
- *Cash flows from non-capital financing activities* include operating grant proceeds as well as operating subsidy payments to third parties.
- *Cash flows from capital and related financing activities* include the borrowing and repayment (principal and interest) of capital-related debt and the acquisition and construction of capital assets. This category also reports the proceeds of capital grants and contributions.
- *Cash flows from investing activities* include proceeds from the sale of investments, receipt of interest and changes in the fair value of investments subject to reporting as cash equivalents. 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 *supplementary* information concerning compliance with the District's annual budget. This *supplementary* information, as well as associated notes, immediately follows the *basic financial statements* and its accompanying notes.

### **Analysis of Basic Financial Statements**

At the end of fiscal year 2004, the District's total assets are \$668.3 million, a decrease of \$50.5 million or 7.0 percent compared to fiscal year 2003. This overall result is attributed principally to decreases in the District's capital contribution to the Bay Area Rapid Transit (BART) net of amortization and reduced current investments for a combined amount of \$103.1 million. This decrease was offset by positive changes in non-current assets and capital assets for a combined \$50.7 million.

The District's current assets of \$101.5 million at the end of fiscal year 2004 are \$78.7 million or 43.7 percent lower than fiscal year 2003. Cash and short-term investments accounted for \$80.8 million of this decrease, while Transaction and use tax and other receivables enjoyed a slight increase of \$1.7 million or 6.0 percent compared to the prior year.

**SAN MATEO COUNTY TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2004**

An increase in long-term reinvestment activity due to a slight rebound in interest rates is primarily responsible for the increase in non-current investments of \$32.1 million or 32.2 percent between fiscal years 2004 and 2003.

As of the end of fiscal year 2004, the District's investment in capital assets is \$173.7 million, net of accumulated depreciation, \$18.6 million or 12.0 percent higher than at the end of fiscal year 2003. These capital assets include land and right of way, buses and related equipment, and building and related improvements.

In 1998, the District entered into a comprehensive agreement with BART to extend its system into San Mateo County. Under the terms of the agreement, BART is responsible for constructing and operating new stations at Colma, Millbrae and the San Francisco Airport. The District makes various capital contributions towards the constructions and assumes financial responsibility for the operating results of these stations.

The District's amortized capital contribution to BART amounts to \$155.3 million as of the end of fiscal year 2004, which is \$22.3 million or 12.6 percent lower than at the end of fiscal year 2003. This decrease is essentially the amortization for the year. In addition to its capital contribution to BART, the District also has receivables from BART for a \$72 million construction loan and a \$7.9 million advance related to property acquisitions for the SFO BART Extension. A more detailed discussion of the District's relationship with BART can be found in the Notes to the Financial Statements.

**SAN MATEO COUNTY TRANSIT DISTRICT  
NET ASSETS  
(In thousands)**

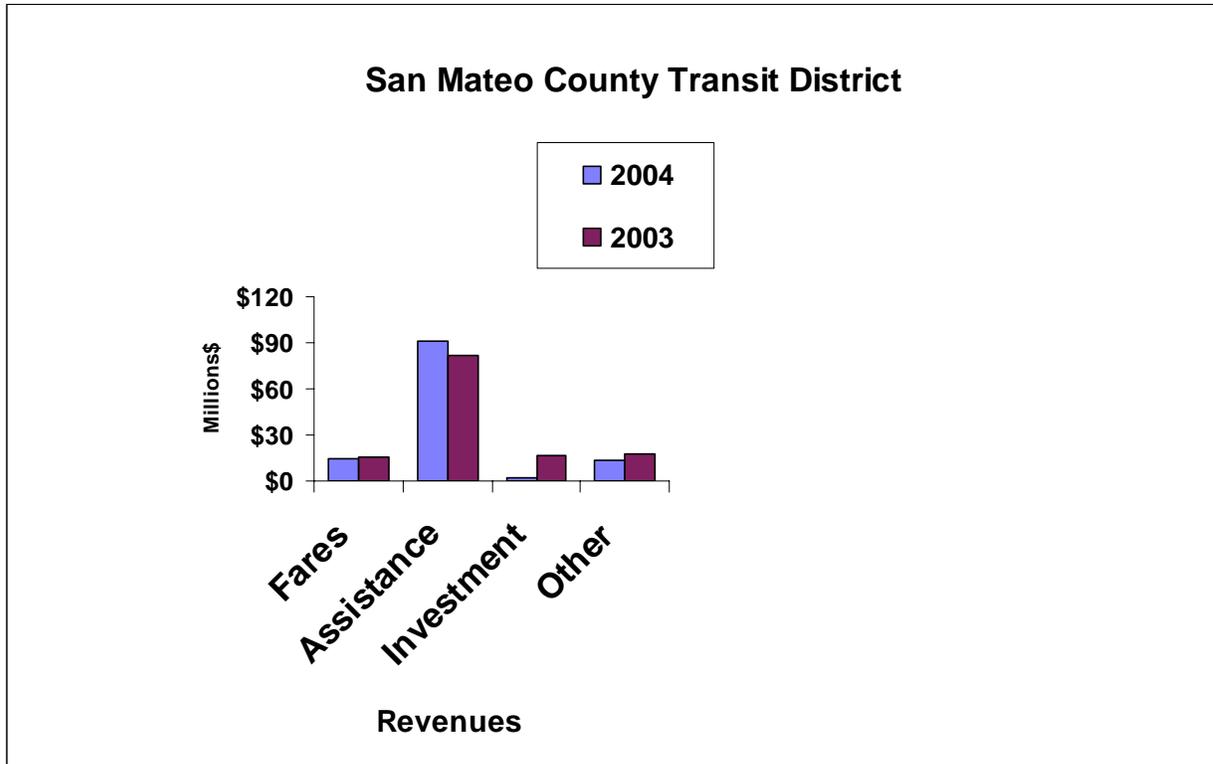
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Current Assets	\$101,470	\$180,172	\$118,719
Non-Current Assets	237,911	206,023	288,619
Capital assets including capital contribution to BART, net of depreciation and amortization	328,957	332,617	327,464
<b>Total assets</b>	<b>\$668,338</b>	<b>\$718,812</b>	<b>\$734,802</b>
Current liabilities	\$35,206	\$32,602	\$30,992
Long-term debt	350,728	367,980	384,186
Non-Current liabilities	5,573	5,415	5,771
<b>Total liabilities</b>	<b>\$391,507</b>	<b>\$405,997</b>	<b>\$420,949</b>
Net assets			
Invested in capital assets, net of related debt	10,081	(22,514)	(22,750)
Unrestricted	266,750	335,329	336,603
<b>Total net assets</b>	<b>\$276,831</b>	<b>\$312,815</b>	<b>\$313,853</b>

**SAN MATEO COUNTY TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2004**

Total liabilities of the District decreased by \$14.4 million or 3.6 percent compared to fiscal year 2003. The principal payment of \$16.5 million for bonded debt accounted for the majority of this decrease.

As of the end of fiscal year 2004, the District's net assets stands at \$276.8 million, a decrease of \$35.9 million or 11.5 percent over fiscal year 2003. Of total net assets, \$10.1 million or 3.6 percent represents the District's investment in capital assets, net of related debt, and \$266.8 million or 96.4 percent is unrestricted. Of the unrestricted net assets, \$101.4 million is designated for additional capital expenditures and general contingencies.

Fiscal year 2004 operating revenues generated from passenger fares decreased by \$0.8 million or 5.2 percent compared to fiscal year 2003. Continued decline in ridership due to the weakness in the general economy and higher unemployment are the main factors for this decrease.



The District received \$91.1 million in operating assistance in fiscal year 2004 of which \$55.4 million (60.8 percent) came from transaction and use tax, \$25.6 million (28.1 percent) came from local transportation funds, \$5.1 million (5.6 percent) from federal assistance and \$5.0 million (5.5 percent) came from Measure A, state transit assistance and AB434 funds.

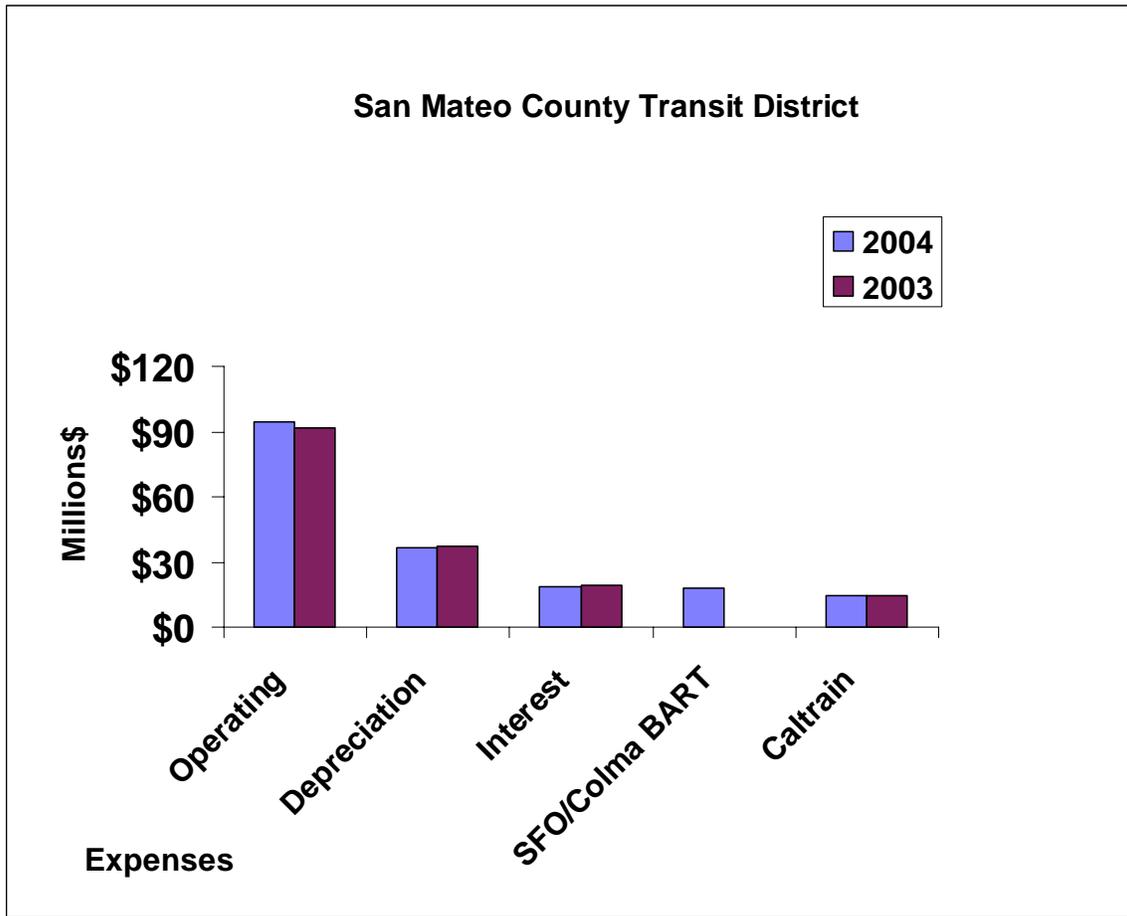
**SAN MATEO COUNTY TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2004**

In fiscal year 2004, the District's non-operating revenue, net of non-operating expenses, was \$56.3 million, which is \$25.7 million or 31.4 percent lower than fiscal year 2003. This decrease is attributed principally to the operating deficit of \$18.0 million currently being experienced by the SFO/Colma BART station and a \$13.9 or 86.1 percent decrease in investment income.

