

San Mateo County

TRANSIT DISTRICT

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2007

Prepared by the Finance Division

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Section I

INTRODUCTORY

Letter of Transmittal

GFOA Certificate of Achievement

Board of Directors

Executive Management

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November 30, 2007

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

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the San Mateo County Transit District (the "District") for the fiscal year July 1, 2006 through June 30, 2007. 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 San Mateo County (the "County") is located on a peninsula south of the City and County of San Francisco, bordered on the west by the Pacific Ocean, on the east by San Francisco Bay and on the south by the counties of Santa Clara and Santa Cruz.

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

Entity

The District is a legally separate and financially independent entity that is not a component unit of San Mateo County or any other organization. While the District administers various activities on behalf of other agencies, such as the Peninsula Corridor Joint Powers Board 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 CAFR and the financial statements contained within represent solely the activities, transactions and status of the 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 negotiated a long-term agreement with Southern Pacific to continue San Jose to San Francisco service under the name "Caltrain". When 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. In 1992, 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 members and an individual with transportation expertise to the District board. The mayors of the cities throughout the county appoint three elected city officials, bringing the District board membership to six. These six members then select the remaining three board members from the general public, one of which must be a coastal resident, due to a geographical diversity policy in place for public members. The Board of Directors meets once a month to determine overall policy for the District. In addition, the Board has created a 15-member Citizens Advisory Committee (CAC) with the principal objective of articulating the interests and needs of current and future 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 Sheriff's 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, revenue control, investments 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 when proposed expenditures exceed projected revenues. The Board of Directors monitors budget-to-actual performance through monthly staff reports. The Financial Section of this report includes a supplemental schedule that compares actual results on a budgetary basis of accounting to the final adopted budgets.

Once adopted, the Board of Directors has the authority to amend the budget. While the legal level of budgetary control is at the entity level, the District maintains stricter control at division, departmental and line item levels to serve various needs. Cost center managers monitor budget-to-actual performance monthly on an accrual basis. The Board has delegated the authority to transfer budget amounts between divisions 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, issuing purchase orders to avoid over-commitment of resources.

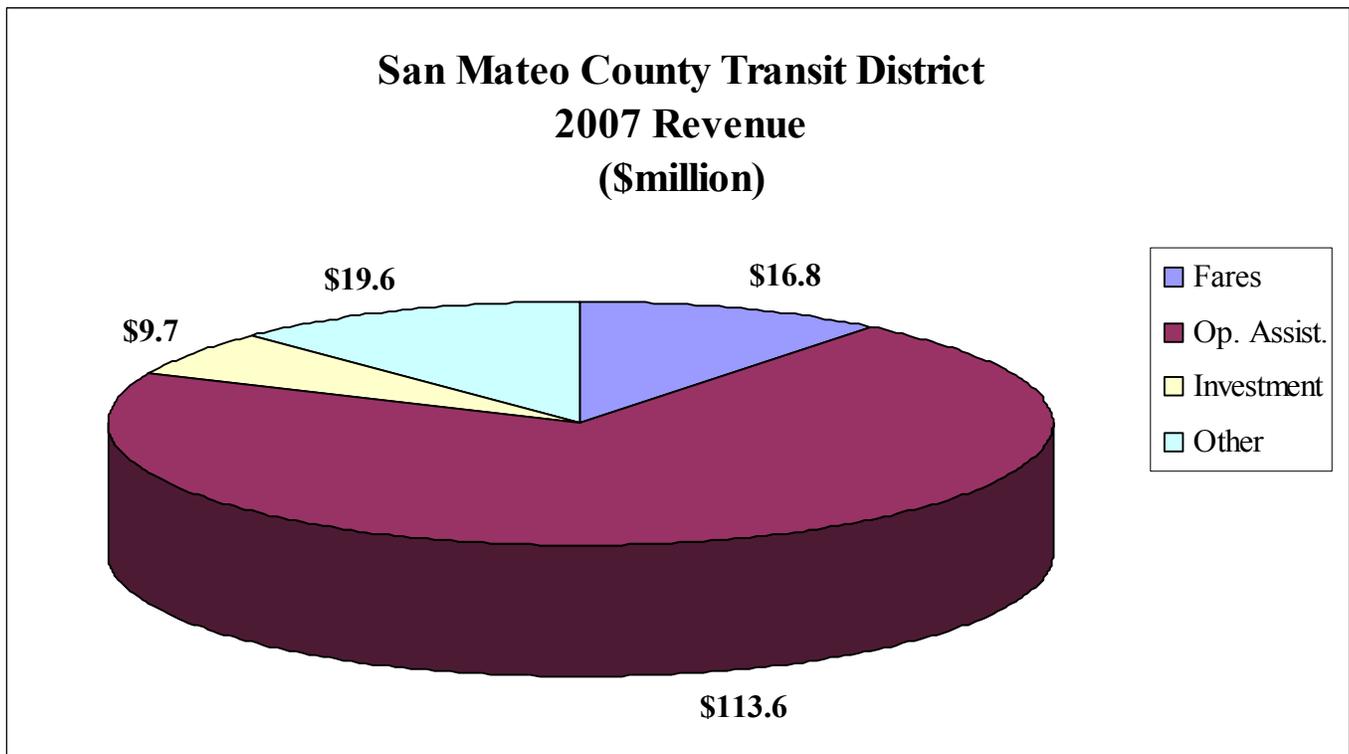
The District employs the same basis and principles for both budgeted and actual revenues and expenditures, except that actual proceeds from the sale of fixed assets, unrealized investment gains and losses and inter-fund transfers are not included in the budget. As a special purpose organization, the District is not subject to the State of California's Gann Act requiring adherence to an annual appropriation limit. This pie chart and the one on the following page show actual results of the major revenue and expense categories for fiscal year 2007.

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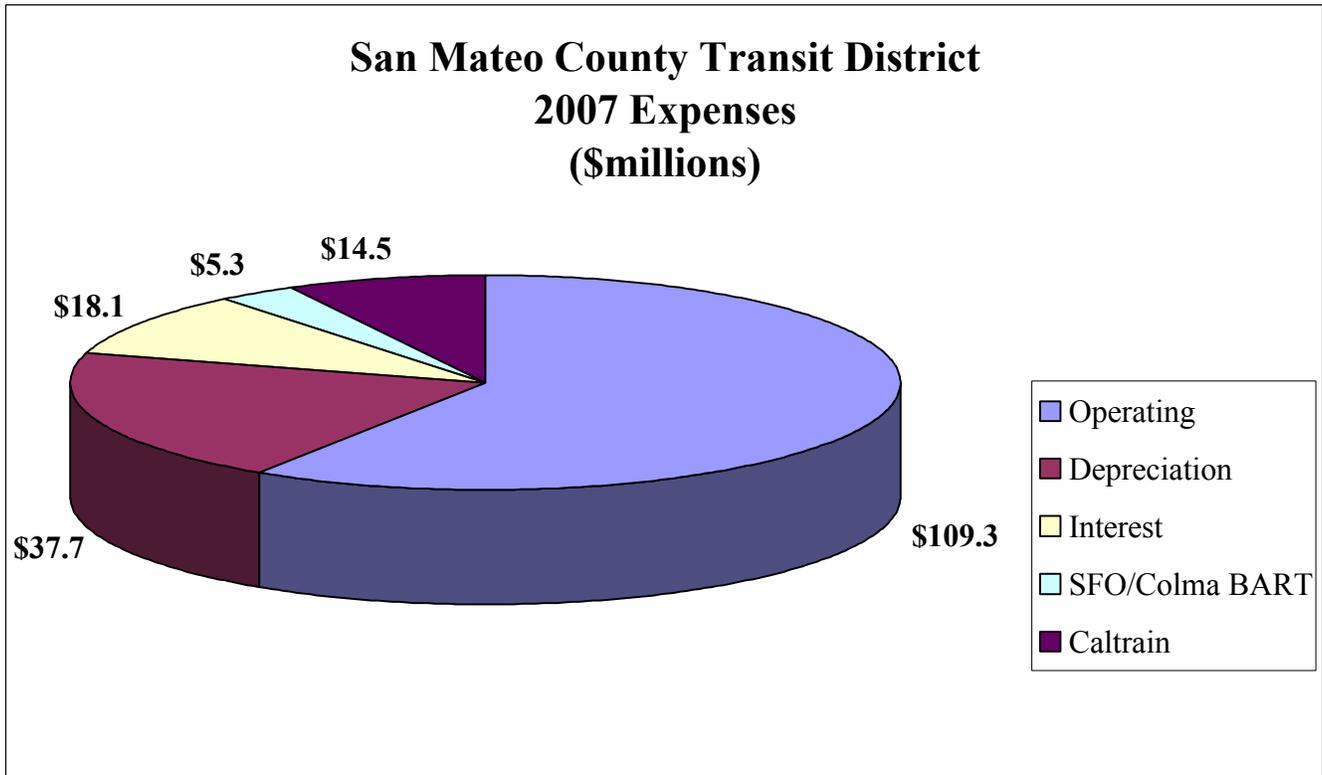
The District anticipates continuing the transition it initiated several years ago from a local and long-haul bus operator to a more diversified enterprise encompassing bus, rail, paratransit, shuttle and other transportation modes. The Association of Bay Area Governments (ABAG) projects a 4 percent increase in population and a 7 percent increase in jobs for the region by 2010 which is expected to increase demand for transportation services.

In addition to providing local transportation for municipalities, the District has committed significant resources to support other transportation modes. These include Caltrain and BART rail services and shuttle bus service to and from the stations. Dedicated bus shuttles distributing rail patrons to regional employers will become vital over the next 20 years, as local agencies are encouraged to implement transportation systems management plans designed to reduce highway congestion and improve air quality. Continuing a 31-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.



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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 14.8 million in 2007.

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 (JPB) that operates commuter rail service on a 77-mile corridor between San Francisco in the north and Gilroy in the south. In September 2003, Caltrain instituted a “proof-of-payment” fare collection system that has increased internal controls and freed conductors from onboard ticket sales, allowing them to focus more on customer service and safety. 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. The grand opening of this facility occurred in September 2007 and the facility is now open for operation. In June 2004, Caltrain introduced limited-stop, express service, dubbed “Baby Bullet,” that reduced travel time between San Jose and San Francisco from an hour-and-a-half to just under 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.

A current area of focus is Caltrain 2025 which was undertaken to identify specific capital improvement plans and actions to implement the strategic vision which was approved by the JPB 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. 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. Towards this goal, staff has been working on securing eight new rail cars with an expected delivery date of October 2008.

To deliver the service levels necessary to meet projected demand, infrastructure improvements are needed. Furthermore, electrification is planned for Caltrain to serve the San Francisco 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 electric 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.

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

San Mateo County Transportation Authority

The District provides staff and support for the San Mateo County Transportation Authority (TA), which administers funds from a half-cent county sales tax authorized by voters in 1988 and extended in November 2004 by voters through 2033. Together with a series of highway projects, the TA 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 CAFR 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, 2007, Redi-Wheels, RediCoast vehicles and contracted taxis provided a total of 205,309 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 Caltrain and the San Francisco International 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. The cost to support these extensions has contributed towards the District's structural deficit problem. In fiscal year 2007, the District finalized a separation agreement with BART and is therefore no longer financially responsible for supporting the operating deficit of the BART extension.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

Ranking second in affluence among 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 economic downturn in 2002 and a slow recovery, particularly in the technology sector, this broad base promises long-term stability and job growth for San Mateo County residents. In fiscal year 2007, residents experienced a rejuvenation in the economy as sales tax figures approached record high levels.

Five 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 began to increase slightly in fiscal year 2004 and more steadily through fiscal year 2007.

Despite the favorable long-term outlook, the District faces a significant structural deficit in its operating budget. Sales tax receipts declined \$11.8 million from their record high in 2001 of \$66.7 million to \$54.9 million in 2003 before the economy began to improve, in fiscal year 2007, sales taxes have rebounded to \$66.2 million. 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.

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Cash Management

The Board of Directors has adopted an investment policy as prescribed by the 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 but will sell securities early when prudent to do so. All of the District's unrestricted cash and investments as of June 30, 2007 were on deposit in various accounts with U.S. Bank, Bank of America, the Bank of New York, or the California State Treasurer's Local Agency Investment Fund. Deposits are insured by the Federal Deposit Insurance Corporation 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. The Risk Management department 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 California Public Employees' Retirement System (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 attributes 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 2006 CAFR for excellence in financial reporting and the Certificate of Achievement appears immediately following this transmittal letter. To be awarded a certificate, a report must be easy to read and efficiently organized, while satisfying both generally accepted accounting principles and applicable legal requirements. We believe our 2007 CAFR also meets the requirements for a Certificate of Achievement and have submitted it to the GFOA for evaluation. We would like to thank our independent audit firm Vavrinek, Trine, Day & Co, LLP, for its timely and expert guidance in this matter.

