



SAN MATEO COUNTY
Transportation
Authority

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2007

Prepared by the Finance Division

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Section I

INTRODUCTORY

Letter of Transmittal

GFOA Certificate of Achievement

Board of Directors

Executive Management

Organization Chart

Map

Table of Credits

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November 30, 2007

To the Executive Director, Board of Directors of the San Mateo County Transportation Authority, and the Citizens of San Mateo County

**Comprehensive Annual Financial Report
Year Ended June 30, 2007**

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the San Mateo County Transportation Authority (the "TA") for fiscal year July 1, 2006 through June 30, 2007. This transmittal letter provides a summary of the TA'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 TA's financial results may refer to the Management's Discussion and Analysis portion of the Financial Section.

Management assumes sole responsibility for the information contained in this report, including its presentation and the adequacy of its disclosures. To the best of our knowledge, this report is 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 TA'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 TA'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 TA 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 TA'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 voters of San Mateo County approved the creation of the TA pursuant to the Bay Area County Traffic and Transportation Funding Act in June 1988. This Measure A vote funded the TA with an annual one-half cent county sales tax levy and charged the TA with delivering a broad spectrum of transportation projects and programs pursuant to a Transportation Expenditure Plan over a period of 20 years. Whenever possible, the TA also seeks to attract state, federal and local funds by matching grant funds with Measure A dollars. These efforts have led to effective partnerships with city, county, state and federal agencies for designing and completing projects. In November 2004, the voters reauthorized the TA and its publicly developed expenditure plan for an additional 25 years beyond the original expiration date of 2008. Thus, the TA will continue to fund vital transportation improvements to the benefit of San Mateo County citizens through 2033.

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Interested readers may obtain a copy of the Measure A Transportation Expenditure Plan by contacting:

Director, Transportation Authority Program
San Mateo County Transportation Authority
1250 San Carlos Ave.,
San Carlos, California 94070-1306 or
on-line at www.smcta.com/expenditure_plan/complete.pdf

Entity

The TA is a legally separate and financially independent governmental agency that is not a component unit of the County of San Mateo, the District or any other entity. Therefore, this CAFR and the financial statements contained within represent solely the activities, transactions and status of the TA.

Governance

A seven-member Board of Directors governs the TA with input from a 15-member Citizens Advisory Committee. The Board members are selected as follows:

- The publicly elected County Board of Supervisors appoints two of its members to serve on the Board.
- Local governments participate in a Cities Selection Committee to appoint four Board members, one each to represent North County, Central County, South County and cities-at-large interests.
- The San Mateo County Transit District (the “District”) appoints one Board member.

The Board of Directors meets once a month to determine overall policy for the TA and to review the progress of the Transportation Expenditure Plan, which organizes projects into the following six programs:

1. Public Transit
2. Street and Highway Improvements
3. Paratransit
4. Transportation Systems Management
5. Bicycles
6. Local Programs

Administration

The District provides administrative and staff services under the direction and oversight of the TA Board of Directors. District staff manages the funds collected through the one-half cent county sales tax and delivers projects per the Transportation Expenditure Plan. The TA reimburses the District for the cost of its direct services charged to the TA cost centers and also for indirect charges pursuant to overhead rates approved by the U.S. Department of Transportation. Currently, District divisions and their departments provide a complete and responsive team for all the TA activities as follows:

The *Administration Division* is responsible for purchasing, contract administration, risk management, information technology, security, safety and human resources.

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

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The *Development Division* is responsible for oversight of the Transportation Expenditure Plan, strategic planning, capital and grants budgeting, legislative activities, property management and capital project engineering and construction.

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

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

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

Budgetary Control

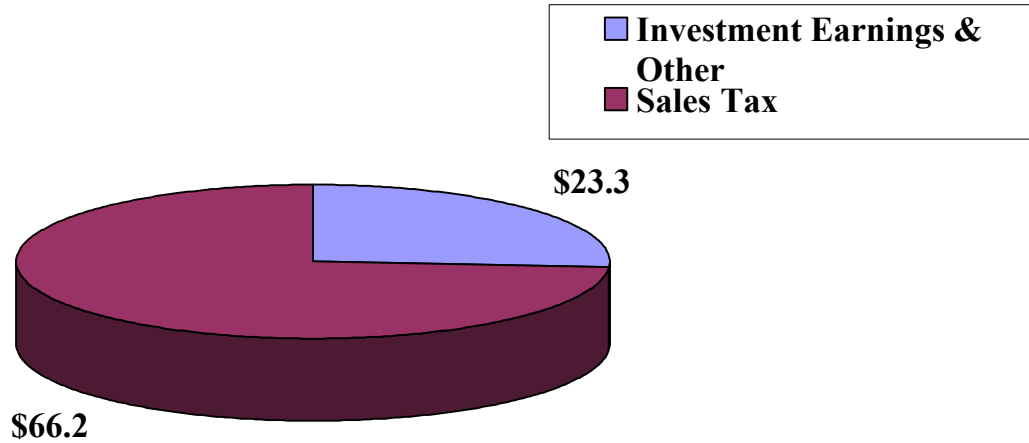
State law requires the TA to adopt an annual budget by resolution of the Board of Directors. In the spring preceding the start of each fiscal year, staff presents an annual budget for all of its governmental funds based on established agency goals, objectives and performance measures to the Board of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

Once adopted, the Board of Directors has the authority to amend the budget. While the legal level of budgetary control is at the entity level, the TA 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 Executive Director. However, any increase to the expenditure budget as a whole requires the approval of the Board. In addition, the TA uses the encumbrance system to reduce budget balances, issuing purchase orders to avoid over-commitment of resources.

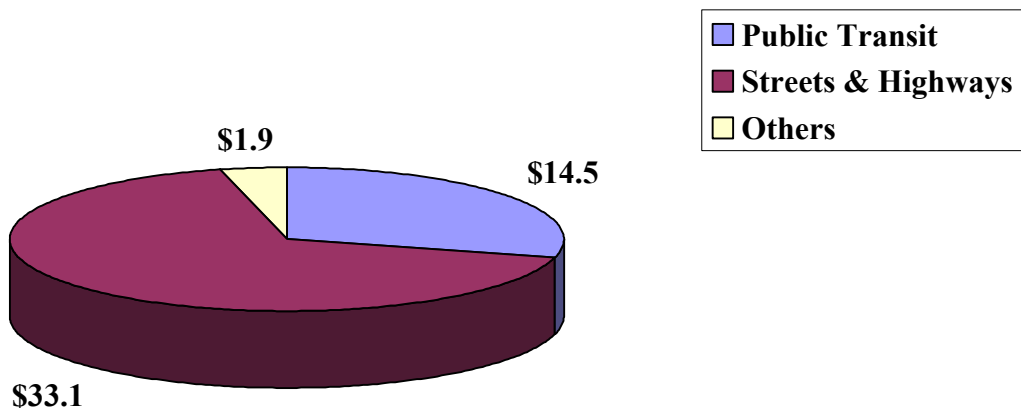
The TA employs the same basis and principles for both budgeted and actual revenues and expenditures, except that actual proceeds from the sale of fixed assets, unrealized investment gains and losses and inter-fund transfers are not included in the budget. The pie charts on the next page show actual results for the major revenue and expense categories of fiscal year 2007. Pursuant to procedures established in its enabling legislation, the TA establishes an appropriation limit for each annual budget cycle. The appropriation limit for fiscal year 2007 was \$453.2 million and the limit for fiscal year 2008 is \$477.8 million.

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**San Mateo County Transportation Authority
Year Ended June 30, 2007
REVENUES
(\$millions)**



**San Mateo County Transportation Authority
Year Ended June 30, 2007
EXPENSES
(\$millions)**



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STRATEGIC PLANNING

San Mateo County is located between the financial and technology centers of San Francisco and Silicon Valley, enjoying a unique position and role in the Bay Area. Long-term projections for the county anticipates significant economic and employment growth as it is home to technology industries, as well as one of the largest airports in the nation, San Francisco International. Traffic congestion associated with new office complexes and airport expansion has placed a strain on the transportation system and adversely affected the quality of life in San Mateo County. Reducing current congestion levels and preserving the traditional quality of life in the county will require transportation systems management strategies that leverage new cost-effective projects.

Measure A, passed by San Mateo County voters in 1988, to create the TA and its Transportation Expenditure Plan was to expire in 2008. California Public Utilities Code (PUC) Section 131056 required the TA to prepare a proposed, new Transportation Expenditure Plan for approval of the county supervisors at least one year prior to expiration of the original measure and, if approved, to place the question of reauthorizing the TA on the ballot for voter consideration. The TA worked with the County of San Mateo, the City/County Association of Governments (C/CAG) and the Peninsula Policy Partnership (P³) on the reauthorization process and also solicited input and project ideas directly from county residents. The resulting Measure A reauthorization and new Transportation Expenditure Plan was approved by the San Mateo County Supervisors and placed before county voters in the November 2004 regular election. Voters passed the reauthorization measure resoundingly by a 75.8 percent majority, extending the TA's mission through 2033.

The implementation guidelines in the Expenditure Plan approved by the voters in November 2004 require that the TA prepare a strategic plan prior to January 1, 2009. The strategic plan is intended to establish a framework of policies to guide the decision making process on which, when and how transportation projects and programs will receive Measure A funding.

The TA in partnership with a number of stakeholders is currently developing and analyzing project and program information. This information will serve as a basis for funding consideration and prioritization as well as develop an implementation schedule for project funding

CURRENT PROGRAMS

Public Transit Programs

Measure A funds and contributions from the District support the county's share of the Peninsula Corridor Joint Powers Board ("JPB"). The JPB provides public transit services via its "Caltrain" railroad over a 77-mile right of way extending from San Francisco in the north to Gilroy in the south. Projects funded include new construction, improvements and studies for the following:

- Railway and trackage
- Maintenance facility
- Passenger stations
- Parking facilities
- Grade crossings
- Grade separations

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Notable projects supporting the JPB during fiscal year 2007 include:

- Preliminary engineering work for the San Francisco Downtown extension.
- Provision of local match requirements for federally funded capital construction grants.
- Design work for the San Mateo County Local Safety and Access Improvements program.

Street and Highway Improvements Program

Measure A funds support new construction, improvements and studies for a wide range of street and highway projects. The following are some types of projects undertaken:

- Roadway widening
- Interchange reconstruction
- Highway ramp modification
- Travel pattern forecasts

Notable street and highway projects during fiscal year 2007 include:

- The beginning of construction on auxiliary lanes from Third Avenue in San Mateo to Millbrae Avenue in Millbrae.
- Operational analysis of Marsh Road to the San Mateo/Santa Clara County line allowing the TA to compete for infrastructure funds.
- Construction on the Route 92 improvement project and State Route 1 to Half Moon Bay.
- Preliminary engineering and environmental assessment on Route 1 improvement project, Fassler Avenue to Westport in Pacifica.

Paratransit Programs

The TA has established a \$25.0 million principal amount in a Paratransit Permanent Fund and has dedicated the investment earnings from this fund to the paratransit programs offered by the District. The Permanent Fund made its first contribution to these programs in 1990.

The District operates its Redi-Wheels and RediCoast programs pursuant to the Americans with Disabilities Act (ADA) on behalf of public transit customers with disabilities. The District has certified more than 6,650 county residents as eligible for paratransit services and certifies approximately 130 new applicants each month. Service is available 365 days a year from 5:30 a.m. to midnight and 24-hour service is available in certain areas. Since inception, these programs have provided more than 2.6 million paratransit trips for persons with disabilities.

Earnings from the permanent fund have also funded new vehicles, programs training customers to use fixed-route service where feasible and other improvements to service delivery. The TA will continue to commit Paratransit Permanent Fund earnings to the enhancement of paratransit programs in San Mateo County.

Transportation Systems Management Programs (TSM)

The TA funds transportation systems management programs aimed at reducing vehicular traffic on congested freeways and busy city streets. These customized programs target both infrastructure problems and personal driving habits. TSM programs have an incremental, but discernible impact on reducing traffic congestion and improving air quality in San Mateo County and the San Francisco Bay region.

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For the past seven years, the TA has provided the majority of its TSM funding to the Peninsula Traffic Congestion Relief Alliance, which serves 15 cities. The Alliance concentrates on four primary activities:

- 1) Outreach to employers in San Mateo county;
- 2) Organizing vanpools and carpools;
- 3) Outreach to new commercial developments; and
- 4) Organizing and managing shuttles to and from Caltrain stations.

Other programs and projects include bike locker subsidies, transit incentives, interconnecting traffic signals, transit passes and guaranteed ride home programs. The primary goal of the TSM program is to transfer 30 to 35 percent of all commute trips to alternative transportation modes at least twice per week.

Bicycle Programs

Several years ago, the TA advanced funds to the Bicycle Advisory Committee to print San Mateo County bicycle maps. These funds, which were a multi-year commitment, represented about one-fifth of the total allocated toward bicycle projects during Measure A's initial 20-year life.

Local Programs

The TA earmarks 20 percent of its original Measure A sales tax revenue to local cities and San Mateo County for various transportation-related improvements according to a formula based on population and number of road-miles. During fiscal year 2007, local agencies received \$13.2 million, bringing the total local aid since the inception of Measure A to \$182.9 million. The recipients of these funds principally use them for street and road projects. The reauthorized Measure A, effective in 2009, increased the local share amount to 22.5 percent of annual sales tax revenue.