**SAN MATEO COUNTY TRANSIT DISTRICT  
CHANGES IN NET ASSETS  
(In thousands)**

	<b>2004</b>	<b>2003</b>	<b>2002</b>
Operating revenues-Passenger fares	\$14,542	\$15,273	\$14,779
Operating expenses - Transit Services	94,164	91,560	81,995
Operating loss before depreciation and amortization	(\$79,622)	(\$76,287)	(\$67,216)
Depreciation and amortization	36,675	37,275	39,338
Operating loss	(\$116,297)	(\$113,562)	(\$106,554)
Non-operating revenues			
Operating assistance	\$91,062	\$81,464	\$102,543
Investment Income	2,244	16,131	20,767
Interagency administrative income	8,654	10,239	2,855
Other income, net	5,033	7,254	7,502
Total Non-operating revenues	\$106,993	\$115,088	\$133,667
Non-operating expenses			
SFO/Colma BART station revenue (deficit)	(18,000)	311	923
Interest expense	(\$18,440)	(\$19,146)	(\$19,836)
Peninsula CalTrain rail service subsidy	(14,296)	(14,296)	(14,355)
Total Non-operating expenses	(\$50,736)	(\$33,131)	(\$33,268)
Net loss before capital contributions	(\$60,040)	(\$31,605)	(\$6,155)
Capital Contributions	24,056	30,567	12,685
Change in net assets	(\$35,984)	(\$1,038)	\$6,530
Net assets - July 1, 2003	312,815	313,853	307,323
<b>Net assets - June 30, 2004</b>	<b>\$276,831</b>	<b>\$312,815</b>	<b>\$313,853</b>

The District also received capital contributions of \$24.1 million in fiscal year 2004, which is a \$6.5 million or 21.3 percent decrease as compared to fiscal year 2003. The \$8.9 million or 33.0 percent decrease in federal grants received which is slightly offset by an \$3.5 or 425.2 percent increase in state transit assistance account for the majority of this decline.



The District's fiscal year 2004 operating expenses increased by \$2.6 million or 2.8 percent compared to fiscal year 2003 with more than half of this increase attributed to higher wage and benefit costs, health insurance, workers' compensation and the retirement plan.

The \$94.2 million in total operating expenses is comprised of \$53.5 million or 56.9 percent for wages and benefits; \$26.0 million or 27.5 percent for contract operations and other services and \$14.7 million or 15.6 percent for materials, supplies, insurance and other miscellaneous costs. Fiscal year 2004 depreciation and amortization cost is \$36.7 million, a \$0.6 million or 1.6 percent decrease over fiscal year 2003.

In fiscal year 2004, the District paid the Peninsula Corridor Joint Powers Board (PCJPB) \$14.3 million for its contribution towards the operation of Caltrain rail service. A more detailed discussion of the District's relationship with PCJPB can be found in the Notes to the Financial Statements.

### **Capital Projects**

In fiscal year 2004, the District's capital outlay, net of capital contributions is \$9.1 million, a decrease of \$3.1 million or 26.2 percent from fiscal year 2003. The following is a summary of the District's major capital expenditures for fiscal year 2004:

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**SAN MATEO COUNTY TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2004**

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- Acquisition of eleven minivans for Redi-Wheels (\$0.6 million)
- Installation of particulate matter traps of fixed route revenue vehicles (\$1.7 million)
- Purchase bus catalyst devices (\$1.9 million)
- Replacement of bus parts in accordance with FTA guidelines (\$0.7 million)

More information on the District's Capital Assets appears on pages 29 and 30 of the *Notes to the Financial Statements*.

### **Debt**

At the end of fiscal year 2004, the District had \$367.9 million in bonds and notes outstanding compared to \$384.5 million in fiscal year 2003, a decrease of \$16.5 million or 4.3 percent. This reduction represents the principal payment of \$16.5 million mentioned above. A pledge of sales tax revenues secures the District's bonds and insurance secures the payment of principal and interest on the due dates. The District retains a trustee to maintain its bond fund.

More information on the District's long-term debt activity appears on pages 33 through 36 of the *Notes to the Financial Statements*.

### **Economic Factors**

With the economy indicating slight signs of recovering from the economic downturn of the past years, San Mateo County is beginning to show signs of rebounding with unemployment decreasing from 5.4 percent in June 2003 to 4.1 percent in June 2004. However, sales tax revenue continues to still remain short of the 2004 budget, with actual sales tax receipts reported at 0.7 million or 1.2 percent under budget. The District has taken this trend into account in its 2005 budget and cost cutting measures were implemented in response to the expected decline in revenues. The District believes it has taken these measures without compromising its mission of providing high-quality, safe and efficient transportation system to the people of San Mateo.

### **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 show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, 1250 San Carlos Avenue, San Carlos, California, 94070.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2004 AND 2003 (In thousands)**

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 1 & 2)	\$ 26,724	\$ 42,439
Investments (Notes 1 & 2)	41,285	106,396
Receivables:		
Transaction and use tax	10,095	9,489
Receivable from Peninsula Corridor Joint Powers Board (Note 8)	648	1,195
Federal capital grants (Note 4)	8,124	7,184
Interest	3,140	3,298
Other	9,304	8,378
Allowance for doubtful accounts	(96)	(96)
Total Receivables - Net	<u>31,215</u>	<u>29,448</u>
Inventories	1,166	1,046
Prepaid expenses	1,080	843
Total Current Assets	<u>101,470</u>	<u>180,172</u>
NONCURRENT ASSETS:		
Noncurrent investments (Note 2)	131,717	99,622
Investments restricted by debt covenants for use in capital projects (Note 1 & 2)	20,635	20,998
Receivable from BART	7,914	7,914
Construction loan receivable from BART (Note 5)	72,000	72,000
Capital assets, at cost		
Buses and bus equipment	131,910	116,500
Buildings and building improvements	69,095	68,643
Land and right of way (Note 6 & 7)	43,695	43,695
Maintenance and other equipment	20,117	19,613
Furniture and fixtures	13,229	13,143
Shelters and bus stop signs	2,830	2,564
Other vehicles	2,354	2,613
Total Property and Equipment	<u>283,230</u>	<u>266,771</u>
Less accumulated depreciation	(135,206)	(144,128)
Construction in progress	25,659	32,410
Capital Assets - Net (Note 6)	<u>173,683</u>	<u>155,053</u>
Capital Contribution to BART, net of amortization (Note 5)	155,274	177,564
Bond issuance costs	3,947	4,204
Other assets (Note 9)	1,698	1,285
Total Noncurrent Assets	<u>566,868</u>	<u>538,640</u>
Total Assets	<u>668,338</u>	<u>718,812</u>

See accompanying notes to the financial statements.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**STATEMENTS OF NET ASSETS (CONTINUED)**  
**JUNE 30, 2004 AND 2003 (In thousands)**

	<u>2004</u>	<u>2003</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 8,564	\$ 6,199
Compensated absences	6,486	6,116
Current portion of self-insurance liabilities (Note 13)	1,550	2,315
Accrued interest	1,421	1,497
Current portion of long-term debt (Note 10)	17,185	16,475
Total Current Liabilities	<u>35,206</u>	<u>32,602</u>
<b>NONCURRENT LIABILITIES:</b>		
Long-term debt - Net (Note 10)	350,728	367,980
Self-insurance liabilities less current portion (Note 13)	1,761	1,595
Other noncurrent liabilities	3,812	3,820
Total Noncurrent Liabilities	<u>356,301</u>	<u>373,395</u>
Total Liabilities	<u>391,507</u>	<u>405,997</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	10,081	(22,514)
Unrestricted	266,750	335,329
Total Net Assets	<u>\$ 276,831</u>	<u>\$ 312,815</u>

See accompanying notes to the financial statements.

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

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES - Passenger fares	\$ 14,542	\$ 15,273
OPERATING EXPENSES:		
Salaries and benefits	53,521	49,339
Services:		
Contract operations and maintenance services	23,365	22,982
Other services	2,568	2,548
Materials and supplies	4,683	5,157
Insurance	4,360	3,568
Miscellaneous	5,667	7,966
Total operating expenses	<u>94,164</u>	<u>91,560</u>
Operating loss before depreciation and amortization and administrative expenses capitalized	(79,622)	(76,287)
Depreciation and amortization:	<u>36,675</u>	<u>37,275</u>
OPERATING LOSS	(116,297)	(113,562)
NON-OPERATING REVENUES (EXPENSES):		
Operating assistance (Note 3)	91,062	81,464
Investment income	2,244	16,131
Interest expense	(18,440)	(19,146)
Peninsula CalTrain rail service subsidy (Note 8)	(14,296)	(14,296)
SFO/Colma BART station revenue/(deficit) (Note 5)	(18,000)	311
Interagency administrative income	8,654	10,239
Other income, net	5,033	7,254
Total non-operating revenues, net	<u>56,257</u>	<u>81,957</u>
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(60,040)	(31,605)
CAPITAL CONTRIBUTIONS (Note 1)	<u>24,056</u>	<u>30,567</u>
CHANGE IN NET ASSETS	(35,984)	(1,038)
NET ASSETS, Beginning of year	<u>312,815</u>	<u>313,853</u>
NET ASSETS, End of year	<u>\$ 276,831</u>	<u>\$ 312,815</u>

See accompanying notes to the financial statements.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30: (In Thousands)**

	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from passenger fares	\$ 14,542	\$ 15,273
Payments to vendors for services	(39,324)	(42,990)
Payments to employees	(52,652)	(48,069)
Other	11,246	18,798
Net cash used in operating activities	(66,188)	(56,988)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Operating grants received, including transaction and use tax	90,812	86,758
Peninsula Cal Train rail service outlays	(14,296)	(14,296)
SFO Extension operating subsidy	(17,350)	-
Increase in receivable from BART	-	(240)
Net cash provided by non-capital financing activities	59,166	72,222
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(33,167)	(42,346)
Capital contributions from grants	23,116	25,582
Bond principal paid	(16,475)	(15,531)
Interest and cost of issuance paid	(18,516)	(19,204)
Net cash used in capital and related financing activities	(45,042)	(51,499)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investment securities	115,443	59,757
Purchases of investment securities	(91,012)	(23,408)
Investment income received on all interest-bearing investments	11,918	15,020
Net cash provided by investing activities	36,349	51,369
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(15,715)</b>	<b>15,104</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<b>42,439</b>	<b>27,335</b>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<b>\$ 26,724</b>	<b>\$ 42,439</b>

See accompanying notes to the financial statements.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED JUNE 30: (In Thousands)**

	<u>2004</u>	<u>2003</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES		
Operating (loss)	\$ (116,297)	\$ (113,562)
Other nonoperating items	11,246	18,798
Adjustments to reconcile operating (loss) to net cash used in operating activities:		
Depreciation and amortization	36,675	37,275
Effect of changes in:		
Inventories	(120)	503
Prepaid expenses	(237)	(582)
Accounts payable and accrued expenses	2,009	(288)
Compensated absences	370	847
Self-insurance liabilities	166	21
	<u>                    </u>	<u>                    </u>
Net cash used in operating activities	<u>\$ (66,188)</u>	<u>\$ (56,988)</u>
NONCASH INVESTING ACTIVITIES:		
Increase (decrease) in fair value of investments	<u>\$ (6,960)</u>	<u>\$ 3,058</u>

See accompanying notes to the financial statements.

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**SAN MATEO COUNTY TRANSIT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2004 AND 2003**

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

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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**NOTE #1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. Operations**

The San Mateo County Transit District (the “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 mainline bus services. The District also shares in the costs of operating the Caltrain rail service. The District provides 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.

**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. New Pronouncements****Implementation of New Pronouncements**

**GASB Statement No. 39** - In May 2002, the GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement provides additional guidance to determine whether certain organizations should be reported as component units based on the nature and the significance of the relationship with the primary government. This statement does not have a significant impact on the financial statements of the District.

**GASB Statement No. 40** – In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB No. 3. This statement modifies the Deposit and Investment Risk Categorization Disclosures and requires additional information on an entity’s portfolio. This statement is not effective until June 30, 2005. The District has not determined its effect on the financial statements.

