



SAN MATEO COUNTY
Transportation
Authority

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2005

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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January 31, 2006

**To the Executive Director and 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, 2005**

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the San Mateo County Transportation Authority for fiscal year July 1, 2004 through June 30, 2005. This transmittal letter provides a summary of the Authority'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 Authority'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 Authority'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 Authority'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 Authority contracted for independent auditing services from Vavrinek, Trine, Day & Company, LLP, a certified public accounting firm licensed to practice in California. The auditor expressed an opinion that the Authority'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 San Mateo County Transportation Authority pursuant to the Bay Area County Traffic and Transportation Funding Act in June 1988. This Measure A vote funded the Authority with an annual one-half cent sales tax levy and charged it 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 Authority 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 Transportation Authority and its publicly developed expenditure plan for an additional 25 years beyond the original expiration date of 2008. Thus, the Authority 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 Avenue
San Carlos, California 94070-1306 or
on-line at www.smcta.com/expenditure_plan/complete.pdf

Entity

The Authority is a legally separate and financially independent governmental district that is not a component unit of the County of San Mateo, the San Mateo County Transit District or any other entity. Therefore, this comprehensive annual financial report and the financial statements contained within represent solely the activities, transactions and status of San Mateo County Transportation Authority.

Governance

A seven-member Board of Directors governs the San Mateo County Transportation Authority 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 appoints one Board member.

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

- Public Transit
- Street and Highway Improvements
- Paratransit
- Transportation Systems Management
- Bicycles
- Local Programs

Administration

The San Mateo County Transit District ("District") provides administrative and staff services under the direction and oversight of the Transportation Authority Board of Directors. District staff manages the funds collected through the one-half cent sales tax and delivers projects per the Transportation Expenditure Plan. The Authority reimburses the District for the cost of its direct services charged to Authority 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 Authority activities as follows:

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

The *Communications Division* is responsible for marketing, advertising, media relations, public information, distribution, sales, 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 supporting the Board of Directors.

The *Finance Division* is responsible for financial accounting and reporting, capital and grant administration, payroll and vendor disbursements, cash, investment and 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 Authority to adopt an annual budget by resolution of the Board of Directors. In the spring preceding the start of each fiscal year, staff presents an annual budget based on established agency goals, objectives and performance measures to the Board of Directors. The presentation may recommend using financial reserves to balance the budget where proposed expenditures exceed projected revenues. The Board of Directors monitors budget-to-actual performance through monthly staff reports. The Financial Section of this report includes 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 Authority 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 Authority uses the encumbrance system to reduce budget balances, issuing purchase orders to avoid over-commitment of resources.

The Authority 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 in this letter show actual results for the major revenue and expense categories of fiscal year 2005 budget. Pursuant to procedures established in its enabling legislation, the Authority establishes an appropriation limit for each annual budget cycle. The appropriation limit for fiscal year 2005 was \$405.5 million and the limit for fiscal year 2006 is \$433.2 million.

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. Home to technology industries, as well as one of the largest airports in the nation, San Francisco International, the county has experienced significant employment growth during the last decade. Although the economy and employment levels retrenched during the first three years of the new century, long-term projections still anticipate significant growth. 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.

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Measure A passed by San Mateo County voters in 1988 to create the Transportation Authority and its Transportation Expenditure Plan expires in 2008. California Public Utilities Code (PUC) Section 131056 required the Authority 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 Authority on the ballot for voter consideration. The Authority 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 ballot question 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 Authority's mission through 2033.

The San Mateo County Transportation Authority and its Transportation Expenditure Plan are integral components of a countywide strategy to meet current and anticipated transportation needs. While the Authority has a substantial fund balance and has gained reauthorization, it faces long-term challenges such as escalation of original project cost estimates, potential declines in anticipated sales tax revenue due to economic contraction and the potential failure of the state government to provide its originally expected share of project costs. During the course of its newly extended life, the Authority will select projects based upon established priorities and expected funding levels given current conditions.

CURRENT PROGRAMS

Public Transit Programs

Measure A funds and contributions from the San Mateo County Transit 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 the City of San Francisco in the north to the City of Gilroy in the south. Projects funded include new construction, improvements and studies for the following:

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

Notable projects supporting the JPB during fiscal year 2005 include:

- Funding for grade separation studies in the cities of San Mateo and Menlo Park.
- Provision of local match requirements for federally funded capital construction grants.
- Design and construction of a new maintenance, storage and operations facility for Caltrain locomotives and passenger cars that consolidates existing locations and provides additional capacity and flexibility for future service enhancements.
- Design of the San Bruno and South Linden grade separation project.
- Design of improvements at the Broadway, Burlingame and Atherton stations.
- Construction of improvements to the Hillsdale station.
- Planning studies for the Dumbarton Rail Corridor.

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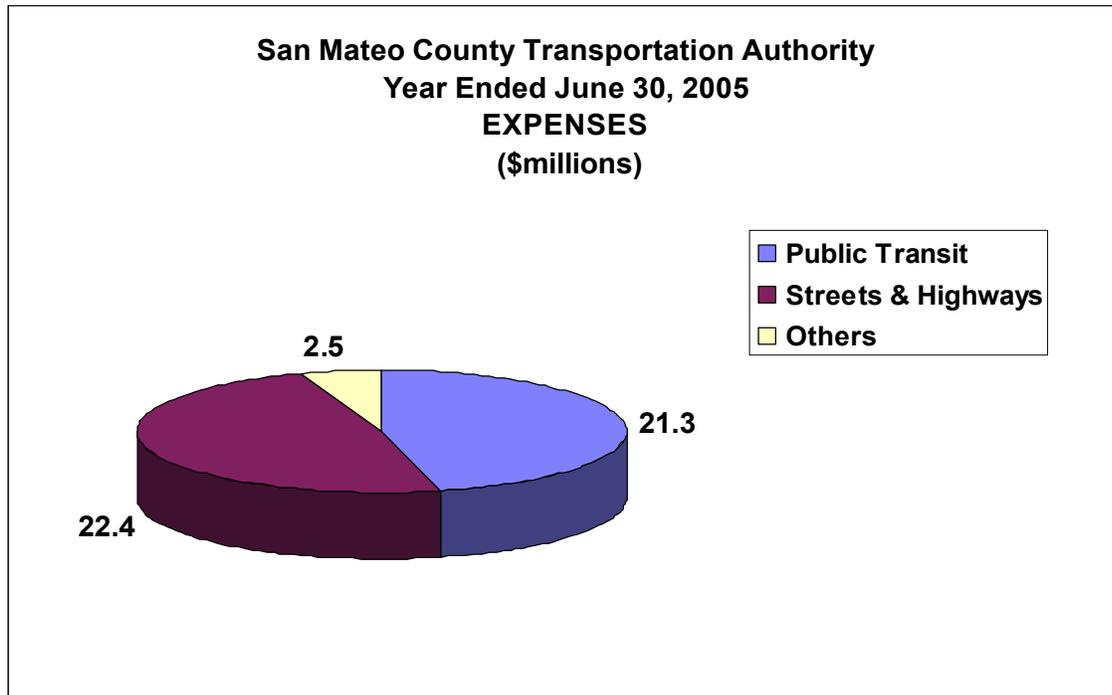
Street and Highway Improvements Program

