



**SAN MATEO COUNTY TRANSIT DISTRICT**

**San Carlos, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the Fiscal Year Ended June 30, 2005**



**Prepared by the Finance Division**

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# ***Section I***

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## **INTRODUCTORY**

Letter of Transmittal

GFOA Certificate of Achievement

Board of Directors

Executive Management

Organization Chart

Maps

Table of Credits

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**January 30, 2006**

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

**Comprehensive Annual Financial Report  
Year Ended June 30, 2005**

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the San Mateo County Transit District (the "District") for the fiscal year July 1, 2004 through June 30, 2005. This transmittal letter provides a summary of the District's finances, services, achievements and economic prospects for readers without a technical background in accounting or finance. Readers desiring a more detailed discussion of the District's financial results may refer to the Management's Discussion and Analysis portion of the Financial Section.

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

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

**PROFILE OF THE ORGANIZATION**

***Purpose***

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

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# **SAN MATEO COUNTY TRANSIT DISTRICT COMPREHENSIVE ANNUAL FINANCIAL REPORT JANUARY 30, 2006**

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The overall purpose of the District is to plan, develop, finance, and operate a modern, coordinated system of transportation that offers access to the many opportunities of San Mateo County 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. In addition, this system connects effectively to other transportation services in the San Francisco Bay Area. No other organization within San Mateo County has a similar scope of responsibility for public transportation.

## ***Entity***

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

## ***History***

On January 1, 1975, the District began consolidating 11 separate municipal bus systems and initiating local bus service where none existed. By July 1976, the District had established a viable network of local bus service throughout a 446 square-mile service area in San Mateo County. In mid-1977, the District added main line 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 patrons with mobility impairments. During its history of operations, the District has provided transportation to special events such as the Democratic National Convention, the Major League Baseball All Star Game, the National Football League Super Bowl, the Major League Baseball World Series, World Cup Soccer and the American Public Transportation Association's Commuter Rail Conference.

The District has fought throughout its history to preserve passenger rail service along the San Francisco Peninsula and it led a successful campaign in 1978 to avoid an impending decision by the Southern Pacific Railroad to end service. Two years later, the District, the California Department of Transportation and the counties of Santa Clara and San Francisco had negotiated a long-term agreement with the Southern Pacific to continue San Jose to San Francisco service under the name "Caltrain". When the Southern Pacific again intended to discontinue local passenger rail service in the late 1980s, the counties of San Mateo, Santa Clara and San Francisco formed the Peninsula Corridor Joint Powers Board (JPB), purchasing the Southern Pacific right of way and selecting the District as its administrative agent and overseer for Caltrain passenger service. Subsequently, the JPB contracted with Amtrak to operate trains, not only between San Francisco and San Jose, but also to Gilroy, approximately 30 miles south of San Jose.

## ***Governance***

A nine-member Board of Directors governs the District. The publicly-elected County Board of Supervisors appoints two of its own and an individual having 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. The Board of Directors meets once a month to determine overall policy for the District. In addition, the Board

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has created a 15-member Citizens Advisory Committee (CAC). The principal objective of the CAC is to articulate the interests and needs of all current and future patrons.

***Administration***

The District operates through five divisions and an executive department.

The *Administration Division* is responsible for purchasing, contract administration, risk management, information technology and human resources. In addition this division also manages security, including police services provided through a contract with the San Mateo County Sheriff.

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

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

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

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

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

***Budgetary Control***

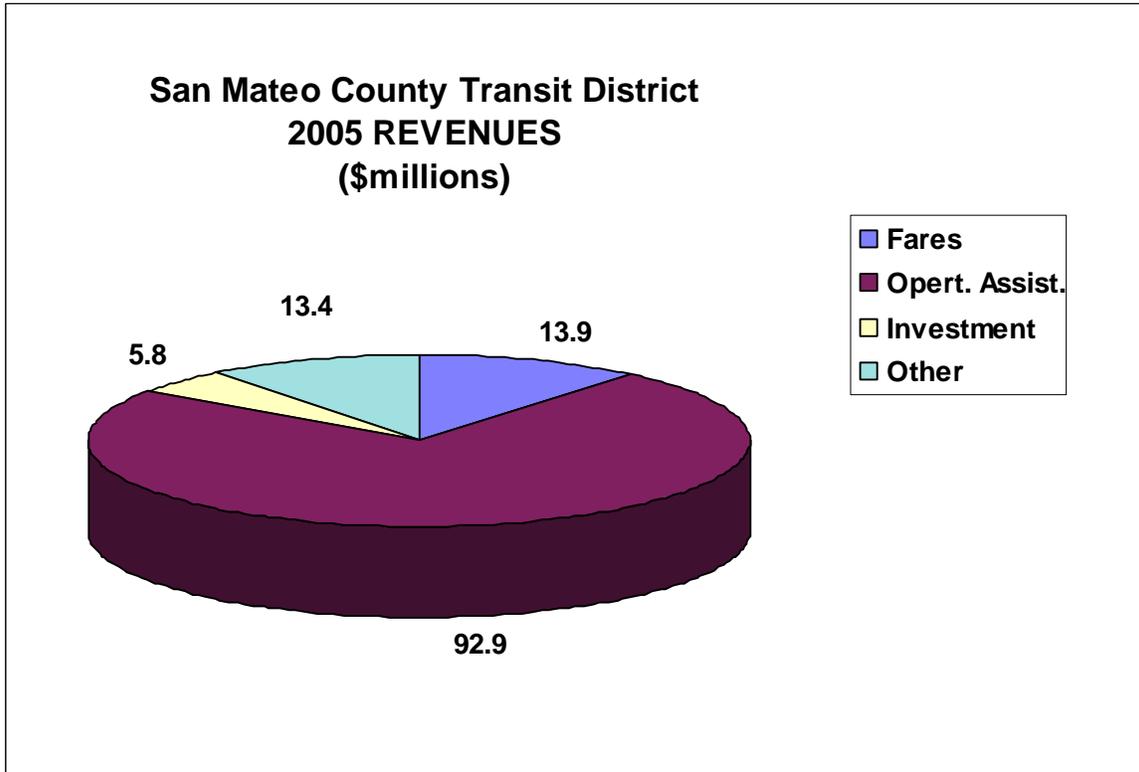
State law requires the District to adopt an annual budget by resolution of the Board of Directors. In the spring preceding the start of each fiscal year, staff presents an annual budget based on established agency goals, objectives and performance measures to the Board of Directors. The presentation may recommend using financial reserves to balance the budget where 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 original and 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 to the Chief Executive Officer. 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 and issues purchase orders to avoid over-commitment of resources.

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The District employs the same basis and principles for both budgeted and actual revenues and expenditures, with the exceptions that actual proceeds from the sale of fixed assets, unrealized investment gains and losses and inter-fund transfers are not included in the budget. As a special purpose organization established pursuant to joint powers legislation, the District is not subject to the State of California's Gann Act requiring adherence to an annual appropriation limit. The pie charts in this letter show actual results for the major revenue and expense categories of fiscal year 2005 budget.

## **STRATEGIC PLANNING**

### ***Goals***

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

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

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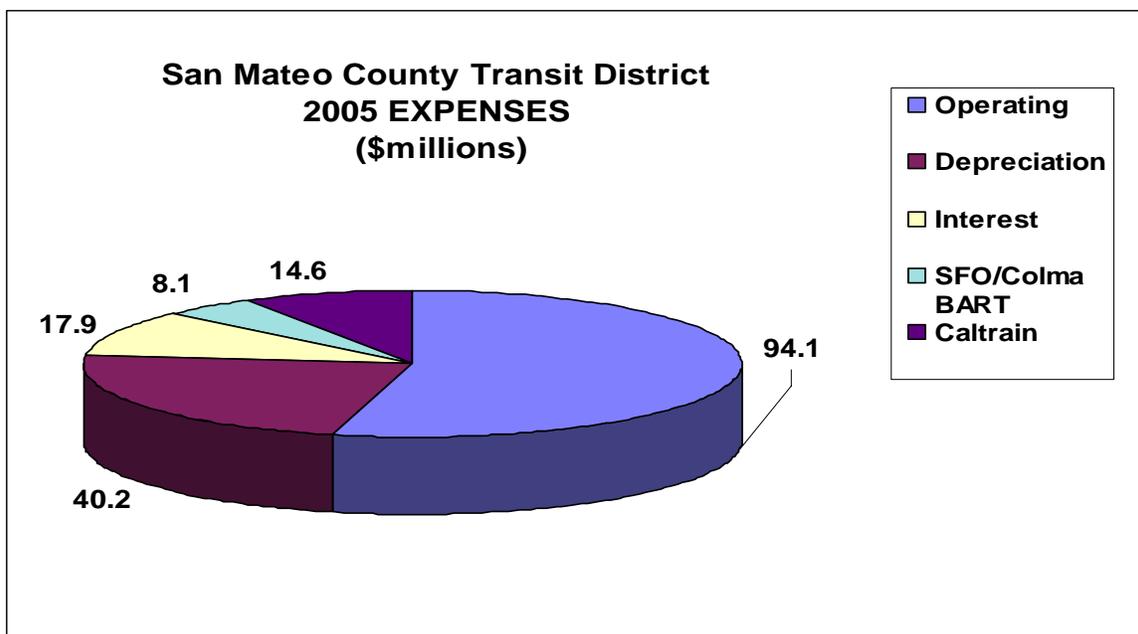
## SAN MATEO COUNTY TRANSIT DISTRICT COMPREHENSIVE ANNUAL FINANCIAL REPORT JANUARY 30, 2006

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

In addition to providing local transportation for municipalities, the District has committed significant resources to support other transportation modes. These include Caltrain and BART rail services and shuttle bus service to and from these stations. Dedicated bus shuttles distributing rail patrons to regional employers are particularly vital over the next 20 years, as local agencies are encouraged to implement transportation system management plans designed to reduce highway congestion and improve air quality. Continuing a 29-year history of serving San Mateo County residents with mobility impairments, the District also expects to meet an expanding demand for these services through a variety of paratransit activities.

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



### CURRENT PROGRAMS

#### *Motor Bus Operations*

The District designs its service to meet the needs of Peninsula travelers with hundreds of daily trips along the Bayshore corridor between Palo Alto and downtown San Francisco. In addition, frequent

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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 stop in the 20 cities that make up San Mateo County.

In response to ridership and revenue declines suffered during the weak economy, the District reduced its bus operation from 60 routes to 57 in 2003. An additional four routes were eliminated in 2004 and one route was added bringing the current total to 54 routes. Bus ridership in San Mateo County escalated from four million in fiscal year 1976 to 18.0 million in 2001, but has since declined to 14.2 million in 2005.

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

***Caltrain Administration***

Since 1992, the District has served as staff to the tri-county Peninsula Corridor Joint Powers Board that operates commuter rail service on a 77-mile corridor between San Francisco in the north and Gilroy in the south. In September 2003, Caltrain instituted a “proof-of-payment” fare collection system that has increased internal controls and freed conductors from onboard ticket sales, allowing them to focus more on customer service and safety. After many years of planning, Caltrain broke ground on a centralized equipment maintenance and operations facility in November 2004 that will consolidate several geographically separate facilities, increasing efficiency. In June 2004, Caltrain introduced limited stop, express service, dubbed “Baby Bullet”, that reduced travel time between San Jose and San Francisco approximately 20 minutes to just under one hour. Also in June 2004, Caltrain resumed weekend service that had been discontinued for two years to allow for right of way improvements in preparation for the Baby Bullet service. District staff produces a separate Comprehensive Annual Financial Report for the Peninsula Corridor Joint Powers Board that operates Caltrain service and readers may obtain this report upon request.

***San Mateo County Transportation Authority***

The District provides staff and support for the San Mateo County Transportation Authority, which administers funds from a half-cent sales tax authorized by voters in 1988 and extended in November 2004 by voters through 2033. Together with a series of highway projects, the Authority underwrites Caltrain capital improvements and a paratransit trust fund for persons with mobility impairments, as well as allocating funds for Transportation Systems Management programs aimed at reducing highway congestion and air pollution. District staff produces a separate Comprehensive Annual Financial Report for the San Mateo County Transportation Authority that readers may obtain upon request.

***Paratransit Services***

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

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2005, Redi-Wheels vehicles, Redi-Coast vehicles and contracted taxi and lift vans provided a total of 231,490 hours of service.

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

The San Mateo County Transit District is an active partner in BART's San Mateo County Service and is responsible for the net operating cost of the rail system south of Daly City. On March 1, 1990 BART and the transit district entered into a comprehensive Agreement for the common objective of extending the BART system from Daly City to the vicinity of San Francisco International Airport. The Agreement called for two projects. The first project was the Colma Project, approximately 1.6 route miles from the existing Daly City station to the new Colma station, which celebrated the grand opening on February 24, 1996. On June 19, 1996 an amendment was entered into identifying four stations for the second project, which commenced service June 22, 2003. Initial ridership was significantly below expectations, and while increasing, it still remains below projections. This has resulted in a significant and unanticipated deficit on the extension. Service levels were reduced in September 2005 to bring capacity more in line with actual ridership and on January 1, 2006 fares were increased. These actions, combined with the increasing ridership, are helping to reduce the deficit by nearly 50 percent.