FACTORS AFFECTING FINANCIAL CONDITION***Local Economy***

Ranking second in affluence among California counties, San Mateo County has a growing and maturing economy. With significant employment in diverse industries such as technology, biotechnology, finance, education, conventions, tourism, agriculture, and manufacturing, the TA's service area does not depend on any one sector for its prosperity. This broad base promises long-term stability and job growth for San Mateo residents.

In 2002, it was evident that the economy had taken a turn for the worse. While real estate prices recovered fairly quickly, unemployment continued to rise and retail sales continued to decline into 2003. This reduced the TA's revenue from its sales tax measure dramatically. Since that low point, the unemployment rate has improved and consumer spending is on the rise. Consequently, the TA's sales tax receipts have steadily increased from 2004 through 2007 approaching record high levels. The successful public vote in November 2004 reauthorizing the TA's mission for an additional 25 years underscored renewed citizen confidence in the economic prospects of San Mateo County.

Cash Management

The Board of Directors has adopted an investment policy as allowed by the State of California law. This policy emphasizes safety and liquidity over return on investment. Within these parameters, the TA pursues a prudent cash management and investment program to achieve maximum return on available funds. The TA's policy is to hold securities to maturity to avoid losses from a potential sale. All of the TA's unrestricted cash and investments as of June 30, 2007 were on deposit with either the Bank of America, the San Mateo County Treasurer's investment pool or with California State Treasurer's Local Agency Investment Fund (LAIF). All deposits are insured by the Federal Depository Insurance Corporation (FDIC) or covered by collateral.

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Risk Management

The TA is not exposed to significant levels of risk, as its primary function is to receive and allocate one-half cent county sales tax to various state and local agencies for constructing projects funded by the TA. These agencies indemnify the TA against all claims, both of commission and omission. During the audit period, the TA and its administrative entity, the District, had an aggregate insurance coverage of \$100 million.

Pension and other post-employment benefits

Since the District provides staff services in support of the TA's mission, the persons supporting the TA are legally District employees, so the TA has no retirement or post-employment benefits obligations of its own but will have to share proportionately in the District's costs.

AWARDS AND ACKNOWLEDGMENTS

The staff and contracted firms of the TA bring an effective combination of skill, experience and dedication to carrying out the TA's mission. Together, they plan, develop and finance the creation of a modern, coordinated multimodal transportation system offering convenient access to the many attributes of the Bay Area and beyond. As the region recovers from the economic downturn of the past few years, the TA 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 TA's 2006 CAFR for excellence in financial reporting and the Certificate of Achievement appears immediately following this transmittal letter. To be awarded a certificate, a report must be easy to read and efficiently organized, while satisfying both generally accepted accounting principles and applicable legal requirements. We believe our 2007 Comprehensive Annual Financial Report 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 and Company, LLP, for its timely and expert guidance in this matter.

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

Respectfully submitted,



Virginia Harrington
Chief Financial Officer



Patricia Reavey
Director of Finance

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

Presented to
**San Mateo County
Transportation Authority
California**

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

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



President

Executive Director

BOARD OF DIRECTORS

ROSANNE FOUST, CHAIR

ROSALIE O'MAHONY, VICE CHAIR

MARK CHURCH

JOE FERNEKES

RICH GORDON

MARC HERSHMAN

JOHN LEE

ROSANNE FOUST was elected to the TA in 2005 representing South County and is currently serving as chair. She has served as a councilmember for Redwood City since November 2003. She is the Executive Vice President of Alsace Development International, a French company that promotes business growth in the Alsace region. She was named the Athena Business Woman of the Year by Bay Area Bank and the Redwood City-San Mateo County Chambers of Commerce in December 2002.

ROSALIE O'MAHONY was elected to the TA in 2006 representing the Central County. Director O'Mahony was first elected to the Burlingame City Council in 1989 and has been re-elected four times, serving as mayor three times. She is a professor of Mathematics at the College of San Mateo, where she has been teaching since 1965. She holds a Ph.D from the University of Southern California. She served as chair of the City/County Association of Government from 1998-2000.

MARK CHURCH was elected to the TA in 2001 representing the Board of Supervisors where he was elected in 2000. He previously served as mayor (1997-1998) and city councilman (1995-1999) of the City of Millbrae. Supervisor Church is a third-generation Californian and a San Mateo County native. He was admitted to the California Bar in 1976.

JOE FERNEKES was elected to the TA in 2006 representing the North County. He has served as a South San Francisco City Councilman since 1991, winning re-election three times and serving three terms as mayor. Born in Broadmoor, Director Fernekas worked for seven years as a schoolteacher and has had a diverse business and public service background. He recently retired after working at the Bay Area Rapid Transit District for seven years.

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RICH GORDON was elected to the TA in 1999 representing the Board of Supervisors. He served as the TA's chairman in 1999 and 2000. He has served as a member of the San Mateo County Board of Supervisors since 1997. Prior to his election to the San Mateo County Board of Supervisors, Supervisor Gordon was a member of the county Board of Education, to which he was elected in 1992 and re-elected in 1996. He is a third-generation Californian, having been born and raised in San Mateo County.

MARC HERSHMAN was elected to the TA in 2007 representing the SamTran's Board. Mr. Hershman has been a member of the City Council of the City of Millbrae since 1997, serving as mayor of Millbrae in 2001-2002. Mr. Hershman is an attorney with a practice in San Mateo.

JOHN LEE was elected to the TA in 2000 representing Cities-at-Large. He is a member of the San Mateo City Council and serves as deputy president. He was the mayor of San Mateo in 2001. Director Lee served in the United States Marine Corps for 22 years, seeing active duty in Korea and Vietnam, and retiring with the rank of captain. Director Lee is one of the founders of Telogy, Inc. a high technology electronics company in Union City.

EXECUTIVE MANAGEMENT

EXECUTIVE DIRECTOR

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 EXECUTIVE DIRECTOR

Mark Simon

AUTHORITY SECRETARY

Martha Martinez

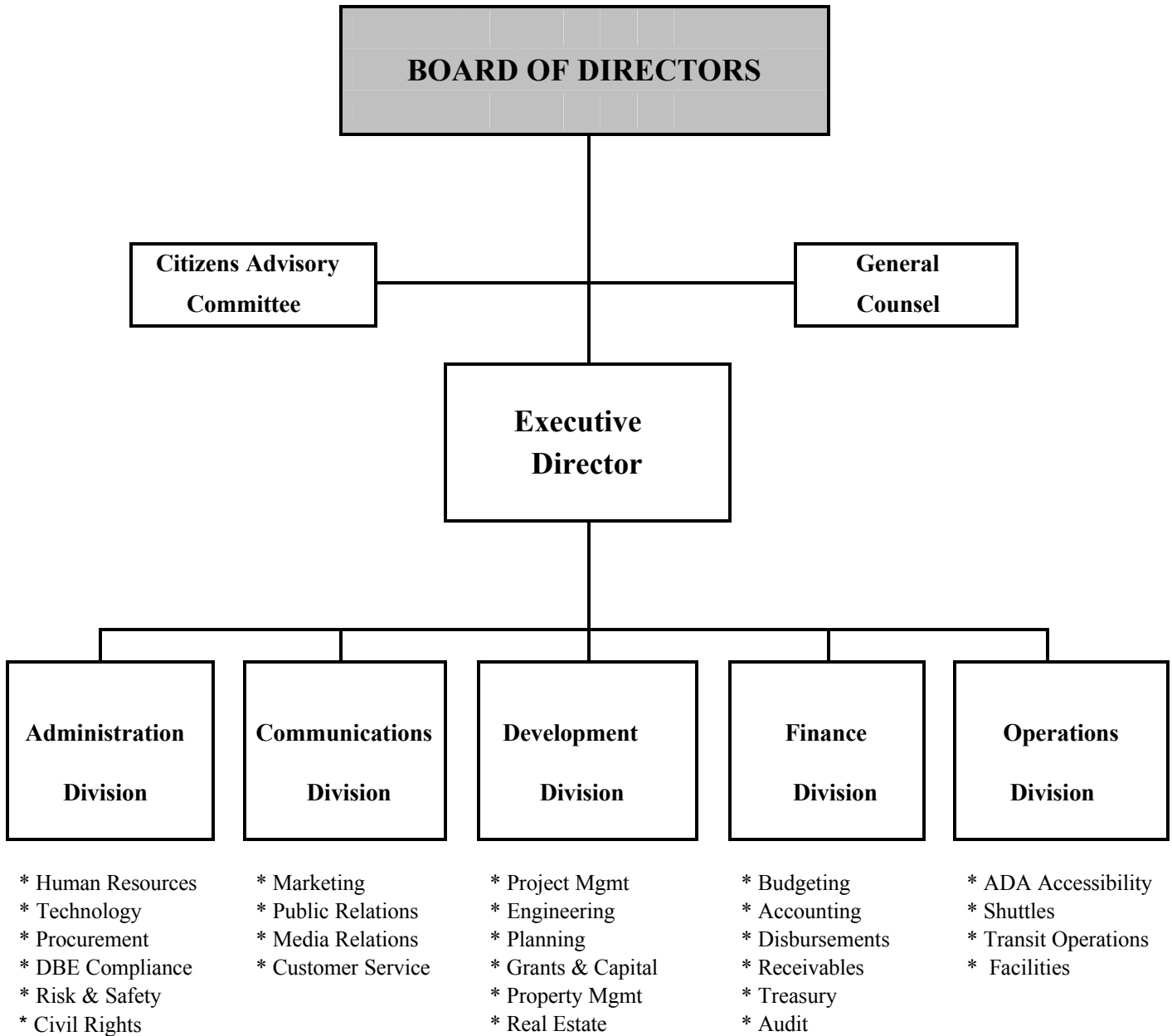
GENERAL COUNSEL

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

David J. Miller, Esq.

Joan Cassman, Esq

ORGANIZATION CHART



San Mateo County, California



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TABLE OF CREDITS

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

<u>Finance:</u>	Manager, Budget	Ladi Millard
	Manager, General Ledger	Rima Lobo
	Manager, Financial Forecasting and Treasury	Brian Lee
	Senior Systems Accountant	Angustia Pacumio
	Senior Accountant	Jeannie Chen
	Senior Accountant	Angela Ho
	Senior Accountant	Ed Hung
<u>Development:</u>	Director, Transportation Authority Program	Joseph Hurley
	Project Manager	Jim McKim
<u>Communication:</u>	Graphic Designer	Robert Casumbal
<u>Audit Firm:</u>	Partner	Ahmad Gharaibeh
	Partner	Leonard Danna

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Section II

FINANCIAL

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements:

- **Government-wide Financial Statements**
- **Fund Financial Statements**
- **Notes to the Basic Financial Statements**

Required Supplementary Information

Other Supplemental Information

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
San Mateo County Transportation Authority
San Carlos, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the San Mateo County Transportation Authority (the TA) of California, as of and for the year ended June 30, 2007, which collectively comprise the TA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the TA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the TA's June 30, 2006 financial statements and, in our report dated October 13, 2006, we expressed an unqualified opinion on the respective financial statements of the governmental activities, each major fund and the aggregate remaining fund information.

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 audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the TA as of June 30, 2007, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The financial statements include prior-year comparative information as explained in Note 1(J). Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United State of America. Accordingly, such information should be read in conjunction with the TA's financial statements for the year ended June 30, 2006, from which such comparative information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2007, on our consideration of the TA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, 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 on pages 3 through 11 and the Budgetary Comparison Schedule and its accompanying notes on page 38, are not a required part of the basic 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 principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the TA's basic financial statements. The supplemental information on combining fund statements listed in the table of contents is presented for purposes of additional analysis 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. The budgetary schedules on pages 41 through 43 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vasinek Trine Day + Co. LLP

Palo Alto, California
November 30, 2007

BASIC FINANCIAL STATEMENTS
Management's Discussion and Analysis

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MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis of the TA's financial position addresses the TA's activities for the fiscal year ended June 30, 2007 with comparisons to the fiscal year ended June 30, 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 increased by \$40.4 million or 9.3 percent to \$478.2 million at June 30, 2007 compared to June 30, 2006. Cash and investments comprised \$432.7 million or 90.5 percent of the total 2007 year-end amount.
- Sales tax revenue for all funds reached \$66.2 million during 2007, an increase of \$2.4 million or 3.8 percent over 2006. This positive result indicates a continuous improvement in the economy which had suffered considerably in recent years.
- The TA expended \$30.5 million in capital outlay during 2007, an increase of \$8.2 million or 36.7 percent over 2006. This amount included construction costs related to the addition of an auxiliary lane in both directions of Highway 101 between Third Avenue in San Mateo and Millbrae Avenue in Millbrae.
- Total liabilities increased \$0.5 million or 1.6 percent to \$29.1 million at June 30, 2007 compared to June 30, 2006.
- Total net assets increased by \$40.0 million or 9.8 percent to \$449.1 million at June 30, 2007 compared to June 30, 2006. In addition, the ending *unreserved fund balance* for the Special Revenue Fund grew \$32.9 million or 9.0 percent to \$402.1 million at 2007 year-end. These increases are due primarily to sales tax revenue exceeding expenditures in 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