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

**GASB Statement No. 42** – In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement requires governments to measure, recognize, and disclose the effects of capital asset impairments in their financial statements when it occurs. This statement also clarifies and establishes accounting requirements for insurance recoveries, including those associated with capital asset impairment. This statement is not effective until June 30, 2006. The District has not determined its effect on the financial statements.

**GASB Statement No. 43** – In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes accounting and financial reporting standards for plans that provide postemployment benefits other than pension benefits (known as other postemployment benefits or OPEB). This statement is not effective until June 30, 2007. This statement is not expected to have a significant impact on the financial statements of the District.

**GASB Statement No. 44** – In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section-an amendment of NCGA Statement No. 1*. This Statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement is not effective until June 30, 2006. The District has not determined its effect on the financial statements.

**GASB Statement No. 45** – In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is not effective until June 30, 2008. The District has not determined its effect on the financial statements.

**E. Cash and Cash Equivalents**

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

**F. Investments**

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

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**SAN MATEO COUNTY TRANSIT DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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

Under provision of the Investment Policy, the District may invest in any type of investment permitted by the California Government Code. The District predominately invests in the following types of investments:

- (a) Government Securities or U.S. Agency Securities issued or guaranteed by the United States or its agencies or instrumentalities
- (b) Time Deposits with Banks
- (c) U.S. Treasury Bills
- (d) Local Agency Investment Fund (State Pool) Deposits
- (e) Passbook Savings Account Demand Deposits
- (f) Repurchase Agreements
- (g) Mortgage Securities purchased under an Agreement to resell not to exceed 80% of the mortgage securities' fair market value
- (h) Asset-backed securities
- (i) Mutual Funds
- (j) Investment Trust of California

**G. Restricted Investments** represent unused bond proceeds and other funds designated for financing the District's principal capital projects and related debt service. These funds have been invested in U.S. Treasury notes, repurchase agreements, mutual funds and guaranteed investment contracts.

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

**I. Property and equipment** 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 \$1,000 and a useful life of more than one year.

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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

**J. Construction in progress** consists of the following projects at June 30, 2004 and 2003 (in thousands):

	<u>2004</u>	<u>2003</u>
Pavement rehabilitation	\$ 1,386	\$ -
Information technology support	2,781	-
Bus fleet improvements	11,289	22,535
Bus communications system	6,031	4,960
Administration building improvement	215	-
Other	3,956	4,915
Total Construction in Progress	<u>\$ 25,659</u>	<u>\$ 32,410</u>

Interest is capitalized on construction in progress in accordance with 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 net interest capitalized in 2003 or 2004.

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

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

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

**N. Compensated Absences**

Employees accrue compensated absence time by reason of tenure at annual rates ranging from 160 to 312 hours per year. Employees are not allowed to accumulate more than 1,440 hours of compensated absence time, depending upon the number of service years. At June 30, 2004 and 2003, accrued compensated absences for all District employees amounted to \$6,486,000 and \$6,116,000, respectively.

**O. Capital Contributions**

The District receives grants from the Federal Transit Administration (“FTA”) and 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 is included in property and equipment.

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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

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, 2004 and 2003, were as follows (in thousands):

	<u>2004</u>	<u>2003</u>
Federal grants	\$ 18,076	\$ 26,963
State transit assistance	4,275	814
Other local transportation funds	1,705	2,790
Total	<u>\$ 24,056</u>	<u>\$ 30,567</u>

**P. Net Assets**

The District has set-aside unrestricted net assets for general contingencies and future capital expenditures. The amounts established for future capital expenditures represent the estimated cost of internally funded capital projects and the local matching portion of capital projects that the District is committed to. Operating and capital contingencies have been established for unusual or emergency expenditures. The remaining set-asides have been established for potential future liabilities associated with bodily injury/property damage, unemployment and workers' compensation, working capital, and public officials' liability.

Resources set-aside as of June 30, 2004 and 2003 are as follows (in thousands):

	<u>2004</u>	<u>2003</u>
Future capital expenditures	\$ 69,667	\$ 69,667
Budget and capital contingency	1,565	1,269
Bodily injury/property damage	12,781	12,781
Working capital contingency	10,095	9,489
General operating contingency	5,534	3,239
Unemployment and workers' compensation	963	963
Public officials' liability	829	829
Total	<u>101,434</u>	<u>98,237</u>
Undesignated and unrestricted	<u>165,316</u>	<u>237,092</u>
Total Unrestricted Net Assets	<u>\$ 266,750</u>	<u>\$ 335,329</u>

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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**NOTE #1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)****Q. Operating and Non-Operating Revenue**

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

**S. Reclassifications**

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

**NOTE #2 – CASH AND INVESTMENTS****A. Deposits**

In accordance with GASB No. 3, deposits are classified as to credit risk by three categories as follows:

- Category 1: Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust departments or agent in the District's name.
- Category 3: Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the District's name.

At June 30, 2004 and 2003, the carrying amounts of the District's deposits were \$(165,424) and \$(622,249), respectively. The corresponding bank balances were \$9,804 and \$51,843, respectively. Of the bank balance, \$100,000 was covered by federal depository insurance. The California Government Code requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110 percent of the District's deposits. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150 percent of the District's total deposits. The District may waive collateral requirements for deposits that are fully insured up to \$100,000 by federal depository insurance.

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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**NOTE #2 – CASH AND INVESTMENTS, Continued****B. Investments**

The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the District at June 30, 2004 and 2003. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the District's name.

As of June 30, 2004 and 2003, the District's investments in the State treasurer's investment pool (LAIF) were \$25,907,382 and \$40,113,255, respectively. The total amounts invested by all public agencies in LAIF at June 30, 2004 and 2003 were \$57,637,500,817 and \$55,709,492,881, respectively. Of these amounts, as of June 30, 2004 and 2003, 98.40 and 97.67 percent, respectively, is invested in non-derivative financial products, and 1.60 and 2.33 percent, respectively, is 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.

LAIF is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the District's position in the pool. Information is not available on whether the various mutual funds in which the District has invested, used or held derivative financial products during the years ended June 30, 2004 and 2003.

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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**NOTE #2 – CASH AND INVESTMENTS, Continued**

At June 30, 2004 and 2003, investments were classified as follows (in thousands):

	<b>2004</b>			Carrying Amount
	CATEGORY			
	1	2	3	
U.S. Treasury Securities	\$ 17,085	\$ -	\$ 7,138	\$ 24,223
U.S. Agency Obligations	106,813	-	-	106,813
Corporate bonds	37,120	-	-	37,120
Asset backed securities	18,172	-	-	18,172
Flex repurchase agreements	-	-	2,563	2,563
Repurchase agreement	-	-	978	978
Subtotal	<u>\$ 179,190</u>	<u>\$ -</u>	<u>\$ 10,679</u>	189,869
Cash on hand				3
Time and demand deposits				(165)
Investment in State Treasurer's investment pool				25,907
Mutual Funds				1,693
Guaranteed investment contract				3,054
Total				<u>\$ 220,361</u>
Reported as:				
Cash and cash equivalents				\$ 26,724
Investments - current and noncurrent				173,002
Restricted investments - noncurrent				20,635
Total				<u>\$ 220,361</u>

**SAN MATEO COUNTY TRANSIT DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**NOTE #2 – CASH AND INVESTMENTS, Continued**

	<b>2003</b>			Carrying Amount
	CATEGORY			
	1	2	3	
U.S. Treasury Securities	\$ 23,933	\$ -	\$ 7,898	\$ 31,831
U.S. Agency Obligations	128,836	-	-	128,836
Corporate bonds	40,401	-	-	40,401
Asset backed securities	19,051	-	-	19,051
Flex repurchase agreements	-	-	2,184	2,184
Repurchase agreement	-	-	2,945	2,945
Subtotal	<u>\$ 212,221</u>	<u>\$ -</u>	<u>\$ 13,027</u>	225,248
Cash on hand				3
Time and demand deposits				(622)
Investment in State Treasurer's investment pool				40,113
Mutual Funds				2,501
Guaranteed investment contract				2,212
Total				<u>\$ 269,455</u>
Reported as:				
Cash and cash equivalents				\$ 42,439
Investments - current and noncurrent				206,018
Restricted investments - noncurrent				20,998
Total				<u>\$ 269,455</u>

**NOTE #3 – OPERATING ASSISTANCE**

The District receives operating assistance from various federal, state and local sources. The District receives a 0.5 percent 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 FTA after approval by MTC. The District also receives San Mateo County Transportation Authority funds as a result of the approval of Measure A (one-half cent sales tax) for funding of transportation projects.

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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**NOTE #3 – OPERATING ASSISTANCE, Continued**

Operating assistance is summarized as follows for the years ended June 30, 2004 and 2003 (in thousands):

	<u>2004</u>	<u>2003</u>
Transaction and use tax	\$ 55,397	\$ 54,862
Local transportation funds	25,614	21,623
Federal operating and planning assistance	5,100	-
Measure A funds - local	2,820	2,974
State transit assistance	1,592	1,577
AB434	539	428
Total	<u>\$ 91,062</u>	<u>\$ 81,464</u>

**NOTE #4 – FEDERAL CAPITAL GRANTS**

The District has ten grant contracts with the FTA that provide federal funds for the acquisition of buses and other equipment and improvements. Budgeted capital additions at June 30, 2004 applicable to these projects are \$22,992,166. The related federal participation is \$18,418,070.

The District has recorded receivables of \$8,000,837 and \$7,183,772, at June 30, 2004 and 2003, respectively, for qualifying capital project expenditures under FTA grant contracts in excess of reimbursements.

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

**NOTE #5 – BAY AREA RAPID TRANSIT DISTRICT EXTENSION AGREEMENTS**

The District entered into a Comprehensive Agreement (“Agreement”) with the Bay Area Rapid Transit (BART) in 1988 for the purpose of extending the BART system to San Mateo County. During the fiscal years ended June 30, 1996, 1999 and 2000, BART and the District executed the Second Amendment, the Third Amendment and the Fourth Amendment to the Agreement (“Amendments”), modifying the rights, roles, and responsibilities of the respective parties.

The nine-mile extension (the Colma and the San Francisco International Airport (SFO) Extensions), from Daly City to a location near the SFO, is funded out of voter-approved sales taxes in San Mateo County. Under the terms of the Agreement, BART constructs and operates the extension, and the District makes various capital contributions and is responsible for (or beneficiary of) any deficits (or surpluses) arising from operation and maintenance of the Colma and SFO Extensions of the BART system in San Mateo County. The District’s funding commitment consists of a \$200,000,000 BART System Contribution (i.e. the “initial contribution” to the BART system) and a local share contribution for twenty-five percent of total project costs (“local share”).

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**SAN MATEO COUNTY TRANSIT DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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

**A. BART System Contribution**

As discussed above, the Agreement requires the District to pay a \$200,000,000 System Contribution. In 1992, the District paid \$100,000,000 to BART.

The unpaid System Contribution balance of \$100,000,000 plus a \$33,000,000 adjustment for inflation has been deferred until commencement of the operations of the SFO Extension and the source of the funds for the District's payment is limited solely to operating surpluses generated by the operation of the extensions.

**B. Colma Extension**

The Colma Extension opened for revenue service on February 24, 1996. Under the Agreement, the District is required to pay BART a local share for construction costs, as described above. Under the Amendments, BART and the District are to share ineligible project costs (i.e. costs that are not reimbursable from grants) related to the Colma Extension. The ultimate responsibility for these ineligible project costs will be borne seventy-five percent by BART and twenty-five percent by the District.

The District has paid and/or accrued approximately \$52,352,000 toward the Colma Extension project, and capitalized this amount as Capital Contribution to BART. The Agreement included methods of allocating revenues and costs to operate and maintain the Colma Extension. The cost allocation method is a marginal cost formula. The District is entitled to operating surpluses and is responsible for operating deficits. For the year ended June 30, 2003, the District earned \$908,381, of operating surplus from the Colma Extension.