**FACTORS AFFECTING FINANCIAL CONDITION**

***Local Economy***

Ranking second in affluence among Northern California counties, San Mateo County has a growing and maturing economy. With significant employment in industries such as computer technology, biotechnology, finance, education, conventions, tourism, agriculture, and manufacturing, the District's service area does not depend on any one sector for its prosperity. Despite the recent economic downturn and a slower recovery than in other regions, particularly in the technology sector, this broad base promises long-term stability and job growth for San Mateo County residents.

Three years ago, the economy began to slow, as unemployment rose, real estate prices fell and consumers curtailed spending. Although real estate prices recovered quickly, jobs continued to be lost and retail sales declined into 2004. Both District motor bus and Caltrain ridership reflected this trend, declining moderately. In the last half of 2004, modest employment gains signaled the beginning of economic recovery. Consumer spending also improved, as the District's sales tax receipts increased slightly in 2004 and even more so in fiscal year 2005.

Despite the favorable long-term outlook, the District faces a significant structural deficit in its operating budget. Sales tax receipts declined \$6.7 million from their record high in 2001 of \$66.7 million to \$60.0 million in 2005. Both the federal and state governments drastically reduced operating subsidies in response to budget pressures of their own. Finally, fare revenue for the District's core business, local bus service, decreased during the economic slowdown and ridership has not yet responded to the incipient recovery. On the expense side, intermodal support, paratransit costs and employee fringe benefits have increased at a greater rate than originally anticipated. In addition, wages and other costs also are expected to increase over time due to two to three percent annual inflation. These trends are challenging the District to re-examine its business model in terms of the needs of its customers and its fiscally constrained operating budget.

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***Cash Management***

The Board of Directors has adopted an investment policy as prescribed by State of California law. This policy emphasizes safety and liquidity over return on investment. Within these parameters, the District pursues a prudent cash management and investment program to achieve maximum return on all available funds. The District's policy is to hold securities to maturity to avoid losses from a potential sale. All of the District's unrestricted cash and investments as of June 30, 2005 were on deposit in various accounts with the Bank of America, the Bank of New York, or the State of California State Treasurer's Local Agency Investment Fund. Deposits are insured by the federal depository or covered by collateral.

***Risk Management***

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

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

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

**ACKNOWLEDGMENTS AND AWARDS**

The staff and contracted firms of the San Mateo County Transit 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 opportunities of the Bay Area and beyond. As the region recovers from the economic downturn of the past few years, the District expects the continued zeal and dedication of its transit professionals to meet the transportation challenges of the future.

The Government Finance Officers Association (GFOA) recognized the District's 2004 Comprehensive Annual Financial Report 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 2005 Comprehensive Annual Financial Report also meets the requirements for a Certificate of Achievement and have submitted it to the GFOA for evaluation. We thank our independent audit firm, Vavrinek, Trine, Day & Company LLP, for its timely and expert guidance in this matter.

A comprehensive annual financial report requires the dedicated effort of many individuals working together as a team. We extend our grateful recognition to all the individuals who assisted in both the preparation of this report and the processing of financial transactions throughout the fiscal year.

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

Respectfully submitted,



**Virginia Harrington**  
Chief Financial Officer



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

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COMPREHENSIVE ANNUAL FINANCIAL REPORT  
JANUARY 30, 2006**

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**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**San Mateo County  
Transit District, California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

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



*Nancy L. Zielle*

President

*Jeffrey R. Ennis*

Executive Director

## **BOARD OF DIRECTORS**

**JERRY HILL**

*Chair*

**JIM HARTNETT**

*Vice- Chair*

**\* JOHN D. BARBOUR**

**MICHAEL P. GUINGONA**

**SHIRLEY HARRIS**

**MARC HERSHMAN**

**ARTHUR L. LLOYD**

**\* MICHAEL D. NEVIN**

**ADRIENNE TISSIER**

*\* Resigned in December 2005*

**John D. Barbour**, public member and representative of the Coastal Zone, was appointed by the District Board of Directors in January 2000. Mr. Barbour owns and operates the Moss Beach Distillery Restaurant. His current term on the District Board of Directors expires in December 2006.

**Michael P. Guingona**, Cities Selection Committee appointee, northern portion of San Mateo County, was appointed by the Cities Selection Committee in February 1997 and served as chair of the District Board of Directors in 2003. Mr. Guingona also serves as a member of the board of directors of the San Mateo County Transportation Authority. Mr. Guingona is an attorney, with a practice in San Francisco. His current term on the District Board of Directors expires in December 2006.

**Shirley Harris**, public member, was appointed by the District Board of Directors in January 1994 and served as the chair of the District Board of Directors in 1996 and in 2001. Ms. Harris has more than twenty-five years of experience in telecommunications and human resource management. Her current term on the District Board of Directors expires in December 2008.

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**Jim Hartnett**, Vice Chair, Cities Selection Committee appointee, southern portion of San Mateo County, was appointed by the Cities Selection Committee in December 2002. Mr. Hartnett has been a member of the City Council of Redwood City since 1994, serving as mayor of Redwood City in 1995. Mr. Hartnett is an attorney with a practice in Redwood City. His current term on the District Board of Directors expires in December 2008.

**Marc Hershman**, Cities Selection Committee appointee, central portion of San Mateo County, was appointed by the Cities Selection Committee in January 2004. Mr. Hershman has been a member of the City Council of the City of Millbrae since 1997, serving as mayor of Millbrae in 2001-2002. Mr. Hershman is an attorney with a practice in San Mateo. His current term on the District Board of Directors expires in December 2006.

**Jerry Hill**, Chair and San Mateo County Supervisor, was appointed by the San Mateo County Board of Supervisors in January 1999. Mr. Hill was elected to the San Mateo County Board of Supervisors in June 1998 and represents the Second District, which includes the cities of San Mateo, Foster City, and Belmont. Mr. Hill is a business owner and commercial pilot. His current term on the District Board of Directors expires in December 2008.

**Arthur L. Lloyd**, “Transit Expert” member, was appointed by the San Mateo County Board of Supervisors in February 1988 and served as chair of the District Board of Directors in 1993. 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. Mr. Lloyd is serving on the District Board of Directors until such time as a successor is appointed by the San Mateo County Board of Supervisors.

**Michael D. Nevin**, public member, was appointed by the San Mateo County Board of Supervisors in January 2005. Prior to his appointment as a public member, Mr. Nevin served on the District Board of Directors as a San Mateo County Supervisor member from January 1993 to January 2005. He also serves as chair of the governing body of the Peninsula Corridor Joint Powers Board and as chair of the Transbay Joint Powers Authority and is a member of the San Mateo County Transportation Task Force. His current term on the District Board of Directors expires in December 2008.

**Adrienne Tissier**, San Mateo County Supervisor, was appointed by the San Mateo County Board of Supervisors in January 2005. Ms. Tissier was elected to the San Mateo County Board of Supervisors in January 2005 and represents the Fifth District, which includes the cities of Brisbane, Colma, Daly City and South San Francisco. Prior to her election to the San Mateo County Board of Supervisors, Ms. Tissier served two terms as a member of the City Council of Daly City, twice serving as mayor of Daly City. Ms. Tissier has been in business in the private sector for more than twenty years. Her current term on the District Board of Directors expires in December 2006.

## **EXECUTIVE MANAGEMENT**

### **GENERAL MANAGER/CHIEF EXECUTIVE OFFICER**

Michael J. Scanlon

### **SPECIAL ASSISTANT TO THE CEO**

Mark Simon

### **CHIEF OFFICERS**

George Cameron, Chief Administrative Officer

Virginia Harrington, Chief Financial Officer

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

Rita Haskin, Chief Communications Officer

Ian McAvoy, Chief Development Officer

### **ADMINISTRATIVE & BOARD SUPPORT**

Martha Martinez, Manager, Executive/Governing Boards Support

Jennifer Hardie, Administrative/Board Secretary

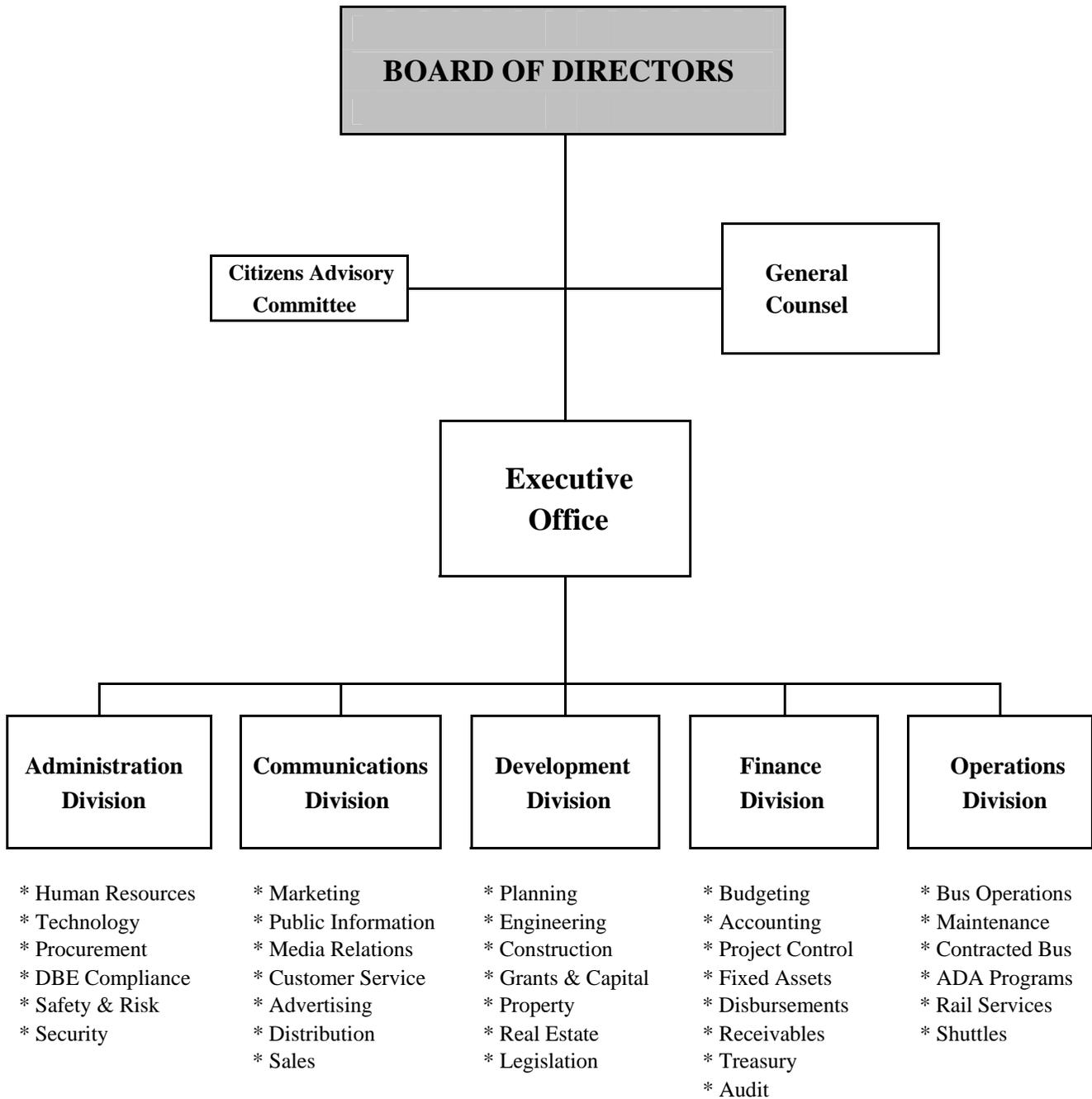
### **GENERAL COUNSEL**

Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP:

David J. Miller, Esq.

Joan Cassman, Esq.

**ORGANIZATION CHART**



## **San Mateo County, California**



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**Detailed Service Area**



## **TABLE OF CREDITS**

The following individuals contributed to the production of the fiscal year 2005 Comprehensive Annual Financial Report:

<b><u>Finance:</u></b>	Jeannie Chen	Senior Accountant
	Donna Fong	Manager, Capital & Grants Accounting
	Brian Lee	Senior Accountant
	Rima Lobo	Manager, General Ledger Accounting
	Neng Pacumio	Senior Accountant
	Patricia Reavey	Director of Finance & Budgets
<b><u>Audit Firm:</u></b>	Roger Alfaro	Managing Auditor
	Leonard Danna	Partner

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# ***Section II***

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## **FINANCIAL**

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements and Notes

Required Supplementary Information

Supplementary Information and Notes

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors of the  
San Mateo County Transit District

We have audited the accompanying basic financial statements of the San Mateo County Transit District (the District), as of and for the fiscal years ended June 30, 2005 and 2004. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2005 and 2004 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 of the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures-an amendment of GASB No. 3*, effective July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 21, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

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

Varrinek Trime Day + Co. LLP

Palo Alto, California  
October 21, 2005

## **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 the fiscal year ended June 30, 2005 with comparisons to the prior fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the transmittal letter contained in the Introductory Section and with the statements and related notes contained in the Financial Section. All amounts have been rounded to the nearest one hundred thousand dollars and one-tenth of a percent.

