San Mateo County Transit District

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2014 and 2013

San Mateo County
TRANSIT DISTRICT

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2014 and 2013

Prepared by the Finance and Administration Division

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December 31, 2014

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

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the San Mateo County Transit District (District) for the Fiscal Year July 1, 2013 through June 30, 2014. This transmittal letter provides a summary of the District's finances, services, achievements and economic prospects for readers without a technical background in accounting or finance. Readers desiring a more detailed discussion of the District's financial results may refer to the Management's Discussion and Analysis in the Financial Section.

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

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

PROFILE OF THE ORGANIZATION

Basic Information

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

1250 San Carlos Avenue - P.O. Box 3006, San Carlos, California 94070-1306   650-508-6200

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

History

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

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

Governance

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

Administration

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

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

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

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

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

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

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

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

Component Units

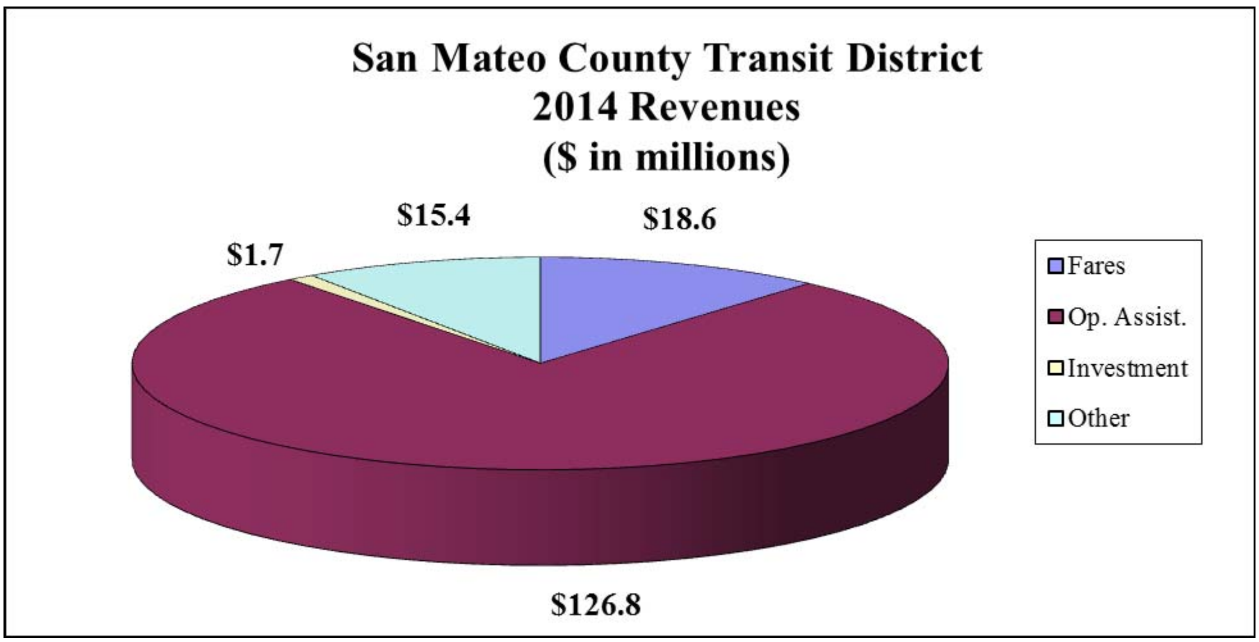
The District is a legally separate and financially independent entity that is not a component unit of San Mateo County or any other organization. While the District administers various activities on behalf of other agencies, such as the Peninsula Corridor Joint Powers Board (JPB), which operates Caltrain,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

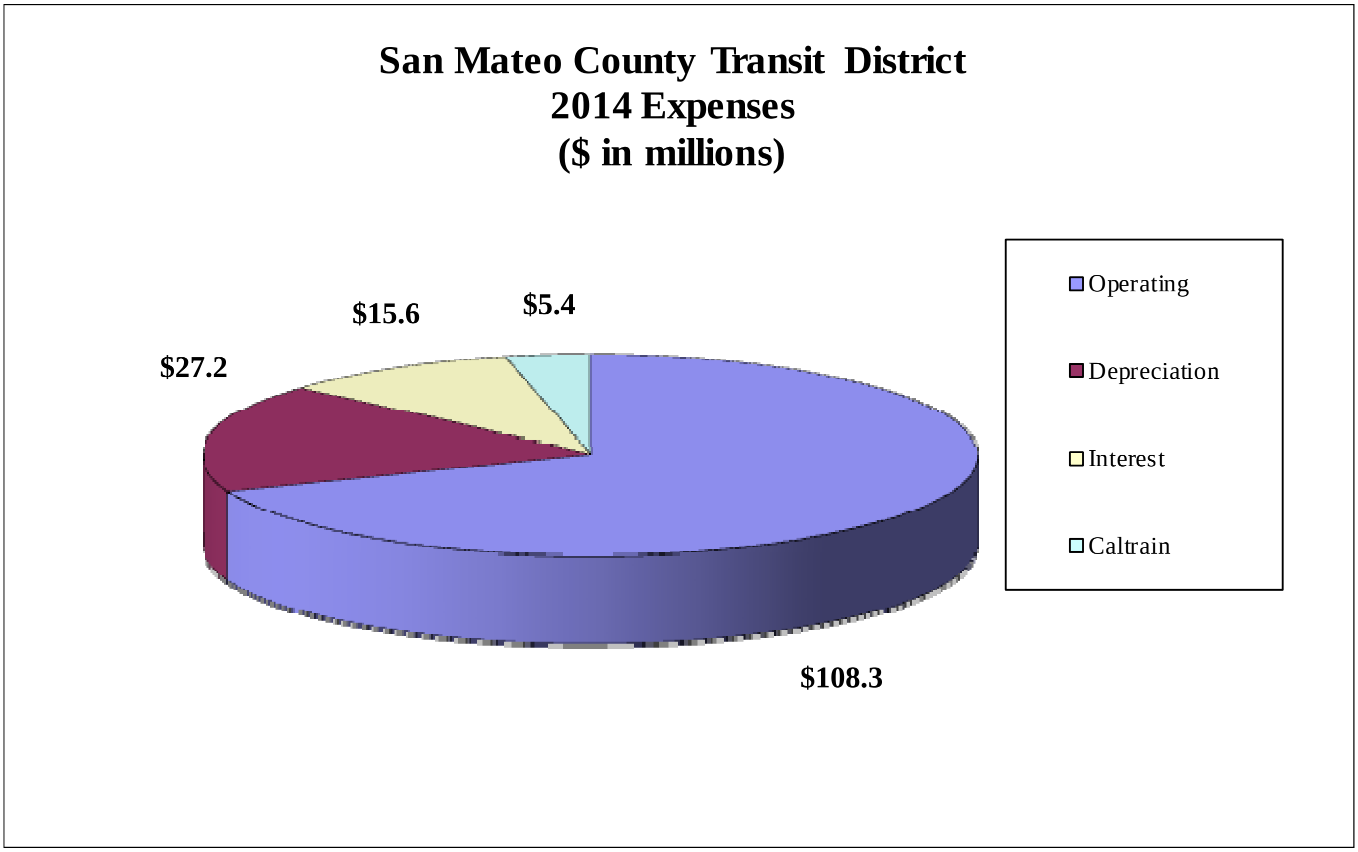
Budget

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

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

The District employs the same basis and principles for both budgeted and actual revenues and expenses, except that actual proceeds from the sale of fixed assets, unrealized investment gains and losses and inter-fund transfers are not included in the budget. As a special purpose organization, the District is not subject to the State of California's Gann Act requiring adherence to an annual appropriation limit. The following pie charts show actual results of the major revenue and expense categories for fiscal year 2014.





ECONOMIC CONDITION

Local Economy

Unemployment in San Mateo County was down to 3.3 in June 2014 from 5.4 percent in June 2013 and 7.0 percent in June 2012. This compares to 7.3 percent in June 2014 in the state of California and 8.9 and 10.7 percent in June 2013 and 2012, respectively. The District's sales tax receipts increased 5.1 percent in fiscal year 2014 from fiscal year 2013 levels, which were up by 6.5 percent from the prior year.

San Mateo County remains one of the wealthiest counties in California. With significant employment in diverse industries including air travel, technology, biotechnology, finance, education, conventions, tourism, agriculture and manufacturing, San Mateo County is not dependent on any one employment sector for its prosperity. This broad base will help to ensure long-term stability for San Mateo County residents.

Long-term Financial and Strategic Planning

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

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

The District is currently updating its five-year Strategic Plan. This 2015-2019 Plan Update (which can be viewed online at www.samtrans.com/Planning/Planning and Research/StrategicPlan 2015-2019.html) will provide a policy framework to help guide the District's transportation investments. The new Plan will help set priorities to address the three primary areas: expand mobility options, strengthen fiscal health, and improve organizational effectiveness. The 2015-2019 Plan will build on the District's 2009 Strategic Plan by prioritizing actions that can "move the needle", and by turning ideas into results. To do so, the Plan will help identify those key factors of what the District can control, and lay out a game plan for focusing District resources on achieving goals and strategies as the district embarks on implementation

Major Initiatives

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

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

Motor Bus Operations

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

In response to ridership and revenue declines, the District reduced its bus operation from 60 routes to 58 routes in 2003. An additional four routes were eliminated in 2004 concurrent with the opening of the BART Extension to SFO and one route was added in the same year. In 2008, one more route was eliminated. In 2009, an additional seven routes were eliminated and one route was added, representing a 7.5 percent service reduction to address the fiscal year 2010 budget shortfall. In January 2014, the District completed implementation of the SamTrans Service Plan (SSP). The SSP was a realignment of service to better utilize limited resources and put more service where customers could ride SamTrans buses. The District now has 75 routes. Fixed-route bus ridership peaked in San Mateo County at 19.0 million in fiscal year 1998, but has since declined to 12.4 million in 2013, and now with SSP has seen ridership increase. It was up to 12.8 million in 2014, an increase of 3.0 percent over 2013.

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

Caltrain Administration

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

In the near term, Caltrain will focus on its State-of-Good Repair Program, including the replacement and rehabilitation of infrastructure, communication and control systems and rolling stock, in order to continue to provide safe, quality service to its customers. Some of the more recent projects completed by Caltrain include the San Bruno Grade Separation Project, San Mateo County Grade Crossing Improvement Program, the South Terminal and Santa Clara Stations Improvements Project, the San Mateo Bridges Rehabilitation Project, Jerrold Avenue Bridge Replacement Project, and the System Station Rehabilitation Project.

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

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

San Mateo County Transportation Authority

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

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

Paratransit Services

The District provides accessible transportation services throughout San Mateo County with fixed-route, Redi-Wheels and RediCoast services. The entire fleet of fixed-route buses is equipped with wheelchair lifts or ramps and a kneeling feature to make boarding easier. Redi-Wheels and RediCoast members and their Personal Care Attendants are allowed to ride all regular fixed-route SamTrans buses for free. For some seniors and many persons with disabilities who cannot use fixed-route buses, Redi-Wheels and RediCoast are the only means of transportation available. In fiscal year 2014, the SamTrans paratransit program provided a total of 202,515 hours of service to 314,000 customers.

ACKNOWLEDGMENTS AND AWARDS

The staff and contracted firms of the District bring an effective combination of skill, experience and dedication to carrying out the District's mission. Together, they plan, develop and finance the creation of a modern, coordinated multimodal transportation system offering convenient access to the many attributes of the Bay Area and beyond. With falling unemployment in the County, and growing sales tax receipts, the District seems to be in a strong position as it emerges from the recession.

The Government Finance Officers Association (GFOA) recognized the District's 2013 CAFR for excellence in financial reporting and the Certificate of Achievement appears immediately following this transmittal letter. To be awarded a certificate, a report must be easy to read and efficiently organized, while satisfying both generally accepted accounting principles and applicable legal requirements. We believe our fiscal year 2014 CAFR also meets the requirements for a Certificate of Achievement and have submitted it to the GFOA for evaluation. We would like to thank our independent audit firm Maze & Associates, for its timely and expert guidance in this matter.

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

Respectfully submitted,

Virginia Harrington

Virginia Harrington
Deputy CEO

Rima Lobo
Director of Finance

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Mateo County Transit District

California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

BOARD OF DIRECTORS

JEFF GEE, Chair

SHIRLEY HARRIS, Vice Chair

CAROLE GROOM

ROSE GUILBAULT

ZOE KERSTEEN-TUCKER

KARYL MATSUMOTO

ADRIENNE TISSIER

JEFF GEE, **Chair**, City Selection Committee appointee for the southern portion of San Mateo County. Mr. Gee was appointed in June 2011. Mr. Gee has been a member of the City Council of Redwood City since 2009 and is currently mayor. He is Vice President/General Manager of Swinerton Management & Consulting and a licensed California architect.

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

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

ROSE GUILBAULT, public member, was appointed by the San Mateo County Transit District Board of Directors in March 2006. She recently retired as President of the Community Safety Foundation and Vice President of Communications and Social Responsibility for AAA Northern California, Nevada and Utah Insurance Exchange. Ms. Guilbault is a board trustee for the Mineta Transportation Institute. She is also author of “Farmworker’s Daughter: Growing up Mexican in America”, a childhood memoir and “The Latinas Guide to Success in the Workplace.” Ms. Guilbault is a resident of Burlingame.

ZOE KERSTEEN-TUCKER, public member and representative of the Coastal area, was appointed by the District Board of Directors in March 2006. Ms. Kersteen-Tucker represents the board on the Boulevard Initiative as well as the City/County Association of Governments of San Mateo County's Congestion Management and Environmental Quality Committee. She is also on the San Mateo County Planning Commission. Ms. Kersteen-Tucker is principal owner of Pacific Development Associates which specializes in leading and training nonprofit executives and boards. Ms. Kersteen-Tucker resides in Moss Beach.

