San Mateo County Transit District

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2008

San Mateo County

TRANSIT DISTRICT

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2008

Prepared by the Finance Division

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Section I

INTRODUCTORY

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November 30, 2008

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, 2007 through June 30, 2008. 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 District is an independent political subdivision of the State of California formed by the California State Legislature on August 14, 1974 and approved by county voters in the following general election. San Mateo County is located on a peninsula south of the City and County of San Francisco, bordered on the west by the Pacific Ocean, on the east by San Francisco Bay and on the south by the counties of Santa Clara and Santa Cruz.

The overall purpose of the District is to plan, develop, finance and operate a modern, coordinated system of transportation that offers access to the many facets of San Mateo County and promotes sound growth and economic development for the region. The District provides bus transit services throughout San Mateo County, north into downtown San Francisco, and south to Palo Alto in Santa Clara County. The District also operates a paratransit service and funds shuttles, connecting rail stations to employment centers. In addition, this system works 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 (the JPB) which operates Caltrain and the San Mateo County Transportation Authority (the TA), these agencies have their own separate corporate identity and governance, and they are not component units of the District. Therefore, this CAFR and the financial statements contained within represent solely the activities, transactions and status of the District.

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 the agreement was drawing to a close in the late 1980s, the counties of San Mateo, Santa Clara and San Francisco formed the 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.

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, marketing research, sales, media relations, community outreach 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, 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.

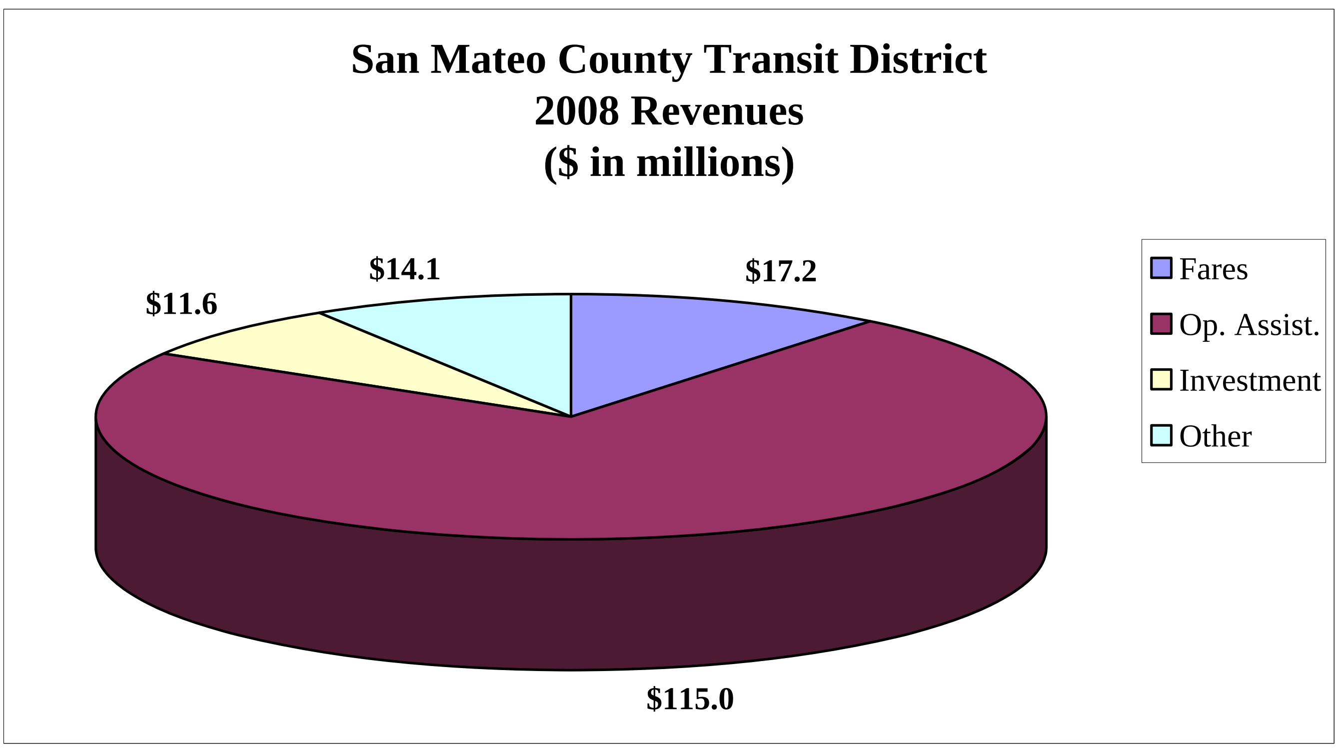
Once adopted, the Board of Directors has the authority to amend the budget. While the legal level of budgetary control is at the entity level, the District maintains stricter control at division, departmental and line item levels to serve various needs. Cost center managers monitor budget-to-actual performance 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.

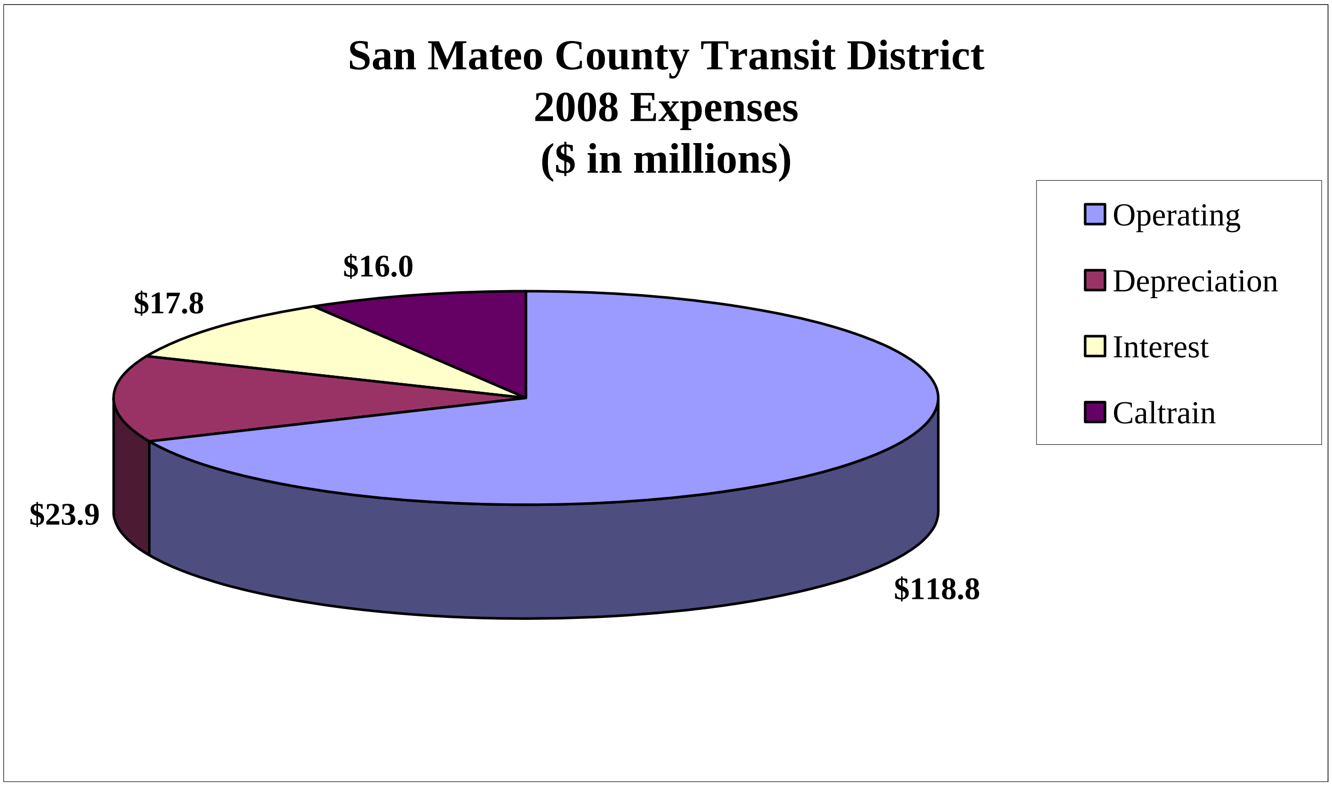
The District employs the same basis and principles for both budgeted and actual revenues and expenses, except that actual proceeds from the sale of fixed assets, unrealized investment gains and losses and inter-fund transfers are not included in the budget. As a special purpose organization, the District is not subject to the State of California's Gann Act requiring adherence to an annual appropriation limit. The pie charts on the following pages show actual results of the major revenue and expense categories for fiscal year 2008.

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) projections assume there will be intensified population growth along the El Camino Real Corridor, parallel to the Caltrain line. It also is assumed that there will be higher density development in all cities along this corridor which is expected to increase demand for transportation services.

In addition to providing local transportation for municipalities, the District has committed significant resources to support other transportation modes. These include Caltrain rail services and shuttle bus service to and from the Caltrain and BART stations. Dedicated bus shuttles distributing rail patrons to regional employers will 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 32-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.





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 routes in 2003. An additional four routes were eliminated in 2004 concurrent with the opening of the BART Extension to SFO and one route was added in the same year. In 2008, one route was eliminated bringing the current total to 54 routes. Fixed-route bus ridership peaked in San Mateo County at 19.0 million in fiscal year 1998, but has since declined to 15.4 million in 2008.

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 consistently improved the average time between vehicle breakdowns from year to year and is proficient at re-powering vehicles, a task rarely undertaken by other transit operators.

Caltrain Administration

Since 1992, the District has served as staff to the 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. 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 less than 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. After many years of planning, Caltrain broke ground on a centralized equipment maintenance and operations facility in November 2004 that consolidated several geographically separate facilities, increasing efficiency. The grand opening of this facility occurred in September 2007.

A current area of focus is Caltrain 2015 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, JPB staff issued farebox revenue bonds in October 2007 to fund eight new Bombardier rail cars which have been delivered.

To deliver the service levels necessary to meet projected demand, infrastructure improvements are needed. Furthermore, electrification is planned for Caltrain. 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 TA, which administers funds from a one-half cent county sales tax authorized by voters in 1988 and extended in November 2004 by voters through 2033. Together with a series of highway projects, the TA invests in Caltrain capital improvements and a paratransit trust fund 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 TA that readers may obtain upon request.

Paratransit Services

The District provides accessible transportation services throughout San Mateo County with fixed-route, Redi-Wheels, and RediCoast services. The entire fleet of fixed-route buses is equipped with wheelchair lifts or ramps and kneeling feature to make boarding easier. For some seniors and many persons with disabilities who cannot use fixed-route buses, Redi-Wheels and RediCoast are the only means of transportation available. In the fiscal year ending June 30, 2008, Redi-Wheels and RediCoast vehicles and contracted taxis provided a total of 205,619 hours of service to 325,831 customers.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

San Mateo County is ranked number one in affluence among Bay Area counties and has a growing and maturing economy. The District's sales tax receipts have steadily increased from 2004 through 2008 surpassing record high levels. However, the economy nationwide has been in a downward spiral for several months, unemployment is on the rise and many experts are indicating a recession. While these factors did not affect sales tax revenues in the last fiscal year, the District will be cautious in budgeting sales tax revenues in the coming years.

With significant employment in diverse industries including air travel, technology, biotechnology, finance, education, conventions, tourism, agriculture, and manufacturing, San Mateo County does not depend on any one sector for its prosperity. This broad base helps to ensure long-term stability for San Mateo County residents.

Despite the favorable long-term outlook, the District faces a significant structural deficit in its operating budget. Both the federal and state governments drastically reduced operating subsidies in response to budget pressures of their own. Also, fare revenue for the District's core business, local bus service, has not recovered to the record high levels experienced in 1998. Finally, additional inflationary strains are being experienced on the growing level of expenses. These trends are challenging the District to re-examine its business model in terms of the needs of its customers and its fiscally constrained operating budget.

Cash Management

The Board of Directors has adopted an investment policy as prescribed by 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 prior to maturity when prudent to do so. All of the District's unrestricted cash and investments as of June 30, 2008, 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 two percent of annual compensation for each year of service at age 55. Pursuant to its employee benefits policy, the District is responsible for both the employer and employee contributions to CalPERS retirement.

ACKNOWLEDGMENTS AND AWARDS

The staff and contracted firms of the District bring an effective combination of skill, experience and dedication to carrying out the District's mission. Together, they plan, develop and finance the creation of a modern, coordinated multimodal transportation system offering convenient access to the many attributes of the Bay Area and beyond. Although we have concerns about the current volatility in the financial markets that many experts have labeled a recession, 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 2007 CAFR for excellence in financial reporting and the Certificate of Achievement appears immediately following this transmittal letter. To be awarded a certificate, a report must be easy to read and efficiently organized, while satisfying both generally accepted accounting principles and applicable legal requirements. We believe our fiscal year 2008 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.