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 2005 include:

- Design of auxiliary lanes from Third Avenue in San Mateo to Millbrae Avenue, design of auxiliary lanes from Marsh Road in Menlo Park to the San Mateo and Santa Clara County lines and construction of auxiliary lanes from Marsh Road in Menlo Park to Ralston Avenue in Belmont. Auxiliary lanes help alleviate traffic congestion along the Highway 101 Corridor.
- Completion of highway improvements at the Oyster Point Interchange on Highway 101 that connects the cities of Brisbane and South San Francisco to provide relief for traffic congestion.
- Design of safety-related improvements on State Route 92 in the City of Half Moon Bay.
- Preliminary design studies for improvements to Routes 1, 84, 92, 101 and 280.



Paratransit Programs

The San Mateo County Transportation Authority 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 San Mateo County Transit District. The Permanent Fund made its first contribution to these programs in 1990.

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The San Mateo County Transit 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 6,000 county residents as eligible for paratransit services and certifies approximately 140 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 2.0 million paratransit trips for persons with disabilities.

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

Transportation Systems Management Programs (TSM)

The Authority 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.

For the past five years, the Authority 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 the Redwood Shores area and other business centers;
- 2) Organizing vanpools and carpools;
- 3) Outreach to new commercial developments; and
- 4) Organizing employer shuttles to and from Caltrain stations.

Other programs and projects include bike locker subsidies, transit incentives, interconnecting traffic signals, shuttles, 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 Authority 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 Authority 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 2005, local agencies received \$12.0 million, bringing the total local aid since the inception of Measure A to \$156.9 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.

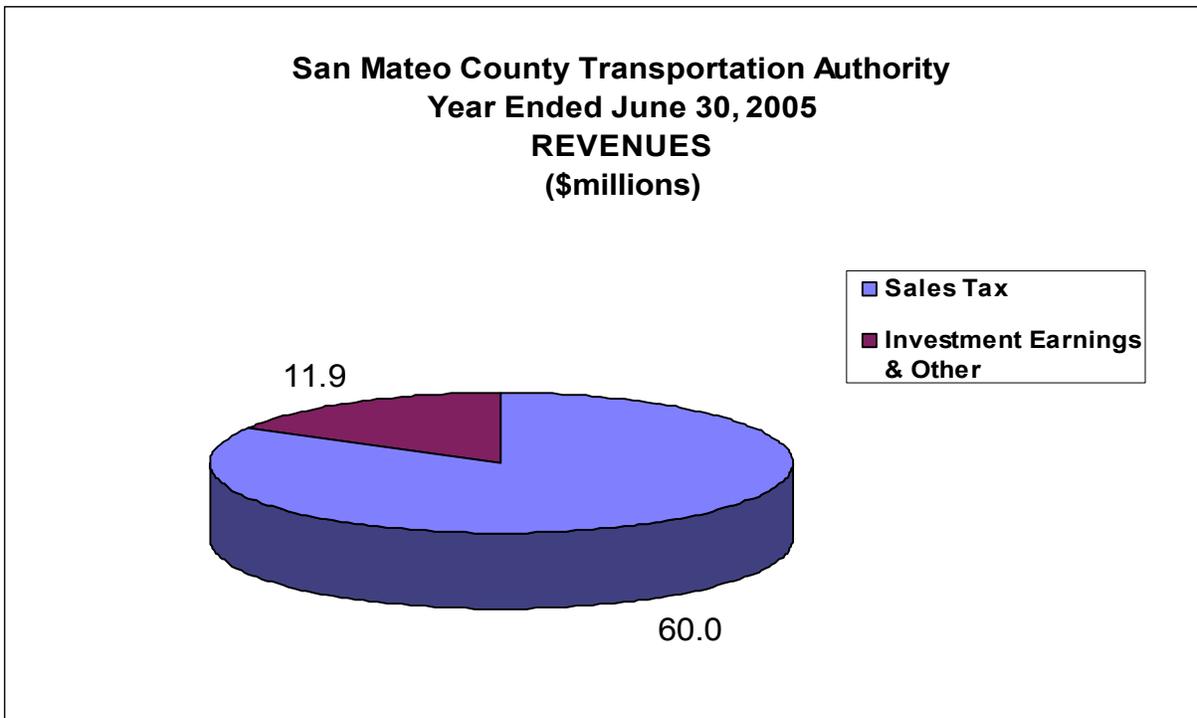
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FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

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

In the last half of fiscal year 2001, the signs of economic slowdown appeared in the Bay Area and nearly three years of contraction ensued. While real estate prices recovered more quickly, unemployment continued to rise and retail sales continued to decline into 2004. This reduced the Authority's revenue from its sales tax measure dramatically. Since that low point, unemployment has lessened and consumer spending began to strengthen. Consequently, the Authority's sales tax receipts increased slightly in 2004 and even more so in 2005. The successful public vote in November 2004 reauthorizing the Authority's mission for 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 required by the State of California law. This policy emphasizes safety and liquidity over return on investment. Within these parameters, the Authority pursues a prudent cash management and investment program to achieve maximum return on available funds. The Authority's policy is to hold securities to maturity to avoid losses from a potential sale. All of the Authority's unrestricted cash and investments as of June 30, 2005 were held 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 or covered by collateral.