### **FINANCIAL HIGHLIGHTS**

- Total assets stand at \$605.3 million at June 30, 2005, a decrease of \$63.0 million or 9.4 percent compared to June 30, 2004 due primarily to total expenses exceeding total revenues during 2005.
- Operating revenue from passenger fares for 2005 was \$13.9 million, a decrease of \$0.7 million or 4.7 percent compared to 2004 due to a decline in ridership.
- Total operating expenses in 2005 of \$94.1 million were essentially level with 2004 expenses.
- The net of non-operating revenue and non-operating expense was \$71.4 million for 2005, which is \$15.2 million or 26.9 percent higher than in 2004. This result is mainly due to a reduction in unrealized losses.
- Net assets of \$276.8 million at June 30, 2004 decreased by \$44.2 million or 16.0 percent to \$232.6 million as of June 30, 2005.

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

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

#### **Basic Financial Statements**

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

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

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

- *Cash flows from operating activities* include transactions and events reported as components of the operating income in the statement of revenues, expenses and changes in net assets.
- *Cash flows from non-capital financing activities* include operating grant proceeds as well as operating subsidy payments from third parties.

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**SAN MATEO COUNTY TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2005**

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- *Cash flows from capital and related financing activities* 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* include the proceeds from the sale of investments, receipt of interest and changes in the fair value of investments subject to reporting as cash equivalents. Outflows in this category include the purchase of investments.

**Notes to the Financial Statements**

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

**Other Information**

This report also presents certain supplementary information concerning compliance with the District's annual budget. This supplementary information and associated notes immediately follow the basic financial statements and their accompanying notes.

**Analysis of Basic Financial Statements**

Total assets decreased \$63.0 million or 9.4 percent from \$668.3 million at June 30, 2004 to \$605.3 million at June 30, 2005. Five capital-related asset categories (capital assets - net, capital contribution to BART net of amortization, restricted cash and investments, bond issuance costs, and other assets) combined with noncurrent investments decreased by \$106.9 million or 22.5 percent during 2005 compared to 2004. This result was primarily due to 2005 depreciation and amortization expenses. Total current assets combined with the BART receivable offset the decrease by increasing \$44.0 million or 36.5 percent between fiscal years as portfolios were reinvested towards the shorter term.

Current assets increased \$41.2 million or 36.5 percent from \$112.7 million at June 30, 2004 to \$153.8 million at June 30, 2005. Current investments increased \$60.0 million or 145.3 percent while cash and cash equivalents decreased \$11.1 million or 41.6 percent as the District reinvested maturing long-term securities in shorter-term instruments due to favorable short-term interest rates. Consequently, noncurrent investments decreased \$70.8 million or 53.7 percent between 2005 and 2004.

Capital assets net of accumulated depreciation decreased \$6.0 million or 3.4 percent to \$167.7 million during 2005. Land and right of way, buses and related equipment, and building and related improvements comprise most of the District's capital assets.

**SAN MATEO COUNTY TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2005**

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.

The amortized capital contribution to BART decreased \$22.3 million or 14.4 percent to \$133.0 million during 2005 with current amortization accounting for the decrease. The District also holds long-term receivables from BART of \$72.0 million for a construction loan and \$10.7 million for an advance to acquire property related to the SFO BART Extension. Additional discussion of the District's transactions with BART is found in *Note #5 - Bay Area Rapid Transit (BART) District Extension Agreements* of the *Notes to the Financial Statements*.

<b>NET ASSETS</b>			
<b>(In thousands)</b>			
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Current assets	\$153,834	\$101,470	\$180,172
Capital assets, net of depreciation	167,722	173,683	155,053
Contribution to BART, net of amortization	132,983	155,274	177,564
Non-current assets	150,806	237,911	206,023
<b>Total assets</b>	<b>\$605,345</b>	<b>\$668,338</b>	<b>\$718,812</b>
Current liabilities	\$34,763	\$35,206	\$32,602
Long-term debt	332,736	350,728	367,980
Non-current liabilities	5,231	5,573	5,415
<b>Total liabilities</b>	<b>\$372,730</b>	<b>\$391,507</b>	<b>\$405,997</b>
Net assets			
Invested in capital assets, net of related debt	\$10,533	\$25,045	(\$22,514)
Restricted	13,659	19,171	-
Unrestricted	208,423	232,615	335,329
<b>Total net assets</b>	<b>\$232,615</b>	<b>\$276,831</b>	<b>\$312,815</b>

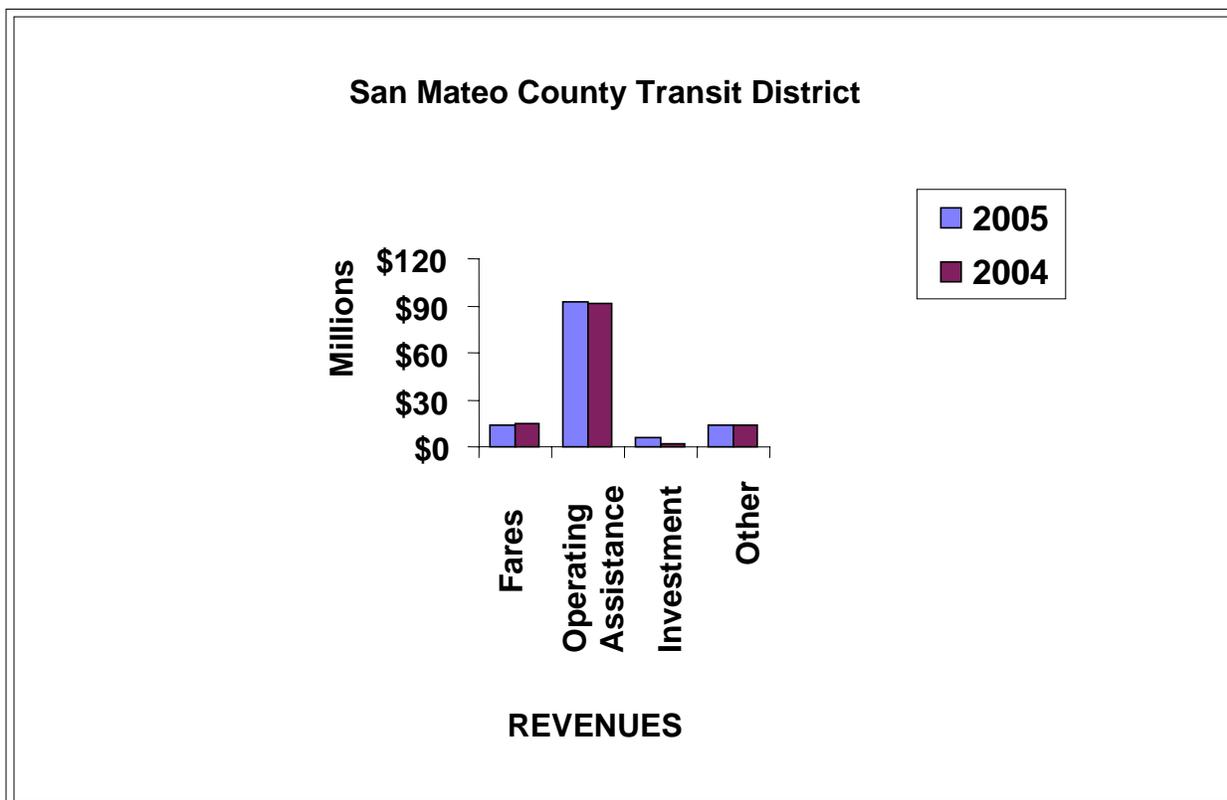
Total liabilities decreased by \$18.8 million or 4.8 percent from \$391.5 million at the end of 2004 to \$372.7 million at the end of 2005. Principal payments of \$17.2 million during 2005 reduced the year-end balance of long-term debt, accounting for the majority of the decrease in total liabilities between years. In addition, accounts payable and accrued expenses combined were \$0.9 million or 10.5 percent lower at 2005 year-end than at 2004 year-end.

**SAN MATEO COUNTY TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2005**

At June 30, 2005, net assets of \$232.6 million are \$44.2 million or 16.0 percent less than the \$276.8 million of net assets at June 30, 2004 due to an overall deficit for District activities during 2005. The total net assets component, invested in capital assets net of related debt at June 30, 2005 are \$10.5 million or 4.5 percent of total net assets. Total net assets restricted for debt service at June 30, 2005 are \$13.7 million or 5.8 percent of total net assets. The remaining \$208.4 million of total net assets at June 30, 2005 are unrestricted and represent 89.6 percent of total net assets.

**Revenue Highlights**

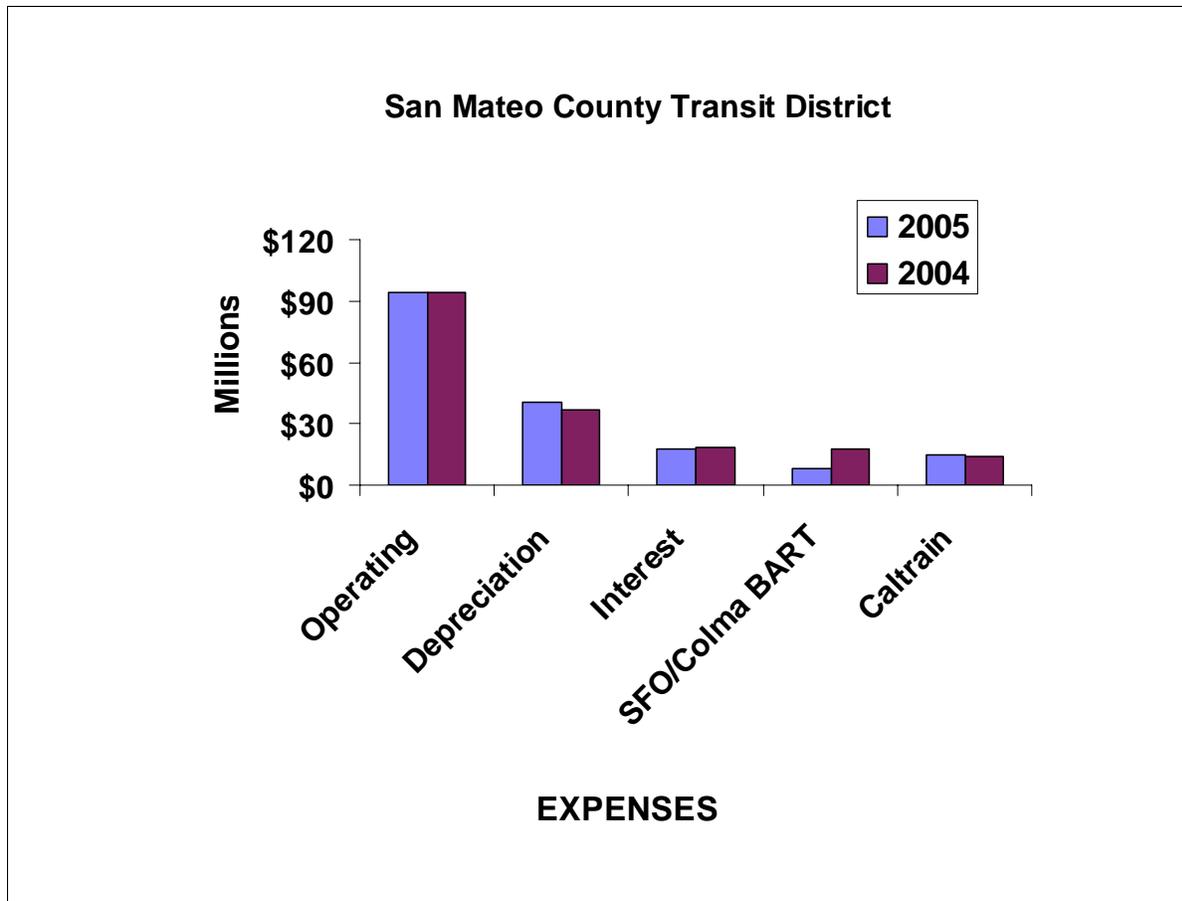
Operating revenue generated from passenger fares of \$13.9 million decreased by \$0.7 million or 4.7 percent during 2005 compared to 2004. The slow recovery from the economic downturn of the last few years accounts for most of this result. The District is re-examining its basic bus transit service in light of surveys of its riding public to determine whether strategic change is warranted.



Non-operating revenues increased \$5.1 million to \$112.0 million for 2005 mostly due to a \$4.2 million reduction in unrealized losses related to GASB 31 mark-to-market adjustments. Operating assistance of \$92.9 million accounts for the majority of 2005 non-operating revenues. This amount consists of \$59.9 million or 64.5 percent from transaction and use tax, \$28.9 million or 31.1 percent from local transportation funds, \$2.5 million or 2.7 percent from federal assistance and \$1.6 million or 1.7 percent from Measure A, state transit assistance and AB434 funds combined.

**Expense Highlights**

Total operating expenses of \$94.1 million in 2005 were essentially level with 2004 total operating expenses and consisted of \$53.4 million or 56.8 percent for wages and benefits, \$26.3 million or 27.9 percent for contract operations and other services, and \$14.4 million or 15.3 percent for materials, supplies, insurance and other miscellaneous costs combined. Depreciation and amortization cost for 2005 was \$40.2 million, a \$3.6 million or 9.7 percent increase over 2004.



