San Mateo County Transit District

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2012

San Mateo County
TRANSIT DISTRICT

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2012

Prepared by the Finance and Administration Division

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November 30, 2012

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, 2011 through June 30, 2012. 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.

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. After a competitive process that extended over more than 15 months, The Caltrain Board of Directors, at its September 2011 meeting, authorized the award of the contract to TransitAmerica Services, Inc. The first full year (FY2013) of the five-year contract is for $62.5 million. Subsequent contract amounts are subject to annual negotiations.

Governance

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

Administration

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

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

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

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

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

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

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

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

Component Units

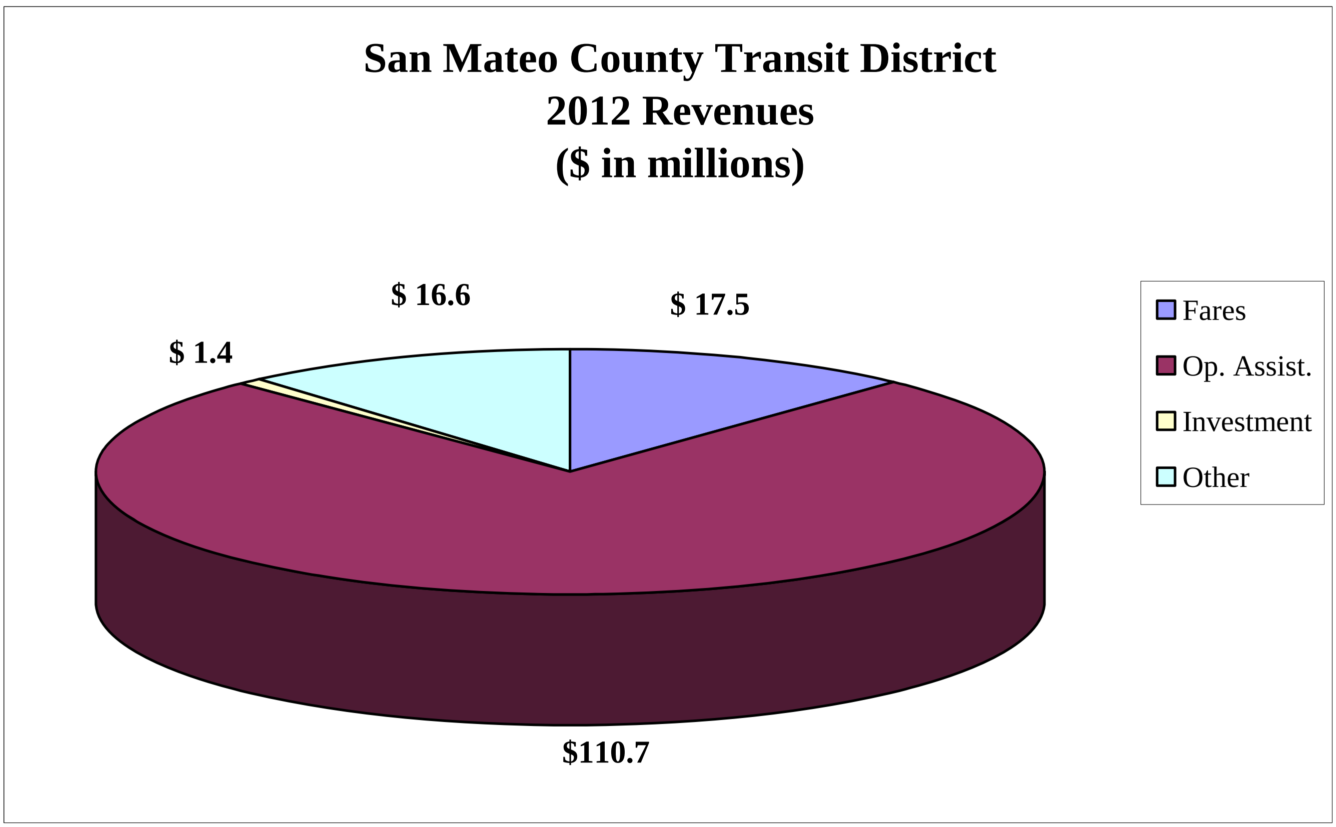
The District is a legally separate and financially independent entity that is not a component unit of San Mateo County or any other organization. While the District administers various activities on behalf of other agencies, such as the Peninsula Corridor Joint Powers Board (JPB), which operates Caltrain,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

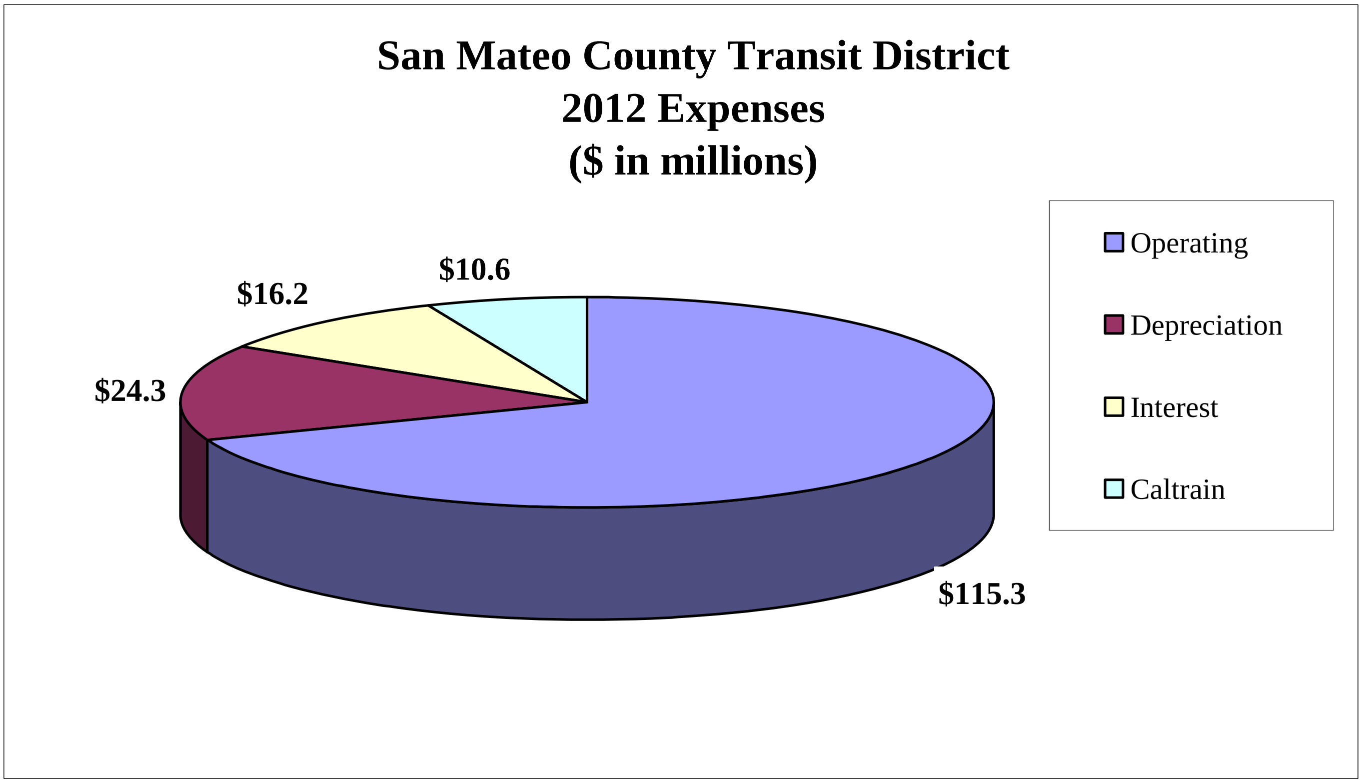
Budget

State law requires the District to adopt an annual budget by resolution of the Board of Directors. In the spring preceding the start of each fiscal year, staff presents an annual budget based on established agency goals, objectives and performance measures to the Board of Directors. The presentation may recommend using financial reserves to balance the budget when proposed expenditures exceed projected revenues. The Board of Directors monitors budget-to-actual performance through monthly staff reports. The Financial Section of this report includes a supplemental schedule that compares actual results on a budgetary basis of accounting to the final adopted 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 2012.





ECONOMIC CONDITION

Local Economy

Unemployment in San Mateo County had decreased to 7.1 percent by June 2012 from 8.6 percent in June 2011 and 9.2 percent in June 2010. This compares to 10.7 percent in June 2012 in the state of California and 12.0 and 12.2 percent in June 2011 and 2010, respectively. The District's sales tax receipts increased 9.4 percent in fiscal year 2012 from fiscal year 2011 levels which were up by 8.6 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 the contributions to Caltrain in the past are significantly impacting the long-term financial condition of the District. The District has the means to balance its budget with supplemental revenue sources through 2013; however by 2016 the District will have a budget shortfall that can not be funded by supplemental revenue sources.

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 program and deferring capital purchases. These various efforts have made a significant difference when looking at where the District stands today; however the District is still facing a structural deficit due to a decrease in transportation funding and rising costs.

The District has an adopted five-year a Strategic Plan, which can be viewed online at www.samtrans.com. The Plan is a policy framework that will help guide the District's transportation investments. The Plan focuses on addressing the District's structural deficit, reinventing the SamTrans family of services, linking transportation and land use investments, evolving business practices, partnering with its communities and investing in District employees to continue to achieve excellence. To meet the financial integrity goal of the strategic plan, the focus will be to structure the District's services in a way that maximizes efficiencies and fare revenues while continuing to meet the needs of our transit-dependent customers. The District is planning to update the Strategic Plan in 2013 to reflect any changes in investment priorities, and it will continue to be used to guide the District's goals and objectives over the next several years.

Major Initiatives

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

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

Motor Bus Operations

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

In response to ridership and revenue declines, the District reduced its bus operation from 60 routes to 58 routes in 2003. An additional four routes were eliminated in 2004 concurrent with the opening of the BART Extension to SFO and one route was added in the same year. In 2008, one more route was eliminated. In 2009, an additional 7 routes were eliminated and one route was added, representing a 7.5 percent service reduction to address the fiscal year 2010 budget shortfall, bringing the current total to 48 routes. Fixed-route bus ridership peaked in San Mateo County at 19.0 million in fiscal year 1998, but has since declined to 12.6 million in 2012.

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 34 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 JBP issued farebox revenue bonds to fund eight new Bombardier rail cars which have been placed in service.

More recently, in 2009, the JPB signed an agreement with the California High Speed Rail Authority (CHSRA) to establish an initial organizational framework to plan, design and construct improvements along the Caltrain corridor that will accommodate and serve the needs of High Speed Rail (HSR) and Caltrain. Since that time, the relationship between the two agencies has evolved. Agreement has been reached on a vision and strategy for how the corridor should be modernized to support both Caltrain and high-speed rail.

In 2012, a 9-party regional memorandum of understanding was approved by the JPB and the CHSRA to make an early investment of $1.5B to modernize the corridor. The funding is to pay for an advanced signal system (Communication-Based Operating Signal System) and electrification of the peninsula corridor. These investments would allow Caltrain to provide improved performance and more service to support the growing demand and it would also prepare the foundation for high-speed rail service to reach the peninsula in the future. The advance signal system is scheduled for completion by 2015 and electrification by 2019. Electrified Caltrain service is expected by 2019 and high-speed rail service in the peninsula by 2026-2029.

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

San Mateo County Transportation Authority

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

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

Paratransit Services

The District provides accessible transportation services throughout San Mateo County with fixed-route, Redi-Wheels and RediCoast services. The entire fleet of fixed-route buses is equipped with wheelchair lifts or ramps and kneeling feature to make boarding easier. For some seniors and many persons with disabilities who cannot use fixed-route buses, Redi-Wheels and RediCoast are the only means of transportation available. In fiscal year 2012, Redi-Wheels and RediCoast vehicles and contracted taxis provided a total of 202,975 hours of service to 304,427 customers.

ACKNOWLEDGMENTS AND AWARDS

The staff and contracted firms of the District bring an effective combination of skill, experience and dedication to carrying out the District's mission. Together, they plan, develop and finance the creation of a modern, coordinated multimodal transportation system offering convenient access to the many attributes of the Bay Area and beyond. Although we expect sales tax growth to be minimal in the coming years as we emerge from the recession, the District expects the continued enthusiasm and dedication of its transit professionals to meet the transportation challenges of the future.

The Government Finance Officers Association (GFOA) recognized the District's 2011 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 2012 CAFR also meets the requirements for a Certificate of Achievement and have submitted it to the GFOA for evaluation. We would like to thank our independent audit firm Maze & Associates, for its timely and expert guidance in this matter.

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

Respectfully submitted,

Virginia Harrington
Deputy CEO

Rima Lobo
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Mateo County Transit District, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011

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

Christopher P Morrill
President

Jeffrey R. Esser
Executive Director

BOARD OF DIRECTORS

JERRY DEAL, Chair

CAROLE GROOM, Vice Chair

JEFF GEE

ROSE GUILBAULT

SHIRLEY HARRIS

ZOE KERSTEEN-TUCKER

ARTHUR L. LLOYD

KARYL MATSUMOTO

ADRIENNE TISSIER

JERRY DEAL, City Selection Committee appointee for the central portion of San Mateo County. Mr. Deal was appointed in April 2009 and currently serves as chair. Mr. Deal has been a member of the City Council of the City of Burlingame since 2007 and is the current mayor. He also serves as a member of the governing body of the Peninsula Corridor Joint Powers Board. Mr. Deal is principal owner of J Deal Associates, a residential design firm based in Burlingame.

CAROLE GROOM was appointed by the San Mateo County Board of Supervisor in January 2011. Ms. Groom is currently vice chair. 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.