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Risk Management

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

Pension and other post-employment benefits

Since the San Mateo County Transit District ("District") provides staff services in support of the Authority's mission, the persons supporting the Authority are legally District employees, so the Authority has no retirement or post-employment benefits obligations of its own.

AWARDS AND ACKNOWLEDGMENTS

The staff and contracted firms of the San Mateo County Transportation Authority bring an effective combination of skill, experience and dedication to carrying out the Authority's mission. Together, they plan, develop and finance the creation of a modern, coordinated multimodal transportation system offering convenient access to the many opportunities of the Bay Area and beyond. As the region recovers from the economic downturn of the past few years, the Authority 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 Authority's 2004 Comprehensive Annual Financial Report for excellence in financial reporting and the Certificate of Achievement appears immediately following this transmittal letter. To be awarded a certificate, a report must be easy to read and efficiently organized, while satisfying both generally accepted accounting principles and applicable legal requirements. We believe our 2005 Comprehensive Annual Financial Report also meets the requirements for a Certificate of Achievement and have submitted it to the GFOA for evaluation. We thank our independent audit firm, Vavrinek, Trine, Day 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 of a strong financial management and reporting system.

Respectfully submitted,



Virginia Harrington
Chief Financial Officer



Stanley B. Arend, III
Director, Accounting

**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, 2004

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



Nancy L. Zjelke

President

Jeffrey R. Emer

Executive Director

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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BOARD OF DIRECTORS

MARK CHURCH, Chair

* **JOSEPH GALLIGAN**, *Vice Chair*

ROSANNE FOUST

RICH GORDON

MICHAEL P. GUINGONA

JOHN LEE

* **LEE PANZA**

** Directors Galligan and Panza resigned from the Board of Directors as of December 2005.*

MARK CHURCH was elected to the Transportation Authority in 2001 representing the Board of Supervisors and is currently serving as chair. Supervisor Church was elected to the Board of Supervisors 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.

JOSEPH GALLIGAN was elected to the Transportation Authority in 2002 representing Central County. He was raised and currently lives in Burlingame. He was elected to the Burlingame City Council in 1997 and served as mayor in 2001.

RICH GORDON was elected to the Transportation Authority in 1999 representing the Board of Supervisors. He served as the Transportation Authority chairman in 1999 and 2000. He has served as a member of the San Mateo County Board of Supervisors since 1997 and currently serves as President. 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.

MICHAEL P. GUINGONA was elected to the Transportation Authority in 1998 representing the Samtrans Board. He was born in San Francisco and raised in the City of Daly City. He was elected to his second term as mayor of Daly City in 1997, and a third term in 2001. In addition to his duties as a city council member, Mr. Guingona represents a larger constituency as a member of the Board of Directors of both SamTrans and the TA.

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JOHN LEE was elected to the Transportation Authority in 2000 representing Cities-at-Large and is currently the vice-chair. He is also currently 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, serving in Korea and Vietnam. Director Lee is one of the founders of Telogy, Inc. a high technology electronics company in Union City.

LEE PANZA was elected to the Transportation Authority in 1996 representing the North County. He has been serving on the Brisbane City Council since 1989 and has twice held the Office of Mayor. His professional career is in construction project management, and he has spent 32 years in the construction industry. Director Panza also represents Brisbane on the City and County Association of Governments (C/CAG), and is the liaison between C/CAG and the Transportation Authority.

ROSANNE FOUST was elected to the Transportation Authority in 2005 representing South County. She has served as a councilmember for Redwood City since November 2003. She is the Executive Vice President of Alsace Development International and was named the Athena Business Woman of the Year by Bay Area Bank and Redwood City-San Mateo County Chambers of Commerce in December 2002.

EXECUTIVE MANAGEMENT

EXECUTIVE DIRECTOR

Michael J. Scanlon

SPECIAL ASSISTANT TO THE CEO

Mark Simon

CHIEF OFFICERS

George Cameron, Chief Administrative Officer

Virginia Harrington, Chief Financial Officer

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

Rita Haskin, Chief Communications Officer

Ian McAvoy, Chief Development Officer

ADMINISTRATIVE & BOARD SUPPORT

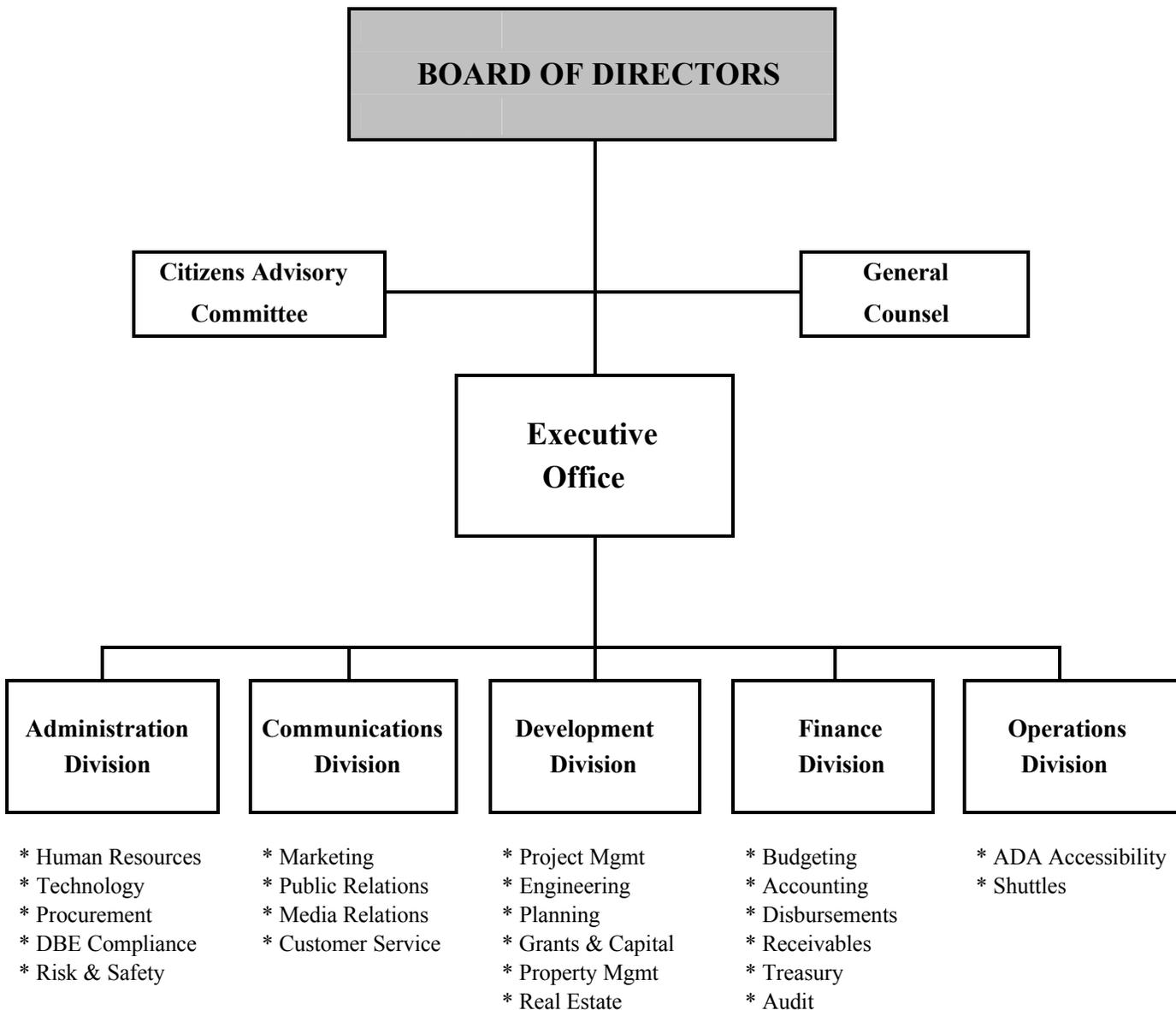
Martha Martinez, Manager, Executive/Governing Boards Support