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

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

EXECUTIVE MANAGEMENT

GENERAL MANAGER/CEO

Michael J. Scanlon

EXECUTIVE TEAM

Virginia Harrington – Deputy CEO

C. H. (Chuck) Harvey – Deputy CEO

April Chan – Executive Officer, Planning and Development

Rita Haskin – Executive Officer, Customer Service and Marketing

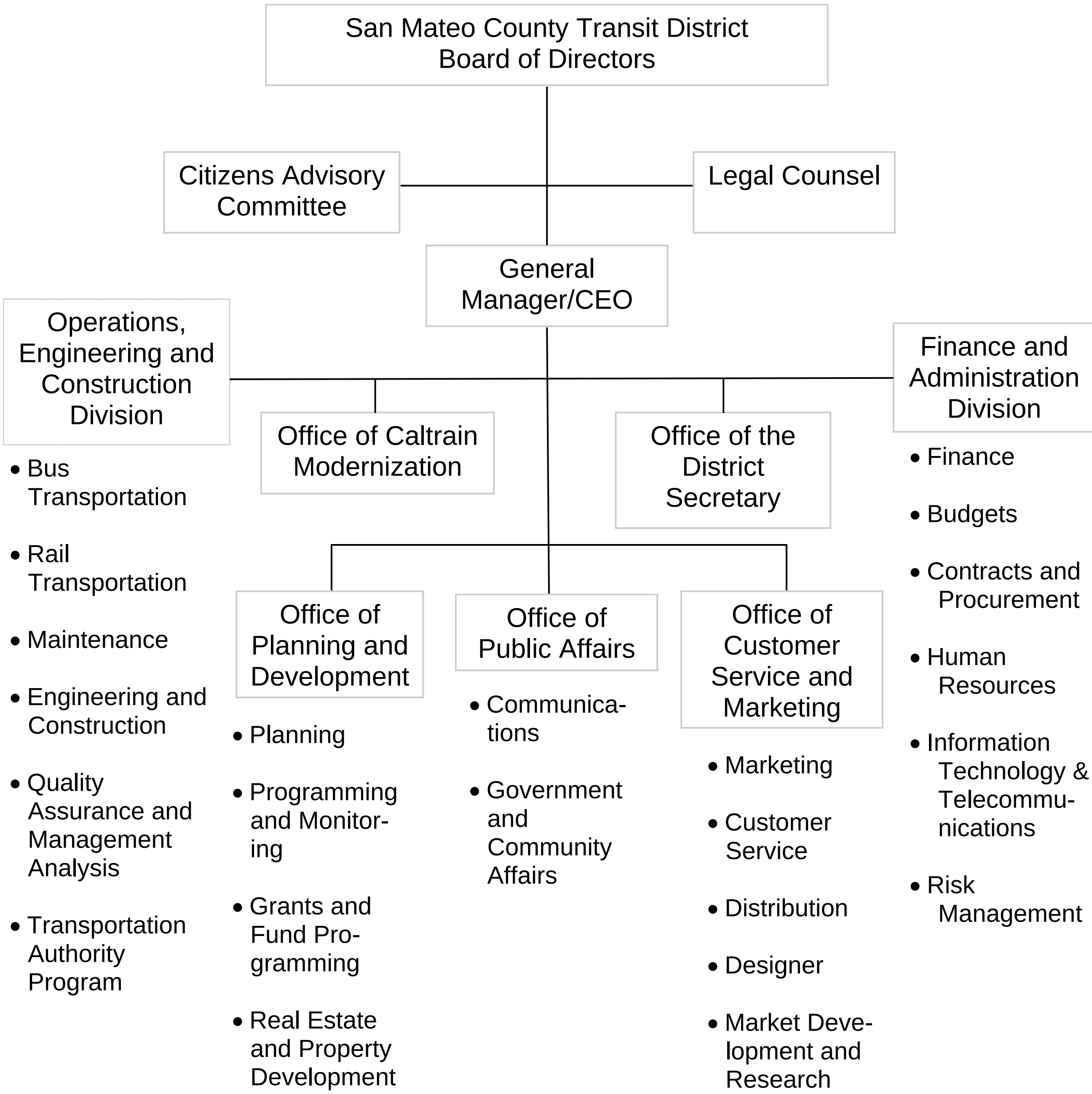
Marian Lee – Executive Officer, Caltrain Modernization

Martha Martinez – District Secretary

Mark Simon – Executive Officer, Public Affairs

GENERAL COUNSEL

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


San Mateo County Transit District Board of Directors
Citizens Advisory Committee
Legal Counsel
General Manager/CEO
Operations, Engineering and Construction Division
• Bus Transportation
• Rail Transportation
• Maintenance
• Engineering and Construction
• Quality Assurance and Management Analysis
• Transportation Authority Program
Office of Caltrain Modernization
Office of the District Secretary
Finance and Administration Division
• Finance
• Budgets
• Contracts and Procurement
• Human Resources
• Information Technology & Telecommu-nications
• Risk Management
Office of Planning and Development
• Planning
• Programming and Monitor-ing
• Grants and Fund Pro-gramming
• Real Estate and Property Development
Office of Public Affairs
• Communica-tions
• Government and Community Affairs
Office of Customer Service and Marketing
• Marketing
• Customer Service
• Distribution
• Designer
• Market Deve-lopment and Research


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

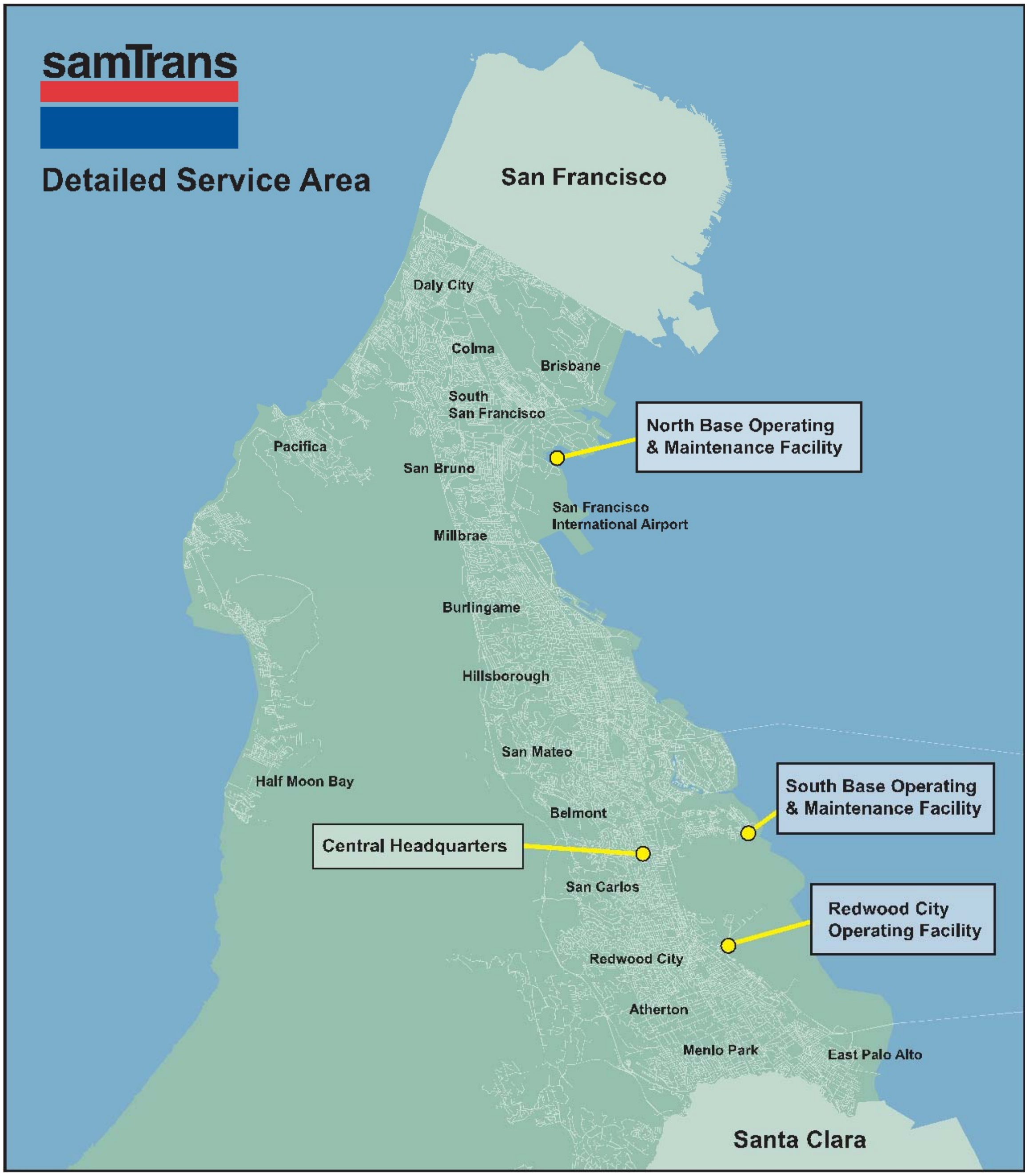

samTrans
Detailed Service Area
San Francisco
Daly City
Colma
Brisbane
South San Francisco
North Base Operating & Maintenance Facility
Pacifica
San Bruno
San Francisco International Airport
Millbrae
Burlingame
Hillsborough
San Mateo
Half Moon Bay
South Base Operating & Maintenance Facility
Belmont
Central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

TABLE OF CREDITS

The following individuals contributed to the production of the Fiscal Year 2014 Comprehensive Annual Financial Report:

Finance:

	Manager, General Ledger	Sheila Tioyao
	Manager, Treasury	Kathryn Watson
	Senior Accountant	Jeannie Chen
	Manager, Budget	Ladi Millard
	Senior Budget Analyst	Winnie Lum

Audit Firm:

	Partner	Vikki C. Rodriguez

Section II

FINANCIAL

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements and Notes

Required Supplementary Information

Supplementary Information and Notes

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MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the San Mateo County Transit District (District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Mateo County District as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Pleasant Hill, CA 94523

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W **mazeassociates.com**

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedules of Funding Progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The Introductory Section, Supplementary Information, and Statistical Sections listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated in all material respects in relation to the financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
December 19, 2014

MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis of the San Mateo County Transit District's (District) financial performance provides an overview of the District's activities for Fiscal Year 2014 with comparisons to the prior two fiscal years. We encourage readers to consider the information presented here in conjunction with the transmittal letter contained in the Introductory Section and with the statements and related notes contained in the Financial Section.

FINANCIAL HIGHLIGHTS

- At June 30, 2014, total assets stand at $478.6 million, an increase of $22.9 million or 5.0 percent compared to June 30, 2013. At June 30, 2013, total assets stand at $455.7 million, a decrease of $1.4 million or 0.3 percent compared to June 30, 2012. The increases for 2014 were mainly due to increase in investments and bus and bus equipment and the decrease for 2013 was mainly due to reduction in restricted investments.
- At June 30, 2014, total deferred outflows of resources and liabilities were $345.1 million, a decrease of $16.3 million or 4.5 percent compared to June 30, 2013. The 2014 decrease was due to reduction in self-insurance liability and long-term debt. At June 30, 2013, total liabilities were $361.5 million, a decrease of $0.9 million or 0.3 percent compared to June 30, 2012. The decrease for 2014 was due to reduction of insurance and long-term debt and the decrease for 2013 were mainly due to reduction of long-term debt.
- For Fiscal Year 2014, passenger fares were $18.6 million, an increase of $0.7 million or 4.2 percent compared to Fiscal Year 2013. For Fiscal Year 2013, passenger fares were $17.8 million, an increase of $0.4 million or 2.0 percent compared to Fiscal Year 2012. The increase for both 2014 and 2013 were result of higher ridership.
- In Fiscal Year 2014, total operating expenses were $108.3 million, a decrease of $5.8 million or 5.1 percent compared to Fiscal Year 2013. The decrease in 2014 was mainly due to reduction in Materials & supplies and Insurance. In Fiscal Year 2013, total operating expenses were $114.2 million, a decrease of $1.1 million or 1.0 percent compared to Fiscal Year 2012. The results were mostly due to decrease in Wages & benefits and insurance.
- For Fiscal Year 2014, nonoperating revenues net of nonoperating expenses were $122.9 million, an increase of $10.5 million or 9.3 percent compared to Fiscal Year 2013. The 2014 increase was due to increase in Operating assistance particular in sales taxes and Measure A funds. In Fiscal Year 2013, nonoperating revenues net of nonoperating expenses were $112.4 million, an increase of $10.6 million or 10.4 percent compared to Fiscal Year 2012. The 2013 increase was due to increase in Operating assistance particular in sales tax and Federal operating and planning assistance.
- At June 30, 2014, net position was $133.5 million, an increase of $39.2 million or 41.6 percent from June 30, 2013. The 2014 increase was due to increase in cash & cash equivalents, sales tax receivable, Noncurrent investments, Restricted investments and Buses and bus equipment. At June 30, 2013, net position was $94.3 million, a decrease of $0.4 million or 0.4 percent from June 30, 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

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

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

- *Cash flows from operating activities* which includes transactions and events reported as components of operating income in the statement of revenues, expenses and changes in net position.
- *Cash flows from non-capital financing activitie*s which includes operating grant proceeds as well as operating subsidy payments from third parties and other nonoperating items.
- *Cash flows from capital and related financing activities* which arise from the borrowing and repayment (principal and interest) of capital-related debt, the acquisition and construction of capital assets and the proceeds of capital grants and contributions.
- *Cash flows from investing activities* which includes the proceeds from the sale of investments and receipt of interest. Outflows in this category include the purchase of investments.

Notes to the Financial Statements

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

Other Information

This report also presents certain required supplementary information in accordance with the requirements of GASB Statements No. 25 and No. 45 providing information about the status of the District's unfunded actuarial accrued liability for its public employee retirement system and other post-employment benefits. Additional supplementary information and associated notes concerning compliance with the District's annual budget appear immediately following the required supplementary information.

Analysis of Basic Financial Statements

In Fiscal Year 2014, total assets were $478.6 million, an increase of $22.9 million or 5.0 percent compared to June 30, 2013. In Fiscal Year 2013, total assets were $455.7 million, a decrease of $1.4 million or 0.3 percent compared to June 30, 2012. Total current assets increased $4.3 million or 4.5 percent to $100.1 million on June 30, 2014 from $95.8 million on June 30, 2013 and increased of $22.7 million or 31.1 percent at June 30, 2013 compared to June 30, 2012. Capital assets – net of accumulated depreciation, Capital contribution to BART – net of amortization and all other non-current assets combined, increased by $18.6 million or 5.2 percent in 2014 and a decreased of $24.1 million or 6.3 percent in 2013.

Capital assets net of accumulated depreciation increased by $13.7 million or 9.4 percent to $160.1 million at June 30, 2014 compared to 2013 and decreased of $8.8 million or 5.7 percent in 2013 compared to 2012. Land and right of way, buses and related equipment and building and related improvements comprise most of the District's capital assets.