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

Respectfully submitted,



Virginia Harrington
Chief Financial Officer



Patricia Reavey
Director of Finance

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

San Mateo County
Transit District, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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.



A handwritten signature in black ink, appearing to read "Thomas J. Blum".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

BOARD OF DIRECTORS

ROSE GUILBAULT

SHIRLEY HARRIS

JIM HARTNETT

MARC HERSHMAN, Chair

JERRY HILL

ZOE KERSTEEN-TUCKER

ARTHUR L. LLOYD

KARYL MATSUMOTO

ADRIENNE TISSIER, Vice Chair

ROSE GUILBAULT, public member, was appointed by the San Mateo County Transit District Board of Directors 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 Governor Schwaznager to serve on the Community College Board of Governors. She also became a published author this year with the release of her first book "Farmworker's Daughter: Growing up Mexican in America", a childhood memoir.

SHIRLEY HARRIS, public member, was appointed by the District Board of Directors in January 1994 and served as the chair of the Board of Directors in 1996 and in 2001. 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 for the 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 for the central portion of San Mateo County, was appointed by the Cities Selection Committee in January 2004. Mr. Hershman currently serves as Chair. Mr. Hershman has been a member of the City Council of the City of Millbrae since 1997, serving as mayor of Millbrae in 2001-2002. Mr. Hershman is an attorney with a practice in San Mateo. He is the SamTrans representative to the San Mateo County Transportation Authority.

JERRY HILL, 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, representing 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 University of California, Berkeley. Ms. Kersteen-Tucker is the Executive Director for the Coastside Land Trust.

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.

KARYL MATSUMOTO, Cities Selection Committee Appointee for the northern portion of San Mateo County, was appointed by the Cities Selection Committee in 2006. Ms. Matsumoto was elected to the City of South San Francisco City Council in November 1997. She served as Mayor in 2000 and 2004. She is only the second woman in the city’s 98-year history to serve on city council. She is a native Californian and has lived in South San Francisco for 26 years.

ADRIENNE TISSIER, was appointed to the San Mateo County Board of Supervisors in January 2005. Ms. Tissier represents the Fifth District, which includes the cities of Brisbane, Colma, Daly City and South San Francisco. Prior to her appointment to the San Mateo County Board of Supervisors, Ms. Tissier served two terms as a member of the City Council of Daly City, twice serving as mayor of Daly City. Ms. Tissier currently serves as Vice chair. 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

DISTRICT SECRETARY

Martha Martinez

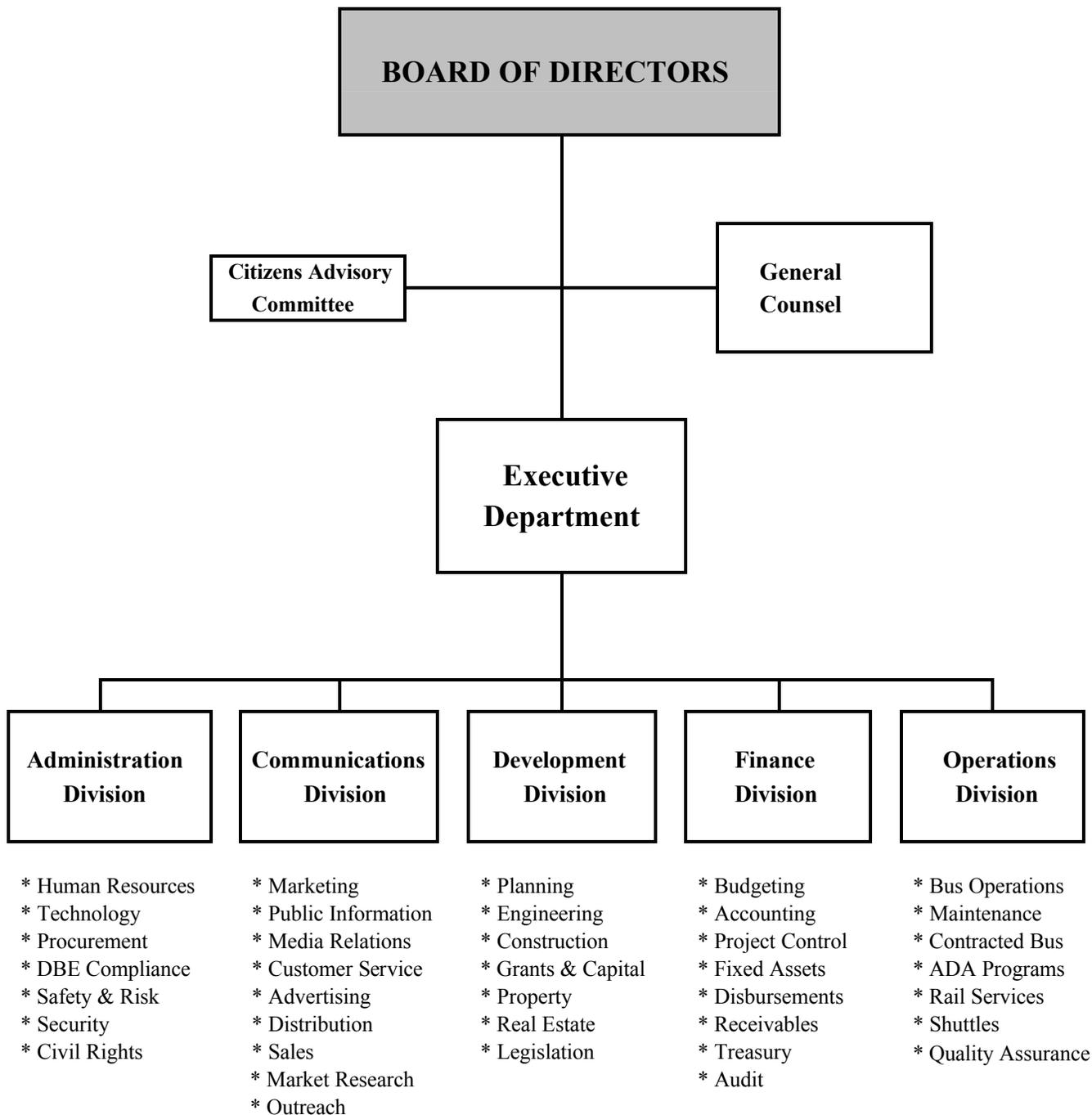
GENERAL COUNSEL

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

David J. Miller, Esq.

Joan Cassman, Esq.

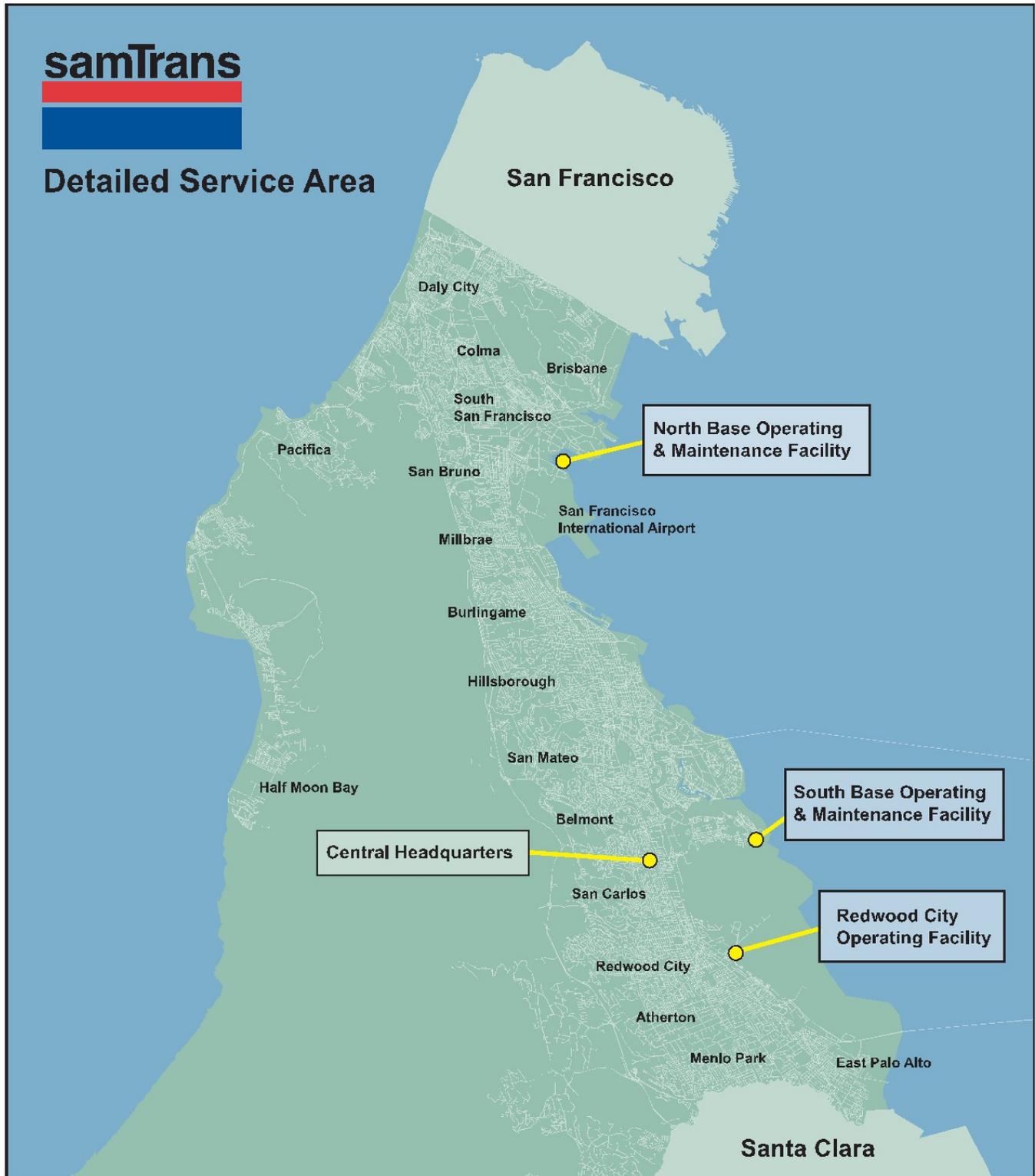
ORGANIZATION CHART



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TABLE OF CREDITS

The following individuals contributed to the production of the fiscal year 2007 Comprehensive Annual Financial Report:

<u>Finance:</u>	Senior Accountant	Jeannie Chen
	Accountant	Melanie Hartanto
	Senior Accountant	Angela Ho
	Manager, Financial Forecasting and Treasury	Brian Lee
	Manager, General Ledger	Rima Lobo
	Manager, Budget	Ladi Millard
<u>Communication:</u>	Graphic Designer	Robert Casumbal
<u>Audit Firm:</u>	Partner	Ahmad Gharaibeh
	Partner	Leonard Danna

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Section II

FINANCIAL

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements and Notes

Required Supplementary Information

Supplementary Information and Notes

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INDEPENDENT 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, 2007 and 2006. 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2007 and 2006 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2007, 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 audit.

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.

Vawrinek Trime Day + Co. LLP

Palo Alto, California
November 30, 2007

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, 2007 with comparisons to the prior two fiscal years ended June 30, 2006 and June 30, 2005. We encourage readers to consider the information presented here in conjunction with the transmittal letter contained in the Introductory Section, the statements and related notes contained in the Financial Section.

FINANCIAL HIGHLIGHTS

- Total assets stand at \$535.9 million on June 30, 2007, a decrease of \$25.2 million or 4.5 percent compared to June 30, 2006 and a decrease of \$44.2 million or 7.3 percent on June 30, 2006 compared to June 30, 2005, primarily due to total expenses exceeding total revenues.
- Operating revenue from passenger fares for 2007 was \$16.8 million, an increase of \$0.5 million or 3.3 percent compared to 2006 and an increase of \$2.4 million or 17.6 percent in 2006 compared to 2005 as the result of slight increases in both ridership and fares.
- Total operating expenses on June 30, 2007 were \$109.3 million, an increase of \$5.6 million or 5.4 percent compared to June 30, 2006 and an increase of \$9.6 million or 10.2 percent on June 30, 2006 compared to June 30, 2005. The results were due to increases in Salaries and Benefits, Services, Materials and Supplies and Insurance.
- The net of non-operating revenues and non-operating expenses was \$105.0 million for 2007, which is \$27.1 million or 34.7 percent higher than in 2006 and is \$6.5 million or 9.2 percent higher in 2006 compared to 2005. This result was mainly due to increases in operating assistance.
- Net assets on June 30, 2007 were \$167.5 million, a decrease of \$22.9 million or 12.0 percent compared to June 30, 2006 and a decrease of \$42.2 million or 18.1 percent on June 30, 2006 compared to June 30, 2005. Other Non-current assets, depreciation and amortization accounted for the majority of this reduction.

