

San Mateo County  
**TRANSIT DISTRICT**

**San Carlos, California**

***Comprehensive Annual Financial Report***

**Fiscal Year Ended June 30, 2006**

**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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**December 29, 2006**

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

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the San Mateo County Transit District (the "District") for the fiscal year July 1, 2005 through June 30, 2006. 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 DECEMBER 29, 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 with transportation expertise to the District board. The mayors of the cities throughout the county appoint three elected city officials, bringing the District board membership to six. These six members then select the remaining three board members from the general public, one of which must be a coastal resident. The Board has a geographical diversity policy in place for public members. The Board of Directors meets once a month to determine overall policy for the District. In addition, the Board has created a 15-member Citizens Advisory Committee (CAC). The principal objective of the CAC is to articulate the interests and needs of all current and future patrons.

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***Administration***

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

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

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 divisions, as well as providing support to 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 collection 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.

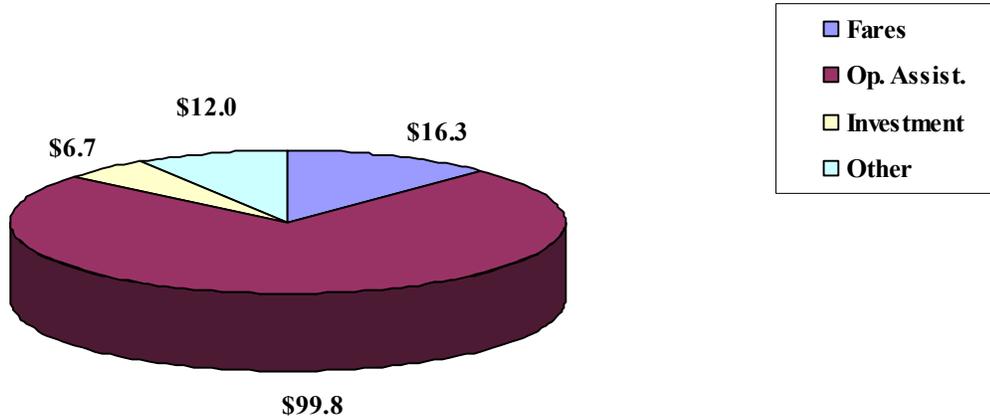
***Budgetary Controls***

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 General Manager/CEO. 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 issue purchase orders to avoid over-commitment of resources.

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**San Mateo County Transit District  
2006 REVENUES  
(\$millions)**



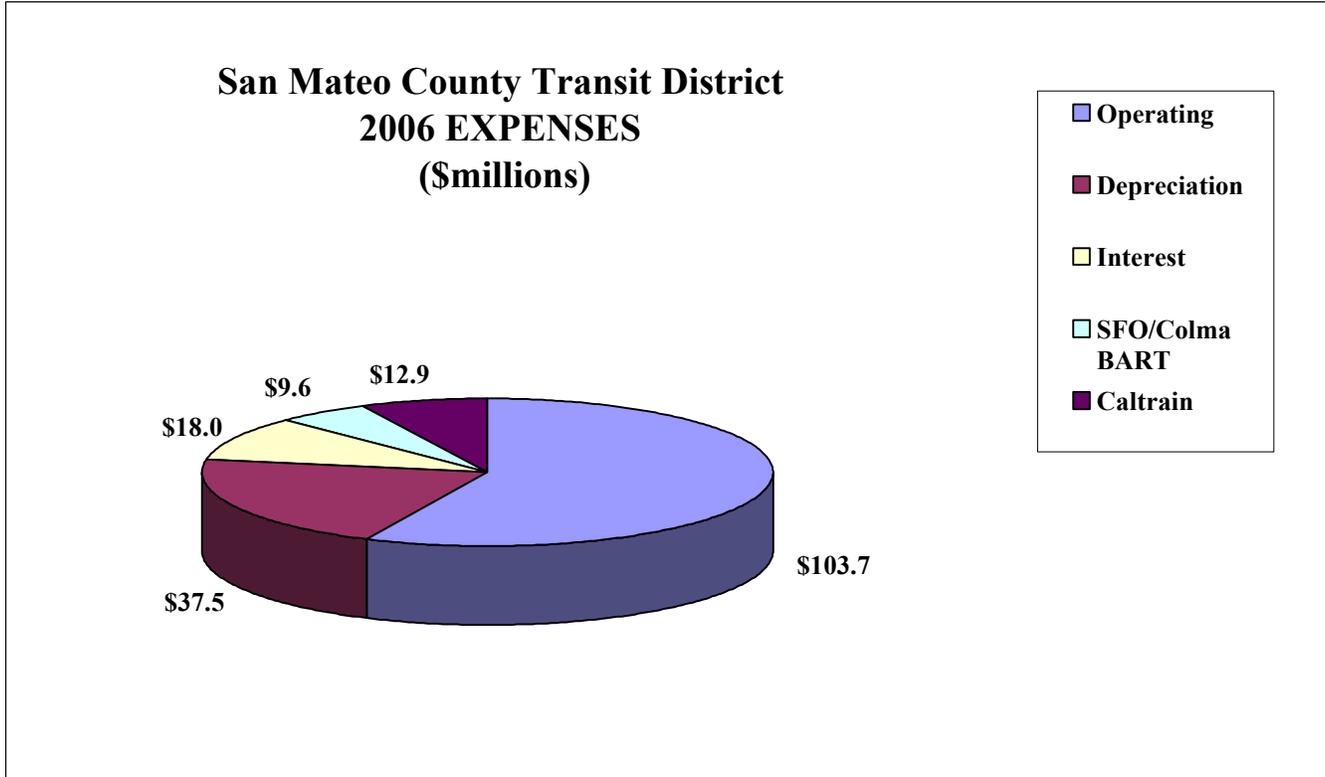
The District employs the same basis and principles for both budgeted and actual revenues and expenditures, with the exceptions that actual proceeds from the sale of fixed assets, unrealized investment gains and losses and inter-fund transfers are not included in the budget. As a special purpose organization, the District is not subject to the State of California’s Gann Act requiring adherence to an annual appropriation limit. The two pie charts in this letter show actual results of the major revenue and expense categories for fiscal year 2006.

The District anticipates continuing the transition it stated a few years ago 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 6 percent increase in the county's population and a 9 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 30-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.

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**CURRENT PROGRAMS**

***Motor Bus Operations***

The District designs its service to meet the needs of Peninsula travelers with hundreds of daily trips along the Bayshore corridor between Palo Alto and downtown San Francisco. In addition, frequent San Francisco service is provided along El Camino Real and Mission Street in the north area of San Mateo County. 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 58 in 2003. An additional four routes were eliminated in 2004 concurrent with the opening of the BART Extension to SFO and one route was added bringing the current total to 55 routes. Bus ridership in San Mateo County escalated from 4.0 million in fiscal year 1976 to 18.0 million in 2001, but has since declined to 14.7 million in 2006.

The safety and maintenance improvement programs have produced extremely successful results. The safety program includes sensitivity training to familiarize operators with the special needs of District passengers with mobility impairments. Many bus operators have received safe-driving awards for up to 30 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.

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***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 nearly 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.

A current area of focus is Project 2025 which was undertaken to identify specific capital improvement plans and actions to implement the strategic vision which was approved by the Joint Power Board in 2004. The strategic vision offers the opportunity for Caltrain to define itself as a preferred transportation service provider in an environment where the limits of the railroad infrastructure will soon be reached.

Recent experience reinforces an interesting dynamic showing ridership elasticity is not affected by fare increases and gasoline price decreases. As a result, the project anticipates that there is additional latent demand yet to be captured and that adding system capacity during peak hours with increased frequency and reduced travel time will attract a significant number of new riders.

To deliver the service levels necessary to meet projected demand, infrastructure improvement is needed. Furthermore, electrification is planned for Caltrain to serve the Transbay Terminal, and to accommodate a future high-speed rail system. Prior to electrification a decision will need to be made with regard to two different paths for electrified equipment, electric locomotives with traditional passenger cars or individually powered electrical vehicles which are currently not compliant with US railroad rules and regulations. These two rolling stock alternatives bring with them fundamental differences in performance and risk.

Project 2025 identifies the key strategic decision that must be made during the next two years – selection of the preferred electrified vehicle technology and identifying significant issues that must be addressed in near term.

***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.

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***Paratransit Services***

The District provides accessible transportation services throughout San Mateo County with fixed-route, Redi-Wheels, and RediCoast services. The entire fleet of fixed-route buses is equipped with wheelchair lifts or ramps and kneeling feature to make boarding easier. For some seniors and many persons with disabilities who cannot use fixed-route buses, Redi-Wheels and RediCoast are the only means of transportation available. In fiscal year ending June 30, 2006, Redi-Wheels, RediCoast vehicles and contracted taxis provided a total of 185,000 hours of service.

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

In March 1990, the District entered into a joint venture, the purpose of which was to extend BART from the Daly City station to the Caltrain and the SFO airport via new stations at Colma, South San Francisco, San Bruno, Millbrae and the San Francisco International Airport. The Colma Station commenced service February 24, 1996 and the four extension stations opened for service June 22, 2003. The first year cost to the District was significantly higher than initially budgeted and ridership was lower than anticipated. In subsequent years, ridership increased but still remained significantly below projections prior to the opening of the extension.

**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.

Four 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 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 in 2005 and even more in fiscal year 2006.

Despite the favorable long-term outlook, the District faces a significant structural deficit in its operating budget. Sales tax receipts declined \$2.9 million from their record high in 2001 of \$66.7 million to \$63.8 million in 2006. 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 2 to 3 percent annual inflation. These trends are challenging the District to re-examine its business model in terms of the needs of its customers and its fiscally constrained operating budget.

**Cash Management**

The Board of Directors has adopted an investment policy as prescribed by State of California law. This policy emphasizes safety and liquidity over return on investment. Within these parameters, the District pursues a prudent cash management and investment program to achieve maximum return on all available funds. The District's policy is to hold securities to maturity to avoid losses from a potential sale. All of the District's unrestricted cash and investments as of June 30, 2006 were on deposit in various accounts with U.S. Bank, Bank of America, the

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Bank of New York, or the 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 annual actuarial study. The District coordinates its yearly insurance program through its broker of record, which currently provides liability and property damage per occurrence coverage of \$100,000,000 in excess of \$1,000,000 self-insured retention. Risk Management monitors the insurance program as well as reserves established by the District's contracted third party liability claims.

**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 2 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 CalPERS 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 2005 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. I believe our 2006 Comprehensive Annual Financial Report also meets the requirements for a Certificate of Achievement and have submitted it to the GFOA for evaluation. I 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. Finally, I 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

**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, 2005

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



President

Executive Director

**BOARD OF DIRECTORS**

**ROSE GUILBAULT**

**MICHAEL P. GUINGONA**

**SHIRLEY HARRIS**

**JIM HARTNETT**

**MARC HERSHMAN**

**JERRY HILL**

**ZOE KERSTEEN-TUCKER**

**ARTHUR L. LLOYD**

**ADRIENNE TISSIER**

**ROSE GUILBAULT**, public member, was appointed by the District Board in February 2006. She is vice president of corporate affairs and publishing for California State Automobile Association, the AAA affiliate of Northern California, Nevada and Utah. Ms. Guilbault oversees all aspects of the more than four million-member association's public affairs functions, including government affairs, media relations, community relations, public policy, corporate contributions, traffic safety and publishing. Ms. Guilbault was nominated by the Governor to serve on the Community College Board of Governors.

**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.

**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 25 years of experience in telecommunications and human resource management.

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**JIM HARTNETT**, 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.

**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 and 2002. Mr. Hershman is an attorney with a practice in San Mateo.

**JERRY HILL**, 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.

**ZOE KERSTEEN-TUCKER**, public member and representative of the Coastal Zone, was appointed by the District Board of Directors in February 2006. She holds a doctoral degree in experimental neuropsychology from U.C. Berkeley.

**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.

**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. Ms. Tissier has been in business in the private sector for more than 20 years.