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

The amortized capital contribution to BART decreased by $7.7 million or 6.6 percent to $109.3 million in Fiscal Year 2014 compared to Fiscal Year 2013 and decreased by $7.7 million or 6.2 percent in Fiscal Year 2013 compared to Fiscal Year 2012. Additional discussion of the District's transactions with BART can be found in *Note #5 - Bay Area Rapid Transit (BART) District Extension Agreements* in the *Notes to the Financial Statements*.

SAN MATEO COUNTY TRANSIT DISTRICT
NET POSITION
(in thousands)

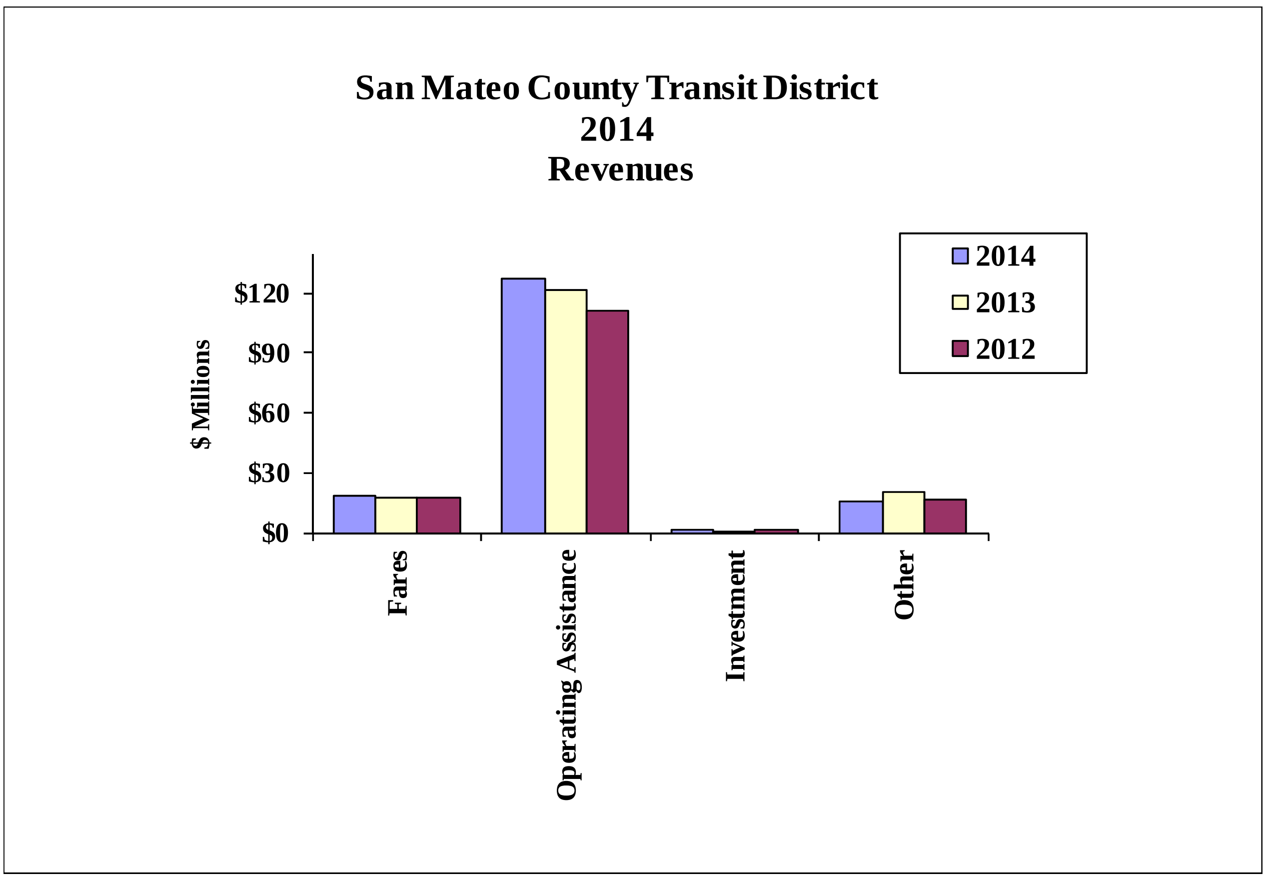
	2014	2013	2012
Current Assets	$ 100,067	$ 95,769	$ 73,068
Capital assets, net of depreciation	160,050	146,301	155,088
Contribution to BART, net of amortization	109,339	117,024	124,709
Other noncurrent assets	109,139	96,633	104,226
Total assets	478,595	455,727	457,091
Deferred charge on refunding	2,073	2,586	3,099
Total deferred outflows of resources	2,073	2,586	3,099
Current liabilities	33,846	31,291	32,047
Long-term debt	280,223	290,702	300,706
Other noncurrent liabilities	33,138	42,054	32,754
Total liabilities	347,207	364,047	365,507
Net investment in capital assets	(20,964)	(34,446)	(23,448)
Restricted	25,000	27,745	28,501
Unrestricted	129,425	100,967	89,630
Total net position	$ 133,461	$ 94,266	$ 94,683

In Fiscal Year 2014, total liabilities were $347.2 million, a decrease of $16.8 million or 4.6 percent compared to Fiscal Year 2013. In Fiscal Year 2013, total liabilities were $364.0 million, a decrease of $1.4 million or 0.4 percent compared to 2012. The decrease for both 2014 and 2013 were mainly due to scheduled payments of principal on long-term debt and Insurance.

At June 30, 2014, net position of $133.5 million was $39.2 million or 41.6 percent more than the $94.3 million at June 30, 2013 and was $0.4 million or 0.4 percent less than on June 30, 2013 compared to $94.7 million at June 30, 2012. The ($18.9) million invested in capital assets net of related debt at June 30, 2014 were (14.1) percent of the total net position. Total restricted assets at June 30, 2014 were $25.0 million or 18.7 percent of total net position. The remaining $127.4 million of total net position at June 30, 2014 were unrestricted and represented 95.4 percent of total net position.

Revenue Highlights

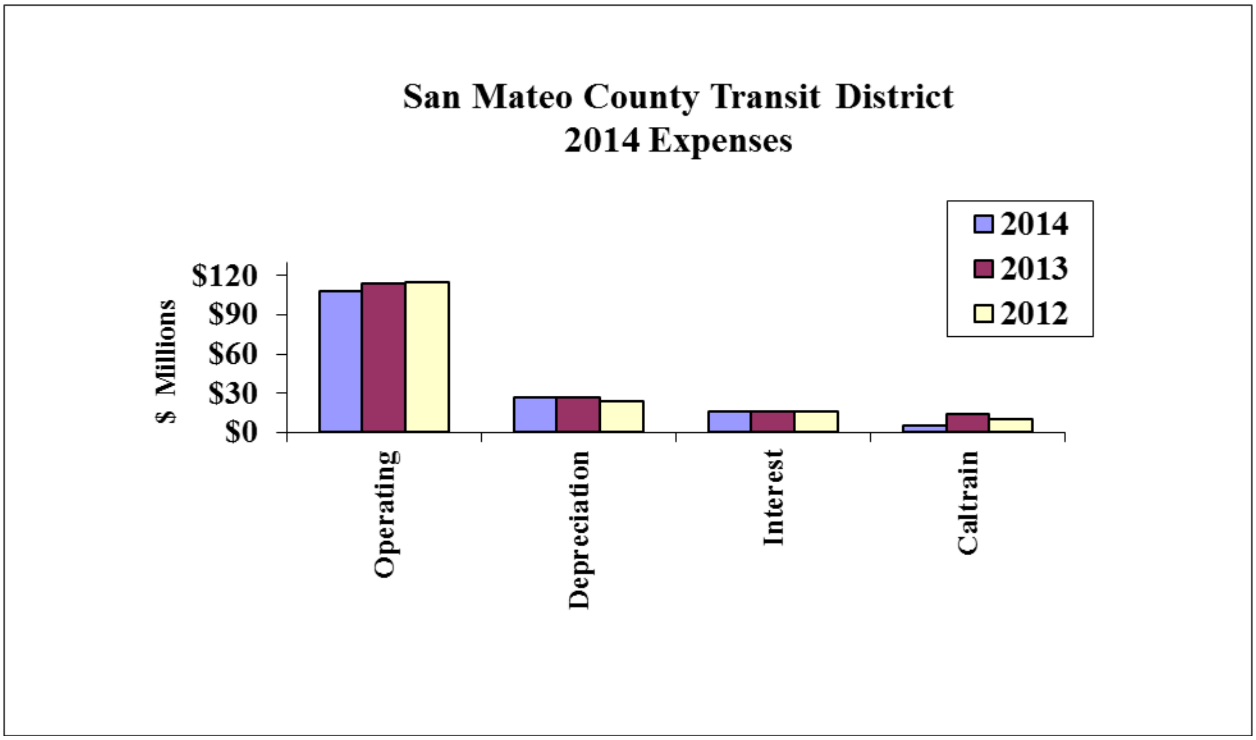
Operating revenues generated from passenger fares of $18.6 million increased by $0.7 million or 4.2 percent during Fiscal Year 2014 compared to Fiscal Year 2013 and increased by $0.4 million or 2.0 percent in Fiscal Year 2013 compared to Fiscal Year 2012. The increase for both 2014 and 2013 were the result of high ridership.



In Fiscal Year 2014, nonoperating revenues increased by $1.1 million or 0.7 percent to $143.9 million. This increase was due to high sales tax collection and Federal assistance. Operating assistance of $126.8 million accounted for the majority of fiscal year 2014 nonoperating revenues. This amount consisted of 52.6 percent from transaction and use tax, 30.1 percent from local transportation funds, 6.2 percent from federal assistance and 11.1 percent from Measure A, state transit assistance and AB434 funds combined.

Expense Highlights

In Fiscal Year 2014, total operating expenses were $108.3 million, a decrease of $5.8 million or 5.1 percent compared to Fiscal Year 2013. In Fiscal Year 2013, total operating expenses were $114.2 million, a decrease of $1.1 million or 1.0 percent compared to Fiscal Year 2012. Total operating expenses in 2014 consisted of $60.0 million or 55.4 percent for wages and benefits, $31.5 million or 29.0 percent for contract operations and other services, and $16.9 million or 15.6 percent for materials, insurance and other miscellaneous expenses combined. Depreciation and amortization expenses were $27.2 million and $26.9 million for Fiscal Year 2014 and Fiscal Year 2013 respectively, a $0.2 million or 0.9 percent increase in Fiscal Year 2014 compared to Fiscal Year 2013 and $2.6 million or 10.9 percent increase in Fiscal Year 2013 compared to Fiscal Year 2012.



In Fiscal Year 2014, nonoperating expenses were $21.0 million, a decrease of $9.4 million or 30.9 percent compared to Fiscal Year 2013. In Fiscal Year 2013, nonoperating expenses were $30.4 million, an increase of $3.5 million or 13.2 percent compared to Fiscal Year 2012. In Fiscal Year 2014, the District paid the JPB $5.4 million for its contribution toward the Caltrain rail service operation. A more detailed discussion of the District's relationship with the JPB can be found in *Note #8 – Peninsula Corridor Joint Powers Board (JPB) in the Notes to the Financial Statements.*

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

	2014	2013	2012
Operating revenues-passenger fares	$ 18,557	$ 17,808	$ 17,452
Operating expenses-transit services	108,327	114,154	115,269
Operating loss before depreciation and amortization	(89,770)	(96,346)	(97,817)
Depreciation and amortization	(27,184)	(26,939)	(24,297)
Operating loss	(116,954)	(123,285)	(122,114)
Nonoperating revenues			
Operating assistance	126,786	121,793	110,672
Investment income	1,663	586	1,375
Interagency administrative income	6,552	5,501	3,483
Other income, net	8,866	14,928	13,152
Total Nonoperating revenues	143,867	142,808	128,682
Nonoperating expenses			
Interest expense	(15,559)	(16,401)	(16,247)
Caltrain service subsidy	(5,440)	(14,000)	(10,620)
Total Nonoperating expenses	(20,999)	(30,401)	(26,867)
Net loss before capital contributions	5,914	(10,878)	(20,299)
Capital contributions	33,281	10,461	11,049
Change in net position	39,195	(417)	(9,250)
Net position - beginning of year	94,266	94,683	103,933
Net position - end of year	$ 133,461	$ 94,266	$ 94,683

Capital Program

The District received capital contributions of $33.3 million in Fiscal Year 2014 and $10.5 million in Fiscal Year 2013, which was an increase of $22.8 million or 218.1 percent in Fiscal Year 2014 compared to Fiscal Year 2013 and a decrease of $0.6 million or 5.3 percent in Fiscal Year 2013 compared to Fiscal Year 2012.
The following is a summary of the District's major capital expenditures for Fiscal Year 2014.

- Purchase of Revenue Vehicles ($18.8 million)
- Communication Information System ($10.6 million)
- Replacement of bus parts in accordance with FTA guidelines ($0.9 million)
- Central Security office improvement ($0.7 million)
- Capital project development, control and monitoring ($0.6 million)

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

Debt

The District had $285.9 million in bonds and notes outstanding at June 30, 2014 compared to $295.6 million at June 30, 2013, a decrease of $9.7 million or 3.3 percent. The scheduled payment of $9.7 million during Fiscal year 2014 accounts for this reduction. The District pledges sales tax revenues to secure its bonds and also has purchased insurance on the 1993 and 2005 Series A Bonds and setup a Bond Reserve fund on the 2009 Series A Bonds to secure the payment of principal and interest on due dates. The District retains a trustee to maintain its bond fund. More information on the District's long-term debt activity appears in *Note #11 - Long-term Debt* of the *Notes to the Financial Statements*.

Economic Factors and Next Year's Budget

The District's Board adopted the fiscal year 2015 Operating and Capital Budget on June 4, 2014. As in past years, District staff has taken extraordinary steps to reduce costs, undertake efficiencies while continuing to enhance service and revenues. The economy has slowly improved, stabilizing sales tax revenues. The Operating Budget is one of cautious optimism that the revenue growth will keep at a steady pace, while the District continues to work with its funding partners and employees to pursue its goals. The Capital Budget contains projects necessary and essential to sustain the District's existing service and infrastructure network, without compromising the vision set forth in the adopted Strategic Plan.