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.

**SAN MATEO COUNTY TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2007**

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

- *Cash flows from operating activities* include transactions and events reported as components of the operating income in the statement of revenues, expenses and changes in net assets.
- *Cash flows from non-capital financing activities* include operating grant proceeds as well as operating subsidy payments from third parties.
- *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 on June 30, 2007 were \$535.9 million, a decrease of \$25.2 million or 4.5 percent compared to June 30, 2006 and a decrease of \$44.2 million or 7.3 percent at June 30, 2006 compared to June 30, 2005. Capital assets – net of depreciation, contribution to BART- net of amortization and other non-current assets combined, decreased by \$15.1 million or 3.4 percent in 2007 and by 11.2 million or 2.5 percent in 2006. The decrease in 2007 was primarily due to depreciation and amortization expenses. Total current assets decreased by \$10.1 million or 8.4 percent to \$110.7 million on June 30, 2007 from \$120.8 million on June 30, 2006 and a decrease of \$33.0 million or 21.4 percent from \$153.8 million on June 30, 2005. These decreases were due to the reinvestments of short-term investments to long-term securities.

Capital assets net of accumulated depreciation decreased by \$6.4 million or 3.9 percent to \$155.4 million in 2007 and \$5.9 million or 3.5 percent in 2006. Land and right of way, buses and related equipment, and building and related improvements comprise most of the District's capital assets.

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

**SAN MATEO COUNTY TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2007**

contribution with a 30-year life from its payment date to be consistent with all previous capital contributions to BART.

The amortized capital contribution to BART increased \$48.0 million or 43.4 percent to \$158.7 million during 2007 due to the net capitalization of the \$72 million contribution in 1999 by the District. 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)**

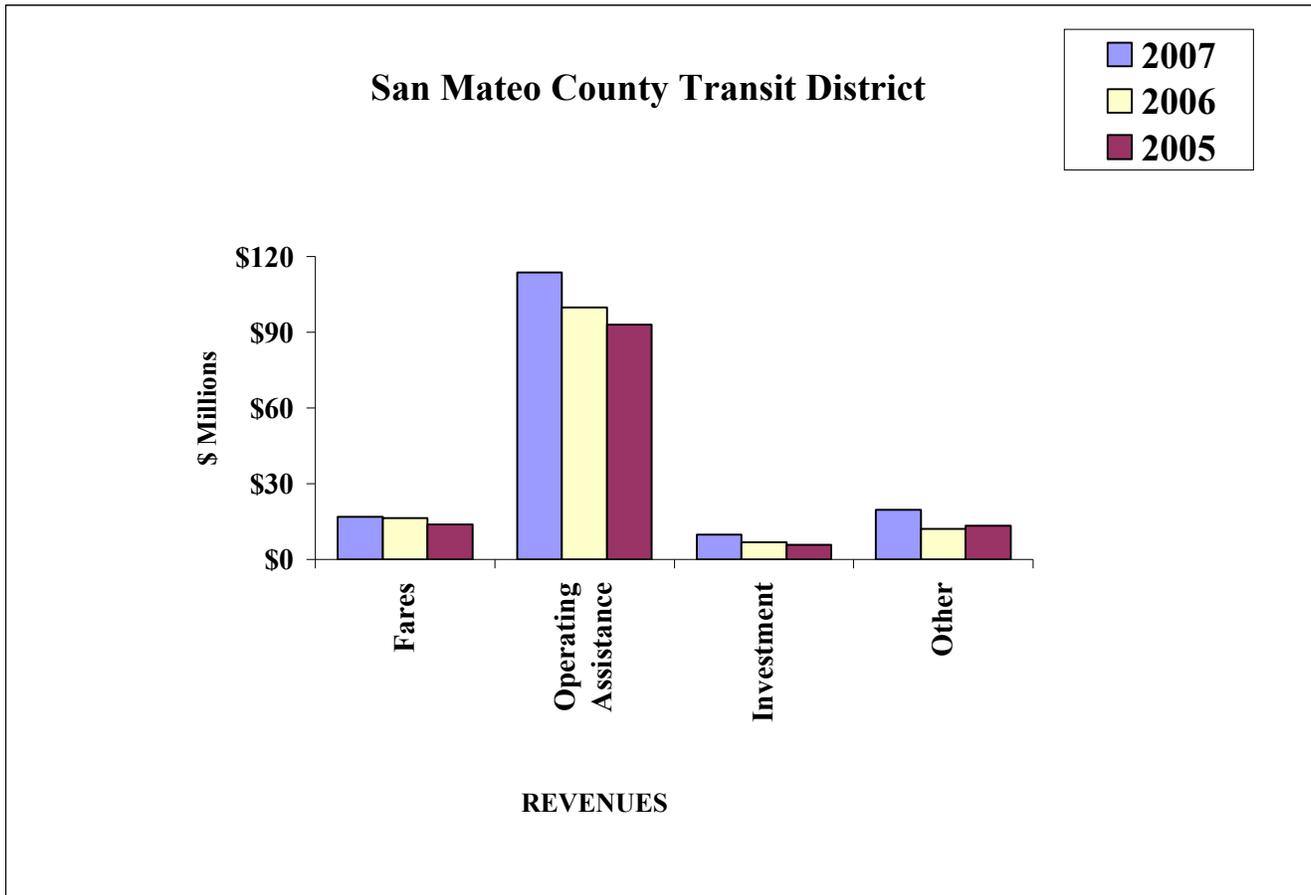
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current Assets	\$ 110,734	\$ 120,870	\$ 153,834
Capital assets, net of depreciation	155,444	161,810	167,722
Contribution to BART, net of amortization	158,729	110,692	132,983
Other Non-Current Assets	110,995	167,772	150,806
Total assets	<u>\$ 535,902</u>	<u>\$ 561,144</u>	<u>\$ 605,345</u>
Current liabilities	\$ 26,859	\$ 23,350	\$ 34,763
Long-term debt	337,805	344,095	332,736
Other Non-Current liabilities	3,701	3,246	5,231
Total liabilities	<u>368,365</u>	<u>370,691</u>	<u>372,730</u>
Net assets			
Invested in capital assets, net of related debt	(25,815)	(15,102)	10,533
Restricted	3,569	3,390	13,659
Unrestricted	189,783	202,165	208,423
Total net assets	<u>\$ 167,537</u>	<u>\$ 190,453</u>	<u>\$ 232,615</u>

Total liabilities decreased by \$2.3 million or 0.6 percent to \$368.4 million in 2007 and decreased by \$2.0 million or 0.5 percent to \$370.7 million at the end of 2006 from 2005. Other non-current liabilities combined account for the majority of this decrease.

At June 30, 2007, net assets of \$167.5 million are \$22.9 million or 12.0 percent less than the \$190.5 million of net assets at June 30, 2006 and are \$42.2 million or 18.1 percent less on June 30, 2006 compared to net asset of \$232.6 million at June 30, 2005. The \$(25.8) million invested in capital assets net of related debt at June 30, 2007 is (15.4) percent of the total net assets. Total net assets restricted for debt service at June 30, 2007 are \$3.6 million or 2.1 percent of total net assets. The remaining \$189.7 million of total net assets at June 30, 2007 are unrestricted and represent 113.3 percent of total net assets.

Revenue Highlights

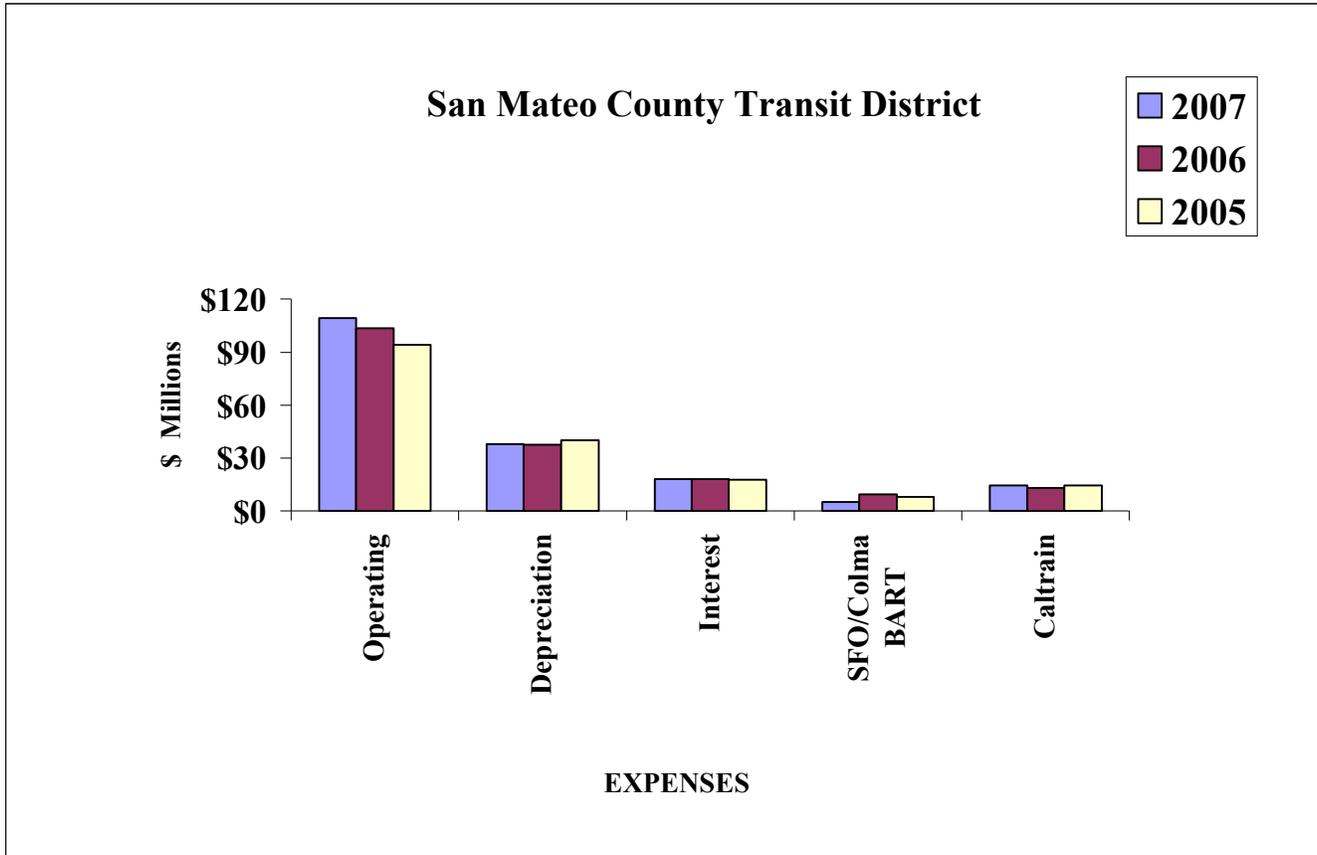
Operating revenue generated from passenger fares of \$16.8 million increased by \$0.5 million or 3.3 percent during 2007 compared to 2006 and increased \$2.4 million or 17.6 percent in 2006 compared to 2005. These changes are the result of a fare increase in September 2005 and a slight increase in ridership.



Non-operating revenues increased \$24.4 million or 20.6 percent to \$142.9 million in 2007 due to an increase in operating assistance. Operating assistance of \$113.6 million accounts for majority of 2007 non-operating revenues. This amount consists of \$66.2 million or 58.3 percent from transaction and use tax, \$43.2 million or 38.1 percent from local transportation funds, \$0.2 million or 0.2 percent from federal assistance and \$3.9 million or 3.4 percent from Measure A, state transit assistance and AB434 funds combined.

Expense Highlights

Total operating expenses of \$109.3 million in 2007 were \$5.6 million or 5.4 percent higher than 2006 and were \$9.6 million or 10.2 percent higher in 2006 compared to 2005. Total operating expenses in 2007 consisted of \$58.5 million or 53.5 percent for wages and benefits, \$30.1 million or 27.5 percent for contract operations and other services, and \$20.7 million or 19.0 percent for materials, supplies, insurance and other miscellaneous costs combined. Depreciation and amortization costs were \$37.7 million and \$37.5 million for 2007 and 2006 respectively, a \$0.2 million or 0.7 percent increase over 2006 and \$2.7 million or 6.8 percent decrease in 2006 compared to 2005.