## **EXECUTIVE MANAGEMENT**

### **GENERAL MANAGER/CEO**

Michael J. Scanlon

### **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

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

Mark Simon

### **ADMINISTRATIVE & BOARD SUPPORT**

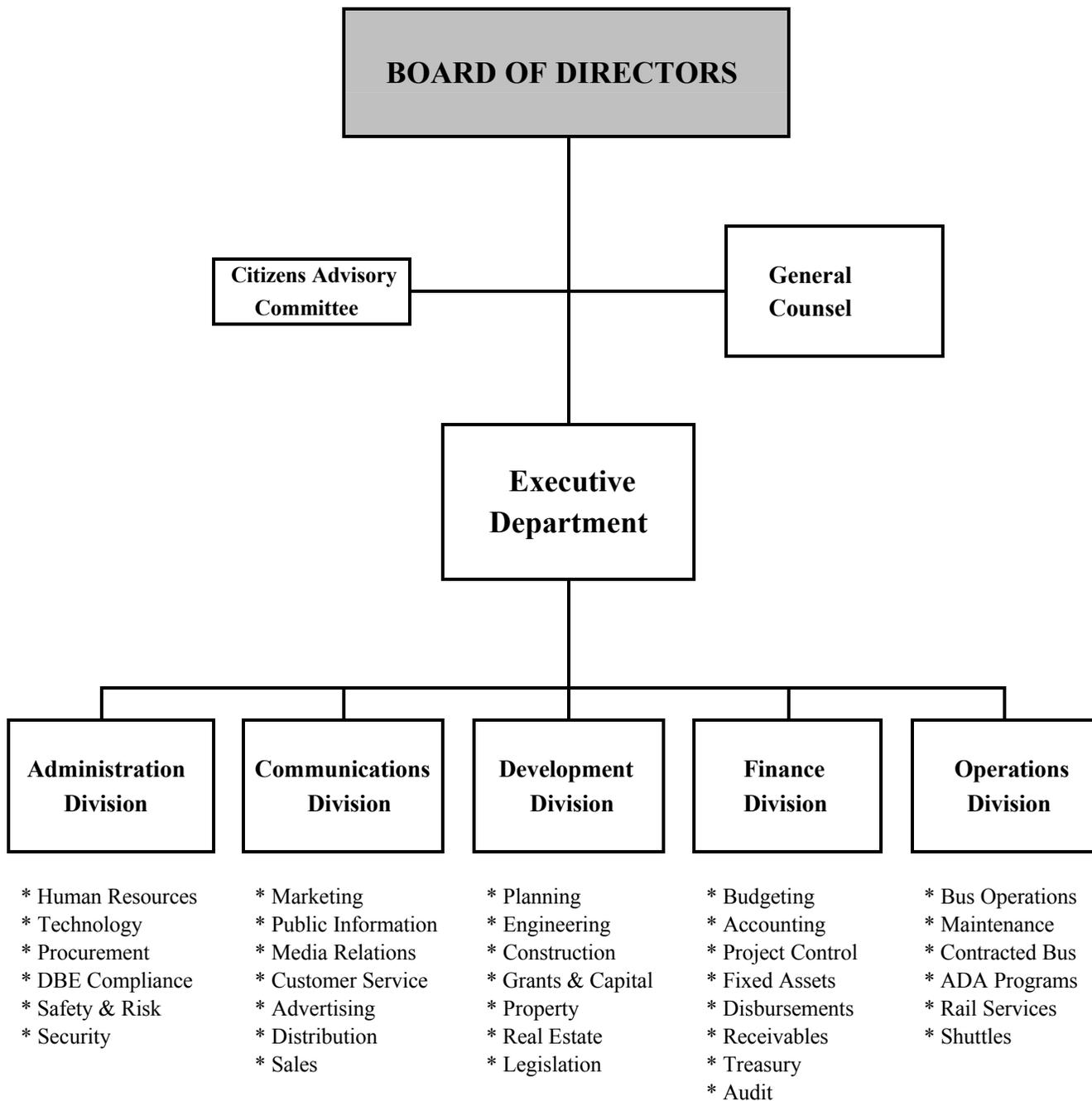
Martha Martinez, Manager, Executive/Governing Boards Support

Jennifer Hardie, Administrative/Board Secretary

### **GENERAL COUNSEL**

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

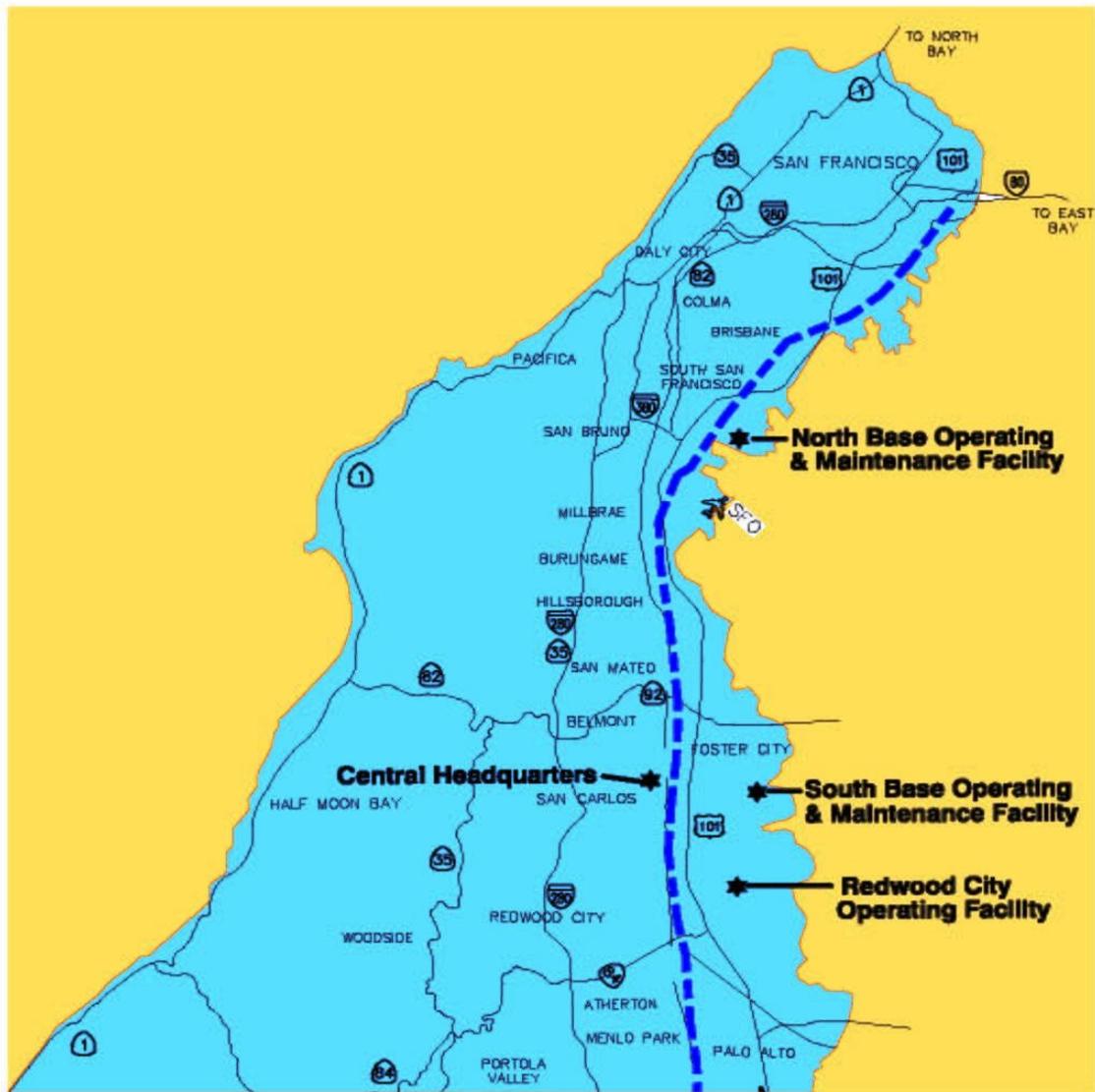
**ORGANIZATION CHART**



## **San Mateo County, California**



## Detailed Service Area



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**TABLE OF CREDITS**

The following individuals contributed to the production of the fiscal year 2006 Comprehensive Annual Financial Report:

<b><u>Finance:</u></b>	Jeannie Chen	Senior Accountant
	Donna Fong	Manager, Capital & Grants Accounting
	Éva Goode	Senior Accountant
	Angela Ho	Senior Accountant
	Brian Lee	Manager, Treasury
	Rima Lobo	Manager, General Ledger
	Ladi Millard	Manager, Budget
	Angustia Pacumio	Senior Accountant
<b><u>Audit Firm:</u></b>	Ahmad Gharaibeh	Audit Manager
	Leonard Danna	Partner

# *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, 2006 and 2005. 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 opinions.

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, 2006 and 2005 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. 44, *Economic Condition Reporting: The Statistical Section an amendment of NCGA Statement No. 1*.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 13, 2006, 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, are 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 13, 2006

## **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, 2006 with comparisons to the prior fiscal year ended June 30, 2005. 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 \$561.1 million at June 30, 2006, a decrease of \$44.2 million or 7.3 percent compared to June 30, 2005. The decrease was the result of total expenses exceeding total revenues during 2006.
- Operating revenue from passenger fares for 2006 was \$16.3 million, an increase of \$2.4 million or 17.6 percent compared to 2005 and was the result of a fare increase.
- Total operating expenses in 2006 of \$103.7 million, an increase of \$9.6 million or 10.2 percent compared to June 30, 2005. This overall result was mostly attributed to \$3.5 million increase in wages and benefits, a \$1.6 million increase in contract services, a \$2.2 million increase in materials and supplies and \$1.2 million increase in insurance expense.
- The net of non-operating revenue and non-operating expense was \$78.0 million for 2006, which is \$6.5 million or 9.2 percent higher than 2005. This result is mainly due to an increase in operating assistance.
- Net assets of \$190.5 million on June 30, 2006 decreased by \$42.2 million or 18.1 percent compared to \$232.6 million on 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.

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**SAN MATEO COUNTY TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2006**

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- *Cash flows from non-capital financing activities* include operating grant proceeds as well as operating subsidy payments from third parties.
- *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 \$44.2 million or 7.3 percent from \$605.3 million at June 30, 2005 to \$561.1 million at June 30, 2006. Five major asset categories (capital assets - net, capital contribution to BART net of amortization, restricted investments, bond issuance costs, and other assets) combined with noncurrent investments decreased by \$6.2 million or 1.7 percent during 2006 compared to 2005. This result was primarily due to 2006 depreciation and amortization expenses. Total current assets combined with the BART receivable decreased \$38.0 million or 23.1 percent between fiscal years as portfolios were reinvested towards the long term.

Current assets decreased \$33.0 million or 21.4 percent from \$153.8 million at June 30, 2005 to \$120.9 million at June 30, 2006. Current investments decreased \$33.1 million or 32.7 percent while cash and cash equivalents increased \$3.7 million or 23.6 percent as the District reinvested its short-term investments to long-term securities. Consequently, noncurrent investments increased \$20.6 million or 33.8 percent between 2005 and 2006.