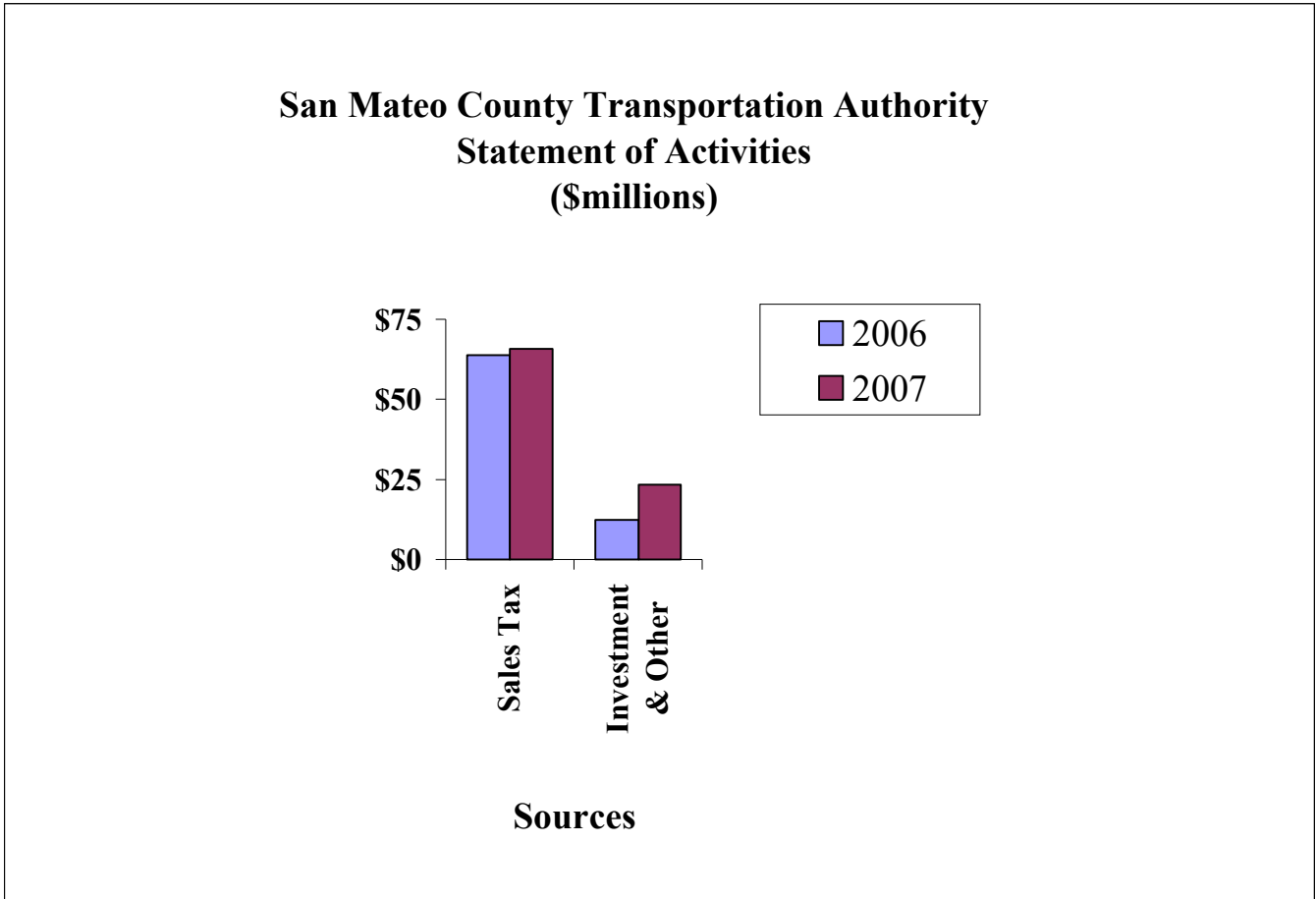
The Financial Section of this report presents the TA's basic financial statements in three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Other supplementary information also appears in addition to the basic financial statements.

Government-wide Financial Statements

The *Statement of Net Assets* presents total assets and total liabilities with the difference between the two reported as net assets. Changes in net assets over time provide an indicator of whether the financial position of the government is improving or deteriorating.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2007**

The *Statement of Activities* reports on the change in net assets during the year. It includes a comparison between direct expenses and related revenues for each program or function. Direct expenses are those specifically associated with and clearly identifiable with a particular program or function. The *Statement of Activities* matches revenues from charges to customers for goods and services to the program and functional expenses with which the revenues are directly related. Revenues not classified as program or functional, such as sales tax, are presented on their own as general revenues. The TA reports all changes in net assets as soon as underlying events occur, regardless of the timing of the related cash flows. Thus, some revenues and expenses reported in the *Statement of Activities* result in cash flows in a future period.



Fund Financial Statements

A *fund* is a set of accounts used to control resources segregated for specific activities or objectives. Funds classified as *major* are reported individually on the financial statements. Funds classified as non-major are grouped and reported in a single column. In the supplemental section of this report, *combining statements* report data for each of the *non-major* funds. The TA uses fund accounting to ensure compliance with various legal requirements, such as the annually adopted budget. Accordingly, certain financial statements in this report provide a comparison between budgeted and actual amounts.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2007**

The TA classifies all of its funds as *governmental*. Unlike the *government-wide* financial statements discussed above, the financial statements for *governmental funds* focus on the inflows, outflows and balances of spendable resources, rather than net assets. This information is useful for evaluating the TA's current financing requirements.

The TA reports the following *major governmental funds* in individual columns:

- The *Special Revenue Fund* which accounts for the proceeds of the half-cent county sales tax. These funds are legally restricted to expenditures for specific transportation improvement projects authorized in a referendum approved by San Mateo County voters. This referendum is referred to as *Measure A* and the list of eligible projects can be found in the *Transportation Expenditure Plan*.
- The *Debt Service Fund* which accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest.

The TA reports the following *non-major governmental funds* in an aggregated column:

- The *Paratransit Special Revenue Fund* which accounts for the investment earnings of the *Paratransit Permanent Fund* plus occasional allocations from the TA. Upon the advice of the San Mateo County Paratransit Coordinating Council and the District, the TA distributes the resources of this fund to local entities for programs supporting the transportation needs of persons with disabilities. This fund was classified as a major fund in past CAFRs.
- The *Paratransit Permanent Fund* which was established pursuant to the *Transportation Expenditure Plan* and maintains a principal balance of \$25.0 million from *Measure A* sales tax revenues. This fund exists in perpetuity and investment earnings on the principal balance transfer to the *Paratransit Special Revenue Fund*.
- The *Transportation System Management (TSM) Special Revenue Fund* which accounts for a *restricted reserve account* established pursuant to Board Resolution No. 1989-12 passed on July 6, 1989. This resolution authorized the transfer of \$5.0 million to an interest-bearing account for a TSM program pursuant to the *Transportation Expenditure Plan*. Prior to October 7, 1999, interest accrued in this account supported TSM activities. On October 7, 1999, Board Resolution No. 1999-20 amended and clarified Resolution 1989-12. The amendment stated that the intent of the TA is to cease making annual allocations for TSM activities from the interest proceeds of the *restricted reserve account* and to make the required annual allocations from the principal of the account.

Notes to the Financial Statements

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the *government-wide* and *fund* financial statements. These notes begin on page 18 of this report, immediately following the financial statements to which they refer.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2007**

Other Information

This report also presents certain *required supplementary information* concerning compliance with the TA's annual budget for the *Special Revenue Fund* which is the TA's main operating fund and the equivalent of a *general fund*. This information and associated notes immediately follow the *basic financial statements* and their accompanying notes. Combining statements that present non-major governmental funds appear immediately following the *required supplementary information*.

Government-wide Financial Analysis

At June 30, 2007, total assets were \$478.2 million, an increase of \$40.4 million or 9.3 percent over June 30, 2006. Cash and investments including restricted assets comprise \$432.7 million of this amount. With only \$29.1 million in total liabilities, the TA is in an excellent position to meet its obligations for current construction projects. As of the end of 2007, existing encumbrances and expected future costs combined for current construction projects are estimated to total \$210.8 million.

Restricted assets at the end of 2007 was \$9.3 million with an increase of \$0.5 million or 5.6 percent from 2006 year end. This amount is set aside and restricted as a bond reserve to pay debt service on the TA's limited tax bonds.

Capital assets of \$18.2 million remain unchanged between years and no property acquisitions occurred in 2007.

The TA does not record the capital assets created by the construction projects it finances on its own books of account since these assets are of value only to the local government units in which they are located. For more information on capital assets, please refer to *Note #8- Capital Assets* of the *Notes to the Financial Statements* on page 29 of this report.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NET ASSETS

	Governmental Activities	
	2007	2006
Current and other assets	\$450,760,101	\$ 410,808,820
Restricted assets	9,322,953	8,826,024
Capital assets	18,160,975	18,160,975
Total assets	<u>478,244,029</u>	<u>437,795,819</u>
Long-term liabilities outstanding	12,822,021	21,287,421
Other liabilities	16,314,642	7,390,987
Total liabilities	<u>29,136,663</u>	<u>28,678,408</u>
Net assets:		
Invested in capital assets, net of related debt	18,160,975	18,160,975
Restricted	35,413,891	35,403,029
Unrestricted	395,532,500	355,553,407
Total net assets	<u>\$ 449,107,366</u>	<u>\$ 409,117,411</u>

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2007**

Total liabilities increased by \$0.5 million or 1.6 percent to \$29.1 million at June 30, 2007 compared to \$28.7 million at June 30, 2006. The majority of the \$0.5 million increase was due to the accrual of a \$9.6 million liability for a highway construction project offset by a \$8.5 million repayment on the limited tax bonds in 2007.

Net assets increased by \$40.0 million or 9.8 percent to \$449.1 million at June 30, 2007, the result of revenues exceeding expenses in 2007.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
CHANGES IN NET ASSETS**

	Governmental Activities	
	2007	2006
Revenues:		
Program revenues		
Charges for services	\$902,444	\$891,822
Operating grants/contributions	1,859,644	1,785,460
General revenues		
Sales tax	66,201,576	63,811,468
Investment earnings and others	20,564,871	9,709,555
Total revenues	<u>\$ 89,528,535</u>	<u>\$ 76,198,305</u>
Expenses:		
Public transit	\$13,396,967	\$19,255,115
Streets and highways	33,168,274	19,452,328
Others	2,973,339	2,662,176
Total expenses	<u>\$49,538,580</u>	<u>\$41,369,619</u>
Change in net assets	39,989,955	34,828,686
Net assets - July 1,	409,117,411	374,288,725
Net assets - June 30,	<u>\$ 449,107,366</u>	<u>\$ 409,117,411</u>

Governmental Activities

Total expenses for governmental activities were \$49.5 million in 2007, an increase of \$8.2 million or 19.8 percent compared to 2006. The functional components of total expenses are public transit (27.0 percent), streets and highways (67.0 percent) and other programs (6.0 percent). The following are the highlights of the TA's governmental activities:

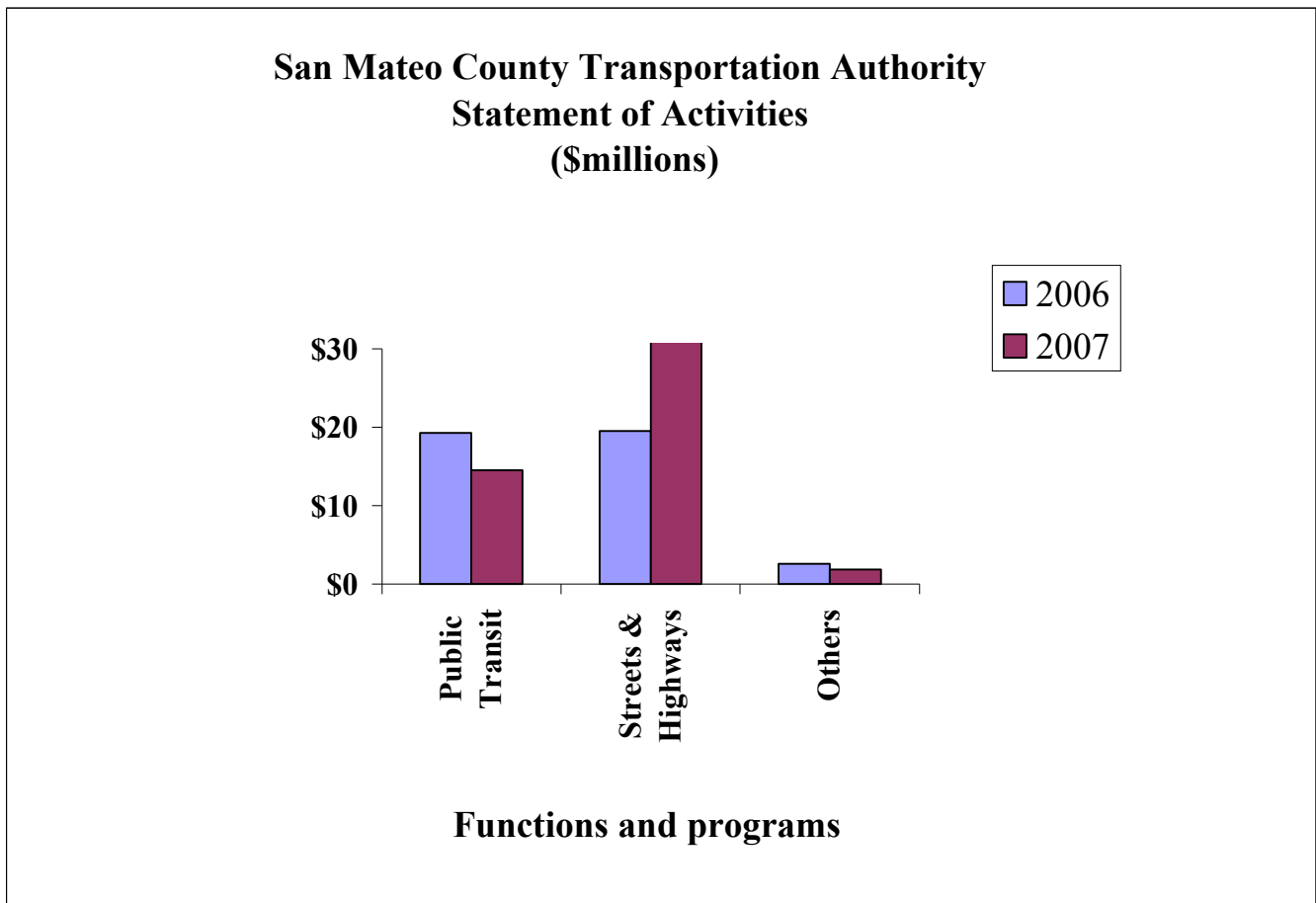
- Sales tax revenue increased by \$2.4 million or 3.8 percent to \$66.2 million in 2007 over 2006. This positive performance is an indication that the economy is recovering from its decline in recent years. Consequently, the TA's distribution of construction funds to local entities, set at 20.0 percent of sales tax revenue, increased by \$0.5 million to \$13.2 million in 2007 over 2006.
- Investment earnings and other revenues of \$20.6 million in 2007 exceeded 2006 results by \$10.9 million or 111.8 percent. Actual interest from investments for 2007 increased by \$2.7 million compared to prior year and it increased by \$8.2 million for an unrealized gain to adjust investments to the "mark-to-market" requirements of GASB 31.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2007**