JEFF GEE, City Selection Committee appointee for the southern portion of San Mateo County. Mr. Gee was appointed in June 2011. Mr. Gee has been a member of the City Council of Redwood City since 2009. He is Vice President/General Manager of Swinerton Management & Consulting and a licensed California architect. Mr. Gee is a 14 year resident of Redwood City.

ROSE GUILBAULT, public member, was appointed by the San Mateo County Transit District Board of Directors in March 2006. She is 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”.

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

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

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

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. Ms. Matsumoto is the representative of the governing body of the San Mateo County Transportation Authority. She is a native Californian and has lived in South San Francisco for 27 years.

ADRIENNE TISSIER, was appointed by the San Mateo County Board of Supervisors in January 2005. Ms. Tissier represents the Fifth District, which includes the cities of Brisbane, Colma, Daly City, South San Francisco, and unincorporated Broadmoor Village. Ms. Tissier also serves as a chair of the governing body of the Peninsula Corridor Joint Powers Board. She also represents San Mateo County and is Chair to 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

Rita Haskin – Executive Officer, Customer Service and Marketing

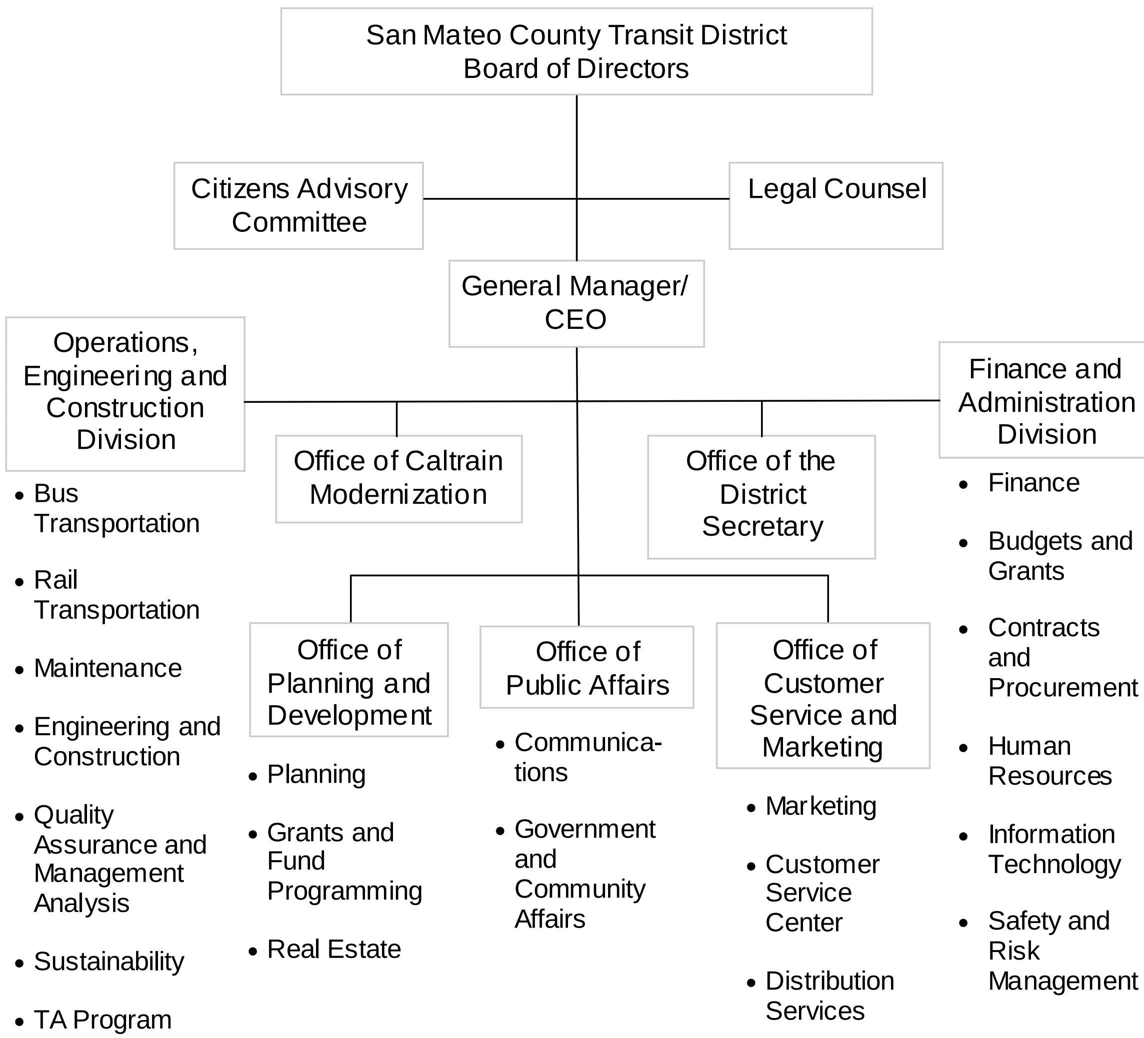
April Chan, Executive Officer, Planning and Development

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
• Sustainability
• TA Program
Office of Caltrain Modernization
Office of the District Secretary
Finance and Administration Division
• Finance
• Budgets and Grants
• Contracts and Procurement
• Human Resources
• Information Technology
• Safety and Risk Management
Office of Planning and Development
• Planning
• Grants and Fund Programming
• Real Estate
Office of Public Affairs
• Communica-tions
• Government and Community Affairs
Office of Customer Service and Marketing
• Marketing
• Customer Service Center
• Distribution Services


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

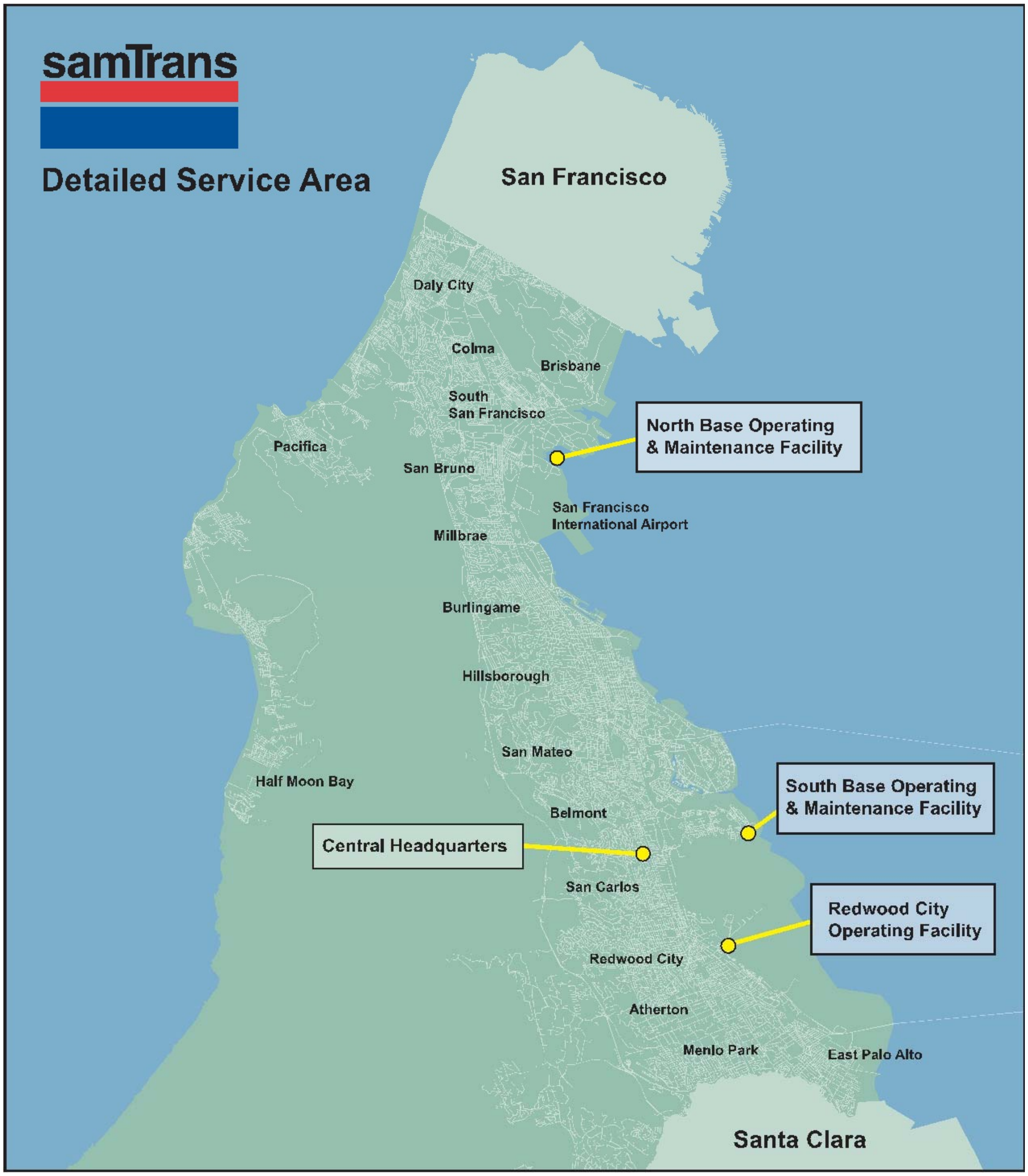

samTrans
Detailed Service Area
San Francisco
Daly City
Colma
Brisbane
South San Francisco
North Base Operating & Maintenance Facility
Pacifica
San Bruno
San Francisco International Airport
Millbrae
Burlingame
Hillsborough
San Mateo
Half Moon Bay
South Base Operating & Maintenance Facility
Belmont
Central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

TABLE OF CREDITS

The following individuals contributed to the production of the Fiscal Year 2012 Comprehensive Annual Financial Report:

Finance:

Manager, General Ledger	Sheila Tioyao
Manager, Treasury	Lori Snow
Senior Accountant	Jeannie Chen
Senior Budget Analyst	Chris Petak

Audit Firm:

Partner	Vikki C. Rodriguez

Section II

FINANCIAL

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements and Notes

Required Supplementary Information

Supplementary Information and Notes

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of the business-type activities and the major fund of the San Mateo County Transit District (District) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the business-type activities and the major fund of the San Mateo County Transit District at June 30, 2012 and 2011, and the respective changes in the financial position and cash flows, where applicable, thereof for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2012 on our consideration of the San Mateo County Transit District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of audits performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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 audits 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.

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, Supplemental Information, and Statistical Section listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the financial statements. The Supplemental 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 Supplemental 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 audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Maze & Associates

October 22, 2012

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 2012 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, 2012, total assets stand at $460.6 million, a decrease of $11.8 million or 2.5 percent compared to June 30, 2011. The 2012 decrease was primarily due to investments. At June 30, 2011, total assets stand at $472.5 million, a decrease of $38.5 million or 7.5 percent compared to June 30, 2010. The 2011 decrease was mainly due to the disposition of capital assets.
- At June 30, 2012, total liabilities were $362.4 million, a decrease of $2.6 million or 0.7 percent compared to June 30, 2011. The 2012 decrease was due to reduction in long-term debt. At June 30, 2011, total liabilities were $365.0 million, an increase of $2.2 million or 0.6 percent compared to June 30, 2010. The increase was due to increase in other noncurrent liabilities and self insurance.
- For Fiscal Year 2012, passenger fares were $17.5 million, an increase of $0.1 million or 0.5 percent compared to Fiscal Year 2011. The 2012 increase was due to an increase in ridership. For Fiscal Year 2011, passenger fares were $17.4 million, an increase of $0.2 million or 1.3 percent compared to Fiscal Year 2010. The 2011 increase was an increase in fares.
- In Fiscal Year 2012, total operating expenses were $115.3 million, an increase of $4.1 million or 3.7 percent compared to Fiscal Year 2011. The results were mostly due to increase in Contract operations and maintenance services, and other services. In Fiscal Year 2011, total operating expenses were $111.1 million, a decrease of $1.3 million or 1.1 percent compared to Fiscal Year 2010. The decrease in 2011 was mainly due to decrease in Salaries & Benefits, and Miscellaneous expenses.
- For Fiscal Year 2012, nonoperating revenues net of nonoperating expenses were $101.8 million, an increase of $21.4 million or 26.6 percent compared to Fiscal Year 2011. The 2012 increase was due to increase in Operating assistance particular in sales taxes and other income. In Fiscal Year 2011, nonoperating revenues net of nonoperating expenses were $80.4 million, an increase of $3.4 million or 4.4 percent compared to Fiscal Year 2010. The 2011 increases were mainly due to the receipt of Sales Tax in Operating assistance.
- At June 30, 2012, net assets were $98.2 million, a decrease of $9.3 million or 8.6 percent from June 30, 2011. The 2012 decrease was due to reduction in investments and restricted investments. At June 30, 2011, net assets were $107.5 million, a decrease of $40.8 million or 27.5 percent from June 30, 2010. The 2011 decrease was mostly due disposition of capital assets.

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

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

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

- *Cash flows from operating activities* which includes transactions and events reported as components of operating income in the statement of revenues, expenses and changes in net assets.
- *Cash flows from non-capital financing activitie*s which includes operating grant proceeds as well as operating subsidy payments from third parties 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 2012, total assets were $460.6 million, a decrease of $11.8 million or 2.5 percent compared to June 30, 2011. In Fiscal Year 2011, total assets were $472.5 million, a decrease of $38.5 million or 7.5 percent compared to June 30, 2010. Total current assets decreased $22.8 million or 23.8 percent to $73.1 million on June 30, 2012 from $95.8 million on June 30, 2011 and an increased of $1.7 million or 1.8 percent at June 30, 2011 compared to June 30, 2010. Capital assets – net of accumulated depreciation, Capital contribution to BART – net of amortization and all other non-current assets combined, increased by $10.9 million or 2.9 percent in 2012 and decreased by $40.3 million or 9.7 percent in 2011.