Jennifer Hardie, Administrative/Board Secretary

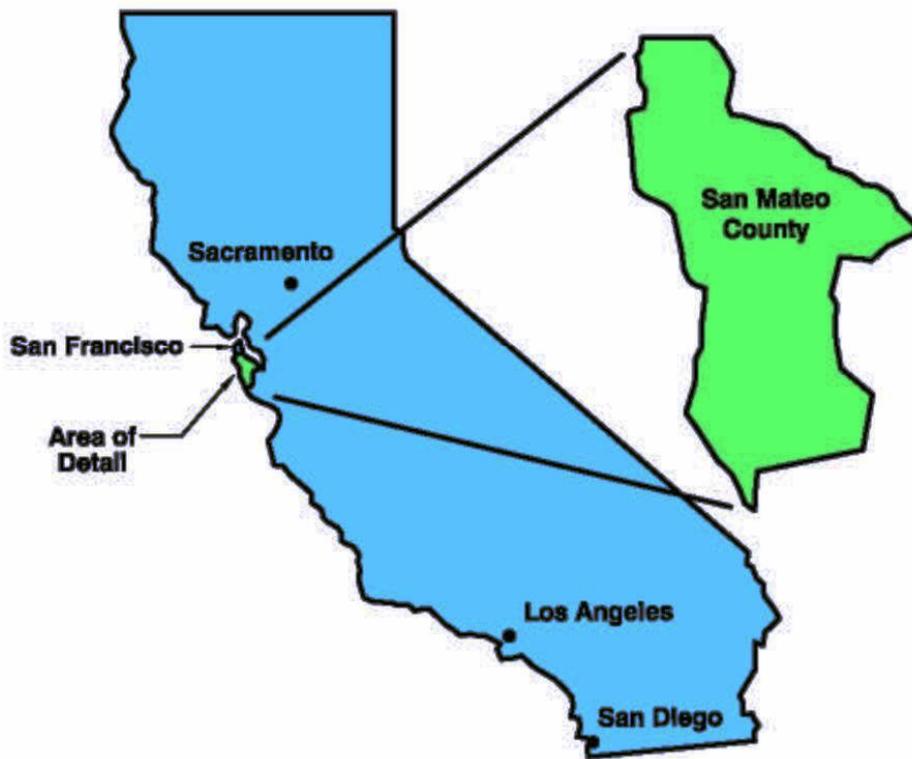
GENERAL COUNSEL

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

ORGANIZATION CHART



San Mateo County, California



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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 Authority) of California, as of and for the year ended June 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Authority's June 30, 2004 financial statements and, in our report dated October 8, 2004, we expressed unqualified opinions 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 opinions.

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 Authority as of June 30, 2005, 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.

As described in Note 1 of the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures-an amendment of GASB No. 3*, effective July 1, 2004.

The financial statements include prior-year comparative information as explained in Note 1(H). 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 Authority's financial statements for the year ended June 30, 2004, from which such comparative information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement 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 pages 37 through 39, 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 opinions on the financial statements that collectively comprise the Authority'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 42 and 43 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Varrinek Trine Day + Co. LLP

Palo Alto, California
September 30, 2005

BASIC FINANCIAL STATEMENTS
Management's Discussion and Analysis

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MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis of the San Mateo County Transportation Authority's financial position addresses the Authority's activities for the fiscal year ended June 30, 2005 with comparisons to the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the transmittal letter contained in the Introductory Section and with the statements and related notes contained in the Financial Section.

FINANCIAL HIGHLIGHTS

- Compared to June 30, 2004, total assets increased by \$18.8 million or 4.9 percent to \$406.1 million at June 30, 2005. Cash and investments comprised \$363.0 million or 89.4 percent of the total 2005 year-end amount.
- Sales tax revenue for all funds reached \$60.0 million during 2005, an increase of \$4.6 million or 8.2 percent over 2004. This positive result indicates an improving economy which had suffered considerably in recent years.
- The Authority expended \$30.0 million in capital outlay during 2005, an increase of \$5.4 million or 21.8 percent over 2004. This amount included improvements to Caltrain rail service of \$14.4 million and another \$10.2 million to upgrade streets and highways within San Mateo County.
- Total liabilities decreased \$6.7 million or 14.8 percent from the June 30, 2004 amount to \$38.5 million at June 30, 2005. Repayment of limited tax bonds accounted for the majority of this reduction.
- Compared to June 30, 2004, total net assets increased by \$25.5 million or 7.5 percent to \$367.6 million at June 30, 2005. In addition, the ending *unreserved fund balance* for the Special Revenue Fund grew \$18.3 million or 5.7 percent to \$340.5 million at 2005 year-end. These increases are due primarily to sales tax revenue exceeding expenditures in 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