- Expenses for public transit projects in 2007 decreased by \$5.9 million to \$13.4 million or 30.5 percent compared to 2006. Most of these expenses funded capital improvements for Caltrain rail service.
- Spending for streets and highways in 2007 increased by \$13.7 million or 70.6 percent to \$33.2 million compared to 2006 mainly because most of the capital work done for streets and highways was related to construction which is the most expensive phase of work on a project.

Financial Analysis of the TA's Funds

At June 30, 2007, governmental funds reported combined fund balances of \$443.8 million, an increase of \$31.5 million or 7.7 percent higher than June 30, 2006. Unreserved fund balance represents \$408.4 million or 92.1 percent of this total and is available for spending at the TA's discretion. The remainder of fund balance is reserved for servicing current debt in the amount of \$10.4 million and a principal amount of \$25.0 million intended to generate investment income to support the TA's paratransit program.



**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2007**

The *Special Revenue Fund* is the chief operating fund of the TA and is the equivalent of the general fund at other governmental entities. The fund balance reached \$410.1 million at June 30, 2007, an increase of \$32.9 million or 8.8 percent over June 30, 2006, as sales tax revenue exceeded expenditures during 2007. Of the total fund balance, \$402.1 million or 98.1 percent is unreserved. Since the TA principally passes funding through to other organizations, the most accurate indicator of the TA's ability to meet its current and future obligations is a comparison of its unreserved fund balance to its future commitments. At June 30, 2007, the estimated cost to complete on-going projects is \$210.8 million or 52.5 percent of unreserved fund balance.

The *Debt Service Fund* ended 2007 with a total fund balance of \$2.4 million and the entire amount is reserved for paying debt service. The net increase in fund balance during 2007 in the debt service fund was minimal.

At June 30, 2007, the combined fund balances of *Other Governmental Funds* are \$31.3 million, which is \$1.5 million or 4.5 percent lower than June 30, 2006. The *Paratransit Permanent Fund* at \$25.0 million on June 30, 2007 accounts for 79.9 percent of the *Other Governmental Funds* combined fund balance and is not available for expenditure. \$4.1 million of the *Other Governmental Funds* reside in the *Transportation Systems Management Special Revenue Fund*. The remaining \$2.2 million account for the balance in the *Paratransit Special Revenue Fund*, all of which is designated for Paratransit programs.

Special Revenue Fund Budgetary Highlights

GAAP requires a discussion of the budget-to-actual performance for the general fund or its equivalent. In the case of the TA, the *Special Revenue Fund* is the equivalent of a general fund as it is the chief operating fund. The TA classifies this fund as a special revenue fund because the activity of the fund is legally restricted to the special purposes enumerated in the Transportation Expenditure Plan approved by the voters of San Mateo County.

The *Special Revenue Fund* employs the same accounting basis and principles for both its budget and actual revenues and expenditures, except that proceeds from the sale of fixed assets, unrealized investment gains and losses and inter-fund transfers are not included in the budget.

Sales tax represented 76.8 percent of the *Special Revenue Fund's* total budgeted revenue for 2007. Actual sales tax revenue for the year was \$56.9 million, which exceeded the budget by \$2.7 million or 5.0 percent.

Total investment income for the *Special Revenue Fund* totaled \$17.7 million in 2007, exceeding the budget by \$4.0 million or 29.5 percent mainly due to higher than anticipated interest rates.

Program administration costs for the *Special Revenue Fund* were slightly under budget.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2007**

The TA spent \$30.5 million or 77.0 percent of its final 2007 budget for capital outlays, which included the cost of completing on-going capital projects. Since capital projects normally span more than one year, the TA carries over unexpended budgets to succeeding years. However, to enhance understanding of the TA's fund balance for the *Special Revenue Fund*, the carry-over amount from 2006 is not included in the 2007 *Budgetary Comparison Schedule*.

Capital Projects

The TA spent \$30.5 million on capital projects in 2007, an increase of \$8.2 million or 36.7 percent compared to 2006. Following are the major capital expenditures:

- Construction cost for the addition of an auxiliary lane in both directions of Highway 101 between Third Avenue in San Mateo and Millbrae Avenue in Millbrae (\$12.3 million).
- Construction cost of improvements on State Route 92 in the City of Half Moon Bay (\$5.0 million).
- Transbay Transit Center Program – Extension to Downtown San Francisco, preliminary engineering and design (\$4.2 million).
- Funding for the 2006 local capital match requirement assessed to San Mateo County according to the Caltrain Joint Powers Agreement (\$1.9 million).
- Preparation of plan, specifications and estimate of the Highway 101 Auxiliary lanes from Ralston Avenue to Marsh Road (\$1.5 million).
- Studies and design costs associated with the grade separation project for San Bruno Avenue in San Bruno and Linden Avenue in South San Francisco (\$1.3 million).
- Funding for the capitalized start-up costs incurred to implement the Baby Bullet service (\$1.1 million).

More information on the TA's capital project activity appears in *Notes #15 and #16 – Capital Outlay and Construction Commitments* beginning on page 35 of the *Notes to the Financial Statements*.

Debt

At June 30, 2007, the TA had \$8.9 million in outstanding bonds compared to \$17.3 million at June 30, 2006, a decrease of \$8.5 million or 48.9 percent. This reduction represents the principal payment made June 1, 2007. A pledge of sales tax revenues secures the TA's bonds and insurance secures the payment of principal and interest on the due dates. The TA retains a trustee to service its bond fund.

The TA retains professional consultants to assist in calculating arbitrage liability, which is payable to the federal government every five years while the bonds are outstanding. The cumulative rebate liability on arbitrage earnings as of the end of fiscal year 2007 was \$0.5 million which was paid in September 2007.

An outstanding loan of \$3.5 million from the State of California remains unchanged from the prior year, as no principal payments were made. The loan is due on or before December 31, 2009. The TA used the proceeds of this non-interest-bearing loan to purchase property from Southern Pacific Transportation Company.

More information on the TA's long-term debt activity appears in *Note #11 – Long-term Liabilities* beginning on page 30 of the *Notes to the Financial Statements*.

Economic Factors

By 2004, the economy was showing sign of improvement as it bounced back from a slump in 2002. The San Mateo County unemployment rate decreased to the 4.5 - 4.7 percent range in 2005 through 2007. Consequently, consumer spending increased during this time period resulting in the TA achieving \$66.2 million in sales tax revenue for all funds during fiscal year ended on June 30, 2007. Higher fuel costs and the recent mortgage industry turmoil coupled with the resulting downturn in the housing market could impact the local economy affecting consumer confidence and spending behavior. As a result, the TA expects to experience modest gains in sales tax revenue in the next few years and will budget this revenue source accordingly. The successful public vote in November 2004 in favor of renewing the TA's mission for another 25 years illustrates increasing citizen confidence in the economic prospects for San Mateo County.

Requests for Information

This financial report intends to provide our citizens, taxpayers, customers and creditors with a general overview of the TA's finances and to demonstrate accountability for resources received. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, 1250 San Carlos Ave., San Carlos, California, 94070-1306.

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BASIC FINANCIAL STATEMENTS
Government-Wide Financial Statements

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND 2006

	Governmental Activities	
	2007	2006
ASSETS		
Cash and investments (Notes 1 & 2)	\$ 432,747,009	\$ 385,657,059
Receivables:		
Sales tax (Note 3)	12,487,990	11,914,534
Interest (Note 4)	5,129,882	5,085,143
Note (Note 5)	-	7,231,163
Other (Note 6)	391,920	737,365
Prepaid expenses	3,300	183,556
Restricted assets (Notes 2 & 7)	9,322,953	8,826,024
Capital assets (Notes 1 & 8)		
Non-depreciable	18,160,975	18,160,975
Total Assets	<u>\$ 478,244,029</u>	<u>\$ 437,795,819</u>
LIABILITIES		
Accounts payable (Note 9)	\$ 1,322,678	\$ 3,147,499
Accrued liabilities (Note 10)	14,920,378	4,191,771
Deferred revenue	32,488	12,619
Deposits	39,098	39,098
Long-term liabilities (Note 11):		
Due within one year	9,372,021	8,475,000
Due beyond one year	3,450,000	12,812,421
Total Liabilities	<u>29,136,663</u>	<u>28,678,408</u>
NET ASSETS		
Invested in capital assets, net of related debt	18,160,975	18,160,975
Restricted for (Notes 2 & 12):		
Debt service (Note 7)	10,413,891	10,403,029
Paratransit programs - nonexpendable	25,000,000	25,000,000
Unrestricted (Note 12)	395,532,500	355,553,407
Total Net Assets	<u>449,107,366</u>	<u>409,117,411</u>
Total Liabilities and Net Assets	<u>\$ 478,244,029</u>	<u>\$ 437,795,819</u>

The accompanying notes are an integral part of these financial statements.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2007 AND 2006

	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets	
		Charges for Services	Operating Contributions and Grants	2007	2006
Governmental Activities:					
Public Transit					
Upgrades and extensions	\$ 8,135,808	\$ -	\$ -	\$ (8,135,808)	\$ (9,274,721)
Grade separations	1,867,382	731,322	-	(1,136,060)	(4,285,285)
Paratransit	2,541,560	-	1,410,656	(1,130,904)	(1,722,111)
Dumbarton spur	852,217	171,122	448,988	(232,107)	(285,312)
Street and highways					
Distributions to local entities	13,240,315	-	-	(13,240,315)	(12,762,294)
Projects funding	19,927,959	-	-	(19,927,959)	(6,690,034)
Caltrain shuttle program	1,063,683	-	-	(1,063,683)	(1,010,404)
Transportation systems management	475,510	-	-	(475,510)	(408,170)
Program administration	670,407	-	-	(670,407)	(1,132,804)
Interest on long-term debt	763,739	-	-	(763,739)	(1,121,202)
Total Governmental Activities	<u>\$ 49,538,580</u>	<u>\$ 902,444</u>	<u>\$ 1,859,644</u>	<u>(46,776,492)</u>	<u>(38,692,337)</u>
General Revenues:					
Sales tax				66,201,576	63,811,468
Unrestricted investment earnings				20,564,871	9,548,579
Other income				-	160,976
Total General Revenues				<u>86,766,447</u>	<u>73,521,023</u>
Change in Net Assets				39,989,955	34,828,686
Net Assets at Beginning of Year				<u>409,117,411</u>	<u>374,288,725</u>
Net Assets at End of Year				<u>\$ 449,107,366</u>	<u>\$ 409,117,411</u>

The accompanying notes are an integral part of these financial statements.