The FY2015 Operating Budget consists of $160.0 million in revenues and expenditures. Passenger fares for both Motor Bus and ADA services are at $18.4 million based on increase in ridership from FY2014 projected actuals. Local, State, and Federal funds are projected to decrease by $47.7 million due to less Transportation Development Act (TDA) and State Transportation Assistance (STA) carryover funds available for FY2015. The District's half-cent sales tax receipts are conservatively projected to be $72.0 million. Operating costs are projected to increase by $5.4 million in FY2015. Wages and benefits represent a significant part of the budget. There are also increases in maintenance costs for new fare box equipment, increased cost for the Coastside services due to implementation of changes on the SamTrans Service Plan, and increased cost in technical and other services due to software maintenance and license agreements primarily to support the PeopleSoft application after implementation of the Business Optimization Program.

The $55.3 million Capital Budget contains projects that were reviewed and prioritized consistent with District policy directives and key Strategic Plan Initiatives. The major project being undertaken in FY2015 is the replacement of sixty 2003 Gillig low floor buses and fifty-five 2002 NABI buses as these buses have reached the end of their useful lives. The estimated total replacement cost is $78.0 million, but only $48.2 million represents the amount needed in fiscal year 2015. The remaining amount will be included in the proposed FY2016 Capital Budget. Other components of the budget include information technology software and hardware upgrade and replacement, evaluation and study of current non-fixed route services including shuttles and paratransit services, and rehabilitation and improvement of facilities.

Requests for Information

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

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013 (in thousands)

ASSETS	2014	2013
Current Assets:		
Cash and cash equivalents (Notes 1E & 2)	$ 48,958	$ 28,346
Restricted cash (Notes 1G & 2)	7,086	10,264
Sub-total	56,044	38,610
Investments (Notes 1F & 2)	9,659	13,439
Restricted investments (Notes 1G & 2)	2,038	11,438
Receivables:		
Transaction and use tax	14,667	13,437
Receivable from Peninsula Corridor Joint Powers Board (Note 8)	4,207	4,046
Federal grants (Note 4)	2,135	4,660
Interest	233	328
Other	7,491	6,291
Allowance for doubtful accounts	(98)	(98)
Total Receivables, Net	28,635	28,664
Inventories (Note 1I)	1,820	1,851
Prepaid expenses	1,871	1,767
Total Current Assets	100,067	95,769
Noncurrent Assets:		
Noncurrent investments (Notes 1F and 2)	86,078	78,194
Restricted investments (Notes 1G and 2)	22,242	17,575
Capital Assets (Note 1J and 6):		
Buses and bus equipment	149,751	135,297
Buildings and building improvements	64,815	71,935
Maintenance and other equipment	5,822	9,470
Furniture and fixtures	20,272	23,584
Shelters and bus stop signs	579	3,178
Other vehicles	2,226	2,183
Less accumulated depreciation	(158,594)	(164,763)
Subtotal	84,871	80,884
Land and right of way (Note 7)	53,855	53,855
Construction in progress (Note 1K)	21,324	11,562
Total Capital Assets, Net	160,050	146,301
Capital contribution to BART, net of amortization (Note 5)	109,339	117,024
Other assets (Note 9)	819	864
Total Noncurrent Assets	378,528	359,958
Total Assets	$ 478,595	$ 455,727

See accompanying notes to basic financial statements

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF NET POSITION (Continued)
AS OF JUNE 30, 2014 AND 2013 (in thousands)

	2014	2013
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	$ 2,073	$ 2,586
Total Deferred Outflows of Resources	2,073	2,586
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	10,650	9,438
Current portion of compensated absences (Note 1O)	6,829	6,630
Current portion of self-insurance liabilities (Note 14)	4,291	3,628
Accrued interest	1,946	1,940
Current portion of long-term debt (Note 11)	10,130	9,655
Total Current Liabilities	33,846	31,291
Noncurrent liabilities:		
Long-term debt, less current portion (Note 11)	280,223	290,702
Self-insurance liabilities, less current portion (Note 14)	7,437	14,567
Other noncurrent liabilities (Note 10)	16,115	18,037
Compensated absences, less current portion (Note 1O)	872	1,085
Post-employment benefits (Note 13)	8,714	8,365
Total Noncurrent Liabilities	313,361	332,756
Total Liabilities	347,207	364,047
NET POSITION		
Net investment in capital assets	(20,964)	(34,446)
Restricted for:		
Debt service		2,745
Paratransit fund (Note 16)	25,000	25,000
Total Restricted Assets	25,000	27,745
Unrestricted	129,425	100,967
Total Net Position	$ 133,461	$ 94,266

See accompanying notes to basic financial statements

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 (in thousands)

	2014	2013
OPERATING REVENUES		
Passenger fares	$ 18,557	$ 17,808
Total Operating Revenues	18,557	17,808
OPERATING EXPENSES		
Salaries and benefits	60,001	57,227
Contract operations and maintenance services	31,471	30,152
Other services	4,666	5,580
Materials and supplies	8,769	9,487
Provisions for claims and claims adjustments	(2,094)	6,770
Miscellaneous	5,514	4,938
Total Operating Expense	108,327	114,154
Operating loss before depreciation and amortization and administrative expenses capitalized	(89,770)	(96,346)
Depreciation and amortization	(27,184)	(26,939)
OPERATING LOSS	(116,954)	(123,285)
NON-OPERATING REVENUES (EXPENSES)		
Operating assistance (Note 3)	126,786	121,793
Investment income	1,663	586
Interest expense	(15,559)	(16,401)
Caltrain service subsidy (Note 8)	(5,440)	(14,000)
Interagency administrative income	6,552	5,501
Other income, net	8,866	14,928
Total Non-Operating Revenues, Net	122,868	112,407
Net Income (Loss) Before Capital Contributions	5,914	(10,878)
Capital contributions (Note 1P)	33,281	10,461
CHANGE IN NET POSITION	39,195	(417)
NET POSITION:		
Beginning of year	94,266	94,683
End of year	$ 133,461	$ 94,266

See accompanying notes to basic financial statements

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 (in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from passenger fares	$ 18,631	$ 17,838
Payments to vendors for services	(55,121)	(56,099)
Payments to employees	(58,191)	(55,008)
Receipts for rental and other income	19,245	22,074
Net cash (used for) operating activities	(75,436)	(71,195)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received, including transaction and use tax	124,187	126,399
Caltrain service outlays	(5,440)	(14,000)
Net cash provided by noncapital and financing activities	118,747	112,399
CASH FLOWS FROM CAPITAL AND RELATED AND FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(36,398)	(10,011)
Capital contributions from grants	29,987	16,732
Bond principal paid	(9,655)	(9,195)
Interest and cost of issuance paid	(16,032)	(15,285)
Net cash provided (used) by capital and related financing activities	(32,098)	(17,759)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investment securities	91,064	55,821
Purchases of investment securities	(86,600)	(58,601)
Investment income received on all interest-bearing investments	1,757	1,549
Net cash provided by investing activities	6,221	(1,231)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT	17,434	22,214
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	38,610	16,396
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 56,044	$ 38,610

See accompanying notes to basic financial statements

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 (in thousands)

	2014	2013
Reconciliation of operating (loss) to net cash (used) by operating activities:		
Operating loss	$ (116,954)	$ (123,285)
Adjustments to reconcile operating (loss) to net cash (used for) operating activities:		
Depreciation and amortization	27,184	26,939
Rental and other income	18,631	22,074
Effect of changes in:		
Accounts receivable	(142)	1,218
Inventories	32	75
Prepaid expenses	(104)	(10)
Accounts payable and accrued expenses	(5,726)	(673)
Other postemployment liability	428	768
Compensated absences	(58)	127
Self-insurance liabilities	1,273	1,572
Net cash for operating activities	($75,436)	$ (71,195)
NONCASH INVESTING ACTIVITIES:		
Capital contributions	$ 33,281	$ 10,461
Change in fair value of investments		(1,409)

See accompanying notes to basic financial statements

INDEX TO THE NOTES **_Pages_**

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Operations

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

B. Entity

The District's reporting entity includes only the District.

C. Basis of Accounting

The District is a single enterprise fund and maintains its records on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

D. Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 65 – In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The District early implemented this Statement for fiscal year ended June 30, 2013. The implementation of this Statement resulted in a retroactive restatement of net position for deferred bond issuance costs previously recognized.

GASB Statement No. 67 – In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. This Statement had no material impact to the District's financial statements.

GASB Statement No. 68 – In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. This Statement will have a material impact on the District's financial statements for fiscal year ending June 30, 2015.

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

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

GASB Statement No. 69 – In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The provisions of the Statement are effective for financial statement for periods beginning after December 15, 2013. The District has not determined its effect on the financial statements.

GASB Statement No. 70 - In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The provisions of this Statement are effective for financial statement periods after June 15, 2013. This Statement had no material impact to the District's financial statements.

GASB Statement No. 71 – In 2014, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The District has not determined its effect on the financial statements.

E. Cash and Cash Equivalents

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

F. Investments

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

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

G. Restricted Cash and Investments

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

H. Restricted and Unrestricted Resources

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

I. Inventories

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

J. Capital assets

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

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

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

K. Construction in progress

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

	2014	2013
Information technology support	$ 13,220	$ 8,497
Bus communication system	6,185	187
Transit-oriented development	586	209
Administration building improvement	643	1,251
Bus fleet improvements	154	1,121
Other	536	297
Total Construction in Progress	$ 21,324	$ 11,562

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

L. State and Local Operating Assistance

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

M. Bond Issuance Costs

In accordance with GASB Statement No. 65, bond issuance costs are expensed upon the issuance of related debt. Bond discounts and premiums are amortized over the life of the bonds.

N. Arbitrage

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

O. Compensated Absences

Employees accrue compensated absence time by reason of tenure at annual rates ranging from 160 to 312 hours per year. Employees are allowed to accumulate from 800 hours up to 1,440 hours of compensated absence time, depending upon the number of years of service. In fiscal years ending June 30, 2014 and 2013, employees of the District accrued and used balances of compensated absences in the amount of $5,498,058 and $5,513,444 respectively. At June 30, 2014 and 2013, accrued compensated absences for all District employees amounted to $7,700,763 and $7,714,885, respectively. The current portion of the compensated absences liability is reflected as a current liability in the Statement of Net Position and is expected to be used within one year. Compensated absences as of June 30 are included on the Statement of Net Position.

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

	2014	2013
Beginning Balance	$ 7,715	$ 7,588
Additions	5,484	5,640
Payments	(5,498)	(5,513)
Ending Balance	7,701	7,715
Current Portion	6,829	6,630
Non-current portion	$ 872	$ 1,085

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

P. Capital Contributions

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

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

	2014	2013
Federal grants	$ 16,739	$ 2,496
State grant (Prop 1B)	5,580	1,905
Local assistance – sales tax	10,962	6,140
Other local transportation funds		(80)
	$ 33,281	$ 10,461

Q. Operating and Nonoperating Revenues and Expenses

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

R. Use of Estimates

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

S. Deferred Outflow/Inflow of Resources

In addition to assets, the statement of net position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

NOTE 2 – CASH AND INVESTMENTS

Policies

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

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

Classification

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

	2014	2013
Cash and cash equivalents	$ 56,044	$ 38,610
Current investments	9,659	13,439
Current restricted investments	2,038	11,438
Noncurrent investments	86,078	78,194
Noncurrent restricted investments	22,242	17,575
Total Cash and Investments	$ 176,061	$ 159,256

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

	2014	2013
Cash on hand	$ 19	$ 19
Deposits with financial institutions	20,503	10,534
Investments	155,539	148,703
Total Cash and Investments	$ 176,061	$ 159,256

NOTE 2 - CASH AND INVESTMENTS (continued)

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

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

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

Investments Authorized by Debt Agreements

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

NOTE 2 - CASH AND INVESTMENTS (continued)

Interest Rate Risk

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

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

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

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

NOTE 2 - CASH AND INVESTMENTS (continued)

Interest Rate Risk (continued)

The District's weighted average maturity of its investment portfolio at June 30, 2013 was as follows:

Investment Type		Amount (in thousands)	Weighted Average Maturity (in years)
U.S. Agency Securities	$	6,149	0.79
U.S. Government Securities		110,182	2.02
Local Agency Investment Fund (LAIF)		28,057	2.70
Held by bond trustee:			
Money Market Mutual Funds		2,038	0.00
U.S. Agency Securities		2,277	1.71
	$	148,703	
Portfolio Weighted Average Maturity			2.10

Disclosures Relating to Credit Risk

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

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

NOTE 2 - CASH AND INVESTMENTS (continued)

Disclosures Relating to Credit Risk (continued)

Investment Type	Amount (in thousands)	Rating as of June 30, 2013 AAA	AA	Not Rated
U.S. Agency Securities	$ 6,149	$ -	$ 6,149	$ -
U.S. Government Securities	110,182	110,182	-	-
Local Agency Investment Fund (LAIF)	28,057	-	-	28,057
Held by bond trustee:				
Money Market Mutual Funds	2,038	-	-	2,038
U.S. Agency Securities	2,277	-	2,277	-
Total	$ 148,703	$ 110,182	$ 8,426	$ 30,095

Concentration of Credit Risk

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

Issuer	Investment Type	2014	2013
Federal Home Loan Mortgage Corporation (FHLMC)	U.S. Agency Securities	$ 23,149	$ 64,404
Federal Home Loan Bank (FHLB)	U.S. Agency Securities	-	7,997
Federal National Mortgage Association (FNMA)	U.S. Agency Securities	50,419	39,362
		$ 73,568	$ 111,763

NOTE 2 - CASH AND INVESTMENTS (continued)

Custodial Credit Risk

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

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

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

As of June 30, 2014 and 2013, the District had $20,501,916, and $10,434,292, respectively, of deposits with financial institutions recorded on the financial statements. Additionally, the District is required to hold certain capital fund amounts in interest bearing accounts. These balances are in excess of the $250,000 FDIC limit, however due to California State Law, the excess balances are collateralized with pledged securities by the financial institutions holding the District's deposits.