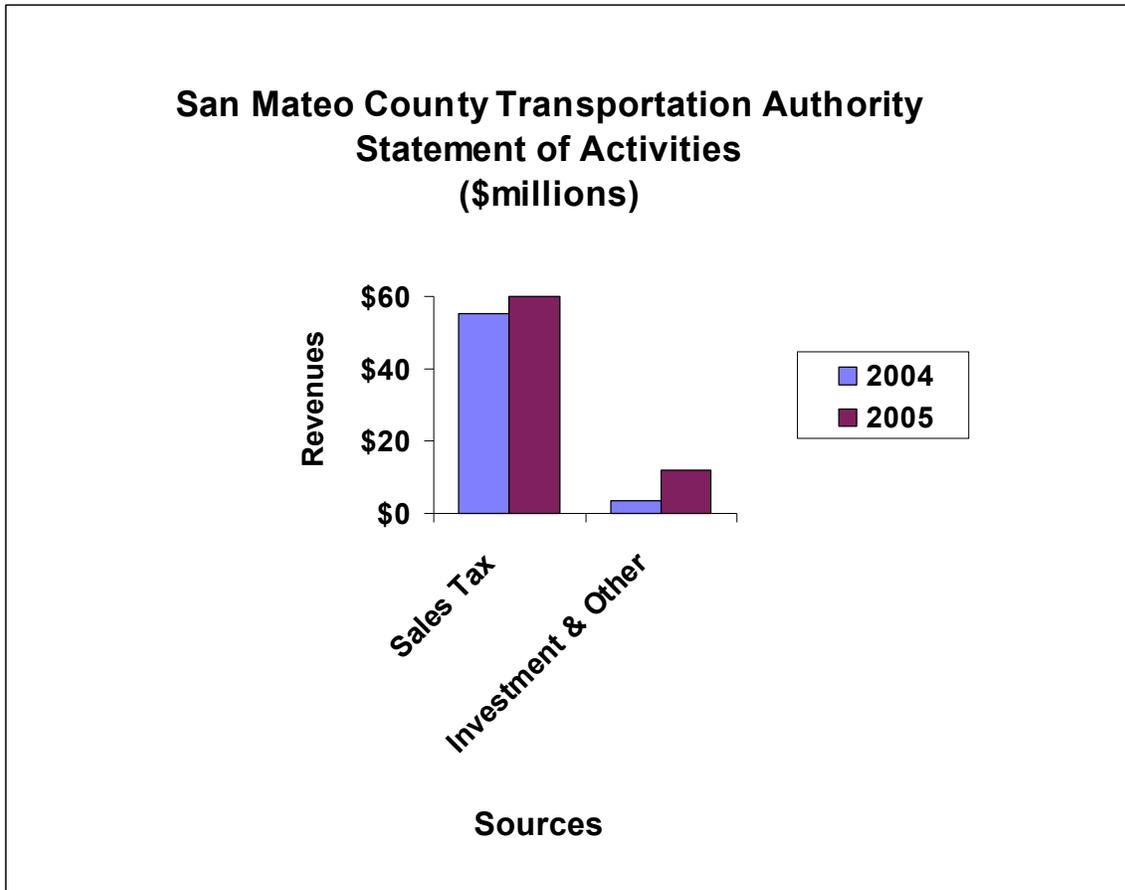
The Financial Section of this report presents the Authority's basic financial statements in three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Other supplementary information also appears in addition to the basic financial 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. When both restricted and unrestricted net assets are available for the same purpose, the Authority uses restricted resources only if unrestricted resources are depleted.

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

The *Statement of Activities* reports how net assets have changed 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 Authority 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 only in future periods.



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 *nonmajor* are grouped and reported in a single column. Elsewhere in this report, *combining statements* report data for each of the nonmajor funds. The Authority 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 TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2005**

The Authority 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 Authority's current financing requirements.

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

- The *Special Revenue Fund* accounts for the proceeds of the half-cent sales tax, which are legally restricted to expenditures for specific transportation improvement projects authorized in a referendum approved by San Mateo County voters. This referendum is called *Measure A* and the list of eligible projects is called the *Transportation Expenditure Plan*.
- The *Debt Service Fund* accounts for the accumulation of resources for and the payment of long-term debt principal and interest.
- The *Paratransit Special Revenue Fund* accounts for the investment earnings of the *Paratransit Permanent Fund* plus occasional allocations from the Authority. Upon the advice of the San Mateo County Paratransit Coordinating Council and the District, the Authority 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 nonmajor fund in past Comprehensive Annual Financial Reports.

The Authority reports the following *nonmajor governmental funds* in an aggregated column:

- The *Paratransit Permanent Fund* 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* 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 the intent of the Authority 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 19 of this report, immediately following the financial statements to which they refer.

Other Information

This report also presents certain *required supplementary information* concerning compliance with the Authority's annual budget for the *Special Revenue Fund* which is the Authority'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 nonmajor governmental funds appear immediately following the *required supplementary information*.

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

Government-wide Financial Analysis

At June 30, 2005, total assets were \$406.1 million, an increase of \$18.8 million or 4.9 percent over June 30, 2004. Cash and investments comprise \$363.0 million of this amount. With only \$38.5 million in total liabilities, the Authority is in an excellent position to meet its obligations for current construction projects. As of the end of 2005, existing encumbrances and expected future costs combined for these projects are estimated to total \$172.5 million.

Restricted assets ended 2005 at \$8.8 million with no significant change from 2004 year-end. This amount is set aside and restricted to debt service on limited tax bonds.

Capital assets of \$11.5 million also remain unchanged between years since no property acquisition occurred in 2005.