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

Respectfully submitted,

Virginia Harrington

Virginia Harrington
Chief Financial Officer

Patricia Reavey

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 20, 2007

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

President

Executive Director

BOARD OF DIRECTORS

ADRIENNE TISSIER, Chair

ZOE KERSTEEN-TUCKER, Vice Chair

CAROLE GROOM

ROSE GUILBAULT

SHIRLEY HARRIS

JIM HARTNETT

JERRY HILL

ARTHUR L. LLOYD

KARYL MATSUMOTO

ADRIENNE TISSIER was appointed by the San Mateo County Board of Supervisors in 2005 and currently serves as chair. Chair 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, Chair Tissier served two terms as a member of the City Council of Daly City, twice serving as mayor. Chair Tissier has been in business in the private sector for more than 20 years.

ZOE KERSTEEN-TUCKER, public member and representative of the Coastal area, was appointed by the District Board of Directors in 2006 and currently serves as vice-chair. Vice Chair Kersteen-Tucker holds a doctoral degree in experimental neuropsychology from University of California, Berkeley.

CAROLE GROOM, was appointed by the Cities Selection Committee to represent the central portion of San Mateo County in 2008. Director Groom was elected to the San Mateo City Council in 2000. She currently serves as mayor. For the past 17 years, she has been employed by Mills-Peninsula Health Services.

ROSE GUILBAULT, public member, was appointed by the San Mateo County Transit District Board of Directors in 2006. She is Vice President of Corporate Affairs and Publishing for California State Automobile Association, the AAA affiliate of Northern California, Nevada and Utah. Director Guilbault was nominated by Governor Schwarzenegger to serve on the Community College Board of Governors. She also is author of "Farmworker's Daughter: Growing up Mexican in America", a childhood memoir.

SHIRLEY HARRIS, public member, was appointed by the District Board of Directors in 1994 and served as the chair of the Board of Directors in 1996 and in 2001. Director Harris has more than 25 years of experience in telecommunications and human resource management.

JIM HARTNETT, Cities Selection Committee appointee for the southern portion of San Mateo County, was appointed by the Cities Selection Committee in 2002. Director Hartnett has been a member of the City Council of Redwood City since 1994. He also serves as a member of the governing body of the Peninsula Corridor Joint Powers Board. Director Hartnett is an attorney with a practice in Redwood City.

JERRY HILL was appointed by the San Mateo County Board of Supervisors in 1999. Supervisor 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. He also serves as a member of the governing body of the Peninsula Corridor Joint Powers Board. Director Hill is a business owner and commercial pilot.

ARTHUR L. LLOYD, "Transit Expert" member, was appointed by the San Mateo County Board of Supervisors in 1988. Director Lloyd also serves as a member of the governing body of the Peninsula Corridor Joint Powers Board. Prior to his retirement, he 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 2007. Director Matsumoto was elected to the City of South San Francisco City Council in November 1997 and currently serves as mayor pro tem. She is a native Californian and has lived in South San Francisco for 27 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

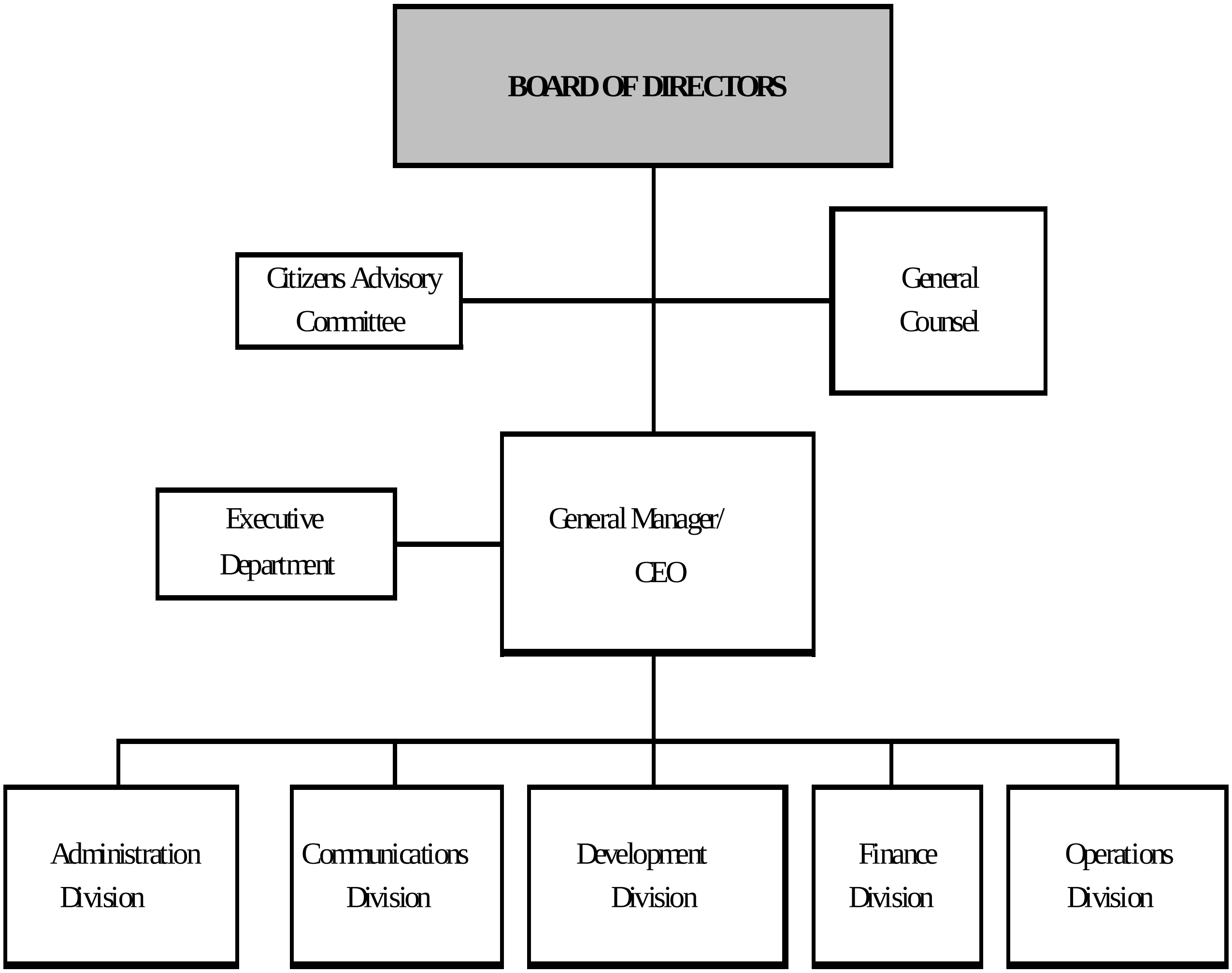
DISTRICT SECRETARY

Martha Martinez

GENERAL COUNSEL

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

ORGANIZATION CHART



Administration Division

* Human Resources
* Technology
* Procurement
* DBE Compliance
* Safety & Risk Management
* Security
* Civil Rights

Communications Division

* Marketing
* Public Information
* Media Relations
* Customer Service
* Advertising
* Distribution
* Sales
* Market Research
* Outreach

Development Division

* Planning and Development
* Engineering
* Construction
* Grants and Capital Program
* Property Management
* Real Estate
* Legislation

Finance Division

* Budgeting
* Accounting
* Project control
* Fixed Assets
* Disbursements
* Receivables
* Treasury
* Audit

Operations Division

* Bus Operations
* Maintenance
* Contracted Bus Service
* Accessible Services
* Shuttles
* Quality Assurance
* Facilities


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

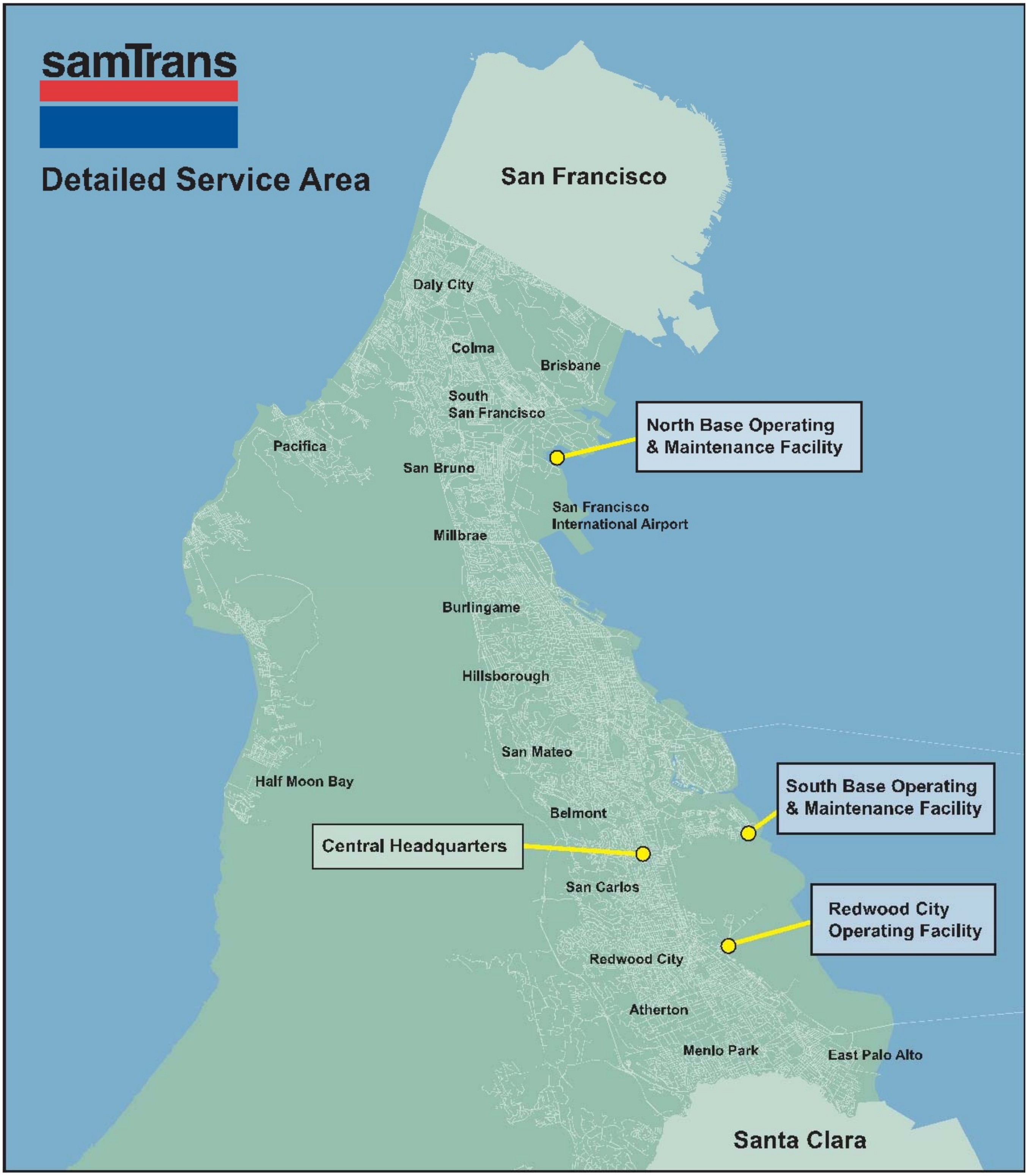

samTrans
Detailed Service Area
San Francisco
Daly City
Colma
Brisbane
South
San Francisco
North Base Operating
& Maintenance Facility
Pacifica
San Bruno
San Francisco
International Airport
Millbrae
Burlingame
Hillsborough
San Mateo
Half Moon Bay
South Base Operating
& Maintenance Facility
Belmont
Central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

TABLE OF CREDITS

The following individuals contributed to the production of the fiscal year 2008 Comprehensive Annual Financial Report:

Finance:	Manager, Budgets	Ladi Bhuller
	Manager, General Ledger	Rima Lobo
	Manager, Treasury	Brian Lee
	Senior Accountant	Jeannie Chen
	Senior Budget Analyst	Angela Ho
	Senior Systems Accountant	Angustia Pacumio
Audit Firm:	Partner	Leonard Danna
	Partner	Ahmad Gharaibeh

Section II

FINANCIAL

Independent Auditor’s Report

Management’s Discussion and Analysis

Basic Financial Statements and Notes

Required Supplementary Information

Supplementary Information and Notes

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

To 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, 2008 and 2007. 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, 2008 and 2007 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 of the financial statements, the District adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2008, 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.

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FRESNO • LAGUNA • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA

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.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
November 30, 2008

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 2008 with comparisons to the prior two fiscal years 2007 and 2006. We encourage readers to consider the information presented here in conjunction with the transmittal letter contained in the Introductory Section and with the statements and related notes contained in the Financial Section.