Non-operating expenses of \$40.6 million in 2005 decreased \$10.1 million or 19.9 percent compared to 2004. The District and BART worked together to reduce the \$18.0 million deficit from BART/SFO operations in 2004 to a deficit of \$8.1 million in 2005. In fiscal year 2005, the District paid the Peninsula Corridor Joint Powers Board (PCJPB) \$14.6 million for its contribution towards the operation of Caltrain rail service, which is essentially level with the 2004 support. A more detailed discussion of the District's relationship with JPB can be found in *Note #8 – Peninsula Corridor Joint Powers Board (PCJPB)* of the *Notes to the Financial Statements*.

**SAN MATEO COUNTY TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2005**

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

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Operating revenues - Passenger fares	\$ 13,863	\$ 14,542	\$ 15,273
Operating expenses - Transit Services	94,118	94,164	91,560
Operating loss before depreciation and amortization	\$ (80,255)	\$ (79,622)	\$ (76,287)
Depreciation and amortization	40,232	36,675	37,275
Operating loss	(120,487)	(116,297)	(113,562)
Non-operating revenues			
Operating assistance	\$ 92,899	\$ 91,062	\$ 81,464
Investment Income	5,770	2,244	16,131
Interagency administrative income	6,595	8,654	10,239
Other income, net	6,785	5,033	7,254
Total Non-operating revenues	\$ 112,049	\$ 106,993	\$ 115,088
Non-operating expenses			
SFO/Colma BART service Revenue (deficit)	\$ (8,095)	\$ (18,000)	\$ 311
Interest expense	(17,948)	(18,440)	(19,146)
Peninsula Caltrain rail service subsidy	(14,588)	(14,296)	(14,296)
Total Non-operating expenses	\$ (40,631)	\$ (50,736)	\$ (33,131)
Net loss before Capital contributions	\$ (49,069)	\$ (60,040)	\$ (31,605)
Capital contributions	4,853	24,056	30,567
<b>Change in net assets</b>	<b>\$ (44,216)</b>	<b>\$ (35,984)</b>	<b>\$ (1,038)</b>
Net assets – Beginning	276,831	312,815	313,853
<b>Net assets – Ending</b>	<b>\$ 232,615</b>	<b>\$ 276,831</b>	<b>\$ 312,815</b>

**Capital Program**

The District received capital contributions of \$4.9 million in 2005, which is \$19.2 million or 79.8 percent less than in 2004. Federal grants contributed \$4.2 million or 85.7 percent, state grants contributed 0.1 million or 2.0 percent, and local grants contributed \$0.6 million or 12.3 percent of the 2005 total.

The following is a summary of the District's major capital expenditures for fiscal year 2005.

- Establish clean-fuel bus demonstration project (\$1.9 million)
- Installation of particulate matter traps in fixed- route revenue vehicles (\$1.8 million)
- Purchase of Paratransit Buses (\$1.6 million)
- Purchase of the Advanced Communication System (\$1.3 million)
- Replacement of bus parts in accordance with FTA guidelines (\$0.6 million)

More information on the District's Capital Assets appears in *Note #6 - Capital Assets* of the *Notes to the Financial Statements*.

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**SAN MATEO COUNTY TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2005**

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**Debt**

The District had \$350.7 million in bonds and notes outstanding at June 30, 2005 compared to \$367.9 million at June 30, 2004, a decrease of \$17.2 million or 4.7 percent. The payment of \$17.2 million in debt during 2005 accounts for this reduction. The District pledges sales tax revenues to secure its bonds and also has purchased insurance 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 #10 - Long-Term Debt* of the *Notes to the Financial Statements*.

**Economic Factors**

In the last half of fiscal year 2001, the signs of economic contraction began to appear. As unemployment increased, consumers curtailed spending and real estate values fell. While real estate recovered rather quickly from a small decline, the unemployment rate rose from 3.9 percent in June 2001 to 6.5 percent in June 2003. Likewise, the District's sales tax revenue shrunk from a record-high of \$66.7 million in 2001 to \$54.9 million in 2003, a precipitous drop of \$11.9 million or 17.8 percent over only two budget cycles.

During 2004, the economy began to improve and the unemployment rate decreased to 4.5 percent by June 2005. Consequently, consumer spending rebounded slightly in 2004 and more so in 2005, resulting in the District achieving \$60.0 million in sales tax revenue in 2005. The District expects to experience modest, historical average gains in sales tax revenue in the next few years and will budget this revenue source accordingly.

**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the San Mateo County Transit District, attn: Chief Financial Officer, 1250 San Carlos Avenue, San Carlos, California 94070-1306.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2005 AND 2004 (In Thousands)**

<b>ASSETS</b>	<b>2005</b>	<b>2004</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Notes 1 & 2)	\$ 15,611	\$ 26,724
Investments (Notes 1 & 2)	101,257	41,285
Restricted cash and investments (Notes 1 & 2)	12,833	11,188
Receivables:		
Transaction and use tax	11,714	10,095
Receivable from Peninsula Corridor Joint Powers Board (Note 8)	778	648
Federal capital grants (Note 4)	2,053	8,124
Interest	2,617	3,140
Other	2,837	9,304
Allowance for doubtful accounts	(96)	(96)
Total Receivables - Net	19,903	31,215
Inventories (Note 1)	1,274	1,166
Prepaid expenses	2,956	1,080
Total Current Assets	<u>153,834</u>	<u>112,658</u>
<b>NONCURRENT ASSETS:</b>		
Noncurrent investments (Note 2)	60,959	131,717
Restricted cash and investments (Notes 1 & 2)	2,273	9,447
Receivable from BART	10,691	7,914
Construction loan receivable from BART (Note 5)	72,000	72,000
Capital assets, at cost		
Buses and bus equipment	139,595	131,910
Buildings and building improvements	71,149	69,095
Land and right of way (Note 6 & 7)	43,695	43,695
Maintenance and other equipment	21,097	20,117
Furniture and fixtures	13,329	13,229
Shelters and bus stop signs	3,304	2,830
Other vehicles	2,354	2,354
Total Property and Equipment	294,523	283,230
Less accumulated depreciation	(152,463)	(135,206)
Construction in progress	25,662	25,659
Capital Assets - Net (Note 6)	167,722	173,683
Capital Contribution to BART, net of amortization (Note 5)	132,983	155,274
Bond issuance costs	3,690	3,947
Other assets (Note 9)	1,193	1,698
Total Noncurrent Assets	<u>451,511</u>	<u>555,680</u>
Total Assets	<u>\$ 605,345</u>	<u>\$ 668,338</u>

See accompanying notes to the financial statements.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**STATEMENTS OF NET ASSETS (CONTINUED)**  
**JUNE 30, 2005 AND 2004 (In Thousands)**

<b>LIABILITIES</b>	<u><b>2005</b></u>	<u><b>2004</b></u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 7,662	\$ 8,564
Compensated absences	6,321	6,486
Current portion of self-insurance liabilities (Note 13)	1,494	1,550
Accrued interest	1,361	1,421
Current portion of long-term debt (Note 10)	17,925	17,185
Total Current Liabilities	<u>34,763</u>	<u>35,206</u>
<b>NONCURRENT LIABILITIES:</b>		
Long-term debt - Net (Note 10)	332,736	350,728
Self-insurance liabilities less current portion (Note 13)	1,761	1,761
Other noncurrent liabilities	3,470	3,812
Total Noncurrent Liabilities	<u>337,967</u>	<u>356,301</u>
Total Liabilities	<u>372,730</u>	<u>391,507</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	10,533	25,045
Restricted for debt service	13,659	19,171
Unrestricted	208,423	232,615
Total Net Assets	<u>\$ 232,615</u>	<u>\$ 276,831</u>

See accompanying notes to the financial statements.

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**SAN MATEO COUNTY TRANSIT DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2005 AND 2004 (In Thousands)**

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES - Passenger fares	\$ 13,863	\$ 14,542
OPERATING EXPENSES:		
Salaries and benefits	53,420	53,521
Services:		
Contract operations and maintenance services	22,751	23,365
Other services	3,546	2,568
Materials and supplies	4,943	4,683
Insurance	3,774	4,360
Miscellaneous	5,684	5,667
Total operating expenses	<u>94,118</u>	<u>94,164</u>
Operating loss before depreciation and amortization and administrative expenses capitalized	(80,255)	(79,622)
Depreciation and amortization:	<u>40,232</u>	<u>36,675</u>
OPERATING LOSS	(120,487)	(116,297)
NON-OPERATING REVENUES (EXPENSES):		
Operating assistance (Note 3)	92,899	91,062
Investment income	5,770	2,244
Interest expense	(17,948)	(18,440)
Peninsula CalTrain rail service subsidy (Note 8)	(14,588)	(14,296)
SFO/Colma BART service deficit (Note 5)	(8,095)	(18,000)
Interagency administrative income	6,595	8,654
Other income, net	6,785	5,033
Total non-operating revenues, net	<u>71,418</u>	<u>56,257</u>
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(49,069)	(60,040)
CAPITAL CONTRIBUTIONS (Note 1)	<u>4,853</u>	<u>24,056</u>
CHANGE IN NET ASSETS	(44,216)	(35,984)
NET ASSETS, Beginning of year	<u>276,831</u>	<u>312,815</u>
NET ASSETS, End of year	<u>\$ 232,615</u>	<u>\$ 276,831</u>

See accompanying notes to the financial statements.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2005 AND 2004 (In Thousands)**

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from passenger fares	\$ 13,863	\$ 14,542
Payments to vendors for services	(43,715)	(39,324)
Payments to employees	(53,565)	(52,652)
Other	13,380	11,246
	<u>(70,037)</u>	<u>(66,188)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Operating grants received, including transaction and use tax	97,747	90,812
Peninsula Cal Train rail service outlays	(14,588)	(14,296)
SFO Extension operating subsidy	(8,095)	(17,350)
Increase in receivable from BART	(2,777)	-
	<u>72,287</u>	<u>59,166</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(11,296)	(33,167)
Capital contributions from grants	10,582	23,116
Bond principal paid	(17,252)	(16,475)
Interest and cost of issuance paid	(18,004)	(18,516)
	<u>(35,970)</u>	<u>(45,042)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investment securities	63,088	115,443
Purchases of investment securities	(50,526)	(91,012)
Investment income received on all interest-bearing investments	10,045	11,918
	<u>22,607</u>	<u>36,349</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(11,113)</b>	<b>(15,715)</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<b><u>26,724</u></b>	<b><u>42,439</u></b>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<b><u>\$ 15,611</u></b>	<b><u>\$ 26,724</u></b>

See accompanying notes to the financial statements.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2005 AND 2004 (In Thousands)**

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating (loss)	\$ (120,487)	\$ (116,297)
Other nonoperating items	13,380	11,246
Adjustments to reconcile operating (loss) to net cash used in operating activities:		
Depreciation and amortization	40,232	36,675
Effect of changes in:		
Inventories	(108)	(120)
Prepaid expenses	(1,876)	(237)
Other assets	95	
Accounts payable and accrued expenses	(1,048)	2,009
Compensated absences	(165)	370
Self-insurance liabilities	(60)	166
	<u>(70,037)</u>	<u>(66,188)</u>
Net cash used in operating activities	<u>\$ (70,037)</u>	<u>\$ (66,188)</u>
NONCASH INVESTING ACTIVITIES:		
Increase (decrease) in fair value of investments	<u>\$ (2,794)</u>	<u>\$ (6,960)</u>

See accompanying notes to the financial statements.

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**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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

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

**A. Operations**

The San Mateo County Transit District (the “District”) was formed by the California State Legislature and approved by the electorate in 1974 to meet the public transit needs of San Mateo County. The District operates buses throughout San Mateo County and also provides, through purchased service with independent contractors, demand-responsive transportation services and certain mainline bus services. The District also shares in the costs of operating the Caltrain rail service. The District provides the local costs of extending the San Francisco Bay Area Rapid Transit District (“BART”) rail system into San Mateo County as well as the net cost to operate the extension.

**B. Entity**

The District’s reporting entity includes only the District.

**C. Basis of Accounting**

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

**D. New Pronouncements**

**GASB Statement No. 40** – In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB No. 3. This statement modifies the Deposit and Investment Risk Categorization Disclosures and requires additional information on an entity’s portfolio. This statement is effective for periods beginning after June 15, 2004. The District adopted the provisions of GASB 40 effective July 1, 2003.

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

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

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**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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

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

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

**GASB Statement No. 46** - In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation-an amendment of GASB Statement No. 34*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government can compel a government to honor. This statement is effective for periods beginning after June 15, 2005. The District has not determined its effect on the financial statements.

**GASB Statement No. 47** - In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes accounting guidance and disclosure requirements for termination benefit arrangements. This statement is effective in two parts. For termination benefits provided through an existing defined benefit other post employment benefit plan (OPEB), the provisions should be implemented simultaneously with GASB Statement No. 45. For all other termination benefits, this Statement is effective for periods beginning after June 15, 2005. The District has not determined its effect on the financial statements.

**E. Cash and Cash Equivalents**

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

**F. Investments**

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

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

**SAN MATEO COUNTY TRANSIT DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2005 AND 2004**

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

- H. Inventories** consist primarily of bus replacement parts and fuel and are stated at average cost. Inventories are charged to expense at the time that individual items are withdrawn from inventory.
- I. Property and equipment** are stated at historical cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

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

The District’s policy is to capitalize all property and equipment with a cost greater than \$1,000 and a useful life of more than one year.