Investment in State Investment Pool

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

As of June 30, 2014 and June 30, 2013, the District had a contractual withdrawal value in LAIF of $35,490,164 and $28,049,298, respectively, which is recorded at $35,490,164 and $28,064,769 on the balance sheet after the adjustment for unrealized gains/losses for Fiscal Years 2014 and 2013, respectively. The total value invested by all public agencies in LAIF at June 30, 2014 and 2013 was $64,896,335,761 and $58,852,094,221, respectively. Of these amounts, as of June 30, 2014 and 2013, 97.99% and 98.04% , respectively, was invested in non-derivative financial products, 2.01% and 1.96% , respectively, was invested in structured notes and asset-backed securities. The District relied upon information provided by the State Treasurer in estimating the District's fair value position of its holdings in LAIF.

NOTE 3 – OPERATING ASSISTANCE

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

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

	2014	2013
Transaction and use tax	$ 66,644	$ 67,719
Local transportation funds	38,197	35,587
Federal operating and planning assistance	7,917	10,075
State transit assistance	5,357	4,904
Measure A funds – local	8,105	2,954
AB434 and other	566	554
Total	$ 126,786	$ 121,793

NOTE 4 – FEDERAL CAPITAL GRANTS

The District has eight grant contracts with the FTA that provide federal funds for the acquisition of buses and other equipment and improvements. Capital additions at June 30, 2014 and 2013 applicable to these projects are $24,171,857 and $3,016,851, respectively. The related federal participation is $16,738,993 and $2,495,971, respectively.

The District has recorded receivables (payables) of $195,997 and ($344,785), at June 30, 2014 and 2013, respectively, for qualifying capital project expenditures under FTA grant contracts in excess of reimbursements.

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

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

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

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

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

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

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

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

BART SFO

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

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

As a result of disputes that arose regarding the interpretation of the Comprehensive Agreement, on April 27, 2007, the District and BART entered into a Settlement Agreement and Release of Claims (Settlement Agreement). The Settlement Agreement provides for a permanent resolution of the aforementioned disputes, specifically, the Settlement Agreement:

1. Terminated the Comprehensive Agreement and the Fiscal Year 2005 Agreement;
2. Relieved the District of any and all responsibility for payment of past and future operating costs, as well as capital costs, associated with the SFO Extension with the exception of $5.0 million of operating costs incurred during the Fiscal Year 2007;
3. Required BART to repay the District $5,600,517 for right of way acquisition costs previously advanced by the District for right of way acquisition and other SFO Extension costs and required the District to transfer SFO Extension property to BART upon full payment of said sum by BART;
4. BART made the agreed upon payment and the property will be transferred upon preparation of transfer documents by BART;
5. Required the District to pay $221,341 to BART for costs related to construction of a Bike Path;
6. Released BART from its obligation to repay amounts loaned by the District pursuant to the August 31, 1999 amendment to the Comprehensive Agreement; and
7. Required the District to remain responsible for providing paratransit services in the SFO Extension Project corridor.

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

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

Capital Contribution to BART

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

Issuer	2014	2013
BART system contribution	$ 100,000	$ 100,000
Colma extension – local share	52,352	52,352
South of Colma extension – local share	181,534	181,534
SFO BART – local share	76,396	76,404
	410,282	410,290
Less: Accumulated amortization	(300,943)	(293,266)
Total	$ 109,339	$ 117,024

NOTE 6 – CAPITAL ASSETS

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

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

NOTE 6 – CAPITAL ASSETS (continued)

Capital asset activity for the fiscal year ended June 30, 2013, was as follows (in thousands):

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
Depreciable Capital Assets:				
Buses and bus equipment	$ 138,638	$ 3,302	$ (6,643)	$ 135,297
Buildings and building improvements	79,294	1,523	(8,882)	71,935
Maintenance and other equipment	16,927	1,466	(8,923)	9,470
Furniture and fixtures	26,686	2,637	(5,739)	23,584
Shelters and bus stop signs	3,190	-	(12)	3,178
Other vehicles	2,263	176	(256)	2,183
Total Depreciable Capital Assets	266,998	9,104	(30,455)	245,647
Less Accumulated Depreciation for:				
Buses and bus equipment	(75,080)	(11,701)	6,643	(80,138)
Buildings and building improvements	(61,157)	(2,893)	8,882	(55,168)
Maintenance and other equipment	(15,035)	(1,628)	8,923	(7,740)
Furniture and fixtures	(20,094)	(2,728)	5,739	(17,083)
Shelters and bus stop signs	(3,183)	(6)	12	(3,177)
Other vehicles	(1,417)	(296)	256	(1,457)
Total Accumulated Depreciation	(175,966)	(19,252)	30,455	(164,763)
Nondepreciable Capital Assets:				
Land and right of way	53,855	-	-	53,855
Construction in progress	10,200	10,466	(9,104)	11,562
Total Nondepreciable Capital Assets	64,055	10,466	(9,104)	65,417
Capital Assets, Net	$ 155,087	$ 318	$ (9,104)	$ 146,301

NOTE 7 – LAND AND RIGHT OF WAY

Dumbarton Land and Right of Way

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

NOTE 7 – LAND AND RIGHT OF WAY (continued)

San Carlos Land and Right of Way

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

Caltrain Right of Way

On October 31, 2008, all three of the JPB member agencies signed an agreement with the District to fully resolve all outstanding financial issues related to the acquisition of the right of way. Both City and County of San Francisco (CCSF) and Santa Clara Valley Transportation Authority (VTA) have agreed to reimburse the District using gasoline “spillover” funds. The population based “spillover” funds are to be paid directly to the District from the Metropolitan Transportation Commission (MTC), and revenue based “spillover” funds are to be paid to the District from the San Francisco Municipal Transportation Agency (SFMTA) and VTA. The parties agreed to make best efforts to allocate the funds in full within two to four years and, in no event, later than 10 years. As of June 30, 2014, the District has received a total of $19.6 million from “spillover”, Federal Transportation Improvement Program funds as well as local VTA and SFMTA funds. In consideration for the District’s reduction in the interest rate applied to the District’s advance of funds to purchase the right of way, the parties amended the Joint Powers Agreement (Agreement) to designate the District as the managing agency of the Peninsula Corridor Joint Powers Board. The Agreement further provides that the District “will serve in that capacity unless and until it no longer chooses to do so.”

Due to legislative changes, the “spillover” funds were eliminated. As a result, MTC programmed to replace $19.3 million in Federal Transportation Improvement Program funds. As of June 30, 2014, the District has received a total of $5.4 million of the programmed funds with a remaining balance of $13.9 million.

Out of the total $53.3 million per this agreement, $19.6 million has been collected and 13.9 million is committed from MTC on behalf of CCSF and VTA. As the funding sources change, the multi-party agreement may need to be modified to ensure the District is repaid in full for the right of way. Ultimately, when all payments have been received by the District, the District will reconvey to the JPB all of its interests in the title to the right of way.

NOTE 8 – PENINSULA CORRIDOR JOINT POWERS BOARD (JPB)

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

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

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

The District has been appointed as managing agency for JPB, providing administrative personnel and facilities. The District is responsible for 41.92 percent of the mainline net operating costs and the administrative expenses of the JPB for the years ended June 30, 2014 and 2013. The District recognizes the entire amount of contributions paid to the JPB as an expense in the year disbursed. During the years ended June 30, 2014 and 2013, the District contributed $5,440,000 and$14,000,000, respectively, to the JPB for operating needs.

The District has total receivables from the JPB of $4,207,055 and $4,046,539 at June 30, 2014 and 2013 respectively, for advances of staff support and operating costs.

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

	2014		2013	
Total Assets	$	1,389,395	$	1,347,889
Total Liabilities		(112,394)		(109,550)
Total Net Position	$	1,277,001	$	1,238,339
Operating Revenues	$	82,145	$	75,546
Operating Expenses		(189,212)		(167,020)
Nonoperating Revenues, Net		34,374		42,092
Net Before Capital Contributions		(72,693)		(49,382)
Capital Contributions		111,355		87,385
Increase in Net Position	$	38,662	$	38,003

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

NOTE 9 – RELATED PARTY TRANSACTIONS

Note Receivable from Officer

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

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

NOTE 9 – RELATED PARTY TRANSACTIONS (continued)

Note Receivable from Officer (continued)

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

In Fiscal Year 2014 and 2013, the District forgave $40,000 and $40,000, respectively, of principal on the housing note. Pursuant to this agreement, the District has a note receivable included in Other Assets with a balance of $760,000 and $800,000, as of June 30, 2014 and 2013 respectively. Subsequent to year end, the property was sold and the District was repaid $760,000 in satisfaction of the loan. See *Note 18 - Subsequent events.*

San Mateo County Transportation Authority

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

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

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

NOTE 10 – OTHER NONCURRENT LIABILITIES

On December 27, 2007, the District acquired from the TA four acres of property located in San Carlos along the Caltrain right of way for a promissory note of $4,343,404, which is included in Other Noncurrent Liabilities on the Statement of Net Position. The District also has an accrued interest liability of $726,156 and $680,261, respectively, as of June 30, 2014 and 2013 for the promissory note. See *Note 7 –Land and Right of Way.*

NOTE 11 – LONG - TERM DEBT

Composition and Changes

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

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

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

Composition and Changes (continued)

Long-term debt activity for the year ended June 30, 2013 is as follows (in thousands):

	Original Issue Amount	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Current Portion
Limited Tax Bonds:						
1993 Series A Bonds,						
5.00-8.00%, due 6/01/20	$ 150,555	$ 71,655	$ -	$ (7,430)	$ 64,225	$ 7,805
2005 Series A Refunding Bonds,						
3.00-5.00%, due 6/01/34	218,990	218,990	-	-	218,990	-
2009 Series A Refunding Bonds,						
4.375-5.00%, due 6/01/19	19,040	14,120	-	(1,765)	12,355	1,850
Total Long-Term Debt		304,765	-	(9,195)	295,570	$ 9,655
Plus: Unamortized bond premium		5,310	-	(371)	4,939	
Less:						
Unamortized bond discount		(174)	-	22	(152)	
Current portion		(9,195)	-	-	(9,655)	
Total Long-Term Debt, Net		$ 300,706	$ -	$ (9,544)	$ 290,702	

NOTE 11 – LONG - TERM DEBT (continued)

Description of the District's Long-Term Debt Issues

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

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

Both the 1999 and 1998 Series A Bonds were fully redeemed on June 1, 2010 and June 1, 2009, respectively. As of June 30, 2014 the outstanding balance on the 1997 Series A Bonds was $16,850,000 with available investment balance held by the bond trustee of $17,318,826.

The 2005 Series A Bonds, with interest rates ranging from 4.375 to 5.0 percent, are limited obligations of the District, and shall be payable from, and secured by, a pledge of sales tax revenues received by the District. Interest payments are due on June 1 and December 1 of each year. Principal payments will commence on June 1, 2021 and will mature on June 1, 2034.

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

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

The 2009 Series A Bonds, with interest rates ranging from 3.0 to 5.0 percent, are limited obligations of the District, and shall be payable from, and secured by, a pledge of sales tax revenues received by the District. Interest payments are due on June 1 and December 1 of each year. The bonds will mature on June 1, 2019.

NOTE 11 – LONG - TERM DEBT (continued)

Debt Service Requirements

Debt Service requirements for long-term debt as of June 30, 2014 are as follows (in thousands):

	1993 Series A Bonds			2005 Series A Refunding Bonds		
Fiscal Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2015	$ 8,215	$ 3,258	$ 11,473	$ -	$ 10,555	$ 10,555
2016	8,645	2,827	11,472	-	10,555	10,555
2017	9,110	2,373	11,483	-	10,555	10,555
2018	9,585	1,895	11,480	-	10,555	10,555
2019	10,090	1,392	11,482	-	10,555	10,555
2020-2024	10,775	862	11,637	49,965	49,359	99,324
2025-2029	-	-	-	77,165	33,802	110,967
2030-2034	-	-	-	91,860	13,013	104,873
Total	$ 56,420	$ 12,607	$ 69,027	$ 218,990	$ 148,949	$ 367,939

	2009 Series A Refunding Bonds			Total		
Fiscal Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2015	$ 1,915	$ 505	$ 2,420	$ 10,130	$ 14,318	$ 24,448
2016	2,015	409	2,424	10,660	13,791	24,451
2017	2,085	329	2,414	11,195	13,257	24,452
2018	2,190	225	2,415	11,775	12,675	24,450
2019	2,300	115	2,415	12,390	12,062	24,452
2020-2024	-	-	-	60,740	50,221	110,961
2025-2029	-	-	-	77,165	33,802	110,967
2030-2034	-	-	-	91,860	13,013	104,873
Total	$ 10,505	$ 1,583	$ 12,088	$ 285,915	$ 163,139	$ 449,054

NOTE 12 – PENSION PLAN

Plan Description

All permanent employees are eligible to participate in the Public Employees' Retirement Fund (the Fund) of the State of California's Public Employees' Retirement System (CalPERS). The Fund is an agent multiple-employer defined benefit plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability and death benefits based on the employee's years of service, age and final compensation. For all employees hired prior to January 1, 2013 (Tier 1), the employees vest after five years of service and may receive retirement benefits at age 50 and can receive the maximum benefit of 2 percent of annual salary at age 60.

The California Legislature enacted the Public Employees' Pension Reform Act of 2013 (PEPRA) which became effective as of January 1, 2013. As originally enacted, PEPRA provided that for all employees hired on or after January1, 2013 (Tier 2), the employees vest after five years of services and may receive retirement benefits at age 62 and can receive the maximum benefit of 2 percent of the average of the employee's final three years compensation. Subsequently, on October 4, 2013 PEPRA was amended pursuant to Assembly Bill 1222 to provide for an exemption of California transit employees from all of the provisions or PEPRA until January 1, 2015, or until a court of law determines that the provisions of PEPRA do not violate Section 13(c)of the Federal Transit Act, whichever is sooner. On December 4, 2013 CalPERS issued a Circular Letter to all public agency employers directing impacted agencies, such as SamTrans, to self-identify as an employer that receives funding under the Federal Transit Act. In response to that directive, SamTrans issued its certification to CalPERS on December 18, 2013 confirming that the agency is impacted by the exemption from PEPRA implemented by Assembly Bill 1222, exempting public employees whose interests are protected by Section 13(c) from PEPRA.

These benefit provision and all other requirements are established by state statute and District ordinance. Copies of the Fund's annual financial report may be obtained from the CalPERS' executive office: Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

Funding Policy

Tier 1 and Tier 2 District employees have an obligation to contribute 7 and 6.25 percent, respectively, of their salary to the Fund. The District makes the contributions required of the District and its employees on their behalf. The District is required to contribute at an actuarially determined rate. The required employer contribution rate for both fiscal years 2014 and 2013 were 8.863 and 8.542 percent of annual covered payroll, respectively for Tier 1. The required contribution rate for 2014 was 8.542 percent for Tier 2. 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.