Capital assets net of accumulated depreciation decreased \$5.9 million or 3.5 percent to \$161.8 million during 2006. 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, 2006**

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 16.8 percent to \$110.7 million during 2006 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 \$5.7 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*.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current Assets	\$ 120,870	\$ 153,834	\$ 101,470
Capital assets, net of depreciation	161,810	167,722	173,683
Contribution to BART, net of amortization	110,692	132,983	155,274
Other Non-Current Assets	<u>167,772</u>	<u>150,806</u>	<u>237,911</u>
<b>Total assets</b>	<u>\$ 561,144</u>	<u>\$ 605,345</u>	<u>\$ 668,338</u>
Current liabilities	\$ 23,350	\$ 34,763	\$ 35,206
Long-term debt	344,095	332,736	350,728
Other Non-Current liabilities	<u>3,246</u>	<u>5,231</u>	<u>5,573</u>
<b>Total liabilities</b>	<u>370,691</u>	<u>372,730</u>	<u>391,507</u>
Net assets			
Invested in capital assets, net of related debt	(15,102)	10,533	25,045
Restricted	3,390	13,659	19,171
Unrestricted	<u>202,165</u>	<u>208,423</u>	<u>232,615</u>
<b>Total net assets</b>	<u>\$ 190,453</u>	<u>\$ 232,615</u>	<u>\$ 276,831</u>

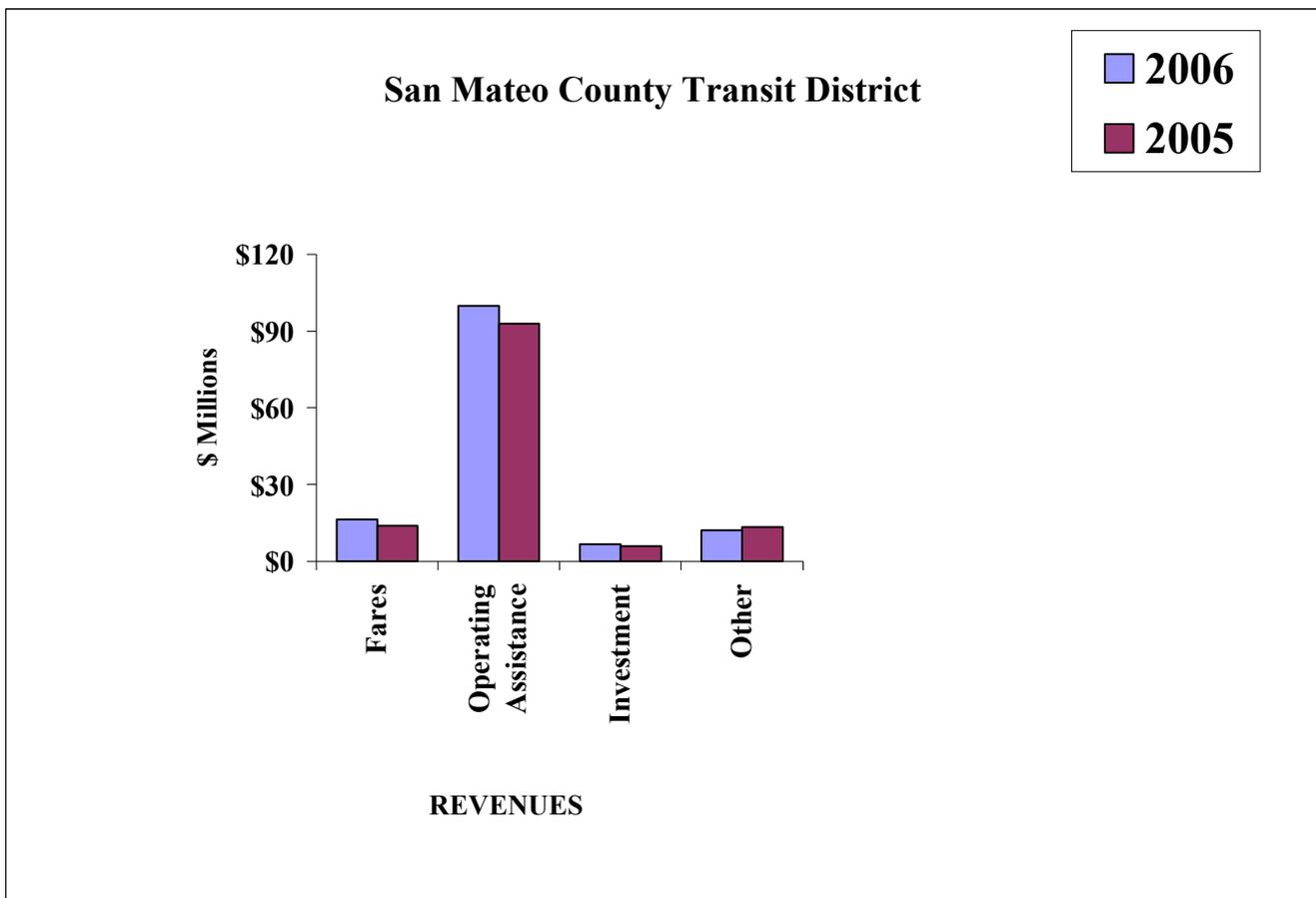
Total liabilities decreased by \$2.0 million or 0.6 percent from \$372.7 million at the end of 2005 to \$370.7 million at the end of 2006. Other noncurrent liabilities account for the majority of this decrease, \$3.5 million at 2005 to \$1.5 million at 2006 or 57.2 percent decrease between fiscal years.

**SAN MATEO COUNTY TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
JUNE 30, 2006**

At June 30, 2006, net assets of \$190.5 million are \$42.2 million or 18.1 percent less than the \$232.6 million of net assets at June 30, 2005 due to an overall deficit for District activities during 2006. The total net assets component, invested in capital assets net of related debt at June 30, 2006 are \$(15.1) million or (7.9) percent of total net assets. Total net assets restricted for debt service at June 30, 2005 are \$3.4 million or 1.8 percent of total net assets. The remaining \$202.2 million of total net assets at June 30, 2006 are unrestricted and represent 106.1 percent of total net assets.

**Revenue Highlights**

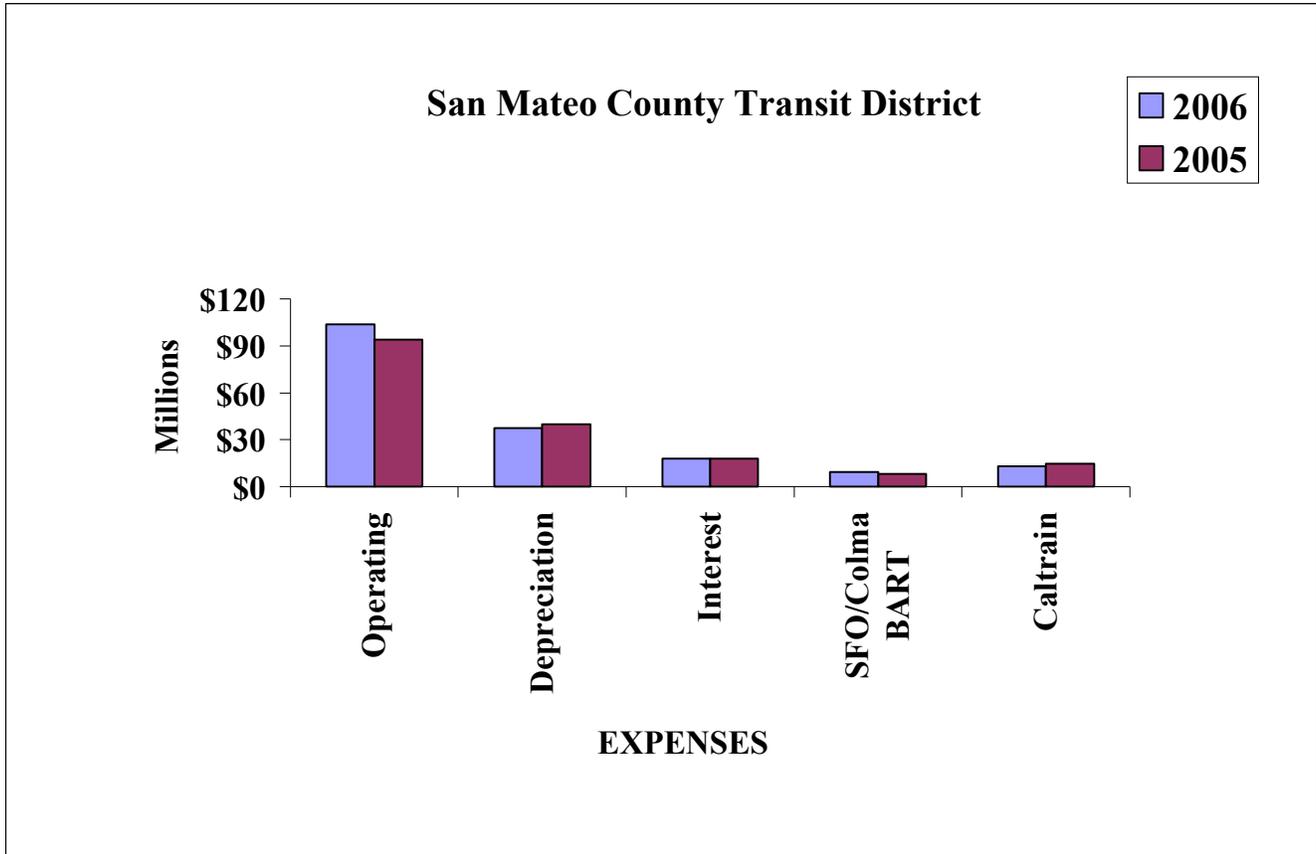
Operating revenue generated from passenger fares of \$16.3 million increased by \$2.4 million or 17.6 percent during 2006 compared to 2005. The increase in passenger fares that were effective September 2005 and the increase in ridership account for most of this result.



Non-operating revenues increased \$6.4 million to \$118.5 million for 2006 primarily due to increase in operating assistance. Operating assistance of \$99.8 million accounts for the majority of 2006 non-operating revenues. This amount consists of \$63.8 million or 63.9 percent from transaction and use tax, \$31.6 million or 31.7 percent from local transportation funds, \$0.8 million or 0.8 percent from federal assistance and \$3.6 million or 3.6 percent from Measure A, state transit assistance and AB434 funds combined.

**Expense Highlights**

Total operating expenses of \$103.7 million in 2006 were \$9.6 million or 10.2 percent higher than 2005. Total operating expenses consisted of \$56.9 million or 54.9 percent for salaries and benefits, \$28.3 million or 27.3 percent for contract operations and other services, and \$18.5 million or 17.8 percent for materials, supplies, insurance and other miscellaneous expenses combined. Depreciation and amortization for 2006 was \$37.5 million, a \$2.7 million or 6.8 percent decrease from 2005.



Non-operating expenses of \$40.5 million in 2006 decreased \$0.1 million or 0.3 percent compared to 2005. In 2006, the District contributed \$9.6 million to the net operating deficit of the BART/SFO Extension. In addition, the District paid the Peninsula Corridor Joint Powers Board (PCJPB) \$12.9 million as contribution towards the operation of Caltrain service. 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, 2006**

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues-Passenger fares	\$ 16,296	\$ 13,863	\$ 14,542
Operating expenses-Transit Services	103,692	94,118	94,164
Operating loss before depreciation and amortization	(87,396)	(80,255)	(79,622)
Depreciation and amortization	37,484	40,232	36,675
Operating loss	(124,880)	(120,487)	(116,297)
Non-operating revenues			
Operating assistance	99,827	92,899	91,062
Investment Income	6,690	5,770	2,244
Interagency administrative income	6,054	6,595	8,654
Other income, net	5,901	6,785	5,033
Total Non-operating revenues	118,472	112,049	106,993
Non-operating expenses			
SFO/Colma BART station revenue (deficit)	(9,620)	(8,095)	(18,000)
Interest expense	(17,969)	(17,948)	(18,440)
Caltrain service subsidy	(12,929)	(14,588)	(14,296)
Total Non-operating expenses	(40,518)	(40,631)	(50,736)
Net loss before capital contributions	(46,926)	(49,069)	(60,040)
Capital Contributions	4,764	4,853	24,056
<b>Change in net assets</b>	<b>(42,162)</b>	<b>(44,216)</b>	<b>(35,984)</b>
Net assets - Beginning	232,615	276,831	312,815
<b>Net assets - Ending</b>	<b>\$ 190,453</b>	<b>\$ 232,615</b>	<b>\$ 276,831</b>

**Capital Program**

The District received capital contributions of \$4.8 million in 2006, which is \$0.1 million or 1.8 percent less than in 2005. Federal grants contributed \$3.1 million or 64.6 percent, and local grants contributed \$1.7 million or 35.4 percent of the 2006 total.

The following is a summary of the District's major capital expenditures for fiscal year 2006.

- Installation of particulate matter traps in fixed-route revenue vehicles (\$2.8 million)
- Planning study for Dumbarton Rail Corridor (\$1.0 million)
- Purchase of the Advanced Communication System (\$0.6 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*.

## **Debt**

The District had \$350.4 million in bonds and notes outstanding at June 30, 2006 compared to \$350.7 million at June 30, 2005, a decrease of \$.3 million or .09 percent. The District experienced a difference between the carrying amount of its defeased debt and the reacquisition price as is common in these types of transactions. The difference of \$6.2 million was deferred on the District's books and is being amortized over the remaining life of the old debt. 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 \$11.8 million or 17.7 percent over only two budget cycles.