Capital assets net of accumulated depreciation decreased by $5.1 million or 3.2 percent to $155.1 million at June 30, 2012 compared to 2011 and decreased of $20.2 million or 11.2 percent in 2011 compared to 2010. 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 $8.2 million or 6.2 percent to $124.7 million in Fiscal Year 2012 compared to Fiscal Year 2011 and decreased by $7.5 million or 5.3 percent in Fiscal Year 2011 compared to Fiscal Year 2010. Additional discussion of the District’s transactions with BART can be found in *Note #5 - Bay Area Rapid Transit (BART) District Extension Agreements* in the *Notes to the Financial Statements*.

SAN MATEO COUNTY TRANSIT DISTRICT
NET ASSETS
(in thousands)

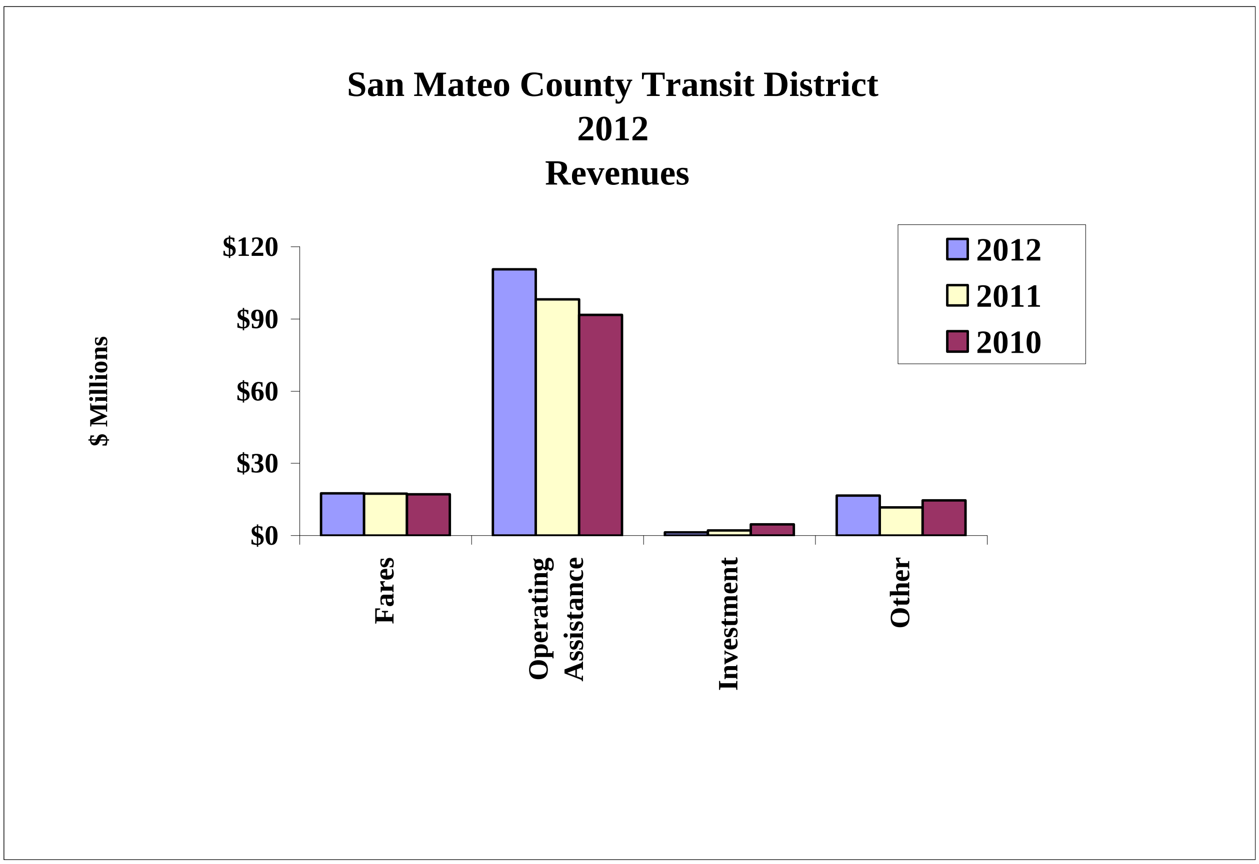
	2012	2011	2010
Current Assets	$ 73,068	$ 95,832	$ 94,109
Capital assets, net of depreciation	155,088	160,185	180,370
Contribution to BART, net of amortization	124,709	132,895	140,386
Other noncurrent assets	107,783	83,560	96,150
Total assets	460,648	472,472	511,015
Current liabilities	32,047	28,983	26,868
Long-term debt	297,607	306,639	315,245
Other noncurrent liabilities	32,754	29,360	20,628
Total liabilities	362,408	364,982	362,741
Net assets			
Invested in capital assets, net of related debt	(23,448)	(18,519)	1,204
Restricted	33,982	32,702	31,875
Unrestricted	87,706	93,307	115,195
Total net assets	$ 98,240	$ 107,490	$ 148,274

In Fiscal Year 2012, total liabilities were $362.4 million, a decrease of $2.6 million or 0.7 percent compared to Fiscal Year 2011. In Fiscal Year 2011, total liabilities were $365.0 million, an increase of $2.2 million or 0.6 percent compared to 2010. The decrease for both 2012 and 2011 were mainly due to scheduled payments of principal on long-term debt.

At June 30, 2012, net assets of $98.2 million were $9.3 million or 8.6 percent less than the $107.5 million at June 30, 2011 and were $40.8 million or 27.5 percent less than on June 30, 2011 compared to $148.3 million at June 30, 2010. The ($23.4) million invested in capital assets net of related debt at June 30, 2012 were (23.9) percent of the total net assets. Total restricted net assets at June 30, 2012 were $34.0 million or 34.6 percent of total net assets. The remaining $87.7 million of total net assets at June 30, 2012 were unrestricted and represented 89.3 percent of total net assets.

Revenue Highlights

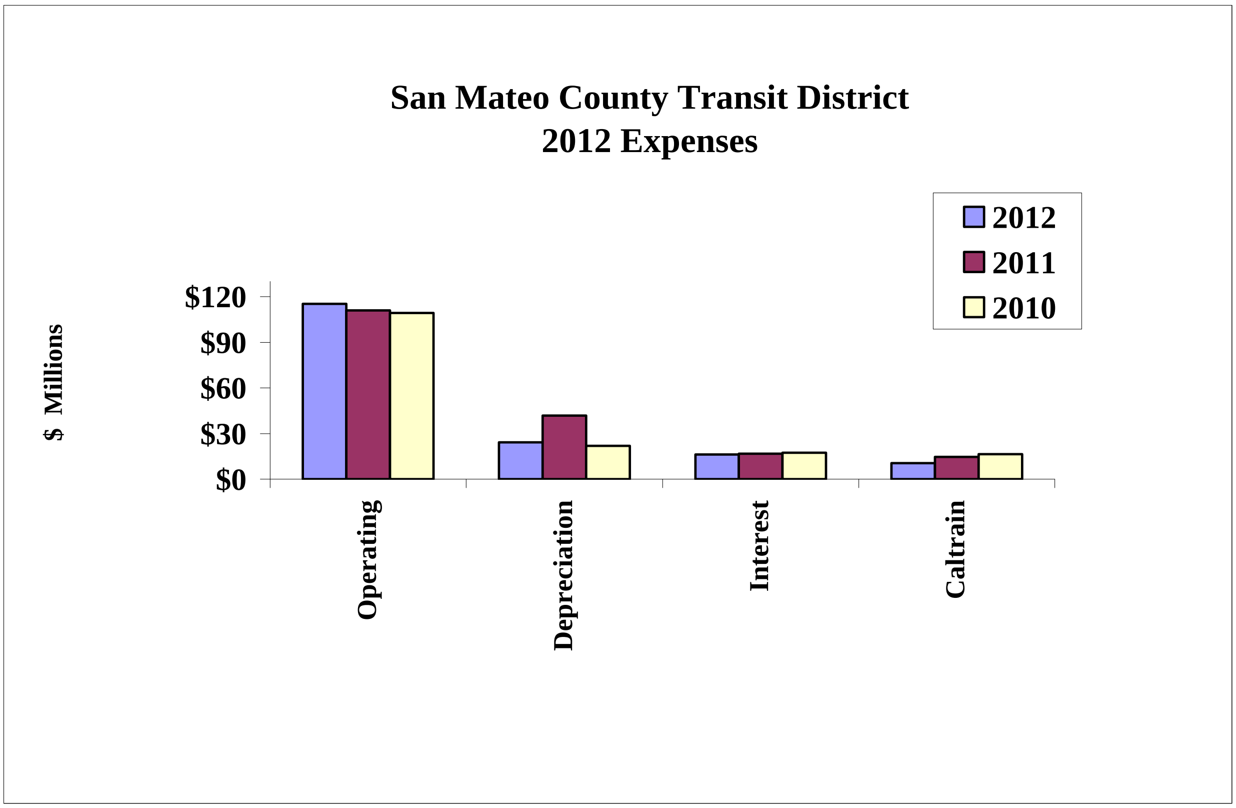
Operating revenues generated from passenger fares of $17.5 million increased by $0.1 million or 0.5 percent during Fiscal Year 2012 compared to Fiscal Year 2011 and increased by $0.2 million or 1.3 percent in Fiscal Year 2011 compared to Fiscal Year 2010. The 2012 increase was the result of the installation of the revenue collection system and the 2011 increase was due to fare increase.



In Fiscal Year 2012, nonoperating revenues increased by $16.6 million or 14.8 percent to $128.7 million. This increase was due to higher sales tax collection. Operating assistance of $110.7 million accounted for the majority of fiscal year 2012 nonoperating revenues. This amount consisted of 56.3 percent from transaction and use tax, 31.1 percent from local transportation funds, 6.5 percent from federal assistance and 6.1 percent from Measure A, state transit assistance and AB434 funds combined.

Expense Highlights

In Fiscal Year 2012, total operating expenses were $115.3 million, an increase of $4.1 million or 3.7 percent compared to Fiscal Year 2011. In Fiscal Year 2011, total operating expenses were $111.1 million, a decrease of $1.3 million or 1.1 percent compared to Fiscal Year 2010. Total operating expenses in 2012 consisted of $58.9 million or 51.1 percent for wages and benefits, $35.7 million or 31.0 percent for contract operations and other services, and $20.6 million or 17.9 percent for materials, insurance and other miscellaneous expenses combined. Depreciation and amortization expenses were $24.3 million and $41.8 million for Fiscal Year 2012 and Fiscal Year 2011 respectively, a $17.5 million or 41.9 percent decrease in Fiscal Year 2012 compared to Fiscal Year 2011 and $20.0 million or 91.2 percent increase in Fiscal Year 2011 compared to Fiscal Year 2010.



In Fiscal Year 2012, nonoperating expenses were $26.9 million, a decrease of $4.8 million or 15.1 percent compared to Fiscal Year 2011. In Fiscal Year 2011, nonoperating expenses were $31.6 million, a decrease of $2.2 million or 6.6 percent compared to Fiscal Year 2010. In Fiscal Year 2012, the District paid the JPB $10.6 million for its contribution toward the Caltrain rail service operation. A more detailed discussion of the District's relationship with the JPB can be found in *Note #8 – Peninsula Corridor Joint Powers Board (JPB) in the Notes to the Financial Statements.*

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

	2012	2011	2010
Operating revenues-passenger fares	$ 17,452	$ 17,373	$ 17,149
Operating expenses-transit services	115,269	111,128	112,406
Operating loss before depreciation and amortization	(97,817)	(93,755)	(95,257)
Depreciation and amortization	(24,297)	(41,838)	(21,887)
Operating loss	(122,114)	(135,593)	(117,144)
Nonoperating revenues			
Operating assistance	110,672	98,173	91,672
Investment income	1,375	2,197	4,659
Interagency administrative income	3,483	3,342	4,375
Other income, net	13,152	8,349	10,241
Total Nonoperating revenues	128,682	112,061	110,947
Nonoperating expenses			
Interest expense	(16,247)	(16,940)	(17,371)
Caltrain service subsidy	(10,620)	(14,708)	(16,521)
Total Nonoperating expenses	(26,867)	(31,648)	(33,892)
Net loss before capital contributions	(20,299)	(55,180)	(40,089)
Capital contributions	11,049	14,396	54,560
Change in net assets	(9,250)	(40,784)	14,471
Net assets - beginning of year	107,490	148,274	133,803
Net assets - end of year	$ 98,240	$ 107,490	$ 148,274

Capital Program

The District received capital contributions of $11.0 million in Fiscal Year 2012 and $14.4 million in Fiscal Year 2011, which was a decrease of $3.3 million or 23.2 percent in Fiscal Year 2012 compared to Fiscal Year 2011 and a decrease of $40.2 million or 73.6 percent in Fiscal Year 2011 compared to Fiscal Year 2010.
The following is a summary of the District's major capital expenditures for Fiscal Year 2012.

- Communication Information System ($4.3 million)
- Purchase of Revenue Collection System ($1.5 million)
- Purchase of Paratransit Revenue vehicles ($1.7 million)
- Replacement of bus parts in accordance with FTA guidelines ($0.2 million)
- Capital project development, control and monitoring ($0.5 million)

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

Debt

The District had $304.8 million in bonds and notes outstanding at June 30, 2012 compared to $313.5 million at June 30, 2011, a decrease of $8.7 million or 2.7 percent. The scheduled payment of $8.7 million during Fiscal year 2012 accounts for this reduction. The District pledges sales tax revenues to secure its bonds and also has purchased insurance on the 1993 and 2005 Series A Bonds and setup a Bond Reserve fund on the 2009 Series A Bonds to secure the payment of principal and interest on due dates. The District retains a trustee to maintain its bond fund. More information on the District's long-term debt activity appears in *Note #11 - Long-term Debt* of the *Notes to the Financial Statements*.