**C. SFO Extension**

The Amendments modified the amount and timing of the District's financial commitments for the construction of the SFO Extension. The District's share of all local share project costs, including local share costs previously paid by the District, shall not exceed the total sum of \$197,000,000 of which \$185,000,000 shall be payable during the construction of the SFO Extension. During the fiscal years 1998 through 2000, the District contributed \$185,000,000 to BART.

The \$12,000,000 remaining balance of the District's local share of project costs shall be deferred, along with the remaining System Contribution balance of \$133,000,000 until the commencement of the SFO extension revenue service. Beginning in that year, those balances shall be paid from the "SFO Extension net operating surplus" as defined in the Comprehensive Agreement to the extent of any operating surpluses generated by the extensions.

On March 11, 1999, the District, BART and the MTC (the Parties) entered into a Memorandum of Understanding (MOU) defining the terms and conditions by which additional funds will be made available for the SFO Extension project. The following understandings have been reached:

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

- The Parties agreed to provide a total of \$198.5 million to the SFO Extension project by September 1, 1999, with BART providing \$50 million, the District providing \$72 million and MTC providing \$76.5 million (\$16.5 million for project budget items and a \$60 million loan for project cash flow requirements).
- In the event there are any remaining project funds after the SFO Extension has been constructed, and all project costs have been paid, including repayment of the \$60 million cash flow loan to MTC, the remaining project funds will be used to repay the additional amounts provided to the SFO Extension project by BART, the District and MTC in a 50/72/16.5 ratio.
- The Parties agreed that 100 percent of the first \$145 million of the “SFO Extension net operating surplus” generated by the SFO Extension will be used to fulfill the remaining balances of the District’s System Contribution and the SFO Extension balance.
- Following this repayment, the “SFO Extension net operating surplus” will be dedicated to the repayment, without interest, of any remaining balance of BART’s \$50 million, the District’s \$72 million and MTC \$16.5 million contribution at a 50/72/16.5 ratio, until all sums are repaid.

On September 1, 1999, the District advanced to BART \$72 million for the SFO Extension project in accordance with the MOU. The advance is recorded as a construction loan receivable from BART. The District anticipates repayment from BART will begin during 2015.

**D. BART SFO Opening**

On June 22, 2003, the SFO Extension opened, providing service to South San Francisco, San Bruno, San Francisco International Airport and Millbrae stations. Pursuant to the 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 Agreement where the following understanding has been reached:

- The District and BART have revised the District’s commitment for operating deficits of the SFO Extension. For the year ended June 30, 2004 and 2003, the District contributed \$18,000,000 and \$597,580, respectively, to the net operating deficits of the Extension.
- The District and BART have agreed to implement a joint fare system including the acquisition of ticket vending machines for which the District’s has agreed to contribute approximately \$2,100,000.
- The District accepted a repayment plan of the \$7,914,000 outstanding as of June 30, 2004 and 2003 for the construction loan receivables due from BART. The terms of the repayment include installments of \$6,000,000 commencing in fiscal year 2005/2006 with the remaining balance due in fiscal year 2007.

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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**NOTE #5 – BAY AREA RAPID TRANSIT DISTRICT EXTENSION AGREEMENTS, (continued)****E. Full Funding Grant Agreement**

On June 30, 1997, a Full Funding Grant Agreement (“FFGA”) was approved by Congress, for the SFO Extension Project, in the amount of \$750,000,000. However, the FFGA is dependent upon available funding over the next several years. The FTA has committed to \$98,358,234 of currently available funds, and intends to fund the remaining \$280,273,726 through the year 2005 provided such funds are available for appropriation.

**F. Bike Path Project**

The Amendments committed BART and the District to contribute up to \$2,000,000 towards the implementation of a bike path along the BART-San Francisco Extension Right of Way from Colma to Millbrae.

**G. Capital Contribution to BART**

Amounts capitalized as “Capital Contribution to BART” are presented below (in thousands). Such amounts are amortized over a period of 15 years.

	<u>2004</u>	<u>2003</u>
BART System Contribution	\$ 100,000	\$ 100,000
Colma Extension - local share	52,352	52,352
South of Colma Extension - local share	181,530	181,530
	<u>333,882</u>	<u>333,882</u>
Less: Accumulated Amortization	(178,608)	(156,318)
Total	<u>\$ 155,274</u>	<u>\$ 177,564</u>

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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**NOTE #6 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2003, was as follows (in thousands):

	Balance at July 1, 2002	Additions	Deletions	Balance at June 30, 2003
Capital Assets Not Being depreciated				
Land and right of way	\$ 43,695	\$ -	\$ -	\$ 43,695
Construction in progress	18,366	31,425	(17,381)	32,410
Total Capital Assets, Not Being Depreciated	62,061	31,425	(17,381)	76,105
Other Capital Assets				
Buses and bus equipment	100,419	16,155	(74)	116,500
Buildings and building improvements	64,854	3,789	-	68,643
Maintenance and other equipment	17,458	2,159	(4)	19,613
Furniture and fixtures	7,613	5,530	-	13,143
Shelters and bus stop signs	2,226	338	-	2,564
Other vehicles	2,204	409	-	2,613
Total Capital Assets, Being Depreciated	194,774	28,380	(78)	223,076
Less Accumulated Depreciation for:				
Buses and bus equipment	(72,520)	(8,513)	74	(80,959)
Buildings and building improvements	(32,453)	(3,395)	-	(35,848)
Maintenance and other equipment	(15,173)	(1,601)	4	(16,770)
Furniture and fixtures	(5,138)	(1,048)	-	(6,186)
Shelters and bus stop signs	(2,073)	(175)	-	(2,248)
Other vehicles	(1,865)	(252)	-	(2,117)
Total Accumulated Depreciation	(129,222)	(14,984)	78	(144,128)
Capital Assets, Net	\$ 127,613	\$ 44,821	\$ (17,381)	\$ 155,053

**SAN MATEO COUNTY TRANSIT DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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

Capital asset activity for the year ended June 30, 2004, was as follows (in thousands):

	Balance at July 1, 2003	Additions	Deletions	Balance at June 30, 2004
Capital Assets Not Being depreciated				
Land and right of way	\$ 43,695	\$ -	\$ -	\$ 43,695
Construction in progress	32,410	33,459	(40,210)	25,659
Total Capital Assets, Not Being Depreciated	76,105	33,459	(40,210)	69,354
Other Capital Assets				
Buses and bus equipment	116,500	38,418	(23,008)	131,910
Buildings and building improvements	68,643	452	-	69,095
Maintenance and other equipment	19,613	588	(84)	20,117
Furniture and fixtures	13,143	90	(4)	13,229
Shelters and bus stop signs	2,564	266	-	2,830
Other vehicles	2,613	-	(259)	2,354
Total Capital Assets, Being Depreciated	223,076	39,814	(23,355)	239,535
Less Accumulated Depreciation for:				
Buses and bus equipment	(80,959)	(8,775)	21,545	(68,189)
Buildings and building improvements	(35,848)	(2,785)		(38,633)
Maintenance and other equipment	(16,770)	(367)		(17,137)
Furniture and fixtures	(6,186)	(588)	9	(6,765)
Shelters and bus stop signs	(2,248)	(146)		(2,394)
Other vehicles	(2,117)	(70)	99	(2,088)
Total Accumulated Depreciation	(144,128)	(12,731)	21,653	(135,206)
Capital Assets, Net	<u>\$ 155,053</u>	<u>\$ 60,542</u>	<u>\$ (41,912)</u>	<u>\$ 173,683</u>

**NOTE #7 – DUMBARTON LAND AND RIGHT OF WAY**

In November 1994, the San Mateo County Transportation Authority (“SMCTA”) contributed the Dumbarton land and right of way to the District. The basis of this property is \$7,134,000. SMCTA is responsible for the preparation of a comprehensive Dumbarton Rail Corridor Study. The study will evaluate the impacts and benefits of implementing passenger rail service along the Dumbarton Corridor as a branch of the existing CalTrain service presently owned and operated by the Peninsula Corridor Joint Powers Board (see Note 8). The District is responsible for maintenance of the land and right of way. The District receives revenue generated from leases and easements on this property.

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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**NOTE #7 – DUMBARTON LAND AND RIGHT OF WAY, Continued**

In December 2001, the SMCTA contributed the Redwood City Wye land and right of way, adjacent to the Dumbarton parcels, to the District. The basis of this property is \$7,103,000. The District is responsible for maintenance of the land and right of way.

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

The District is a member in the PCJPB along with the Santa Clara Valley Transportation Authority (“VTA”) and the City and County of San Francisco (“CCSF”). PCJPB is governed by a separate board composed of nine members, three from each participant. The PCJPB was formed in October of 1991 to plan, administer and operate the Peninsula CalTrain rail service. The PCJPB began operating the CalTrain rail service on July 1, 1992. Prior to July 1, 1992, such rail service was operated by the California Department of Transportation (Caltrans).

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 PCJPB 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 do not have any legal obligation to reimburse the District for the initial contribution and have not reimbursed the District for their share of the initial contribution.

The District has been appointed as managing agency for PCJPB, providing administrative personnel and facilities. The District is responsible for 41.99 and 42.33 percent of the mainline net operating costs and the administrative expenses of the PCJPB for the years ended June 30, 2004 and 2003, respectively. During the year ended June 30, 2000, Caltrain started the Pac Bell Ballpark line. The District is responsible for one third of the Pac Bell Ballpark line net operating costs. The District recognizes the entire amount of contributions paid to the PCJPB as expense in the year disbursed. Excess contributions, if any, are recognized in the year agreed to by the Member Agencies as a reduction in current year contributions. During the years ended June 30, 2004 and 2003, the District contributed \$14,296,000 to the PCJPB for operating and capital needs.

The District has total receivables from PCJPB of \$647,659 and \$1,195,230 at June 30, 2004 and 2003, respectively, for advances for staff support and operating assistance.

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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

Summary financial information (not included in the District's financial statements) for the PCJPB as of June 30, 2004 and 2003 (in thousands):

	<u>2004</u>	<u>2003</u>
Total Assets	\$ 1,034,616	\$ 922,531
Total Liabilities	(157,279)	(140,635)
Total Net Assets	<u>\$ 877,337</u>	<u>\$ 781,896</u>
Operating Revenues	\$ 22,225	\$ 22,662
Operating Expenses	(84,826)	(75,087)
Nonoperating Revenues, Net	35,440	38,666
Net Loss Before Capital Contributions	\$ (27,161)	\$ (13,759)
Capital Contributions	122,602	106,093
Increase in Net Assets	<u>\$ 95,441</u>	<u>\$ 92,334</u>

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

**NOTE #9 – RELATED PARTY TRANSACTIONS****A. Note Receivable From Officer**

In 2001, the District entered into an employment agreement with an officer of the District, which included an advance for personal housing. The note bears interest at 4 percent and interest is payable monthly with a maturity at September 15, 2030.

In November 2001, the District amended the terms of the note to a stated interest rate of 2.5 percent (effective rate of 2.08 percent) calculated only on the first \$1 million of the note.

In December 2002, the District modified the housing note by forgiving loan principal in the amount of \$40,000. The District also introduced a provision to absorb any losses on the home, should the fair market value, at note termination, be less than the principal then outstanding.

In January 2004, the District forgave an additional \$40,000 of principal on the housing note. Pursuant to this arrangement, the District has a note receivable included in Other Assets with a balance of \$1,120,000 and \$1,160,000, as of June 30, 2004 and 2003, respectively.

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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**NOTE #9 – RELATED PARTY TRANSACTIONS, (continued)****B. San Mateo County Transportation Authority**

(“SMCTA”) was formed in June 1988 as a result of the approval of Measure A (one-half cent 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 SMCTA is responsible for the administration of funds collected by the one-half cent sales tax to be used for transportation projects for a period of 20 years. The District was designated as the entity responsible for overall management of the SMCTA. The District provides administrative personnel and facilities. Complete financial statements for the SMCTA can be obtained from the District at 1250 San Carlos Avenue, San Carlos, California 94070.