FINANCIAL HIGHLIGHTS

- Total assets stand at $518.9 million at June 30, 2008, a decrease of $9.2 million or 1.7 percent compared to June 30, 2007 and a decrease of $27.9 million or 5.0 percent, at June 30, 2007 compared to June 30, 2006. The fiscal year 2008 decrease was primarily due to a decrease in cash and cash equivalents.
- Total liabilities increased by $2.9 million or 0.8 percent to $371.3 million at June 30, 2008 compared to June 30, 2007 and decreased by $2.3 million or 0.6 percent to $368.4 million at June 30, 2007 compared to June 30, 2006. Other postemployment benefits (OPEB) and other noncurrent liabilities account for the majority of the increase in fiscal year 2008.
- Operating revenue from passenger fares for fiscal year 2008 was $17.2 million, an increase of $0.4 million or 2.2 percent compared to fiscal year 2007 and an increase of $0.5 million or 3.3 percent in fiscal year 2007 compared to fiscal year 2006. The year-over-year increases were the results of slight increases in ridership.
- Total operating expenses in fiscal year 2008 were $118.8 million, an increase of $9.4 million or 8.6 percent compared to fiscal year 2007 and an increase of $5.6 million or 5.4 percent in fiscal year 2007 compared to fiscal year 2006 primarily due to an increase in salaries and benefits as a result of the recognition of OPEB obligations in fiscal year 2008.
- The net of nonoperating revenues and nonoperating expenses was $107.0 million for fiscal year 2008, which is $1.9 million or 1.8 percent higher than in 2007 and $27.1 million or 34.7 percent higher in fiscal year 2007 than in fiscal year 2006. The 2008 increase was mainly due to a decrease in BART support.
- Net assets at June 30, 2008 were $147.7 million, a decrease of $12.1 million or 7.6 percent from June 30, 2007. Net assets at June 30, 2007 were $159.7 million, a decrease of $25.6 million or 13.8 percent from June 30, 2006. The decrease in fiscal year 2008 is due mainly to the implementation of GASB Statement No. 45, which required the District to book an additional $2.3 million in accrued expenses in addition to an inflationary increase in expenses.

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 nonoperating.

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 activitie*s 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 required supplementary information in accordance with the requirements of GASB Satements No. 25 and No. 45 providing information about the status of the District's unfunded actuarial accrued liability for its public employee retirement system and other postemployment benefits. Additional supplementary information and associated notes concerning compliance with the District's annual budget appear immediately following the required supplementary information.

Analysis of Basic Financial Statements

Total assets on June 30, 2008 were $518.9 million, a decrease of $9.2 million or 1.7 percent compared to June 30, 2007 and a decrease of $27.9 million or 5.0 percent at June 30, 2007 compared to June 30, 2006. Total current assets decreased by $12.1 million or 10.9 percent to $98.7 million on June 30, 2008 from $110.7 million on June 30, 2007 and a decrease of $10.1 million or 8.4 percent at June 30, 2007 compared to June 30, 2006. Capital assets – net of depreciation, contribution to BART – net of amortization and other non-current assets combined, increased by $2.9 million or 0.7 percent in 2008 and decreased by $17.8 million or 4.1 percent in 2007. The decrease in current assets and the increase in noncurrent assets were primarily due to the reinvestment of short-term investments to long-term securities.

Capital assets net of accumulated depreciation decreased by $0.2 million or 0.1 percent to $147.5 million at June 30, 2008 compared to 2007 and $9.0 million or 5.8 percent in 2007 compared to 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 results of these stations. In 2007, the District amended its agreement with BART whereby BART assumed sole operational responsibility for the San Francisco Airport extension station. Under the terms of the new agreement, the District is relieved from any obligation to pay operating or capital costs associated with the San Francisco Airport extension station and BART is relieved of the $72 million liability for the contribution made by the District to fund the San Francisco Airport extension station. The District treated the $72 million as a capital contribution with a 30-year life from its payment date to be consistent with all previous capital contributions to BART.

The amortized capital contribution to BART decreased by $7.3 million or 4.6 percent to $151.5 million in fiscal year 2008 compared to fiscal year 2007 and increased by $48.0 million or 43.4 percent in fiscal year 2007 compared to fiscal year 2006. Additional discussion of the District’s transactions with BART can be 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)

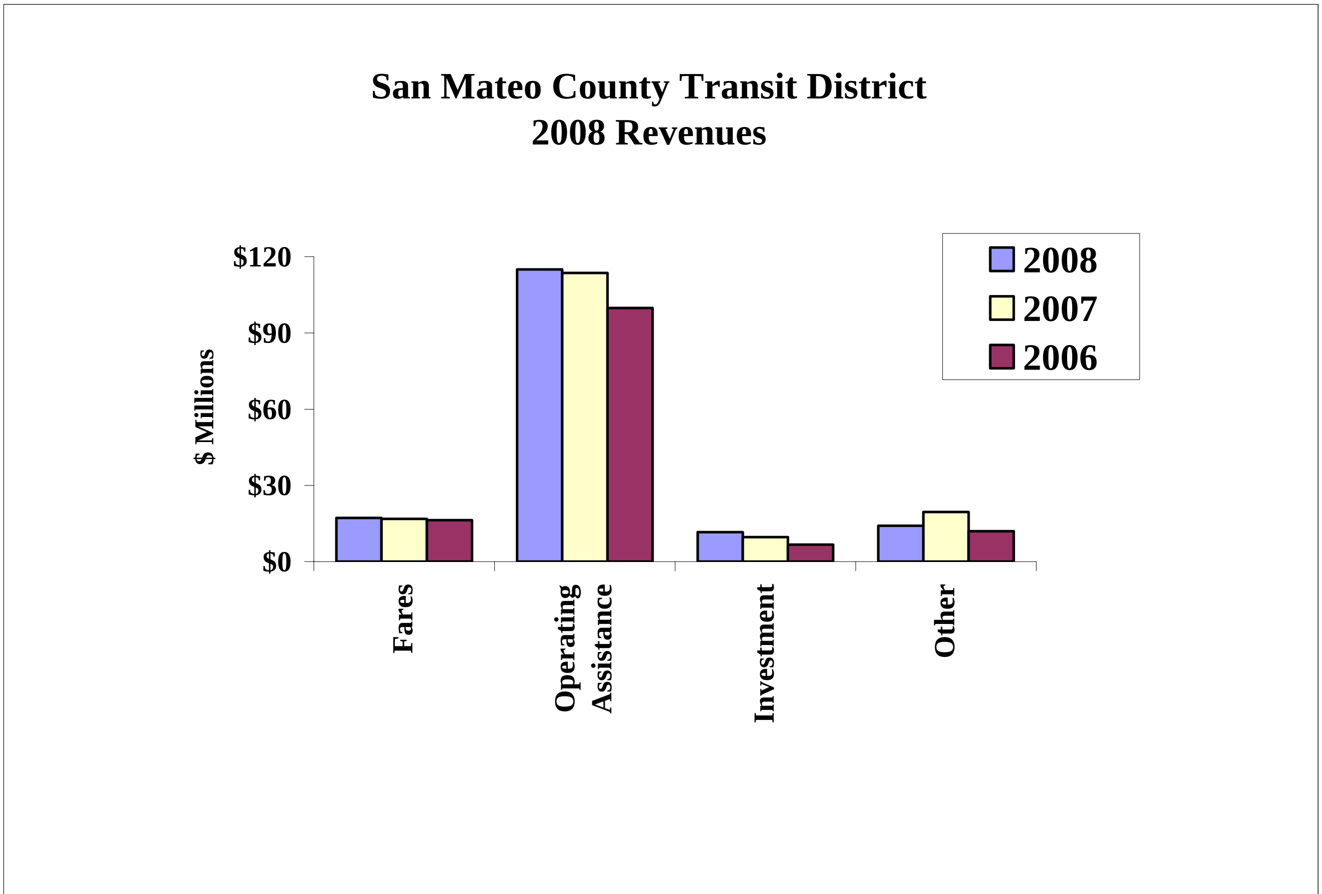
	2008	2007	2006
Current Assets	$ 98,669	$ 110,734	$ 120,870
Capital assets, net of depreciation	147,455	147,640	156,659
Contribution to BART, net of amortization	151,451	158,729	110,692
Other noncurrent assets	121,352	110,995	167,772
Total assets	518,927	528,098	555,993
Current liabilities	24,921	24,641	23,350
Long-term debt	331,195	337,805	344,095
Other noncurrent liabilities	15,154	5,919	3,246
Total liabilities	371,270	368,365	370,691
Net assets			
Invested in capital assets, net of related debt	(35,006)	(33,619)	(20,253)
Restricted	3,517	3,569	3,390
Unrestricted	179,146	189,783	202,165
Total net assets	$ 147,657	$ 159,733	$ 185,302

Total liabilities increased by $2.9 million or 0.8 percent to $371.3 million in fiscal year 2008 compared to fiscal year 2007 and decreased by $2.3 million or 0.6 percent to $368.4 million in 2007 compared to 2006. An increase in other non-current liabilities account for the majority of the increase in fiscal year 2008.

At June 30, 2008, net assets of $147.7 million were $12.1 million or 7.6 percent less than the $159.7 million at June 30, 2007 and were $25.6 million or 13.8 percent less on June 30, 2007 compared to $185.3 million at June 30, 2006. The ($35.0) million invested in capital assets net of related debt at June 30, 2008 were (23.7) percent of the total net assets. Total net assets restricted for debt service at June 30, 2008 were $3.5 million or 2.4 percent of total net assets. The remaining $179.1 million of total net assets at June 30, 2008 were unrestricted and represented 121.3 percent of total net assets.

Revenue Highlights

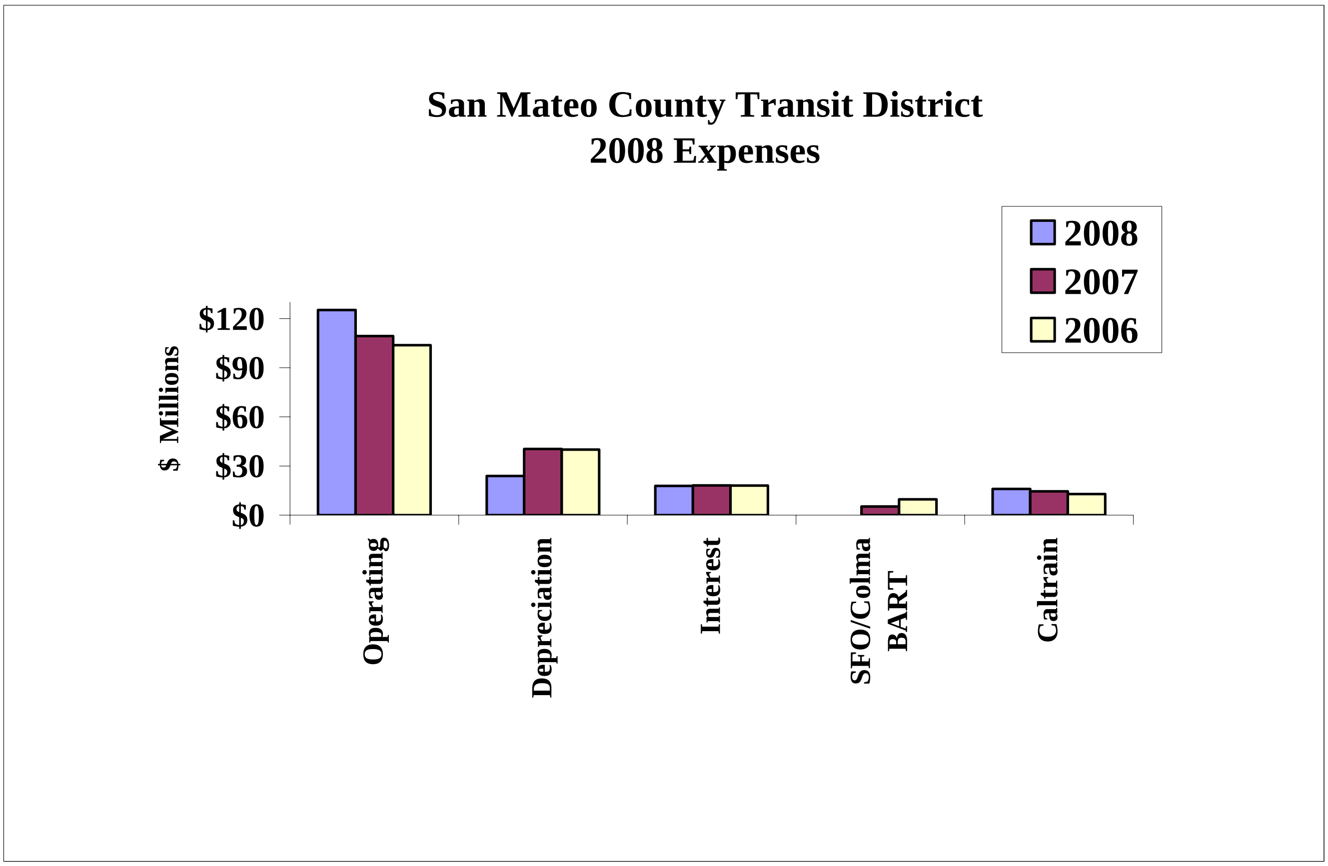
Operating revenues generated from passenger fares of $17.2 million increased by $0.4 million or 2.2 percent during fiscal year 2008 compared to fiscal year 2007 and increased by $0.5 million or 3.3 percent in fiscal year 2007 compared to fiscal year 2006. This change was the result of a slight increase in ridership.