Economic Factors

The U.S. economic recovery is progressing more slowly than previously expected. California's unemployment rate is forecasted to remain above 10 percent through mid-2014 and above 8 percent through the end of 2017. Unemployment in San Mateo County was down to 7.1 percent in June 2012 from 8.6 percent in June 2011 and 9.2 percent in June 2010.

As confidence in the economy is restored, consumer spending in California is expected to rise and peak in late 2014. The increase in District's sales tax revenues of $5.9 million or 9.2 percent in FY2012 to $69.4 million compared to the increase of $5.0 million or 8.6 percent in FY2011 is evidence of the economic recovery. The District has taken this trend into account in the FY2013 budget. Unemployment in San Mateo County was down 7.1 percent in June 2012 from 8.6 percent in June 2011 and 9.2 percent in June 2010.

Requests for Information

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

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2011 (in thousands)

ASSETS	2012	2011
Current Assets:		
Cash and cash equivalents (Notes 1E & 2)	$ 11,886	$ 11,369
Restricted cash (Notes 1G & 2)	4,510	4,826
Sub-total	16,396	16,195
Investments (Notes 1F & 2)	14,415	31,698
Restricted investments (Notes 1G & 2)	2,038	11,197
Receivables:		
Transaction and use tax	13,147	12,156
Receivable from Peninsula Corridor Joint Powers Board (Note 8)	5,168	3,914
Federal grants (Note 4)	6,246	9,723
Interest	514	980
Other	11,558	7,473
Allowance for doubtful accounts	(98)	(98)
Total Receivables, Net	36,535	34,148
Inventories (Note 1I)	1,927	1,949
Prepaid expenses	1,757	645
Total Current Assets	73,068	95,832
Noncurrent Assets:		
Noncurrent investments (Note 2)	74,644	60,849
Restricted investments (Notes 1G and 2)	28,672	17,985
Capital Assets (Note 6):		
Buses and bus equipment	138,638	132,855
Buildings and building improvements	79,294	78,844
Maintenance and other equipment	16,927	15,542
Furniture and fixtures	26,686	25,927
Shelters and bus stop signs	3,190	3,185
Other vehicles	2,263	2,031
Less accumulated depreciation	(175,966)	(161,859)
Subtotal	91,032	96,525
Land and right of way	53,855	53,855
Construction in progress	10,201	9,805
Total Capital Assets, Net	155,088	160,185
Capital contribution to BART, net of amortization (Note 5)	124,709	132,895
Bond issuance costs (Note 1M)	3,557	3,810
Other assets (Note 9)	910	916
Total Noncurrent Assets	387,580	376,640
Total Assets	$ 460,648	$ 472,472

See accompanying notes to basic financial statements

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF NET ASSETS (Continued)
FOR THE YEAR ENDED JUNE 30, 2012
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2011 (in thousands)

LIABILITIES	2012	2011
Current Liabilities:		
Accounts payable and accrued expenses	$ 10,842	$ 9,905
Current portion of compensated absences (Note 1O)	6,437	6,170
Current portion of self-insurance liabilities (Note 14)	3,715	2,277
Accrued interest	1,858	1,861
Current portion of long-term debt (Note 11)	9,195	8,770
Total Current Liabilities	32,047	28,983
Noncurrent liabilities:		
Long-term debt, less current portion (Note 11)	297,607	306,639
Self-insurance liabilities, less current portion (Note 14)	12,908	11,656
Other noncurrent liabilities (Note 10)	11,098	9,777
Compensated absences, less current portion (Note 1O)	1,151	1,191
Post-employment benefits (Note 13)	7,597	6,736
Total Noncurrent Liabilities	330,361	335,999
Total Liabilities	362,408	364,982
NET ASSETS		
Invested in capital assets, net of related debt	(23,448)	(18,519)
Restricted For:		
Debt service	3,501	3,722
Capital projects	5,481	3,980
Paratransit fund	25,000	25,000
Total Restricted Assets	33,982	32,702
Unrestricted	87,706	93,307
Total Net Assets	$ 98,240	$ 107,490

See accompanying notes to basic financial statements

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011 (in thousands)

	2012	2011
OPERATING REVENUES		
Passenger fares	$ 17,452	$ 17,373
Total Operating Revenues	17,452	17,373
OPERATING EXPENSES		
Salaries and benefits	58,921	58,473
Contract operations and maintenance services	29,851	29,250
Other services	5,866	4,004
Materials and supplies	8,768	7,873
Insurance	7,430	6,900
Miscellaneous	4,433	4,628
Total Operating Expense	115,269	111,128
Operating loss before depreciation and amortization and administrative expenses capitalized	(97,817)	(93,755)
Depreciation and amortization	(24,297)	(41,838)
OPERATING (LOSS)	(122,114)	(135,593)
NON-OPERATING REVENUES (EXPENSES)		
Operating assistance (Note 3)	110,672	98,173
Investment income	1,375	2,197
Interest expense	(16,247)	(16,940)
Caltrain service subsidy (Note 8)	(10,620)	(14,708)
Interagency administrative income	3,483	3,342
Other income, net	13,152	8,349
Total Non-Operating Revenues, Net	101,815	80,413
Net Loss Before Capital Contributions	(20,299)	(55,180)
Capital contributions (Note 1P)	11,049	14,396
CHANGE IN NET ASSETS	(9,250)	(40,784)
NET ASSETS:		
Beginning of year	107,490	148,274
End of year	$ 98,240	$ 107,490

See accompanying notes to basic financial statements

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011 (in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from passenger fares	$ 17,602	$ 17,280
Payments to vendors for services	(52,386)	(45,949)
Payments to employees	(60,525)	(56,162)
Receipts for rental and other income	15,946	10,201
Net cash (used for) operating activities	(79,363)	(74,630)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received, including transaction and use tax	104,593	101,596
Caltrain service outlays	(10,620)	(14,708)
Net cash provided by noncapital and financing activities	93,973	86,888
CASH FLOWS FROM CAPITAL AND RELATED AND FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(10,755)	(10,855)
Capital contributions from grants	17,387	16,344
Bond principal paid	(8,770)	(8,370)
Interest and cost of issuance paid	(15,700)	(16,104)
Net cash provided (used) by capital and related financing activities	(17,838)	(18,985)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investment securities	98,759	49,949
Purchases of investment securities	(98,056)	(44,486)
Investment income received on all interest-bearing investments	2,726	3,524
Net cash provided by investing activities	3,429	8,987
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALEN	201	2,260
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	16,195	13,935
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 16,396	$ 16,195

See accompanying notes to basic financial statements

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2012
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011 (in thousands)

	2012	2011
Reconciliation of operating (loss) to net cash (used) by operating activities:		
Operating loss	$ (122,114)	$ (135,593)
Adjustments to reconcile operating (loss) to net cash (used for) operating activities:		
Depreciation and amortization	24,297	41,838
Rental and other income	15,946	10,201
Effect of changes in:		
Accounts receivable	(1,103)	550
Inventories	22	(208)
Prepaid expenses	(1,112)	1,018
Accounts payable and accrued expenses	923	2,863
Other postemployment liability	861	1,402
Compensated absences	227	1
Self-insurance liabilities	2,690	3,298
Net cash for operating activities	($79,363)	$ (74,630)
NONCASH INVESTING ACTIVITIES:		
Increase in fair value of investments	$ 437	$ (1,950)

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. The District has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 60 – In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnerships. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The District has not determined its effect on the financial statements.

GASB Statement No. 61 – In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34.* The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. The District has not determined its effect on the financial statements.

GASB Statement No. 62 – In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements, which does not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The District has not determined its effect on the financial statements.

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

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

GASB Statement No. 63 – In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The District has not determined its effect on the financial statements.

GASB Statement No. 64 – In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53.* The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. This pronouncement had no impact on the District's financial statements as of June 30, 2012.

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 has not determined its effect on the financial statements.

GASB Statement No. 66 – In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The District has not determined its effect on the financial statements.

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. The District has not determined its effect on the 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. The District has not determined its effect on the financial statements.

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

E. Cash and Cash Equivalents

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

F. Investments

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

G. Restricted Cash and Investments

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

H. Restricted and Unrestricted Resources

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

I. Inventories

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

J. Property and equipment

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

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

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

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

K. Construction in progress

Construction in progress consists of the following projects at June 30, 2012 and 2011 (in thousands):

	2012	2011
Information technology support	$ 6,350	$ 2,780
Bus fleet improvements	1,378	5,725
Transit-oriented development	1,076	528
Administration building improvement	643	84
Bus communication system	599	592
Other	155	96
Total Construction in Progress	$ 10,201	$ 9,805

Interest is capitalized on construction in progress in accordance with the Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-exempt Borrowings and Certain Gifts and Grants*. Accordingly, interest capitalized is the total interest cost from the date of the borrowing net of any allowable interest earned on temporary investments of the proceeds of those borrowings until the specified asset is ready for its intended use. There was no interest capitalized in fiscal years 2012 or 2011.

L. State and Local Operating Assistance

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

M. Bond Issuance Costs

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

N. Arbitrage

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

O. Compensated Absences

Employees accrue compensated absence time by reason of tenure at annual rates ranging from 160 to 312 hours per year. Employees are allowed to accumulate from 800 hours up to 1,440 hours of compensated absence time, depending upon the number of years of service. In fiscal years ending June 30, 2012 and 2011, employees of the District accrued and used balances of compensated absences in the amount of $5,619,126 and $5,258,458, respectively. At June 30, 2012 and 2011, accrued compensated absences for all District employees amounted to $7,587,571 and $7,361,044, respectively. The current portion of the compensated absences liability is reflected as a current liability in the statement of net assets and is expected to be used within one year. Compensated absences as of June 30 are included on the Statement of Net Assets.

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

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

	2012	2011
Beginning Balance	$ 7,361	$ 7,360
Additions	5,620	5,258
Payments	(5,393)	(5,257)
Ending Balance	$ 7,588	$ 7,361
Current Portion	$ 6,437	$ 6,170
Non-current portion	$ 1,151	$ 1,191

P. Capital Contributions

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

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

	2012	2011
Federal grants	$ 1,999	$ 5,571
State grant (Prop 1B)	722	872
Local assistance – sales tax	7,121	6,045
Other local transportation funds	1,207	1,908
	$ 11,049	$ 14,396

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.

NOTE 2 – CASH AND INVESTMENTS

Policies

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

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

Classification

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

	2012	2011
Cash and cash equivalents	$ 16,396	$ 16,195
Current investments	14,415	31,698
Current restricted investments	2,038	11,197
Noncurrent investments	74,644	60,849
Noncurrent restricted investments	28,672	17,985
Total Cash and Investments	$ 136,165	$ 137,924

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

	2012	2011
Cash on hand	$ 18	$ 18
Deposits with financial institutions	2,913	3,509
Investments	133,234	134,397
Total Cash and Investments	$ 136,165	$ 137,924

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-Trough 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, 2012 was as follows:

Investment Type	Amount	Weighted Average Maturity (in years)
U.S. Agency Securities	$ 108,727	2.70
U.S. Government Securities	6,734	1.79
Repurchase Agreements	1,970	0.00
Local Agency Investment Fund (LAIF)	11,494	0.73
Held by bond trustee:		
Money Market Mutual Funds	2,038	0.00
U.S. Agency Securities	2,271	2.71
	$ 133,234	
Portfolio Weighted Average Maturity		2.40

NOTE 2 - CASH AND INVESTMENTS (continued)

Interest Rate Risk (continued)

The District's weighted average maturity of its investment portfolio at June 30, 2011 was as follows:

Investment Type		Amount	Weighted Average Maturity (in years)
U.S. Agency Securities	$	104,440	2.03
U.S. Government Securities		10,791	1.99
Repurchase Agreements		1,707	0.00
Medium- term Notes		2,031	0.84
Local Agency Investment Fund (LAIF)		10,960	0.65
Held by bond trustee:			
Money Market Mutual Funds		2,185	0.00
U.S. Agency Securities		2,283	0.73
	$	134,397	
Portfolio Weighted Average Maturity			1.80

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.

			Rating as of June 30, 2012					
Investment Type		Amount (in thousands)		AAA		AA		Not Rated
U.S. Agency Securities	$	108,727	$	108,727	$	-	$	-
U.S. Government Securities		6,734		-		6,734		-
Repurchase Agreements		1,970		-		-		1,970
Medium- term Notes		-		-		-		-
Local Agency Investment Fund (LAIF)		11,494		-		-		11,494
Held by bond trustee:								
Money Market Mutual Funds		2,038		-		-		2,038
U.S. Agency Securities		2,271		-		2,271		-
Total	$	133,234	$	108,727	$	9,005	$	15,502

NOTE 2 - CASH AND INVESTMENTS (continued)

Disclosures Relating to Credit Risk (continued)

Investment Type	Amount (in thousands)	Rating as of June 30, 2011 AAA	AA	Not Rated
U.S. Agency Securities	$ 104,440	$ 104,440	$ -	$ -
U.S. Government Securities	10,791	-	-	10,791
Repurchase Agreements	1,707	-	-	1,707
Medium- term Notes	2,031	2,031	-	-
Local Agency Investment Fund (LAIF)	10,960	-	-	10,960
Held by bond trustee:				
Money Market Mutual Funds	2,185	-	-	2,185
U.S. Agency Securities	2,283	2,283	-	-
Totals	$ 134,397	$ 108,754	$ -	$ 25,643

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	2012	2011
Federal Home Loan Mortgage Corporation (FHLMC)	U.S. Agency Securities	$ 66,602	$ 29,652
Federal Home Loan Bank (FHLB)	U.S. Agency Securities	14,223	15,960
Federal National Mortgage Association (FNMA)	U.S. Agency Securities	26,384	46,680
Federal Farm Credit Bank (FFCB)	U.S. Agency Securities	-	11,183
		$ 107,209	$ 103,475

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, 2012 and 2011, the District had $2,912,048 and $3,509,715, respectively, of deposits with financial institutions recorded on the financial statements. On December 31, 2012, the Dodd-Frank legislation, passed the previous July, became effective which essentially provides unlimited Federal Depository Insurance Corporation (FDIC) insurance on deposits in non-interest bearing accounts until its expiration on December 31, 2012. 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 must be 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, 2012 and June 30, 2011, the District had a contractual withdrawal value in LAIF of $11,480,092, and $10,942,128, respectively, that is recorded at $11,494,094 and $10,959,878 on the balance sheet after the adjustment for unrealized gains/losses for Fiscal Years 2012 and 2011, respectively. The total value invested by all public agencies in LAIF at June 30, 2012 and 2011 was $60,612,199,285 and $66,352,783,817, respectively. Of these amounts, as of June 30, 2012 and 2011, 97.5 and 95.0 percent, respectively, was invested in non-derivative financial products, and 2.5 and 5.0 percent, respectively, was invested in structured notes and asset-backed securities. The District relied upon information provided by the State Treasurer in estimating the District's fair value position of its holdings in LAIF.