NOTE 12 – PENSION PLAN (continued)

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, 2012 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included the following:

Investment rate of return	7.5% (net of administrative services)
Projected salary increase	3.2% to 14.2% depending on age, service and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 2.75% and an annual production growth of 0.25%

The actuarial value of assets was determined using a technique that smoothes the effect of short–term volatility in the market value of investments over a two to five-year period depending on the size of investment gains and/or losses. Unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis over a 30 year period.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	$ 6,568	100%	$ -
6/30/2013	4,634	100%	-
6/30/2014	4,897	100%	-

Funded Status and Funding Progress

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

	2014	2013
Actuarial accrued liability (AAL)	$ 242,348	$ 217,685
Actuarial value of plan assets	205,605	206,692
Unfunded actuarial accrued liability (UAAL)	$ 36,743	$ 10,993
Funded ration (actuarial value of plan assets/AAL)	84.8%	95.0%
Covered payroll (active plan members)	$ 45,795	$ 44,932
UAAL as a percentage of covered payroll	80.20%	24.50%

The schedule of funding progress for the postemployment defined benefit pension plan is shown in the Required Supplementary Information immediately following the Notes to the Financial Statements. The table presents multi-year trend information about whether the actuarial value of plan asset is increasing or decreasing relative to the actuarial accrued liability for benefits overtime.

NOTE 13 – POST-RETIREMENT HEALTH CARE BENEFITS

Plan Description

In August 1993, the District's Board of Directors adopted the San Mateo County Transit District Retiree Healthcare Plan (Plan). The Plan is an agent plan administered by the CalPERS system. The Plan provides post-retirement medical care insurance to qualified retirees and their surviving spouses, those who have attained 50 years of age and have at least five years of District service. As of June 30, 2014 and 2013, there are 273 and 261qualified retirees and spouses of deceased retirees, respectively. Benefit allowance provisions are established through agreements and memorandums of understanding (MOU) between the District, its management employees and unions representing District employees. The benefit provides a lifetime allowance to eligible plan members and their lifetime beneficiaries.

Funding Policy

In April 2008, the District's Board of Directors adopted an Other Post Employment Benefit (OPEB) funding plan authorizing the establishment of an Internal Revenue Code (IRC) tax qualified trust which was established through the CalPERS California Employer's Retiree Benefit Trust (CERBT) in April 2009. The Plan also called for increasing amounts to be funded into the trust each year until the full Annual Required Contribution (ARC) can be funded on an annual basis. The District is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 8.5% of annual covered payroll. CalPERS will publish aggregated GASB 43 compliant financial statements, notes and required supplementary information.

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

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

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

In fiscal year ended June 30, 2014, the District contributed $1,400,000 to the established trust fund through CERBT. In addition, the District contributed $1,890,423 in pay-as-you-go amounts for the year ended June 30, 2014.

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

Funding Policy (continued)

In fiscal year ended June 30, 2013, the District contributed $1,200,000 to the established trust fund through CERBT. In addition, the District contributed $1,862,459 in pay-as-you-go amounts for the year ended June 30, 2013.

Annual OPEB Cost and Net Obligation

The District's annual OPEB cost (expense) is calculated based on the ARC of the employer. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan (in thousands) for the fiscal year ended June 30, 2014 and June 30, 2013:

	For the year ended June 30, 2014	For the year ended June 30, 2013
Annual required contribution	$ 3,878	$ 3,921
Interest on net OPEB obligation	521	504
Adjustment to annual required contribution	(759)	(595)
Annual OPEB cost (expense)	3,640	3,830
Contribution made	(3,291)	(3,062)
Increase in net OPEB obligation	349	768
Net OPEB obligation, beginning of year	8,365	7,597
Net OPEB obligation, end of year	$ 8,714	$ 8,365

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage of Contributed	Net OPEB Obligation
2012	$ 3,662	$ 2,801	76.5%	$ 7,597
2013	3,830	3,062	79.9%	8,365
2014	3,640	3,291	90.4%	8,714

Funded Status and Funding Progress

The funded status of the plan is as follows (in thousands):

	For Year Ended June 30, 2014	For Year Ended June 30, 2013
Actuarial accrued liability (AAL)	$ 38,409	$ 35,972
Actuarial value of plan assets	4,881	2,237
Unfunded actuarial accrued liability (UAAL)	$ 33,528	$ 33,735
Funded ratio (actuarial value of plan assets/AAL)	12.7%	6.2%
Covered payroll (active plan members)	$ 47,607	$ 43,766
UUAL as a percentage of covered payroll	70.4%	77.1%

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

Funded Status and Funding Progress (continued)

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

Actuarial Methods and Assumptions

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

In the June 30, 2013 actuarial valuation, the Entry Age Normal (EAN) cost method was used. The actuarial assumptions included a variable investment return rate ranging from 6.25 percent in 2013 and 7.25 percent in 2016 based on the Board approved funding plan which gradually increases funding in an IRC Irrevocable Trust and a three percent inflation rate. Healthcare cost trends rates ranged from an initial rate of 7.8 to 5.0 percent after 3 years. Cost of living adjustment for retirees is 3.25%. The actuarial value of the District's assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over 15 years. The UAAL is being amortized as a level percent of payroll on a closed basis. The remaining amortization period at June 30, 2014 was 24 years.

NOTE 14 – SELF-INSURANCE

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District is self-insured for a portion of its public liability, property damage and workers' compensation liability. As of June 30, 2014, coverage provided by self-insurance and excess coverage is generally as follows:

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

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

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

NOTE 14 – SELF-INSURANCE (continued)

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

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

	2014 (in thousands)	2013 (in thousands)
Self – insurance liabilities, beginning of year	$ 18,195	$ 16,623
Incurred claims and changes in estimates	(5,564)	5,008
Claim payments and related costs	(903)	(3,436)
Total self – insurance claims liabilities	11,728	18,195
Less: current portion	(4,291)	(3,628)
Noncurrent portion	$ 7,437	$ 14,567

NOTE 15 – JAPANESE OPERATING LEASE

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

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

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

NOTE 16 – PARATRANSIT TRUST FUND

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

NOTE 17 – COMMITMENT AND CONTINGENT LIABILITIES

Legal

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

Grants

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

Fuel Hedge Program

In June 2014, the District entered into a diesel fuel price cap agreement with Barclays Bank to hedge the cost of fuel for fiscal year 2015 which capped the price of fuel hedged by the District at $2.95 per gallon. The District's fiscal year 2015 adopted budget for fuel expenses is $6.3 million which is a decrease of about $158 thousand or 2.4 percent, below the revised fiscal year 2014 budget. The District purchases fuel based on the average weekly spot price for Oil Price Information Service (OPIS) index. This method leaves the District open to fluctuation in the market for diesel fuel. The primary goal of the fuel hedging program is to reduce volatility and uncertainty in the fuel budget. The District hedged 1.2 million gallons, which represents approximately 70 percent of estimated fuel consumption for fiscal year 2015. In order to maximize the hedging program's potential for economic efficiency, the District partnered with the JPB, which hedged 2.3 million gallons. The agreement documents include a Credit Support Annex which provides protection to the District in the event that the rating of Barclays Bank falls to or below "A3" by Moody's, to or below "A-" by S&P, or to or below "A-" by Fitch. Implementing this fuel hedging program allowed the District to reduce uncertainty in the fuel budget for fiscal year 2015 and to take advantage of the relatively low market prices on the closing date of the transaction. Staff will return to the Board with results of the fiscal year 2015 fuel hedging program and a recommendation on whether to continue the program in fiscal year 2016.

The fuel hedge program was inaugurated in fiscal year 2010 and had been consistently implemented for fiscal years 2010, 2011, 2012, 2013 and 2014.

PTMISEA Grants

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

NOTE 17 – COMMITMENT AND CONTINGENT LIABILITIES (continued)

PTMISEA Grants (continued)

The following table shows the changes in activity related to the PTMISEA grant funds during the fiscal year as well as the remaining commitment as of June 30, 2014 (in thousands):

	PTMISEA Bus Purchases (Fund 3602)	PTMISEA 2009 Various Projects Allocation (Fund 3606)	PTMISEA 2010 Various Projects Allocation (Fund 3622)
Total Allocations as of June 30, 2013	$ 267,402	$ 880,011	$ 517,713
Total Allocations Received in FY 2014	-	-	-
Interest Income	(190,236)	(4,455)	(1,539)
Total Expenditures and Commitments	-	(2,308)	(263)
Commitment at June 30, 2014	$ 77,166	$ 873,248	$ 515,911

	PTMISEA 2011 Various Projects Allocation (Fund 3618)	Various PTMISEA Grant Interest (Fund 3636)
Total Allocations as of June 30, 2013	$ 5,485,602	$ -
Total Allocations Received in FY 2014	-	-
Interest Income	(242)	209,378
Total Expenditures and Commitments	(1,986,903)	-
Commitment at June 30, 2014	$ 3,498,457	$ 209,378

NOTE 18 – SUBSEQUENT EVENTS

Bargaining Units

The District has two bargaining units with the Amalgamated Trust Union (ATU). One unit consists of approximately 375 bus operators and maintenance employees and the other unit consists of 23 customer service representatives. The District also has two bargaining units with the Teamsters Union. One unit consists of 20 bus transportation supervisors, dispatchers and radio controllers and the other unit consists of 2 bus contracts inspectors.

Negotiations with the ATU and Teamsters leaders began early in Fiscal Year 2014 and collective bargaining was completed on October, 2014. This was the second labor contract for the 23 customer service employees who voted to join the ATU in 2009. As the economy improved the District was able to offer a modest (3 percent) wage increase while achieving its goals to reduce the District's expenses related to pensions.

The District also negotiated second contract with the new Transit Instructor Unit of the Teamsters.

As of this writing, contracts have been signed by both of the ATU Units and the Supervisory Unit of the Teamsters. Tentative Agreements have been reached with the Transit Instructor and Bus Contracts Inspector Units of the Teamsters.

Related Party Transaction

Pursuant to the Employment Agreement between the District and General Manager, CEO, Michael J. Scanlon, a housing assistance loan in the principal amount of $1,200,000 was provided to Mr. Scanlon on September 15, 2000, to enable Mr. Scanlon to purchase a home located at 342 West Oakwood Boulevard, Redwood City, California, (the Property) following his relocation from Fort Lauderdale, Florida to assume his position with the District. The loan was documented in the form of a Promissory Note secured by a deed of trust on the Property. As of June 30, 2014 the outstanding principal balance on the aforementioned loan was $760,000 and that amount was recorded as a receivable on the District's financial statements. Subsequent to the close of the fiscal year ending June 30, 2014, Mr. Scanlon and his wife sold the Property and from the proceeds of sale the entirety of the then outstanding principal balance of his loan in the amount of $760,000 was paid to the District. A deed of full reconveyance was recorded with the county clerk in San Mateo County on July 23, 2014.

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

Valuation Date		Actuarial Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
6/30/2011		217,685	206,692	10,993	95.0%	44,932	24.5%
6/30/2012		226,658	219,250	7,408	96.7%	43,038	17.2%
6/30/2013	[1]	242,348	205,605	36,743	84.8%	45,796	80.2%

[1] Most recent information available

SCHEDULE OF FUNDING PROGRESS RETIREE HEALTHCARE (in thousands)

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

[1] Most recent information available

SAN MATEO COUNTY TRANSIT DISTRICT
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, CAPITAL OUTLAY, AND LONG-TERM DEBT PRINCIPAL PAYMENTS COMPARISON OF BUDGET TO ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2014

	Budget	Actual	Variance Positive/ (Negative)
OPERATING REVENUES - Passenger fares	$ 17,965	$ 18,557	$ 592
OPERATING EXPENSES:			
Salaries and benefits	62,034	59,652	2,382
Contract operations and maintenance services	31,429	31,471	(42)
Other services	6,337	4,666	1,671
Materials and supplies	10,496	8,715	1,781
Insurance	7,041	(2,094)	9,135
Miscellaneous	6,612	5,514	1,098
Total operating expense	123,949	107,924	16,025
Operating loss	(105,984)	(89,367)	16,617
NON-OPERATING REVENUES (EXPENSES)			
Operating assistance	94,419	126,786	32,367
Investment income	1,056	1,561	505
Interest expense	(14,844)	(14,830)	14
Caltrain service subsidy	(5,440)	(5,440)	-
Interagency administrative income	7,629	6,552	(1,077)
Other income, net	8,315	8,866	551
Total nonoperating income	91,135	123,495	32,360
Income (loss) before capital outlay and long-term debt principal payments	(14,849)	34,128	48,977
CAPITAL OUTLAY:			
Capital assistance	55,332	33,281	(22,051)
Capital expenditures	(55,332)	(33,281)	22,051
Net capital outlay	-	-	-
Long-term debt principal payment	(9,655)	(9,655)	-
EXCESS (DEFICIENCY) OF REVENUES AND NONOPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENTS	$ (24,504)	$ 24,473	$ 48,977

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

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

NOTE 2 – RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

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

Excess of revenues and non-operating income over expenses, capital outlay and debt principal payments		$ 24,473
Capital expenditures	$ 33,281	
Recollectible expense	(53)	
Depreciation and amortization	(27,184)	
Postemployment benefits accrual	(349)	
Long-term debt principal payments	9,655	
GASB 31 unrealized gain/loss	(263)	
Capital gain on investment	(6)	
Bond amortization expense	(729)	
Bond premium amortization - interest income	370	
Sub-total reconciling items		14,722
Change in net position, GAAP basis		$ 39,195

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Section III

STATISTICAL

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographics and Economic Information

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

Operating Information

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

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STATISTICAL SECTION

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographics and Economic Information

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

Operating Information

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

SAN MATEO COUNTY TRANSIT DISTRICT
FINANCIAL TRENDS – NET POSITION AND CHANGE IN NET POSITION
FISCAL YEARS 2005 THROUGH 2014 (in thousands)

Fiscal year	**2014**	**2013**	**2012**
OPERATING REVENUES - Passenger Fares	$ 18,557	$ 17,808	$ 17,452
OPERATING EXPENSES:			
Salaries and benefits	60,001	57,227	58,921
Contract operations and maintenance	31,471	30,152	29,851
Other services	4,666	5,580	5,866
Materials and supplies	8,769	9,487	8,768
Insurance	6,090	6,770	7,430
Miscellaneous	5,515	4,935	4,433
Total operating expenses	116,513	114,151	115,269
Operating loss before depreciation, amortization and administrative expenses capitalized	(97,956)	(96,343)	(97,817)
Depreciation and amortization	(27,184)	(26,939)	(24,297)
OPERATING LOSS	(125,140)	(123,282)	(122,114)
NONOPERATING REVENUES (EXPENSES):			
Operating assistance	126,271	121,788	110,672
Investment income	1,663	586	1,375
Interest expense	(15,559)	(16,400)	(16,247)
Caltrain service subsidy	(5,440)	(14,000)	(10,620)
SFO/Colma BART station revenue/(deficit)	-	-	-
Lease-leaseback income	-	-	-
Interagency administrative income	6,552	5,501	3,483
Other income, net	8,866	13,941	13,152
Paratransit Trust Fund	-	-	-
Total nonoperating revenues, net	122,353	111,416	101,815
Net income (loss) before capital contributions	(2,787)	(11,866)	(20,299)
Capital contributions	33,281	-	11,049
CHANGE IN NET POSITION	30,494	(11,866)	(9,250)
NET POSITION COMPONENTS			
Net investment in capital assets	(18,891)	(34,445)	(23,448)
Restricted	27,621	25,000	33,982
Unrestricted	116,030	102,728	87,706
Restatement	-	-	(3,557)
NET POSITION	$ 124,760	$ 93,283	$ 94,683

[1] 2012 restatement due to implementation of GASB 65

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

Source: CAFRs.