Nonoperating revenues decreased by $2.1 million or 1.5 percent to $140.8 million in fiscal year 2008 mostly due to a decrease in other income. Operating assistance of $115.0 million accounts for the majority of fiscal year 2008 nonoperating revenues. This amount consisted of $68.7 million or 59.7 percent from transaction and use tax, $32.0 million or 27.8 percent from local transportation funds, $9.5 million or 8.3 percent from state transit assistance and $4.8 million or 4.2 percent from Measure A, federal assistance and AB434 funds combined.

Expense Highlights

Total operating expenses of $118.8 million in fiscal year 2008 were $9.4 million or 8.6 percent higher than fiscal year 2007 and were $5.6 million or 5.4 percent higher in fiscal year 2007 compared to fiscal year 2006. Total operating expenses in 2008 consisted of $64.2 million or 54.0 percent for wages and benefits, $31.7 million or 26.7 percent for contract operations and other services, and $22.9 million or 19.3 percent for materials, insurance and other miscellaneous expenses combined. Depreciation and amortization expenses were $23.9 million and $40.4 million for fiscal year 2008 and fiscal year 2007 respectively, a $16.5 million or 40.8 percent decrease in fiscal year 2008 compared to fiscal year 2007 and $2.2 million or 5.2 percent decrease in fiscal year 2007 compared to fiscal year 2006. The decrease in fiscal year 2008 was due to an adjustment in 2007 related to a change in accounting estimates concerning estimates of asset life.



Nonoperating expenses were $33.8 million in fiscal year 2008 and $37.8 million in fiscal year 2007, a reduction of $4.0 million or 10.6 percent in fiscal year 2008 compared to fiscal year 2007 and a decrease of $2.7 million or 6.6 percent in fiscal year 2007 compared to fiscal year 2006. In fiscal year 2008, the District paid the JPB $16.0 million for its contribution toward the Caltrain rail service operation. A more detailed discussion of the District's relationship with the JPB can be found in *Note #8 – Peninsula Corridor Joint Powers Board (JPB)* of the *Notes to the Financial Statements*.

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

	2008	2007	2006
Operating revenues-passenger fares	$ 17,203	$ 16,830	$ 16,296
Operating expenses-transit services	118,756	109,329	103,692
Operating loss before depreciation and amortization	(101,553)	(92,499)	(87,396)
Depreciation and amortization	(23,899)	(40,399)	(42,635)
Operating loss	(125,452)	(132,898)	(130,031)
Nonoperating revenues			
Operating assistance	115,004	113,565	99,827
Investment income	11,637	9,745	6,690
Interagency administrative income	8,327	6,944	6,054
Other income, net	5,806	12,613	5,901
Total Nonoperating revenues	140,774	142,867	118,472
Nonoperating expenses			
SFO/Colma BART station revenue (deficit)	-	(5,289)	(9,620)
Interest expense	(17,783)	(18,075)	(17,969)
Caltrain service subsidy	(16,040)	(14,478)	(12,929)
Total Nonoperating expenses	(33,823)	(37,842)	(40,518)
Net loss before capital contributions	(18,501)	(27,873)	(52,077)
Capital contributions	6,425	2,304	4,764
Change in net assets	(12,076)	(25,569)	(47,313)
Net assets - beginning of year	159,733	185,302	232,615
Net assets - end of year	$ 147,657	$ 159,733	$ 185,302

Capital Program

The District received capital contributions of $6.4 million in fiscal year 2008 and $2.3 million in fiscal year 2007, which was an increase of $4.1 million or 178.9 percent in fiscal year 2008 compared to fiscal year 2007 and a decrease of $2.5 million or 51.6 percent in fiscal year 2007 compared to fiscal year 2006. The increase for 2008 was mostly due to a $3.4 million gain related to the acquisition of property located in San Carlos along the Caltrain right of way from the TA.

The following is a summary of the District's major capital expenditures for fiscal year 2008.

- Purchase of Paratransit buses and vans ($1.9 million)
- Replacement of bus parts in accordance with FTA guidelines ($0.3 million)
- Planning study for transit-oriented development ($0.3 million)
- Planning study for Dumbarton Rail Corridor ($0.3 million)
- Adaptive Transit Signal Priority project ($0.2 million)

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

Debt

The District had $338.1 million in bonds and notes outstanding at June 30, 2008 compared to $344.4 million at June 30, 2007, a decrease of $6.3 million or 1.8 percent. The scheduled payment of $6.3 million during fiscal year 2008 accounts for this reduction. The District pledges sales tax revenues to secure its bonds and also has purchased insurance to secure the payment of principal and interest on due dates. The District retains a trustee to maintain its bond fund. More information on the District's long-term debt activity appears in *Note #11 - Long-term Debt* of the *Notes to the Financial Statements*.

Economic Factors

During the fiscal year ended June 30, 2008, the San Mateo County economy was holding strong with sales tax receipts coming in at a new record high level of $68.7 million, but more recently the nationwide economy is going into crisis mode. The stock market has plunged and world renowned "A" rated corporations have filed for bankruptcy. The recent blow to the economy was originally brought on by an over abundance of sub-prime mortgage defaults as interest rates were adjusted to levels much higher than affordable by the borrowers. This led to widespread foreclosures which led to equity issues for many banks and insurers. The problems permeated the economy creating distress in the job market and all other aspects of the economy with many experts indicating a recession.

The San Mateo County unemployment rate increased to the 4.7 to 5.0 percent range in June through September of 2008 compared to 3.9 percent during the same time period last year. With the volatility in fuel costs, an inevitable recession looming and unemployment rates on the rise, the District expects consumer spending to be impacted in the coming years and will budget this revenue source accordingly. The District continues to operate with a structural deficit that will be additionally affected when the struggles of the economy become apparent in sales tax receipts in the coming years.

Requests for Information

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

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2008 AND 2007 (in thousands)

ASSETS	**2008**	**2007**
CURRENT ASSETS:		
Cash and cash equivalents (Notes 1 & 2)	$ 24,942	$ 35,686
Investments (Notes 1 & 2)	39,727	46,401
Restricted investments (Notes 1 & 2)	2,633	2,566
Receivables:		
Transaction and use tax	13,045	12,487
Receivable from Peninsula Corridor Joint Powers Board (Note 8)	2,788	2,602
Federal grants (Note 4)	1,277	1,028
Interest	1,641	1,929
Other	9,634	4,429
Allowance for doubtful accounts	(90)	(90)
Total Receivables - Net	28,295	22,385
Inventories (Note 1)	1,772	1,456
Prepaid expenses	1,300	2,240
Total Current Assets	98,669	110,734
NONCURRENT ASSETS:		
Noncurrent investments (Note 2)	113,862	102,940
Restricted investments (Notes 1 & 2)	2,210	2,477
Capital assets		
Buses and bus equipment	142,856	158,180
Buildings and building improvements	73,686	73,237
Maintenance and other equipment	24,718	25,500
Furniture and fixtures	13,033	13,875
Shelters and bus stop signs	3,271	3,313
Other vehicles	2,015	2,363
Total capital assets	259,579	276,468
Less accumulated depreciation	(182,331)	(188,236)
Land and right of way (Note 7)	51,435	43,695
Construction in progress	18,772	15,713
Capital assets - Net (Note 6)	147,455	147,640
Capital contribution to BART, net of amortization (Note 5)	151,451	158,729
Bond issuance costs	4,224	4,437
Other assets (Note 9)	1,056	1,141
Total Noncurrent Assets	420,258	417,364
Total Assets	$ 518,927	$ 528,098

See accompanying notes to the financial statements.

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF NET ASSETS (CONTINUED)
JUNE 30, 2008 AND 2007 (in thousands)

LIABILITIES	**2008**	**2007**
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 7,775	$ 9,189
Current portion of compensated absences	5,079	4,579
Current portion of self-insurance liabilities (Note 14)	3,627	2,903
Accrued interest	1,500	1,350
Current portion of long-term debt (Note 11)	6,940	6,620
Total Current Liabilities	24,921	24,641
NONCURRENT LIABILITIES:		
Long-term debt (Note 11)	331,195	337,805
Self-insurance liabilities less current portion (Note 14)	4,701	2,776
Other noncurrent liabilities (Note 10)	6,160	925
Compensated absences less current portion	1,965	2,218
Postemployment benefits (Note 13)	2,328	-
Total Noncurrent Liabilities	346,349	343,724
Total Liabilities	371,270	368,365
NET ASSETS		
Invested in capital assets, net of related debt	(35,006)	(33,619)
Restricted for debt service	3,517	3,569
Unrestricted	179,146	189,783
Total Net Assets	$ 147,657	$ 159,733

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, 2008 AND 2007 (in thousands)

	2008	**2007**
OPERATING REVENUES - Passenger fares	$ 17,203	$ 16,830
OPERATING EXPENSES:		
Salaries and benefits	64,175	58,521
Contract operations and maintenance services	27,902	26,482
Other services	3,747	3,580
Materials and supplies	9,589	8,151
Insurance	6,074	6,010
Miscellaneous	7,269	6,585
Total operating expenses	118,756	109,329
Operating loss before depreciation and amortization and administrative expenses capitalized	(101,553)	(92,499)
Depreciation and amortization	(23,899)	(40,399)
OPERATING LOSS	(125,452)	(132,898)
NONOPERATING REVENUES (EXPENSES):		
Operating assistance (Note 3)	115,004	113,565
Investment income	11,637	9,745
Interest expense	(17,783)	(18,075)
Caltrain service subsidy (Note 8)	(16,040)	(14,478)
SFO/Colma BART service deficit (Note 5)	-	(5,289)
Interagency administrative income	8,327	6,944
Other income, net	5,806	12,613
Total nonoperating revenues, net	106,951	105,025
Net loss before capital contributions	(18,501)	(27,873)
Capital contributions (Note 1)	6,425	2,304
CHANGE IN NET ASSETS	(12,076)	(25,569)
Net assets, beginning of year, as restated	159,733	185,302
Net assets, end of year	$ 147,657	$ 159,733

See accompanying notes to the financial statements.

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007 (in thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passenger fares	$ 17,129	$ 16,816
Payments to vendors for services	(52,617)	(48,314)
Payments to employees	(61,907)	(57,806)
Other	15,040	19,541
Net cash used in operating activities	(82,355)	(69,763)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating grants received, including transaction and use tax	109,855	115,125
Caltrain service outlays	(16,040)	(14,478)
BART-SFO Extension operating subsidy	-	(5,289)
Decrease in receivable from BART	-	5,578
Net cash provided by non-capital financing activities	93,815	100,936
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(12,114)	(6,016)
Capital contributions from grants	5,864	5,538
Bond principal paid	(6,620)	(6,315)
Interest and cost of issuance paid	(17,213)	(17,535)
Net cash used in capital and related financing activities	(30,083)	(24,328)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investment securities	56,451	65,211
Purchases of investment securities	(55,584)	(64,975)
Investment income received on all interest-bearing investments	7,012	9,316
Net cash provided by investing activities	7,879	9,552
Net increase (decrease) in cash and cash equivalents	(10,744)	16,397
Cash and cash equialents, beginning of year	35,686	19,289
Cash and cash equivalents, end of year	$ 24,942	$ 35,686

See accompanying notes to the financial statements.

SAN MATEO COUNTY TRANSIT DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007 (in thousands)

	2008	**2007**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (125,452)	$ (132,898)
Other nonoperating items	15,040	19,541
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	23,899	40,399
Effect of changes in:		
Accounts receivable	(231)	153
Inventories	(317)	(187)
Prepaid expenses	939	(1,055)
Other assets	31	9
Accounts payable and accrued expenses	(1,488)	2,706
Other postemployment liability	2,328	-
Compensated absences	246	271
Self-insurance liabilities	2,650	1,298
Net cash used in operating activities	$ (82,355)	$ (69,763)
NONCASH INVESTING ACTIVITIES:		
Increase (decrease) in fair value of investments	$ (4,914)	$ 603

See accompanying notes to the financial statements.

INDEX TO THE NOTES ***Pages***

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

NOTE #1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Operations*

The San Mateo County Transit District (the District) was formed by the California State Legislature and approved by the electorate in 1974 to meet the public transit needs of San Mateo County. The District operates buses throughout San Mateo County and also provides, through purchased service with independent contractors, demand-responsive transportation services and certain 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. On April 27, 2007, the District and BART entered into a Settlement Agreement and Release of Claims to relieve the District of any and all responsibility for payment of past and future operating costs, as well as capital costs, associated with the SFO Extension

B. *Entity*

The District's reporting entity includes only the District.

C. *Basis of Accounting*

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

D. *Implementation of Governmental Accounting Standards Board Statements*

GASB Statement No. 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 Other Postemployment Benefits (OPEB) 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 effective June 30, 2008. The District has implemented the provision of this statement for the fiscal year ended June 30, 2008.

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 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 requirement of this pronouncement did not have an impact on the District's financial statements.

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

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

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 effective June 30, 2008. The District implemented the requirements of this Statement in the notes to 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.

GASB Statement No. 52 – In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The guidance in this statement is effective for financial statements for reporting periods beginning after June 15, 2008, with earlier application encouraged. The District has not determined its effect on the financial statements.