Non-operating expenses were \$37.8 million and \$40.5 million in 2007 and 2006 respectively, a reduction of \$2.7 million or 6.6 percent compared to 2006 and a decrease of \$0.1 million or 0.3 percent in 2006 compared to 2005. In fiscal year 2007, the District paid BART/SFO \$5.3 million for an operating deficit and the Peninsula Corridor Joint Powers Board (PCJPB) \$14.5 million for its contribution toward the Caltrain rail service operation. 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, 2007**

**SAN MATEO COUNTY TRANSIT DISTRICT
CHANGES IN NET ASSETS**

(In thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues-Passenger fares	\$ 16,830	\$ 16,296	\$ 13,863
Operating expenses-Transit Services	<u>109,329</u>	<u>103,692</u>	<u>94,118</u>
Operating loss before depreciation and amortization	(92,499)	(87,396)	(80,255)
Depreciation and amortization	<u>(37,746)</u>	<u>(37,484)</u>	<u>(40,232)</u>
Operating loss	(130,245)	(124,880)	(120,487)
Non-operating revenues			
Operating assistance	113,565	99,827	92,899
Investment Income	9,745	6,690	5,770
Interagency administrative income	6,944	6,054	6,595
Other income, net	<u>12,613</u>	<u>5,901</u>	<u>6,785</u>
Total Non-operating revenues	142,867	118,472	112,049
Non-operating expenses			
SFO/Colma BART station revenue (deficit)	(5,289)	(9,620)	(8,095)
Interest expense	(18,075)	(17,969)	(17,948)
Caltrain service subsidy	<u>(14,478)</u>	<u>(12,929)</u>	<u>(14,588)</u>
Total Non-operating expenses	(37,842)	(40,518)	(40,631)
Net loss before capital contributions	(25,220)	(46,926)	(49,069)
Capital Contributions	<u>2,304</u>	<u>4,764</u>	<u>4,853</u>
Change in net assets	(22,916)	(42,162)	(44,216)
Net assets - Beginning	<u>190,453</u>	<u>232,615</u>	<u>276,831</u>
Net assets - Ending	<u>\$ 167,537</u>	<u>\$ 190,453</u>	<u>\$ 232,615</u>

Capital Program

The District received capital contributions of \$2.3 million in 2007 and \$4.8 million in 2006 respectively, which is \$2.5 million or 51.6 percent less than in 2006 and \$0.1 million or 1.8 percent less in 2006 compared to 2005. Federal grants contributed \$1.9 million or 82.8 percent and local grants contributed \$0.4 million or 17.2 percent of the 2007 total.

The following is a summary of the District's major capital expenditures for fiscal year 2007.

- Replacement of bus parts in accordance with FTA guidelines (\$1.4 million)
- Purchase of the Paratransit buses and vans (\$0.6 million)
- Installation of particulate matter traps in fixed-route revenue vehicles (\$0.2 million)
- Planning study for Dumbarton Rail Corridor (\$0.1 million)

**SAN MATEO COUNTY TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2007**

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 \$344.4 million in bonds and notes outstanding at June 30, 2007 compared to \$350.4 million at June 30, 2006, a decrease of \$6.0 million or 1.7 percent. The payment of \$6 million of debt principal during 2007 accounts for this reduction. The District pledges sales tax revenues to secure its bonds and also has purchased insurance to ensure principal and interest payments. 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

By 2002, it was evident that the economy had taken a turn for the worse. As unemployment increased, consumers curtailed spending and real estate values fell. While real estate recovered fairly 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 significant 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 4.5 percent by June 2005. Consequently, consumer spending rebounded slightly in 2004 and more so in 2005, resulting in the District achieving \$60.0 million in sales tax revenue in fiscal year 2005. In 2006, the economy remained steady with a slight rise in the unemployment rate to 4.6 percent and promising growth in sales tax revenues which were up to \$66.2 million in fiscal year 2007. 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 Ave, San Carlos, California 94070-1306.

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND 2006 (In Thousands)

ASSETS	2007	2006
CURRENT ASSETS:		
Cash and cash equivalents (Notes 1 & 2)	\$ 35,686	\$ 19,289
Investments (Notes 1 & 2)	46,401	68,173
Restricted investments (Notes 1 & 2)	2,566	2,511
Receivables:		
Transaction and use tax	12,487	11,916
Receivable from Peninsula Corridor Joint Powers Board (Note 8)	2,602	2,712
Federal capital grants (Note 4)	1,028	4,697
Interest	1,929	2,439
Other	4,429	6,771
Allowance for doubtful accounts	(90)	(90)
Total Receivables - Net	<u>22,385</u>	<u>28,445</u>
Inventories (Note 1)	1,456	1,268
Prepaid expenses	<u>2,240</u>	<u>1,184</u>
Total Current Assets	<u>110,734</u>	<u>120,870</u>
NONCURRENT ASSETS:		
Noncurrent investments (Note 2)	102,940	81,581
Restricted investments (Notes 1 & 2)	2,477	2,356
Receivable from BART	-	5,676
Construction loan receivable from BART (Note 5)	-	72,000
Capital assets, at cost		
Buses and bus equipment	145,312	142,940
Buildings and building improvements	72,303	71,685
Land and right of way (Note 7)	43,695	43,695
Maintenance and other equipment	23,232	21,442
Furniture and fixtures	13,875	13,087
Shelters and bus stop signs	3,313	3,304
Other vehicles	<u>2,363</u>	<u>2,472</u>
Total Property and Equipment	304,093	298,625
Less accumulated depreciation	(180,432)	(167,418)
Construction in progress	<u>31,783</u>	<u>30,603</u>
Capital Assets - Net (Note 6)	155,444	161,810
Capital Contribution to BART, net of amortization (Note 5)	158,729	110,692
Bond issuance costs	4,437	4,649
Other assets (Note 9)	<u>1,141</u>	<u>1,510</u>
Total Noncurrent Assets	<u>425,168</u>	<u>440,274</u>
Total Assets	<u><u>\$ 535,902</u></u>	<u><u>\$ 561,144</u></u>

See accompanying notes to the financial statements.

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF NET ASSETS (CONTINUED)
JUNE 30, 2007 AND 2006 (In Thousands)

LIABILITIES	2007	2006
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 9,189	\$ 6,450
Compensated absences	6,797	6,591
Current portion of self-insurance liabilities (Note 13)	2,903	2,620
Accrued interest	1,350	1,374
Current portion of long-term debt (Note 10)	6,620	6,315
Total Current Liabilities	<u>26,859</u>	<u>23,350</u>
NONCURRENT LIABILITIES:		
Long-term debt - Net (Note 10)	337,805	344,095
Self-insurance liabilities less current portion (Note 13)	2,776	1,761
Other noncurrent liabilities	925	1,485
Total Noncurrent Liabilities	<u>341,506</u>	<u>347,341</u>
Total Liabilities	<u>368,365</u>	<u>370,691</u>
NET ASSETS		
Invested in capital assets, net of related debt	(25,815)	(15,102)
Restricted for debt service	3,569	3,390
Unrestricted	189,783	202,165
Total Net Assets	<u>\$ 167,537</u>	<u>\$ 190,453</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, 2007 AND 2006 (In Thousands)

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES - Passenger fares	\$ 16,830	\$ 16,296
OPERATING EXPENSES:		
Salaries and benefits	58,521	56,944
Services:		
Contract operations and maintenance services	26,482	24,338
Other services	3,580	3,948
Materials and supplies	8,151	7,102
Insurance	6,010	4,927
Miscellaneous	6,585	6,433
Total operating expenses	<u>109,329</u>	<u>103,692</u>
Operating loss before depreciation and amortization and administrative expenses capitalized	(92,499)	(87,396)
Depreciation and amortization:	<u>(37,746)</u>	<u>(37,484)</u>
OPERATING LOSS	<u>(130,245)</u>	<u>(124,880)</u>
NON-OPERATING REVENUES (EXPENSES):		
Operating assistance (Note 3)	113,565	99,827
Investment income	9,745	6,690
Interest expense	(18,075)	(17,969)
Caltrain service subsidy (Note 8)	(14,478)	(12,929)
SFO/Colma BART service deficit (Note 5)	(5,289)	(9,620)
Interagency administrative income	6,944	6,054
Other income, net	12,613	5,901
Total non-operating revenues, net	<u>105,025</u>	<u>77,954</u>
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(25,220)	(46,926)
CAPITAL CONTRIBUTIONS (Note 1)	<u>2,304</u>	<u>4,764</u>
CHANGE IN NET ASSETS	(22,916)	(42,162)
NET ASSETS, Beginning of year	<u>190,453</u>	<u>232,615</u>
NET ASSETS, End of year	<u>\$167,537</u>	<u>\$190,453</u>

See accompanying notes to the financial statements.

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006 (In Thousands)

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passenger fares	\$ 16,816	\$ 15,844
Payments to vendors for services	(48,314)	(44,480)
Payments to employees	(57,806)	(59,204)
Other	19,541	11,899
Net cash used in operating activities	<u>(69,763)</u>	<u>(75,941)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating grants received, including transaction and use tax	115,125	95,772
Caltrain service outlays	(14,478)	(12,929)
BART-SFO Extension operating subsidy	(5,289)	(9,620)
Decrease / (Increase) in receivable from BART	5,578	6,000
Net cash provided by non-capital financing activities	<u>100,936</u>	<u>79,223</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(6,016)	(9,643)
Capital contributions from grants	5,538	2,664
Bond principal paid	(6,315)	(6,025)
Interest and cost of issuance paid	(17,535)	(15,185)
Net cash used in capital and related financing activities	<u>(24,328)</u>	<u>(28,189)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investment securities	65,211	125,868
Purchases of investment securities	(64,975)	(103,166)
Investment income received on all interest-bearing investments	9,316	5,883
Net cash provided by investing activities	<u>9,552</u>	<u>28,585</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,397	3,678
CASH AND CASH EQUIVALENTS, Beginning of year	<u>19,289</u>	<u>15,611</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 35,686</u>	<u>\$ 19,289</u>

See accompanying notes to the financial statements.

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2007 AND 2006 (In Thousands)

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating (loss)	\$ (130,245)	\$ (124,880)
Other nonoperating items	19,541	11,899
Adjustments to reconcile operating (loss) to net cash used in operating activities:		
Depreciation and amortization	37,746	37,484
Effect of changes in:		
Account receivable	153	(2,098)
Inventories	(187)	6
Prepaid expenses	(1,055)	1,772
Other assets	9	6
Accounts payable and accrued expenses	2,706	(1,247)
Deferred revenue	-	(280)
Compensated absences	271	271
Self-insurance liabilities	1,298	1,126
Net cash used in operating activities	<u>\$ (69,763)</u>	<u>\$ (75,941)</u>
NONCASH INVESTING ACTIVITIES:		
Increase (decrease) in fair value of investments	<u>\$ 603</u>	<u>\$ (2,225)</u>

See accompanying notes to the financial statements.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

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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.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

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 other fixed-route bus services. The District also shares in the costs of operating the Caltrain rail service. The District provided the local costs of extending the San Francisco Bay Area Rapid Transit District (“BART”) rail system into San Mateo County as well as the net cost to operate the extension.

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. 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 did not have an impact on the financial statements of the District.

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.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

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

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.

GASB Statement No. 48 - In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement addresses accounting and financial reporting standards for transactions where governments exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. This statement establishes criteria and reporting standards regarding the exchange as either a sale or collateralized borrowing, resulting in a liability. This statement is not effective until June 30, 2008. The District has not determined its effect on the financial statements.

GASB Statement No. 49 - In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not effective until June 30, 2009. The District has not determined its effect on the financial statements.

GASB Statement No. 50 – In May 2007, the GASB issued Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This statement is not effective until June 30, 2008. The District has not determined its effect on the financial statements.

GASB Statement No. 51 – In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement is not effective until June 30, 2010. 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.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

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

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

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.

H. Inventories

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

I. Property and equipment

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

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

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

J. Construction in progress

Construction in progress consists of the following projects at June 30, 2007 and 2006 (in thousands):

**SAN MATEO COUNTY TRANSIT DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2007**

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

	<u>2007</u>	<u>2006</u>
Bus fleet improvements	\$ 10,539	\$ 10,994
Bus communications system	8,105	7,885
Other	6,020	5,136
Information technology support	3,492	3,767
Dumbarton rail	2,214	2,069
Pavement rehabilitation	735	727
Administration building improvement	678	25
Total Construction in Progress	<u>\$ 31,783</u>	<u>\$ 30,603</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 2007 and 2006.