FISCAL YEARS 2005 THROUGH 2014 (in thousands)

2011	2010	2009	2008	2007	2006	2005
$ 17,373	$ 17,149	$ 17,325	$ 17,203	$ 16,830	$ 16,296	$ 13,863
58,473	59,835	62,708	64,175	58,521	56,944	53,420
29,250	28,706	28,710	27,902	26,482	24,338	22,751
4,004	3,651	4,655	3,747	3,580	3,948	3,546
7,873	7,344	8,432	9,589	8,151	7,102	4,943
6,900	6,607	5,621	6,074	6,010	4,927	3,774
4,628	6,263	6,437	7,269	6,585	6,433	5,684
111,128	112,406	116,563	118,756	109,329	103,692	94,118
(93,755)	(95,257)	(99,238)	(101,553)	(92,499)	(87,396)	(80,255)
(41,838)	(21,887)	(29,687)	(23,899)	(40,399)	(42,635)	(40,232)
(135,593)	(117,144)	(128,925)	(125,452)	(132,898)	(130,031)	(120,487)
98,173	91,672	92,673	115,004	113,565	99,827	92,899
2,197	4,659	9,830	11,637	9,745	6,690	5,770
(16,940)	(17,371)	(17,674)	(17,783)	(18,075)	(17,969)	(17,948)
(14,708)	(16,521)	(16,521)	(16,040)	(14,478)	(12,929)	(14,588)
-	-	-	-	(5,289)	(9,620)	(8,095)
-	-	-	-	-	-	-
3,342	4,375	3,151	8,327	6,944	6,054	6,595
8,349	10,241	7,520	5,806	12,613	5,901	6,785
-	-	25,000	-	-	-	-
80,413	77,055	103,979	106,951	105,025	77,954	71,418
(55,180)	(40,089)	(24,946)	(18,501)	(27,873)	(52,077)	(49,069)
14,396	54,560	11,092	6,425	2,304	4,764	4,853
(40,784)	14,471	(13,854)	(12,076)	(25,569)	(47,313)	(44,216)
(18,519)	1,204	(46,833)	(35,006)	(33,619)	(20,253)	10,533
32,702	31,875	37,048	3,517	3,569	3,390	13,659
93,307	115,195	143,588	179,146	189,783	202,165	208,423
-	-	-	-	-	-	-
$ 107,490	$ 148,274	$ 133,803	$ 147,657	$ 159,733	$ 185,302	$ 232,615

SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 2005 THROUGH 2014

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

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

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

Source: California State Board of Equalization and CAFRs.

SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 2005 THROUGH 2014

2011	2010	2009	2008	2007	2006	2005
$ 17,373	$ 17,149	$ 17,325	$ 17,203	$ 16,830	$ 16,296	$ 13,863
13,531	14,255	15,284	14,915	14,669	14,508	14,510
2.00	2.00	1.75	1.50	1.50	1.50	1.25
1.00	1.00	0.75	0.75	0.75	0.75	0.60
1.25	1.25	1.00	1.00	1.00	1.00	0.75
3.50	3.00	3.00	2.50	2.50	2.50	2.00
0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
$ 63,514	$ 58,488	$ 60,015	$ 68,667	$ 66,198	$ 63,813	$ 59,958
$13,020,643	$11,966,338	$11,327,022	$13,137,913	$13,326,306	$12,900,391	$12,451,350

SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – OVERLAPPING REVENUE
FISCAL YEARS 2005 THROUGH 2014

Fiscal year	State		City and County	Other Special Districts	San Mateo County Transit District [1]	City of San Mateo Transactions and Use Tax		City of Half Moon Bay Transactions and Use Tax		San Mateo County Transactions and Use Tax		Total
2014	6.50%		1.00%	0.50%	0.50%	0.25%		0.50%		0.50%		9.75%
2013	6.50%	[5]	1.00%	0.50%	0.50%	0.25%		0.50%	[6]	0.50%	[7]	9.75%
2012	6.25%		1.00%	0.50%	0.50%	0.25%						8.50%
2011	6.25%	[4]	1.00%	0.50%	0.50%	0.25%						8.50%
2010	7.25%		1.00%	0.50%	0.50%	0.25%	[3]					9.50%
2009	7.25%	[2]	1.00%	0.50%	0.50%							9.25%
2008	6.25%		1.00%	0.50%	0.50%							8.25%
2007	6.25%		1.00%	0.50%	0.50%							8.25%
2006	6.25%		1.00%	0.50%	0.50%							8.25%
2005	6.25%		1.00%	0.50%	0.50%							8.25%

[1] State legislation requires the District to obtain the approval of a majority of the voters in a public election to approve any sales tax measure.

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

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

[4] State sales tax reduced to 6.25% effective July 1, 2011.

[5] State sales tax increased to 6.50% effective January 1, 2013.

[6] City of Half Moon Bay Transactions and Use Tax (HMBG), tax rates effective on April 1, 2013.

[7] San Mateo County Transactions and Use Tax (SMGT), tax rates effective on April 1, 2013.

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

Source: California State Board of Equalization

SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – PRINCIPAL REVENUE PAYERS
FISCAL YEARS 2005 AND 2013 (in thousands)

	FY2013*			FY2005		
Principal Revenue Payers	**Rank**	**Percent of Taxable Sales**	**Amount**	**Rank**	**Percent of Taxable Sales**	**Amount**
All other outlets	1	31.0%	$1,015,038	1	26.8%	$3,341,692
Automotive group	2	11.4%	374,183	2	13.6%	1,695,898
Food Services/drinking places	3	11.4%	374,145	10	3.3%	$408,881
Gasoline (Service) stations	4	9.2%	300,409	7	6.7%	827,759
General merchandise stores	5	7.8%	255,354	3	10.0%	1,247,946
Building materials group	6	5.8%	190,977	6	7.5%	929,948
Apparel stores	7	4.8%	158,027	11	2.9%	365,474
Food/Beverage stores	8	4.1%	133,852	5	8.9%	1,111,150
Miscellaneous Store Retailers	9	3.6%	116,418	9	4.9%	614,539
Electronics & Appliance stores	10	2.9%	96,192			
Furniture/Home furnishings	11	2.5%	83,328	8	4.1%	515,133
Sporting Goods, Hobby, Book & Music Stores (Specialty stores)	12	2.2%	73,300	4	9.8%	1,217,982
Health and personal services	13	2.0%	64,263			
Nonstore Retailers	14	1.2%	39,369	12	1.4%	174,948
Total		100.0%	$3,274,856		100.0%	$12,451,350

* Principal tax payers information for 1st Quarter, 2013 is the most current information available.

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

Source: California State Board of Equalization

SAN MATEO COUNTY TRANSIT DISTRICT
DEBT CAPACITY – RATIO OF OUTSTANDING BONDS
FISCAL YEARS 2005 THROUGH 2014

Fiscal Year	Revenue Bonds for SamTrans (in thousands)[1]	Personal Income for San Mateo County[2]	As a Percent of Personal Income
2014	$ 285,915	$ 58,497,341	0.49%
2013	295,570	56,793,535	0.52%
2012	304,765	55,139,354	0.55%
2011	313,535	50,596,839	0.62%
2010	321,905	48,907,268	0.66%
2009	329,905	47,279,930	0.70%
2008	337,800	49,416,583	0.68%
2007	345,205	50,610,056	0.68%
2006	351,520	47,695,895	0.74%
2005	349,800	43,554,177	0.80%

[1] CAFRs

[2] U.S. Department of Commerce, Bureau of Economic Analysis, calendar year figures. Personal Income data for 2012 and 2013 are based on an estimated three percent annual increase over 2011.

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

SAN MATEO COUNTY TRANSIT DISTRICT
DEBT CAPACITY – BONDED DEBT
FISCAL YEARS 2005 THROUGH 2014

Fiscal Year	Revenue Bonds for SamTrans (in thousands)	Total Taxable Sales in San Mateo County	As a Percent of Total Taxable Sales in San Mateo County
2014	$ 285,915	$ 15,521,200 [1]	1.84%
2013	295,570	14,771,800 [1]	2.00%
2012	304,765	13,906,978	2.19%
2011	313,535	13,020,643	2.41%
2010	321,905	11,966,338	2.69%
2009	329,905	11,327,022	2.91%
2008	337,800	13,137,913	2.57%
2007	345,205	13,326,306	2.59%
2006	351,520	12,900,391	2.72%
2005	349,800	12,451,350	2.81%

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

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

Source: CAFRs & California State Board of Equalization

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

SAN MATEO COUNTY TRANSIT DISTRICT
DEBT CAPACITY – PLEDGED REVENUE COVERAGE
FISCAL YEARS 2005 THROUGH 2014 (in thousands)

Fiscal Year	Sales Tax Revenue	Principal	Interest	Total	Coverage
2014	$ 77,606	$ 9,655	$ 14,799	$ 24,454	3
2013	73,859	9,233	15,220	24,453	3
2012	69,370	8,770	15,680	24,450	3
2011	63,514	8,370	16,082	24,452	3
2010	58,488	8,031	16,419	24,450	2
2009	60,015	6,940	16,115	23,055	3
2008	68,667	6,620	16,801	23,421	3
2007	66,198	6,315	17,265	23,580	3
2006	63,813	6,025	13,175	19,200	3
2005	59,958	17,185	17,489	34,674	2

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

Source: CAFRs.

SAN MATEO COUNTY TRANSIT DISTRICT
DEMOGRAPHICS AND ECONOMIC INFORMATION – POPULATION, INCOME AND UNEMPLOYMENT RATES
FISCAL YEAR 2005 AND 2013

Year	Population [1]	Total Personal Income [2]	Per Capita Personal Income [2]	Average Unemployment Rates [3]
2014	745,193	$58,496,965 *	$ 79,124 *	4.2%
2013	736,647	56,793,170 *	76,819 *	5.7%
2012	727,795	55,139,000	74,582	7.0%
2011	722,372	51,931,000	71,232	8.3%
2010	718,614	47,787,000	66,362	8.9%
2009	713,818	46,631,000	65,345	8.9%
2008	707,820	49,148,000	69,830	4.8%
2007	701,838	50,186,000	72,330	4.0%
2006	699,347	47,440,000	68,736	3.8%
2005	700,350	43,264,000	62,695	4.4%

[1] California Department of Finance, Demographic Research Unit (2014 data as of Jan 1, 2013 and 2014-Report E-1; 2010-2013 data as of July 1-Report E-6)

[2] U.S. Department of Commerce, Bureau of Economic Analysis, BEARFACTS 2004-2011, San Mateo, California [06081], most current information available.

[3] California Economic Development Department, Labor Force/Unemployment Data (2014 data average Jan-Aug, 2005-2013 data average for calendar year)

*Personal Income & Per Capital Personal Income data for 2013 and 2014 is based on an estimated three percent annual increase over 2012.

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

E-1 Cities, Counties, and the State Population Estimates with Annual Percent Change— January 1, 2013 and 2014

SAN MATEO COUNTY TRANSIT DISTRICT
DEMOGRAPHICS AND ECONOMIC INFORMATION – PRINCIPAL EMPLOYERS
FISCAL YEAR 2012 AND 2006

	2012*			2006		
Employers in San Mateo County	Number of Employees	Rank	Percent of Total County Employment	Number of Employees	Rank	Percent of Total County Employment
United Airlines	9,000	1	2.43%	9,600	1	2.73%
Genentech Inc.	8,800	2	2.37%	7,845	2	2.23%
Oracle Corporation	7,000	3	1.89%	5,642	4	1.61%
County of San Mateo	5,836	4	1.57%	5,777	3	1.64%
Kaiser Permanente	3,927	5	1.06%	3,609	5	1.03%
Visa USA/Visa International	3,707	6	1.00%	--	--	0.00%
Dignity Health	2,832	7	0.76%	--	--	0.00%
Mills-Peninsula Health Services	2,500	8	0.67%	1,800	9	0.51%
Safeway Inc.	2,250	9	0.61%	2,280	6	0.65%
Gilead Sciences Inc.	2,147	10	0.58%	--	--	0.00%
Electronic Arts Inc.	--	--	0.00%	2,000	8	0.57%
Applied Biosystems	--	--	0.00%	1,578	10	0.45%
United States Postal Service	--	--	0.00%	2,174	7	0.62%
Total	47,999		12.94%	42,305		12.04%

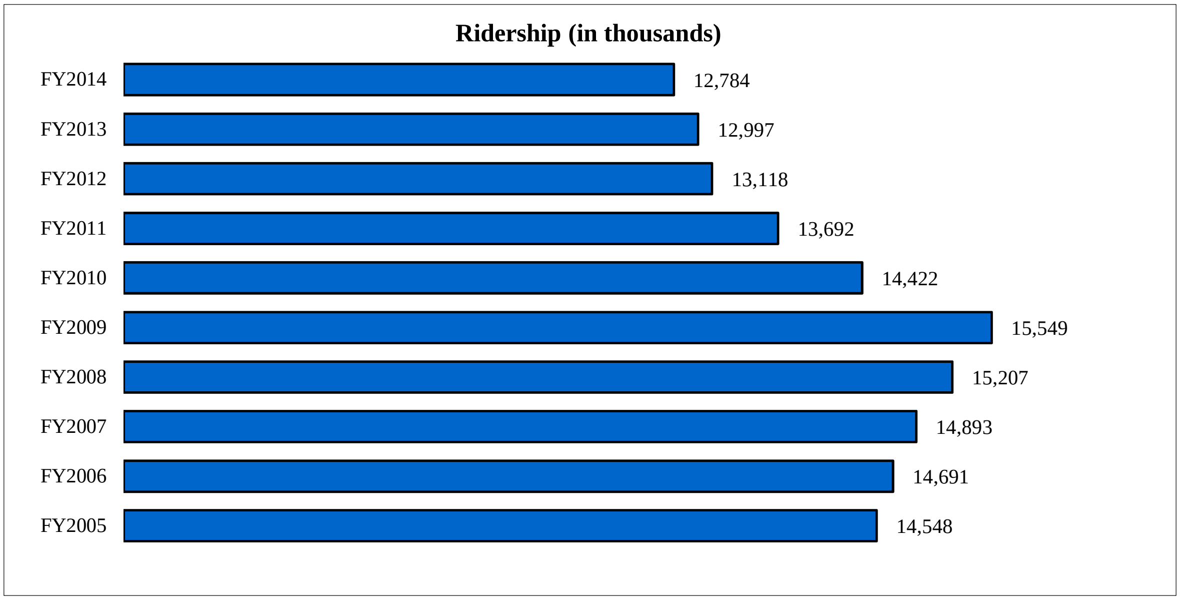
* The latest information available for principal employers in the County.