GASB Statement No. 53 – In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement is intended to improve how state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements. The statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this statement also addresses hedge accounting requirement and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. The District has not determined its effect on the financial statements.

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

E. *Cash and Cash Equivalents*

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

F. *Investments*

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

G. *Restricted Cash and Investments*

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.

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

J. *Construction in progress*

Construction in progress consists of the following projects at June 30, 2008 and 2007 (in thousands):

Construction in Progress

	2008	2007
Bus fleet improvements	$ 4,546	$ 4,502
Bus communications system	1,320	1,274
Other	4,088	4,194
Transit-oriented Development	2,227	1,826
Information technology support	3,301	1,224
Dumbarton rail	2,465	2,214
Pavement rehabilitation	507	328
Administration building improvement	318	151
Total Construction in Progress	$ 18,772	$ 15,713

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 fiscal years 2008 and 2007.

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 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.

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

N. *Compensated Absences*

Employees accrue compensated absence time by reason of tenure at annual rates ranging from 160 to 312 hours per year. Employees are allowed to accumulate from 800 hours up to 1,440 hours of compensated absences time, depending upon the number of years of service. In fiscal year ending June 30, 2008, employees of the District accrued and used balances of compensated absences in the amount of $5,206,682 and $4,961,330, respectively. At June 30, 2008 and 2007, accrued compensated absences for all District employees amounted to $7,042,806 and $6,797,455, respectively. The current portion of the compensated absences liability is reflected as a current liability in the statement of net assets and is expected to be used within one year.

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, 2008 and 2007 were as follows (in thousands):

	2008	2007
Federal grants	$ 2,002	$ 1,908
Other local transportation funds	4,423	396
Total	$ 6,425	$ 2,304

P. *Operating and Nonoperating Revenues and Expenses*

The District distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from directly providing services in connection with the District's principal operations of bus transit services. These revenues are primarily passenger fares. Operating expenses include 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 nonoperating 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 may have been reclassified to conform to the current year presentation.

NOTE #2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2008 and 2007 are classified in the statement of net assets as follows (in thousands):

	2008	2007
Cash and cash equivalents	$ 24,942	$ 35,686
Investments	39,727	46,401
Restricted investments - current	2,633	2,566
Noncurrent investments	113,862	102,940
Restricted cash and investments - noncurrent	2,210	2,477
Total	$ 183,374	$ 190,070

Cash and investments as of June 30, 2008 and 2007 consist of the following (in thousands):

	2008	2007
Cash on hand	$ 9	$ 9
Deposits with financial institutions	(452)	(972)
Investments	183,817	191,033
Total	$ 183,374	$ 190,070

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 trustees 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 securitities	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.

NOTE #2 – CASH AND INVESTMENTS (continued)

Disclosures Relating to Interest Rate Risk

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

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

The District's weighted average maturity of its investment portfolio at June 30, 2008 was as follows:

Investment Type	Amount (in thousands)	Weighted Average Maturity (in years)
U.S. Agency Securities	$ 123,418	2.77
Repurchase Agreements	1,286	-
Medium-term Notes	30,168	1.36
Local Agency Investment Fund (LAIF)	24,099	0.58
Held by bond trustee:		
Money market	718	0.05
Mutual funds	1,958	0.50
Investment contracts	2,170	19.35
Total	$ 183,817	
Portfolio Weighted Average Maturity		2.39

NOTE #2 – CASH AND INVESTMENTS (continued)

The District's weighted average maturity of its investment portfolio 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	0.48
Held by bond trustee:		
Money market	970	-
Mutual funds	1,870	0.50
Investment contracts	2,205	20.35
Total	$ 191,033	
Portfolio Weighted Average Maturity		2.22

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, 2008 AAA	AA	A	Not Rated
U.S. Agency Securities	$ 123,418	N/A	$ -	$ 123,418	$ -	$ -	$ -
Repurchase Agreements	1,286	N/A	1,286	-	-	-	-
Medium-term Notes	30,168	A	-	19,681	7,816	2,671	-
LAIF	24,099	N/A	-	-	-	-	24,099
Held by bond trustee:							
Money market	718	N/A	-	718	-	-	-
Mutual funds	1,958	N/A	-	-	-	-	1,958
Investment contracts	2,170	N/A	-	-	-	-	2,170
Total	$ 183,817		$ 1,286	$ 143,817	$ 7,816	$ 2,671	$ 28,227

NOTE #2 – CASH AND INVESTMENTS (continued)

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	A	-	-	-	-	34,266
Held by bond trustee:							
Money market	970	N/A	-	970	-	-	-
Mutual funds	1,870	N/A	-	-	-	-	1,870
Investment contracts	2,205	N/A	-	-	-	-	2,205
Total	$ 191,033		$ 2,383	$ 133,887	$ 2,013	$ 14,409	$ 38,341

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 five percent or more of the District's total investments are as follows:

As of June 30, 2008:

Issuer	Investment Type	Reported Amount
Federal Home Loan Mortgage Corp (FHLMC)	U.S. Agency Securities	$ 21,593
Federal Home Loan Bank (FHLB)	U.S. Agency Securities	63,121
Federal National Mortgage Association (FNMA)	U.S. Agency Securities	24,450
Federal Farm Credit Bank (FFCB)	U.S. Agency Securities	11,100
Tennessee Valley Authority	Medium-term Notes	11,007
Total		$ 131,271

NOTE #2 – CASH AND INVESTMENTS (continued)

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
Total		$ 123,371

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 percent 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 percent of the secured public deposits.

As of June 30, 2008 and June 30, 2007, the District had ($452,270) and ($972,290), respectively, of deposits with financial institutions recorded on the financial statements which included excess bank balances of $398,942 and $67,327, respectively. Since these excess cash balances are amounts over the Federal Deposit 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

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

NOTE #2 – CASH AND INVESTMENTS (continued)

As of June 30, 2008 and June 30, 2007, the District's investments in LAIF were $24,098,800 and $34,266,060, respectively. The total amounts invested by all public agencies in LAIF at June 30, 2008 and 2007 were $70,024,464,150 and $65,756,665,933, respectively. Of these amounts, as of June 30, 2008 and 2007, 85.3 and 96.5 percent, respectively, is invested in non-derivative financial products, and 14.7 and 3.5 percent, respectively, are 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 TA funds as a result of the approval of Measure A (one-half cent county sales tax) for funding of transportation projects.

Operating assistance is summarized as follows for the years ended June 30, 2008 and 2007 (in thousands):

	2008	2007
Transaction and use tax	$ 68,667	$ 66,198
Local transportation funds	31,969	34,945
State transit assistance	9,538	8,998
Federal operating and planning assistance	1,474	233
Measure A funds - local	2,780	2,542
AB434	576	649
Total	$ 115,004	$ 113,565

NOTE #4 – FEDERAL CAPITAL GRANTS

The District has seven grant contracts with the FTA that provide federal funds for the acquisition of buses and other equipment and improvements. Capital additions at June 30, 2008 applicable to these projects are $2,675,560. The related federal participation is $2,002,107.

The District has recorded receivables of $449,098 and $583,964, at June 30, 2008 and 2007, respectively, for qualifying capital project expenditures under FTA grant contracts in excess of reimbursements.

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

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

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

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

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

The initial Comprehensive Agreement provided that 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 was 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 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 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 are borne by (or benefit) the District.
In May 2004, the District and BART further amended the terms of the Comprehensive Agreement to revise the District's commitment for operating deficits of the SFO Extension ("Fiscal Year 2005 Agreement").
As a result of disputes that arose regarding the interpretation of the Comprehensive Agreement, on April 27, 2007, the District and BART entered into a Settlement Agreement and Release of Claims ("Settlement Agreement"). The Settlement Agreement provides for a permanent resolution of the aforementioned disputes, specifically, the Settlement Agreement:

1. 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;
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.

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

A. ***BART SFO Opening (continued)***

4. BART has made the agreed upon payment and the property will be transferred upon preparation of transfer documents by BART;
5. Requires the District to pay $221,341 to BART for costs related to construction of a Bike Path;
6. Releases BART from its obligation to repay amounts loaned by the District pursuant to the August 31, 1999 amendment to the Comprehensive Agreement; and
7. 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.

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 remains in the useful life of 30 years.

	2008	2007
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	72,000
	405,882	405,882
Less: Accumulated amortization	(254,431)	(247,153)
Total	$ 151,451	$ 158,729

NOTE #6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows (in thousands):

	Balance at July 1, 2007 As restated	Additions	Deletions	Balance at June 30, 2008
Depreciable Capital Assets				
Buses and bus equipment	$ 158,180	$ 3,397	$ (18,721)	$ 142,856
Buildings and building improvements	73,237	845	(396)	73,686
Maintenance and other equipment	25,500	900	(1,682)	24,718
Furniture and fixtures	13,875	383	(1,225)	13,033
Shelters and bus stop signs	3,313	-	(42)	3,271
Other vehicles	2,363	204	(552)	2,015
Total Depreciable Capital Assets	276,468	5,729	(22,618)	259,579
Less Accumulated Depreciation for:				
Buses and bus equipment	(105,380)	(11,109)	18,721	(97,768)
Buildings and building improvements	(46,734)	(2,524)	396	(48,862)
Maintenance and other equipment	(22,350)	(1,870)	1,682	(22,538)
Furniture and fixtures	(8,474)	(995)	1,225	(8,244)
Shelters and bus stop signs	(3,200)	(90)	42	(3,248)
Other vehicles	(2,098)	(125)	552	(1,671)
Total Accumulated Depreciation	(188,236)	(16,713)	22,618	(182,331)
Nondepreciable Capital Assets				
Land and right of way	43,695	7,740	-	51,435
Construction in progress	15,713	8,788	(5,729)	18,772
Total Nondepreciable Capital Assets	59,408	16,528	(5,729)	70,207
Capital Assets, Net	$ 147,640	$ 5,544	$ (5,729)	$ 147,455

During fiscal year 2008, the District determined that $883,679 of construction in progress as of June 30, 2007 were completed capital projects. Accordingly, the District restated beginning capital assets, and the related activity (see Note 17).

NOTE #6 – CAPITAL ASSETS (continued)

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

	Balance at July 1, 2006 As restated	Additions	Deletions	Balance at June 30, 2007
Depreciable Capital Assets				
Buses and bus equipment	$ 154,924	$ 3,256	$ -	$ 158,180
Buildings and building improvements	72,619	618	-	73,237
Maintenance and other equipment	23,710	1,971	(181)	25,500
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	270,116	7,252	(900)	276,468
Less Accumulated Depreciation for:				
Buses and bus equipment	(94,768)	(10,612)	-	(105,380)
Buildings and building improvements	(44,194)	(2,540)	-	(46,734)
Maintenance and other equipment	(20,877)	(1,654)	181	(22,350)
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	(172,569)	(16,567)	900	(188,236)
Nondepreciable Capital Assets				
Land and right of way	43,695	-	-	43,695
Construction in progress	15,417	7,548	(7,252)	15,713
Total Nondepreciable Capital Assets	59,112	7,548	(7,252)	59,408
Capital Assets, Net	$ 156,659	$ (1,767)	$ (7,252)	$ 147,640

During fiscal year 2008, the District determined that $15,186,452 of construction in progress as of June 30, 2006 were completed capital projects. Accordingly, the District has restated beginning capital assets, and the related activity (see Note 17).

NOTE #7 – LAND AND RIGHT OF WAY

A. ***Dumbarton Land and Right of Way***

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

B. ***San Carlos Land and Right of Way***

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

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

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 Peninsula Corridor Joint Powers Board was established in 1988 to keep Caltrain operating after the state's responsibility ended. The JPB was formed to plan, administer and operate the Caltrain service. The JPB began operating the Caltrain service on July l, 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 JPB are tenants in common to all right of way property located in San Mateo County until the District receives the full reimbursement of the initial contribution plus interest from CCSF and VTA. CCSF and VTA agreed to use their best efforts individually and collectively to advocate for and obtain grants from non-local sources to reimburse the District for their additional contribution.

On October 31, 2008, all three of the JPB member agencies signed an agreement with the District to fully resolve all outstanding financial issues related to the acquisition of the right of way. Both CCSF and VTA have agreed to reimburse the District through a combination of gasoline tax "spillover" funds and population based "spillover" funds to be paid directly to the District from the MTC and revenue based "spillover" funds to be paid to the District from the San Francisco Municipal Transportation Agency (SFMTA) and VTA. The parties have agreed to make best efforts to allocate the funds in full within two to four years and, in no event, later than 10 years. When all payments have been received by the District, the District will reconvey to the JPB all of its interests in the title to the right of way.

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

The District has been appointed as managing agency for JPB, providing administrative personnel and facilities. The District is responsible for 41.92 percent of the mainline net operating costs and the administrative expenses of the JPB for the years ended June 30, 2008 and 2007. 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, 2008 and 2007, the District contributed $16,040,087 and $14,477,900, respectively, to the JPB for operating needs.