The Authority 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 30 of this report.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY		
NET ASSETS		
	Governmental Activities	
	2005	2004
Current and other assets	\$385,834,718	\$367,032,367
Restricted assets	8,805,491	8,794,724
Capital assets	11,504,975	11,504,975
Total assets	\$406,145,184	\$387,332,066
Long-term liabilities outstanding	29,442,115	37,105,982
Other liabilities	9,070,344	8,101,887
Total liabilities	\$38,512,459	\$45,207,869
Net assets:		
Invested in capital assets, net of related debt	11,504,975	11,504,975
Restricted	35,395,273	35,394,940
Unrestricted	320,732,477	295,224,282
Total net assets	\$367,632,725	\$342,124,197

Total liabilities decreased by \$6.7 million or 14.8 percent to \$38.5 million at June 30, 2005 compared to \$45.2 million in June 30, 2004. Repayment of limited tax bonds in the amount of \$7.8 million, offset by a slight increase in capital related obligations, accounted for the majority of this reduction.

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

Net assets increased by \$25.5 million or 7.5 percent to 367.6 million at June 30, 2005, the result of revenues exceeding expenses by that amount in 2005.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY		
CHANGES IN NET ASSETS		
	Governmental Activities	
	2005	2004
Revenues:		
Program revenues		
Charges for services	\$992,292	\$870,428
Operating grants/contributions	1,171,152	51,289
General revenues		
Sales tax	59,953,123	55,394,330
Investment earnings and others	9,592,466	2,143,032
Total revenues	\$71,709,033	\$58,459,079
Expenses:		
Public transit	\$21,374,724	\$10,007,635
Streets and highways	22,417,266	29,637,788
Others	2,408,515	2,818,357
Total expenses	\$46,200,505	\$42,463,780
Change in net assets	\$25,508,528	\$15,995,299
Net assets - July 1, 2004	342,124,197	326,128,898
Net assets - June 30, 2005	\$367,632,725	\$342,124,197

Governmental Activities

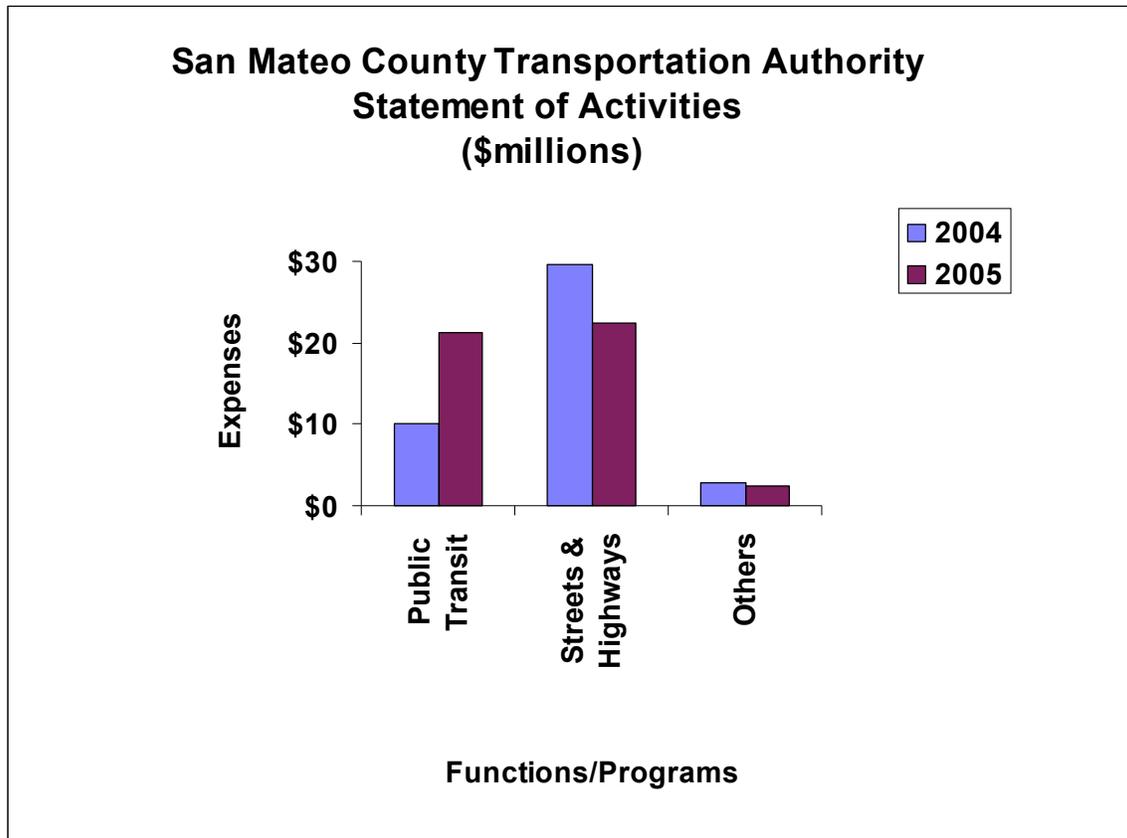
Total expenses for governmental activities were \$46.2 million in 2005, an increase of \$3.7 million or 8.8 percent compared to 2004. The functional components of total expenses are public transit (46.3 percent), streets and highways (48.5 percent) and other programs (5.2 percent). The following are the highlights of the Authority's governmental activities:

- Sales tax revenue increased by \$4.6 million or 8.2 percent to \$60.0 million in 2005 over 2004. This positive performance is an indication that the economy is slowly recovering from its decline of recent years. Consequently, the Authority's distribution of construction funds to local entities, set at 20.0 percent of sales tax revenue, increased by \$0.9 million to \$12.0 million in 2005.
- Investment earnings and other revenues of \$9.6 million in 2005 exceeded 2004 results by \$7.4 million or 347.6 percent primarily due to the effect of an accrual for an unrealized loss of \$10.3 million in 2004 to adjust investments to the "mark-to-market" requirements of GASB 31. The GASB 31 adjustment for 2005 was another loss, but only in the amount of \$1.9 million.
- Expenses for public transit projects in 2005 increased by \$11.4 million to \$21.4 million or 113.6 percent compared to 2004. Most of this increase funded capital improvements for Caltrain rail service.
- Spending for streets and highways in 2005 decreased by \$7.2 million or 24.4 percent to \$22.4 million compared to 2004 primarily due to the completion of the major construction phase of two large projects: the Oyster Point Interchange on Route 101 in South San Francisco and the auxiliary lanes in Belmont and Redwood City.

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

Financial Analysis of the Authority's Funds

At June 30, 2005, governmental funds reported combined fund balances of \$385.7 million, an increase of \$17.8 million or 4.8 percent higher than June 30, 2004. Unreserved fund balance represents \$350.3 million or 90.8 percent of this total and is available for spending at the Authority'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 Authority's paratransit program.