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BASIC FINANCIAL STATEMENTS
Fund Financial Statements

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007 AND 2006

	Special	Debt	Other	Total Governmental	
	Revenue	Service	Governmental	Funds	
	Fund	Fund	Funds	2007	2006
ASSETS					
Cash and investments (Notes 1 & 2)	\$ 400,849,561	\$ 51,096	\$ 31,846,352	\$ 432,747,009	\$ 385,657,059
Receivables:					
Sales tax (Note 3)	10,944,616	1,543,374	-	12,487,990	11,914,534
Interest (Note 4)	4,800,896	-	328,986	5,129,882	5,085,143
Note (Note 5)	-	-	-	-	7,231,163
Other (Note 6)	391,920	-	-	391,920	737,365
Prepaid	3,300	-	-	3,300	183,556
Restricted assets (Notes 2 & 7)	8,533,032	789,921	-	9,322,953	8,826,024
Total Assets	<u>\$ 425,523,325</u>	<u>\$ 2,384,391</u>	<u>\$ 32,175,338</u>	<u>\$ 460,083,054</u>	<u>\$ 419,634,844</u>
LIABILITIES					
Accounts payable (Note 9)	\$ 434,874	\$ -	\$ 853,860	\$ 1,288,734	\$ 3,081,734
Accrued liabilities (Note 10)	14,904,432	1,500	14,446	14,920,378	4,191,771
Deferred rent revenue	32,488	-	-	32,488	12,619
Deposits	39,098	-	-	39,098	39,098
Total Liabilities	<u>15,410,892</u>	<u>1,500</u>	<u>868,306</u>	<u>16,280,698</u>	<u>7,325,222</u>
FUND EQUITY					
Fund Balances:					
Reserved for (Notes 2 & 12):					
Debt service (Note 7)	8,031,000	2,382,891	-	10,413,891	10,403,029
Paratransit programs	-	-	25,000,000	25,000,000	25,000,000
Unreserved, reported in (Note 12):					
Special revenue fund					
Designated for -					
Current Measure A Projects	210,810,170	-	-	210,810,170	206,277,759
Future Measure A Projects	191,271,263	-	-	191,271,263	162,869,247
Nonmajor special revenue funds					
Designated	-	-	6,307,032	6,307,032	7,759,587
Total Fund Balances	<u>410,112,433</u>	<u>2,382,891</u>	<u>31,307,032</u>	<u>443,802,356</u>	<u>412,309,622</u>
Total Liabilities and					
Fund Balances	<u>\$ 425,523,325</u>	<u>\$ 2,384,391</u>	<u>\$ 32,175,338</u>	<u>\$ 460,083,054</u>	<u>\$ 419,634,844</u>

The accompanying notes are an integral part of these financial statements.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Fund Balances - Total Governmental Funds	\$ 443,802,356	\$ 412,309,622
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets of governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	18,160,975	18,160,975
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is paid. On the government-wide statements, unmatured interest on long-term debt is recognized as it accrues.	(33,944)	(65,765)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the governmental funds:		
Limited Tax Bonds	(8,855,000)	(17,330,000)
Cumulative rebate liability	(517,021)	(507,421)
Loan from State of California	(3,450,000)	(3,450,000)
Subtotal	<u>(12,822,021)</u>	<u>(21,287,421)</u>
Net Assets of Governmental Activities	<u>\$ 449,107,366</u>	<u>\$ 409,117,411</u>

The accompanying notes are an integral part of these financial statements.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 2007 AND 2006**

	Special Revenue Fund	Debt Service Fund	Other Governmental Fund	Total	
				2007	2006
REVENUES					
Sales tax	\$ 56,938,214	\$ 9,263,362	\$ -	\$ 66,201,576	\$ 63,811,467
Investment income (Note 13)	20,402,552	18,060	1,564,515	21,985,127	10,305,950
Rental income	902,444	-	-	902,444	891,822
Grant proceeds	448,988	-	-	448,988	1,149,371
Total Revenues	78,692,198	9,281,422	1,564,515	89,538,135	76,158,610
EXPENDITURES					
Administrative:					
Staff support (Note 14)	499,998	-	-	499,998	417,951
Board compensation	6,000	-	-	6,000	5,600
Professional and legal fees	112,108	-	-	112,108	115,252
Other services and supplies	43,631	6,855	-	50,486	63,329
Travel and meeting	5,368	-	-	5,368	3,655
Debt Service:					
Principal	-	8,475,000	-	8,475,000	8,115,000
Interest	-	788,705	-	788,705	1,145,765
Subtotal	667,105	9,270,560	-	9,937,665	9,866,552
Distribution to local entities	13,240,315	-	3,017,070	16,257,385	15,528,666
Caltrain shuttles program	1,063,684	-	-	1,063,684	1,010,404
Dumbarton corridor maintenance	265,230	-	-	265,230	246,336
Election costs	-	-	-	-	520,724
Measure A information	3,302	-	-	3,302	11,443
Capital outlays (Note 15)	30,518,135	-	-	30,518,135	22,330,208
Total Expenditures	45,757,771	9,270,560	3,017,070	58,045,401	49,514,333
Excess (Deficit) Revenues					
Over Expenditures	32,934,427	10,862	(1,452,555)	31,492,734	26,644,277
Net Change in Fund Balances	32,934,427	10,862	(1,452,555)	31,492,734	26,644,277
Fund Balances, Beginning of Year	377,178,006	2,372,029	32,759,587	412,309,622	385,665,345
Fund Balances, End of Year	\$ 410,112,433	\$ 2,382,891	\$ 31,307,032	\$ 443,802,356	\$ 412,309,622

The accompanying notes are an integral part of these financial statements.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE ENTITY-WIDE STATEMENT OF ACTIVITIES
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Amounts reported for governmental activities in the statement of activities are different because:		
Net Changes in fund balances - total governmental funds	\$ 31,492,734	\$ 26,644,277
Repayment of Limited Tax Bonds principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	8,475,000	8,115,000
Accrual of interest expense on the 1997 bonds is recorded as an expense in the government-wide statement of activities, but is not recorded in the governmental funds.	31,821	29,715
An accrued contingency related to a construction project has been settled by the State on behalf of the Authority. The amount was recorded as a revenue on the governmental funds but reduces long-term liabilities in the statement of net assets	-	160,976
Some expenses do not require use of current financial resources and therefore, are not recorded in governmental funds, but increase long-term liabilities in the statement of net assets.		
Increase in cumulative rebate liability	<u>(9,600)</u>	<u>(121,282)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 39,989,955</u></u>	<u><u>\$ 34,828,686</u></u>

The accompanying notes are an integral part of these financial statements.

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BASIC FINANCIAL STATEMENTS
Notes to the Basic Financial Statements

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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 through the one-half cent county sales tax for a period of 20 years for transportation projects. The District was designated as the entity responsible for overall management of the TA.

B. Implementation of Governmental Accounting Standards Board Statements

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

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

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

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

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

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

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

B. Implementation of Governmental Accounting Standards Board Statements (Continued)

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

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

C. Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities report the financial activities of the TA. The statement of activities presents a comparison between direct expenses and program revenues for each function of the TA. Direct expenses are those that are specifically associated with a program or a function and therefore, are clearly identifiable to a particular function. Program revenues refer to charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including sales tax revenues, are presented instead as general revenues.

Fund Financial Statements

The fund financial statements provide information about the TA's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The TA reports the following major governmental funds:

The *Special Revenue Fund* accounts for the proceeds of the half-cent county sales tax. These funds are legally restricted to expenditures specified in Measure A.

The *Debt Service Fund* accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest.

The TA reports the following non-major governmental funds in an aggregated column:

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

C. Basis of Presentation (continued)

The *Paratransit Special Revenue Fund* accounts for all transactions relating to Paratransit, except for the \$25 million principal balance maintained in the Paratransit Permanent Fund. The Paratransit Special Revenue Fund includes allocations for Paratransit augmentation of fund in excess of the principal balance of \$25 million, Consumer Price Index (CPI) adjustments to the principal balance and investment earnings. Investment earnings are allocated to local entities, upon the advice of the Paratransit Coordinating Council and the County, to support the transportation needs of elderly and disabled persons (Paratransit Programs).

The *Paratransit Permanent Fund* was established as provided in the *Transportation Expenditure Plan* with a principal balance of \$25 million from Measure A Funds and will be maintained in perpetuity as required under Measure A. Investment earnings of this fund are transferred to the Paratransit Special Revenue Fund.

The *Transportation System Management (TSM) Special Revenue Fund* accounts for a "Restricted Reserve Account" established pursuant to Board Resolution No. 1989-12 passed on July 6, 1989. The resolution authorized the transfer of a principal amount of \$5 million to an interest-bearing Restricted Reserve Account to fund the TSM Project in the *Transportation Expenditure Plan*. Prior to October 7, 1999, interest accrued in the Account was allocated for TSM activities. On October 7, 1999, Board Resolution No. 1999-20 was passed which amended Resolution 1989-12. The amendment clarified the intent of the TA to cease making annual allocations for TSM activities from the interest proceeds of the Restricted Reserve Account and make the required annual allocations out of the principal of the Account.

D. Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of when the related cash flows take place. Nonexchange transactions, in which the TA gives (or receives) value without directly receiving (or giving) equal value in exchange, include one-half cent county sales tax and distribution to local entities. On an accrual basis, revenues from the one-half cent sales tax are recognized when the underlying exchange transactions occur.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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

D. Basis of Accounting (Continued)

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered available when their receipt occurs within sixty days after the end of the accounting period. Sales tax and investment earnings are recorded when measurable and available. Expenditures are recognized in the accounting period in which the liability is incurred, except that principal and interest on long-term debt are recognized when paid. Capital asset acquisitions are reported as expenditures in governmental funds.

E. Non-Current Governmental Assets/Liabilities

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the government-wide statement of net assets.

F. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the statement of net assets.

G. Prepaid Expenditures

Prepaid expenditures represent amounts paid in advance of receiving goods or services. The TA has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The TA has chosen to report the expenditures when incurred.

H. Cash and Investments

All highly liquid investments with maturity of three months or less when purchased are considered cash equivalents.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The custodian or trustee determines fair value using quoted market prices or valuation services, as applicable.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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

I. Capital Assets

Capital assets are recorded at historical cost. All capital asset purchases are recorded as expenditures at the time of acquisition in the governmental funds. Such amounts are then capitalized and reported in the government-wide financial statements.

Construction projects financed by the TA from the one-half cent county sales tax include highways, streets, and grade separations. These infrastructure assets are of value only to the local government units in whose jurisdiction they are constructed and are not recorded as capital assets on the TA's books.

J. Comparative Data

The comparative data for fiscal year ended June 30, 2006 provided in these financial statements is not required for a fair presentation of the financial statements, but is presented as additional analytical data.

K. Reclassifications

Certain comparative financial statement amounts from the prior year have been reclassified to conform to the current year presentation.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE #2 – DEPOSITS AND INVESTMENTS

The deposits and investments as of June 30, 2007 and 2006 are as follows:

	Fair Value	
	2007	2006
Cash and Investments		
Special Revenue Fund		
Cash and Cash Equivalents		
Bank Balance	\$ 153,066	\$ 405,280
Investment in San Mateo County Investment Pool	390,663,662	326,080,308
Investment in Local Agency Investment Fund	4,708	4,483
	<u>390,821,436</u>	<u>326,490,071</u>
Investments	10,028,125	25,100,000
Total Special Revenue Fund	<u>400,849,561</u>	<u>351,590,071</u>
Debt Service Fund		
Cash and Cash Equivalents		
Bank Balance	51,096	56,451
Other Governmental Funds		
Cash and Cash Equivalents		
Investment in San Mateo County Investment Pool		
Paratransit Permanent Fund	25,000,000	25,000,000
Paratransit Special Revenue Fund	2,726,742	4,403,334
TSM Special Revenue Fund	4,119,610	4,607,203
Total Other Governmental Funds	<u>31,846,352</u>	<u>34,010,537</u>
Total Cash and Investments	<u>\$ 432,747,009</u>	<u>\$ 385,657,059</u>
Restricted Assets (See Notes 7 & 12)		
Special Revenue Fund		
Investments in U.S. Treasury Securities	\$ 7,873,432	\$ 7,865,481
Money Market Funds	659,600	188,568
Total Special Revenue Fund	<u>8,533,032</u>	<u>8,054,049</u>
Debt Service Fund		
Investment in Trustee's Pool	789,921	771,975
Total Restricted Assets	<u>\$ 9,322,953</u>	<u>\$ 8,826,024</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE #2 – DEPOSITS AND INVESTMENTS (continued)

The TA's cash and investments as of June 30, 2007 and 2006 are as follows:

	2007	2006
Deposits with financial institutions	\$ 1,653,683	\$ 1,422,274
Deposits in external investment pools	422,514,722	360,095,328
Investments	17,901,557	32,965,481
	<u>\$ 442,069,962</u>	<u>\$ 394,483,083</u>

Investments Authorized by the California Government Code and the TA's Investment Policy

In accordance with the California Government Code, the TA may acquire investments as identified in the table below:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	15 years	None	None
U.S. Agency Securities or Government Sponsored Enterprises	15 years	None	None
Banker's Acceptances	180 days	15%	10%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	10%	5%
Repurchase Agreements	1 year	None	50%
Reverse Repurchase Agreements	92 days	20% of base value	20%
Medium-Term Notes	5 years	30%	10%
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	5%
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE #2 – DEPOSITS AND INVESTMENTS (continued)

The table below identifies the investment types that the TA is currently invested in, which have been authorized by the TA’s Board of Directors. The table also identifies certain provisions of the Authorized Investment Policy that address **interest rate risk**, **credit risk**, and **concentration of credit risk**. The TA’s Authorized Investment Policy provisions apply to the investment of debt proceeds.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	15 years	None	None
U.S. Agency Securities or Government Sponsored Enterprises	15 years	None	None
San Mateo County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk incurred when market interest rates adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the TA manages its exposure to interest rate risk is by maintaining its portfolio in shorter term investments.