K. State and local operating assistance

State and local operating assistance are 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 (“JPB”) (see Note 8) and does not recognize revenues or expenses associated with this agency function.

L. Bond issuance costs

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

M. Arbitrage

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

N. Compensated Absences

Employees accrue compensated absence time by reason of tenure at annual rates ranging from 160 to 312 hours per year. Employees are not allowed to accumulate more than 1,440 hours of compensated absence time, depending upon the number of service years. In fiscal year ending, June 30, 2007, employees of the District accrued and used balances of compensated absences in the amount of \$4,862,705 and \$4,656,559, respectively. At June 30, 2007 and 2006, accrued compensated absences for all District employees amounted to \$6,797,455 and \$6,591,308, 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.

**SAN MATEO COUNTY TRANSIT DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2007**

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

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, 2007 and 2006 were as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Federal grants	\$ 1,908	\$ 3,115
Other local transportation funds	396	1,649
Total	<u>\$ 2,304</u>	<u>\$ 4,764</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 to the current year presentation.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE #2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2007 and 2006 are classified in the statement of net assets as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 35,686	\$ 19,289
Investments	46,401	68,173
Restricted investments - current	2,566	2,511
Noncurrent investments	102,940	81,581
Restricted cash and investments - noncurrent	2,477	2,356
	<u>\$ 190,070</u>	<u>\$ 173,910</u>

Cash and investments as of June 30, 2007 and 2006 consist of the following (in thousands):

	<u>2007</u>	<u>2006</u>
Cash on hand	\$ 9	\$ 4
Deposits with financial institutions	(972)	(1,615)
Investments	191,033	175,521
	<u>\$ 190,070</u>	<u>\$ 173,910</u>

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

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.

**SAN MATEO COUNTY TRANSIT DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2007**

NOTE #2 – CASH AND INVESTMENTS (continued)

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:

- 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, 2007 was as follows:

Investment Type	Amount (in thousands)	Weighted Average Maturity (in years)
U.S. Agency Securities	\$ 113,440	2.81
Repurchase Agreements	2,383	-
Medium-term Notes	35,899	1.18
Local Agency Investment Fund (LAIF)	34,266	-
Held by bond trustee:		
Treasury obligation	970	0.50
Mutual funds	1,870	-
Investment contracts	2,205	20.35
	<u>\$ 191,033</u>	
Portfolio Weighted Average Maturity		2.13

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE #2 – CASH AND INVESTMENTS (continued)

The District's weighted average maturity at June 30, 2006 was as follows:

Investment Type	Amount (in thousands)	Weighted Average Maturity (in years)
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
	\$ 175,521	
Portfolio Weighted Average Maturity		1.61

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, 2007			
				AAA	AA	A	Not Rated
U.S. Agency Securities	\$ 113,440	N/A	\$ -	\$ 113,440	\$ -	\$ -	\$ -
Repurchase Agreements	2,383	N/A	2,383	-	-	-	-
Medium-term Notes	35,899	A	-	19,477	2,013	14,409	-
LAIF	34,266	N/A	-	-	-	-	34,266
Held by bond trustee:							
Treasury obligation	970		-	970	-	-	-
Mutual funds	1,870	N/A	-	-	-	-	1,870
Investment contracts	2,205	N/A	-	-	-	-	2,205
	\$ 191,033		\$ 2,383	\$ 133,887	\$ 2,013	\$ 14,409	\$38,341

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE #2 – CASH AND INVESTMENTS (continued)

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	\$ -	\$ 98,743	\$ -	\$ -	\$ -
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>\$ 112,617</u>	<u>\$ 13,176</u>	<u>\$ 23,961</u>	<u>\$16,701</u>

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, 2007:

Issuer	Investment Type	Reported Amount
Federal Home Loan Mortgage Corp (FHLMC)	U.S. Agency Securities	\$ 29,301
Federal Home Loan Bank (FHLB)	U.S. Agency Securities	56,833
Federal National Mortgage Association (FNMA)	U.S. Agency Securities	26,312
Tennessee Valley Authority	Medium-Term Notes	10,925
		<u>\$ 123,371</u>

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE #2 – CASH AND INVESTMENTS (continued)

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>

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.

As of June 30, 2007 and June 30, 2006, the District had (\$972,290) and (\$1,614,950), respectively, of deposits with financial institutions recorded on the financial statements which included excess bank balances of \$2,481 and \$232,195, respectively. Since these excess cash balances are amounts over the Federal Depository Insurance limits, the excess cash balances are uninsured. However, due to California state law, the excess cash balances are collateralized by securities pledged by the financial institutions holding the District's deposits.

Investment in State Investment Pool (LAIF)

The District is a voluntary participant in 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.

**SAN MATEO COUNTY TRANSIT DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2007**

NOTE #2 – CASH AND INVESTMENTS (continued)

As of June 30, 2007 and 2006, the District’s investments in the State treasurer’s investment pool (LAIF) were \$34,266,060 and \$11,834,472, respectively. The total amounts invested by all public agencies in LAIF at June 30, 2007 and 2006 were \$65,756,665,933 and \$63,366,260,064, respectively. Of these amounts, as of June 30, 2007 and 2006, 96.53 and 97.43 percent, respectively, is invested in non-derivative financial products, and 3.47 and 2.57 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 one-half cent transaction and use tax levied on all taxable sales in San Mateo County, which is collected and administered by the State Board of Equalization. Transportation Development Act funds are received from San Mateo County to meet, in part, operating and capital requirements based on annual claims filed by the District and approved by the Metropolitan Transportation Commission (“MTC”). Federal funds are distributed to the District by the Federal Transportation Administration (“FTA”) after approval by MTC. The District also receives 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.

Operating assistance is summarized as follows for the years ended June 30, 2007 and 2006 (in thousands):

	2007	2006
Transaction and use tax	\$ 66,198	\$ 63,813
Local transportation funds	43,226	31,608
Federal operating and planning assistance	233	838
Measure A funds - local	2,542	2,358
State transit assistance	717	605
AB434	649	605
Total	\$ 113,565	\$ 99,827

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, 2007 applicable to these projects are \$2,358,996. The related federal participation is \$1,907,579.

The District has recorded receivables of \$583,964 and \$3,379,360, at June 30, 2007 and 2006, 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 (“Comprehensive Agreement”). 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 (“SFO Extension Project”).

The Agreement called for building the SFO Extension Project in two phases. 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 SFO Extension Project. The District agreed to assume responsibility for the net operating costs arising from operation and maintenance expenses of the Colma and SFO Extension. The Agreement also provided for a shared allocation of capital costs.

The initial Comprehensive Agreement provided that SamTrans would pay 25 percent of the capital costs. On June 19, 1996, the Comprehensive Agreement was amended to shift SamTrans financial contribution from 25 percent to a capped amount of \$197 million, of which \$185 million was scheduled to be paid during the four-year construction period and has been paid. The remaining \$12 million was 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 as full payment for SamTrans’ remaining project costs and capital contribution.

Pursuant to the Fourth Amendment to the Comprehensive Agreement entered into on August 31, 1999, SamTrans loaned \$72 million to fund the SFO Extension Project as a result of higher than anticipated construction costs. In addition, the Metropolitan Transportation Commission (“MTC”) provided a \$76.5 million loan, and BART provided a \$50 million loan to finance the SFO Extension Project.

A. BART SFO Opening

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

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

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

1. Terminates the Comprehensive Agreement and the Fiscal Year 2005 Agreement;
2. Relieves the District of any and all responsibility for payment of past and future operating costs, as well as capital costs, associated with the SFO Extension with the exception of \$5.0 million of operating costs incurred during Fiscal Year 2007;

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

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

3. Requires BART to repay the District \$5,600,517.46 for right of way acquisition costs previously advanced by the District for right of way acquisition and other SFO Extension costs and requires the District to transfer SFO Extension property to BART upon full payment of said sum by BART;
4. Requires the District to pay \$221,341 to BART for costs related to construction of a Bike Path;
5. Releases BART from its obligation to repay amounts loaned by the District pursuant to the August 31, 1999 amendment to the Comprehensive Agreement; and
6. Requires the District to remain responsible for providing paratransit services in the SFO Extension Project corridor.

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

B. Capital Contribution to BART

Amounts capitalized as “Capital Contribution to BART” are presented below (in thousands). As a result of the Settlement Agreement referenced above, the District recorded an additional \$72 million in capital contributions to BART. Previously these capital contributions were being amortized over a period of 15 years. Due to a change in accounting estimates in fiscal year 2007, the amortization on these capital contributions has been prospectively amended to amortize the book value over what is remaining in the useful life of 30 years.

	<u>2007</u>	<u>2006</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
SFO BART- local share	72,000	-
	<u>405,882</u>	<u>333,882</u>
Less: Accumulated Amortization	(247,153)	(223,190)
Total	<u>\$ 158,729</u>	<u>\$ 110,692</u>

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE #6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows (in thousands):

	Balance at July 1, 2006	Additions	Deletions	Balance at June 30, 2007
Capital Assets Non Depreciable				
Land and right of way	\$ 43,695	\$ -	\$ -	\$ 43,695
Construction in progress	30,603	7,548	(6,368)	31,783
Total Non Depreciable Capital Assets	74,298	7,548	(6,368)	75,478
Other Capital Assets				
Buses and bus equipment	142,940	2,372	-	145,312
Buildings and building improvements	71,685	618	-	72,303
Maintenance and other equipment	21,442	1,971	(181)	23,232
Furniture and fixtures	13,087	1,098	(310)	13,875
Shelters and bus stop signs	3,304	9	-	3,313
Other vehicles	2,472	300	(409)	2,363
Total Depreciable Capital Assets	254,930	6,368	(900)	260,398
Less Accumulated Depreciation for:				
Buses and bus equipment	(90,879)	(8,902)	-	(99,781)
Buildings and building improvements	(43,720)	(2,353)	-	(46,073)
Maintenance and other equipment	(20,089)	(898)	181	(20,806)
Furniture and fixtures	(7,421)	(1,363)	310	(8,474)
Shelters and bus stop signs	(2,986)	(214)	-	(3,200)
Other vehicles	(2,323)	(184)	409	(2,098)
Total Accumulated Depreciation	(167,418)	(13,914)	900	(180,432)
Capital Assets, Net	\$ 161,810	\$ 2	\$ (6,368)	\$ 155,444

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE #6 – CAPITAL ASSETS (continued)

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 Non Depreciable				
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

NOTE #7 – DUMBARTON LAND AND RIGHT OF WAY

In November 1994, the San Mateo County Transportation Authority (“TA”) contributed the Dumbarton land and right of way to the District. The basis of this property is \$7,134,000. TA is responsible for the preparation of a comprehensive Dumbarton Rail Corridor Study.

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

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

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

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

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 JPB, providing administrative personnel and facilities. The District is responsible for 41.91 and 41.91 percent of the mainline net operating costs and the administrative expenses of the JPB for the years ended June 30, 2007 and 2006, 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 JPB as expense in the year disbursed. During the years ended June 30, 2007 and 2006, the District contributed \$14,477,900 and \$12,929,000, respectively, to the JPB for operating needs.

The District has total receivables from the JPB of \$2,601,928 and \$2,711,769 at June 30, 2007 and 2006, respectively, for advances of staff support and operating assistance.

Summary financial information (not included in the District’s financial statements) for the JPB as of June 30, 2007 and 2006 (in thousands):

	<u>2007</u>	<u>2006</u>
Total Assets	\$ 1,123,303	\$ 1,074,616
Total Liabilities	(48,252)	(59,368)
Total Net Assets	<u>\$ 1,075,051</u>	<u>\$ 1,015,248</u>
Operating Revenues	\$ 37,961	\$ 33,123
Operating Expenses	(114,515)	(103,320)
Nonoperating Revenues, Net	45,134	43,269
Net Loss Before Capital Contributions	\$ (31,420)	\$ (26,928)
Capital Contributions	91,222	122,520
Increase in Net Assets	<u>\$ 59,802</u>	<u>\$ 95,592</u>

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

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

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 2007 and 2006, 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 \$1,040,000, as of June 30, 2007 and 2006, respectively.