During 2004, the economy began to improve and the unemployment rate decreased to 4.0 percent by June 2006. Consequently, consumer spending rebounded slightly in 2004 and more so in 2005 and 2006, resulting in the District achieving \$63.8 million in sales tax revenue in 2006. 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, 2006 AND 2005 (In Thousands)**

<b>ASSETS</b>	<b>2006</b>	<b>2005</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Notes 1 & 2)	\$ 19,289	\$ 15,611
Investments (Notes 1 & 2)	68,173	101,257
Restricted investments (Notes 1 & 2)	2,511	12,833
Receivables:		
Transaction and use tax	11,916	11,714
Receivable from Peninsula Corridor Joint Powers Board (Note 8)	2,712	778
Federal capital grants (Note 4)	4,697	2,053
Interest	2,439	2,617
Other	6,771	2,837
Allowance for doubtful accounts	(90)	(96)
Total Receivables - Net	<u>28,445</u>	<u>19,903</u>
Inventories (Note 1)	1,268	1,274
Prepaid expenses	1,184	2,956
Total Current Assets	<u>120,870</u>	<u>153,834</u>
<b>NONCURRENT ASSETS:</b>		
Noncurrent investments (Note 2)	81,581	60,959
Restricted investments (Notes 1 & 2)	2,356	2,273
Receivable from BART	5,676	10,691
Construction loan receivable from BART (Note 5)	72,000	72,000
Capital assets, at cost		
Buses and bus equipment	142,940	139,595
Buildings and building improvements	71,685	71,149
Land and right of way (Note 7)	43,695	43,695
Maintenance and other equipment	21,442	21,097
Furniture and fixtures	13,087	13,329
Shelters and bus stop signs	3,304	3,304
Other vehicles	2,472	2,354
Total Property and Equipment	<u>298,625</u>	<u>294,523</u>
Less accumulated depreciation	(167,418)	(152,463)
Construction in progress	30,603	25,662
Capital Assets - Net (Note 6)	<u>161,810</u>	<u>167,722</u>
Capital Contribution to BART, net of amortization (Note 5)	110,692	132,983
Bond issuance costs	4,649	3,690
Other assets (Note 9)	1,510	1,193
Total Noncurrent Assets	<u>440,274</u>	<u>451,511</u>
<b>Total Assets</b>	<u>\$ 561,144</u>	<u>\$ 605,345</u>

See accompanying notes to the financial statements.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**STATEMENTS OF NET ASSETS (CONTINUED)**  
**JUNE 30, 2006 AND 2005 (In Thousands)**

<b>LIABILITIES</b>	<b>2006</b>	<b>2005</b>
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 6,450	\$ 7,662
Compensated absences	6,591	6,321
Current portion of self-insurance liabilities (Note 13)	2,620	1,494
Accrued interest	1,374	1,361
Current portion of long-term debt (Note 10)	6,315	17,925
Total Current Liabilities	<u>23,350</u>	<u>34,763</u>
<b>NONCURRENT LIABILITIES:</b>		
Long-term debt - Net (Note 10)	344,095	332,736
Self-insurance liabilities less current portion (Note 13)	1,761	1,761
Other noncurrent liabilities	1,485	3,470
Total Noncurrent Liabilities	<u>347,341</u>	<u>337,967</u>
Total Liabilities	<u>370,691</u>	<u>372,730</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	(15,102)	10,533
Restricted for debt service	3,390	13,659
Unrestricted	202,165	208,423
Total Net Assets	<u>\$ 190,453</u>	<u>\$ 232,615</u>

See accompanying notes to the financial statements.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2006 AND 2005 (In Thousands)**

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES - Passenger fares	\$ 16,296	\$ 13,863
OPERATING EXPENSES:		
Salaries and benefits	56,944	53,420
Services:		
Contract operations and maintenance services	24,338	22,751
Other services	3,948	3,546
Materials and supplies	7,102	4,943
Insurance	4,927	3,774
Miscellaneous	6,433	5,684
Total operating expenses	<u>103,692</u>	<u>94,118</u>
Operating loss before depreciation and amortization and administrative expenses capitalized	(87,396)	(80,255)
Depreciation and amortization:	<u>37,484</u>	<u>40,232</u>
OPERATING LOSS	<u>(124,880)</u>	<u>(120,487)</u>
NON-OPERATING REVENUES (EXPENSES):		
Operating assistance (Note 3)	99,827	92,899
Investment income	6,690	5,770
Interest expense	(17,969)	(17,948)
Caltrain service subsidy (Note 8)	(12,929)	(14,588)
SFO/Colma BART service deficit (Note 5)	(9,620)	(8,095)
Interagency administrative income	6,054	6,595
Other income, net	5,901	6,785
Total non-operating revenues, net	<u>77,954</u>	<u>71,418</u>
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(46,926)	(49,069)
CAPITAL CONTRIBUTIONS (Note 1)	<u>4,764</u>	<u>4,853</u>
CHANGE IN NET ASSETS	(42,162)	(44,216)
NET ASSETS, Beginning of year	<u>232,615</u>	<u>276,831</u>
NET ASSETS, End of year	<u>\$190,453</u>	<u>\$232,615</u>

See accompanying notes to the financial statements.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2006 AND 2005 (In Thousands)**

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from passenger fares	\$ 15,844	\$ 13,863
Payments to vendors for services	(44,480)	(43,715)
Payments to employees	(59,204)	(53,565)
Other	11,899	13,380
Net cash used in operating activities	<u>(75,941)</u>	<u>(70,037)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Operating grants received, including transaction and use tax	95,772	97,747
Caltrain service outlays	(12,929)	(14,588)
BART-SFO Extension operating subsidy	(9,620)	(8,095)
Decrease / (Increase) in receivable from BART	6,000	(2,777)
Net cash provided by non-capital financing activities	<u>79,223</u>	<u>72,287</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(9,643)	(11,296)
Capital contributions from grants	2,664	10,582
Bond principal paid	(6,025)	(17,252)
Interest and cost of issuance paid	(15,185)	(18,004)
Net cash used in capital and related financing activities	<u>(28,189)</u>	<u>(35,970)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investment securities	125,868	63,088
Purchases of investment securities	(103,166)	(50,526)
Investment income received on all interest-bearing investments	5,883	10,045
Net cash provided by investing activities	<u>28,585</u>	<u>22,607</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,678	(11,113)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>15,611</u>	<u>26,724</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 19,289</u>	<u>\$ 15,611</u>

See accompanying notes to the financial statements.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2006 AND 2005 (In Thousands)**

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating (loss)	\$ (124,880)	\$ (120,487)
Other nonoperating items	11,899	13,380
Adjustments to reconcile operating (loss) to net cash used in operating activities:		
Depreciation and amortization	37,484	40,232
Effect of changes in:		
Account receivable	(2,098)	-
Inventories	6	(108)
Prepaid expenses	1,772	(1,876)
Other assets	6	95
Accounts payable and accrued expenses	(1,247)	(1,048)
Deferred revenue	(280)	-
Compensated absences	271	(165)
Self-insurance liabilities	1,126	(60)
Net cash used in operating activities	<u>\$ (75,941)</u>	<u>\$ (70,037)</u>
NONCASH INVESTING ACTIVITIES:		
Increase (decrease) in fair value of investments	<u>\$ (2,225)</u>	<u>\$ (2,794)</u>

See accompanying notes to the financial statements.

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**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

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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.

**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. 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 did not have an impact on the District’s 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, 2006 AND 2005**

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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 10 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. The District adopted the provisions of GASB 44 during fiscal year 2006.

**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. This statement did not have an impact on the District's 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 Other Postemployment 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. Non-current investments represent the portion of the District's investment portfolio that is not expected to be liquidated during the next 12 months. Investments in nonparticipating interest-earning investment contracts (guaranteed investment contracts) are reported at cost, and all other investments are at fair value. The fair value of investments is determined annually and is based on current market prices. Investments are regulated by state 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, 2006 AND 2005**

**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, 2006 and 2005 (in thousands):

	<u>2006</u>	<u>2005</u>
Bus fleet improvements	\$ 10,994	\$ 9,937
Bus communications system	7,885	7,304
Other	5,136	4,259
Information technology support	3,767	2,741
Dumbarton rail	2,069	-
Pavement rehabilitation	727	407
Administration building improvement	25	1,014
Total Construction in Progress	<u>\$ 30,603</u>	<u>\$ 25,662</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 2006 and 2005.

- 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, 2006 AND 2005**

**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. In fiscal year ending, June 30, 2006, employees of the District accrued and used balances of compensated absences in the amount of \$4,201,000 and 3,931,000 respectively. At June 30, 2006 and 2005, accrued compensated absences for all District employees amounted to \$6,591,000 and \$6,321,000, respectively. The compensated absences liability is reflected as a current liability in the statement of net assets and is expected to be used within one year.

**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 are included in property and equipment. Depreciation on assets acquired with capital grant funds is included in the statement of revenues, expenses and changes in net assets.

Capital contributions for the years ended June 30, 2006 and 2005 were as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Federal grants	\$ 3,115	\$ 4,124
State transit assistance	-	129
Other local transportation funds	1,649	600
Total	<u>\$ 4,764</u>	<u>\$ 4,853</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, 2006 AND 2005**

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**NOTE #2 – CASH AND INVESTMENTS**

Cash and investments as of June 30, 2006 and 2005 are classified in the statement of net assets as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 19,289	\$ 15,611
Investments	68,173	101,257
Restricted investments - current	2,511	12,833
Noncurrent investments	81,581	60,959
Restricted cash and investments - noncurrent	2,356	2,273
	<u>\$ 173,910</u>	<u>\$ 192,933</u>

Cash and investments as of June 30, 2006 and 2005 consist of the following (in thousands):

	<u>2006</u>	<u>2005</u>
Cash on hand	\$ 4	\$ 4
Deposits with financial institutions	(1,615)	(3,030)
Investments	175,521	195,959
	<u>\$ 173,910</u>	<u>\$ 192,933</u>

**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**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, 2006 AND 2005**

**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, 2006 was as follows:

<u>Investment Type</u>	<u>Amount (in thousands)</u>	<u>Weighted Average Maturity (in years)</u>
U.S. Agency Securities	\$ 98,743	1.88
Repurchase Agreements	9,066	-
Medium-term Notes	45,068	1.10
Negotiable Certificates of Deposits	5,943	0.07
Local Agency Investment Fund (LAIF)	11,834	-
Held by bond trustee:		
Mutual funds	2,645	-
Investment contracts	2,222	21.35
	<u>\$ 175,521</u>	
Portfolio Weighted Average Maturity		1.61

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

<u>Investment Type</u>	<u>Amount (in thousands)</u>	<u>Weighted Average Maturity (in years)</u>
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
Asset-Backed Securities		
Country Pooled Investment Funds	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
	<u>\$ 195,959</u>	
Portfolio Weighted Average Maturity		1.96

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

**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, 2006			
				AAA	AA	A	Not Rated
U.S. Agency Securities	\$ 98,743	N/A	\$ -	\$ 98,742	\$ -	\$ -	\$ -
Repurchase Agreements	9,066	N/A	9,066	-	-	-	-
Medium-term Notes	45,068	A	-	13,874	7,233	23,961	-
Negotiable Certificates of Deposits	5,943	A	-	-	5,943	-	-
LAIF	11,834	N/A	-	-	-	-	11,834
Held by bond trustee:							
Mutual funds	2,645	N/A	-	-	-	-	2,645
Investment contracts	2,222	N/A	-	-	-	-	2,222
	<u>\$ 175,521</u>		<u>\$ 9,066</u>	<u>\$112,616</u>	<u>\$13,176</u>	<u>\$23,961</u>	<u>\$16,701</u>

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:							
Mutual 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>\$22,698</u>

**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**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, 2006:

Issuer	Investment Type	Reported Amount
Federal Home Loan Mortgage Corp (FHLMC)	U.S. Agency Securities	\$ 41,301
Federal Home Loan Bank (FHLB)	U.S. Agency Securities	35,059
Federal National Mortgage Association (FNMA)	U.S. Agency Securities	22,382
Tennessee Valley Authority	Medium-Term Notes	10,878
Bank of America	Repurchase Agreement	9,066
		<u>\$ 118,686</u>

As of June 30, 2005:

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

**SAN MATEO COUNTY TRANSIT DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2006 AND 2005**

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

As of June 30, 2006, the District had (\$1,614,950) of deposits with financial institutions recorded on the financial statements which includes an excess bank balance of \$232,195. This excess balance is uninsured and uncollateralized because the cash balance is over the Federal Depository Insurance limits.