The District has total receivables from the JPB of $2,787,547 and $2,601,928 at June 30, 2008 and 2007, 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, 2008 and 2007 (in thousands):

	2008	2007
Total Assets	$ 1,175,491	$ 1,123,303
Total Liabilities	(64,157)	(48,252)
Total Net Assets	$ 1,111,334	$ 1,075,051
Operating Revenues	$ 43,760	$ 37,961
Operating Expenses	(133,249)	(114,515)
Nonoperating Revenues, Net	43,220	45,134
Net Before Capital Contributions	(46,269)	(31,420)
Capital Contributions	82,552	91,222
Increase in Net Assets	$ 36,283	$ 59,802

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

NOTE #9 – RELATED PARTY TRANSACTIONS

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 2008 and 2007, 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 $960,000 and $1,040,000, as of June 30, 2008 and 2007, respectively.

B. ***San Mateo County Transportation Authority (TA)***

The TA was formed in June 1988 as a result of the approval of Measure A (one-half cent county sales tax and Transportation Expenditure Plan) by the voters of San Mateo County pursuant to the Bay Area County Traffic and Transportation Funding Act. The TA is responsible for the administration of funds collected by the one-half cent county 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.

NOTE #10 – OTHER NONCURRENT LIABILITIES

On December 27, 2007, the District acquired from the TA four acres of property located in San Carlos along the Caltrain right of way for a promissory note of $4,343,404. The District also has accrued interest liability of $174,127 as of June 30, 2008 for the promissory note. See *Note #7 – Land and Right of Way*, paragraph B.

NOTE #11 – LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2008 is as follows (in thousands):

	Balance at July 1, 2007	Adjustments/ Additions	Deletions	Balance at June 30, 2008	Amounts Due within One Year
Bonds Payable					
1993 Series A Bonds	$ 103,895	$ -	$ (5,865)	$ 98,030	$ 6,155
1998 Junior Lien	22,320	-	(755)	21,565	785
2005 Series A Bonds	218,990	-	-	218,990	-
Total Debt	345,205	-	(6,620)	338,585	6,940
Bond refunding loss	(5,387)	-	489	(4,898)	-
Unamortized bond premium	4,889	-	(181)	4,708	-
Unamortized bond discount	(282)	-	22	(260)	-
Net Bonds Payable	$ 344,425	$ -	$ (6,290)	$ 338,135	$ 6,940

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 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 Payable	$ 350,410	$ -	$ (5,985)	$ 344,425	$ 6,620

NOTE #11 – 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).

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

In November 1997, the District and the VTA (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 scheduled to mature on October 1, 2027. Complete financial information for the Authority may be obtained from its financial advisor, Public Financial Management, Inc.: 633 West Fifth Street, Suite 6700, Los Angela, California, 90071.

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.

NOTE #11 – LONG-TERM DEBT (continued)

C. *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 to 5.0 percent and mature on June 1, 2034.

As of June 30, 2008 and 2007, the outstanding balance on the 1997, 1998 and 1999 Series A Bonds was $174,050,000 and $186,685,000, respectively with available investment balance held by the bond trustee of $177,207,939 and $191,076,024, respectively.

Debt service requirements for long-term debt as of June 30, 2008 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
2009	$ 6,155	$ 5,354	$ 11,509	$ 785	$ 285	$ 1,070
2010	6,410	5,047	11,457	810	274	1,084
2011	6,735	4,726	11,461	835	264	1,099
2012	7,075	4,389	11,464	860	252	1,112
2013	7,430	4,036	11,466	890	241	1,131
2014-2018	43,360	14,018	57,378	4,900	1,022	5,922
2019-2023	20,865	2,254	23,119	5,745	677	6,422
2024-2028	-	-	-	6,740	273	7,013
2029-2033	-	-	-	-	-	-
2034	-	-	-	-	-	-
Total	$ 98,030	$ 39,824	$ 137,854	$ 21,565	$ 3,288	$ 24,853

NOTE #11 – LONG-TERM DEBT (continued)

C. *2005 Series A Refunding Bonds (continued)*

	2005 Series A Refunding Bonds			Total		
Fiscal Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2009	$ -	$ 10,555	$ 10,555	$ 6,940	$ 16,194	$ 23,134
2010	-	10,555	10,555	7,220	15,876	23,096
2011	-	10,555	10,555	7,570	15,545	23,115
2012	-	10,555	10,555	7,935	15,196	23,131
2013	-	10,555	10,555	8,320	14,832	23,152
2014-2018	-	52,777	52,777	48,260	67,817	116,077
2019-2023	36,625	51,065	87,690	63,235	53,996	117,231
2024-2028	73,600	37,363	110,963	80,340	37,636	117,976
2029-2033	93,365	17,597	110,962	93,365	17,597	110,962
2034	15,400	706	16,106	15,400	706	16,106
Total	$ 218,990	$ 212,283	$ 431,273	$ 338,585	$ 255,395	$ 593,980

NOTE #12 – 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: Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

B. *Funding Policy*

District employees have an obligation to contribute seven 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 2008 and 2007 was 8.025 and 8.196 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.

NOTE #12 – PENSION PLAN (continued)

C. *Annual Pension Cost*

The District's annual pension cost was equal to the District's required and actual contributions, which were determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included the following:

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

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)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	$ 6,356	100.0%	-
6/30/2007	$ 6,264	100.0%	-
6/30/2008	$ 6,447	100.0%	-

NOTE #13 – POST-RETIREMENT HEALTH CARE BENEFITS

In August 1993, the District's Board of Directors adopted the San Mateo County Transit District Retiree Healthcare Plan (Plan). The plan is an agent plan that is administered by the CalPERS system. The plan provides post-retirement medical care insurance to qualified retirees and their surviving spouses, those who have attained 50 years of age and have at least five years of District service. As of June 30, 2008, there are 162 qualified retirees and spouses of deceased retirees. The benefit allowance was not established in conjunction with an irrevocable trust or equivalent arrangement in accordance with the parameters of GASB Statement No. 45. Accordingly, there is no publicly available financial report. The benefit provides a lifetime allowance to eligible plan members and their lifetime beneficiaries.

In April 2008, the District’s Board of Directors adopted an OPEB funding plan whereby Internal Revenue Code (IRC) tax qualified trust will be established and increased amounts are funded annually until the full Annual Required Contribution (ARC) can be funded on an annual basis.

Funding Policy

Benefit allowance provisions are established through agreements and memorandums of understanding (MOU) between the District, its management employees and unions representing District employees. The District’s contribution to the plan is based on prior year’s retiree contribution plus 10 percent of active contribution based on the “unequal method” for all levels of coverage. Effective January 2009, the District’s contribution to the plan will be based on the “equal method”.

As of June 30, 2008, the District has not yet established an irrevocable trust fund and therefore amounts contributed of $900,366 represents only the pay-as-you-go amount for the year ended June 30, 2008.

Annual OPEB Cost and Net OPEB Obligation

The District’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation to the Plan (in thousands):

Annual Required contribution	$	3,228
Interest on net OPEB obligation		-
Annual OPEB cost (expense)		3,228
Contributions made		(900)
Increase in net OPEB obligation		2,328
Net OPEB obligation, beginning of year		-
Net OPEB obligation, end of year	$	2,328

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

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

Year Ended June 30,	ARC	Amount Contributed	Percentage Contributed	Net OPEB Obligation
2008	$ 3,228	$ 900	27.9%	$ 2,328

Funded Status and Funding Progress

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

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

In the June 30, 2008, actuarial valuation, the Entry Age Normal (EAN) cost method was used. The actuarial assumptions included a variable investment return rate ranging from 4.5 percent in 2008 to 7.75 percent in 2015 based on the Board approved funding plan which gradually increases funding in an IRC Irrevocable Trust and a three percent inflation rate. Healthcare cost trend rates ranged from an initial rate of 10.1 to 4.5 percent after 7 years. The UAAL is being amortized as a level percent of payroll. The remaining amortization period at June 30, 2008 was 29 years.

NOTE #14 – SELF-INSURANCE

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District is self-insured for a portion of its public liability, property damage and workers' compensation liability. As of June 30, 2008, coverage provided by self-insurance and excess coverage is generally as follows:

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

All property is insured at full replacement value. To date, there have been no significant reductions in any of the District's insurance coverage, and no settlement amounts have exceeded commercial insurance coverage for the last three years.

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

Changes in the balances of claims liabilities for the two years ended June 30, 2008 and 2007 for public liability, property damage and workers' compensation are as follows (in thousands):

	2008	2007
Self-insurance liabilities, beginning of year	$ 5,679	$ 4,381
Incurred claims and changes in estimates	4,755	4,594
Claim payments and related costs	(2,106)	(3,296)
Total Self-insurance claims liabilities	8,328	5,679
Less current portion	(3,627)	(2,903)
Noncurrent portion	$ 4,701	$ 2,776

NOTE #15 – JAPANESE OPERATING LEASE

In fiscal year 2002, the District entered into two Japanese operating lease transactions (the Leasing Transactions) with respect to 145 and 54 buses, respectively, valued, in the aggregate, at $48.2 million (the Equipment). In each Leasing Transaction, the District transferred title to the Equipment to a Japanese entity (the Investor) and simultaneously leased the Equipment from the Investor for the District's operating use pursuant to an Equipment

NOTE #15 – JAPANESE OPERATING LEASE (continued)

Lease Agreement. At the end of the Equipment Lease Agreement term (in 2010), the District has an option to purchase the Equipment for a specified price. The District received aggregate net proceeds of $1.5 million representing the difference between the appraised value of the buses and the net present value of the District's obligations under each Equipment Lease Agreement, including the purchase option price. The net proceeds of the Leasing Transactions were recorded as income in fiscal year 2002.

NOTE #16 – 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.

As part of the separation agreement with BART, in February 2007 the District entered into a three-party agreement 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. In fiscal year 2008, the District had received $8 million from MTC and forwarded the equivalent amount in sales tax revenue on to BART.

NOTE #17 – PRIOR PERIOD ADJUSTMENTS

During fiscal year 2008, the District capitalized approximately $16,070,131 of construction in progress for assets that were placed into service in prior years. The District determined that approximately $5,150,926 should have been recorded as depreciation expense in fiscal year 2006. An additional $2,652,891of depreciation expense was determined to pertain to fiscal year 2007. The District has restated the related amounts for depreciation expense and accumulated depreciation in the comparative financial statements for fiscal year 2008 and 2007.

NOTE #18 – SUBSEQUENT EVENT

In fiscal year 2002, the District entered into two Japanese operating lease transactions (the Leasing Transactions) with respect to 145 and 54 buses, valued, in the aggregate, at $48.2 million (the Equipment). The District, for its own benefit, deposited a portion of the gross proceeds of the Leasing Transactions in prepaid swap agreements (the Swaps) with AIG Financial Products (AIGFPC), whose obligations were guaranteed by its parent, American International Group, Inc. (AIG), then rated "Aaa/AAA" by Moody's and Standard & Poor's. Under the Swap documents, AIGFPC is required to post US Treasury or Agencies collateral with a custodian if AIG's ratings were downgraded below "Aa3/AA-" by Moody's or Standard & Poor's. In September 2008, AIG's ratings were downgraded below these thresholds. AIGFPC promptly met its obligation under the Swap by posting collateral.

NOTE #18 – SUBSEQUENT EVENT (continued)

District management does not believe the downgrade of AIG will have an affect on the District's financial condition. The Swap terminates in 2010.

On October 31, 2008, all three of the JPB member agencies signed an agreement with the District to fully resolve all outstanding financial issues related to the acquisition of the right of way. Both CCSF and VTA have agreed to reimburse the District through a combination of gasoline tax "spillover" funds and population based "spillover" funds to be paid directly to the District from the MTC and revenue based "spillover" funds to be paid to the District from the San Francisco Municipal Transportation Agency (SFMTA) and VTA. The parties have agreed to make best efforts to allocate the funds in full within two to four years and, in no event, later than 10 years. When all payments have been received by the District, the District will reconvey to the JPB all of its interests in the title to the right of way.

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

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2005	$ 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%
6/30/2007	157,183	155,929	1,254	99.2%	43,468	2.9%

[1] Most recent information available.