B. San Mateo County Transportation Authority

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

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

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE #10 – LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2007 is as follows (in thousands):

	Balance at July 1, 2006	Adjustments/ Additions	Deletions	Balance at June 30, 2007	Amounts Due within One Year
Bonds and Notes Payable					
1993 Series A Bonds	\$ 109,475	\$ -	\$ (5,580)	\$ 103,895	\$ 5,865
1998 Junior Lien	23,055	-	(735)	22,320	755
2005 Series A Bonds	218,990	-	-	218,990	-
Total Debt	351,520	-	(6,315)	345,205	6,620
Bond refunding loss	(5,876)	-	489	(5,387)	-
Unamortized bond premium	5,070	-	(181)	4,889	-
Unamortized bond discount	(304)	-	22	(282)	-
Net Bonds and Notes Payable	<u>\$ 350,410</u>	<u>\$ -</u>	<u>\$ (5,985)</u>	<u>\$ 344,425</u>	<u>\$ 6,620</u>

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>

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

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.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

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
YEAR ENDED JUNE 30, 2007**

NOTE #10 – LONG-TERM DEBT (continued)

Debt service requirements for long-term debt as of June 30, 2007 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
2008	\$ 5,865	\$ 5,648	\$ 11,513	\$ 755	\$ 814	\$ 1,569
2009	6,155	5,354	11,509	785	785	1,570
2010	6,410	5,047	11,457	810	755	1,565
2011	6,735	4,726	11,461	835	724	1,559
2012	7,075	4,389	11,464	860	692	1,552
2013-2017	41,205	16,159	57,364	4,745	2,947	7,692
2018-2022	30,450	4,149	34,599	5,565	1,983	7,548
2023-2027	-	-	-	6,530	851	7,381
2028-2032	-	-	-	1,435	18	1,453
	<u>\$103,895</u>	<u>\$ 45,472</u>	<u>\$149,367</u>	<u>\$ 22,320</u>	<u>\$ 9,569</u>	<u>\$ 31,889</u>

Debt service requirements for long-term debt as of June 30, 2007 are as follows (in thousands):

Fiscal Year Ending June 30,	2005 Series A Refunding Bonds			Total		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ -	\$ 10,555	\$ 10,555	\$ 6,620	\$ 17,017	\$ 23,637
2009	-	10,555	10,555	6,940	16,694	23,634
2010	-	10,555	10,555	7,220	16,357	23,577
2011	-	10,555	10,555	7,570	16,005	23,575
2012	-	10,556	10,556	7,935	15,637	23,572
2013-2017	-	52,777	52,777	45,950	71,883	117,833
2018-2022	23,855	52,195	76,050	59,870	58,327	118,197
2023-2027	70,235	40,731	110,966	76,765	41,582	118,347
2028-2032	88,990	21,973	110,963	90,425	21,991	112,416
2033-2034	35,910	2,386	38,296	35,910	2,386	38,296
	<u>\$218,990</u>	<u>\$ 222,838</u>	<u>\$441,828</u>	<u>\$345,205</u>	<u>\$277,879</u>	<u>\$623,084</u>

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

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 St., 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 2007 and 2006 was 8.196 percent and 8.638 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, 2006 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included the following:

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

**SAN MATEO COUNTY TRANSIT DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2007**

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>
6/30/2005	4,864	100.00%	-
6/30/2006	6,356	100.00%	-
6/30/2007	6,264	100.00%	-

NOTE #12 – POST-RETIREMENT HEALTH CARE BENEFITS

In August 1993, the District's Board of Directors adopted a policy of providing post-retirement 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 146 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 post-retirement health insurance benefits was \$772,968 and \$609,533 for the years ended June 30, 2007 and 2006 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, 2007:

<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
 YEAR ENDED JUNE 30, 2007**

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, 2007 and 2006 for public liability, property damage and workers’ compensation claims liabilities are as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Self-insurance liabilities, beginning of fiscal year	\$ 4,381	\$ 3,255
Incurred claims and changes in estimates	3,688	3,308
Claim payments and related costs	<u>(2,391)</u>	<u>(2,182)</u>
Total Self-insurance Claims Liabilities	5,678	4,381
Less Current Portion	<u>(2,903)</u>	<u>(2,620)</u>
Non-current Portion	<u>\$ 2,775</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 matters relating principally to claims arising from construction contracts, personal injury and property damage. In addition, the District has identified several sites which require environmental assessment and could result in undetermined cleanup costs. The potential costs to the District related to these environmental sites are highly uncertain, and the determination of the District’s liability is dependent on the extent, if any, to which such costs are recoverable from insurance or other parties. In the opinion of District management, the ultimate resolution of these matters will not materially affect the District’s financial position.

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.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

NOTE #15 – COMMITMENTS AND CONTINGENCIES (continued)

On February 28, 2007, the District entered into a three-party agreement between the Metropolitan Transportation Commission (“MTC”), BART and the District. In this Agreement, the District has assigned its potential entitlement of \$32 million from State Infrastructure Bonds authorized by voter approved passage of Proposition 1B on November 7, 2006 to BART. If the MTC makes a determination by December 31, 2007 that funding from State Infrastructure Bonds will not be available to meet the obligations of this Agreement, the Agreement will terminate and the Comprehensive Agreement, as amended, will be reinstated.

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 3, 2005, the Board of Directors approved the sale of approximately four acres of property owned by the San Mateo County Transportation Authority to the District, located at the northeast corner of Holly Street and El Camino Real in the City of San Carlos. The property had been acquired by the San Mateo County Transportation Authority for the purpose of constructing a railroad grade separation structure. That project having been completed, and taking into account the intended use of the property for transit oriented development of benefit to the Caltrain rail system, the TA’s Board of Directors agreed to sell the property to the District at the original acquisition cost of \$4,343,404. 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 San Mateo County Transportation Authority on its investment portfolio until the principal is paid in full. It is anticipated that the transaction will close during fiscal year 2008.

**SAN MATEO COUNTY TRANSIT DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2007**

**SCHEDULE OF FUNDING PROGRESS ^[1]
 MISCELLANEOUS PLAN OF THE CALIFORNIA PUBLIC EMPLOYEES' 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>
6/30/2004	\$ 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%
6/30/2006	144,755	141,062	3,693	97.4%	41,575	8.9%

[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, 2007 (in thousands)**

	Budget		Variance
	(Unaudited)	Actual	Positive/ (Negative)
OPERATING REVENUES - Passenger fares	\$ 16,015	\$ 16,831	\$ 816
OPERATING EXPENSES:			
Salaries and benefits	67,882	58,521	9,361
Services:			
Contract operations and maintenance services	27,041	26,506	535
Other services	5,134	3,612	1,522
Materials and supplies	9,082	8,229	853
Insurance	5,548	6,010	(462)
Miscellaneous	7,434	6,588	846
Total operating expenses	122,121	109,466	12,655
Operating loss	(106,106)	(92,635)	13,471
NON-OPERATING REVENUES (EXPENSES):			
Operating assistance	105,385	113,565	8,180
Investment income	1,472	1,868	396
Interest expense	(114)	(344)	(230)
Caltrain service subsidy	(14,478)	(14,478)	-
SFO/Colma BART service deficit (Note 5)	(5,000)	(5,289)	(289)
Interagency administration income	16,442	6,944	(9,498)
Other income, net	5,502	12,749	7,247
Total non-operating income	109,209	115,015	5,806
Income before capital outlay and long-term debt principal payments	3,103	22,380	19,277
CAPITAL OUTLAY:			
Capital assistance	7,878	2,304	(5,574)
Capital expenditures	(15,758)	(7,033)	8,725
Net capital outlay	(7,880)	(4,729)	3,151
LONG-TERM DEBT PRINCIPAL PAYMENT	(6,315)	(6,315)	-
EXCESS (DEFICIENCY) OF REVENUES AND NON-OPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENT	\$ (11,092)	\$ 11,336	\$ 22,428

SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO SUPPLEMENTARY SCHEDULE
YEAR ENDED JUNE 30, 2007

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		\$ 11,336
Capital expenditures	\$ 7,033	
Interest expense	(17,731)	
Depreciation and amortization	(37,746)	
Long-Term debt principal payment	6,315	
GASB 31 Unrealized gain/loss	603	
Reimbursed investment interest	6,823	
Capital gain on investment	<u>451</u>	
 Sub-Total Reconciling Items		 <u>(34,252)</u>
 Change in net assets, GAAP basis		 <u><u>\$ (22,916)</u></u>

Section III

STATISTICAL

Financial Trends

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

Revenue Capacity

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

Debt Capacity

- **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**
- **Farebox Recovery and Miles**
- **Employees**
- **Capital Assets**

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STATISTICAL SECTION

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

Financial Trends

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

Revenue Capacity Information

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

SAN MATEO COUNTY TRANSIT DISTRICT
FINANCIAL TRENDS – NET ASSETS AND CHANGES IN NET ASSETS
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

Fiscal year	2007	2006	2005	2004
OPERATING REVENUES - Passenger Fares	\$ 16,830	\$ 16,296	\$ 13,863	\$ 14,542
OPERATING EXPENSES:				
Salaries and benefits	58,521	56,944	53,420	53,521
Services:				
Contract operations and maintenance services	26,482	24,338	22,751	23,365
Other services	3,580	3,948	3,546	2,568
Materials and supplies	8,151	7,102	4,943	4,683
Insurance	6,010	4,927	3,774	4,360
Miscellaneous	6,585	6,433	5,684	5,667
Total operating expenses	109,329	103,692	94,118	94,164
Operating loss before depreciation, amortization and administrative expenses capitalized	(92,499)	(87,396)	(80,255)	(79,622)
Depreciation and amortization:				
District portion	(37,746)	(37,484)	(40,232)	(36,675)
Contributed capital portion	-	-	-	-
Administrative expenses capitalized	-	-	-	-
OPERATING LOSS	(130,245)	(124,880)	(120,487)	(116,297)
NON-OPERATING REVENUES (EXPENSES):				
Operating assistance	113,565	99,827	92,899	91,062
Investment income	9,745	6,690	5,770	2,244
Interest expense	(18,075)	(17,969)	(17,948)	(18,440)
Caltrain service subsidy	(14,478)	(12,929)	(14,588)	(14,296)
SFO/Colma BART station revenue/(deficit)	(5,289)	(9,620)	(8,095)	(18,000)
Lease-leaseback income	-	-	-	-
Interagency administrative income	6,944	6,054	6,595	8,654
Gain from insurance proceeds	-	-	-	-
Other income, net	12,613	5,901	6,785	5,033
Total non-operating revenues, net	105,025	77,954	71,418	56,257
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(25,220)	(46,926)	(49,069)	(60,040)
CAPITAL CONTRIBUTIONS	2,304	4,764	4,853	24,056
DEPRECIATION ON FIXED ASSETS ACQUIRED WITH CONTRIBUTED CAPITAL	-	-	-	-
CHANGE IN NET ASSETS	(22,916)	(42,162)	(44,216)	(35,984)
Net Asset Components				
Invested in capital assets, net of related debt	(25,815)	(15,102)	10,533	25,045
Restricted	3,569	3,390	13,659	19,171
Unrestricted	189,783	202,165	208,423	232,615
NET ASSETS	\$ 167,537	\$ 190,453	\$ 232,615	\$ 276,831

Source: Prior year CAFRS.

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

SAN MATEO COUNTY TRANSIT DISTRICT
FINANCIAL TRENDS – NET ASSETS AND CHANGES IN NET ASSETS
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

2003	2002	2001	2000	1999	1998
\$ 15,273	\$ 14,779	\$ 15,919	\$ 15,196	\$ 15,896	\$ 14,388
49,339	41,918	36,611	32,293	31,601	30,545
22,982	23,567	20,342	17,151	15,799	15,327
2,548	3,184	3,152	3,188	2,892	3,427
5,157	4,507	5,225	4,995	3,916	4,333
3,568	3,248	2,578	3,413	2,146	2,021
7,966	5,571	4,006	3,871	2,543	2,804
<u>91,560</u>	<u>81,995</u>	<u>71,914</u>	<u>64,911</u>	<u>58,897</u>	<u>58,457</u>
(76,287)	(67,216)	(55,995)	(49,715)	(43,001)	(44,069)
(37,275)	(39,338)	(31,886)	(28,529)	(20,050)	(16,839)
-	-	(6,858)	(7,669)	(4,469)	(4,752)
-	-	-	-	1,127	108
<u>(113,562)</u>	<u>(106,554)</u>	<u>(94,739)</u>	<u>(85,913)</u>	<u>(66,393)</u>	<u>(65,552)</u>
81,464	102,543	102,987	94,607	87,059	80,408
16,131	20,767	28,333	13,092	8,717	23,995
(19,146)	(19,836)	(20,733)	(21,170)	(15,447)	(17,333)
(14,296)	(14,355)	(13,820)	(13,224)	(12,263)	(12,551)
311	923	1,311	1,613	830	(298)
-	1,513	-	-	-	-
10,239	2,855	1,775	1,311	829	-
-	-	-	-	-	1,100
7,254	5,989	3,623	1,988	1,426	1,300
<u>81,957</u>	<u>100,399</u>	<u>103,476</u>	<u>78,217</u>	<u>71,151</u>	<u>76,621</u>
(31,605)	(6,155)	8,737	(7,696)	4,758	11,069
30,567	12,685	1,461	1,418	11,815	7,746
-	-	-	-	4,469	4,752
<u>(1,038)</u>	<u>6,530</u>	<u>10,198</u>	<u>(6,278)</u>	<u>21,042</u>	<u>23,567</u>
40,150	22,638	59,680	66,538	74,207	62,392
20,998	22,081	78,694	86,399	95,171	78,287
251,667	269,134	168,949	144,188	134,025	141,682
<u>\$ 312,815</u>	<u>\$ 313,853</u>	<u>\$ 307,323</u>	<u>\$ 297,125</u>	<u>\$ 303,403</u>	<u>\$ 282,361</u>

**SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 1998 THROUGH 2007**

Fiscal year ending	2007	2006	2005
Passenger Fares (in thousands)	\$ 16,830	\$ 16,296	\$ 13,863
Revenue Base			
Number of Passengers (in thousands)	14,668	14,182	14,190
Fare Structure			
Adults Local fare	1.50	1.50	1.25
Senior Citizen / disabled	0.75	0.75	0.60
Youth	1.00	1.00	0.75
Redi-Wheels (Paratransit)	2.50	2.50	2.00
Sales Tax rate	0.50%	0.50%	0.50%
Sales Tax Revenue (in thousands)	\$ 66,202	\$ 63,813	\$ 59,958
Taxable Sales in San Mateo County (in thousands)	\$ 13,240,200 ^[1]	\$ 12,451,350	\$ 12,055,706

Source: California State Board of Equalization and Prior year CAFRs.