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):

	2012	2011
Transaction and use tax	$ 62,249	$ 57,469
Local transportation funds	34,427	25,203
Federal operating and planning assistance	7,203	7,293
State transit assistance	3,487	5,131
Measure A funds – local	2,779	2,541
AB434 and other	527	536
Total	$ 110,672	$ 98,173

NOTE 4 – FEDERAL CAPITAL GRANTS

The District has seven grant contracts with the FTA that provide federal funds for the acquisition of buses and other equipment and improvements. Capital additions at June 30, 2012 and 2011 applicable to these projects are $2,587,377 and $6,816,491, respectively. The related federal participation is $1,999,254 and $5,570,785, respectively.

The District has recorded receivables of $967,285 and $3,534,770, at June 30, 2012 and 2011, 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	2012	2011
BART system contribution	$ 100,000	$ 100,000
Coloma extension – local share	52,352	52,352
South of Colma extension – local share	181,534	181,534
SFO BART – local share	76,404	76,404
	410,290	410,290
Less: Accumulated amortization	(285,581)	(277,395)
Total	$ 124,709	$ 132,895

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows (in thousands):

	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012
Depreciable Capital Assets				
Buses and bus equipment	$ 132,855	$ 7,361	$ (1,578)	$ 138,638
Buildings and building improvements	78,844	507	(57)	79,294
Maintenance and other equipment	15,542	1,402	(17)	16,927
Furniture and fixtures	25,927	1,147	(388)	26,686
Shelters and bus stop signs	3,185	5	-	3,190
Other vehicles	2,031	232	-	2,263
Total Depreciable Capital Assets	258,384	10,654	(2,040)	266,998
Less Accumulated Depreciation for:				
Buses and bus equipment	(68,406)	(8,252)	1,578	(75,080)
Buildings and building improvements	(58,006)	(3,208)	57	(61,157)
Maintenance and other equipment	(13,258)	(1,794)	17	(15,035)
Furniture and fixtures	(17,768)	(2,714)	388	(20,094)
Shelters and bus stop signs	(3,176)	(7)	-	(3,183)
Other vehicles	(1,245)	(172)	-	(1,417)
Total Accumulated Depreciation	(161,859)	(16,147)	2,040	(175,966)
Nondepreciable Capital Assets				
Land and right of way	53,855	-	-	53,855
Construction in progress	9,805	11,049	(10,654)	10,201
Total Nondepreciable Capital Assets	63,660	11,049	(10,654)	64,055
Capital Assets, Net	$ 160,185	$5,556	$ (10,654)	$ 155,088

NOTE 6 – CAPITAL ASSETS (continued)

Capital asset activity for the fiscal year ended June 30, 2011, was as follows (in thousands):

	Balance at July 1, 2010	Additions	Deletions	Balance at June 30, 2011
Depreciable Capital Assets				
Buses and bus equipment	$ 164,448	$ 27,811	$ (59,404)	$ 132,855
Buildings and building improvements	76,150	2,849	(155)	78,844
Maintenance and other equipment	15,125	1,811	(1,394)	15,542
Furniture and fixtures	20,831	5,559	(463)	25,927
Shelters and bus stop signs	3,166	19	-	3,185
Other vehicles	2,026	386	(381)	2,031
Total Depreciable Capital Assets	281,746	38,435	(61,797)	258,384
Less Accumulated Depreciation for:				
Buses and bus equipment	(105,223)	(22,587)	59,404	(68,406)
Buildings and building improvements	(53,983)	(4,178)	155	(58,006)
Maintenance and other equipment	(11,897)	(2,755)	1,394	(13,258)
Furniture and fixtures	(13,595)	(4,636)	463	(17,768)
Shelters and bus stop signs	(3,156)	(20)	-	(3,176)
Other vehicles	(1,382)	(244)	381	(1,245)
Total Accumulated Depreciation	(189,236)	(34,420)	61,797	(161,859)
Nondepreciable Capital Assets				
Land and right of way	51,435	2,420	-	53,855
Construction in progress	36,425	14,480	(41,100)	9,805
Total Nondepreciable Capital Assets	87,860	16,900	(41,100)	63,660
Capital Assets, Net	$ 180,370	$ 20,915	$ (41,100)	$ 160,185

During the fiscal year ended June 30, 2011, the District contributed $244,883 in completed capital assets, previously recorded in Construction in Progress, to BART.

NOTE 7 – LAND AND RIGHT OF WAY

Dumbarton Land and Right of Way

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

San Carlos Land and Right of Way

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

Caltrain Right of Way

On October 31, 2008, all three of the JPB member agencies signed an agreement with the District to fully resolve all outstanding financial issues related to the acquisition of the right of way. Both City and County of San Francisco (CCSF) and Santa Clara Valley Transportation Authority (VTA) have agreed to reimburse the District through a combination of gasoline tax "spillover" funds and population based "spillover" funds to be paid directly to the District from the MTC and revenue based "spillover" funds to be paid to the District from the San Francisco Municipal Transportation Agency (SFMTA) and VTA. The parties agreed to make best efforts to allocate the funds in full within two to four years and, in no event, later than 10 years. As of June 30, 2012, the District had received $7.2 million of the total $53.3 million outstanding per this agreement. MTC has programmed $19.5 million in Federal funds to the District to replace part of the spillover funds. These Federal funds will be received over Fiscal Year 2012 and Fiscal Year 2013. In addition, VTA is expected to pay $5.2 million in Fiscal Year 2013 to help offset its obligations; while CCSF is expected to reimburse the District $1.8 million in Fiscal Year 2013. With the elimination of "spillover" funding due to a recent legislative change that impacts how certain tax revenues are generated and made available for transportation operations and projects, the multi-party agreement may need to be modified to ensure the District is repaid in full for the right of way. Ultimately, when all payments have been received by the District, the District will reconvey to the JPB all of its interests in the title to the right of way.

NOTE 8 – PENINSULA CORRIDOR JOINT POWERS BOARD (JPB)

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

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, 2012 and 2011. 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, 2012 and 2011, the District contributed $10,620,002 and $14,707,875 respectively, to the JPB for operating needs.

The District has total receivables from the JPB of $5,168,344 and $3,914,269 at June 30, 2012 and 2011 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):

	2012		2011	
Total Assets	$	1,298,227	$	1,261,456
Total Liabilities		(97,215)		(81,271)
Total Net Assets	$	1,201,012	$	1,180,185
Operating Revenues	$	64,684	$	53,296
Operating Expenses		(163,898)		(157,747)
Nonoperating Revenues, Net		38,666		45,803
Net Before Capital Contributions		(60,548)		(58,648)
Capital Contributions		81,375		91,834
Increase in Net Assets	$	20,827	$	33,186

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 2012 and 2011 the District forgave $0 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 $840,000 and $840,000, as of June 30, 2012 and 2011 respectively.

San Mateo County Transportation Authority

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

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

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

San Bruno Grade Separation Project - Condemnation Deposit

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

NOTE 9 – RELATED PARTY TRANSACTIONS (continued)

San Bruno Grade Separation Project - Condemnation Deposit (continued)

At the April 14, 2010 District Board of Directors meeting, the Board authorized an amendment to the budget allowing for up to $1.2 million to be spent in relation to the JPB's San Bruno Grade Separation Project. On April 15, 2010, the District wired $1.048 million to the California State Treasurer for the condemnation deposit on property being acquired by eminent domain for the San Bruno Grade Separation Project. The JPB promptly reimbursed the District on May 10, 2010.

NOTE 10 – OTHER NONCURRENT LIABILITIES

On December 27, 2007, the District acquired from the TA four acres of property located in San Carlos along the Caltrain right of way for a promissory note of $4,343,404. The District also has an accrued interest liability of $620,882 and $554,321, respectively, as of June 30, 2012 and 2011 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, 2012 is as follows (in thousands):

	Original Issue Amount	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	Current Portion
Limited Tax Bonds:						
1993 Series A Bonds,						
5.00-8.00%, due 6/01/20	$ 150,555	$ 78,730	$ -	$ (7,075)	$ 71,655	$ 7,430
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	15,815	-	(1,695)	14,120	1,765
Total Long-Term Debt		313,535	-	(8,770)	304,765	$ 9,195
Plus: Unamortized bond premium		5,679	-	(369)	5,310	
Less:						
Bond refunding loss		(3,609)	-	510	(3,099)	
Unamortized bond discount		(196)	-	22	(174)	
Total Long-Term Debt, Net		$ 315,409	$ -	$ (8,610)	$ 306,802	

NOTE 11 – LONG - TERM DEBT (continued)

Composition and Changes (continued)

Long-term debt activity for the year ended June 30, 2011 is as follows:

	Original Issue Amount	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Current Portion
Limited Tax Bonds:						
1993 Series A Bonds,						
5.00-8.00%, due 6/01/20	$ 150,555	$ 85,465	$ -	$ (6,735)	$ 78,730	$ 7,075
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	17,450	-	(1,635)	15,815	1,695
Total Long-Term Debt		321,905	-	(8,370)	313,535	$ 8,770
Plus: Unamortized bond premium		6,050	-	(371)	5,679	
Less:						
Bond refunding loss		(4,123)	-	514	(3,609)	
Unamortized bond discount		(217)	-	21	(196)	
Total Long-Term Debt, Net		$ 322,615	$ -	$ (8,206)	$ 315,409	

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, 2012 the outstanding balance on the 1997 Series A Bonds was $22,194,850 with available investment balance held by the bond trustee of $24,927,329.

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.

NOTE 11 – LONG - TERM DEBT (continued)

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

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

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

Debt Service Requirements

Debt Service requirements for long-term debt as of June 30, 2012 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
2013	$ 7,430	$ 4,036	$ 11,466	$ -	$ 10,555	$ 10,555
2014	7,805	3,664	11,469	-	10,555	10,555
2015	8,215	3,258	11,473	-	10,555	10,555
2016	8,645	2,827	11,472	-	10,555	10,555
2017	9,110	2,373	11,482	-	10,555	10,555
2018-2022	30,450	4,149	34,599	23,855	52,195	76,050
2023-2027				70,235	40,731	110,966
2028-2032				88,990	21,973	110,963
2033-2034				35,910	2,386	38,296
Total	$ 71,655	$ 20,307	$ 91,962	$ 218,990	$ 170,060	$389,050

	2009 Series A Refunding Bonds			Total		
Fiscal Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2013	$ 1,765	$ 667	$ 2,432	$ 9,195	$ 15,258	$ 24,453
2014	1,850	579	2,429	9,655	14,798	24,453
2015	1,915	505	2,420	10,130	14,318	24,448
2016	2,015	409	2,424	10,660	13,791	24,451
2017	2,085	329	2,414	11,195	13,257	24,452
2018-2022	4,490	340	4,830	58,795	56,684	115,479
2023-2027				70,235	40,731	110,966
2028-2032				88,990	21,973	110,963
2033-2034				35,910	2,386	38,296
Total	$ 14,120	$ 2,829	$ 16,949	$ 304,765	$ 193,196	$ 497,961

NOTE 12 – PENSION PLAN

Plan Description

All permanent employees are eligible to participate in the Public Employees' Retirement Fund (the Fund) of the State of California's Public Employees' Retirement System (CalPERS). The Fund is an agent multiple-employer defined benefit plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age 50 and can receive the maximum benefit of 3 percent of annual salary at age 60. These benefit provisions and all other requirements are established by state statute and District ordinance. Copies of the Fund's annual financial report may be obtained from the CalPERS' executive office: Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

Funding Policy

District employees have an obligation to contribute 7 percent of their salary to the Fund. The District makes the contributions required of the District and its employees on their behalf. The District is required to contribute at an actuarially determined rate. The required employer contribution rate for both fiscal years 2012 and 2011 were 8.523 and 7.517 percent of annual covered payroll, respectively. The contribution requirements of the plan members are established by state statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

The District's annual pension cost was equal to the District's required and actual contributions, which were determined as part of the June 30, 2011 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 3.0% and an annual production growth of 0.25%

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

NOTE 12 – PENSION PLAN (continued)

Annual Pension Cost (continued)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	$ 6,709	100%	$ -
6/30/2011	6,353	100%	-
6/30/2012	6,568	100%	-

Funded Status and Funding Progress

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

	2012	2011
Actuarial accrued liability (AAL)	$ 217,685	$ 201,210
Actuarial value of plan assets	206,692	193,742
Unfunded actuarial accrued liability (UAAL)	$ 10,993	$ 7,468
Funded ration (actuarial value of plan assets/AAL)	95.0%	96.3%
Covered payroll (active plan members)	$ 44,932	$ 45,114
UAAL as a percentage of covered payroll	24.50%	16.55%

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, 2012 and 2011, there are 275 and 212 qualified retirees and spouses of deceased retirees, respectively. Benefit allowance provisions are established through agreements and memorandums of understanding (MOU) between the District, its management employees and unions representing District employees. The benefit provides a lifetime allowance to eligible plan members and their lifetime beneficiaries.