As of June 30, 2007, the TA’s investments are as follows:

Investment Type	Amount	Maturity Date
U.S. Treasury Note	\$ 10,028,125	2/15/2008
U.S. Treasury Bill	7,873,432	11/29/2007
	<u>\$ 17,901,557</u>	

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. The TA’s investments are restricted to U.S. Treasury Obligations and U.S. Agency Securities for which there is no minimum credit rating. Investments in the San Mateo County Investment Pool and LAIF are not rated.

NOTE #2 – DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk

The investment policy of the TA contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represents 5 percent or more of total investments beyond that stipulated by the California Government Code.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the TA 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 California Government Code and the TA's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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 TA deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. The bank balance reported by the TA represents its share in the managing entity's (the District) bank account balance. The credit risk for the District's bank balance is discussed in its CAFR.

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 TA will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The TA's investment policy requires the delivery of investments of marketable securities to its safekeeping agent, maintained in the name of the TA.

Fair Value of Investments

Accounting pronouncement GASB Statement No. 31 applies to investments purchased with maturities greater than one year, investments in external investment pools (State of California LAIF & county treasury investment pools), mutual funds, and certain investment agreements. Generally, governmental entities need to report the fair value changes for these investments at year-end and record these gains or losses on their income statement.

Methods and assumptions used to estimate fair value: The TA maintains investment accounting records on amortized cost and adjusts those records to "fair value" on an annual basis. Unrealized gains and losses are recorded on an annual basis and the carrying value of its investments is considered "fair value". The TA's investment custodian provides market value on each investment instrument. The investments held by the TA are widely traded in the financial markets and trading values are readily available from numerous published sources. The TA has elected to report its money market investments (those investments with maturities of less than one year) at amortized cost adjusted to fair value on an annual basis.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE #2 – DEPOSITS AND INVESTMENTS (continued)

San Mateo County Treasurer's Investment Pool: The TA holds investments in the County Pool that are subject to adjustment to "fair value". The TA is required to disclose its methods and assumptions used to estimate the fair value of its holdings in the County Pool. The TA relied upon information provided by the County Treasurer in estimating the TA's fair value position of its holdings in the County Pool. The TA had a contractual withdrawal value of \$426,058,915 and \$366,745,947 at June 30, 2007 and 2006, respectively, that is recorded at \$422,475,364 and \$360,090,845 on the balance sheet before the adjustment for unrealized gains/losses for years ending 2007 and 2006 respectively. The fair value change in these investments for the year just ended is shown as unrealized gain/losses in the income statement via inclusion in the amount of Investment Income.

The San Mateo County Treasurer's Investment Pool is a governmental investment pool managed and directed by the elected San Mateo County Treasurer. The County Pool is not registered with the Securities and Exchange Commission. An oversight committee, comprised of local government officials and various participants, provide oversight to the management of the fund. The daily operations and responsibilities of the pool fall under the auspices of the County Treasurer's office. The TA is a voluntary participant in the investment pool.

State of California State Treasurer's Local Agency Investment Fund ('LAIF'): The TA holds an investment in LAIF that is subject to being adjusted to "fair value". The TA is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. The TA relied upon information provided by the State Treasurer in estimating the TA's fair value position of its holdings in LAIF. The TA had a contractual withdrawal value of \$4,708 and \$4,483 at fiscal years ending 2007 and 2006, respectively. The fair value change in this investment for the year came to an amount that was not material for presentation in the financial statements.

The LAIF is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee, comprised of California State officials and various participants, provide oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office. The TA is a voluntary participant in the investment pool.

NOTE #3 – SALES TAX RECEIVABLE

Sales tax receivable consists of sales tax due from the State Board of Equalization for the quarter ended June 30, 2007.

NOTE #4 – INTEREST RECEIVABLE

Interest receivable represents interest due from deposits and investments.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE #5 – NOTE RECEIVABLE

In April 2007, a note receivable originally drawn in April 2002 by a project lead agency (the city of South San Francisco) from the TA for completing a major infrastructure project was repaid in full (with principal and interest) prior to its October 1, 2008 maturity. As of June 30, 2006, the amount outstanding was \$7,231,163.

NOTE #6 – OTHER RECEIVABLES

Other receivables consist of amounts owed by other government agencies and rent receivable as follows:

	<u>2007</u>	<u>2006</u>
Metropolitan Transportation Commission	\$ 195,930	\$ 157,375
City of Belmont	-	69,921
San Mateo County Transit District	28,140	28,133
Peninsula Joint Powers Board	42,005	70,684
Alameda County Transportation Improvement Authority	67,784	239,374
Santa Clara Valley Transportation Authority	52,738	166,220
Other	5,323	5,658
Total Other Receivables	<u>\$ 391,920</u>	<u>\$ 737,365</u>

NOTE #7 – RESTRICTED ASSETS

Bond covenants require the TA to set aside with a trustee prescribed amounts of resources that can be used only for debt service on limited tax bonds. See Note #11 – Long Term Liabilities.

NOTE #8 – CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2007 are as follows:

	Balance at <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2007</u>
Capital Assets, Non depreciable				
Land	<u>\$ 18,160,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,160,975</u>

Land represents the cost of right-of-way acquisitions for future grade separation projects as well as for corridor preservation purposes.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE #9 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2007 and 2006 are as follows:

	2007	2006
Salaries and Benefits	\$ 252,677	\$ 126,339
Capital Projects	-	887,194
Shuttle Program	157,969	245,518
Paratransit Program	853,860	1,524,260
Other	24,228	298,423
Total reported on Governmental	1,288,734	3,081,734
Interest Accrual	33,944	65,765
Total reported on Entity-Wide	\$ 1,322,678	\$ 3,147,499

NOTE #10 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2007 and 2006 are as follows:

	2007	2006
Disbursement to local entities for transportation projects	\$ 1,416,968	\$ 2,384,824
Capital projects	12,394,651	1,772,487
TSM Programs	14,446	26,529
Other	1,094,313	7,931
Total	\$ 14,920,378	\$ 4,191,771

NOTE #11 – LONG-TERM LIABILITIES

Limited Tax Bonds

In August 1997, the TA issued \$80,310,000 of 1997 Series A Bonds to reimburse the TA for prior capital expenditures. The bonds were sold at a premium of \$29,760. The cost of issuing the bonds was \$663,514. The bonds bear a variable interest rate from 4.0% to 4.6% and are payable from and secured by a pledge of sales tax revenues received by the TA on or after September 1, 1997. Interest payments are due on June 1 and December 1 of each year. The bonds mature on June 1 of each year through June 1, 2008.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE #11 – LONG-TERM LIABILITIES (continued)

As required by the indenture, a portion of the bond proceeds is retained in a bond reserve fund maintained by a trustee. The debt covenants also require that the trustee receive the monthly sales tax revenue directly from the State Board of Equalization and allocate prescribed amounts to the interest and principal funds that are maintained by the trustee. Money set aside in these funds is reported as restricted assets and as reservations of fund balance as explained under *Note #12 – Net Assets/Fund Balance*.

Cumulative Rebate Liability

The cumulative rebate liability relates to arbitrage. Arbitrage is the excess of interest earned on unexpended tax-exempt bond proceeds over interest paid to bond holders. Federal tax law generally provides that the interest paid to bond holders is tax-exempt only if the issuer rebates any arbitrage earnings from investing bond proceeds to the federal government. The rebate is payable to the federal government every five years for as long as the bonds are outstanding. The first five-year period for the limited tax bonds ended on August 1, 2002 when 90 percent of the cumulative liability became due and was subsequently paid to the federal government.

As of June 30, 2007 and 2006, the cumulative rebate liability as calculated by the bond counsel was \$517,021 and \$507,421, respectively and was recorded as a short-term liability in the government-wide financial statements. The second five-year period for the limited tax bonds ended August 2, 2007 when 90 percent of the cumulative liability became due and was subsequently paid to the federal government.

Debt service requirements to maturity for the limited tax bonds as of June 30, 2007, are as follows:

Year Ending June 30,	Principal	Interest
2008	\$ 8,855,000	\$ 407,330

Loan from State

The TA obtained a \$3,450,000 non-interest bearing loan from the State of California in the 1994-95 fiscal year to purchase property from Southern Pacific Transportation Company. The loan agreement requires the TA to pay the full amount by December 31, 2009.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE #11 – LONG-TERM LIABILITIES (continued)

Summary of long- term liabilities as of June 30, 2007, are as follows:

	Balance at July 1, 2006	Adjustments/ Additions	Deletions	Balance at June 30, 2007	Amounts Due within One Year
Governmental Activities					
Limited Tax Series					
1997A Bonds issued in August 1997	\$ 17,330,000	\$ -	\$ 8,475,000	\$ 8,855,000	\$ 8,855,000
Cumulative rebate liability on arbitrage earnings	507,421	9,600	-	517,021	517,021
Loan payable to the State of California	3,450,000	-	-	3,450,000	-
Total Long-Term Liabilities	<u>\$ 21,287,421</u>	<u>\$ 9,600</u>	<u>\$ 8,475,000</u>	<u>\$ 12,822,021</u>	<u>\$ 9,372,021</u>
				Due within one year \$ 9,372,021	
				Due beyond one year 3,450,000	
				<u>\$ 12,822,021</u>	

NOTE #12 – NET ASSETS/FUND BALANCE

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets, Net of Related Debt - This category groups all capital assets into one component of net assets. Outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE #12 – NET ASSETS/FUND BALANCE (continued)

Restricted Net Assets - This category represents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The restricted net assets consists of the principal amount in the Paratransit Permanent Fund and amounts set aside for payment of principal and interest of the 1997 Limited Tax Bonds, and retained in a bond reserve fund as required by the bond covenants.

Unrestricted Net Assets - This category represents net assets of the TA available for projects and other purposes specified under Measure A. Of the \$395,532,500 unrestricted amount, \$210,810,170 has been appropriated for current Measure A projects as of June 30, 2007.

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purpose. The term "reserved" is used to indicate that a portion of reported fund balance is legally restricted to a specific use or not available for appropriation or expenditure. The TA also "designates" portions of fund balance based on tentative spending plans. Should such plans change, the TA may shift the designated fund balance to other uses.

Reserved fund balances consist of the following:

- The reserve for debt service represents the portion of fund balance that is set aside for payment of principal and interest, and the portion retained in a bond reserve fund as required by the bond covenants. The money in the bond reserve fund can only be used to make up any deficiencies in amounts set aside for debt service.
- The reserve for Paratransit programs represents the principal amount in the Paratransit Permanent Fund.

The designated fund balance consists of the following:

- \$402,081,433 in the major Special Revenue Fund designated for projects and other purposes specified under Measure A. As of June 30, 2007, \$ 210,810,170 of this amount has been appropriated for current Measure A projects.
- Cumulative CPI adjustments to the Paratransit Permanent Fund's principal balance, net additional allocations of \$ 2,201,868 to the fund pursuant to Board Resolutions 1999-19, 2000-32, 2002-11, 2003-12 and 2005-05 and investment earnings.
- The TSM Special Revenue Fund's balance set-aside for TSM programs.

The designated fund balances may be redesignated by future Board resolution.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE #13 – INVESTMENT INCOME

Investment income is as follows:

	<u>2007</u>	<u>2006</u>
Interest income	\$ 18,921,025	\$ 15,304,868
Net increase (decrease) in fair value of investments	3,054,502	(5,120,200)
Investment income - statement of activities (see below)	21,975,527	10,184,668
Increase in cumulative rebate liability	9,600	121,282
Investment income - statement of revenues, expenditures and changes in fund balance	<u>\$ 21,985,127</u>	<u>\$ 10,305,950</u>

Investment income in the statement of activities is reported below:

Interest earned on the restricted \$25 million Paratransit reserve for allocations to Paratransit programs under Measure A	\$ 1,410,656	\$ 636,089
Unrestricted investment earnings	20,564,871	9,548,579
	<u>\$ 21,975,527</u>	<u>\$ 10,184,668</u>

NOTE #14 – STAFF SUPPORT EXPENDITURE

Staff support expenditures is as follows:

	<u>2007</u>	<u>2006</u>
Salaries and benefits	\$ 386,250	\$ 326,954
Other related charges	926	280
Indirect costs	112,822	90,717
Total	<u>\$ 499,998</u>	<u>\$ 417,951</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE #15 – CAPITAL OUTLAY

The expenditure on public transportation projects during the 2007 fiscal year was \$30,518,135. Total expenditures on such projects from inception through June 30, 2007 and 2006 are as follows:

	2007	2006
Dumbarton Spur	\$ 18,777,077	\$ 18,190,090
Caltrain-Downtown Extension	113,076,753	104,940,946
Railroad Grade Separations	143,870,691	142,003,309
Streets and Highways	140,359,956	120,899,944
Oversight and Bicycle	2,415,369	1,947,422
Total	<u>\$ 418,499,846</u>	<u>\$ 387,981,711</u>

The Dumbarton Spur expenditure of \$18,777,077 was partially financed by a state loan of \$3,450,000. Of the total expenditures of \$418,499,846 for capital outlay, \$3,343,095 was funded by contributions from external entities.