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

SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 1998 THROUGH 2007

2004	2003	2002	2001	2000	1999	1998
\$ 14,542	\$ 15,273	\$ 14,779	\$ 15,919	\$ 15,196	\$ 15,896	\$ 14,388
14,710	16,121	17,103	17,958	17,675	17,886	18,991
1.25	1.25	1.10	1.10	1.10	1.10	1.00
0.60	0.60	0.50	0.50	0.50	0.50	0.50
0.75	0.75	0.75	0.75	0.75	0.75	0.50
2.00	2.00	1.50	1.50	1.50	1.50	1.00
0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
\$ 55,397	\$ 54,862	\$ 57,262	\$ 66,739	\$ 63,069	\$ 55,497	\$ 50,936
\$ 11,560,519	\$ 11,352,696	\$ 11,967,932	\$ 13,961,577	\$ 13,175,535	\$ 11,295,693	\$ 11,063,977

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**SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – OVERLAPPING REVENUE
FISCAL YEARS 1998 THROUGH 2007**

Fiscal year	County	City	Other Special Districts	San Mateo County Transit District ^[1]	Total
2007	6.25%	1.00%	0.50%	0.50%	8.25%
2006	6.25%	1.00%	0.50%	0.50%	8.25%
2005	6.25%	1.00%	0.50%	0.50%	8.25%
2004	6.00%	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%

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

Source: California State Board of Equalization

This table shows the tax rates for local authorities in San Mateo County. The District receives a one half-cent sales tax.

**SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – PRINCIPAL REVENUE PAYERS
FISCAL YEARS 2007 and 1998 (In thousands)**

Principal Revenue Payers	2007			1998		
	Rank	Percent of Taxable Sales	Amount	Rank	Percent of Taxable Sales	Amount
Total all other outlets	1	27.7%	\$ 904,382	1	38.1%	\$ 1,087,419
Automobile, boat, motorcycle and plane	2	13.2%	430,018	2	12.8%	367,043
General merchandise stores	3	9.6%	314,441	3	8.9%	254,938
Specialty Stores	4	9.3%	303,265	4	8.7%	248,613
Eating/Drinking	5	9.0%	293,462	5	7.2%	204,755
Building materials and farm implements	6	7.7%	251,199	6	4.8%	137,710
Service stations	7	7.6%	249,043	8	4.6%	131,198
Business and Personal Services	8	4.5%	145,827	7	4.7%	134,130
Home furnishings and appliances	9	3.9%	126,105	9	3.2%	91,408
Food stores	10	3.0%	98,821	10	3.0%	84,526
Apparel stores	11	2.9%	95,307	11	2.6%	75,230
Miscellaneous - All other retail stores	12	1.7%	56,611	12	1.4%	40,177
Total		100.0%	\$ 3,268,481		100.0%	\$ 2,857,147

Source: California State Board of Equalization.

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

**SAN MATEO COUNTY TRANSIT DISTRICT
DEBT CAPACITY – RATIOS OF OUTSTANDING BONDS
FISCAL YEARS 1998 THROUGH 2007 (In thousands)**

Fiscal Year	Revenue Bonds	Personal Income	As a Percent of Personal Income
2007	\$ 344,425	\$ 41,811,899	0.82%
2006	350,410	40,594,077	0.86%
2005	350,661	39,411,725	0.89%
2004	367,913	38,263,811	0.96%
2003	384,455	36,409,914	1.06%
2002	399,986	36,736,603	1.09%
2001	415,179	39,395,344	1.05%
2000	429,755	41,730,460	1.03%
1999	369,572	35,485,821	1.04%
1998	232,753	31,073,546	0.75%

Note: Personal Income Data is from the U.S. Department of Commerce, Bureau of Economic Analysis, Calendar Year figures. Data for 2005, 2006 and 2007 are based on an estimated 3 percent 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 San Mateo County.

SAN MATEO COUNTY TRANSIT DISTRICT
DEBT CAPACITY – BONDED DEBT
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

Fiscal Year	Revenue Bonds	Total Sales Tax Revenue	As a Percent of Total Sales Tax Revenue
2007	\$ 344,425	\$ 13,240,200 ^[1]	2.60%
2006	350,410	12,451,350	2.81%
2005	350,661	12,055,706	2.91%
2004	367,913	11,560,519	3.18%
2003	384,455	11,352,696	3.39%
2002	399,986	11,967,932	3.34%
2001	415,179	13,961,577	2.97%
2000	429,755	13,175,535	3.26%
1999	369,572	11,295,693	3.27%

Source: Prior year CAFRs.

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

**SAN MATEO COUNTY TRANSIT DISTRICT
DEBT CAPACITY – DIRECT AND OVERLAPPING DEBT AND DEBT LIMITATION
YEAR ENDED JUNE 30, 2007**

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

SAN MATEO COUNTY TRANSIT DISTRICT
DEBT CAPACITY – PLEDGED REVENUE COVERAGE
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

Fiscal Year	Sales Tax Revenue	Principal	Interest	Total	Coverage
2007	\$ 66,201	\$ 6,315	\$ 17,265	\$ 23,580	3
2006	63,813	6,025	13,175	19,200	3
2005	59,958	17,185	17,489	34,674	2
2004	55,397	16,475	17,976	34,451	2
2003	54,862	15,800	18,686	34,486	2
2002	57,262	15,145	19,407	34,552	2
2001	66,739	14,530	20,451	34,981	2
2000	63,069	13,340	20,441	33,781	2
1999	55,497	10,575	14,543	25,118	2
1998	50,936	4,425	13,824	18,249	3

Source: Prior year CAFRs.

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

**SAN MATEO COUNTY TRANSIT DISTRICT
DEMOGRAPHICS AND ECONOMIC INFORMATION – POPULATION AND INCOME
FISCAL YEARS 2006 AND 2000**

	2006	2000	Percent Change 2000 - 2006
Total Population	705,499 ^[3]	707,161	-0.2%
Persons Per Household	2.78	2.74	1.5%
Mean Household Income	\$ 107,653	\$ 88,700	21.4%
Personal Income	\$ 41,518 ^[2]	\$ 41,512	0.0%
Per Capita Income	\$ 59,213 ^[3]	\$ 58,644	1.0%
Minority Population:			
Black	23,498	23,778	-1.2%
Hispanic	162,149	154,708	4.8%
Asian	166,297	140,313	18.5%
Native American	13,230	10,658	24.1%
Total	365,174	329,457	10.8%
Percent of Minority Population to Total Population	51.8%	46.6%	11.1%
Population by Age:			
4 years and younger	50,213	45,374	10.7%
5 to 19 years	129,729	131,912	-1.7%
20 to 64 years	433,792	441,790	-1.8%
65 Plus	91,765	88,085	4.2%
Percent of Employed Residents to Total Population	53.2%	55.0%	-3.2%
Percent of Residents Working Outside of San Mateo County	^[1]	41.0%	N/A
Percent of People Commuting to the San Mateo County for Work	^[1]	38.0%	N/A

[1] Information not yet available.

[2] BEARFACTS 1995-2005 San Mateo, California (06081), most current information available.

[3] Fed Stats, San Mateo, California, most current information available.

Source: United States Bureau of the Census, American Community Survey and Bureau of Economic Analysis.

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

**SAN MATEO COUNTY TRANSIT DISTRICT
DEMOGRAPHICS AND ECONOMIC INFORMATION – UNEMPLOYMENT RATES
FISCAL YEARS 1998 THROUGH 2007**

Year	Unemployment Rates
2007	4.0%
2006	4.0%
2005	4.3%
2004	4.9%
2003	5.9%
2002	5.7%
2001	3.8%
2000	2.9%
1999	2.0%
1998	2.5%

Source: Department of Transportation's economic forecast.

This table shows the unemployment rates for San Mateo County.

**SAN MATEO COUNTY TRANSIT DISTRICT
 DEMOGRAPHICS AND ECONOMIC INFORMATION – PRINCIPAL EMPLOYERS
 FISCAL YEARS 2006 AND 1999**

Employers in County of San Mateo	2006			1999		
	Number of Employees	Rank	Percent of Total County Employment	Number of Employees	Rank	Percent of Total County Employment
United Airlines	9,600	1	2.73%	17,400	1	4.46%
Genentech Inc.	7,845	2	2.23%	2,839	7	0.73%
County of San Mateo	5,777	3	1.64%	4,761	3	1.22%
Oracle Corporation	5,642	4	1.61%	14,000	2	3.59%
Kaiser Permanente	3,609	5	1.03%			
Safeway Inc.	2,280	6	0.65%	1,973	10	0.51%
United States Postal Service	2,174	7	0.62%	2,937	4	0.75%
Electronic Arts	2,000	8	0.57%			
Mills-Peninsula Health	1,800	9	0.51%			
Applied Biosystems	1,578	10	0.45%			
Raychem Corporation				2,900	5	0.74%
American Airlines				2,700	8	0.69%
Franklin Templeton Corporation				2,849	6	0.73%
CHW West Bay Hospital				2,373	9	0.61%
Total	42,305		12.04%	54,732		14.03%

Note: Principal employer information for 2007 and 1998 is not available.

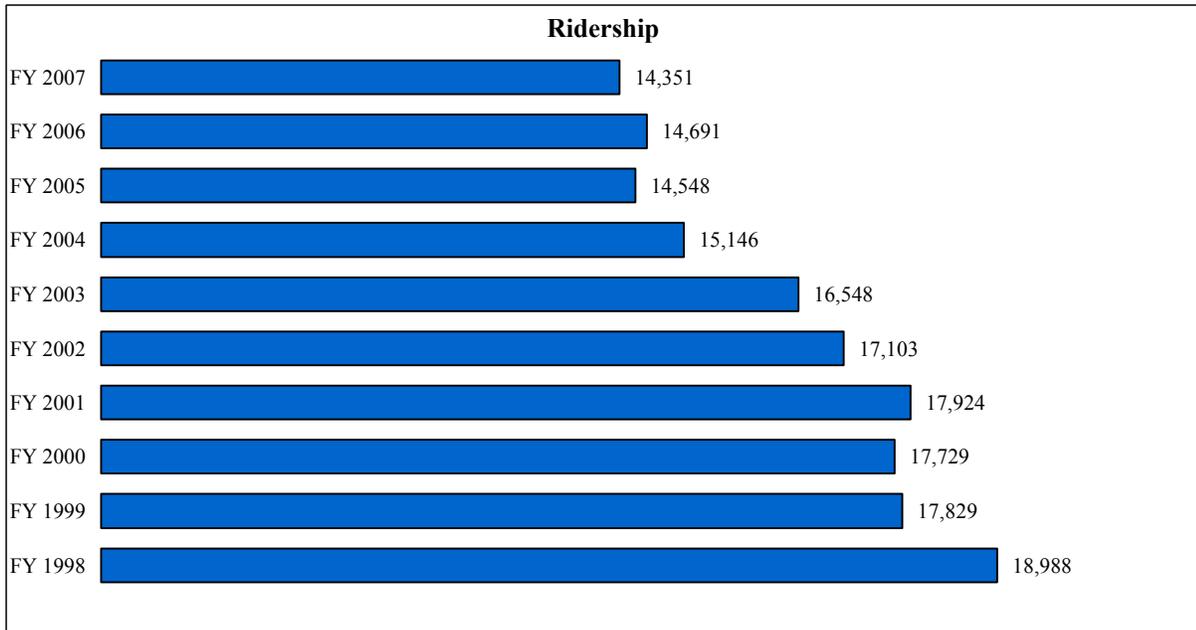
Source: County of San Mateo.