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

**NOTE #10 – LONG-TERM DEBT**

Long-term debt activity for the year ended June 30, 2003 is as follows (dollar amounts in thousands):

	Balance at July 1, 2002	Adjustments/ Additions	Deletions	Balance at June 30, 2003	Amounts Due within One Year
Bonds and Notes Payable					
1993 Series A Bonds	\$ 129,270	\$ -	\$ (4,595)	\$ 124,675	\$ 4,825
1997 Series A Bonds	51,455	-	(2,235)	49,220	2,325
1998 Junior Lien	25,765	-	(645)	25,120	665
1998 Series A Bonds	127,500	-	(5,720)	121,780	5,950
1999 Series A Bonds	65,269	-	(2,605)	62,664	2,710
Total Debt	399,259	-	(15,800)	383,459	16,475
Unamortized bond premium	1,130	336	(89)	1,377	-
Unamortized bond discount	(403)	-	22	(381)	-
Net Bonds and Notes Payable	\$ 399,986	\$ 336	\$ (15,867)	\$ 384,455	\$ 16,475

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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**NOTE #10 – LONG-TERM DEBT, (continued)**

Long-term debt activity for the year ended June 30, 2004 is as follows (dollar amounts in thousands):

	Balance at July 1, 2003	Adjustments/ Additions	Deletions	Balance at June 30, 2004	Amounts Due within One Year
Bonds and Notes Payable					
1993 Series A Bonds	\$ 124,675	\$ -	\$ (4,825)	\$ 119,850	\$ 5,060
1997 Series A Bonds	49,220	-	(2,325)	46,895	2,425
1998 Junior Lien	25,120	-	(665)	24,455	690
1998 Series A Bonds	121,780	-	(5,950)	115,830	6,190
1999 Series A Bonds	62,664	-	(2,710)	59,954	2,820
Total Debt	383,459	-	(16,475)	366,984	17,185
Unamortized bond premium	1,377	-	(89)	1,288	-
Unamortized bond discount	(381)	-	22	(359)	-
Net Bonds and Notes Payable	<u>\$ 384,455</u>	<u>\$ -</u>	<u>\$ (16,542)</u>	<u>\$ 367,913</u>	<u>\$ 17,185</u>

**A. 1993 Series A Bonds**

In June 1993, the District issued \$150,555,000 of 1993 Series A Limited Tax Bonds (“1993 Series A Bonds”) to refund a portion of the 1990 Series A Bonds (pursuant to a crossover refunding) and to reimburse the District for prior capital project expenditures. The 1993 Series A Bonds, with interest rates ranging from 5 to 8 percent, are limited obligations of the District, and shall be payable from, and secured by, a pledge of sales tax revenues received by the District on and after June 1, 1993. Interest payments are due on June 1 and December 1 of each year. \$104,939,000 of the proceeds from the 1993 Series A Bonds were used to purchase U.S. government securities which were placed into an irrevocable trust to be used to advance refund the 1990 Series A Bonds at a redemption price of 102 percent on June 1, 1998 (crossover date). The bonds mature on June 1 of each year through June 1, 2020.

The District is required by the indentures to maintain funds for the repayment of the bond principal and interest. These amounts are included in investments restricted by debt covenants for use in capital projects.

**B. 1997 Series A Bonds**

In August 1997, the District issued \$61,875,000 of 1997 Series A Bonds in parity with the 1993 Series A Bonds to reimburse itself for certain expenditures made on capital projects. The Bond issue was a single offering in conjunction with the San Mateo County Transportation Authority. The bonds carry a coupon rate of 5.12 percent and mature in June 2018.

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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**NOTE #10 – LONG-TERM DEBT, (continued)**

In connection with the 1997 Series A Bonds, the District through its Trustee entered into a Forward Sale Agreement (FSA). The FSA is structured to meet the District's debt service requirements for the 1997 Series A Bonds. Under the terms of the FSA, the District is required to make scheduled payments to the principal and interest accounts for the months of July through May of each year. However, the District has given its rights to Bear Stearns Capital Markets, Inc., (Provider) and authorized them to invest these funds up and until the required debt service payment date (i.e., June 1 and December 1). In exchange, the District received a fee from the Provider in the amount of \$1,081,000 representing an advance of investment income from the principal and interest accounts. The advanced investment income was recorded as Other Noncurrent Liabilities in the Statement of Net Assets and is being amortized over the life of the 1997 Series A Bonds.

**C. 1998 Junior Lien Sales Tax Revenue Bonds**

In November 1997, the District and the Santa Clara Valley Transportation Authority (Members) entered into a joint exercise of powers agreement creating the California Transit Finance Authority (Authority). On December 15, 1997, the Authority through the California Transit Variable Rate Finance Program (Program) issued \$200,000,000 of Variable Rate Demand Bonds Series 1997 to provide a source of funds from which to provide financing to the Members. Each financing will be evidenced by a separate security agreement between the Authority and the Members. The \$200,000,000 Variable Rate Demand Bonds Series 1997 is stated to mature on October 1, 2027. Complete financial information for the Authority may be obtained from its financial advisor, Public Financial Management, Inc.: 660 Newport Center Drive, Newport Beach, CA 92660.

In March 1998, the Authority purchased the District's \$27,000,000 Junior Lien Sales Tax Revenue Bonds Series 1998 (1998 Junior Lien Sales Tax Revenue Bonds). The 1998 Junior Lien Sales Tax Revenue Bond's interest rate is based on the interest rate of the Authority's bonds and is determined weekly by the Authority's remarketing agent. Interest on the 1998 Junior Lien Sales Tax Revenue Bonds is payable monthly and principal is due annually commencing on October 1, 2000.

**D. 1998 Series A Bonds**

In December 1998, the District issued \$148,265,000 of 1998 Series A Bonds on parity with the 1993 and 1997 Series A Bonds to reimburse itself for certain expenditures made on capital projects. The bonds carry a coupon rate from 4.0 percent to 5.0 percent and mature on June 1, 2018.

In connection with the 1998 Series A Bonds, the District, through its Trustee, entered into an Investment Agreement (Investment Agreement). The Investment Agreement is structured to meet the District's debt service requirements for the 1998 Series A Bonds. Under the Investment Agreement, the District is required to make scheduled payments to the principal and interest accounts for the months of July through May of each year. However, the District has given its rights to AIG Matched Funding Corp. (AIGMFC) and authorized them to invest these funds up and until the required debt service payment date (i.e., June 1 and December 1). In exchange, the District received a fee from the AIGMFC in the amount of \$2,076,000 representing an advance of investment income from the principal and interest accounts. The advance investment income was recorded as Other Noncurrent Liabilities in the Statement of Net Assets and is being amortized over the life of the 1998 Series A Bonds.

**SAN MATEO COUNTY TRANSIT DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**NOTE #10 – LONG-TERM DEBT, (continued)**

**E. 1999 Series A Bonds**

In August 1999, the District issued \$72,475,000 of 1999 Series A Bonds on parity with the 1993, 1997 and 1998 Series A Bonds to finance the District’s share of the capital cost of extending the BART line from Colma to Millbrae. The bonds carry a coupon rate from 4.0 percent to 5.25 percent and mature on June 1, 2019.

Debt service requirements for long-term debt as of June 30, 2004 are as follows (dollar amounts in thousands):

Fiscal Year Ending June 30,	1993 Series A Bonds			1997 Series A Bonds			1998 Junior Lien Sales Tax Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 5,060	\$ 6,445	\$ 11,505	\$ 2,425	\$ 2,395	\$ 4,820	\$ 690	\$ 291	\$ 981
2006	5,315	6,192	11,507	2,530	2,291	4,821	710	283	993
2007	5,580	5,927	11,507	2,640	2,179	4,819	735	274	1,009
2008	5,865	5,648	11,513	2,760	2,061	4,821	755	266	1,021
2009	6,155	5,354	11,509	2,895	1,923	4,818	785	257	1,042
2010-2014	35,455	21,862	57,317	16,795	7,292	24,087	4,315	1,137	5,452
2015-2019	45,645	11,745	57,390	16,850	2,424	19,274	5,055	863	5,918
2020-2024	10,775	862	11,637	-	-	-	5,935	542	6,477
2025-2029	-	-	-	-	-	-	5,475	165	5,640
	<u>\$119,850</u>	<u>\$ 64,037</u>	<u>\$ 183,887</u>	<u>\$ 46,895</u>	<u>\$20,565</u>	<u>\$ 67,460</u>	<u>\$ 24,455</u>	<u>\$ 4,078</u>	<u>\$ 28,533</u>

Fiscal Year Ending June 30,	1998 Series A Bonds			1999 Series A Bonds			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 6,190	\$ 5,196	\$ 11,386	\$ 2,820	\$ 3,014	\$ 5,834	\$ 17,185	\$ 17,341	\$ 34,526
2006	6,435	4,948	11,383	2,935	2,901	5,836	17,925	16,615	34,540
2007	6,695	4,691	11,386	3,055	2,777	5,832	18,705	15,849	34,554
2008	6,960	4,423	11,383	3,185	2,646	5,831	19,525	15,043	34,568
2009	7,310	4,075	11,385	3,345	2,487	5,832	20,490	14,095	34,585
2010-2014	41,485	15,441	56,926	19,475	9,692	29,167	117,525	55,424	172,949
2015-2019	40,755	4,788	45,543	25,139	4,025	29,164	133,444	23,846	157,290
2020-2024	-	-	-	-	-	-	16,710	1,404	18,114
2025-2029	-	-	-	-	-	-	5,475	165	5,640
	<u>\$115,830</u>	<u>\$ 43,561</u>	<u>\$ 159,391</u>	<u>\$ 59,954</u>	<u>\$27,542</u>	<u>\$ 87,496</u>	<u>\$ 366,984</u>	<u>\$159,782</u>	<u>\$526,766</u>

**NOTE #11 – PENSION PLAN**

**A. Plan Description**

All permanent employees are eligible to participate in the Public Employees’ Retirement Fund (the Fund) of the State of California’s Public Employees Retirement System (CALPERS). The Fund is an agent multiple-employer defined benefit plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on the employee’s years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty. These benefit provisions and all other requirements are established by State statute and District ordinance. Copies of the Fund’s annual financial report may be obtained from CALPERS’ executive office: 400 P Street, Sacramento, CA 95814.

**B. Funding Policy**

District employees have an obligation to contribute 7 percent of their salary to the Fund. The District makes the contributions required of the District and its employees on their behalf and for their account. The District is required to contribute at an actuarially determined rate. The required employer contribution rate for both fiscal years 2004 and 2003 was 1.36 percent and zero percent of annual covered payroll, respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CALPERS.

**C. Annual Pension Cost**

The District’s annual pension cost was equal to the District’s required and actual contributions, which were determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included the following:

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

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

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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**NOTE #11 – PENSION PLAN, (continued)****THREE YEAR TREND INFORMATION FOR PERS (DOLLAR AMOUNT IN THOUSANDS)**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2002	\$ -	100.00%	\$ -
6/30/2003	94	100.00%	-
6/30/2004	3,085	100.00%	-

**NOTE #12 – POSTRETIREMENT HEALTH CARE BENEFITS**

In August 1993, the District's Board of Directors adopted a policy of providing postretirement medical care insurance through the PERS system to qualified retirees, those who have attained 50 years of age and have at least five years of District service. Currently, there are 111 qualified retirees and spouses of deceased retirees. The District funds these benefits on a pay-as-you-go basis according to contribution formulas established by PERS. The cost for postretirement health insurance benefits was \$337,100 and \$227,820 for the years ended June 30, 2004 and 2003 respectively.