- J. Construction in progress** consists of the following projects at June 30, 2005 and 2004 (in thousands):

	<u>2005</u>	<u>2004</u>
Pavement rehabilitation	\$ 407	\$ 1,386
Information technology support	2,741	2,781
Bus fleet improvements	9,937	11,289
Bus communications system	7,304	6,031
Administration building improvement	1,014	215
Other	4,259	3,956
Total Construction in Progress	<u>\$ 25,662</u>	<u>\$ 25,659</u>

Interest is capitalized on construction in progress in accordance with Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*. Accordingly, interest capitalized is the total interest cost from the date of the borrowing net of any allowable interest earned on temporary investments of the proceeds of those borrowings until the specified asset is ready for its intended use. There was no net interest capitalized in 2005 or 2004.

- K. State and local operating assistance** is recorded as revenue upon approval by the grantor agencies. The District serves as the cash conduit for State Transit Assistance received on behalf of the Peninsula Corridor Joint Powers Board (“PCJPB”) (see Note 8) and does not recognize revenues or expenses associated with this agency function.
- L. Bond issuance costs** are being amortized on a straight-line basis over the life of the related debt.
- M. Arbitrage** is reviewed on an annual basis and the corresponding liability is accrued accordingly.

**SAN MATEO COUNTY TRANSIT DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2005 AND 2004**

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

**N. Compensated Absences**

Employees accrue compensated absence time by reason of tenure at annual rates ranging from 160 to 312 hours per year. Employees are not allowed to accumulate more than 1,440 hours of compensated absence time, depending upon the number of service years. At June 30, 2005 and 2004, accrued compensated absences for all District employees amounted to \$6,321,000 and \$6,486,000, respectively.

**O. Capital Contributions**

The District receives grants from the Federal Transit Administration (“FTA”), state, and local transportation funds for the acquisition of buses and other equipment and improvements. Capital contributions are recorded as revenues and the cost of the related assets is 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, 2005 and 2004 were as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Federal grants	\$ 4,124	\$ 18,076
State transit assistance	129	4,275
Other local transportation funds	600	1,705
Total	<u>\$ 4,853</u>	<u>\$ 24,056</u>

**P. Operating and Non-Operating Revenue**

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

**Q. Use of Estimates**

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

**R. Reclassifications**

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

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**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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**NOTE #2 – CASH AND INVESTMENTS**

Cash and investments as of June 30, 2005 and 2004 are classified in the statement of net assets as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 15,611	\$ 26,724
Investments	101,257	41,285
Restricted cash and investments - current	12,833	11,188
Noncurrent investments	60,959	131,717
Restricted cash and investments - noncurrent	2,273	9,447
	<u>\$ 192,933</u>	<u>\$ 220,361</u>

Cash and investments as of June 30, 2005 and 2004 consist of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Cash on hand	\$ 4	\$ 3
Deposits with financial institutions	(3,030)	(165)
Investments	195,959	220,523
	<u>\$ 192,933</u>	<u>\$ 220,361</u>

**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
Asset backed 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 trustee are governed by provisions of the debt covenants, rather than the general provisions of the California Government Code or the District’s investment policy. These provisions allow for the acquisition of investment agreements repurchase agreements and U.S. Treasury Securities with maturities of up to 30 years.

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will 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 shorter term and longer 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:

**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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

- 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 and,
- The weighted average maturity of the portfolio shall not exceed 5 years.

The District's weighted average maturity at June 30, 2005 was as follows:

Investment Type	Amount (in thousands)	Weighted Average Maturity (in years)
U.S. Treasury Obligations	\$ 1,985	0.50
U.S. Agency Securities	92,997	1.20
Commercial Paper	1,988	0.03
Repurchase Agreements	3,261	-
Medium-Term Notes	55,104	0.85
Money Market Mutual Funds		
Asset-Backed Securities	10,185	0.87
Local Agency Investment Fund (LAIF)	15,376	-
Held by bond trustee:		
Money market funds	1,526	-
Investment contracts	3,084	19.43
U.S. Treasury Obligations	7,741	14.88
Repurchase Agreements	2,712	14.93
	\$ 195,959	
Portfolio Weighted Average Maturity		1.96

The District's weighted average maturity at June 30, 2004 was as follows:

Investment Type	Amount (in thousands)	Weighted Average Maturity (in years)
U.S. Treasury Obligations	\$ 17,085	0.15
U.S. Agency Securities	106,812	1.97
Repurchase Agreements	978	-
Medium-Term Notes	37,120	1.51
Asset-Backed Securities	18,172	1.62
Local Agency Investment Fund (LAIF)	25,908	-
Held by bond trustee:		
Money market funds	1,694	-
Investment contracts	3,054	20.20
U.S. Treasury Obligations	7,138	15.88
Repurchase Agreements	2,562	15.93
	\$ 220,523	
Portfolio Weighted Average Maturity		2.20

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005 AND 2004**

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

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code and the District's investment policy and the actual rating as of year end for each investment type:

Investment Type	Amount (in thousands)	Minimum Legal Rating	Exempt From Disclosures	Rating as of June 30, 2005			
				AAA	AA	A	Not Rated
U.S. Treasury Obligations	\$ 1,985	N/A	\$ 1,985	\$ -	\$ -	\$ -	\$ -
U.S. Agency Securities	92,997	N/A	-	92,997	-	-	-
Commercial Paper	1,988	A	-	-	-	1,988	-
Repurchase Agreements	3,261	N/A	3,261	-	-	-	-
Medium-Term Notes	55,104	A	-	19,336	8,430	27,338	-
Asset-Backed Securities	10,185	A	-	10,185	-	-	-
LAIF	15,376	N/A	-	-	-	-	15,376
Held by bond trustee:							
Money market funds	1,526	N/A	-	-	-	-	1,526
Investment contracts	3,084	N/A	-	-	-	-	3,084
U.S. Treasury Obligations	7,741	N/A	7,741	-	-	-	-
Repurchase Agreements	2,712	N/A	-	-	-	-	2,712
	<u>\$ 195,959</u>		<u>\$ 12,987</u>	<u>\$122,518</u>	<u>\$8,430</u>	<u>\$29,326</u>	<u>\$22,699</u>

Investment Type	Amount (in thousands)	Minimum Legal Rating	Exempt From Disclosures	Rating as of June 30, 2004			
				AAA	AA	A	Not Rated
U.S. Treasury Obligations	\$ 17,085	N/A	\$ 17,085	\$ -	\$ -	\$ -	\$ -
U.S. Agency Securities	106,812	N/A	-	106,812	-	-	-
Repurchase Agreements	978	N/A	978	-	-	-	-
Medium-Term Notes	37,120	A	-	5,006	7,235	24,879	-
Asset-Backed Securities	18,172	A	-	18,172	-	-	-
Local Agency Investment Fund (LAIF)	25,908	N/A	-	-	-	-	25,908
Held by bond trustee:							
Money market funds	1,694	N/A	-	-	-	-	1,694
Investment contracts	3,054	N/A	-	-	-	-	3,054
U.S. Treasury Obligations	7,138	N/A	7,138	-	-	-	-
Repurchase Agreements	2,562	N/A	-	-	-	-	2,562
	<u>\$ 220,523</u>		<u>\$ 25,201</u>	<u>\$129,990</u>	<u>\$7,235</u>	<u>\$24,879</u>	<u>\$33,218</u>

**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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

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

As of June 30, 2005:

Issuer	Investment Type	Reported Amount
Tennessee Valley Authority	U.S. Agency Securities	\$ 11,390
Federal Home Loan Bank (FHLB)	U.S. Agency Securities	12,073
Federal Home Loan Mortgage Corp (FHLMC)	U.S. Agency Securities	30,725
Federal National Mortgage Association (FNMA)	U.S. Agency Securities	50,199
Citibank Credit Card Master Tranche-1	Asset-Backed Securities	10,185
		<u>\$ 114,572</u>

As of June 30, 2004:

Issuer	Investment Type	Reported Amount
Tennessee Valley Authority	U.S. Agency Securities	\$ 14,589
Federal Home Loan Bank (FHLB)	U.S. Agency Securities	16,044
Federal Home Loan Mortgage Corp (FHLMC)	U.S. Agency Securities	31,361
Federal National Mortgage Association (FNMA)	U.S. Agency Securities	39,681
		<u>\$ 101,675</u>

**Custodial of Credit Risk**

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

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**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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

As of June 30, 2005 and 2004, the District had no deposits with financial institutions in excess of federal depository insurance limits.

As of June 30, 2005 and 2004, the District’s investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the District to buy the securities:

Investment Type	Reported Amounts	
	2005	2004
Repurchase Agreements	\$ 2,712	\$ 2,562

**Investment in State Investment Pool (LAIF)**

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that 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, 2005 and 2004, the District’s investments in the State treasurer’s investment pool (LAIF) were \$15,376,212 and \$25,907,382, respectively. The total amounts invested by all public agencies in LAIF at June 30, 2005 and 2004 were \$60,635,664,345 and \$57,637,500,817, respectively. Of these amounts, as of June 30, 2005 and 2004, 97.59 and 98.40 percent, respectively, is invested in non-derivative financial products, and 2.41 and 1.60 percent, respectively, is invested in structured notes and asset-backed securities. The District relied upon information provided by the State Treasurer in estimating the District’s fair value position of its holdings in LAIF.

**NOTE #3 – OPERATING ASSISTANCE**

The District receives operating assistance from various federal, state and local sources. The District receives a 0.5 percent transaction and use tax levied on all taxable sales in San Mateo County, which is collected and administered by the State Board of Equalization. Transportation Development Act funds are received from San Mateo County to meet, in part, operating and capital requirements based on annual claims filed by the District and approved by the Metropolitan Transportation Commission (“MTC”). Federal funds are distributed to the District by the FTA after approval by MTC. The District also receives San Mateo County Transportation Authority funds as a result of the approval of Measure A (one-half cent sales tax) for funding of transportation projects.

**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

**NOTE #3 – OPERATING ASSISTANCE** (continued)

Operating assistance is summarized as follows for the years ended June 30, 2005 and 2004 (in thousands):

	<u>2005</u>	<u>2004</u>
Transaction and use tax	\$ 59,958	\$ 55,397
Local transportation funds	28,876	25,614
Federal operating and planning assistance	2,487	5,100
Measure A funds - local	880	2,820
State transit assistance	203	1,592
AB434	495	539
Total	<u>\$ 92,899</u>	<u>\$ 91,062</u>

**NOTE #4 – FEDERAL CAPITAL GRANTS**

The District has seven grant contracts with the FTA that provide federal funds for the acquisition of buses and other equipment and improvements. Budgeted capital additions at June 30, 2005 applicable to these projects are \$4,538,361. The related federal participation is \$3,566,931.

The District has recorded receivables of \$2,053,478 and \$8,124,437, at June 30, 2005 and 2004, 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 (“Agreement”) with the Bay Area Rapid Transit (BART) in 1988 for the purpose of extending the BART system to San Mateo County. During the fiscal years ended June 30, 1996, 1999 and 2000, BART and the District executed the Second Amendment, the Third Amendment and the Fourth Amendment to the Agreement (“Amendments”), modifying the rights, roles, and responsibilities of the respective parties.

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

**A. BART System Contribution**

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

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**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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

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

**B. Colma Extension**

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

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

**C. SFO Extension**

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

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

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

- The Parties agreed to provide a total of \$198.5 million to the SFO Extension project by September 1, 1999, with BART providing \$50 million, the District providing \$72 million and MTC providing \$76.5 million (\$16.5 million for project budget items and a \$60 million loan for project cash flow requirements).
- In the event there are any remaining project funds after the SFO Extension has been constructed, and all project costs have been paid, including repayment of the \$60 million cash flow loan to MTC, the remaining project funds will be used to repay the additional amounts provided to the SFO Extension project by BART, the District and MTC in a 50/72/16.5 ratio.

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**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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

- The Parties agreed that 100 percent of the first \$145 million of the “SFO Extension net operating surplus” generated by the SFO Extension will be used to fulfill the remaining balances of the District’s System Contribution and the SFO Extension balance.
- Following this repayment, the “SFO Extension net operating surplus” will be dedicated to the repayment, without interest, of any remaining balance of BART’s \$50 million, the District’s \$72 million and MTC \$16.5 million contribution at a 50/72/16.5 ratio, until all sums are repaid.

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

**D. BART SFO Opening**

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

In May 2004, the District and BART further amended the terms of the Agreement where the following understanding has been reached:

- The District and BART have revised the District’s commitment for operating deficits of the SFO Extension. For the year ended June 30, 2005 and 2004, the District contributed \$8,095,000 and \$18,000,000, respectively, to the net operating deficits of the Extension.
- The District and BART have agreed to implement a joint fare system including the acquisition of ticket vending machines for which the District’s has agreed to contribute approximately \$2,100,000.
- The District accepted a repayment plan for the \$9,148,000 and \$7,914,000 outstanding as of June 30, 2005 and 2004, respectively, for the construction loan receivables due from BART. The terms of the repayment include installments of \$6,000,000 commencing in fiscal year 2005/2006 with the remaining balance due in fiscal year 2007. Further, the repayment terms include interest on past due amounts of \$1,543,000 which has been included as Other Income in the financial statements.