This table presents the top 10 principal employers in San Mateo County for 2012 and 2006.

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

FIXED-ROUTE RIDERSHIP*

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



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

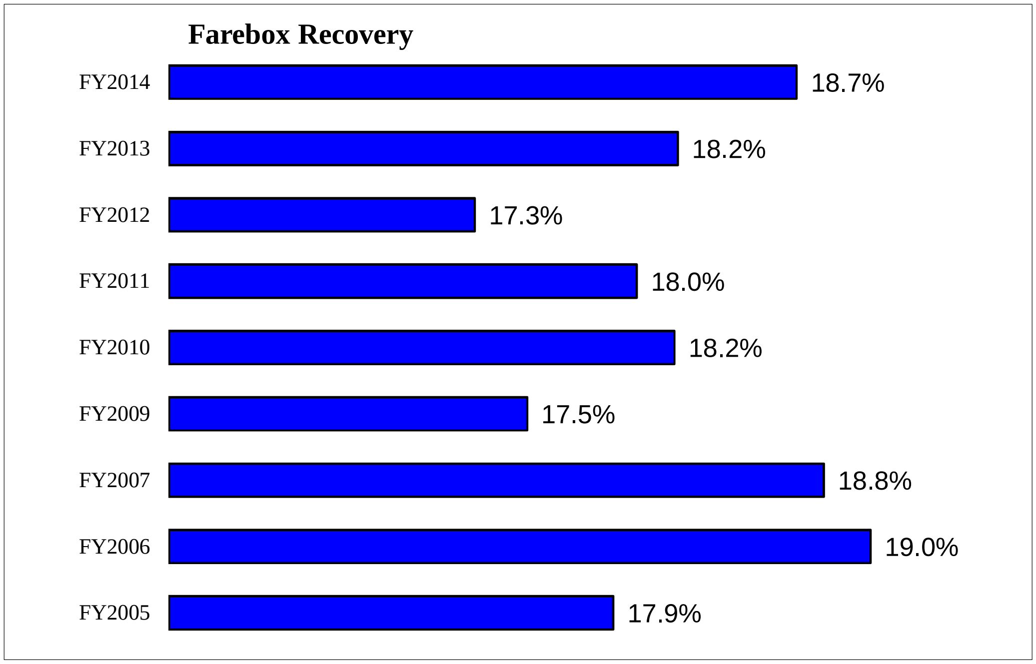
FIXED-ROUTE PASSENGER FARES

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

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

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

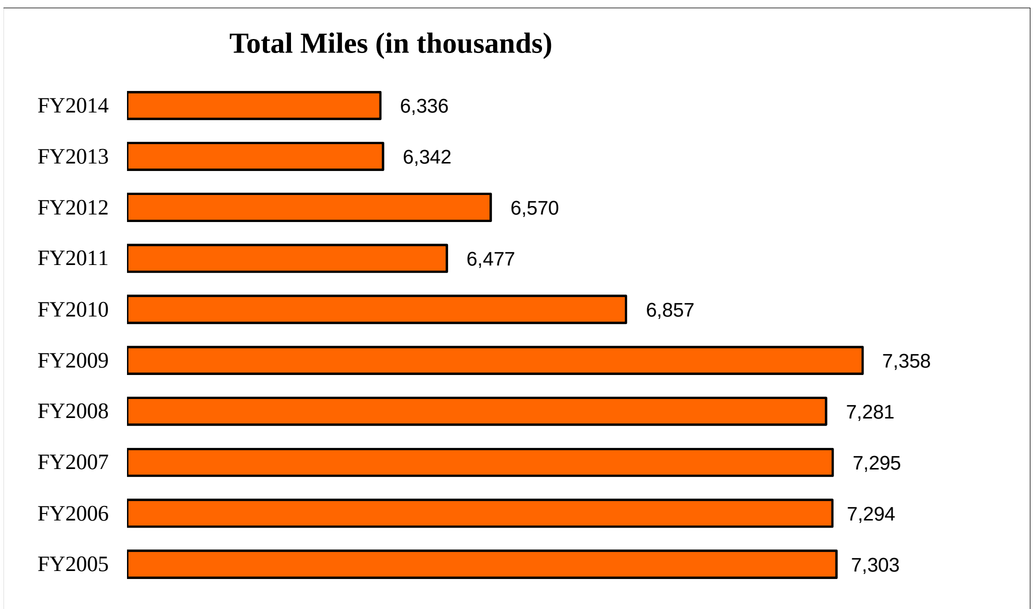
FIXED-ROUTE FAREBOX RECOVERY



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

FIXED-ROUTE REVENUE MILES*

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



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

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

SAN MATEO COUNTY TRANSIT DISTRICT
OPERATING INFORMATION – EMPLOYEES (FULL-TIME EQUIVALENTS)
FISCAL YEARS 2005 THROUGH 2014

	Full-Time Equivalents				
Division	**2014**	**2013**	**2012**	**2011**	**2010**
Caltrain Modernization Program	0.05	0.48	-	-	-
Customer Service and Marketing	27.81	30.31	29.56	24.43	20.90
Executive	3.45	3.58	3.52	3.60	3.55
Finance and Administration	60.28	66.53	66.51	66.83	67.88
Operations, Engineering and Construction	445.35	449.27	448.83	451.77	453.37
Planning and Development	5.70	5.03	6.64	6.04	6.00
Public Affairs	4.90	4.60	4.44	4.20	3.25
Total	547.54	559.80	559.50	556.87	554.95

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

Division	**2009**	**2008**	**2007**	**2006**	**2005**
Administration	42.85	43.35	42.70	38.76	36.56
Communication	29.97	29.58	33.75	35.77	36.17
Development	15.12	13.75	11.57	14.84	13.40
Executive	4.55	4.80	4.80	6.00	6.00
Finance	33.30	33.40	31.30	29.37	18.31
Operations	502.25	502.50	507.20	500.37	513.13
Total	628.04	627.38	631.32	625.11	623.57

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

This table presents total Full-time Equivalents by division.

Source: Operating and capital budgets.

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SAN MATEO COUNTY TRANSIT DISTRICT
OPERATING INFORMATION – CAPITAL ASSETS
FISCAL YEARS 2005 THROUGH 2014 (in thousands)

	2014	2013	2012	2011
Depreciable Capital Assets				
Buses and bus equipment	$ 149,751	$ 135,297	$ 138,638	$ 132,855
Buildings and building improvements	64,815	71,935	79,294	78,844
Maintenance and other equipment	5,822	9,470	16,927	15,542
Furniture and fixtures	20,272	23,584	26,686	25,927
Shelters and bus stop signs	579	3,178	3,190	3,185
Other vehicles	2,226	2,183	2,263	2,031
Total depreciable capital assets	243,465	245,647	266,998	258,384
Accumulated Depreciation for*:				
Buses and bus equipment	(86,157)	(80,138)	(75,080)	(68,406)
Buildings and building improvements	(49,387)	(55,168)	(61,157)	(58,006)
Maintenance and other equipment	(4,015)	(7,740)	(15,035)	(13,258)
Furniture and fixtures	(16,765)	(17,083)	(20,094)	(17,768)
Shelters and bus stop signs	(558)	(3,177)	(3,183)	(3,176)
Other vehicles	(1,711)	(1,457)	(1,417)	(1,245)
Total accumulated depreciation	(158,593)	(164,763)	(175,966)	(161,859)
Nondepreciable Capital Assets				
Land and right of way	53,855	53,855	53,855	53,855
Construction in progress	21,323	11,563	10,201	9,805
Total nondepreciable capital assets	75,178	65,418	64,056	63,660
Capital Assets, Net	$ 160,050	$ 146,302	$ 155,088	$ 160,185

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

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

Source: CAFRs.

FISCAL YEARS 2005 THROUGH 2014 (in thousands)

2010	2009	2008	2007	2006	2005
$ 164,448	$ 140,767	$ 142,856	$ 158,180	$ 154,924	$ 151,580
76,150	73,868	73,686	73,237	72,619	72,083
15,125	14,591	24,718	25,500	23,710	22,883
20,831	14,447	13,033	13,875	13,087	13,329
3,166	3,165	3,271	3,313	3,304	3,304
2,026	2,343	2,015	2,363	2,472	2,354
281,746	249,181	259,579	276,468	270,116	265,533
(105,223)	(102,625)	(97,768)	(105,380)	(94,768)	(82,326)
(53,983)	(51,205)	(48,862)	(46,734)	(44,194)	(41,654)
(11,897)	(11,454)	(22,538)	(22,350)	(20,877)	(18,852)
(13,595)	(12,286)	(8,244)	(8,474)	(7,421)	(7,358)
(3,156)	(3,148)	(3,248)	(3,200)	(2,986)	(2,755)
(1,382)	(1,586)	(1,671)	(2,098)	(2,323)	(2,196)
(189,236)	(182,304)	(182,331)	(188,236)	(172,569)	(155,141)
51,435	51,435	51,435	43,695	43,695	43,695
36,425	16,968	18,772	15,713	15,417	10,957
87,860	68,403	70,207	59,408	59,112	54,652
$ 180,370	$ 135,280	$ 147,455	$ 147,640	$ 156,659	$ 165,044

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SINGLE AUDIT

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiency identified that are not considered to be material weaknesses?	____	Yes	X	None Reported
Noncompliance material to financial statements noted?	____	Yes	X	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified			
Internal control over major programs:				
• Material weakness identified?	____	Yes	X	No
• Significant deficiency identified	____	Yes	X	None Reported
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	____	Yes	X	No

Identification of major programs:

CFDA#(s)	Name of Federal Program or Cluster
20.500, 20.507	Department of Transportation – Federal Transit Administration (FTA)-Federal Transit Investments Grants and Federal Transit Formula Grants (Urbanized Area Formula Program)

Dollar threshold used to distinguish between type A and type B programs: $739,672

Auditee qualified as low-risk auditee?	X	Yes	____	No

FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any significant deficiencies, or material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated December 19, 2014, which is an integral part of our audits and should be read in conjunction with this report.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Financial Statement Prior Year Findings

There were no prior year Financial Statement Findings reported.

Federal Award Prior Year Findings and Questioned Costs

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

SAN MATEO COUNTY TRANSIT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
Federal Transit Cluster:			
Federal Transit Administration - U.S. Dept of Transportation Direct Program			
Federal Transit Formula Grants (Urbanized Area Formula Program)	20.507		
CA-90-Y344 Capital Grant			$ 52,950
CA-90-Y612 Capital Grant			2,114,431
CA-90-Y768 Capital Grant			1,698,925
CA-90-Y768 Operating Grant			69,563
CA-90-Y768 Operating Grant			117,616
CA-95--X187 - Capital Grant			349,659
CA-95--X187 - Operating Grant			6,278,824
CA-95-Z043 - Capital Grant			7,575,069
CA-95-Z043 - Operating Grant			447,864
CA-95-X144 - Operating			452,826
CA-57-X073 - Operating			54,407
Program subtotal	20.507		19,212,134
CA-04-0220 Capital Grant	20.500		10,571
CA-04-0221 Capital Grant			4,849,720
Federal Highway Administration ("FHWA")			
High Priority Program ("HPP") earmark for Project #1942			54,834
Department of Transportation, Federal Transit Administration			
State Planning and Research			
Section 5304 - Caltrans Planning Grant for BRT Study	20.515		87,667
Department of Transportation, Office of the Secretary (OST) Administration Secretary			
Surface Transportation Infrastructure - Discretionary			
Grants for Capital Infrastructure II			
CA-79-000 National Infrastructure Investment TIGER II Grant Direct Program	20.933		191,370
Federal Transit Administration - U.S. Department of Transportation Pass-Through:			
Pass-Through the California Department of Transportation			
Nonurbanized Area Formula Program			
Section 5311 - Operating	20.509	Not available	187,204
State Planning and Research			
Section 5303 - SRTP Planning	20.505		30,000
Transit Services Program:			
Pass-Through Metropolitan Transportation Commission			
Section 5317 - New Freedom Grant	20.521	Not available	32,229
Total Expenditures of Federal Awards			$ 24,655,729

See Accompanying Notes to Schedule of Expenditures of Federal Awards

NOTE 1 – REPORTING ENTITY

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

NOTE 2 – BASIS OF ACCOUNTING

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

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the San Mateo County Transit District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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Purpose of this Report

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

Maze & Associates

Pleasant Hill, California
December 19, 2014

MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the San Mateo County Transit District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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Report on Internal Control Over Compliance

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the basic financial statements of the District as of and for the year ended June 30, 2014, and have issued our report thereon dated December 19, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Maze & Associates

Pleasant Hill, California
December 19, 2014