**NOTE #13 – 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. Coverage provided by self-insurance and excess coverage is generally as follows as of June 30, 2004:

<u>Type of Coverage</u>	<u>Self-Insurance (in Aggregate)</u>	<u>Excess Coverage (in Aggregate)</u>
Public Liability and Property Damage	Up to \$1,000,000 per occurrence	\$100,000,000 per occurrence/annual aggregate
Workers' Compensation	Up to \$5,000,000 per occurrence	\$5,000,000 per occurrence/annual aggregate

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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**NOTE #13 – SELF-INSURANCE, (continued)**

All property is insured at full replacement value. To date, there have been no significant reductions in any of the District's insurance coverage, and no settlement amounts have exceeded commercial insurance coverage for the last three years.

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 biannually.

Changes in the balances of claims liabilities for the two years ended June 30, 2004 and 2003 for public liability, property damage and workers' compensation claims liabilities are as follows (in thousands):

	<u>2004</u>	<u>2003</u>
Self-insurance liabilities, beginning of fiscal year	\$ 3,910	\$ 3,889
Incurred claims and changes in estimates	1,660	1,726
Claim payments and related costs	(2,259)	(1,705)
Total Self-insurance Claims Liabilities	<u>3,311</u>	<u>3,910</u>
Less Current Portion	<u>(1,550)</u>	<u>(2,315)</u>
Non-current Portion	<u>\$ 1,761</u>	<u>\$ 1,595</u>

**NOTE #14 – LEASE-LEASEBACKS**

In fiscal year 2002, the District entered into agreements to transfer the legal title to 199 Gillig buses (collectively, the Equipment) valued at \$48,152,000 to outside third party entities. Simultaneously, the District leased the Equipment back under equipment lease agreements. The District received net proceeds of \$1,513,000 representing the difference between the agreed-upon fair market value of the Equipment and the calculated net present value of the future equipment lease obligations. The net proceeds have been recorded as lease-leaseback income as of June 30, 2002.

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

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**NOTE #15 – COMMITMENTS AND CONTINGENCIES**

The District is directly and indirectly involved in various litigation 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.

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

In May 2004, the District and BART amended the terms of an operating agreement (see Note 5), thereby reducing the District's contributions for the SFO Extension net operating deficit. Under the terms of the agreement, the District was disputing certain costs of the SFO Extension approximating \$2,500,000. The District has obtained temporary relief for the disputed amounts however, as of June 30, 2004, no final resolution has been determined.

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**SAN MATEO COUNTY TRANSIT DISTRICT****REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2004**

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**SCHEDULE OF FUNDING PROGRESS  
MISCELLANEOUS PLAN OF THE CALIFORNIA PUBLIC EMPLOYEE RETIREMENT SYSTEM  
(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
6/30/2001	\$ 83,097	\$ 109,989	\$ (26,892)	132.4%	\$ 33,799	(79.6)%
6/30/2002	91,974	106,116	(14,142)	115.4%	38,530	(36.7)%
6/30/2003	108,169	107,783	386	99.6%	39,265	1.0%

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, CAPITAL OUTLAY AND LONG-TERM**  
**DEBT PRINCIPAL PAYMENTS - COMPARISON OF BUDGET TO ACTUAL (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2004 (In thousands)**

	<b>Budget</b>		<b>Variance</b>
	<b>(Unaudited)</b>	<b>Actual</b>	<b>Positive/ (Negative)</b>
OPERATING REVENUES - Passenger fares	\$ 15,961	\$ 14,542	\$ (1,419)
OPERATING EXPENSES:			
Salaries and benefits	51,090	53,521	(2,431)
Services:			
Contract operations and maintenance services	22,595	23,390	(795)
Other services	2,631	2,683	(52)
Materials and supplies	5,498	5,318	180
Insurance	3,262	4,360	(1,098)
Miscellaneous	6,170	5,667	503
Total operating expenses	91,246	94,939	(3,693)
Operating loss	(75,285)	(80,397)	(5,112)
NON-OPERATING REVENUES (EXPENSES):			
Operating assistance	94,541	91,062	(3,479)
Investment income	3,898	3,440	(458)
Interest expense	(14,300)	(18,440)	(4,140)
Peninsula CalTrain rail service subsidy	(14,296)	(14,296)	-
SFO/Colma BART station revenue/(deficit) (Note 5)	(18,000)	(18,000)	-
Interagency administration income	4,792	9,197	4,405
Other income, net	4,494	5,266	772
Total non-operating income	61,129	58,229	(2,900)
Income before capital outlay and long-term debt principal payments	(14,156)	(22,168)	(8,012)
CAPITAL OUTLAY:			
Capital assistance	34,326	24,056	(10,270)
Capital expenditures	(51,153)	(37,346)	13,807
Net capital outlay	(16,827)	(13,290)	3,537
CARRY FORWARD CAPITAL BUDGET AUTHORITY	-	(13,807)	(13,807)
LONG-TERM DEBT PRINCIPAL PAYMENT	(16,553)	(16,475)	78
EXCESS (DEFICIENCY) OF REVENUES AND NON-OPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENT	\$ (47,536)	\$ (65,740)	\$ (18,204)

See accompanying notes to supplementary information.

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**SAN MATEO COUNTY TRANSIT DISTRICT****NOTES TO SUPPLEMENTARY SCHEDULE  
YEAR ENDED JUNE 30, 2004**

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**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 with 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 the GAAP basis of accounting concerns capital assets. Depreciation expense per GAAP is not budgeted and budgeted capital expenditures are not recorded as an expense per GAAP.

**NOTE #2 – RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS**

A reconciliation of the budgetary basis of accounting to GAAP is as follows:

Excess (deficiency) of revenues and non-operating income over expenses, capital outlay and debt principal payment		\$ (65,740)
Capital expenditures	\$ 37,346	
Carryforward capital budget authority	13,807	
Depreciation and amortization	(36,675)	
Long-term debt principal payment	16,475	
GASB 31 unrealized loss	(6,960)	
Reimbursed investment interest	8,320	
Capital loss on investment	<u>(2,557)</u>	
Sub-Total Reconciling Items		<u>29,756</u>
Change in net assets, GAAP basis		<u><u>\$ (35,984)</u></u>

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# ***Section III***

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## **STATISTICAL**

Financial Ratios

Revenues and Expenses as Percent of Totals

Revenues and Expenses

Fixed Route Transportation

Americans with Disabilities Act Service (ADA)

Miscellaneous Statistics

Demographic Data

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**SAN MATEO COUNTY TRANSIT DISTRICT**  
**FINANCIAL RATIOS**  
**YEAR ENDED JUNE 30, 2004**  
(In thousands)

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**Current Ratio: 2.88 :1**

Measures the District's ability to meet short-term commitments by dividing current assets by current liabilities.

<u>Current Assets</u>	\$ 101,470
Current Liabilities	<u>\$ 35,206</u>

**Quick Ratio: 1.05 :1**

This variation of the current ratio is an indicator of the District's liquidity by including only those current assets that could be converted readily to cash and receivables due within 30 days.

Cash and Cash Equivalents plus	\$ 26,724
<u>Receivables within 30 days</u>	<u>\$ 10,095</u>
Current Liabilities	\$ 35,206

**Debt Ratio: 58.58%**

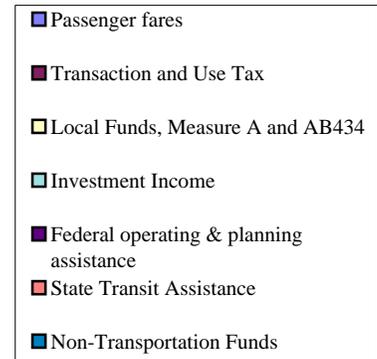
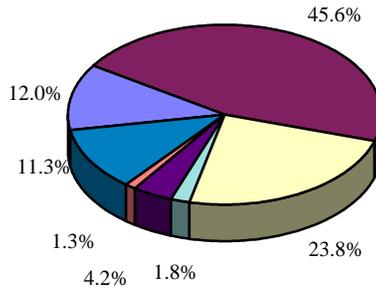
Reflects the long-term solvency risk, in assessing the District's financial capacity to meet long term debts and similar obligations, by dividing total liabilities by total assets. As of the end of fiscal year 2004, the District has \$350,728 long-term debt, net of unamortized premiums and discounts.

<u>Total Liabilities</u>	\$ 391,507
Total Assets	<u>\$ 668,338</u>

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**REVENUES AND EXPENSES AS PERCENT OF TOTALS**  
**YEAR ENDED JUNE 30, 2004**  
**(In thousands)**

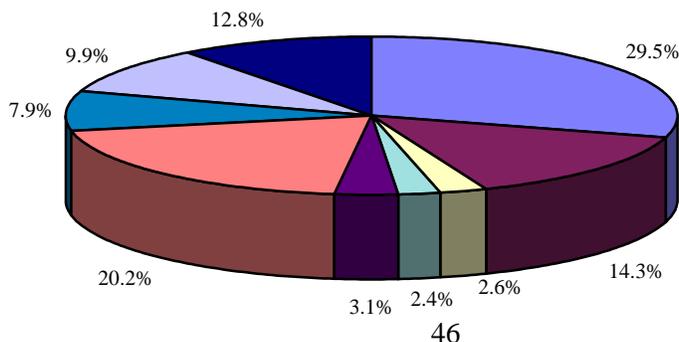
**Revenue sources:**

Passenger fares	\$ 14,542	12.0%
Transaction and Use Tax	55,397	45.6%
Local Funds, Measure A and AB434	28,973	23.8%
Investment Income	2,244	1.8%
Federal operating & planning assistance	5,100	4.2%
State Transit Assistance	1,592	1.3%
Non-Transportation Funds	13,687	11.3%
<b>Total Revenue</b>	<b>\$ 121,535</b>	<b>100.0%</b>



**Expenses:**

Salaries and Benefits	\$ 53,521	29.5%
Services	25,933	14.3%
Materials and Supplies	4,683	2.6%
Insurance	4,360	2.4%
Miscellaneous	5,667	3.1%
Depreciation and amortization	36,675	20.2%
Rail Service Subsidy	14,296	7.9%
SFO/Colma BART station(deficit)	18,000	9.9%
Interest expense	18,440	12.8%
<b>Total Expenses</b>	<b>\$ 181,575</b>	<b>100.0%</b>