NOTE #16 – CONSTRUCTION COMMITMENTS

At June 30, 2007 and 2006, the TA estimated the cost to complete the following unfinished projects:

Capital Project	Remaining Project Commitment	
	2007	2006
Dumbarton Spur	\$ 25,279,139	\$ 4,676,126
Caltrain-Downtown Extension	25,978,417	23,719,303
Railroad Grade Separations	31,328,205	34,619,883
Streets and Highways	127,345,326	142,640,366
Oversight	879,083	622,081
Total	<u>\$ 210,810,170</u>	<u>\$ 206,277,759</u>

The additional commitment during the current year was the result of additional funding available for these capital projects.

NOTE #17 – RISK MANAGEMENT

The TA is not exposed to a significant number of risks, as its primary function is to receive and allocate one-half cent county sales tax. All projects funded by the TA are managed by various local agencies as well as Caltrans (lead agencies). The TA is indemnified from and against all liabilities, claims, and lawsuits arising out of or resulting from any acts or omissions by such agencies. During the audit period, the TA and its managing entity, the District, had an aggregate insurance coverage of \$100,000,000.

NOTE #18 – SUBSEQUENT EVENT

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

REQUIRED SUPPLEMENTARY INFORMATION

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**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, Beginning of Year	\$ 308,214,657	\$ 300,536,690	\$ 385,083,931	\$ 84,547,241
Resources (inflows)				
Sales tax	54,236,630	54,236,630	56,938,214	2,701,584
Investment income	13,641,940	13,641,940	17,656,289	4,014,349
Rental income	939,140	939,140	902,444	(36,696)
Grant proceeds	1,800,000	1,800,000	448,988	(1,351,012)
Amounts Available for Appropriation	<u>70,617,710</u>	<u>70,617,710</u>	<u>75,945,935</u>	<u>5,328,225</u>
Charges to appropriations (outflows)				
Program Administration				
Staff support	565,193	540,523	499,998	40,525
Board compensation	9,300	9,300	6,000	3,300
Professional and legal fees	145,000	145,000	112,108	32,892
Other services and supplies	26,650	51,320	43,631	7,689
Travel and meeting	10,470	10,470	5,368	5,102
	<u>756,613</u>	<u>756,613</u>	<u>667,105</u>	<u>89,508</u>
Distribution to local entities	12,700,000	12,700,000	13,240,315	(540,315)
Caltrain shuttles program	1,439,530	1,439,530	1,063,684	375,846
Dumbarton corridor maintenance	383,185	383,185	265,230	117,955
Measure A information	50,000	50,000	3,302	46,698
Capital outlays	17,725,000	39,665,000	30,518,135	9,146,865
Total Charges to Appropriations	<u>33,054,328</u>	<u>54,994,328</u>	<u>45,757,771</u>	<u>9,236,557</u>
Budgetary Fund Balance, End of Year	<u>\$ 345,778,039</u>	<u>\$ 316,160,072</u>	<u>\$ 415,272,095</u>	<u>\$ 99,112,023</u>

Explanation of Differences Between Budgetary Inflows and GAAP Revenues

Actual amounts available for appropriation - budgetary basis from above	\$ 75,945,935
Unrealized gains under GASB 31	2,746,263
Total revenues in the Statement of Revenues, Expenditures and Changes in Fund Balances - GAAP basis	<u>\$ 78,692,198</u>

The accompanying notes are an integral part of these required supplementary information.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY SCHEDULE
JUNE 30, 2007**

NOTE #1 – BUDGETS AND THE BUDGETARY PROCESS

The TA Board adopts an annual operating budget in accordance with Section 131265(a) of the Public Utilities Code. Budget amounts may be revised by Board Resolutions. The budget adopted by the TA includes amounts for the major Special Revenue Fund. This fund's budget and actual revenues and expenditures are presented as required supplementary information. The basis the TA uses to prepare the budget is consistent with the basis used to reflect the actual revenues and expenditures, except that proceeds from sale of fixed assets and unrealized gains and losses under GASB Statement No. 31 are not included in the budget.

NOTE #2 – EXPENDITURES IN EXCESS OF BUDGET

Management is authorized to exceed budget for individual categories provided the total expenditures do not exceed the total budget.

OTHER SUPPLEMENTAL INFORMATION

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**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007 AND 2006**

	Special Revenue		Total	Permanent	Total Nonmajor Governmental Funds		
	Transportation System				Paratransit Fund	2007	2006
	Paratransit Fund	Management Fund					
ASSETS							
Cash and investments	\$ 2,726,742	\$ 4,119,610	\$ 6,846,352	\$ 25,000,000	\$ 31,846,352	\$ 34,010,537	
Receivables:							
Interest	328,986	-	328,986	-	328,986	299,839	
Total Assets	<u>\$ 3,055,728</u>	<u>\$ 4,119,610</u>	<u>\$ 7,175,338</u>	<u>\$ 25,000,000</u>	<u>\$ 32,175,338</u>	<u>\$ 34,310,376</u>	
LIABILITIES							
Accounts payable	\$ 853,860	\$ -	\$ 853,860	\$ -	\$ 853,860	\$ 1,524,260	
Accrued liabilities	-	14,446	14,446	-	14,446	26,529	
Total Liabilities	<u>853,860</u>	<u>14,446</u>	<u>868,306</u>	<u>-</u>	<u>868,306</u>	<u>1,550,789</u>	
FUND BALANCES							
Reserved	-	-	-	25,000,000	25,000,000	25,000,000	
Unreserved:							
Designated	2,201,868	4,105,164	6,307,032	-	6,307,032	7,759,587	
Total Fund Balances	<u>2,201,868</u>	<u>4,105,164</u>	<u>6,307,032</u>	<u>25,000,000</u>	<u>31,307,032</u>	<u>32,759,587</u>	
Total Liabilities and Fund Balances	<u>\$ 3,055,728</u>	<u>\$ 4,119,610</u>	<u>\$ 7,175,338</u>	<u>\$ 25,000,000</u>	<u>\$ 32,175,338</u>	<u>\$ 34,310,376</u>	

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 2007 AND 2006**

	Special Revenue Funds			Permanent	Total Nonmajor Governmental Funds		
	Transportation System		Total		Paratransit Fund	2007	2006
	Paratransit Fund	Management Fund					
REVENUES							
Interest	\$ 1,564,515	\$ -	\$ 1,564,515	\$ -	\$ 1,564,515	\$ 748,127	
EXPENDITURES							
Distribution to local entities	2,541,560	475,510	3,017,070	-	3,017,070	2,766,370	
Net Change in Fund Balances	(977,045)	(475,510)	(1,452,555)	-	(1,452,555)	(2,018,243)	
Fund Balances, Beginning of Year	3,178,913	4,580,674	7,759,587	25,000,000	32,759,587	34,777,830	
Fund Balances, End of Year	\$ 2,201,868	\$ 4,105,164	\$ 6,307,032	\$ 25,000,000	\$ 31,307,032	\$ 32,759,587	

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance,				
Beginning of Year	\$ 2,369,280	\$ 2,369,280	\$ 2,372,029	\$ 2,749
Resources (inflows)				
Sales tax	9,263,370	9,263,370	9,263,362	(8)
Investment income	2,430	2,430	18,060	15,630
Amounts Available for Appropriation	<u>9,265,800</u>	<u>9,265,800</u>	<u>9,281,422</u>	<u>15,622</u>
Charges to appropriations (outflows)				
Bond principal payment	8,475,000	8,475,000	8,475,000	-
Bond interest expense	788,705	788,705	788,705	-
Other services	5,200	5,200	6,855	(1,655)
Total Charges to Appropriations	<u>9,268,905</u>	<u>9,268,905</u>	<u>9,270,560</u>	<u>(1,655)</u>
Budgetary Fund Balance, End of Year	<u>\$ 2,366,175</u>	<u>\$ 2,366,175</u>	<u>\$ 2,382,891</u>	<u>\$ 16,716</u>

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NONMAJOR GOVERNMENTAL FUNDS
PARATRANSIT SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, Beginning of Year	\$ 3,489,740	\$ 3,489,740	\$ 3,722,337	\$ 232,597
Resources (inflows)				
Interest	1,017,300	1,017,300	1,256,276	238,976
Amounts Available for Appropriation	1,017,300	1,017,300	1,256,276	238,976
Charges to appropriation (outflows)				
Distribution to local entities	2,541,560	2,541,560	2,541,560	-
Total Charges to Appropriations	2,541,560	2,541,560	2,541,560	-
Budgetary Fund Balance, End of Year	<u>\$ 1,965,480</u>	<u>\$ 1,965,480</u>	<u>\$ 2,437,053</u>	<u>\$ 471,573</u>
Explanation of Differences Between Budgetary Inflows and GAAP Revenues				
Actual amounts available for appropriation - budgetary basis from above				\$ 1,256,276
Unrealized gains under GASB 31				308,239
Total revenues in the Statement of Revenues, Expenditures and Changes in Fund Balances - GAAP basis				<u>\$ 1,564,515</u>

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NONMAJOR GOVERNMENTAL FUNDS
TRANSPORTATION SYSTEM MANAGEMENT FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance,				
Beginning of Year	\$ 4,580,644	\$ 4,580,644	\$ 4,580,674	\$ 30
Charges to appropriations (outflows)				
Distribution to local entities	594,500	594,500	475,510	118,990
Total Charges to Appropriations	594,500	594,500	475,510	118,990
Budgetary Fund Balance,				
End of Year	\$ 3,986,144	\$ 3,986,144	\$ 4,105,164	\$ 119,020

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Section III

STATISTICAL

Financial Trends

- **Net Assets and Changes in Net Assets**
- **Governmental Funds Fund Balances and Changes in Fund Balances**

Revenue Capacity

- **Revenue Base and Revenue Rate**
- **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

- **Capital Outlay**
- **Employees**
- **Capital Assets**

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STATISTICAL SECTION

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

Financial Trends

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

Revenue Capacity Information

These schedules contain information to assist readers in understanding and assessing the factors affecting the TA's ability to generate its most significant local revenue sources, Sales Tax.

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
FINANCIAL TRENDS – NET ASSETS AND CHANGES IN NET ASSETS
FISCAL YEARS 2002 THROUGH 2007 (In thousands)

Fiscal year	2007	2006	2005	2004	2003	2002
GOVERNMENTAL ACTIVITIES:						
PROGRAM REVENUES						
Upgrades and Extension						
Grade Separations	\$ 731	\$ 731	\$ 878	\$ 713	\$ 542	\$ 635
Paratransit	1,411	636	692	51	1,195	-
Dumbarton Spur	620	1,310	507	158	174	-
Caltrain Shuttle Program	-	-	86	-	-	-
Total Program Revenues	2,762	2,677	2,163	922	1,910	635
PROGRAM EXPENSES						
Upgrades and Extension	8,136	9,275	14,436	3,624	8,544	7,427
Grade Separations	1,867	5,016	4,698	1,398	776	439
Paratransit	2,542	2,358	880	2,836	3,042	2,046
Dumbarton Spur	852	1,595	649	1,314	477	7,251
Streets and Highways						
Distribution to local entities	13,240	12,762	11,991	11,079	10,971	11,432
Projects funding	19,928	6,690	10,427	18,559	14,708	10,653
Caltrain Shuttle Program	1,064	1,010	712	835	623	176
Transportation Systems Management	476	408	400	392	414	447
Program Administration	670	1,133	551	509	583	641
Interest on long-term debt	764	1,121	1,458	1,917	2,088	2,371
Total Program Expenses	49,539	41,370	46,201	42,464	42,226	42,882
NET REVENUES (EXPENSES)	(46,777)	(38,692)	(44,037)	(41,542)	(40,316)	(42,247)
General revenues						
Sales tax	66,202	63,811	59,953	55,394	54,855	57,161
Unrestricted investment earnings	20,564	9,549	9,591	1,089	16,856	17,644
Other income	-	161	1	1,054	296	1
CHANGE IN NET ASSETS	39,989	34,829	25,509	15,995	31,691	32,559
Net Asset Components						
Invested in capital assets, net of related debt	18,161	18,161	18,161	11,505	11,505	8,115
Restricted	35,413	35,403	35,395	35,395	35,398	35,397
Unrestricted	395,533	355,553	320,732	295,224	279,226	250,927
NET ASSETS	\$ 449,107	\$ 409,117	\$ 374,289	\$ 342,124	\$ 326,129	\$ 294,438

Source: Prior year CAFRs.

This table shows Governmental activity' program revenues and expenses, general revenues, sales tax and other income.