The *Special Revenue Fund* is the chief operating fund of the Authority and is the equivalent of the general fund at other governmental entities. The fund balance reached \$348.5 million at June 30, 2005, an increase of \$18.3 million or 5.5 percent over June 30, 2004, as sales tax revenue exceeded expenditures during 2005. Of the total fund balance, \$340.5 million or 97.7 is unreserved. Since the Authority principally passes funding through to other organizations, the most accurate indicator of the Authority's ability to meet its current and future obligations is a comparison of its unreserved fund balance to its future commitments. At June 30, 2005, the estimated cost to complete on-going projects is \$172.5 million or 50.7 percent of unreserved fund balance.

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

The *Paratransit Special Revenue Fund* accounts for the investment earnings of the *Paratransit Permanent Fund* and occasional additions from the Authority. Distributions of investment earnings also are reported in this fund. In prior years, this fund appeared in *Other Governmental Funds*. At June 30, 2005, the *Paratransit Special Revenue Fund* has a fund balance of \$4.8 million, all of which is designated for Paratransit programs.

The *Debt Service Fund* ended 2005 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 2005 in the debt service fund was minimal.

At June 30, 2005, the combined fund balances of *Other Governmental Funds* are \$30.0 million, which is \$0.4 million or 1.3 percent lower than June 30, 2004. The *Paratransit Permanent Fund* at \$25.0 million on June 30, 2005 accounts for 83.4 percent of the *Other Governmental Funds* combined fund balance and is not available for expenditure. The remaining balance of \$5.0 million resides in the *Transportation Systems Management Special Revenue Fund*.

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 Authority, the *Special Revenue Fund* is the equivalent of a general fund as it is the chief operating fund. The Authority 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 79.7 percent of the *Special Revenue Fund's* total budgeted revenue for 2005. Actual sales tax revenue for the year was \$50.7 million, which exceeded the budget by \$2.8 million or 5.8 percent.

Total investment income for the *Special Revenue Fund* totaled \$11.4 million in 2005, which was on target with the approved budget.

Program administration cost for the *Special Revenue Fund* was under budget by \$0.2 million or 32.2 percent. Savings in staff support make up the majority of this favorable variance.

The Authority spent \$30.0 million or 42.9 percent of its final 2005 budget for capital outlays, which included the cost of completing on-going capital projects. Since capital projects normally span more than one year, the Authority carries over unexpended budgets to succeeding years. However, to enhance understanding of the Authority's fund balance for the *Special Revenue Fund*, the carry-over amount from 2004 is not included in the 2005 *Budgetary Comparison Schedule*.

Capital Projects

The Authority spent \$30.0 million on capital projects in 2005, an increase of \$5.4 million or 21.8 percent compared to 2004. Following are the major capital expenditures:

- Funding for the 2005 local capital match requirement assessed to San Mateo County according to the Caltrain Joint Powers Agreement (\$8.5 million).
- Construction cost of the northbound and southbound auxiliary lanes within the limits of Ralston Avenue in Belmont to Marsh Road in Menlo Park (\$4.2 million).
- Design costs of a new maintenance, storage and operations facility in San Jose for Caltrain locomotives and passenger cars (\$3.4 million).
- Studies and design costs associated with the grade separation project for San Bruno Avenue in San Bruno (\$3.9 million).
- Construction costs of the Oyster Point Interchange on Route 101 in South San Francisco (\$2.2 million).
- Project preparation and final design 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 (\$1.9 million).

Debt

At June 30, 2005, the Authority had \$25.4 million in outstanding bonds versus \$33.2 million at June 30, 2004, a decrease of \$7.8 million or 23.4 percent. This reduction represents the principal payment due June 1 of each year. A pledge of sales tax revenues secures the Authority's bonds and insurance secures the payment of principal and interest on the due dates. The Authority retains a trustee to service its bond fund.

The Authority retains bond counsel 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 for 2005 was \$0.4 million.

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

The Authority has a contingent liability of \$0.2 million for a disputed claim unresolved as of June 30, 2005. This amount is an estimate of the maximum potential liability to the Authority.

More information on the Authority's long-term debt activity appears in *Note #12 – Long-term Liabilities* beginning on page 31 of the *Notes to the Financial Statements*.

Economic Factors

In the last half of 2001, the signs of economic contraction began to appear. As unemployment increased, consumers curtailed spending and real estate values fell. While real estate recovered rather quickly from a small decline, the unemployment rate rose from 3.9 percent in June 2001 to 6.5 percent in June 2003. Likewise, the Authority's sales tax revenue for all funds shrunk from a record-high of \$66.7 million in 2001 to \$54.9 million in 2003, a precipitous drop of \$11.8 million or 17.7 percent over only two budget cycles.

In 2004, the economy began to improve and the unemployment rate decreased to 4.5 percent by June 2005. Consequently, consumer spending rebounded slightly in 2004 and more so in 2005, resulting in the Authority achieving \$60.0 million in sales tax revenue for all funds during fiscal year June 30, 2005. The Authority 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 Authority's mission for another 25 years illustrates increasing citizen confidence in the economic prospects for the County of San Mateo.

Requests for Information

This financial report intends to provide our citizens, taxpayers, customers and creditors with a general overview of the Authority'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 Avenue, 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, 2005 AND 2004

	Governmental Activities	
	2005	2004
ASSETS		
Cash and investments (Note 2)	\$ 363,015,158	\$ 350,683,509
Receivables:		
Sales tax (Note 3)	11,713,462	10,095,920
Interest (Note 4)	3,479,007	2,665,049
Note (Note 5)	7,231,163	2,852,888
Other (Note 6)	202,133	283,092
Prepaid expenses	193,795	451,909
Restricted assets (Notes 2 & 7)	8,805,491	8,794,724
Capital assets (Note 8)		
Non-depreciable	11,504,975	11,504,975
Total Assets	<u>\$ 406,145,184</u>	<u>\$ 387,332,066</u>
LIABILITIES		
Accounts payable (Note 9)	\$ 1,203,068	\$ 1,286,978
Accrued liabilities (Note 10)	7,352,553	6,105,553
Deferred revenue (Note 11)	482,165	634,003
Deposits	32,558	75,353
Long-term liabilities (Note 12):		
Due within one year	8,115,000	7,780,000
Due beyond one year	21,327,115	29,325,982
Total Liabilities	<u>38,512,459</u>	<u>45,207,869</u>
NET ASSETS		
Invested in capital assets, net of related debt	11,504,975	11,504,975
Restricted for (Notes 1 & 13):		
Debt service	10,395,273	10,394,940
Paratransit programs - nonexpendable	25,000,000	25,000,000
Unrestricted (Note 13)	320,732,477	295,224,282
Total Net Assets	<u>367,632,725</u>	<u>342,124,197</u>
Total Liabilities and Net Assets	<u>\$ 406,145,184</u>	<u>\$ 387,332,066</u>