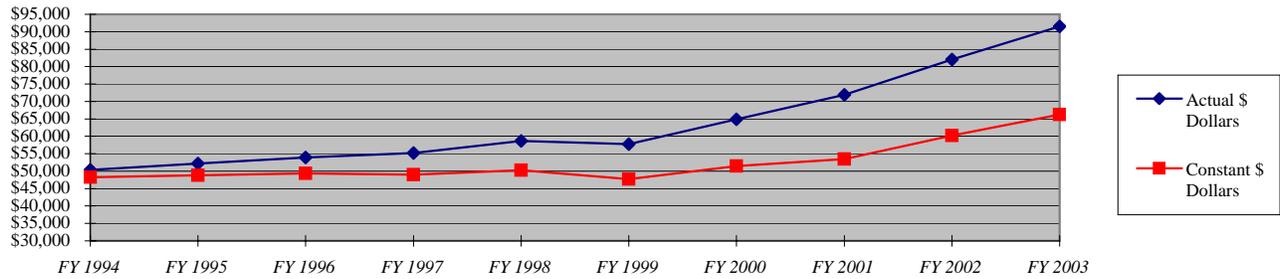


**SAN MATEO COUNTY TRANSIT DISTRICT  
REVENUES AND EXPENSES - TEN YEAR COMPARISON -  
TEN FISCAL YEARS (In thousands)**

	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Passenger Fares	\$12,094	\$13,749	\$14,217	\$14,388	\$15,896	\$15,196	\$15,919	\$14,779	\$15,273	\$14,542
Operating Expenses	52,155	53,930	55,187	58,647	57,770	64,911	71,914	81,995	91,560	94,164
Depreciation Expenses	18,636	20,989	21,900	21,591	24,519	36,198	38,744	39,338	37,275	36,675
Operating Loss	(\$58,697)	(\$61,170)	(\$62,870)	(\$65,850)	(\$66,393)	(\$85,913)	(\$94,739)	(\$106,554)	(\$113,562)	(\$116,297)
<i>Nonoperating Revenues (Expenses):</i>										
Transaction and Use Tax	\$39,527	\$43,185	\$46,983	\$50,936	\$55,497	\$63,069	\$66,739	\$57,262	\$54,862	\$55,397
Local Funds	25,661	19,016	25,782	27,865	27,514	28,209	31,852	40,735	21,623	25,614
Federal Funds	1,543	16	65	31	51	1	-	-	-	5,100
State Transit Assistance	267	1,096	1,735	1,576	2,158	1,532	1,722	2,153	1,577	1,592
Interest Income, Net of Investment Gain (Loss)	12,757	15,930	15,492	23,995	8,717	13,092	28,333	20,767	16,131	2,244
Interest Expense	(15,181)	(15,438)	(15,375)	(17,333)	(15,447)	(21,170)	(20,733)	(19,836)	(19,146)	(18,440)
Rail Subsidies	(12,232)	(11,840)	(11,589)	(12,551)	(12,263)	(13,224)	(13,820)	(14,355)	(14,296)	(14,296)
Other Income	628	1,232	1,144	1,300	4,924	6,708	9,383	13,673	20,895	17,046
SFO/Colma BART station deficit/revenue	-	-	-	-	-	-	-	-	311	(18,000)
Unusual Items	-	-	-	1,100	-	-	-	-	-	-
Total Nonoperating	\$52,970	\$53,197	\$64,237	\$76,919	\$71,151	\$78,217	\$103,476	\$100,399	\$81,957	\$56,257
Net Income (Loss)*	(\$5,727)	(\$7,973)	\$1,367	\$11,069	\$4,758	(\$7,696)	\$8,737	(\$6,155)	(\$31,605)	(\$60,040)

\* Net of Capital Contributions

Operating Expenses - Actual Dollars Compared to Constant Dollars

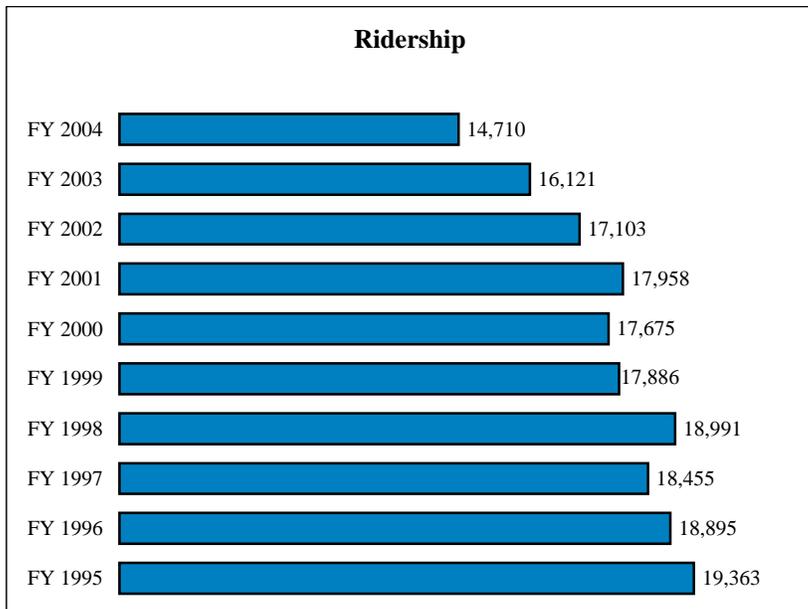


	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Actual \$ Dollars	\$52,155	\$53,930	\$55,187	\$58,647	\$57,770	\$64,911	\$71,914	\$81,995	\$91,560	\$94,164
Constant \$ Dollars	\$48,800	\$49,329	\$48,960	\$50,302	\$47,721	\$51,448	\$53,464	\$60,250	\$66,219	\$67,157
CPI Percent Change	2.4%	2.3%	3.1%	3.4%	3.8%	4.2%	6.6%	1.2%	1.6%	1.4%
Index Number (1967=100)	466.4	477.1	491.9	508.8	528.3	550.6	587.0	593.9	603.4	611.9
Cumulative Percent	6.8%	9.1%	12.2%	15.6%	19.4%	23.6%	30.2%	31.4%	33.0%	34.4%

**SAN MATEO COUNTY TRANSIT DISTRICT  
OPERATING STATISTICS  
TEN FISCAL YEARS**

***FIXED-ROUTE TRANSPORTATION:***

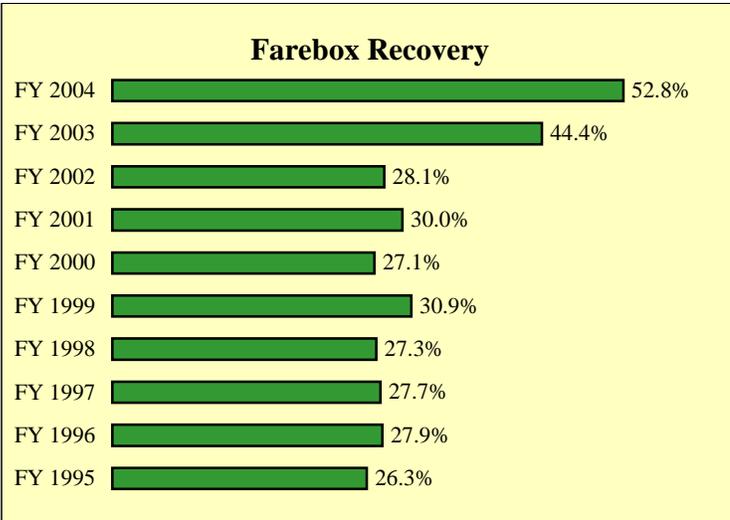
FIXED-ROUTE RIDERSHIP (In thousands)  
In FY 2004, ridership has decreased by 8.8%



BUS PASSENGER FARES (In thousands)  
SamTrans has made modest fare adjustments in the last decade: in January 1991, January 1992, February 1996, July 1998, and July 2002 to meet the state mandated fare box recovery of 24.3%.

**SAN MATEO COUNTY TRANSIT DISTRICT  
OPERATING STATISTICS  
TEN FISCAL YEARS**

***FIXED-ROUTE TRANSPORTATION:***

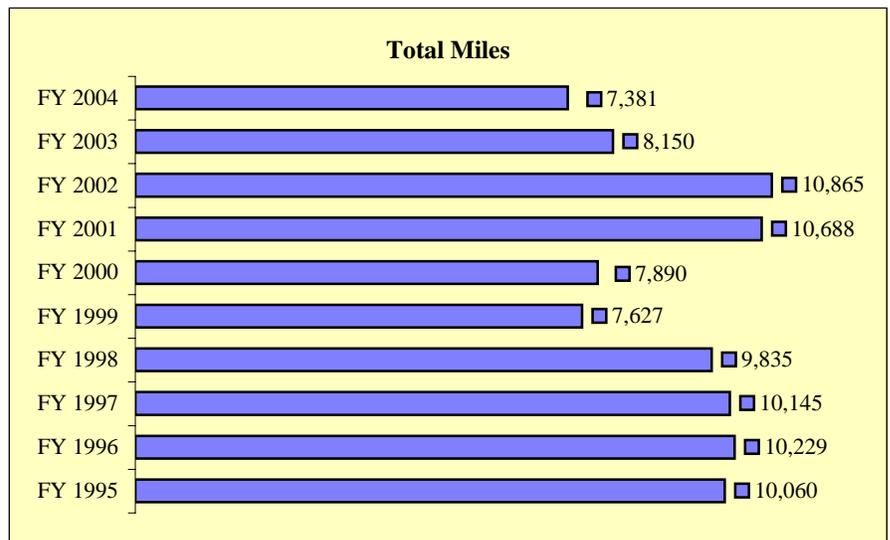


**FIXED-ROUTE FAREBOX RECOVERY**

Operating income from patron fares and local sales tax must cover 24.3% of applicable operating expenses to be eligible for California Transportation Act funding. Starting in FY 1996, insurance premiums and loss payments are included in the calculation of the farebox recovery ratio, which was 52.8% for FY 2004

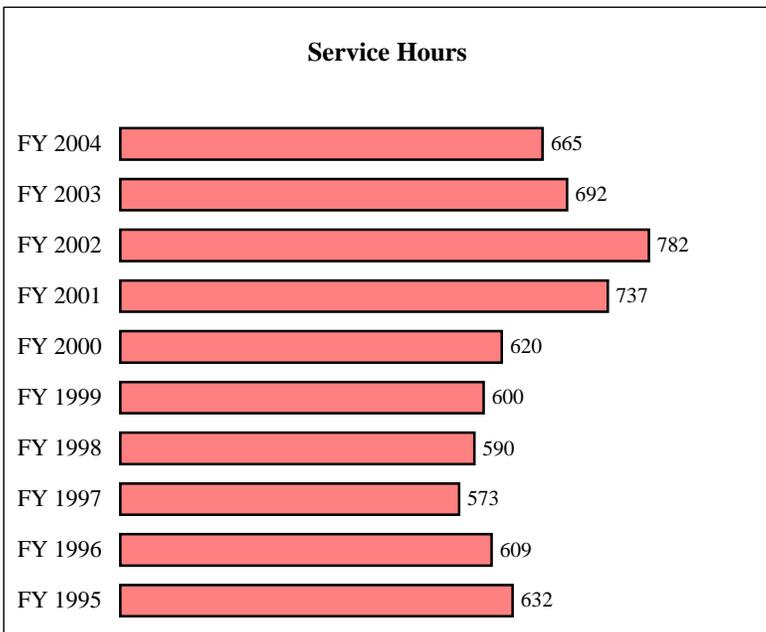
**FIXED-ROUTE TOTAL MILES (In thousands)**

Fixed-Route total miles has decreased by 9.4% during FY 2004.



**SAN MATEO COUNTY TRANSIT DISTRICT  
OPERATING STATISTICS  
TEN FISCAL YEARS**

***FIXED-ROUTE TRANSPORTATION:***

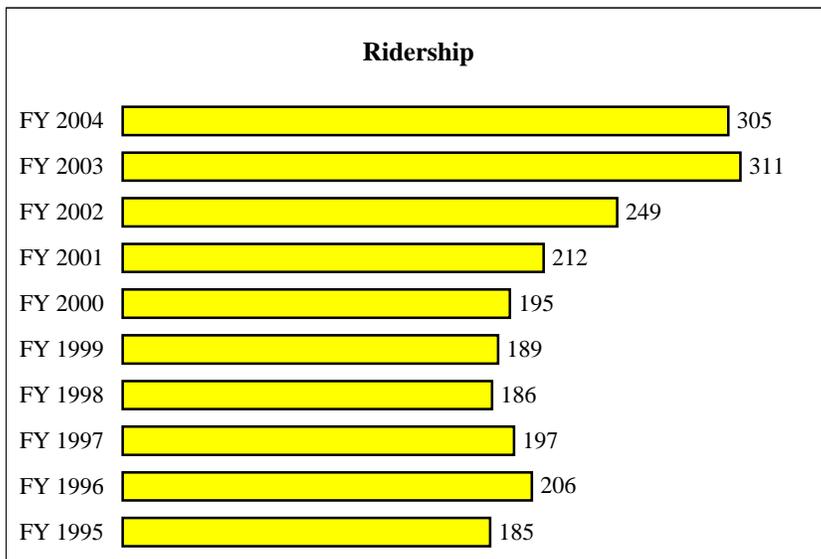


FIXED-ROUTE SERVICE HOURS (In thousands)  
Revenue service hours decreased by 3.9% in FY 2004.