SCHEDULE OF FUNDING PROGRESS
RETIREE HEALTHCARE
(in thousands)

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2008	$ 30,456	$ -	$ 30,456	0.0%	$ 45,584	66.8%

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, 2008 (in thousands)

	Budget (Unaudited)	Actual	Variance Positive/ (Negative)
OPERATING REVENUES - Passenger fares	$ 17,007	$ 17,203	$ 196
OPERATING EXPENSES:			
Salaries and benefits	70,950	61,847	9,103
Contract operations and maintenance services	28,342	27,927	415
Other services	3,888	3,668	220
Materials and supplies	12,629	9,653	2,976
Insurance	5,808	6,074	(266)
Miscellaneous	8,771	7,627	1,144
Total operating expenses	130,388	116,796	13,592
Operating loss	(113,381)	(99,593)	13,788
NONOPERATING REVENUES (EXPENSES):			
Operating assistance	99,811	115,004	15,193
Investment income	1,074	1,975	901
Interest expense	(110)	(282)	(172)
Caltrain service subsidy	(16,040)	(16,040)	-
Interagency administration income	17,120	8,327	(8,793)
Other income, net	5,610	5,939	329
Total nonoperating income	107,465	114,923	7,458
Income before capital outlay and long-term debt principal payments	(5,916)	15,330	21,246
CAPITAL OUTLAY:			
Capital assistance	29,027	3,029	(25,998)
Capital expenditures	(45,000)	(8,806)	36,194
Net capital outlay	(15,973)	(5,777)	10,196
Long-term debt principal payment	(6,620)	(6,620)	-
EXCESS (DEFICIENCY) OF REVENUES AND NONOPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENT	$ (28,509)	$ 2,933	$ 31,442

NOTE #1 – BUDGETARY BASIS OF ACCOUNTING

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

NOTE #2 – RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

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

Excess of revenues and non-operating income over expenses, capital outlay and debt principal payment		$ 2,933
Capital expenditures	$ 8,806	
Interest expense	(17,266)	
Depreciation and amortization	(23,899)	
Postemployment benefits accrual	(2,328)	
Long-term debt principal payment	6,620	
GASB 31 unrealized gain/loss	4,914	
Reimbursed investment interest	6,865	
Capital gain on investment	(2,118)	
Gain from property acquisition	3,397	
Sub-total reconciling items		(15,009)
Change in net assets, GAAP basis		$ (12,076)

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 (Full-time Equivalents)**
- **Capital Assets**

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STATISTICAL SECTION

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

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 1999 THROUGH 2008 (in thousands)

Fiscal year	**2008**	**2007**	**2006**	**2005**
OPERATING REVENUES - Passenger Fares	$ 17,203	$ 16,830	$ 16,296	$ 13,863
OPERATING EXPENSES:				
Salaries and benefits	64,175	58,521	56,944	53,420
Contract operations and maintenance	27,902	26,482	24,338	22,751
Other services	3,747	3,580	3,948	3,546
Materials and supplies	9,589	8,151	7,102	4,943
Insurance	6,074	6,010	4,927	3,774
Miscellaneous	7,269	6,585	6,433	5,684
Total operating expenses	118,756	109,329	103,692	94,118
Operating loss before depreciation, amortization and administrative expenses capitalized	(101,553)	(92,499)	(87,396)	(80,255)
Depreciation and amortization	(23,899)	(40,399)	(42,635)	(40,232)
OPERATING LOSS	(125,452)	(132,898)	(130,031)	(120,487)
NONOPERATING REVENUES (EXPENSES):				
Operating assistance	115,004	113,565	99,827	92,899
Investment income	11,637	9,745	6,690	5,770
Interest expense	(17,783)	(18,075)	(17,969)	(17,948)
Caltrain service subsidy	(16,040)	(14,478)	(12,929)	(14,588)
SFO/Colma BART station revenue/(deficit)	-	(5,289)	(9,620)	(8,095)
Lease-leaseback income	-	-	-	-
Interagency administrative income	8,327	6,944	6,054	6,595
Other income, net	5,806	12,613	5,901	6,785
Total nonoperating revenues, net	106,951	105,025	77,954	71,418
Net income (loss) before capital contributions	(18,501)	(27,873)	(52,077)	(49,069)
Capital contributions	6,425	2,304	4,764	4,853
CHANGE IN NET ASSETS	(12,076)	(25,569)	(47,313)	(44,216)
NET ASSET COMPONENTS				
Invested in capital assets, net of related debt	(35,006)	(33,619)	(20,253)	10,533
Restricted	3,517	3,569	3,390	13,659
Unrestricted	179,146	189,783	202,165	208,423
NET ASSETS	$ 147,657	$ 159,733	$ 185,302	$ 232,615

Source: CAFRs.

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

SAN MATEO COUNTY TRANSIT DISTRICT
FINANCIAL TRENDS – NET ASSETS AND CHANGES IN NET ASSETS
FISCAL YEARS 1999 THROUGH 2008 (in thousands)

2004	2003	2002	2001	2000	1999
$ 14,542	$ 15,273	$ 14,779	$ 15,919	$ 15,196	$ 15,896
53,521	49,339	41,918	36,611	32,293	31,601
23,365	22,982	23,567	20,342	17,151	15,799
2,568	2,548	3,184	3,152	3,188	2,892
4,683	5,157	4,507	5,225	4,995	3,916
4,360	3,568	3,248	2,578	3,413	2,146
5,667	7,966	5,571	4,006	3,871	2,543
94,164	91,560	81,995	71,914	64,911	58,897
(79,622)	(76,287)	(67,216)	(55,995)	(49,715)	(43,001)
(36,675)	(37,275)	(39,338)	(38,744)	(36,198)	(18,923)
(116,297)	(113,562)	(106,554)	(94,739)	(85,913)	(61,924)
91,062	81,464	102,543	102,987	94,607	87,059
2,244	16,131	20,767	28,333	13,092	8,717
(18,440)	(19,146)	(19,836)	(20,733)	(21,170)	(15,447)
(14,296)	(14,296)	(14,355)	(13,820)	(13,224)	(12,263)
(18,000)	311	923	1,311	1,613	830
-	-	1,513	-	-	-
8,654	10,239	2,855	1,775	1,311	829
5,033	7,254	5,989	3,623	1,988	1,426
56,257	81,957	100,399	103,476	78,217	71,151
(60,040)	(31,605)	(6,155)	8,737	(7,696)	9,227
24,056	30,567	12,685	1,461	1,418	11,815
(35,984)	(1,038)	6,530	10,198	(6,278)	21,042
25,045	40,150	22,638	59,680	66,538	74,207
19,171	20,998	22,081	78,694	86,399	95,171
232,615	251,667	269,134	168,949	144,188	134,025
$ 276,831	$ 312,815	$ 313,853	$ 307,323	$ 297,125	$ 303,403

SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 1999 THROUGH 2008

Fiscal year ending	**2008**	**2007**	**2006**
Passenger fares (in thousands)	$ 17,203	$ 16,830	$ 16,296
Revenue Base			
Number of passengers (in thousands)	15,660	14,668	14,182
Fare structure			
Adults local fare	1.50	1.50	1.50
Senior citizen / disabled/ Medicare cardholder	0.75	0.75	0.75
Youth	1.00	1.00	1.00
Redi-Wheels (Paratransit)	2.50	2.50	2.50
Sales tax rate	0.50%	0.50%	0.50%
Sales tax revenue (in thousands)	$ 68,667	$ 66,198	$ 63,813
Taxable sales in San Mateo County (in thousands) [1]	$ 13,734,000	$ 13,240,200	$ 12,451,350

[1] Estimate is based on sales tax revenue received.

Source: California State Board of Equalization and CAFRs.

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

SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 1999 THROUGH 2008

2005	2004	2003	2002	2001	2000	1999
$ 13,863	$ 14,542	$ 15,273	$ 14,779	$ 15,919	$ 15,196	$ 15,896
14,190	14,710	16,121	17,103	17,958	17,675	17,886
1.25	1.25	1.25	1.10	1.10	1.10	1.10
0.60	0.60	0.60	0.50	0.50	0.50	0.50
0.75	0.75	0.75	0.75	0.75	0.75	0.75
2.00	2.00	2.00	1.50	1.50	1.50	1.50
0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
$ 59,958	$ 55,397	$ 54,862	$ 57,262	$ 66,739	$ 63,069	$ 55,497
$ 12,055,706	$ 11,560,519	$ 11,352,696	$ 11,967,932	$ 13,961,577	$ 13,175,535	$ 11,295,693

SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – OVERLAPPING REVENUE
FISCAL YEARS 1999 THROUGH 2008

Fiscal year	County	City	Other Special Districts	San Mateo County Transit District [1]	Total
2008	6.25%	1.00%	0.50%	0.50%	8.25%
2007	6.25%	1.00%	0.50%	0.50%	8.25%
2006	6.25%	1.00%	0.50%	0.50%	8.25%
2005	6.25%	1.00%	0.50%	0.50%	8.25%
2004	6.00%	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%

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

SAN MATEO COUNTY TRANSIT DISTRICT
REVENUE CAPACITY – PRINCIPAL REVENUE PAYERS
FISCAL YEARS 2008 and 1999 (in thousands)

	2008			1999		
Principal Revenue Payers	**Rank**	**Percent of Taxable Sales**	**Amount**	**Rank**	**Percent of Taxable Sales**	**Amount**
Total all other outlets	1	29.1%	$ 968,961	1	35.4%	$ 1,047,490
Automobile, boat, motorcycle and plane	2	12.0%	398,888	2	13.6%	401,717
Other retail stores	3	11.3%	377,979			
Eating/drinking	4	9.6%	321,621	5	7.4%	220,246
General merchandise stores	5	9.5%	317,696	4	9.2%	272,996
Service stations	6	7.5%	250,882	6	5.7%	168,183
Building materials and farm implements	7	6.6%	220,930	7	5.3%	157,556
Business and personal services	8	4.1%	135,190	8	4.4%	131,175
Home furnishings and appliances	9	4.0%	133,630	9	3.3%	97,727
Food stores	10	3.2%	105,918	10	3.1%	90,714
Apparel stores	11	3.1%	102,056	11	2.5%	73,282
Specialty stores				3	10.0%	296,291
Total		100.0%	$ 3,333,751		100.0%	$ 2,957,377

Source: California State Board of Equalization

This table ranks the top 11 principal tax payers by industry.

SAN MATEO COUNTY TRANSIT DISTRICT
DEBT CAPACITY – RATIOS OF OUTSTANDING BONDS
FISCAL YEARS 1999 THROUGH 2008 (in thousands)

Fiscal Year	Revenue Bonds	Personal Income	As a Percent of Personal Income
2008	$ 338,135	$ 43,066,256	0.79%
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%

Note: Personal income data is from the U.S. Department of Commerce, Bureau of Economic Analysis, calendar year figures. Data for 2005, 2006 2007 and 2008 are based on an estimated three percent annual increase over 2004.

Source: County of San Mateo

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

SAN MATEO COUNTY TRANSIT DISTRICT
DEBT CAPACITY – BONDED DEBT
FISCAL YEARS 1999 THROUGH 2008 (in thousands)

Fiscal Year	Revenue Bonds	Total Sales Tax Revenue	As a Percent of Total Sales Tax Revenue
2008	$ 338,135	$ 13,734,000 [1]	2.46%
2007	344,425	13,240,200	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%

[1] Estimate for fiscal year 2008 is based on sales tax revenue received.

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

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 1999 THROUGH 2008 (in thousands)

Fiscal Year	Sales Tax Revenue	Principal	Interest	Total	Coverage
2008	$ 68,667	$ 6,620	$ 16,801	$ 23,421	3
2007	66,198	6,315	17,265	23,580	3
2006	63,813	6,025	13,175	19,200	3
2005	59,958	17,185	17,489	34,674	2
2004	55,397	16,475	17,976	34,451	2
2003	54,862	15,800	18,686	34,486	2
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

Source: CAFRs.

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

SAN MATEO COUNTY TRANSIT DISTRICT
DEMOGRAPHICS AND ECONOMIC INFORMATION – POPULATION AND INCOME
FISCAL YEARS 2007 AND 2000

	2007		2000	Percent Change 2000 - 2007
Total Population	706,984	[1]	707,163	0.0%
Persons Per Household	2.77	[1]	2.74	1.1%
Mean Household Income	$ 116,875	[1]	$ 88,700	31.8%
Personal Income (in millions)	$ 46,847	[1]	$ 41,512	12.9%
Per Capita Income	$ 66,839	[1]	$ 58,644	14.0%
Minority Population:				
Black	17,008		23,778	-28.5%
Hispanic	119,231		154,708	-22.9%
Asian	138,915		140,313	-1.0%
Native American	13,230		10,658	24.1%
Total	288,384		329,457	-12.5%
Percent of Minority Population to Total Population	40.8%		46.6%	-12.4%
Population by Age:				
4 years and younger	48,075		45,376	6.0%
5 to 19 years	127,964		131,912	-3.0%
20 to 64 years	439,037		441,790	-0.6%
65-plus	91,908		88,085	4.3%
Percent of Employed Residents to Total Population	80.1%		55.0%	45.6%
Percent of Residents Working Outside of San Mateo County	42.0%	[2]	41.0%	2.4%
Percent of People Commuting to the San Mateo County for Work	41.0%	[2]	36.0%	13.9%

[1] Bureau of Economic Analysis, BEARFACTS 1996 - 2007, San Mateo, California [06081], most current information available.

[2] Commute Profile 2008 San Mateo County, Peninsula Traffic Congestion Relief Alliance

Source: United States Census Bureau, 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.

Year	Unemployment Rates
2008	4.7%
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%

Source: Department of Transportation's economic forecast.

This table presents the unemployment rates for San Mateo County.