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

Funding Policy

In April 2008, the District's Board of Directors adopted an Other Post Employment Benefit (OPEB) funding plan authorizing the establishment of an Internal Revenue Code (IRC) tax qualified trust which was established through the CalPERS California Employer's Retiree Benefit Trust (CERBT) in April 2009. The Plan also called for increasing amounts to be funded into the trust each year until the full Annual Required Contribution (ARC) can be funded on an annual basis. The District is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 7.5 percent of annual covered payroll. CalPERS will publish aggregated GASB 43 compliant financial statements, notes and required supplementary information.

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

Effective January 2009, the District's medical plan changed in several ways due to the new union negotiated contract. The District established a PERS cafeteria plan which includes an employer contribution, an employee cafeteria benefit contribution and an Extended Illness Benefit. Employer contributions to the plan are based on the "equal method." The District's contribution towards medical premiums for Bay Area HMO's is 85 percent of the 2009 premiums for all coverage levels and is fixed at that rate. For active employees, the District contributes to the cafeteria benefit in an amount, that when added to the employer's contribution, will equal 100 percent of the PERS Bay Area HMO plan premiums. Annual increases to the Bay Area HMO plan premiums will be added to the employee's cafeteria benefit each year to equal the monthly premium. Eligible employees who elect not to participate in PERS medical can receive a monthly Cafeteria Plan benefit that may only be used to purchase the Cafeteria Plan Extended Illness Benefit. The Extended Illness Benefit may only be used by an employee who is on an approved leave of absence pursuant to FMLA, California's Family Right Act ("CFRA") or the Pregnancy Disability Act ("PDA") and has used all accrued paid time off.

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

In fiscal year ended June 30, 2012, the District contributed $1,000,000 to the established trust fund through CERBT. In addition, the District contributed $1,801,204 in pay-as-you-go amounts for the year ended June 30, 2012.

In fiscal year ended June 30, 2011, the District contributed $800,000 to the established trust fund through CERBT. In addition, the District contributed $1,592,702 in pay-as-you-go amounts for the year ended June 30, 2011.

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

Annual OPEB Cost and Net Obligation

The District's annual OPEB cost (expense) is calculated based on the ARC of the employer. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan (in thousands) for the fiscal year ended June 30, 2012 and June 30, 2011:

	For the year ended June 30, 2012	For the year ended June 30, 2011
Annual required contribution	$ 3,921	$ 3,924
Interest on net OPEB obligation	336	307
Adjustment to annual required contribution	(595)	(436)
Annual OPEB cost (expense)	3,662	3,795
Contribution made	(2,801)	(2,393)
Increase in net OPEB obligation	861	1,402
Net OPEB obligation, beginning of year	6,736	5,334
Net OPEB obligation, end of year	$ 7,597	$ 6,736

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
2010	$ 3,550	$ 1,989	56.0%	$ 5,334
2011	3,795	2,393	63.1%	6,736
2012	3,662	2,801	76.5%	7,597

Funded Status and Funding Progress

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

	For Year Ended June 30, 2012	For Year Ended June 30, 2011
Actuarial accrued liability (AAL)	$ 35,972	$ 34,906
Actuarial value of plan assets	2,237	1,280
Unfunded actuarial accrued liability (UAAL)	$ 33,735	$ 33,626
Funded ratio (actuarial value of plan assets/AAL)	6.2%	3.7%
Covered payroll (active plan members)	$ 49,055	$ 45,847
UUAL as a percentage of covered payroll	68.8%	73.3%

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.

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

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, 2012 and 2011 actuarial valuations, the Entry Age Normal (EAN) cost method was used. The actuarial assumptions included a variable investment return rate ranging from 4.5 percent in 2008 and 7.75 percent in 2016 based on the Board approved funding plan which gradually increases funding in an IRC Irrevocable Trust and a three percent inflation rate. Healthcare cost trends rates ranged from an initial rate of 8.5 to 4.5 percent after 5 years. The actuarial value of the District's assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over 15 years. The UAAL is being amortized as a level percent of payroll on a closed basis. The remaining amortization period at June 30, 2012 was 26 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, 2012, coverage provided by self-insurance and excess coverage is generally as follows:

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

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

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

Changes in the balances of claims liabilities for the two years ended June 30, 2012 and 2011 for public liability, property damage and workers' compensation are as follows:

	2012	2011
Self – insurance liabilities, beginning of year	$ 13,933	$ 10,635
Incurred claims and changes in estimates	5,852	5,415
Claim payments and related costs	(3,162)	(2,117)
Total self – insurance claims liabilities	16,623	13,933
Less: current portion	(3,715)	(2,277)
Noncurrent portion	$ 12,908	$ 11,656

NOTE 15 – JAPANESE OPERATING LEASE

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

In March 2010, the first Japanese operating lease transaction expired by its terms, and the District exercised its option to purchase all 145 buses for the specified price of $25.1 million. Of these 145 buses, 73 are 1993 Gillig forty-foot buses and 72 are 1998 Gillig forty-foot buses. 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 seventeen years of service, the 1993 buses had reached the end of their useful life and were replaced by newer, more energy efficient buses. The District promptly put the 73 forty-foot 1993 buses and the 54 thirty five-foot 1993 buses up for sale and auction, and as of October 31, 2012 had sold 124 buses for total net proceeds of $721,140. The 1998 buses remain 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.

NOTE 17 – COMMITMENT AND CONTINGENT LIABILITIES (continued)

Fuel Hedge Program

In May 2012, the District entered into a diesel fuel price cap agreement with Barclays Bank to hedge the cost of fuel for fiscal year 2013 which capped the price of fuel hedged by the District at $2.80 per gallon. The District's fiscal year 2013 adopted budget for fuel expenses is $6.55 million which is an increase of about $0.9 million or 16 percent, over the revised fiscal year 2012 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 65 percent of estimated fuel consumption. In order to maximize the hedging program's potential for economic efficiency, the District partnered with the JPB, which hedged 2.25 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/A-/A- by Moody's, Standard and Poor's or Fitch. Implementing this fuel hedging program allowed the District to reduce uncertainty in the fuel budget for fiscal year 2013 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 2013 fuel hedging program and a recommendation on whether to continue the program in fiscal year 2014.

BART

The District entered into a three-party agreement between MTC, BART, and the District in February 2007. In this three-party agreement, the District has assigned $32 million to BART from State Infrastructure Bonds authorized by voter approved passage of Proposition 1B on November 7, 2006 and possibly in part from "spillover" funds allocated by MTC to come to the $32 million. Since entering into the three-party agreement, the District has fulfilled its obligations under the agreement.

In FY2008 -

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

In FY2010 -

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

In FY2011 -

- The District assigned $13.4 million of FY2011 Proposition 1B funds originally designated for the District to BART.

With the final payment assignment in FY2011, SamTrans fulfilled its obligations to BART under the three-party agreement.

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

		Actuarial					
Valuation Date		Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
6/30/2009		$ 189,495	$181,811	$ 7,648	95.9%	$ 47,646	16.1%
6/30/2010		201,210	193,742	7,468	96.3%	45,114	16.6%
6/30/2011	[1]	217,685	206,692	10,993	95.0%	44,932	24.5%

[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
6/30/2009		$ 31,938	$ 613	$ 31,325	1.9%	$ 48,510	64.6%
6/30/2010		34,906	1,280	33,626	3.7%	45,847	73.3%
6/30/2011	[1]	35,972	2,237	33,735	6.2%	49,055	68.8%

[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, 2012

	Budget (Unaudited)	Actual	Variance Positive/ (Negative)
OPERATING REVENUES - Passenger fares	$ 17,443	$ 17,452	$ 9
OPERATING EXPENSES:			
Salaries and benefits	60,198	58,060	(2,138)
Contract operations and maintenance services	31,049	29,851	(1,198)
Other services	6,125	5,866	(259)
Materials and supplies	9,215	8,768	(447)
Insurance	6,847	7,430	583
Miscellaneous	5,426	4,433	(993)
Total operating expense	118,860	114,408	(4,452)
Operating (loss)	(101,417)	(96,956)	4,461
NON-OPERATING REVENUES (EXPENSES)			
Operating assistance	95,382	110,672	15,290
Investment income	441	1,843	1,402
Interest expense	(100)	(86)	14
Caltrain service subsidy	(10,620)	(10,620)	-
Interagency administrative income	3,693	3,483	(210)
Other income, net	12,522	13,152	630
Total nonoperating income	101,318	118,444	17,126
Income (loss) before capital outlay and long-term debt principal payments	(99)	21,488	21,587
CAPITAL OUTLAY:			
Capital assistance	28,424	11,049	(17,375)
Capital expenditures	(28,424)	(11,049)	17,375
Net capital outlay	-	-	-
Long-term debt principal payment	(8,770)	(8,770)	-
EXCESS (DEFICIENCY) OF REVENUES AND NONOPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENTS	$ (8,869)	$ 12,718	$ 21,587

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		$ 12,718
Capital expenditures	$ 11,049	
Interest expense	(15,603)	
Depreciation and amortization	(24,297)	
Postemployment benefits accrual	(861)	
Long-term debt principal payments	8,770	
GASB 31 unrealized gain/loss	(437)	
Reimbursed investment interest	416	
Capital gain on investment	(881)	
Bond amortization expense	(558)	
Bond premium amortization - interest income	434	
Sub-total reconciling items		(21,968)
Change in net assets, GAAP basis		$ (9,250)

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Section III

STATISTICAL

Financial Trends

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

Revenue Capacity

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

Debt Capacity

- **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 ASSETS AND CHANGE IN NET ASSETS
FISCAL YEARS 2003 THROUGH 2012 (in thousands)

Fiscal year	2012	2011	2010	2009
OPERATING REVENUES - Passenger Fares	$ 17,452	$ 17,373	$ 17,149	$ 17,325
OPERATING EXPENSES:				
Salaries and benefits	58,921	58,473	59,835	62,708
Contract operations and maintenance	29,851	29,250	28,706	28,710
Other services	5,866	4,004	3,651	4,655
Materials and supplies	8,768	7,873	7,344	8,432
Insurance	7,430	6,900	6,607	5,621
Miscellaneous	4,433	4,628	6,263	6,437
Total operating expenses	115,269	111,128	112,406	116,563
Operating loss before depreciation, amortization and administrative expenses capitalized	(97,817)	(93,755)	(95,257)	(99,238)
Depreciation and amortization	(24,297)	(41,838)	(21,887)	(29,687)
OPERATING LOSS	(122,114)	(135,593)	(117,144)	(128,925)
NONOPERATING REVENUES (EXPENSES):				
Operating assistance	110,672	98,173	91,672	92,673
Investment income	1,375	2,197	4,659	9,830
Interest expense	(16,247)	(16,940)	(17,371)	(17,674)
Caltrain service subsidy	(10,620)	(14,708)	(16,521)	(16,521)
SFO/Colma BART station revenue/(deficit)	-	-	-	-
Lease-leaseback income	-	-	-	-
Interagency administrative income	3,483	3,342	4,375	3,151
Other income, net	13,152	8,349	10,241	7,520
Paratransit Trust Fund	-	-	-	25,000
Total nonoperating revenues, net	101,815	80,413	77,055	103,979
Net income (loss) before capital contributions	(20,299)	(55,180)	(40,089)	(24,946)
Capital contributions	11,049	14,396	54,560	11,092
CHANGE IN NET ASSETS	(9,250)	(40,784)	14,471	(13,854)
NET ASSET COMPONENTS				
Invested in capital assets, net of related debt	(23,448)	(18,519)	1,204	(46,833)
Restricted	33,982	32,702	31,875	37,048
Unrestricted	87,706	93,307	115,195	143,588
NET ASSETS	$ 98,240	$ 107,490	$ 148,274	$ 133,803

Source: CAFRs.

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

SAN MATEO COUNTY TRANSIT DISTRICT
FINANCIAL TRENDS – NET ASSETS AND CHANGE IN NET ASSETS
FISCAL YEARS 2003 THROUGH 2012 (in thousands)

2008	2007	2006	2005	2004	2003
$ 17,203	$ 16,830	$ 16,296	$ 13,863	$ 14,542	$ 15,273
64,175	58,521	56,944	53,420	53,521	49,339
27,902	26,482	24,338	22,751	23,365	22,982
3,747	3,580	3,948	3,546	2,568	2,548
9,589	8,151	7,102	4,943	4,683	5,157
6,074	6,010	4,927	3,774	4,360	3,568
7,269	6,585	6,433	5,684	5,667	7,966
118,756	109,329	103,692	94,118	94,164	91,560
(101,553)	(92,499)	(87,396)	(80,255)	(79,622)	(76,287)
(23,899)	(40,399)	(42,635)	(40,232)	(36,675)	(37,275)
(125,452)	(132,898)	(130,031)	(120,487)	(116,297)	(113,562)
115,004	113,565	99,827	92,899	91,062	81,464
11,637	9,745	6,690	5,770	2,244	16,131
(17,783)	(18,075)	(17,969)	(17,948)	(18,440)	(19,146)
(16,040)	(14,478)	(12,929)	(14,588)	(14,296)	(14,296)
-	(5,289)	(9,620)	(8,095)	(18,000)	311
-	-	-	-	-	-
8,327	6,944	6,054	6,595	8,654	10,239
5,806	12,613	5,901	6,785	5,033	7,254
-	-	-	-	-	-
106,951	105,025	77,954	71,418	56,257	81,957
(18,501)	(27,873)	(52,077)	(49,069)	(60,040)	(31,605)
6,425	2,304	4,764	4,853	24,056	30,567
(12,076)	(25,569)	(47,313)	(44,216)	(35,984)	(1,038)
(35,006)	(33,619)	(20,253)	10,533	25,045	40,150
3,517	3,569	3,390	13,659	19,171	20,998
179,146	189,783	202,165	208,423	232,615	251,667
$ 147,657	$ 159,733	$ 185,302	$ 232,615	$ 276,831	$ 312,815

SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 2003 THROUGH 2012

Fiscal year ending	**2012**		**2011**		**2010**	
Passenger fares (in thousands)	$ 17,452		$ 17,373		$ 17,149	
Revenue Base						
Number of passengers (in thousands)	12,648		13,475		13,934	
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		3.50		3.00	
Sales tax rate	0.50%		0.50%		0.50%	
Sales tax revenue (in thousands)	$ 69,370		$ 63,514		$ 58,488	
Taxable sales in San Mateo County (in thousands)	$ 13,874,000	[1]	$ 12,702,800	[1]	$ 11,697,600	[1]

[1] 2010 and 2011, and 2012 taxable sales are estimates based on sales tax revenues received.