**E. Full Funding Grant Agreement**

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

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

**F. Bike Path Project**

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

**G. Capital Contribution to BART**

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

	<b>2005</b>	<b>2004</b>
BART System Contribution	\$ 100,000	\$ 100,000
Colma Extension - local share	52,352	52,352
South of Colma Extension - local share	181,530	181,530
	<u>333,882</u>	<u>333,882</u>
Less: Accumulated Amortization	(200,899)	(178,608)
Total	<u>\$ 132,983</u>	<u>\$ 155,274</u>

**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE #6 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005, was as follows (in thousands):

	Balance at July 1, 2004	Additions	Deletions	Balance at June 30, 2005
Capital Assets Not Being depreciated				
Land and right of way	\$ 43,695	\$ -	\$ -	\$ 43,695
Construction in progress	25,659	11,546	(11,543)	25,662
Total Capital Assets, Not Being Depreciated	69,354	11,546	(11,543)	69,357
Other Capital Assets				
Buses and bus equipment	131,910	7,926	(241)	139,595
Buildings and building improvements	69,095	2,054	-	71,149
Maintenance and other equipment	20,117	987	(7)	21,097
Furniture and fixtures	13,229	102	(2)	13,329
Shelters and bus stop signs	2,830	474	-	3,304
Other vehicles	2,354	-	-	2,354
Total Capital Assets, Being Depreciated	239,535	11,543	(250)	250,828
Less Accumulated Depreciation for:				
Buses and bus equipment	(68,189)	(11,845)	-	(80,034)
Buildings and building improvements	(38,633)	(2,734)	-	(41,367)
Maintenance and other equipment	(17,137)	(1,616)	-	(18,753)
Furniture and fixtures	(6,765)	(593)	-	(7,358)
Shelters and bus stop signs	(2,394)	(361)	-	(2,755)
Other vehicles	(2,088)	(108)	-	(2,196)
Total Accumulated Depreciation	(135,206)	(17,257)	-	(152,463)
Capital Assets, Net	\$ 173,683	\$ 5,832	\$ (11,793)	\$ 167,722

**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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

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

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

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

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

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

**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE #8 – PENINSULA CORRIDOR JOINT POWERS BOARD (PCJPB)**

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

During fiscal year 1992, the District advanced CCSF’s and VTA’s initial contribution in the amount of \$8,294,000 and \$34,652,000, respectively, to facilitate completion of the acquisition of the rail corridor right-of-way between San Francisco and San Jose and perpetual trackage rights between San Jose and Gilroy. The District and the PCJPB are tenants in common to all right-of-way property located in San Mateo County until the District receives the full reimbursement of the initial contribution plus interest from CCSF and VTA. CCSF and VTA do not have any legal obligation to reimburse the District for the initial contribution and have not reimbursed the District for their share of the initial contribution.

The District has been appointed as managing agency for PCJPB, providing administrative personnel and facilities. The District is responsible for 41.98 and 41.99 percent of the mainline net operating costs and the administrative expenses of the PCJPB for the years ended June 30, 2005 and 2004, respectively. During the year ended June 30, 2000, Caltrain started the SBC Ballpark line. The District is responsible for one third of the Pac Bell Ballpark line net operating costs. The District recognizes the entire amount of contributions paid to the PCJPB as expense in the year disbursed. During the years ended June 30, 2005 and 2004, the District contributed \$14,588,000 and \$14,296,000, respectively, to the PCJPB for operating needs.

The District has total receivables from PCJPB of \$778,487 and \$647,659 at June 30, 2005 and 2004, respectively, for advances for staff support and operating assistance.

Summary financial information (not included in the District’s financial statements) for the PCJPB as of June 30, 2005 and 2004 (in thousands):

	<u>2005</u>	<u>2004</u>
Total Assets	\$ 982,021	\$ 1,034,616
Total Liabilities	(62,364)	(154,811)
Total Net Assets	<u>\$ 919,657</u>	<u>\$ 879,805</u>
Operating Revenues	\$ 26,092	\$ 22,225
Operating Expenses	(98,613)	(84,826)
Nonoperating Revenues, Net	42,544	35,440
Net Loss Before Capital Contributions	\$ (29,977)	\$ (27,161)
Capital Contributions	69,828	122,602
Increase in Net Assets	<u>\$ 39,851</u>	<u>\$ 95,441</u>

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

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**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE #9 – RELATED PARTY TRANSACTIONS**

**A. Note Receivable From Officer**

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

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

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

In fiscal years 2005 and 2004, the District forgave \$40,000 per year of principal on the housing note. Pursuant to this arrangement, the District has a note receivable included in Other Assets with a balance of \$1,080,000 and \$1,120,000, as of June 30, 2005 and 2004, respectively.

**B. San Mateo County Transportation Authority**

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

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

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE #10 – LONG-TERM DEBT**

Long-term debt activity for the year ended June 30, 2005 is as follows (in thousands):

	Balance at July 1, 2004	Adjustments/ Additions	Deletions	Balance at June 30, 2005	Amounts Due within One Year
Bonds and Notes Payable					
1993 Series A Bonds	\$ 119,850	\$ -	\$ (5,060)	\$ 114,790	\$ 5,315
1997 Series A Bonds	46,895	-	(2,425)	44,470	2,530
1998 Junior Lien	24,455	-	(690)	23,765	710
1998 Series A Bonds	115,830	-	(6,190)	109,640	6,435
1999 Series A Bonds	59,954	-	(2,820)	57,134	2,935
Total Debt	366,984	-	(17,185)	349,799	17,925
Unamortized bond premium	1,288	-	(89)	1,199	-
Unamortized bond discount	(359)	-	22	(337)	-
Net Bonds and Notes Payable	\$ 367,913	\$ -	\$ (17,252)	\$ 350,661	\$ 17,925

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

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

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**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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

**A. 1993 Series A Bonds**

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

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

**B. 1997 Series A Bonds**

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

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

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

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

**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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

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

**D. 1998 Series A Bonds**

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

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

**E. 1999 Series A Bonds**

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

Debt service requirements for long-term debt as of June 30, 2005 are as follows (in thousands):

Fiscal Year Ending June 30,	1993 Series A Bonds			1997 Series A Bonds			1998 Junior Lien Sales Tax Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 5,315	\$ 6,192	\$ 11,507	\$ 2,530	\$ 2,291	\$ 4,821	\$ 710	\$ 283	\$ 993
2007	5,580	5,927	11,507	2,640	2,179	4,819	735	274	1,009
2008	5,865	5,648	11,513	2,760	2,061	4,821	755	266	1,021
2009	6,155	5,354	11,509	2,895	1,923	4,818	785	257	1,042
2010	6,410	5,046	11,456	3,040	1,778	4,818	810	247	1,057
2011-2015	37,260	20,074	57,334	17,635	6,452	24,087	4,455	1,086	5,541
2016-2020	48,205	9,349	57,554	12,970	1,486	14,456	5,215	803	6,018
2021-2025	-	-	-	-	-	-	6,130	472	6,602
2026-2028	-	-	-	-	-	-	4,170	100	4,270
	<u>\$ 114,790</u>	<u>\$ 57,590</u>	<u>\$ 172,380</u>	<u>\$ 44,470</u>	<u>\$ 18,170</u>	<u>\$ 62,640</u>	<u>\$ 23,765</u>	<u>\$ 3,787</u>	<u>\$ 27,552</u>

**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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

Debt service requirements for long-term debt as of June 30, 2005 are as follows (in thousands) (Continued):

Fiscal Year Ending June 30,	1998 Series A Bonds			1999 Series A Bonds			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 6,435	\$ 4,948	\$ 11,383	\$ 2,935	\$ 2,901	\$ 5,836	\$ 17,925	\$ 16,615	\$ 34,540
2007	6,695	4,691	11,386	3,055	2,777	5,832	18,705	15,849	34,554
2008	6,960	4,423	11,383	3,185	2,646	5,831	19,525	15,043	34,568
2009	7,310	4,075	11,385	3,345	2,487	5,832	20,490	14,095	34,585
2010	7,610	3,775	11,385	3,515	2,320	5,835	21,385	13,166	34,551
2011-2015	43,355	13,572	56,927	20,485	8,678	29,163	123,190	49,862	173,052
2016-2020	31,275	2,882	34,157	20,614	2,719	23,333	118,279	17,239	135,518
2021-2025	-	-	-	-	-	-	6,130	472	6,602
2026-2028	-	-	-	-	-	-	4,170	100	4,270
	<u>\$ 109,640</u>	<u>\$ 38,365</u>	<u>\$ 148,005</u>	<u>\$ 57,134</u>	<u>\$ 24,528</u>	<u>\$ 81,662</u>	<u>\$ 349,799</u>	<u>\$ 142,441</u>	<u>\$ 492,240</u>

**NOTE #11 – PENSION PLAN**

**A. Plan Description**

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

**B. Funding Policy**

District employees have an obligation to contribute 7 percent of their salary to the Fund. The District makes the contributions required of the District and its employees on their behalf and for their account. The District is required to contribute at an actuarially determined rate. The required employer contribution rate for both fiscal years 2005 and 2004 was 5.46 percent and 1.36 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.

**SAN MATEO COUNTY TRANSIT DISTRICT  
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**NOTE #11 – PENSION PLAN (continued)**

**C. Annual Pension Cost**

The District’s annual pension cost was equal to the District’s required and actual contributions, which were determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included the following:

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

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

**Three Year Trend Information for CalPERS (in thousands)**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2003	\$ 94	100.00%	-
6/30/2004	3,085	100.00%	-
6/30/2005	4,864	100.00%	-

**NOTE #12 – POST-RETIREMENT HEALTH CARE BENEFITS**

In August 1993, the District's Board of Directors adopted a policy of providing postretirement medical care insurance through the CalPERS system to qualified retirees, those who have attained 50 years of age and have at least five years of District service. Currently, there are 111 qualified retirees and spouses of deceased retirees. The District funds these benefits on a pay-as-you-go basis according to contribution formulas established by CalPERS. The cost for postretirement health insurance benefits was \$456,237 and \$337,100 for the years ended June 30, 2005 and 2004 respectively.

**SAN MATEO COUNTY TRANSIT DISTRICT  
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**NOTE #13 – SELF-INSURANCE**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District is self-insured for a portion of its public liability, property damage and workers' compensation liability. Coverage provided by self-insurance and excess coverage is generally as follows as of June 30, 2005:

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 \$750,000 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, and no settlement amounts have exceeded commercial insurance coverage for the last three years.

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

Changes in the balances of claims liabilities for the two years ended June 30, 2005 and 2004 for public liability, property damage and workers' compensation claims liabilities are as follows (in thousands):

	<b>2005</b>	<b>2004</b>
Self-insurance liabilities, beginning of fiscal year	\$ 3,311	\$ 3,910
Incurred claims and changes in estimates	1,645	1,660
Claim payments and related costs	(1,701)	(2,259)
Total Self-insurance Claims Liabilities	3,255	3,311
Less Current Portion	(1,494)	(1,550)
Non-current Portion	\$ 1,761	\$ 1,761

**NOTE #14 – LEASE-LEASEBACKS**

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

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**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

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**NOTE #15 – COMMITMENTS AND CONTINGENCIES**

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

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

**NOTE #16 – SUBSEQUENT EVENT**

In October 2005, the District issued \$218,990,000 of Series A Refunding, Limited Tax Bonds (the Bonds). The bonds were issued for the purpose of advance refunding the 1997, 1998 and 1999 limited tax bonds in the aggregate amount outstanding of \$211,245,000. The interest rates on the bonds range from 4.375% to 5.0% with principal maturing annually on June 1 through 2034.

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**SAN MATEO COUNTY TRANSIT DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2005 AND 2004**

**SCHEDULE OF FUNDING PROGRESS  
 MISCELLANEOUS PLAN OF THE CALIFORNIA PUBLIC EMPLOYEE RETIREMENT SYSTEM  
 (In thousands)**

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2002	\$ 91,974	\$ 106,116	\$ (14,142)	115.4%	\$ 38,530	(36.7)%
6/30/2003	108,169	107,783	386	99.6%	39,266	1.0%
6/30/2004	118,516	116,655	1,861	98.4%	39,704	4.7%

**SAN MATEO COUNTY TRANSIT DISTRICT  
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES,  
CAPITAL OUTLAY, AND LONG-TERM DEBT PRINCIPAL PAYMENTS –  
COMPARISON OF BUDGET TO ACTUAL (BUDGETARY BASIS)  
YEAR ENDED JUNE 30, 2005 AND 2004**

	<b>Budget</b>		<b>Variance</b>
	<b>(Unaudited)</b>	<b>Actual</b>	<b>Positive/ (Negative)</b>
OPERATING REVENUES - Passenger fares	\$ 14,527	\$ 13,863	\$ (664)
OPERATING EXPENSES:			
Salaries and benefits	59,094	53,420	5,674
Services:			
Contract operations and maintenance services	23,488	22,776	712
Other services	2,654	3,611	(957)
Materials and supplies	5,441	6,098	(657)
Insurance	3,330	3,774	(444)
Miscellaneous	5,262	5,684	(422)
Total operating expenses	99,269	95,363	3,906
Operating loss	(84,742)	(81,500)	3,242
NON-OPERATING REVENUES (EXPENSES):			
Operating assistance	89,737	92,899	3,162
Investment income	2,034	1,884	(150)
Interest expense	(527)	(519)	8
Peninsula CalTrain rail service subsidy	(14,482)	(14,588)	(106)
SFO/Colma BART service deficit (Note 5)	(8,000)	(8,095)	(95)
Interagency administration income	11,092	6,742	(4,350)
Other income, net	4,483	5,436	953
Total non-operating income	84,337	83,759	(578)
Income before capital outlay and long-term debt principal payments	(405)	2,259	2,664
CAPITAL OUTLAY:			
Capital assistance	8,528	7,300	(1,228)
Capital expenditures	8,528	(12,053)	(20,581)
Net capital outlay	17,056	(4,753)	(21,809)
CARRY FORWARD CAPITAL BUDGET AUTHORITY	-	-	-
LONG-TERM DEBT PRINCIPAL PAYMENT	(17,382)	(17,185)	197
EXCESS (DEFICIENCY) OF REVENUES AND NON-OPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENT	\$ (731)	\$ (19,679)	\$ (18,948)

See accompanying notes to supplementary information.