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

	2006			1999		
Employers in San Mateo County	Number of Employees	Rank	Percent of Total County Employment	Number of Employees	Rank	Percent of Total County Employment
United Airlines	9,600	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%

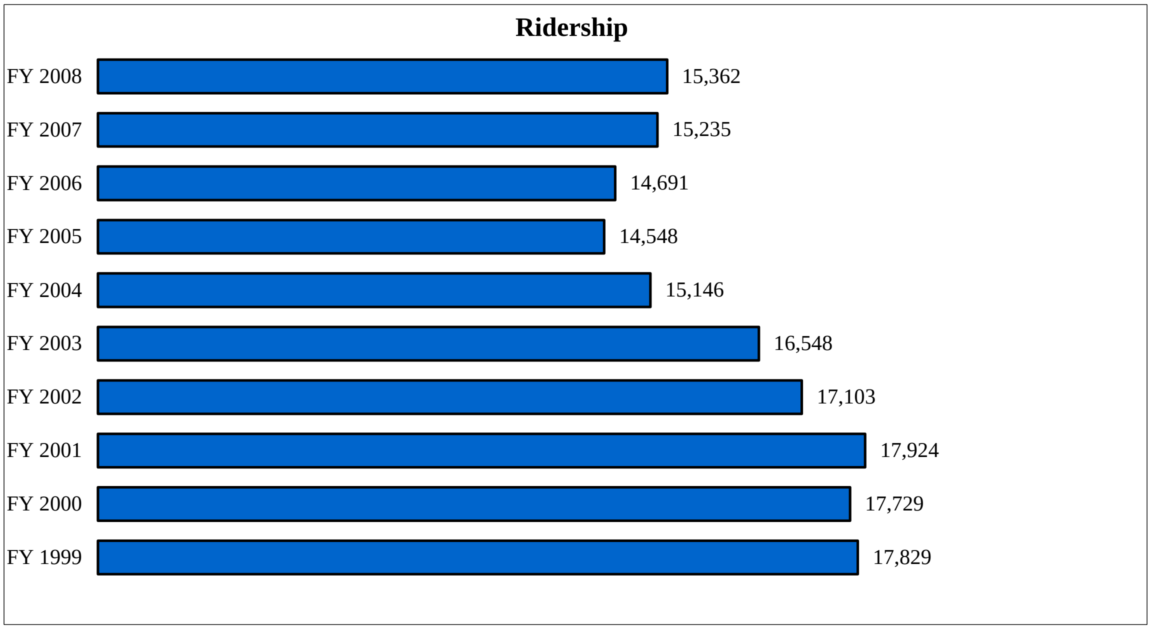
Note: Principal employer information for 2008 and 2007 are not available.

Source: County of San Mateo.

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

FIXED -ROUTE RIDERSHIP

Ridership was essentially flat between FY2007 and FY2008.



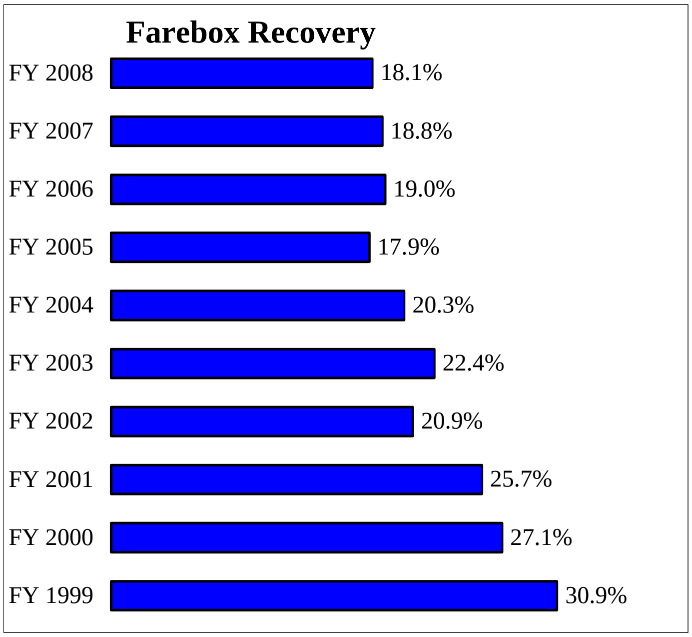
FIXED-ROUTE PASSENGER FARES

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

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

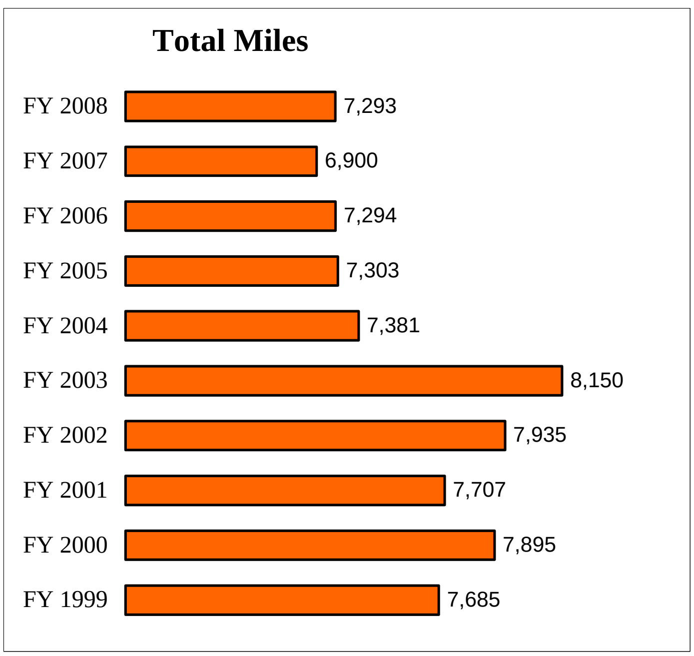
FIXED-ROUTE FAREBOX RECOVERY

Farebox recovery is based on fixed-route fare revenues divided by fixed-route total operating expenses. The farebox recovery has slightly decreased from FY2007 to FY2008.



FIXED-ROUTE REVENUE MILES (in thousands)

Fixed-route total miles slightly increased between FY2007 and FY2008.



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

SAN MATEO COUNTY TRANSIT DISTRICT
OPERATING INFORMATION – EMPLOYEES (FULL-TIME EQUIVALENTS)
FISCAL YEARS 2004 THROUGH 2008

	Full-Time Equivalents				
Division	**2008**	**2007**	**2006**	**2005**	**2004**
Executive	4.55	4.80	6.00	6.00	6.00
Administration	42.85	42.70	38.76	36.56	46.29
Communication	35.45	33.75	35.77	36.17	43.76
Development	15.12	11.57	14.84	13.40	14.83
Finance	33.30	31.30	29.37	18.31	21.88
Operations	502.25	507.20	500.37	513.13	522.82
Total	633.52	631.32	625.11	623.57	655.58

Note: Employee counts are for Full-time Equivalents (FTEs) for the District. Data for 1999 through 2003 was not available.

Source: Operating and capital budgets.

This table presents total Full-time Equivalents by division.

SAN MATEO COUNTY TRANSIT DISTRICT
OPERATING INFORMATION – CAPITAL ASSETS
FISCAL YEARS 1999 THROUGH 2008 (in thousands)

	2008	2007	2006	2005
Depreciable Capital Assets				
Buses and bus equipment	$ 142,856	$ 158,180	$ 154,924	$ 151,580
Buildings and building improvements	73,686	73,237	72,619	72,083
Maintenance and other equipment	24,718	25,500	23,710	22,883
Furniture and fixtures	13,033	13,875	13,087	13,329
Shelters and bus stop signs	3,271	3,313	3,304	3,304
Other vehicles	2,015	2,363	2,472	2,354
Total depreciable capital assets	259,579	276,468	270,116	265,533
Accumulated Depreciation for*:				
Buses and bus equipment	(97,768)	(105,380)	(94,768)	(82,326)
Buildings and building improvements	(48,862)	(46,734)	(44,194)	(41,654)
Maintenance and other equipment	(22,538)	(22,350)	(20,877)	(18,852)
Furniture and fixtures	(8,244)	(8,474)	(7,421)	(7,358)
Shelters and bus stop signs	(3,248)	(3,200)	(2,986)	(2,755)
Other vehicles	(1,671)	(2,098)	(2,323)	(2,196)
Total accumulated depreciation	(182,331)	(188,236)	(172,569)	(155,141)
Nondepreciable Capital Assets				
Land and right of way	51,435	43,695	43,695	43,695
Construction in progress	18,772	15,713	15,417	10,957
Total nondepreciable capital assets	70,207	59,408	59,112	54,652
Capital Assets, Net	$ 147,455	$ 147,640	$ 156,659	$ 165,044

Source: CAFRs.

* The District used weighted average from 2001 through 2005 to categorize the accumulated depreciation by asset for years 1998 through 2000

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

FISCAL YEARS 1999 THROUGH 2008 (in thousands)

2004	2003	2002	2001	2000	1999
$ 137,885	$ 116,500	$ 100,419	$ 95,704	$ 95,960	$ 74,922
70,029	68,643	64,854	64,486	55,341	54,884
20,117	19,613	17,458	11,419	8,849	8,233
13,229	13,143	7,613	10,861	9,593	4,605
2,830	2,564	2,226	2,202	1,999	1,817
2,354	2,613	2,204	2,199	2,055	1,622
246,444	223,076	194,774	186,871	173,797	146,083
(69,185)	(80,959)	(72,520)	(65,096)	(54,785)	(48,084)
(38,733)	(35,848)	(32,453)	(28,701)	(26,452)	(23,217)
(17,137)	(16,770)	(15,173)	(11,836)	(12,168)	(10,680)
(6,765)	(6,186)	(5,138)	(4,195)	(4,502)	(3,952)
(2,394)	(2,248)	(2,073)	(1,829)	(1,703)	(1,495)
(2,088)	(2,117)	(1,865)	(1,572)	(1,456)	(1,278)
(136,302)	(144,128)	(129,222)	(113,229)	(101,067)	(88,706)
43,695	43,695	43,695	36,592	35,759	35,759
18,750	32,410	18,366	8,526	13,325	32,617
62,445	76,105	62,061	45,118	49,084	68,376
$ 172,587	$ 155,053	$ 127,613	$ 118,760	$ 121,814	$ 125,753

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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

Independent Auditor’s Report on Compliance with Requirements Applicable to the Transportation Development Act

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*

To the 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, 2008, and have issued our report thereon, dated November 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting 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.

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Compliance and Other Matters

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

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

Vavrinek, Trine, Day + Co. LLP

Palo Alto, California
November 30, 2008

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

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

Compliance

We have audited the compliance of the San Mateo County Transit District (the 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, 2008. The 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 the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the 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, 2008.

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.

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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 JPB'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 District as of and for the year ended June 30, 2008, and have issued our report thereon dated November 30, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements of the 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.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
November 30, 2008

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COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE
TRANSPORTATION DEVELOPMENT ACT

To the 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, 2008, and have issued our report thereon, dated November 30, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants is the responsibility of the management of the District. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of the Transportation Development Act, as amended and allocation instructions and resolutions of the Metropolitan Transportation Commission as required by Section 6667 of Title 21 of the California Code of Regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The result of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and the standards referred to in the second and third paragraphs.

This report is intended solely for the information and use of the Board of Directors and management of the District and for filing with the Metropolitan Transportation Commission and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
November 30, 2008

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SAN MATEO COUNTY TRANSIT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

Grant Program	Federal Catalog Number	Expenditures
U.S. Deptartment of Transporation, Federal Transit Administration		
Federal Transit Cluster:		
Federal Transit - Formula Grants [1]		
CA-90-Y154 Capital Grant	20.507	$ 469,294
CA-90-Y154 Operating Grant	20.507	320,000
CA-90-Y244 Operating Grant	20.507	6,612
CA-90-Y344 Capital and Operating Grant [2]	20.507	(249,145)
CA-90-Y-448 Capital Grant	20.507	72,129
CA-90-Y-448 Operating Grant	20.507	250,573
CA-90-Y-525 Capital Grant	20.507	1,465,750
CA-90-Y-525 Operating Grant	20.507	371,646
CA-90-Y-612 Capital Grant	20.507	3,582
CA-04-0020 Capital Grant	20.500	5,183
Federal Highway Administration ("FHWA")		
High Priority Program ("HPP") earmark for Project #1942	20.500	163,250
Subtotal		2,878,874
Nonurbanized Area Formula Grants:		
CA-37-X066 - Job Acess Reverse Commute - Operating Grant	20.516	164,726
Section 5311(f) - Operating	20.509	200,000
Section 5311 - Operating	20.509	131,350
Subtotal		496,076
Passed through the California Metropolitan Transportation Commission		
CA-81-2003(01) - Section 5303 - Operating	20.505	26,646
U.S. Department of Homeland Security		
FY06 Transit Security Grant - Operation Training	97.075	2,000
FY06 Transit Security Grant - Capital	97.075	72,062
Subtotal		74,062
Total Expenditures of Federal Awards		$ 3,475,658

[1] Major Program

[2] This negative amount was the result of a reclass in expenditures from grant CA-90-Y344 to grant CA-90-Y154.

See accompanying notes to schedule of expenditures of Federal Awards

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 (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 AUDITOR'S RESULTS
YEAR ENDED JUNE 30, 2008

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
20.500 and 20.507	Federal Transit Cluster
20.509	Nonurbanized Area Formula

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

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.

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.

There were no prior year findings or recommendations.