As of June 30, 2006 and 2005, 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	
	2006	2005
Repurchase Agreements	\$ -	\$ 2,712

**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, 2006 and 2005, the District’s investments in the State treasurer’s investment pool (LAIF) were \$11,834,472 and \$15,376,212, respectively. The total amounts invested by all public agencies in LAIF at June 30, 2006 and 2005 were \$63,616,592,927 and \$60,635,664,345, respectively. Of these amounts, as of June 30, 2006 and 2005, 97.43 and 97.59 percent, respectively, is invested in non-derivative financial products, and 2.57 and 2.41 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, 2006 AND 2005**

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

Operating assistance is summarized as follows for the years ended June 30, 2006 and 2005 (in thousands):

	<u>2006</u>	<u>2005</u>
Transaction and use tax	\$ 63,813	\$ 59,958
Local transportation funds	31,608	28,876
Federal operating and planning assistance	838	2,487
Measure A funds - local	2,358	880
State transit assistance	605	203
AB434	605	495
Total	<u>\$ 99,827</u>	<u>\$ 92,899</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, 2006 applicable to these projects are \$3,959,005. The related federal participation is \$3,136,587.

The District has recorded receivables of \$3,379,360 and \$1,859,876, at June 30, 2006 and 2005, respectively, for qualifying capital project expenditures under FTA grant contracts in excess of reimbursements.

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

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

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

The Agreement called for two projects. The first was the Colma Project, approximately 1.6 miles from the existing Daly City station to the new Colma station. The second was the SFO Extension, which included construction of 10.1 miles of additional track, 4 additional stations and related facilities.

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

The initial agreement provided that SamTrans would pay 25% of the capital costs. On June 19, 1996, the Agreement was amended to shift SamTrans financial contribution from 25% to a capped amount of \$197 million, of which \$185 million was scheduled to be paid during the 4-year construction period and has been paid. The remaining \$12 million is to be paid out of net revenues derived exclusively from the SFO Extension net operation surplus, the same funding source for the \$133 million that SamTrans agreed to contribute in recognition of BART's prior infrastructure investments. In essence, with this amendment BART will receive \$145 million

**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

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

(\$12 + \$133 million) solely out of net revenues derived from the SFO Extension operations, as full payment for SamTrans' remaining project costs and capital contribution.

Pursuant to the fourth amendment entered into on August 31, 1999, SamTrans loaned \$72 million to fund the SFO project as a result of higher than anticipated construction costs. In addition, MTC provided a \$76.5 million loan, and BART provided a \$50 million loan to finance the SFO project.

**A. 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, 2006 and 2005, the District contributed \$9,620,000 and \$8,095,000, respectively, to the net operating deficits of the Extension.
- The District accepted a repayment plan for the \$9,239,000 and \$9,148,000 outstanding as of June 30, 2006 and 2005, 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. The \$6,000,000 was paid in the current fiscal year. Further, the repayment terms include interest on past due amounts of \$2,437,000 which has been accrued on the financial statements.

**B. Capital Contribution to BART**

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

	<u>2006</u>	<u>2005</u>
BART System Contribution	\$ 100,000	\$ 100,000
Colma Extension - local share	52,352	52,352
South of Colma Extension - local share	181,530	181,530
	<u>333,882</u>	<u>333,882</u>
Less: Accumulated Amortization	(223,190)	(200,899)
Total	<u>\$ 110,692</u>	<u>\$ 132,983</u>

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

**NOTE #6 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006, was as follows (in thousands):

	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006
Capital Assets Not Being depreciated				
Land and right of way	\$ 43,695	\$ -	\$ -	\$ 43,695
Construction in progress	25,662	9,645	(4,704)	30,603
Total Non Depreciable Capital Assets	69,357	9,645	(4,704)	74,298
Other Capital Assets				
Buses and bus equipment	139,595	3,372	(27)	142,940
Buildings and building improvements	71,149	592	(56)	71,685
Maintenance and other equipment	21,097	361	(16)	21,442
Furniture and fixtures	13,329	261	(503)	13,087
Shelters and bus stop signs	3,304	-	-	3,304
Other vehicles	2,354	118	-	2,472
Total Depreciable Capital Assets	250,828	4,704	(602)	254,930
Less Accumulated Depreciation for:				
Buses and bus equipment	(80,034)	(10,872)	27	(90,879)
Buildings and building improvements	(41,367)	(2,409)	56	(43,720)
Maintenance and other equipment	(18,753)	(1,352)	16	(20,089)
Furniture and fixtures	(7,358)	(566)	503	(7,421)
Shelters and bus stop signs	(2,755)	(231)	-	(2,986)
Other vehicles	(2,196)	(127)	-	(2,323)
Total Accumulated Depreciation	(152,463)	(15,557)	602	(167,418)
Capital Assets, Net	\$ 167,722	\$ (1,208)	\$ (4,704)	\$ 161,810

**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

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

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 Non Depreciable Capital Assets	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 Depreciable Capital Assets	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

**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.

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  
JUNE 30, 2006 AND 2005**

**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 comprised of nine members, three from each participant. The PCJPB was formed in October 1991 to plan, administer and operate the Caltrain service. The PCJPB began operating the Caltrain service on July 1, 1992. Prior to July 1, 1992, such rail service was operated by the California Department of Transportation (Caltrans) and Southern Pacific Railroad.

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 41.91 and 41.98 percent of the mainline net operating costs and the administrative expenses of the PCJPB for the years ended June 30, 2006 and 2005, respectively. During the year ended June 30, 2000, Caltrain added extra service to AT&T Park Home of the San Francisco Giants. The District recognizes the entire amount of contributions paid to the PCJPB as expense in the year disbursed. During the years ended June 30, 2006 and 2005, the District contributed \$12,929,000 and \$14,588,000, respectively, to the PCJPB for operating needs.

The District has total receivables from PCJPB of \$2,711,769 and \$778,487 at June 30, 2006 and 2005, 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, 2006 and 2005 (in thousands):

	<u>2006</u>	<u>2005</u>
Total Assets	\$ 1,074,616	\$ 982,021
Total Liabilities	(59,368)	(62,364)
Total Net Assets	<u>\$ 1,015,248</u>	<u>\$ 919,657</u>
Operating Revenues	\$ 33,123	\$ 26,092
Operating Expenses	(103,320)	(98,612)
Nonoperating Revenues, Net	43,269	42,544
Net Loss Before Capital Contributions	<u>\$ (26,928)</u>	<u>\$ (29,976)</u>
Capital Contributions	122,520	69,828
Increase in Net Assets	<u>\$ 95,592</u>	<u>\$ 39,852</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  
JUNE 30, 2006 AND 2005**

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

In fiscal years 2006 and 2005, 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 \$1,040,000 and \$1,080,000, as of June 30, 2006 and 2005, 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.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

**NOTE #10 – LONG-TERM DEBT**

Long-term debt activity for the year ended June 30, 2006 is as follows (in thousands):

	Balance at July 1, 2005	Adjustments/ Additions	Deletions	Balance at June 30, 2006	Amounts Due within One Year
Bonds and Notes Payable					
1993 Series A Bonds	\$ 114,790	\$ -	\$ (5,315)	\$ 109,475	\$ 5,580
1997 Series A Bonds	44,470	-	(44,470)	-	-
1998 Junior Lien	23,765	-	(710)	23,055	735
1998 Series A Bonds	109,640	-	(109,640)	-	-
1999 Series A Bonds	57,134	-	(57,134)	-	-
2005 Series A Bonds	-	218,990	-	218,990	-
Total Debt	349,799	218,990	(217,269)	351,520	6,315
Bond refunding loss	-	(6,203)	327	(5,876)	-
Unamortized bond premium	1,199	5,191	(1,320)	5,070	-
Unamortized bond discount	(337)	-	33	(304)	-
Net Bonds and Notes Payable	<u>\$ 350,661</u>	<u>\$ 217,978</u>	<u>\$ (218,229)</u>	<u>\$ 350,410</u>	<u>\$ 6,315</u>

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	<u>\$ 367,913</u>	<u>\$ -</u>	<u>\$ (17,252)</u>	<u>\$ 350,661</u>	<u>\$ 17,925</u>

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**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

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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 investments restricted by debt covenants for use in capital projects.

**B. 1997 Series A Bonds**

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

In October 2005, the District issued the 2005 Series A refunding bonds that, in substance, defeased the 1997 Series A Bonds. Refer to item F for further information.

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

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

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

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**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

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

**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 carried a coupon rate from 4.0 percent to 5.0 percent and were scheduled to 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 was structured to meet the District's debt service requirements for the 1998 Series A Bonds. Under the Investment Agreement, the District was 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 was being amortized over the life of the 1998 Series A Bonds.

In October 2005, the District issued the Refunding 2005 Series A Bonds (see below) that, in substance, defeased the 1998 Series A Bonds. As part of the refunding, the investment agreement was terminated and the unamortized balance of the other Noncurrent Liabilities was recognized as revenue at that time.

**E. 1999 Series A Bonds**

In August 1999, the District issued \$72,475,000 of 1999 Series A Bonds in 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 carried a coupon rate from 4.0 percent to 5.25 percent and were scheduled to mature on June 1, 2019.

In October 2005, the District issued the Refunding 2005 Series A Bonds (see below) that, in substance, defeased the 1999 Series A Bonds.

**F. 2005 Series A Refunding Bonds**

On October 12, 2005, the District issued \$218,990,000 in 2005 Series A Bonds to advance refund and legally defease the outstanding 1997, 1998 and 1999 Series A Bonds by placing the net proceeds of \$220,888,820 (including \$5,190,525 additional bond premium less \$3,291,703 in underwriting fees, insurance and other issuance costs) in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old Series A Bonds which have been removed from the District's financial statements. The 2005 Series A Bonds carry a coupon rate ranging from 4.375 percent to 5.0 percent and mature on June 1, 2034.

The advance refunding with the 2005 Series A Bonds, successfully reduced the debt service requirements through fiscal year ended June 30, 2018, but extended the length of the debt service obligations through fiscal year ended June 30, 2034. The net effect is the District increased its total debt service requirements by \$166 million, which equates to an economic loss of \$5,643,845 (the difference between the present value of the old and new debt service requirements).

**SAN MATEO COUNTY TRANSIT DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

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

Debt service requirements for long-term debt as of June 30, 2006 are as follows (in thousands):

Fiscal Year Ending June 30,	1993 Series A Bonds			1998 Junior Lien Sales Tax Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 5,580	\$ 5,927	\$ 11,507	\$ 735	\$ 778	\$ 1,513
2008	5,865	5,648	11,513	755	752	1,507
2009	6,155	5,354	11,509	785	726	1,511
2010	6,410	5,047	11,457	810	699	1,509
2011	6,735	4,726	11,461	835	670	1,505
2012-2016	39,170	18,174	57,344	4,595	2,888	7,483
2017-2021	39,560	6,522	46,082	5,390	2,024	7,414
2022-2026	-	-	-	6,325	1,010	7,335
2027-2031	-	-	-	2,825	82	2,907
	<u>\$109,475</u>	<u>\$ 51,398</u>	<u>\$160,873</u>	<u>\$ 23,055</u>	<u>\$ 9,629</u>	<u>\$ 32,684</u>

Debt service requirements for long-term debt as of June 30, 2006 are as follows (in thousands) (Continued):

Fiscal Year Ending June 30,	2005 Series A Refunding Bonds			Total		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ -	\$ 10,555	\$ 10,555	\$ 6,315	\$ 17,260	\$ 23,575
2008	-	10,555	10,555	6,620	16,955	23,575
2009	-	10,555	10,555	6,940	16,635	23,575
2010	-	10,555	10,555	7,220	16,301	23,521
2011	-	10,555	10,555	7,570	15,951	23,521
2012-2016	-	52,777	52,777	43,765	73,839	117,604
2017-2021	11,635	52,777	64,412	56,585	61,323	117,908
2022-2026	67,050	43,916	110,966	73,375	44,926	118,301
2027-2031	84,830	26,136	110,966	87,655	26,218	113,873
2032-2034	55,475	5,013	60,488	55,475	5,013	60,488
	<u>\$218,990</u>	<u>\$ 233,394</u>	<u>\$452,384</u>	<u>\$351,520</u>	<u>\$294,421</u>	<u>\$645,941</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 50. 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 2006 and 2005 was 8.638 percent and 5.46 percent of annual covered payroll, respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CALPERS.