This table shows the top 10 principal employers in San Mateo County for 2006 and 1999.

**SAN MATEO COUNTY TRANSIT DISTRICT
 OPERATING INFORMATION – RIDERSHIP AND FARES
 FISCAL YEARS 1998 THROUGH 2007 (In thousands)**

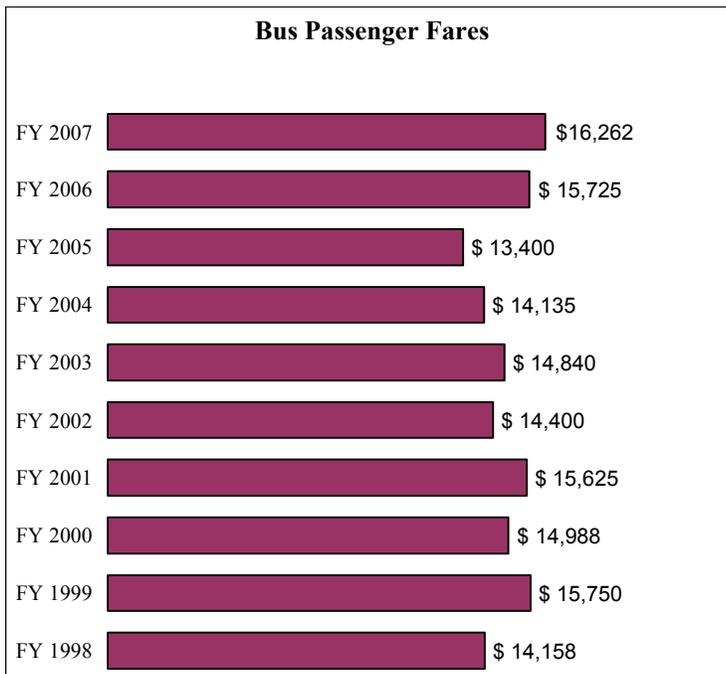
FIXED -ROUTE RIDERSHIP

Ridership was essentially flat between FY2006 and FY2007.



FIXED-ROUTE PASSENGER FARES

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

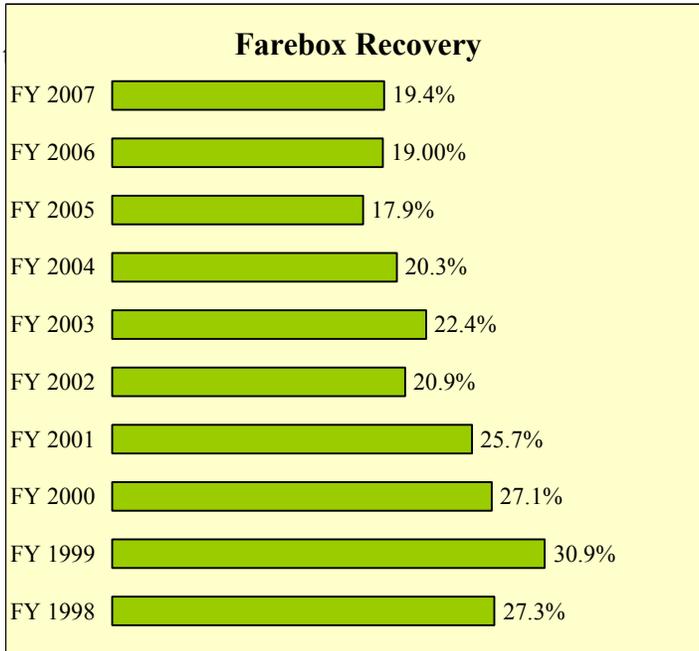


Bus passenger fares table show the total bus fare revenue for each year.

**SAN MATEO COUNTY TRANSIT DISTRICT
 OPERATING INFORMATION – FAREBOX RECOVERY AND MILES
 FISCAL YEARS 1998 THROUGH 2007**

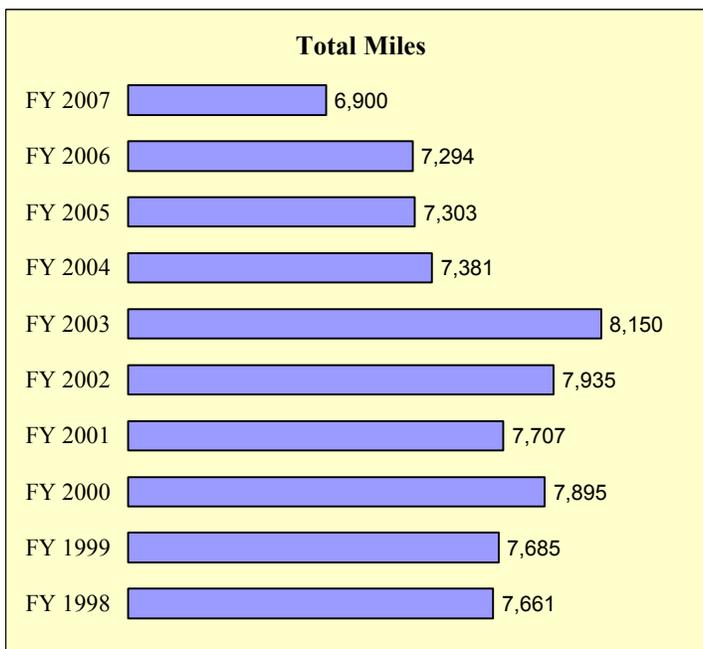
FIXED-ROUTE FAREBOX RECOVERY

Farebox recovery is based on fixed-route fare revenues divided by fixed-route total operating expenses. There have been modest changes from FY2006 to FY2007.



FIXED-ROUTE REVENUE MILES (In thousands)

Fixed-route total miles have slightly decreased between FY2006 and FY2007.



Fixed-route data includes La Honda and shuttle service, which makes up less than 5% of the total data. The table show the total fixed route miles traveled.

**SAN MATEO COUNTY TRANSIT DISTRICT
OPERATING INFORMATION – EMPLOYEES
FISCAL YEARS 2003 THROUGH 2007**

	Authorized Positions				
	2007	2006	2005	2004	2003
Employees:					
Executive	4.80	6.00	6.00	6.00	2.35
Administration	42.70	38.76	36.56	46.29	35.09
Communication	33.75	35.77	36.17	43.76	22.29
Development	11.57	14.84	13.40	14.83	18.06
Finance	31.30	29.37	18.31	21.88	24.80
Operations	507.20	500.37	513.13	522.82	553.67
Total	<u>631.32</u>	<u>625.11</u>	<u>623.57</u>	<u>655.58</u>	<u>656.26</u>

Note: Employee counts are for Full Time Equivalents (FTEs) for the District. Data for 1998 through 2002 was not available.

Source: Prior year annual operating and capital budgets.

This table shows total Full Time Equivalents by division.

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SAN MATEO COUNTY TRANSIT DISTRICT
OPERATING INFORMATION – CAPITAL ASSETS
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Capital Assets - Non Depreciable				
Land and right of way	\$ 43,695	\$ 43,695	\$ 43,695	\$ 43,695
Construction in progress	<u>31,783</u>	<u>30,603</u>	<u>25,662</u>	<u>25,659</u>
Total Capital Assets, Non Depreciable	75,478	74,298	69,357	69,354
Other Capital Assets				
Buses and bus equipment	145,312	142,940	139,595	131,910
Buildings and building improvements	72,303	71,685	71,149	69,095
Maintenance and other equipment	23,232	21,442	21,097	20,117
Furniture and fixtures	13,875	13,087	13,329	13,229
Shelters and bus stop signs	3,313	3,304	3,304	2,830
Other vehicles	<u>2,363</u>	<u>2,472</u>	<u>2,354</u>	<u>2,354</u>
Total Capital Assets, Depreciable	260,398	254,930	250,828	239,535
Accumulated Depreciation for*:				
Buses and bus equipment	(99,781)	(90,879)	(80,034)	(68,189)
Buildings and building improvements	(46,073)	(43,720)	(41,367)	(38,633)
Maintenance and other equipment	(20,806)	(20,089)	(18,753)	(17,137)
Furniture and fixtures	(8,474)	(7,421)	(7,358)	(6,765)
Shelters and bus stop signs	(3,200)	(2,986)	(2,755)	(2,394)
Other vehicles	<u>(2,098)</u>	<u>(2,323)</u>	<u>(2,196)</u>	<u>(2,088)</u>
Total Accumulated Depreciation	(180,432)	(167,418)	(152,463)	(135,206)
Capital Assets, Net	<u>\$ 155,444</u>	<u>\$ 161,810</u>	<u>\$ 167,722</u>	<u>\$ 173,683</u>

Source: Prior year CAFRs.

* The District used weighted average from 2001 through 2005 to categorize the accumulated depreciation by asset for years 1998 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
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
\$ 43,695	\$ 43,695	\$ 36,592	\$ 35,759	\$ 35,759	\$ 35,759
32,410	18,366	8,526	13,325	32,617	10,749
76,105	62,061	45,118	49,084	68,376	46,508
116,500	100,419	95,704	95,960	74,922	88,356
68,643	64,854	64,486	55,341	54,884	53,408
19,613	17,458	11,419	8,849	8,233	8,639
13,143	7,613	10,861	9,593	4,605	3,889
2,564	2,226	2,202	1,999	1,817	1,862
2,613	2,204	2,199	2,055	1,622	1,459
223,076	194,774	186,871	173,797	146,083	157,613
(80,959)	(72,520)	(65,096)	(55,124)	(48,382)	(51,583)
(35,848)	(32,453)	(28,701)	(26,488)	(23,248)	(24,786)
(16,770)	(15,173)	(11,836)	(11,887)	(10,433)	(11,123)
(6,186)	(5,138)	(4,195)	(4,407)	(3,868)	(4,124)
(2,248)	(2,073)	(1,829)	(1,689)	(1,483)	(1,581)
(2,117)	(1,865)	(1,572)	(1,473)	(1,292)	(1,378)
(144,128)	(129,222)	(113,229)	(101,067)	(88,706)	(94,575)
<u>\$ 155,053</u>	<u>\$ 127,613</u>	<u>\$ 118,760</u>	<u>\$ 121,814</u>	<u>\$ 125,753</u>	<u>\$ 109,546</u>

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Section IV

SINGLE AUDIT

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *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 OMB 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



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, 2007, and have issued our report thereon, dated November 30, 2007. 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

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.

Vasnick Time Day + Co. LLP

Palo Alto, California
November 30, 2007



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, 2007. 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, 2007.

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.

A *control deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the PCJPB's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the San Mateo County Transit District as of and for the year ended June 30, 2007, and have issued our report thereon dated November 30, 2007. 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.

Vasnick Time Day + Co. LLP

Palo Alto, California
November 30, 2007

**SAN MATEO COUNTY TRANSIT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

Grant Program	Federal Catalog Number	Expenditures
<u>U.S. Department of Transportation, Federal Transit Administration</u>		
Federal Transit - Formula Grants ^[1]		
CA-90-Y122 Capital Grant	20.507	\$ 628,308
CA-90-Y154 Capital Grant	20.507	(266,542)
CA-90-Y244 Capital Grant	20.507	431,080
CA-90-Y244 Operating Grant	20.507	9,267
CA-90-Y344 Capital and Operating Grant	20.507	558,571
CA-90-Y-448 Operating Grant	20.507	298,199
CA-90-Y-525 Capital Grant	20.507	201,620
CA-90-FY-08 Capital Grant	20.507	11,645
CA-04-0020 Capital Grant	20.507	14,717
CA-81-2003(01)- Operating-0020	20.507	59,874
Sec 5311(b) Operating Grant	20.507	22,615
Sec 5311(f) Operating Grant	20.507	141,183
FY07 FTA earmark for TOD	20.507	29,976
Total Expenditures of Federal Awards		<u>\$ 2,140,513</u>

[1] Major Program

See accompanying notes to supplementary information.

**SAN MATEO COUNTY TRANSIT DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

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, 2007**

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>

**SAN MATEO COUNTY TRANSIT DISTRICT
FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2007**

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.

**SAN MATEO COUNTY TRANSIT DISTRICT
SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

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

**SAN MATEO COUNTY TRANSIT DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2007**

The were no prior year findings or recommendations.