Source: California State Board of Equalization and CAFRs.

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

SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 2003 THROUGH 2012

2009	2008	2007	2006	2005	2004	2003
$ 17,325	$ 17,203	$ 16,830	$ 16,296	$ 13,863	$ 14,542	$ 15,273
15,284	14,915	14,669	14,508	14,510	15,069	16,432
1.75	1.50	1.50	1.50	1.25	1.25	1.25
0.75	0.75	0.75	0.75	0.60	0.60	0.60
1.00	1.00	1.00	1.00	0.75	0.75	0.75
3.00	2.50	2.50	2.50	2.00	2.00	2.00
0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
$ 60,015	$ 68,667	$ 66,198	$ 63,813	$ 59,958	$ 55,397	$ 54,862
$11,327,022	$13,137,913	$13,326,306	$12,900,391	$12,451,350	$11,808,074	$11,358,439

Fiscal year	State		City and County	Other Special Districts	San Mateo County Transit District [1]	City of San Mateo Transactions and Use Tax		Total
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%
2004	6.25%		1.00%	0.50%	0.50%			8.25%
2003	6.00%		1.25%	0.50%	0.50%			8.25%

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

Source: California State Board of Equalization

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

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

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

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

SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – PRINCIPAL REVENUE PAYERS
FISCAL YEARS 2003 AND 2011 (in thousands)

	FY2011*			FY2003		
Principal Revenue Payers	**Rank**	**Percent of Taxable Sales**	**Amount**	**Rank**	**Percent of Taxable Sales**	**Amount**
All other outlets	1	34.1%	$ 988,114	1	27.9%	$ 3,172,149
Sporting Goods, Hobby, Book & Music Stores	12	2.2%	62,983	4	9.6%	1,090,344
Automotive group	3	10.3%	297,498	2	14.9%	1,686,863
General merchandise stores	5	8.1%	233,976	3	10.6%	1,207,576
Apparel stores	7	4.4%	128,015	11	2.8%	312,708
Food Services/drinking places	2	11.0%	319,289	5	8.4%	951,632
Service stations	4	8.7%	252,088	7	5.8%	655,484
Building materials group	6	5.5%	159,169	6	7.0%	797,381
Health and personal services	13	2.0%	57,853	8	4.3%	484,754
Furniture/Home furnishings	11	2.7%	78,302	9	3.9%	437,556
Food/Beverage stores	8	4.1%	118,770	10	3.5%	399,776
Miscellaneous Store Retailers	9	3.7%	107,847	12	1.4%	162,216
Electronics & Appliance stores	10	2.9%	83,751			
Nonstore Retailers	14	0.4%	12,680			
Total		100.0%	$ 2,900,335		100.0%	$ 11,358,439

Source: California State Board of Equalization

* Principal tax payers information for 1st Quarter, 2011 is the most current information available.

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

SAN MATEO COUNTY TRANSIT DISTRICT
DEBT CAPACITY – RATIO OF OUTSTANDING BONDS
FISCAL YEARS 2003 THROUGH 2012

Fiscal Year	Revenue Bonds for SamTrans[1] (in thousands)	Personal Income for San Mateo County[2]	As a Percent of Personal Income
2012	$ 304,765	$ 51,885,721	0.59%
2011	313,535	50,374,486	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%
2004	366,985	40,272,935	0.91%
2003	383,460	37,311,626	1.03%

[1] CAFRs

[2] U.S. Department of Commerce, Bureau of Economic Analysis, calendar year figures. Personal Income Data for 2011 and 2012 are based on an estimated three percent annual increase over 2010.

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

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
2012	$ 304,765	$ 13,874,000 [1]	2.20%
2011	313,535	12,702,800 [1]	2.47%
2010	321,905	11,697,600 [1]	2.75%
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%
2004	366,985	11,808,074	3.11%
2003	383,460	11,358,439	3.38%

[1] 2010, 2011 and 2012 taxable sales are estimates based on sales tax revenues received.

Source: CAFRs & California State Board of Equalization

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

SAN MATEO COUNTY TRANSIT DISTRICT
DEBT CAPACITY – DIRECT AND OVERLAPPING DEBT AND DEBT LIMITATIONS
YEAR ENDED JUNE 30, 2012

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 2003 THROUGH 2012 (in thousands)

Fiscal Year	Sales Tax Revenue	Principal	Interest	Total	Coverage
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
2004	55,397	16,475	17,976	34,451	2
2003	54,862	15,800	18,686	34,486	2

Source: CAFRs.

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

SAN MATEO COUNTY TRANSIT DISTRICT
DEMOGRAPHICS AND ECONOMIC INFORMATION – POPULATION, INCOME AND UNEMPLOYMENT RATES
FISCAL YEAR 2003 AND 2012

Year	**Population** [1]	**Total Personal Income** [2]		**Per Capita Personal Income** [2]	**Average Unemployment Rates** [3]
2012	729,443	$ 51,885,721	*	$ 72,103	7.0%
2011	725,245	50,374,486	*	70,003	7.9%
2010	719,582	48,907,268		67,964	8.8%
2009	716,264	47,279,930		66,254	8.4%
2008	711,374	49,416,583		70,211	4.8%
2007	704,272	50,610,056		72,941	3.8%
2006	699,398	47,695,895		69,107	3.7%
2005	699,277	43,554,177		63,115	4.3%
2004	701,401	40,272,935		58,353	4.9%
2003	703,062	37,311,626		53,836	5.8%

[1] California Department of Finance, Demographic Research Unit (2012 data as of Jan 1,2012-Report E-1; 2003-2011 data as of July 1-Report E-6)

[2] U.S. Department of Commerce, Bureau of Economic Analysis, BEARFACTS 2003-2010, San Mateo, California [06081], most current information available.

[3] California Economic Development Department, Labor Force/Unemployment Data (2012 data average Jan-Sept, 2003-2011 data average for calendar year)

*Personal Income Data for 2011 and 2012 is based on an estimated three percent annual increase over 2010.

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

SAN MATEO COUNTY TRANSIT DISTRICT
DEMOGRAPHICS AND ECONOMIC INFORMATION – PRINCIPAL EMPLOYERS
FISCAL YEAR 2010 AND 2004

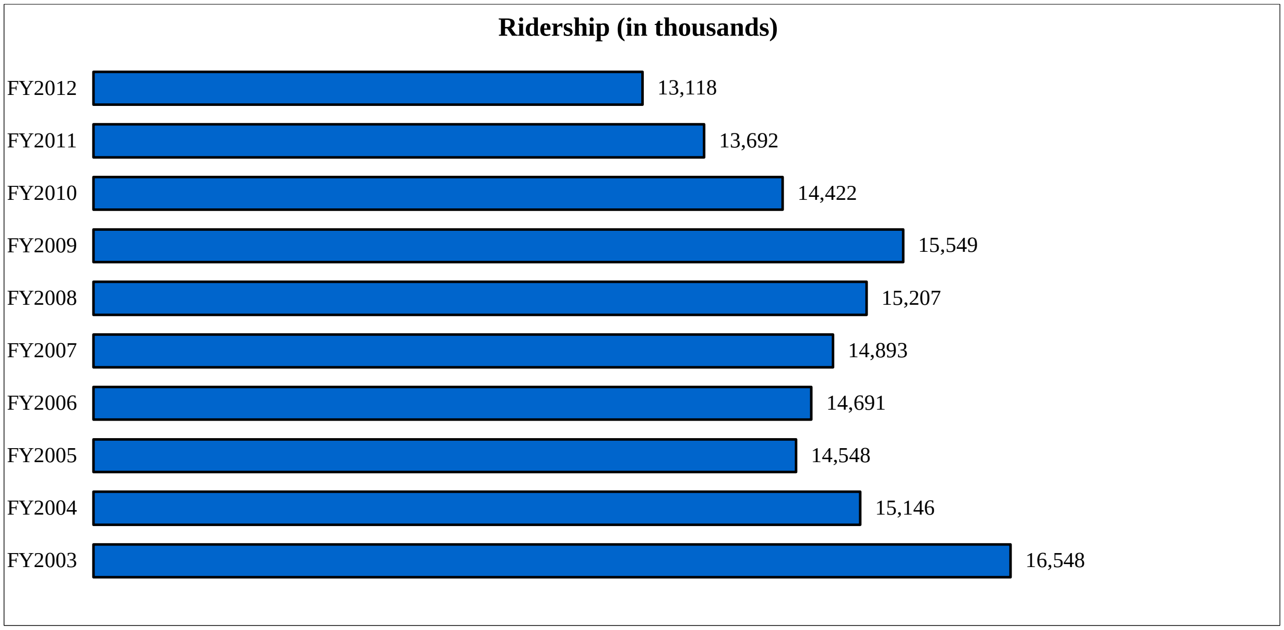
	2010*			2004*		
Employers in San Mateo County	Number of Employees	Rank	Percent of Total County Employment	Number of Employees	Rank	Percent of Total County Employment
Genentech Inc.	8,800	1	2.57%	5,120	4	1.48%
County of San Mateo	6,079	2	1.78%	5,663	3	1.63%
Oracle Corporation	5,600	3	1.64%	7,000	2	2.02%
Kaiser Permanente	3,777	4	1.10%	3,494	5	1.01%
Mills-Peninsula Health Services	2,500	5	0.73%	2,470	7	0.71%
Visa USA/Visa International	2,462	6	0.72%			
Safeway Inc.	2,075	7	0.61%	2,145	8	0.62%
San Mateo County Community College District	1,951	8	0.57%			
SLAC National Accelerator Laboratory	1,764	9	0.52%			
Seton Medical Center	1,672	10	0.49%			
United Airlines				10,933	1	3.15%
Applied Biosystems				2,640	6	0.76%
United States Postal Service				1,853	9	0.53%
Electronic Arts Inc.				1,750	10	0.50%
Total	36,680		10.73%	43,068		12.41%

Source: San Francisco Business Times - Book of Lists
California Employment Development Department

* Principal employer information for years 2003 and 2012 are not available.
This table presents the top 10 principal employers in San Mateo County for 2010 and 2004.