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY
FINANCIAL TRENDS – GOVERNMENTAL FUNDS
FUND BALANCE (In thousands)
FISCAL YEARS 1998 THROUGH 2007

Fiscal year	2007	2006	2005	2004	2003
REVENUES					
Sales tax	\$ 66,202	\$ 63,811	\$ 59,953	\$ 55,394	\$ 54,855
Investment income	21,985	10,306	10,400	1,251	17,672
Rental income	902	892	994	870	715
Grant proceeds	449	1,149	479	1,060	293
Proceeds from sale of properties	-	-	-	-	-
Non-Operating reimbursements	-	-	-	-	-
Other income	-	-	-	-	4
Total Revenue	89,538	76,159	71,825	58,575	73,538
EXPENDITURES					
Administrative:					
Staff support	500	418	350	359	450
Board compensation	6	6	7	6	7
Professional and legal fees	112	115	122	89	61
Other services and supplies	51	63	39	53	58
Travel and meeting	5	4	6	7	7
Leases and rental	-	-	-	-	-
Bond issuance cost	-	-	-	-	-
Debt Service:					
Principal	8,475	8,115	7,780	7,465	7,175
Interest	789	1,146	1,480	1,794	2,088
Sub total	9,938	9,867	9,784	9,773	9,846
Distribution to local entities	16,257	15,529	13,271	14,307	14,428
Caltrain Shuttles Program	1,064	1,010	712	835	623
Dumbarton corridor maintenance	265	246	231	287	270
Measure A information	3	11	32	-	-
2004 Election	-	521	-	-	-
Capital outlays	30,518	22,330	29,979	24,608	28,348
Total Expenditures	58,045	49,514	54,008	49,811	53,514
Excess (Deficit) Revenues					
Over Expenditures	31,493	26,644	17,817	8,765	20,024
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of bonds	-	-	-	-	-
Transfer in	-	-	-	1,795	2,091
Transfer out	-	-	-	(1,795)	(2,091)
Total Other Financing Sources (Uses)	-	-	-	-	-
NET CHANGE IN FUND BALANCE	31,493	26,644	17,817	8,765	20,024
FUND BALANCE					
Reserved	35,414	35,403	35,395	35,395	35,398
Unreserved	408,389	376,907	350,270	332,454	323,686
TOTAL ENDING FUND BALANCE	443,803	412,310	385,665	367,849	359,084

Source: Prior year CAFRs.

This table shows revenues, expenditures, other financing sources and changes in fund balance.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
FINANCIAL TRENDS – GOVERNMENTAL FUNDS
FUND BALANCE (In thousands)
FISCAL YEARS 1998 THROUGH 2007

	2002	2001	2000	1999	1998
\$	57,161	\$ 66,746	\$ 63,062	\$ 54,351	\$ 51,435
	17,712	21,674	11,219	12,321	13,413
	635	526	489	460	475
	-	-	-	-	-
	-	-	-	996	3,852
	-	-	21	-	-
	1	358	2	28	52
	<u>75,509</u>	<u>89,304</u>	<u>74,792</u>	<u>68,156</u>	<u>69,228</u>
	480	374	381	252	270
	7	5	6	3	4
	52	53	63	39	46
	54	62	84	82	35
	7	5	4	3	3
	-	-	-	33	33
	-	-	-	-	664
	6,890	6,625	6,370	6,125	6,435
	2,371	2,636	2,890	3,135	2,639
	9,861	9,759	9,797	9,672	10,129
	13,925	16,250	14,393	12,800	11,963
	176	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	30,138	16,976	20,633	32,030	22,038
	<u>54,100</u>	<u>42,985</u>	<u>44,824</u>	<u>54,502</u>	<u>44,130</u>
	<u>21,409</u>	<u>46,319</u>	<u>29,968</u>	<u>13,653</u>	<u>25,098</u>
	-	-	-	-	80,340
	-	2,300	-	46	21
	-	(2,300)	-	(46)	(21)
	-	-	-	-	80,340
	<u>21,409</u>	<u>46,319</u>	<u>29,968</u>	<u>13,653</u>	<u>105,438</u>
	35,397	35,389	35,655	35,847	35,435
	<u>303,663</u>	<u>282,262</u>	<u>235,677</u>	<u>205,518</u>	<u>192,276</u>
	<u>339,060</u>	<u>317,651</u>	<u>271,332</u>	<u>241,365</u>	<u>227,711</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
FINANCIAL TRENDS – GOVERNMENTAL FUNDS
FUND BALANCE (In thousands)
FISCAL YEARS 1998 THROUGH 2007

Fiscal year ended	Special Revenue Fund		
	Reserved	Designated	Total
2007	\$ 8,031	\$ 402,081	\$ 410,112
2006	8,031	372,326	380,357
2005	8,031	345,281	353,312
2004	8,031	322,239	330,270
2003	8,031	308,509	316,540
2002	8,031	284,569	292,600
2001	8,031	262,535	270,566
2000	8,031	217,796	225,827
1999	8,031	194,483	202,514
1998	8,031	180,980	189,011

Fiscal year ended	All Other Governmental Funds		
	Reserved	Designated	Total
2007	\$ 27,383	\$ 6,307	\$ 33,690
2006	27,372	4,580	31,952
2005	27,364	4,989	32,353
2004	27,364	10,215	37,579
2003	27,367	15,177	42,544
2002	27,366	19,094	46,460
2001	27,358	19,728	47,086
2000	27,336	18,169	45,505
1999	27,315	11,535	38,850
1998	27,345	11,354	38,699

Source: Prior year CAFRs.

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

Fiscal year	2007	2006	2005	2004
TA's Sales Tax Rate	0.5%	0.5%	0.5%	0.5%
Total Sales Tax Revenue	\$ 66,202	\$ 63,811	\$ 59,953	\$ 55,394
Total Taxable Sales in San Mateo County	\$ 13,240,200 ^[1]	\$ 12,451,350	\$ 12,055,706	\$ 11,560,519

Source: California State Board of Equalization

[1] Estimate for Fiscal Year 2007; based on Sales Tax Revenue received.

This table shows total sales tax and total taxable sales in San Mateo County.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
\$ 54,855	\$ 57,161	\$ 66,746	\$ 63,062	\$ 54,351	\$ 51,435
\$ 11,352,696	\$ 11,967,932	\$ 13,961,577	\$ 13,175,535	\$ 11,295,693	\$ 11,063,977

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
REVENUE CAPACITY – PRINCIPAL REVENUE PAYERS
FISCAL YEARS 2007 AND 1998 (In thousands)**

Principal Revenue Payers	2007			1998		
	Rank	Percent of Taxable Sales	Amount	Rank	Percent of Taxable Sales	Amount
Total all other outlets	1	27.7%	\$ 904,382	1	38.1%	\$ 1,087,419
Automobile, boat, motorcycle and plane	2	13.2%	430,018	2	12.8%	367,043
General merchandise stores	3	9.6%	314,441	3	8.9%	254,938
Specialty Stores	4	9.3%	303,465	4	8.7%	248,613
Eating/Drinking	5	9.0%	293,462	5	7.2%	204,755
Building materials and farm implements	6	7.7%	251,199	6	4.8%	137,710
Service stations	7	7.6%	249,043	8	4.6%	131,198
Business and Personal Services	8	4.5%	145,827	7	4.7%	134,130
Home furnishings and appliances	9	3.9%	126,105	9	3.2%	91,408
Food stores	10	3.0%	98,821	10	3.0%	84,526
Apparel stores	11	2.9%	95,307	11	2.6%	75,230
Miscellaneous - All other retail stores	12	1.7%	56,611	12	1.4%	40,177
Total		100.0%	\$ 3,268,681		100.0%	\$ 2,857,147

Source: California State Board of Equalization

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
DEBT CAPACITY – RATIOS OF OUTSTANDING BONDS
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

Fiscal Year	Limited Tax Revenue Bonds	Personal Income	As a Percent of Personal Income
2007	\$ 8,855	\$ 41,811,899	0.02%
2006	17,330	40,594,077	0.04%
2005	25,445	39,411,725	0.06%
2004	33,225	38,263,811	0.09%
2003	40,690	36,409,914	0.11%
2002	47,865	36,736,603	0.13%
2001	54,755	39,395,344	0.14%
2000	61,380	41,730,460	0.15%
1999	67,750	35,485,821	0.19%
1998	73,875	31,073,546	0.24%

Note: Personal Income Data is from the U.S. Department of Commerce, Bureau of Economic Analysis, Calendar Year figures. Data for 2005, 2006 and 2007 are based on an estimated 3 percent annual increase over 2004.

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

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

Fiscal Year	Revenue Bonds	Total Sales Tax Revenue	As a Percent of Total Sales Tax Revenue
2007	\$ 8,855	\$ 13,240,200 ^[1]	0.07%
2006	17,330	12,451,350	0.14%
2005	25,445	12,055,706	0.21%
2004	33,225	11,560,519	0.29%
2003	40,690	11,352,696	0.36%
2002	47,865	11,967,932	0.40%
2001	54,755	13,961,577	0.39%
2000	61,380	13,175,535	0.47%
1999	67,750	11,295,693	0.60%
1998	73,875	11,063,977	0.67%

Source: Prior year CAFRs.

[1] Estimate for Fiscal Year 2007; based on Sales Tax Revenue received.

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

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

Enabling legislation (Measure A as approved by the voters in 1988) specifically authorized the TA to issue limited tax bonds not to exceed \$804,000,000. Limited tax bonds are secured by a gross pledge of the TA's 80 percent share of the one-half cent, Measure A sales tax revenue.

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

Fiscal Year	Pledged Sales Tax Revenue *	Debt Service			Coverage
		Principal	Interest	Total	
2007	\$ 52,962	\$ 8,475	\$ 789	\$ 9,264	6
2006	51,049	8,115	1,146	9,261	6
2005	47,962	7,780	1,480	9,260	5
2004	44,315	7,465	1,794	9,259	5
2003	43,884	7,175	2,088	9,263	5
2002	45,729	6,890	2,371	9,261	5
2001	53,397	6,625	2,635	9,260	6
2000	50,450	6,370	2,890	9,260	5
1999	43,481	6,125	3,135	9,260	5
1998	41,148	6,435	2,639	9,074	5

* This amount represents 80 percent of TA's total Sales Tax Revenue from the County of San Mateo.

Source: Prior year CAFRs.

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

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
 DEMOGRAPHICS AND ECONOMIC INFORMATION – POPULATION AND INCOME
 FISCAL YEARS 2006 AND 2000**

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

[1] Information not yet available.

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

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

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

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

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

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

Source: Department of Transportation's economic forecast.

This table shows the unemployment rates in San Mateo County for the past 10 years.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
 DEMOGRAPHICS AND ECONOMIC INFORMATION – PRINCIPAL EMPLOYERS
 FISCAL YEARS 2006 AND 1999**

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

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

Source: County of San Mateo.

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
OPERATING INFORMATION – CAPITAL OUTLAY
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Dumbarton Spur	\$ 18,777	\$ 18,190	\$ 16,841	\$ 16,377	\$ 15,350
Caltrain-Downtown Extension	113,077	104,941	95,666	81,322	77,699
Railroad Grade Separations	143,871	142,003	136,987	125,647	124,249
Streets and Highways	140,360	120,900	114,399	102,752	84,825
Oversight and Bicycle	2,415	1,947	1,758	962	330
Total	<u>\$ 418,500</u>	<u>\$ 387,981</u>	<u>\$ 365,651</u>	<u>\$ 327,060</u>	<u>\$ 302,453</u>

Source: Prior year CAFRs

This table shows the total capital outlay on public transportation projects for the past 10 years.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
OPERATING INFORMATION – CAPITAL OUTLAY
FISCAL YEARS 1998 THROUGH 2007 (In thousands)

2002	2001	2000	1999	1998
\$ 15,143	\$ 7,863	\$ 7,847	\$ 7,793	\$ 7,760
69,154	61,697	53,209	46,845	45,421
120,082	115,255	112,019	103,558	81,922
69,651	59,077	53,840	48,088	39,154
73	73	73	73	68
\$ 274,103	\$ 243,965	\$ 226,988	\$ 206,357	\$ 174,325

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY
OPERATING INFORMATION – EMPLOYEES
FISCAL YEARS 2002 THROUGH 2007

DIVISION	Authorized Positions					
	2007	2006	2005	2004	2003	2002
EXECUTIVE	0.60	-	-	-	0.40	0.82
ADMINISTRATION	0.10	0.19	0.19	0.12	0.40	0.36
COMMUNICATIONS	1.00	1.95	3.27	1.69	0.28	0.35
DEVELOPMENT	8.83	6.12	4.99	5.66	6.44	6.87
FINANCE	1.05	1.03	3.07	3.25	2.75	3.21
OPERATIONS	0.20	0.21	0.19	0.59	-	-
TOTAL EMPLOYEES	11.78	9.50	11.71	11.31	10.27	11.61

Note: Employee counts are for Full Time Equivalents "FTEs" charged to the TA. Data for 1998 through 2001 was not available.

Source: TA's prior year annual operating and capital budgets.

This table shows total full time equivalents by division.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Capital Assets - Non Depreciable					
Land	\$ 18,161	\$ 18,161	\$ 18,161	\$ 11,505	\$ 11,505
Furniture and equipment	-	-	-	-	-
Total	<u>\$ 18,161</u>	<u>\$ 18,161</u>	<u>\$ 18,161</u>	<u>\$ 11,505</u>	<u>\$ 11,505</u>

Source: Prior year CAFRs.

This table shows non depreciable capital assets for the past 10 years.

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

<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
\$ 8,115	\$ 3,746	\$ 3,641	\$ 3,641	\$ 4,653
-	40	40	40	40
<u>\$ 8,115</u>	<u>\$ 3,786</u>	<u>\$ 3,682</u>	<u>\$ 3,682</u>	<u>\$ 4,694</u>

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Section IV

INTERNAL CONTROL AND COMPLIANCE

Auditor's Report on Internal Control, Compliance and Other Matters

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

To the Board of Directors of the
San Mateo County Transportation Authority
San Carlos, California

We have audited the basic financial statements of the San Mateo County Transportation Authority (the "TA") of California, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered TA'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 TA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the TA'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 TA'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 TA's financial statements that is more than inconsequential will not be prevented or detected by the TA'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 TA's internal control.

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

Compliance

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

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

Vasnick Time Day + Co. LLP

Palo Alto, California
November 30, 2007