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**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO SUPPLEMENTARY SCHEDULE  
YEAR ENDED JUNE 30, 2005 AND 2004**

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**NOTE #1 – BUDGETARY BASIS OF ACCOUNTING**

The District prepares its budget on a basis of accounting that differs from generally accepted accounting principles ("GAAP"). The actual results of operations are presented in the Supplemental Schedule on the budgetary basis to provide a meaningful comparison of actual results with budget. In addition, certain budget amounts have been reclassified to conform with the presentation of actual amounts in the Supplemental Schedule. Budgeted amounts presented are the original adopted budget. The primary difference between the budgetary basis of accounting and the GAAP basis of accounting concerns capital assets. Depreciation expense per GAAP is not budgeted and budgeted capital expenditures are not recorded as an expense per GAAP.

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

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

Excess (deficiency) of revenues and non-operating income over expenses, capital outlay and debt principal payment		\$ (19,679)
Capital expenditures	\$ 12,053	
Interest expense	(17,429)	
Depreciation and amortization	(40,232)	
Long-term debt principal payment	17,185	
GASB 31 unrealized loss	(2,794)	
Reimbursed investment interest	7,906	
Capital loss on investment	<u>(1,226)</u>	
Sub-Total Reconciling Items		<u>(24,537)</u>
Change in net assets, GAAP basis		<u><u>\$ (44,216)</u></u>

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# ***Section III***

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## **STATISTICAL**

Financial Ratios

Revenues and Expenses as Percent of Totals

Revenues and Expenses – Ten Year Comparison

Fixed Route Transportation

Americans with Disabilities Act Service (ADA)

Miscellaneous Statistics

Demographic Data

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**SAN MATEO COUNTY TRANSIT DISTRICT**  
**FINANCIAL RATIOS**  
**YEAR ENDED JUNE 30, 2005**  
(In thousands)

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**Current Ratio: 4.43 :1**

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

<u>Current Assets</u>	<u>\$ 153,834</u>
Current Liabilities	\$ 34,763

**Quick Ratio: 0.46 :1**

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

Cash and Cash Equivalents plus	\$ 15,611
<u>Receivables within 30 days</u>	<u>\$ 230</u>
Current Liabilities	\$ 34,763

**Debt Ratio: 61.57%**

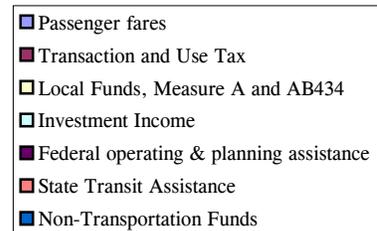
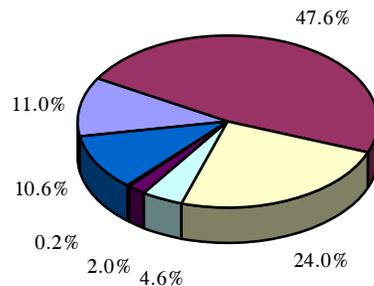
Reflects the long-term solvency risk, in assessing the District's financial capacity to meet long term debts and similar obligations, by dividing total liabilities by total assets. As of the end of fiscal year 2005, the District has \$332,736 long-term debt, net of unamortized premiums and discounts.

<u>Total Liabilities</u>	<u>\$ 372,730</u>
Total Assets	\$ 605,345

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**REVENUES AND EXPENSES AS PERCENT OF TOTALS**  
**YEAR ENDED JUNE 30, 2005**  
(In thousands)

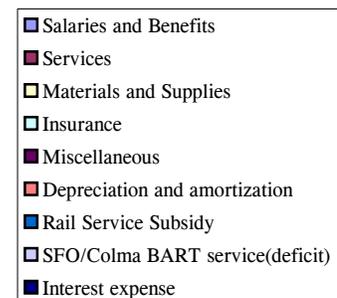
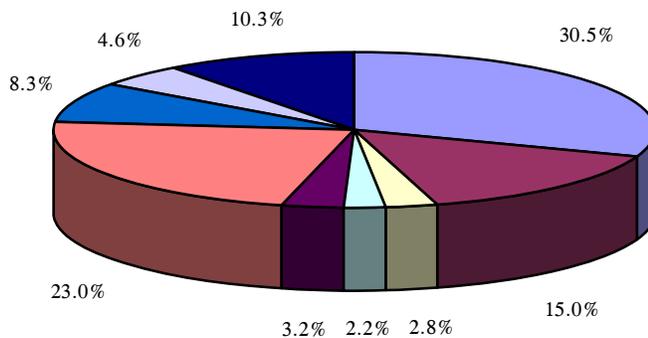
**Revenue sources:**

Passenger fares	\$ 13,863	11.0%
Transaction and Use Tax	59,958	47.6%
Local Funds, Measure A and AB434	30,251	24.0%
Investment Income	5,770	4.6%
Federal operating & planning assistance	2,487	2.0%
State Transit Assistance	203	0.2%
Non-Transportation Funds	<u>13,380</u>	<u>10.6%</u>
<b>Total Revenue</b>	<u><u>\$ 125,912</u></u>	<u><u>100.0%</u></u>



**Expenses:**

Salaries and Benefits	\$ 53,420	30.5%
Services	26,297	15.0%
Materials and Supplies	4,943	2.8%
Insurance	3,774	2.2%
Miscellaneous	5,684	3.2%
Depreciation and amortization	40,232	23.0%
Rail Service Subsidy	14,588	8.3%
SFO/Colma BART service(deficit)	8,095	4.6%
Interest expense	<u>17,948</u>	<u>10.3%</u>
<b>Total Expenses</b>	<u><u>\$ 174,981</u></u>	<u><u>100.0%</u></u>

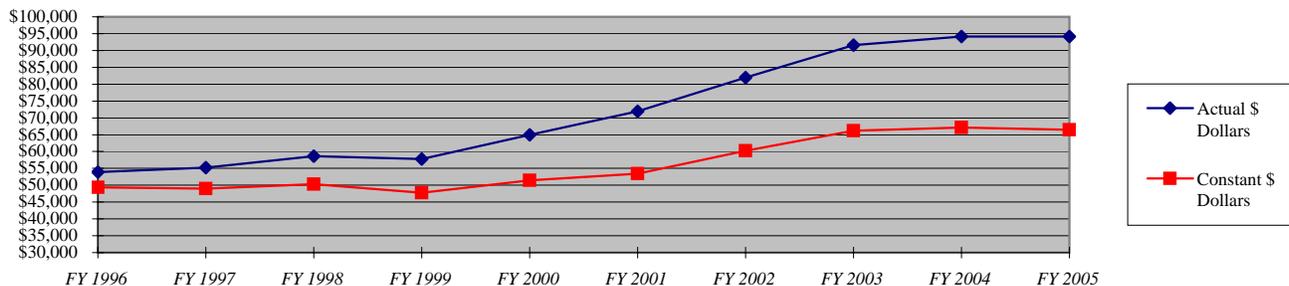


**SAN MATEO COUNTY TRANSIT DISTRICT  
REVENUES AND EXPENSES - TEN YEAR COMPARISON -  
TEN FISCAL YEARS (In thousands)**

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Passenger Fares	\$13,749	\$14,217	\$14,388	\$15,896	\$15,196	\$15,919	\$14,779	\$15,273	\$14,542	\$13,863
Operating Expenses	53,930	55,187	58,647	57,770	64,911	71,914	81,995	91,560	94,164	94,118
Depreciation Expenses	20,989	21,900	21,591	24,519	36,198	38,744	39,338	37,275	36,675	40,232
Operating Loss	(\$61,170)	(\$62,870)	(\$65,850)	(\$66,393)	(\$85,913)	(\$94,739)	(\$106,554)	(\$113,562)	(\$116,297)	(\$120,487)
<i>Nonoperating Revenues (Expenses):</i>										
Transaction and Use Tax	\$43,185	\$46,983	\$50,936	\$55,497	\$63,069	\$66,739	\$57,262	\$54,862	\$55,397	\$59,958
Local Funds	19,016	25,782	27,865	27,514	28,209	31,852	40,735	21,623	25,614	30,251
Federal Funds	16	65	31	51	1	-	-	-	5,100	2,487
State Transit Assistance	1,096	1,735	1,576	2,158	1,532	1,722	2,153	1,577	1,592	203
Interest Income, Net of Investment Gain (Loss)	15,930	15,492	23,995	8,717	13,092	28,333	20,767	16,131	2,244	5,770
Interest Expense	(15,438)	(15,375)	(17,333)	(15,447)	(21,170)	(20,733)	(19,836)	(19,146)	(18,440)	(17,948)
Rail Subsidies	(11,840)	(11,589)	(12,551)	(12,263)	(13,224)	(13,820)	(14,355)	(14,296)	(14,296)	(14,588)
Other Income	1,232	1,144	1,300	4,924	6,708	9,383	13,673	20,895	17,046	13,380
SFO/Colma BART service deficit/revenue	-	-	-	-	-	-	-	311	(18,000)	(8,095)
Unusual Items	-	-	1,100	-	-	-	-	-	-	-
Total Nonoperating Revenue	\$53,197	\$64,237	\$76,919	\$71,151	\$78,217	\$103,476	\$100,399	\$81,957	\$56,257	\$71,418
Net Income (Loss)*	(\$7,973)	\$1,367	\$11,069	\$4,758	(\$7,696)	\$8,737	(\$6,155)	(\$31,605)	(\$60,040)	(\$49,069)

\* Net of Capital Contributions

Operating Expenses - Actual Dollars Compared to Constant Dollars

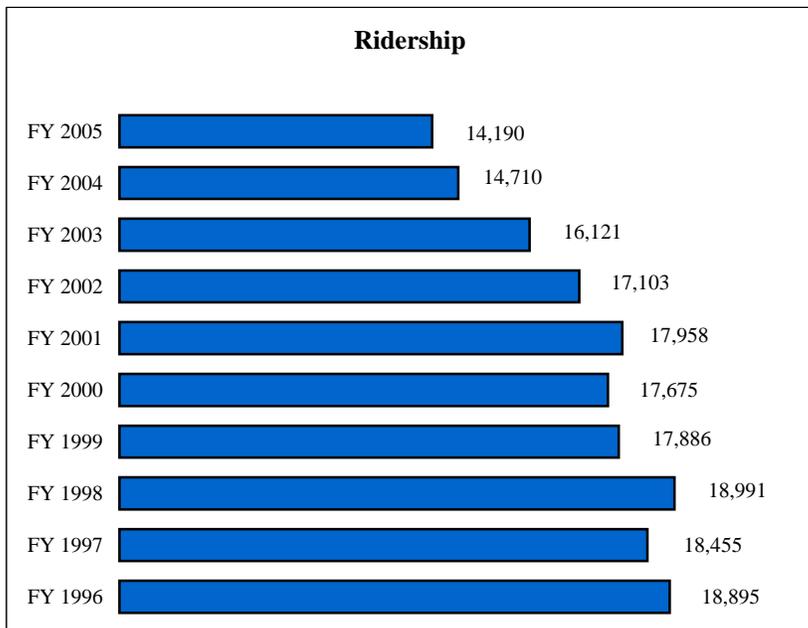


	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Actual \$ Dollars	\$53,930	\$55,187	\$58,647	\$57,770	\$64,911	\$71,914	\$81,995	\$91,560	\$94,164	\$94,118
Constant \$ Dollars	\$49,329	\$48,960	\$50,302	\$47,721	\$51,448	\$53,464	\$60,250	\$66,219	\$67,157	\$66,418
CPI Percent Change	2.3%	3.1%	3.4%	3.8%	4.2%	6.6%	1.2%	1.6%	1.4%	1.1%
Index Number (1967=100)	477.1	491.9	508.8	528.3	550.6	587.0	593.9	603.4	611.9	618.4
Cumulative Percent	9.1%	12.2%	15.6%	19.4%	23.6%	30.2%	31.4%	33.0%	34.4%	35.5%