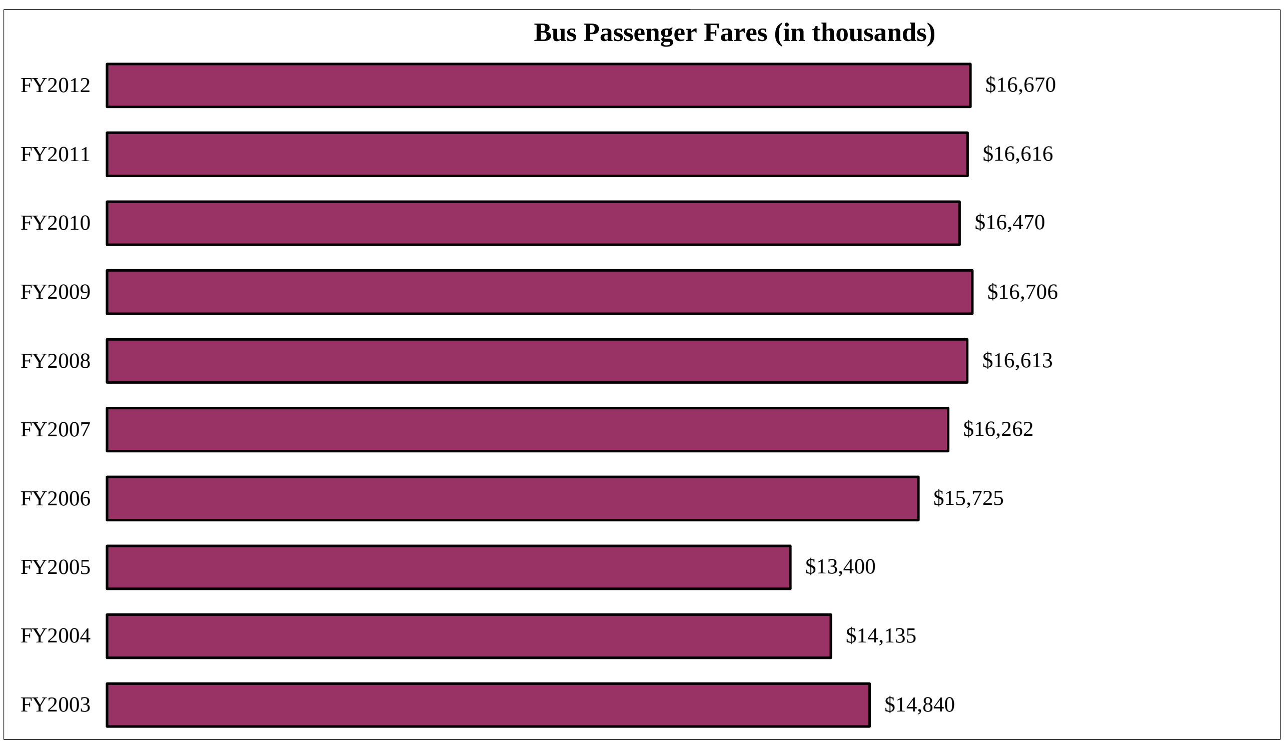
FIXED-ROUTE RIDERSHIP*

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



FIXED-ROUTE PASSENGER FARES

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

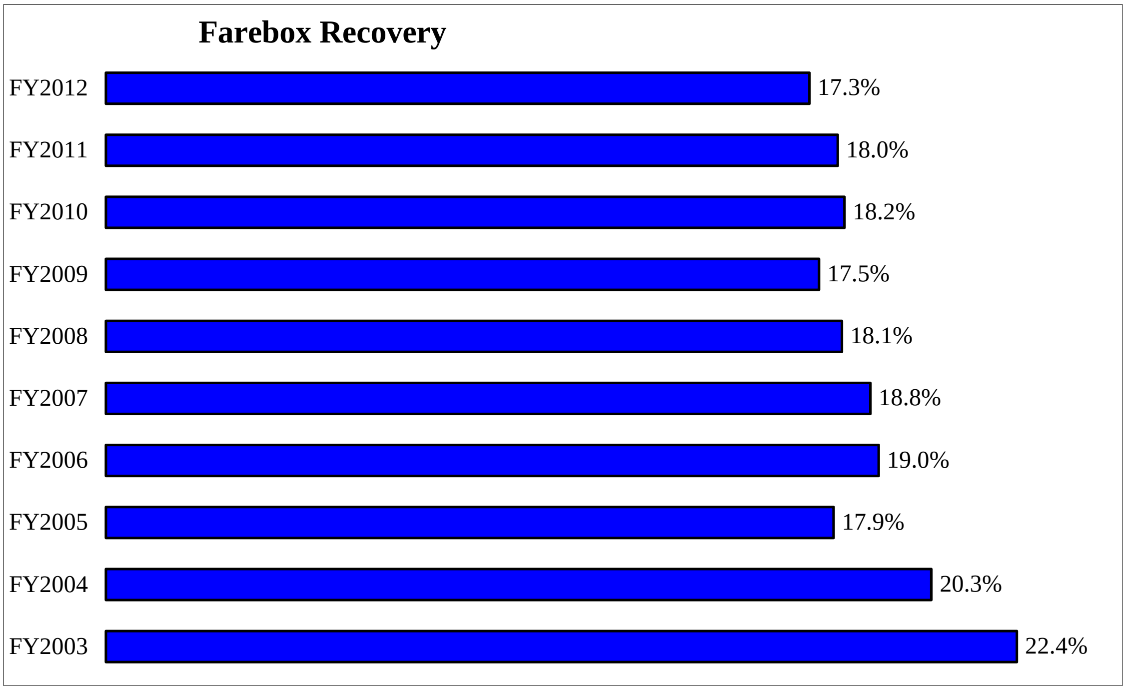


Bus Passenger fares table presents the total bus fare revenue for each year.

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

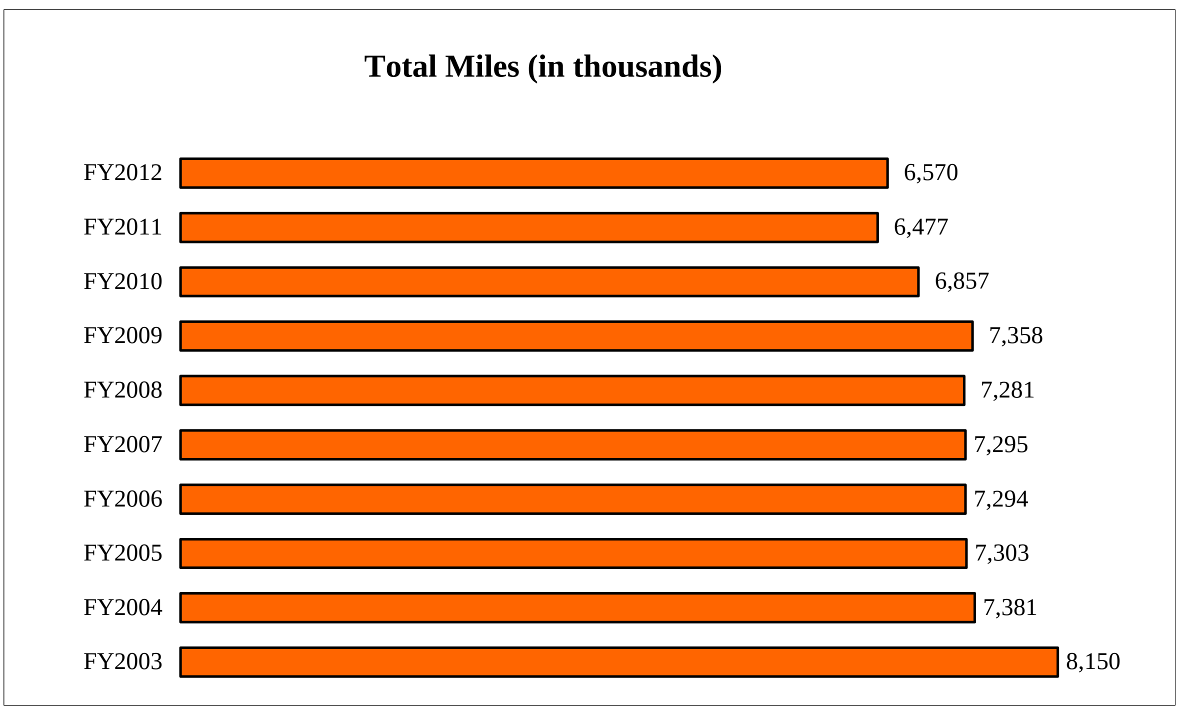
FIXED-ROUTE FAREBOX RECOVERY

Farebox recovery is based on fixed-route fare revenues divided by fixed-route total 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 percent of the total data.

SAN MATEO COUNTY TRANSIT DISTRICT
OPERATING INFORMATION – EMPLOYEES (FULL-TIME EQUIVALENTS)
FISCAL YEARS 2003 THROUGH 2012

Full-Time Equivalents

Division	2012	2011	2010
Customer Service and Marketing	29.56	24.43	20.90
Executive	3.52	3.60	3.55
Finance and Administration	66.51	66.83	67.88
Operations, Engineering and Construction	448.83	451.77	453.37
Planning and Development	6.64	6.04	6.00
Public Affairs	4.44	4.20	3.25
Total	559.50	556.87	554.95

Note: The organization went through a reorganization in FY2010.

Division	2009	2008	2007	2006	2005	2004	2003
Administration	42.85	43.35	42.70	38.76	36.56	46.29	35.09
Communication	29.97	29.58	33.75	35.77	36.17	43.76	22.29
Development	15.12	13.75	11.57	14.84	13.40	14.83	18.06
Executive	4.55	4.80	4.80	6.00	6.00	6.00	2.35
Finance	33.30	33.40	31.30	29.37	18.31	21.88	24.80
Operations	502.25	502.50	507.20	500.37	513.13	522.82	520.67
Total	628.04	627.38	631.32	625.11	623.57	655.58	623.26

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

Source: Operating and capital budgets.

This table presents total Full-time Equivalents by division.

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SAN MATEO COUNTY TRANSIT DISTRICT
OPERATING INFORMATION – CAPITAL ASSETS
FISCAL YEARS 2003 THROUGH 2012 (in thousands)

	2012	2011	2010	2009
Depreciable Capital Assets				
Buses and bus equipment	$ 138,638	$ 132,855	$ 164,448	$ 140,767
Buildings and building improvements	79,294	78,844	76,150	73,868
Maintenance and other equipment	16,927	15,542	15,125	14,591
Furniture and fixtures	26,686	25,927	20,831	14,447
Shelters and bus stop signs	3,190	3,185	3,166	3,165
Other vehicles	2,263	2,031	2,026	2,343
Total depreciable capital assets	266,998	258,384	281,746	249,181
Accumulated Depreciation for*:				
Buses and bus equipment	(75,080)	(68,406)	(105,223)	(102,625)
Buildings and building improvements	(61,157)	(58,006)	(53,983)	(51,205)
Maintenance and other equipment	(15,035)	(13,258)	(11,897)	(11,454)
Furniture and fixtures	(20,094)	(17,768)	(13,595)	(12,286)
Shelters and bus stop signs	(3,183)	(3,176)	(3,156)	(3,148)
Other vehicles	(1,417)	(1,245)	(1,382)	(1,586)
Total accumulated depreciation	(175,966)	(161,859)	(189,236)	(182,304)
Nondepreciable Capital Assets				
Land and right of way	53,855	53,855	51,435	51,435
Construction in progress	10,201	9,805	36,425	16,968
Total nondepreciable capital assets	64,056	63,660	87,860	68,403
Capital Assets, Net	$ 155,088	$ 160,185	$ 180,370	$ 135,280

Source: CAFRs.

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

SAN MATEO COUNTY TRANSIT DISTRICT
OPERATING INFORMATION – CAPITAL ASSETS
FISCAL YEARS 2003 THROUGH 2012 (in thousands)

2008	2007	2006	2005	2004	2003
$ 142,856	$ 158,180	$ 154,924	$ 151,580	$ 137,885	$ 116,500
73,686	73,237	72,619	72,083	70,029	68,643
24,718	25,500	23,710	22,883	20,117	19,613
13,033	13,875	13,087	13,329	13,229	13,143
3,271	3,313	3,304	3,304	2,830	2,564
2,015	2,363	2,472	2,354	2,354	2,613
259,579	276,468	270,116	265,533	246,444	223,076
(97,768)	(105,380)	(94,768)	(82,326)	(69,185)	(80,959)
(48,862)	(46,734)	(44,194)	(41,654)	(38,733)	(35,848)
(22,538)	(22,350)	(20,877)	(18,852)	(17,137)	(16,770)
(8,244)	(8,474)	(7,421)	(7,358)	(6,765)	(6,186)
(3,248)	(3,200)	(2,986)	(2,755)	(2,394)	(2,248)
(1,671)	(2,098)	(2,323)	(2,196)	(2,088)	(2,117)
(182,331)	(188,236)	(172,569)	(155,141)	(136,302)	(144,128)
51,435	43,695	43,695	43,695	43,695	43,695
18,772	15,713	15,417	10,957	18,750	32,410
70,207	59,408	59,112	54,652	62,445	76,105
$ 147,455	$ 147,640	$ 156,659	$ 165,044	$ 172,587	$ 155,053

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Section IV

SINGLE AUDIT

Schedule of Findings and Questioned Costs

Summary of Auditor's Results

Financial Statement Findings

Federal Award Findings and Questioned Costs

Status of Prior Year Findings and Questioned Costs

Schedule of Expenditures of Federal Awards

Notes to Schedule of Expenditures of Federal Awards

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

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unqualified			
Internal control over major programs:				
• Material weakness identified?		Yes	X	No
• Significant deficiency identified		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)
20.933	Department of Transportation – Office of the Secretary (OST) Administration Secretariat – National Infrastructure Investments
97.075	Department of Homeland Security – Rail and Transit Security Grant Program

Dollar threshold used to distinguish between type A and type B programs: $300,000

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 October 22, 2012, 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 (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
Federal Transit Cluster:			
Federal Transit Administration - U.S. Dept of Transportation Direct Programs			
Federal Transit Formula Grants (Urbanized Area Formula Program)	20.507		
CA-90-Y344 - Capital Grant			15,772
CA-90-Y525 - Capital Grant			1,473,754
CA-90-Y612 - Capital Grant			(775,360)
CA-90-Y768 - Capital Grant			43,937
CA-90-Y789 - Capital Grant			(145,175)
CA-90-Y852 - Capital Grant			376,000
CA-90-Y852 - Operating Grant			2,810,405
CA-95-X187 - Capital Grant			2,468
CA-90-Y943 - Operating Grant			1,374,719
CA-95-X144 - Operating Grant			2,268,653
CA-96-X021 - Capital Grant - ARRA			111,563
CA-96-X021 - Operating Grant - ARRA			294,080
Program Subtotal	20.507		**7,850,815**
Capital Investment			
CA-04-0131 Capital Grant	20.500		490,000
Program Subtotal	20.500		**490,000**
Total Federal Transit Cluster - Federal Transit Formula Grants			**8,340,815**
Transit Services Program:			
Pass-Through Metropolitan Transportation Commission			
Section 5317 - New Freedom Grant	20.521	Not available	69,157
Program Subtotal	20.521		**69,157**
Surface Transportation Infrastructure - Discretionary	20.933		
Grants for Capital Infrastructure II			
CA-79-000 National Infrastructure Investment TIGER II Grant Direct Program			377,402
Program Subtotal	20.933		**377,402**
Federal Transit Administration - U.S. Dept of Transportation Pass-Through Programs From:			
Pass-Through California Department of Transportation			
Nonurbanized Area Formula Program	20.509		
Section 5311 - Operating		SA#642163	124,629
Program Subtotal	20.509		**124,629**

SAN MATEO COUNTY TRANSIT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
Pass-Through Metropolitan Transportation Commission			
State Planning and Research	20.513		
Section 5310		SA#649551	126,598
Program Subtotal	20.513		**126,598**
Total Department of Transportation			**9,038,601**
U.S. Department of Homeland Security Direct Program			
Pass-Through the California Emergency Management Agency			
Rail and Transit Security Grant	97.075		
FY 06 TSGP 2006-RL-T6-0001 - Operating		081-91018	75
FY 08 TSGP 2008-RL-T8-018 - Capital		081-91024	279,698
Program Subtotal	97.075		**279,773**
Total Expenditures of Federal Awards			**$ 9,318,374**

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.

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 the financial statements of San Mateo County Transit District (District) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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Compliance and Other Matters

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

We have also issued a separate Memorandum on Internal Control dated October 22, 2012, which is an integral part of our audits and should be read in conjunction with this report.

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

Maze & Associates

October 22, 2012

MAZE & ASSOCIATES

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

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

Compliance

We have audited San Mateo County Transit District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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Internal Control Over Compliance

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the business-type activities, and each major fund of the District as of and for the year ended June 30, 2012, and have issued our report thereon dated October 22, 2012 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the District’s Entity’s financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* 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 other 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

Maze & Associates

December 5, 2012