**C. Annual Pension Cost**

The District's annual pension cost was equal to the District's required and actual contributions, which were determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included the following:

**Annual Pension Cost**

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%

**SAN MATEO COUNTY TRANSIT DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2006 AND 2005**

**NOTE #11 – PENSION PLAN (continued)**

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>
6/30/2004	\$ 3,085	100.00%	-
6/30/2005	4,864	100.00%	-
6/30/2006	6,207	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 139 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 \$609,533 and \$456,237 for the years ended June 30, 2006 and 2005 respectively.

**NOTE #13 – SELF-INSURANCE**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District is self-insured for a portion of its public liability, property damage and workers' compensation liability. Coverage provided by self-insurance and excess coverage is generally as follows as of June 30, 2006:

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

**SAN MATEO COUNTY TRANSIT DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2006 AND 2005**

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

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

Changes in the balances of claims liabilities for the two years ended June 30, 2006 and 2005 for public liability, property damage and workers’ compensation claims liabilities are as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Self-insurance liabilities, beginning of fiscal year	\$ 3,255	\$ 3,311
Incurred claims and changes in estimates	3,308	1,645
Claim payments and related costs	<u>(2,182)</u>	<u>(1,701)</u>
Total Self-insurance Claims Liabilities	4,381	3,255
Less Current Portion	<u>(2,620)</u>	<u>(1,494)</u>
Non-current Portion	<u>\$ 1,761</u>	<u>\$ 1,761</u>

**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.

**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**

On November 10, 2005 the Board of Directors approved the purchase of approximately four acres of property owned by the San Mateo County Transportation Authority (Authority) located at the northeast corner of Holly Street and El Camino Real in the City of San Carlos. The purpose of the acquisition is to facilitate the undertaking of a transit oriented development project sponsored by the District. The property was acquired by the Authority to enable construction of a grade separation structure. With the completion of that project, the Authority determined that ownership of the subject property no longer is necessary to carry out its purposes. Accordingly, the Authority has agreed to sell the property to the District at the original cost of acquisition by the Authority (\$4,343,404) to facilitate the undertaking of a project anticipated to be of benefit to CalTrain, the number one priority transit project provided for in the voter approved Transportation Expenditure Plan administered by the Authority. Under the terms of the transaction, the District will be permitted to pay the purchase price over time subject to the payment of interest prospectively at the then current rate of return earned by the Authority on its investment portfolio until the principal is paid in full. It is anticipated that the transaction will close during Fiscal Year 2006-07.

**SAN MATEO COUNTY TRANSIT DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2006**

**SCHEDULE OF FUNDING PROGRESS <sup>[1]</sup>  
 MISCELLANEOUS PLAN OF THE CALIFORNIA PUBLIC EMPLOYEE RETIREMENT SYSTEM  
 (In thousands)**

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded (Overfunded) Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
6/30/2003	\$ 108,169	\$ 107,783	\$ 386	99.6%	\$ 39,265	1.0%
6/30/2004	118,516	116,655	1,861	98.4%	39,704	4.7%
6/30/2005	131,936	127,893	4,043	96.9%	40,919	9.9%

[1] Most recent information available.

**SAN MATEO COUNTY TRANSIT DISTRICT  
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES,  
CAPITAL OUTLAY, AND LONG-TERM DEBT PRINCIPAL PAYMENTS –  
COMPARISON OF BUDGET TO ACTUAL (BUDGETARY BASIS)  
YEAR ENDED JUNE 30, 2006 (In thousands)**

	<b>Budget (Unaudited)</b>	<b>Actual</b>	<b>Variance Positive/ (Negative)</b>
OPERATING REVENUES - Passenger fares	\$ 15,187	\$ 16,296	\$ 1,109
OPERATING EXPENSES:			
Salaries and benefits	64,294	56,944	7,350
Services:			
Contract operations and maintenance services	24,851	24,338	513
Other services	3,771	3,948	(177)
Materials and supplies	7,578	7,102	476
Insurance	2,930	4,927	(1,997)
Miscellaneous	6,877	6,433	444
Total operating expenses	<u>110,301</u>	<u>103,692</u>	<u>6,609</u>
Operating loss	(95,114)	(87,396)	7,718
NON-OPERATING REVENUES (EXPENSES):			
Operating assistance	92,781	99,827	7,046
Investment income	1,945	1,708	(237)
Interest expense	(523)	(395)	128
Caltrain service subsidy	(15,119)	(12,929)	2,190
SFO/Colma BART service deficit (Note 5)	(10,000)	(9,620)	380
Lease-leaseback income	-	-	-
Interagency administration income	15,162	6,054	(9,108)
Other income, net	5,475	5,901	426
Total non-operating income	<u>89,721</u>	<u>90,546</u>	<u>825</u>
Income before capital outlay and long-term debt principal payments	<u>(5,393)</u>	<u>3,150</u>	<u>8,543</u>
CAPITAL OUTLAY:			
Capital assistance	7,161	4,764	(2,397)
Capital expenditures	(7,161)	(9,597)	(2,436)
Net capital outlay	-	(4,833)	(4,833)
LONG-TERM DEBT PRINCIPAL PAYMENT	<u>(6,068)</u>	<u>(578)</u>	<u>5,490</u>
EXCESS (DEFICIENCY) OF REVENUES AND NON-OPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENT	<u>\$ (11,461)</u>	<u>\$ (2,261)</u>	<u>\$ 9,200</u>

See accompanying notes to supplementary information.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**NOTES TO SUPPLEMENTARY SCHEDULE**  
**YEAR ENDED JUNE 30, 2006**

**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		\$ (2,261)
Capital expenditures	\$ 9,597	
Interest expense	(17,574)	
Depreciation and amortization	(37,484)	
Long-Term debt principal payment	578	
GASB 31 Unrealized gain/loss	(2,225)	
Reimbursed investment interest	7,765	
Capital gain on investment	<u>(558)</u>	
Sub-Total Reconciling Items		<u>(39,901)</u>
Change in net assets, GAAP basis		<u><u>\$ (42,162)</u></u>

# *Section III*

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## **STATISTICAL**

### **Financial Trends**

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

### **Revenue Capacity**

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

### **Debt Capacity**

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

### **Demographics and Economic Information**

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

### **Operating Information**

- **Ridership and Fares**
- **Fare Box Recovery and Miles**
- **Employees**
- **Capital Assets**

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**FINANCIAL TRENDS – NET ASSETS AND CHANGES IN NET ASSETS**  
**FY 1997 through FY 2006 (In thousands)**

<b>Fiscal years ending</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
OPERATING REVENUES - Passenger Fares	\$ 16,296	\$ 13,863	\$ 14,542	\$ 15,273
OPERATING EXPENSES:				
Salaries and benefits	56,944	53,420	53,521	49,339
Services:				
Contract operations and maintenance services	24,338	22,751	23,365	22,982
Other services	3,948	3,546	2,568	2,548
Materials and supplies	7,102	4,943	4,683	5,157
Insurance	4,927	3,774	4,360	3,568
Miscellaneous	6,433	5,684	5,667	7,966
Total operating expenses	103,692	94,118	94,164	91,560
Operating loss before depreciation, amortization and administrative expenses capitalized	(87,396)	(80,255)	(79,622)	(76,287)
Depreciation and amortization:				
District portion	37,484	40,232	36,675	37,275
Contributed capital portion	-	-	-	-
Administrative expenses capitalized	-	-	-	-
OPERATING LOSS	(124,880)	(120,487)	(116,297)	(113,562)
NON-OPERATING REVENUES (EXPENSES):				
Operating assistance	99,827	92,899	91,062	81,464
Investment income	6,690	5,770	2,244	16,131
Interest expense	(17,969)	(17,948)	(18,440)	(19,146)
Caltrain service subsidy	(12,929)	(14,588)	(14,296)	(14,296)
SFO/Colma BART station revenue/(deficit)	(9,620)	(8,095)	(18,000)	311
Lease-leaseback income	-	-	-	-
Interagency administrative income	6,054	6,595	8,654	10,239
Gain from insurance proceeds	-	-	-	-
Other income, net	5,901	6,785	5,033	7,254
Total non-operating revenues, net	77,954	71,418	56,257	81,957
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(46,926)	(49,069)	(60,040)	(31,605)
CAPITAL CONTRIBUTIONS	4,764	4,853	24,056	30,567
DEPRECIATION ON FIXED ASSETS ACQUIRED WITH CONTRIBUTED CAPITAL	-	-	-	-
CHANGE IN NET ASSETS	(42,162)	(44,216)	(35,984)	(1,038)
Net Asset Components				
Invested in capital assets, net of related debt	(15,102)	10,533	25,045	40,150
Restricted	3,390	13,659	19,171	20,998
Unrestricted	202,165	208,423	232,615	251,667
NET ASSETS, End of year	\$ 190,453	\$ 232,615	\$ 276,831	\$ 312,815

Source: Comprehensive Annual Financial Reports

This table shows operating revenues and expenses, non-operating revenues and expenses, contributions, depreciation as well as restrictions of our net assets.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**FINANCIAL TRENDS – NET ASSETS AND CHANGES IN NET ASSETS**  
**FY 1997 through FY 2006 (In thousands)**

<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
\$ 14,779	\$ 15,919	\$ 15,196	\$ 15,896	\$ 14,388	\$ 14,217
41,918	36,611	32,293	31,601	30,545	28,832
23,567	20,342	17,151	15,799	15,327	14,652
3,184	3,152	3,188	2,892	3,427	3,434
4,507	5,225	4,995	3,916	4,333	4,542
3,248	2,578	3,413	2,146	2,021	2,117
5,571	4,006	3,871	2,543	2,804	1,699
<u>81,995</u>	<u>71,914</u>	<u>64,911</u>	<u>58,897</u>	<u>58,457</u>	<u>55,276</u>
(67,216)	(55,995)	(49,715)	(43,001)	(44,069)	(41,059)
39,338	31,886	28,529	20,050	16,839	14,961
-	6,858	7,669	4,469	4,752	6,939
-	-	-	(1,127)	(108)	(89)
<u>(106,554)</u>	<u>(94,739)</u>	<u>(85,913)</u>	<u>(66,393)</u>	<u>(65,552)</u>	<u>(62,870)</u>
102,543	102,987	94,607	87,059	80,408	74,565
20,767	28,333	13,092	8,717	23,995	17,449
(19,836)	(20,733)	(21,170)	(15,447)	(17,333)	(15,375)
(14,355)	(13,820)	(13,224)	(12,263)	(12,551)	(11,589)
923	1,311	1,613	830	(298)	-
1,513	-	-	-	-	-
2,855	1,775	1,311	829	-	-
-	-	-	-	1,100	-
5,989	3,623	1,988	1,426	1,300	1,144
<u>100,399</u>	<u>103,476</u>	<u>78,217</u>	<u>71,151</u>	<u>76,621</u>	<u>66,194</u>
(6,155)	8,737	(7,696)	4,758	11,069	3,324
12,685	1,461	1,418	11,815	7,746	-
-	-	-	4,469	4,752	6,939
<u>6,530</u>	<u>10,198</u>	<u>(6,278)</u>	<u>21,042</u>	<u>23,567</u>	<u>10,263</u>
22,638	59,680	66,538	74,207	62,392	54,646
22,081	78,694	86,399	95,171	78,287	94,128
269,134	168,949	144,188	134,025	141,682	110,020
<u>\$ 313,853</u>	<u>\$ 307,323</u>	<u>\$ 297,125</u>	<u>\$ 303,403</u>	<u>\$ 282,361</u>	<u>\$ 258,794</u>

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE**  
**FY 1997 through FY 2006**

<b>Fiscal year ending</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Passenger Fares (in thousands)	\$ 16,296	\$ 13,863	\$ 14,542	\$ 15,273
<b>Revenue Base</b>				
Number of Passengers (in thousands)	14,182	14,190	14,710	16,121
<b>Fare Structure</b>				
Adults Local fare	1.50	1.25	1.25	1.25
Senior Citizen / disabled	0.75	0.60	0.60	0.60
Youth	1.00	0.75	0.75	0.75
Redi-Wheels (Paratransit)	2.50	2.00	2.00	2.00
Sales Tax rate	0.50%	0.50%	0.50%	0.50%
Sales Tax Revenue (in thousands)	\$ 63,813	\$ 59,958	\$ 55,397	\$ 54,862
Taxable Sales in County of San Mateo	\$ 12,451,350	\$ 12,055,706	\$ 11,560,519	\$ 11,352,696

Source: California Board of Equalization

This table shows passenger fares in thousands of dollars, number of passengers and each revenue fare structure in thousands of dollars. The half cent sales tax in thousands of dollars received by the District and the total taxable sales in the County of San Mateo.