***AMERICANS WITH DISABILITIES ACT (ADA) SERVICE***

REDI-WHEELS RIDERSHIP (In thousands)

The Redi-Wheels / ADA Programs have increased rapidly during recent years. During fiscal year 2004, ridership has decreased by 1.9% primarily due to a "zero denial" policy and latent demand.



**SAN MATEO COUNTY TRANSIT DISTRICT  
MISCELLANEOUS STATISTICS  
TEN FISCAL YEARS**

**Date of District Formation:** January 1, 1975  
**Form Of Government:** Special Purpose District  
**Service Area:** 446 Square Miles

	<b>FY 1995</b>	<b>FY 1996</b>	<b>FY 1997</b>	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
<b>Service Area Population</b> (In thousands)	683	696	708	712	721	737	720	720	720	720
<b>Fixed Route Service:*</b>										
Net Cost/Passenger	\$ 1.88	\$ 1.91	\$ 2.13	\$ 1.96	\$ 1.97	\$ 2.28	\$ 3.10	\$ 3.15	\$ 3.33	\$ 3.76
Net Cost/Vehicle Mile	\$ 4.54	\$ 4.60	\$ 5.27	\$ 6.77	\$ 6.69	\$ 7.01	\$ 7.08	\$ 5.17	\$ 6.60	\$ 7.50
Net Cost/ Service Hour	\$ 57.99	\$ 59.33	\$ 68.86	\$ 87.27	\$ 85.01	\$ 89.36	\$ 88.48	\$ 69.04	\$ 77.67	\$ 83.70
<b>Redi-Wheels:*</b>										
Net Cost/Passenger	\$ 17.45	\$ 18.40	\$ 21.20	\$ 21.84	\$ 22.14	\$ 25.91	\$ 29.78	\$ 29.42	\$ 27.36	\$ 33.21
Net Cost/Vehicle Mile	\$ 3.12	\$ 2.70	\$ 3.08	\$ 3.17	\$ 2.51	\$ 2.51	\$ 3.29	\$ 3.29	\$ 3.20	\$ 3.75
Net Cost/ Service Hour	\$ 38.88	\$ 36.56	\$ 38.78	\$ 39.94	\$ 33.57	\$ 27.47	\$ 40.70	\$ 47.17	\$ 39.91	\$ 46.97
<b>Employees:</b>										
Operators	244	250	255	254	246	340	350	343	350	332
Maintenance	77	76	77	84	82	119	111	91	90	110
Administration	182	192	191	213	221	253	279	289	293	267
Administration Part-Time	23	20	21	18	15	2	1	15	16	21
<b>Total</b>	<b>526</b>	<b>538</b>	<b>544</b>	<b>569</b>	<b>564</b>	<b>714</b>	<b>741</b>	<b>738</b>	<b>749</b>	<b>730</b>
<b>Fares:</b>										
Adult	\$ 0.85	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.25	\$ 1.25
Student	\$ 0.35	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.75	\$ 0.75	\$ 0.75	\$ 0.75	\$ 0.75	\$ 0.75
Senior	\$ 0.25	\$ 0.35	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.60	\$ 0.60
<b>Pass Sales (\$000's)</b>	<b>\$ 3,388</b>	<b>\$ 3,398</b>	<b>\$ 3,798</b>	<b>\$ 3,807</b>	<b>\$ 4,678</b>	<b>\$ 4,296</b>	<b>\$ 4,423</b>	<b>\$ 3,858</b>	<b>\$ 3,633</b>	<b>\$ 4,228</b>
<b>Fleet Information:</b>										
Articulated Buses	70	70	69	69	69	69	69	70	55	55
Standard Coaches***	248	248	248	243	249	249	249	247	280	291
Redi-Wheels Vehicles**	46	46	41	48	48	48	63	63	63	63
<b>Total Revenue Vehicles</b>	<b>364</b>	<b>364</b>	<b>358</b>	<b>360</b>	<b>366</b>	<b>366</b>	<b>381</b>	<b>380</b>	<b>398</b>	<b>409</b>

\* Excludes depreciation expense.

\*\* Excludes gasoline vehicles owned by contractors providing Demand Response service.

**SAN MATEO COUNTY TRANSIT DISTRICT  
DEMOGRAPHIC DATA  
1990 and 2000**

**Date of District Formation:** January 1, 1975  
**Form of Government:** Special Purpose District  
**Service Area:** 446 Square Miles

	<b>1990</b>	<b>2000</b>	<b>Percent Change</b>
<b>Total Population</b>	649,623	737,100	13.5%
<b>Persons Per Household</b>	2.64	2.85	8.0%
<b>Mean Household Income</b>	\$63,672	\$88,700	39.3%
<b>Minority Population:</b>			
Black	35,283	33,582	-4.82%
Hispanic	114,627	172,495	50.48%
Asian & Pacific	109,281	160,827	47.17%
American Indian	2,987	3,245	8.64%
Total	262,178	370,149	41.18%
<b>Percent of Minority Population to Total Population</b>	40.4%	50.2%	24.3%
<b>Population by Age</b>			
0 - 4	44,793	50,600	13.0%
5 - 9	40,354	55,400	37.3%
10 - 14	35,863	47,700	33.0%
15 - 19	36,874	44,300	20.1%
20 - 24	46,450	41,600	-10.4%
25 - 34	122,716	94,200	-23.2%
35 - 44	110,280	125,600	13.9%
45 - 54	74,503	109,600	47.1%
55 - 59	29,130	39,600	35.9%
60 - 64	28,662	31,200	8.9%
65-Plus	79,998	97,300	21.6%
<b>% of Employed Residents to Total Population</b>	54.0%	53.4%	-1.1%
<b>% of Residents Working Outside San Mateo County</b>	41.0%	40.4%	-1.5%
<b>% of People Commuting to San Mateo County to Work</b>	36.0%	37.3%	3.6%

*Source: 2000 Population Projections, United States Bureau of the Census, 1990, adopted by MTC and ABAG.*

# ***Section IV***

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## **SINGLE AUDIT**

Independent Auditor's Report on Schedule of Expenditures of Federal Awards

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*

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

Schedule of Expenditures of Federal Awards and Notes

Summary of Auditors' Results

Financial Statement Findings and Recommendations

Schedule of Federal Award Findings and Questioned Costs

Status of Prior Year Findings and Recommendations

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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 *GOVERNMENTAL AUDITING STANDARDS*

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

We have audited the financial statements of the San Mateo County Transit District (the District) as of and for the year ended June 30, 2004, and have issued our report thereon, dated October 8, 2004. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as item 2004-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

*Vavrinek Trine Day + Co. LLP*

San Jose, California  
October 8, 2004



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

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

**Compliance**

We have audited the compliance of the San Mateo County Transit District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The San Mateo County Transit District's major federal programs are identified in the Schedule of Expenditures of Federal Awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of San Mateo County Transit District's management. Our responsibility is to express an opinion on San Mateo County Transit District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about San Mateo County Transit District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on San Mateo County Transit District's compliance with those requirements.

In our opinion, San Mateo County Transit District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2004.

**Internal Control Over Compliance**

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the San Mateo County Transit District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 8, 2004. Our audit was performed for the purpose of forming an opinion on the financial statements of the San Mateo County Transit District. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

*Vanninek Trime Day + Co. LLP*

San Jose, California  
October 8, 2004

**SAN MATEO COUNTY TRANSIT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2004**

Grant Program	Federal Catalog Number	Expenditures
<u>U.S. Department of Transportation, Federal Transit Administration</u>		
Federal Transit Cluster [1]		
Federal Transit - Formula Grants [1]		
CA-90-X678 Capital Grant	20.507	\$ 8,023
CA-90-X727 Capital Grant	20.507	3,493
CA-90-X994 Capital Grant	20.507	90,061
CA-90-Y045 Capital Grant	20.507	462,558
CA-90-Y122 Capital Grant	20.507	7,244,224
CA-90-Y154 Capital Grant	20.507	10,423,766
CA-90-Y244 Capital Grant	20.507	5,118,264
SEC 5311(F)	20.507	62,233
Subtotal		<u>23,412,621</u>
Federal Transit - Capital Investment Grants [1]		
CA-03-0436	20.500	<u>105,449</u>
Total Expenditures of Federal Awards		<u><u>\$ 23,518,070</u></u>

(1) Major Program

See accompanying notes to supplementary information.

**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2004**

*NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

**A. General**

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

**B. Basis of Accounting**

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

**C. Relationship to the Basic Financial Statements**

Federal financial assistance is reported in the District's financial statements as Federal Capital Contributions.

**D. Relationship to Federal Financial Reports**

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

**SAN MATEO COUNTY TRANSIT DISTRICT**

**SUMMARY OF AUDITORS RESULTS  
YEAR ENDED JUNE 30, 2004**

**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>No</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>20.500 and 20.507</u>	<u>Federal Transit Cluster</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 705,542</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**SAN MATEO COUNTY TRANSIT DISTRICT  
FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS  
YEAR ENDED JUNE 30, 2004**

The following finding represents a reportable condition related to the financial statements that is required to be reporting in accordance with *Government Auditing Standards*:

**2004-01 Year-End Accounting Closing Procedures**

Criteria or specific requirement

The District should maintain policies and procedures to ensure that the accounting records are properly closed and all significant general ledger accounts are reconciled and agreed to subsidiary ledgers, in a timely manner.

Condition

It was noted that the District's general ledger was not properly closed for the fiscal year ended June 30, 2004. Account balances requiring reconciliation and post closing adjustments included the following:

- Sales tax receivables and related revenues
- Federal and state grant receivables and related revenues
- Capital assets, accumulated depreciation and depreciation expense
- Related party loans and transactions
- Self insurance liabilities and related claims expenses
- Net assets (equity)
- BART service operating costs and related transactions

Context

The above referenced condition was identified during our detailed examination of individual significant account balances and other testing performed.

Effect

The District's accounting records required significant adjustments to account balances in order to properly reconcile amounts to supporting information and close the accounting period.

Cause

It was noted that the post closing adjustments to the accounting records were attributed to the lack of a timely review, analysis and reconciliation to supporting documentation and/or subsidiary ledgers. In some instances, such as capital assets and federal receivables, periodic reconciliations were not performed. In other instances, initial balances are established based on budgeted amounts and not adjusted for year-end actual results.

Recommendation

We recommend that the District implement policies and procedures to reconcile all significant account balances to subsidiary ledgers and/or supporting information on a timely basis. These procedures can include, reconciliation on a monthly/quarterly basis and/or establishing monthly/year-end closing checklists.

**SAN MATEO COUNTY TRANSIT DISTRICT  
FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS  
YEAR ENDED JUNE 30, 2004**

Views of responsible officials and planned corrective actions

The necessary upgrade of our PeopleSoft accounting and auditing software system, the clean-up of the PeopleSoft asset/project/grant close-out, identified as a priority in the prior year's audit, the related PeopleSoft "subclass" tracking project, staff turnover, including the departure of our Chief Financial Officer, and long-term staff absences due to illness caused delays in our preparation for the audit by the pre-established deadline. Staff informed the auditors of the problem and potential delays in June, during the auditor's interim testing, so the issue should have come as no surprise. Through extraordinary efforts by staff to diligently produce the information required by the auditors, while simultaneously continuing to test and troubleshoot the PeopleSoft upgrade, all the monthly reporting deadlines required by the audit were met and the audit was successfully completed on time and on schedule. While we agree to make the necessary changes to ensure that such initial delays will not be repeated, it is worth noting, again, that many of the reasons for the initial delays were one-time events and extraordinary circumstances that are not systemic and are unlikely to be repeated.

**SAN MATEO COUNTY TRANSIT DISTRICT  
SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004**

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

**SAN MATEO COUNTY TRANSIT DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
YEAR ENDED JUNE 30, 2004**

There were no prior year findings and recommendations.