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

***FIXED-ROUTE TRANSPORTATION:***

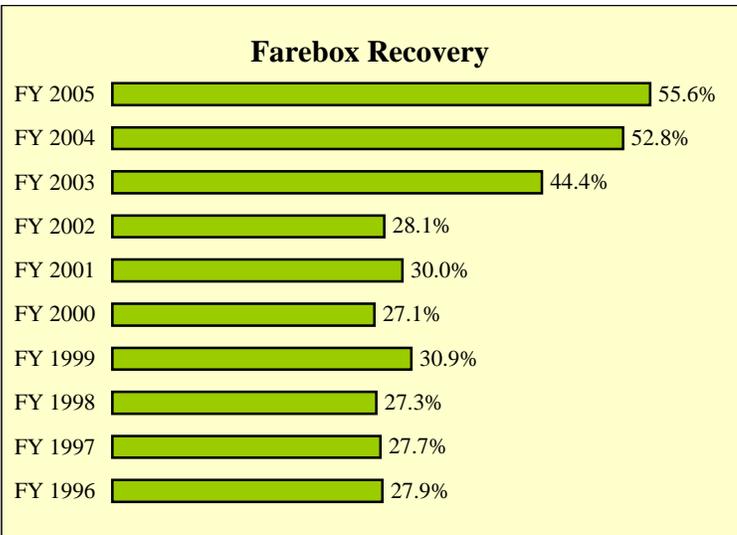
FIXED-ROUTE RIDERSHIP (In thousands)  
In FY 2005, ridership has decreased by 3.5%



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

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

***FIXED-ROUTE TRANSPORTATION:***

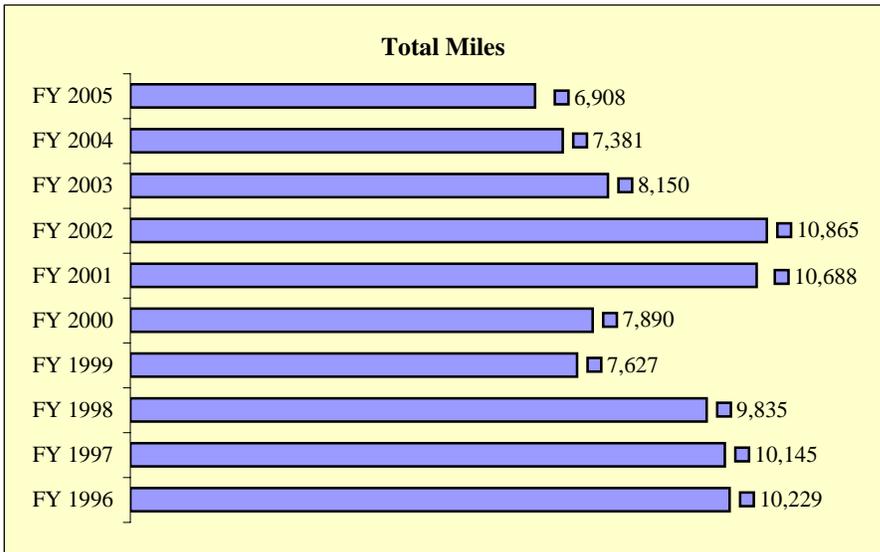


**FIXED-ROUTE FAREBOX RECOVERY**

Operating income from patron fares and local sales tax must cover 24.3% of applicable operating expenses to be eligible for California Transportation Act funding. Starting in FY 1996, insurance premiums and loss payments are included in the calculation of the farebox recovery ratio, which was 55.6% for FY 2005.

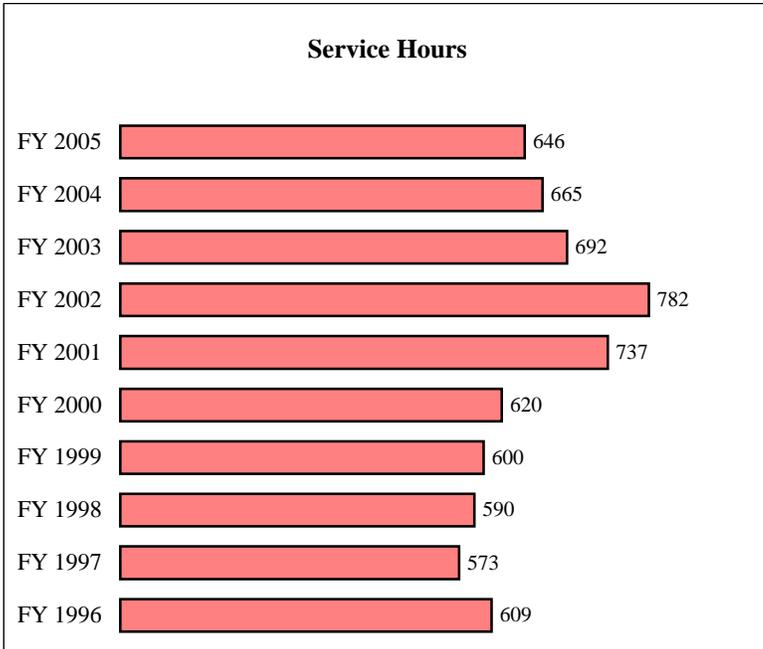
**FIXED-ROUTE TOTAL MILES (In thousands)**

Fixed-Route total miles has decreased by 6.4% during FY 2005.



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

***FIXED-ROUTE TRANSPORTATION:***

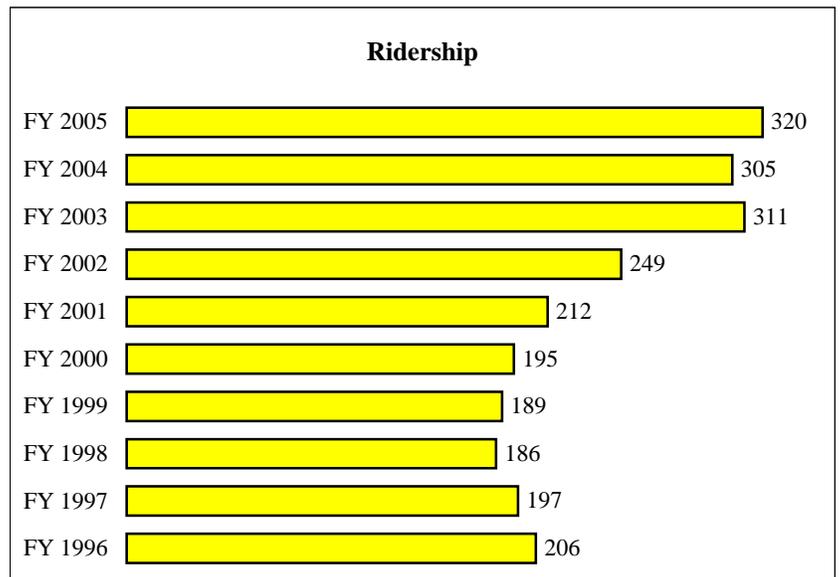


FIXED-ROUTE SERVICE HOURS (In thousands)  
Revenue service hours decreased by 2.9% in FY 2005.

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

REDI-WHEELS RIDERSHIP (In thousands)

The Redi-Wheels / ADA Programs have increased rapidly during recent years. During fiscal year 2005, ridership has increased by 4.9% primarily due to a "zero denial" policy and latent demand.



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

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

	<b>FY 1996</b>	<b>FY 1997</b>	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
<b>Service Area Population</b> (In thousands)	683	696	708	712	721	737	720	720	720	720
<b>Fixed Route Service:*</b>										
Net Cost/Passenger	\$ 1.91	\$ 2.13	\$ 1.96	\$ 1.97	\$ 2.28	\$ 3.10	\$ 3.15	\$ 3.33	\$ 3.76	\$ 4.34
Net Cost/Vehicle Mile	\$ 4.60	\$ 5.27	\$ 6.77	\$ 6.69	\$ 7.01	\$ 7.08	\$ 5.17	\$ 6.60	\$ 7.50	\$ 10.10
Net Cost/ Service Hour	\$ 59.33	\$ 68.86	\$ 87.27	\$ 85.01	\$ 89.36	\$ 88.48	\$ 69.04	\$ 77.67	\$ 83.70	\$ 95.38
<b>Redi-Wheels:*</b>										
Net Cost/Passenger	\$ 18.40	\$ 21.20	\$ 21.84	\$ 22.14	\$ 25.91	\$ 29.78	\$ 29.42	\$ 27.36	\$ 33.21	\$ 33.21
Net Cost/Vehicle Mile	\$ 2.70	\$ 3.08	\$ 3.17	\$ 2.51	\$ 2.51	\$ 3.29	\$ 3.29	\$ 3.20	\$ 3.75	\$ 3.60
Net Cost/ Service Hour	\$ 36.56	\$ 38.78	\$ 39.94	\$ 33.57	\$ 27.47	\$ 40.70	\$ 47.17	\$ 39.91	\$ 46.97	\$ 48.00
<b>Employees:</b>										
Operators	250	255	254	246	340	350	343	350	332	352
Maintenance	76	77	84	82	119	111	91	90	110	84
Administration	192	191	213	221	253	279	289	293	267	282
Administration Part-Time	20	21	18	15	2	1	15	16	21	24
<b>Total</b>	<b>538</b>	<b>544</b>	<b>569</b>	<b>564</b>	<b>714</b>	<b>741</b>	<b>738</b>	<b>749</b>	<b>730</b>	<b>742</b>
<b>Fares:</b>										
Adult	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.25	\$ 1.25	\$ 1.25
Student	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.75	\$ 0.75	\$ 0.75	\$ 0.75	\$ 0.75	\$ 0.75	\$ 0.75
Senior	\$ 0.35	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.60	\$ 0.60	\$ 0.60
<b>Pass Sales</b> (In thousands)	\$ 3,398	\$ 3,798	\$ 3,807	\$ 4,678	\$ 4,296	\$ 4,423	\$ 3,858	\$ 3,633	\$ 4,228	\$ 4,352
<b>Fleet Information:</b>										
Articulated Buses	70	69	69	69	69	69	70	55	55	55
Standard Coaches***	248	248	243	249	249	249	247	280	291	280
Redi-Wheels Vehicles**	46	41	48	48	48	63	63	63	63	63
<b>Total Revenue Vehicles</b>	<b>364</b>	<b>358</b>	<b>360</b>	<b>366</b>	<b>366</b>	<b>381</b>	<b>380</b>	<b>398</b>	<b>409</b>	<b>398</b>

\* Excludes depreciation expense.  
\*\* Excludes gasoline vehicles owned by contractors providing Demand Response service.  
\*\*\* Includes Eleven express coaches

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

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

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

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

# ***Section IV***

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## **SINGLE AUDIT**

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

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

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

Schedule of Expenditures of Federal Awards and Notes

Summary of Auditors' Results

Financial Statement Findings and Recommendations

Schedule of Federal Award Findings and Questioned Costs

Status of Prior Year Findings and Recommendations

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

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

We have audited the financial statements of the San Mateo County Transit District (the District) as of and for the year ended June 30, 2005, and have issued our report thereon, dated October 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance and Other Matters**

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

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

*Vavrinek Trine Day + Co. LLP*

Palo Alto, California  
October 21, 2005



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

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

**Compliance**

We have audited the compliance of the San Mateo County Transit District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The San Mateo County Transit District's major federal programs are identified in the Schedule of Expenditures of Federal Awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of San Mateo County Transit District's management. Our responsibility is to express an opinion on San Mateo County Transit District's compliance based on our audit.

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

In our opinion, San Mateo County Transit District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2005.

**Internal Control Over Compliance**

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

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

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

We have audited the financial statements of the San Mateo County Transit District as of and for the year ended June 30, 2005, and have issued our report thereon dated October 21, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements of the San Mateo County Transit District. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

*Vawrinck Trime Day + Co. LLP*

Palo Alto, California  
October 21, 2005

**SAN MATEO COUNTY TRANSIT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2005**

Grant Program	Federal Catalog Number	Expenditures
<u>U.S. Department of Transportation, Federal Transit Administration</u>		
Federal Transit Cluster (1)		
Federal Transit - Formula Grants (1)		
CA-90-X861 Capital Grant	20.507	\$ 713,392
CA-90-X994 Capital Grant	20.507	(498)
CA-90-Y045 Capital Grant	20.507	216,221
CA-90-Y122 Capital Grant	20.507	80,643
CA-90-Y154 Capital Grant	20.507	1,078,221
CA-90-Y244 Capital Grant	20.507	638,922
CA-90-Y244 Operating Grant	20.507	2,100,000
CA-90-Y344 Capital Grant	20.507	796,210
CA-90-Y344 Operating Grant	20.507	386,946
SEC 5311(F)	20.507	-
Subtotal		<u>6,010,057</u>
Federal Transit - Capital Investment Grants (1)		
CA-03-0436	20.500	<u>43,819</u>
Total Expenditures of Federal Awards		<u><u>\$ 6,053,876</u></u>

(1) Major Program

See accompanying notes to supplementary information.

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**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2005**

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*NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

**A. General**

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

**B. Basis of Accounting**

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

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

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

**D. Relationship to Federal Financial Reports**

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

**SAN MATEO COUNTY TRANSIT DISTRICT  
SUMMARY OF AUDITORS RESULTS  
YEAR ENDED JUNE 30, 2005**

**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

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

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

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**SAN MATEO COUNTY TRANSIT DISTRICT  
FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS  
YEAR ENDED JUNE 30, 2005**

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

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**SAN MATEO COUNTY TRANSIT DISTRICT  
SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2005**

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

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**SAN MATEO COUNTY TRANSIT DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
YEAR ENDED JUNE 30, 2005**

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

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

Criteria or specific requirement

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

Condition

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

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

Context

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

Effect

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

Cause

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

Recommendation

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

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**SAN MATEO COUNTY TRANSIT DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
YEAR ENDED JUNE 30, 2005**

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Views of responsible officials and planned corrective actions

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

Status

The District implemented corrective action during fiscal year 2004-05.