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**SAN MATEO COUNTY TRANSIT DISTRICT**  
**REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE**  
**FY 1997 through FY 2006**

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<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
\$ 14,779	\$ 15,919	\$ 15,196	\$ 15,896	\$ 14,388	\$ 14,217
17,103	17,958	17,675	17,886	18,991	18,455
1.10	1.10	1.10	1.10	1.00	1.00
0.50	0.50	0.50	0.50	0.50	0.50
0.75	0.75	0.75	0.75	0.50	0.50
1.50	1.50	1.50	1.50	1.00	1.00
0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
\$ 57,262	\$ 66,739	\$ 63,069	\$ 55,497	\$ 50,936	\$ 46,983
\$ 11,967,932	\$ 13,961,577	\$ 13,175,535	\$ 11,295,693	\$ 11,063,977	\$ 10,204,417

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**SAN MATEO COUNTY TRANSIT DISTRICT  
REVENUE CAPACITY – OVERLAPPING REVENUE  
FY 1997 through FY 2006**

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<b>Fiscal year</b>	<b>County</b>	<b>City</b>	<b>Other Special Districts</b>	<b>San Mateo County Transit District <sup>[1]</sup></b>	<b>Total</b>
2006	6.25%	1.00%	0.50%	0.50%	8.25%
2005	6.25%	1.00%	0.50%	0.50%	8.25%
2004	6.00%	1.25%	0.50%	0.50%	8.25%
2003	6.00%	1.25%	0.50%	0.50%	8.25%
2002	6.00%	1.25%	0.50%	0.50%	8.25%
2001	5.75%	1.25%	0.50%	0.50%	8.00%
2000	6.00%	1.25%	0.50%	0.50%	8.25%
1999	6.00%	1.25%	0.50%	0.50%	8.25%
1998	6.00%	1.25%	0.50%	0.50%	8.25%
1997	6.00%	1.25%	0.50%	0.50%	8.25%

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

Source: California Board of Equalization

This table shows all of the authorities and their tax rates in County of San Mateo. The District receives a half-cent (0.50%) sales tax.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**REVENUE CAPACITY – PRINCIPAL REVENUE PAYERS**  
**FY 1997 and FY 2006 (In thousands)**

<b>Principal Revenue Payers</b>	<b>Fiscal Year 2006</b>			<b>Fiscal Year 1997</b>		
	<b>Rank</b>	<b>Percentage of Taxable Sales</b>	<b>Amount</b>	<b>Rank</b>	<b>Percentage of Taxable Sales</b>	<b>Amount</b>
Total all other outlets	1	27.9%	\$ 894,511	1	35.8%	\$ 1,070,168
Automobile, boat, motorcycle and plane	2	14.0%	449,504	3	11.1%	329,989
General merchandise stores	3	9.2%	296,013	2	11.6%	345,844
Specialty Stores	4	9.1%	291,606	4	10.3%	306,682
Eating/Drinking	5	8.9%	283,943	5	6.6%	197,886
Building materials and farm implements	6	8.2%	264,467	8	4.3%	128,984
Service stations	7	7.3%	233,204	6	4.9%	147,004
Business and Personal Services	8	4.2%	134,857	7	4.7%	139,725
Home furnishings and appliances	9	4.1%	131,779	10	3.3%	97,051
Food stores	10	3.1%	98,343	9	3.4%	100,355
Apparel stores	11	2.7%	86,352	11	3.0%	89,805
Miscellaneous - All other retail stores	12	1.4%	43,808	12	1.1%	33,466
<b>Total</b>		<b>100.0%</b>	<b>\$ 3,208,387</b>		<b>100.0%</b>	<b>\$ 2,986,959</b>

Source: California Board of Equalization

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

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**SAN MATEO COUNTY TRANSIT DISTRICT**  
**DEBT CAPACITY – RATIOS OF OUTSTANDING BONDS**  
**FY 1997 through FY 2006 (In thousands)**

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<b>Fiscal Years</b>	<b>Revenue Bonds</b>	<b>Personal Income</b>	<b>As a % of Personal Income</b>
1997	\$ 248,858	\$ 27,870,177	0.89%
1998	232,753	31,073,546	0.75%
1999	369,572	35,485,821	1.04%
2000	429,755	41,730,460	1.03%
2001	415,179	39,395,344	1.05%
2002	399,986	36,736,603	1.09%
2003	384,455	36,409,914	1.06%
2004	367,913	38,263,811	0.96%
2005	350,661	39,411,725	0.89%
2006	350,083	40,594,077	0.86%

Note: Personal Income Data is from the U.S. Department of Commerce, Bureau of Economic Analysis, Calendar Year figures.

Data for 2005 and 2006 is based on an estimated 3% annual increase over 2004.

Source: County of San Mateo

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

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**DEBT CAPACITY – BONDED DEBT**  
**FY 1997 through FY 2006 (In thousands)**

<b>Fiscal Year</b>	<b>Revenue Bonds</b>	<b>Total Sales Tax Revenue</b>	<b>As a % of Total Sales Tax Revenue</b>
1997	\$ 248,858	\$ 10,204,417	2.44%
1998	232,753	11,063,977	2.10%
1999	369,572	11,295,693	3.27%
2000	429,755	13,175,535	3.26%
2001	415,179	13,961,577	2.97%
2002	399,986	11,967,932	3.34%
2003	384,455	11,352,696	3.39%
2004	367,913	11,560,519	3.18%
2005	350,661	12,055,706	2.91%
2006	350,083	12,451,350	2.81%

Source: Prior year's comprehensive annual financial reports

This table shows the ability of the District to issue revenue bonds based on the total sales tax revenue from County of San Mateo.

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**SAN MATEO COUNTY TRANSIT DISTRICT  
DEBT CAPACITY – DIRECT AND OVERLAPPING DEBT AND DEBT LIMITATION  
YEAR ENDED JUNE 30, 2006**

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

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**DEBT CAPACITY – PLEDGED REVENUE COVERAGE**  
**FY 1997 through FY 2006 (In thousands)**

<b>Fiscal Year</b>	<b>Available Revenue</b>	<b>Debt Service</b>		<b>Total</b>	<b>Coverage</b>
	<b>Sales Tax Revenue</b>	<b>Principal</b>	<b>Interest</b>		
1997	\$ 46,983	\$ 2,955	\$ 14,535	\$ 17,490	2.69
1998	50,936	4,425	13,824	18,249	2.79
1999	55,497	10,575	14,543	25,118	2.21
2000	63,069	13,340	20,441	33,781	1.87
2001	66,739	14,530	20,451	34,981	1.91
2002	57,262	15,145	19,407	34,552	1.66
2003	54,862	15,800	18,686	34,486	1.59
2004	55,397	16,475	17,976	34,451	1.61
2005	59,958	17,185	17,489	34,674	1.73
2006	63,813	6,025	13,175	19,200	3.32

Source: Prior year's comprehensive annual financial reports

This table shows the relationship between total sales tax revenue and total principal and interest payments and the ability of the District to meet its debt obligations.

**SAN MATEO COUNTY TRANSIT DISTRICT  
 DEMOGRAPHICS AND ECONOMIC INFORMATION – POPULATION AND INCOME  
 FY 1990, FY 2000 and FY 2005**

	<b>1990</b>	<b>2000</b>	<b>2005</b>	<b>% Change 2000-2005</b>
<b>Total Population</b>	649,623	707,161	689,271	-2.5%
<b>Persons Per Household</b>	2.64	2.74	2.71	-1.1%
<b>Mean Household Income</b>	\$ 63,672	\$ 88,700	\$ 101,524	14.5%
<b>Personal Income</b>	\$ 18,727	\$ 41,512	n/a	n/a
<b>Per Capita Income</b>	\$ 28,806	\$ 58,644	n/a	n/a
<b>Minority Population:</b>				
Black	35,283	23,778	20,188	-15.1%
Hispanic	114,627	154,708	155,964	0.8%
Asian	109,281	140,313	160,562	14.4%
Native American	2,987	10,658	10,347	-2.9%
<b>Total</b>	262,178	329,457	347,061	5.3%
<b>% of Minority Population to Total Population</b>	40.4%	46.6%	50.4%	8.1%
<b>Population by Age:</b>				
4 years and younger	44,793	45,374	49,797	9.7%
5 to 19 years	113,091	131,912	128,721	-2.4%
20 to 64 years	411,741	441,790	424,122	-4.0%
65 years or older	79,998	88,085	86,631	-1.7%
<b>% of Employed Residents to Total Population</b>	54.0%	55.0%	61.1%	11.1%
<b>% of Residents Working Outside the County of San Mateo</b>	41.0%	41.0%	40.7%	-0.7%
<b>% of People Commuting to the County of San Mateo to Work</b>	36.0%	38.0%	[1]	[1]

Source: United States Bureau of the Census, 1980-2000, adopted by MTC and ABAG and 2005 American Community Survey.

[1] Information not yet available.

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

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**SAN MATEO COUNTY TRANSIT DISTRICT  
 DEMOGRAPHICS AND ECONOMIC INFORMATION – UNEMPLOYMENT RATES  
 FY 1997 through FY 2006**

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<b>Unemployment rates for the past 10 years</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Unemployment rates</b>	4.02%	4.55%	5.53%	5.98%	5.06%
	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
	2.98%	2.41%	2.28%	2.52%	3.05%

Source: California Labor Market Information, Data Library.edd.ca.gov

This table shows the unemployment rates for County of San Mateo.

**SAN MATEO COUNTY TRANSIT DISTRICT  
 DEMOGRAPHICS AND ECONOMIC INFORMATION – PRINCIPAL EMPLOYERS  
 FY 1997 and FY 2005**

Employers in County of San Mateo	2005			1997		
	Number of employees	Rank	Percentage of Total County Employment	Number of employees	Rank	Percentage of Total County Employment
United Airlines	10,328	1	2.95%	17,600	1	4.67%
Oracle Corporation	7,000	2	2.00%	5,800	2	1.54%
Genentech Inc.	5,763	3	1.65%	2,670	6	0.71%
County of San Mateo	5,288	4	1.51%	4,154	3	1.11%
Kaiser Permanente	3,992	5	1.14%			
United States Postal Service	2,396	6	0.68%	2,937	4	0.78%
Safeway Inc.	2,140	7	0.61%	1,900	9	0.50%
Applera (Applied Biosystems)	2,000	8	0.57%			
Visa USA	1,901	9	0.54%			
Electronic Arts	1,800	10	0.51%			
Raychem				2,850	5	0.76%
American Airlines				2,400	7	0.64%
Franklin Resources				2,260	8	0.60%
Mills-Peninsula Health				1,802	10	0.48%
<b>Total</b>	<b>42,608</b>		<b>12.16%</b>	<b>44,373</b>		<b>11.79%</b>

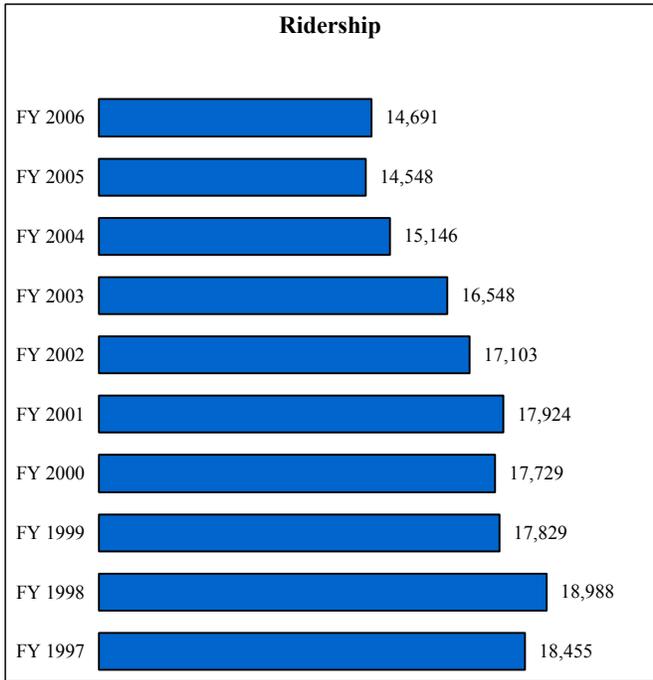
Source: County of San Mateo

This table shows the top 10 principal employers in County of San Mateo for 2005 and 1997.

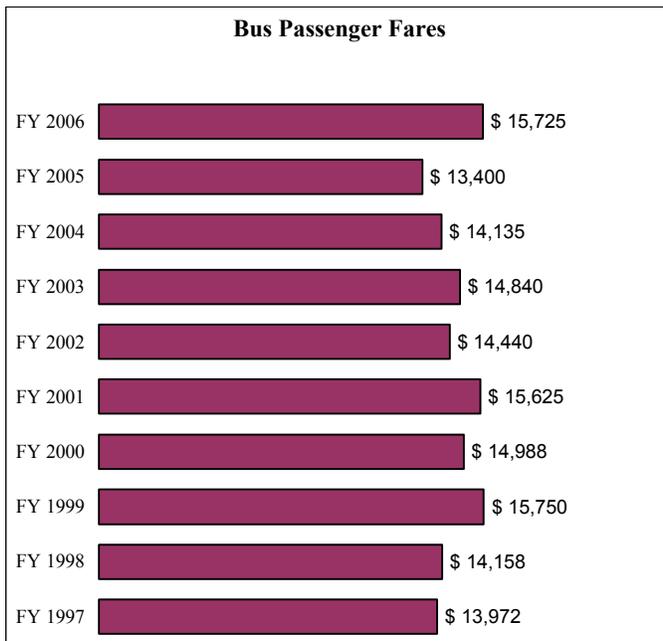
**SAN MATEO COUNTY TRANSIT DISTRICT  
OPERATING INFORMATION – RIDERSHIP AND FARES  
FY 1997 through FY 2006 (In thousands)**

FIXED-ROUTE RIDERSHIP

Ridership was essentially flat between FY 2005 and FY 2006.



Fixed-route Ridership table shows the total ridership each year.

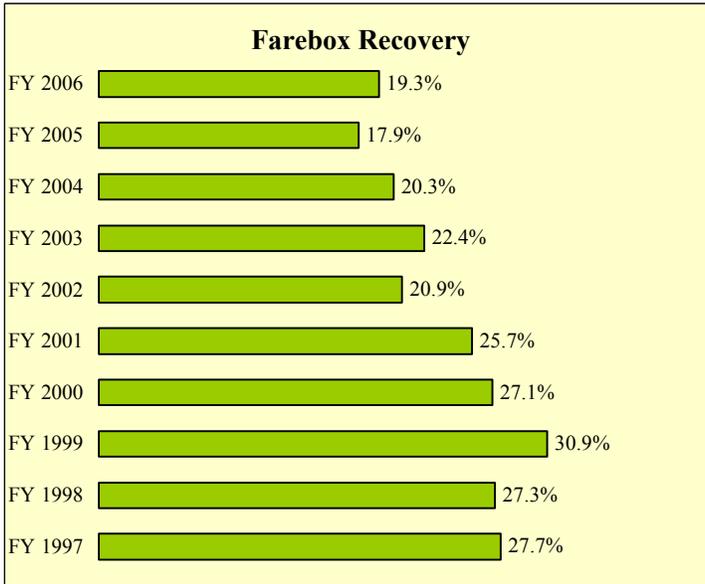


BUS PASSENGER FARES

SamTrans has made modest fare adjustments in the last decade: in January 1991, January 1992, February 1996, July 1998, July 2002 and September 2005.

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

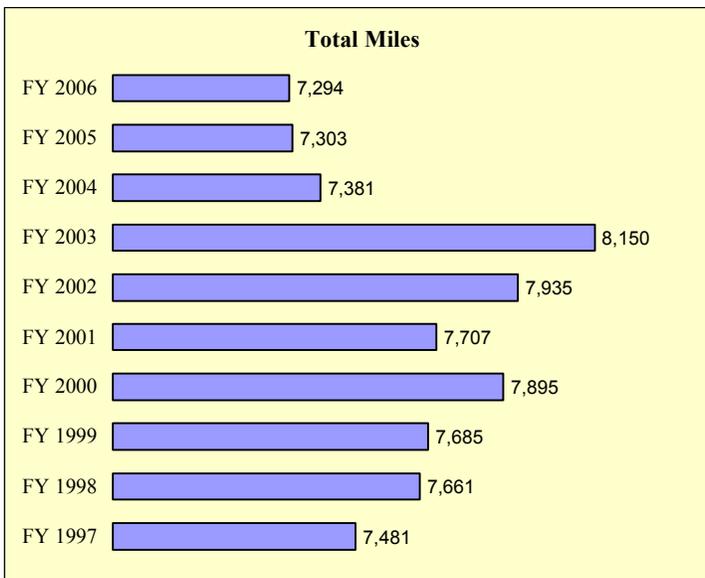
**SAN MATEO COUNTY TRANSIT DISTRICT**  
**OPERATING INFORMATION – FAREBOX RECOVERY AND MILES**  
**FY 1997 through FY 2006**



**FIXED-ROUTE FAREBOX RECOVERY**

Farebox recovery is based on fare revenues divided by total operating expenses. Farebox recovery increased 1.4 percent from fiscal year 2005 to fiscal year 2006

Fixed-route Fare box recovery table shows the relationship between total passenger fares and total operating expenses.



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

Fixed-route total miles remained flat between FY 2005 and FY 2006.

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

Revenue miles table show the total fixed route miles traveled.

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**SAN MATEO COUNTY TRANSIT DISTRICT  
 OPERATING INFORMATION – EMPLOYEES  
 FY 2003 through FY 2006**

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	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Employees:</b>				
Executive	6.00	6.00	6.00	2.35
Administration	38.76	36.56	46.29	35.09
Communication	35.77	36.17	43.76	22.29
Development	14.84	13.40	14.83	18.06
Finance	29.37	18.31	21.88	24.80
Operations	500.37	513.13	522.82	553.67
Total	<u>625.11</u>	<u>623.57</u>	<u>655.58</u>	<u>656.26</u>

Note: Employee counts are for FTEs charged to the San Mateo County Transit District. Data for 1997 through 2002 was not available.

Source: Prior years comprehensive annual financial report

This table shows the total Full Time Equivalent (FTE) by division.

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**OPERATING INFORMATION – CAPITAL ASSETS**  
**FY 1997 through FY 2006 (In thousands)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Capital Assets Not Being Depreciated				
Land and right of way	\$ 43,695	\$ 43,695	\$ 43,695	\$ 43,695
Construction in progress	<u>30,603</u>	<u>25,662</u>	<u>25,659</u>	<u>32,410</u>
Total Capital Assets, Not Being Depreciated	74,298	69,357	69,354	76,105
Other Capital Assets				
Buses and bus equipment	142,940	139,595	131,910	116,500
Buildings and building improvements	71,685	71,149	69,095	68,643
Maintenance and other equipment	21,442	21,097	20,117	19,613
Furniture and fixtures	13,087	13,329	13,229	13,143
Shelters and bus stop signs	3,304	3,304	2,830	2,564
Other vehicles	<u>2,472</u>	<u>2,354</u>	<u>2,354</u>	<u>2,613</u>
Total Capital Assets, Being Depreciated	254,930	250,828	239,535	223,076
Less Accumulated Depreciation for*:				
Buses and bus equipment	(90,879)	(80,034)	(68,189)	(80,959)
Buildings and building improvements	(43,720)	(41,367)	(38,633)	(35,848)
Maintenance and other equipment	(20,089)	(18,753)	(17,137)	(16,770)
Furniture and fixtures	(7,421)	(7,358)	(6,765)	(6,186)
Shelters and bus stop signs	(2,986)	(2,755)	(2,394)	(2,248)
Other vehicles	<u>(2,323)</u>	<u>(2,196)</u>	<u>(2,088)</u>	<u>(2,117)</u>
Total Accumulated Depreciation	(167,418)	(152,463)	(135,206)	(144,128)
Capital Assets, Net	<u>\$ 161,810</u>	<u>\$ 167,722</u>	<u>\$ 173,683</u>	<u>\$ 155,053</u>

Source: Comprehensive Annual Financial Reports

\* The District used average percentage spread for 2001 through 2005 to break out accumulated depreciation for years 1997 through 2000

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

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**OPERATING INFORMATION – CAPITAL ASSETS**  
**FY 1997 through FY 2006 (In thousands)**

<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
\$ 43,695	\$ 36,592	\$ 35,759	\$ 35,759	\$ 35,759	\$ 22,884
18,366	8,526	13,325	32,617	10,749	11,367
62,061	45,118	49,084	68,376	46,508	34,251
100,419	95,704	95,960	74,922	88,356	86,303
64,854	64,486	55,341	54,884	53,408	49,345
17,458	11,419	8,849	8,233	8,639	8,706
7,613	10,861	9,593	4,605	3,889	3,773
2,226	2,202	1,999	1,817	1,862	1,645
2,204	2,199	2,055	1,622	1,459	1,287
194,774	186,871	173,797	146,083	157,613	151,059
(72,520)	(65,096)	(55,124)	(48,382)	(51,583)	(47,273)
(32,453)	(28,701)	(26,488)	(23,248)	(24,786)	(22,715)
(15,173)	(11,836)	(11,887)	(10,433)	(11,123)	(10,194)
(5,138)	(4,195)	(4,407)	(3,868)	(4,124)	(3,779)
(2,073)	(1,829)	(1,689)	(1,483)	(1,581)	(1,449)
(1,865)	(1,572)	(1,473)	(1,292)	(1,378)	(1,263)
(129,222)	(113,229)	(101,067)	(88,706)	(94,575)	(86,673)
<u>\$ 127,613</u>	<u>\$ 118,760</u>	<u>\$ 121,814</u>	<u>\$ 125,753</u>	<u>\$ 109,546</u>	<u>\$ 98,637</u>

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# *Section IV*

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## **SINGLE AUDIT**

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 on 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 Auditor's 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, 2006, and have issued our report thereon, dated October 13, 2006. 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 13, 2006

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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, 2006. 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, 2006.

### 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, 2006, and have issued our report thereon dated October 13, 2006. 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.

*Varinck Trime Day + Co. LLP*

Palo Alto, California  
October 13, 2006

**SAN MATEO COUNTY TRANSIT DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2006**

Grant Program	Federal Catalog Number	Expenditures
<u>U.S. Department of Transportation, Federal Transit Administration</u>		
Federal Transit - Formula Grants <sup>[1]</sup>		
CA-90-x994 Capital Grant	20.507	\$ 41,841
CA-90-y045 Capital Grant	20.507	67,687
CA-90-y122 Capital Grant	20.507	334,375
CA-90-Y154 Capital Grant	20.507	631,946
CA-90-Y344 Capital and Operating Grant	20.507	384,624
CA-90-Y-448 Operating Grant	20.507	604,096
CA-90-Y-448 Capital Grant	20.507	8,354
Sec 5311(b) Operating Grant	20.507	102,775
CA-90-y244 Capital Grant	20.507	1,586,818
CA-90-y244 Operating Grant	20.507	165,996
Total Expenditures of Federal Awards		<u>\$ 3,928,512</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, 2006**

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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, 2006**

**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, 2006**

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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, 2006**

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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, 2006**

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The were no prior year findings or recommendations.