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2005 AND 2004

	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets	
		Charges for Services	Operating Contributions and Grants	2005	2004
Governmental Activities:					
Upgrades and extensions	\$ 14,435,532	\$ -	\$ -	\$ (14,435,532)	\$ (3,623,778)
Grade separations	4,698,001	834,295	43,807	(3,819,899)	(685,727)
Paratransit	879,764	-	692,473	(187,291)	(2,784,732)
Dumbarton spur	649,427	157,997	348,636	(142,794)	(1,156,535)
Street and highways					
Distributions to local entities	11,990,624	-	-	(11,990,624)	(11,078,866)
Projects funding	10,426,642	-	-	(10,426,642)	(18,558,922)
Caltrain shuttle program	712,000	-	86,236	(625,764)	(835,146)
Transportation systems management	400,170	-	-	(400,170)	(392,320)
Program administration	550,769	-	-	(550,769)	(508,843)
Interest on long-term debt	1,457,576	-	-	(1,457,576)	(1,917,194)
Total Governmental Activities	<u>\$ 46,200,505</u>	<u>\$ 992,292</u>	<u>\$ 1,171,152</u>	<u>(44,037,061)</u>	<u>(41,542,063)</u>
General Revenues:					
Sales tax				59,953,123	55,394,330
Unrestricted investment earnings				9,591,069	1,088,604
Other income				1,397	1,054,428
Change in Net Assets				25,508,528	15,995,299
Net Assets at Beginning of Year				342,124,197	326,128,898
Net Assets at End of Year				<u>\$ 367,632,725</u>	<u>\$ 342,124,197</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, 2005 AND 2004

	Special Revenue	Special Paratransit Fund	Debt Service	Other Governmental Funds	Total Governmental Funds	
					2005	2004
ASSETS						
Cash and investments (Note 2)	\$ 327,519,701	\$ 5,431,197	\$ 49,429	\$ 30,014,831	\$ 363,015,158	\$ 350,683,509
Receivables:						
Sales tax (Note 3)	10,170,349	-	1,543,113	-	11,713,462	10,095,920
Interest (Note 4)	3,241,453	237,554	-	-	3,479,007	2,665,049
Note (Note 5)	7,231,163	-	-	-	7,231,163	2,852,888
Other (Note 6)	202,133	-	-	-	202,133	283,092
Prepaid	193,795	-	-	-	193,795	451,909
Restricted assets (Notes 2 & 7)	8,033,760	-	771,731	-	8,805,491	8,794,724
Total Assets	\$ 356,592,354	\$ 5,668,751	\$ 2,364,273	\$ 30,014,831	\$ 394,640,209	\$ 375,827,091
LIABILITIES						
Accounts payable (Note 9)	227,823	879,765	-	-	1,107,588	1,163,619
Accrued liabilities (Note 10)	7,326,566	-	-	25,987	7,352,553	6,105,553
Deferred revenue (Note 11)	482,165	-	-	-	482,165	634,003
Deposits	32,558	-	-	-	32,558	75,353
Total Liabilities	8,069,112	879,765	-	25,987	8,974,864	7,978,528
FUND EQUITY						
Fund Balances:						
Reserved for (Note 1 & 13):						
Debt service	8,031,000	-	2,364,273	-	10,395,273	10,394,940
Paratransit programs	-	-	-	25,000,000	25,000,000	25,000,000
Unreserved, reported in (Note 13):						
Special revenue fund						
Designated for -						
Current Measure A Projects	172,497,968	-	-	-	172,497,968	133,480,718
Future Measure A Projects	167,994,274	-	-	-	167,994,274	188,758,051
Paratransit programs	-	4,788,986	-	-	4,788,986	-
Nonmajor special revenue funds						
Designated	-	-	-	4,988,844	4,988,844	10,214,854
Total Fund Balances	348,523,242	4,788,986	2,364,273	29,988,844	385,665,345	367,848,563
Total Liabilities and Fund Balances	\$ 356,592,354	\$ 5,668,751	\$ 2,364,273	\$ 30,014,831	\$ 394,640,209	\$ 375,827,091

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, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Fund Balances - Total Governmental Funds	\$ 385,665,345	\$ 367,848,563
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.	11,504,975	11,504,975
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.	(95,480)	(123,359)
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	(25,445,000)	(33,225,000)
Cumulative rebate liability	(386,139)	(270,006)
Loan from State of California	(3,450,000)	(3,450,000)
Other	(160,976)	(160,976)
	<u>(29,442,115)</u>	<u>(37,105,982)</u>
Net Assets of Governmental Activities	<u>\$ 367,632,725</u>	<u>\$ 342,124,197</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, 2005 AND 2004**

	Special Revenue	Special Revenue Paratransit Fund	Debt Service	Other Governmental	Total	
					2005	2004
REVENUES						
Sales tax	\$ 50,692,702	\$ -	\$ 9,260,421	\$ -	\$ 59,953,123	\$ 55,394,330
Investment income (Note 14)	9,551,396	842,912	5,367	-	10,399,675	1,250,898
Rental income	993,693	-	-	-	993,693	870,428
Grant proceeds	478,680	-	-	-	478,680	1,059,628
Total Revenues	61,716,471	842,912	9,265,788	-	71,825,171	58,575,284
EXPENDITURES						
Current:						
Staff support (Note 15)	350,191	-	-	-	350,191	359,002
Board compensation	7,200	-	-	-	7,200	6,400
Professional and legal fees	121,629	-	-	-	121,629	88,875
Other services and supplies	33,409	-	5,150	-	38,559	52,617
Travel and meeting	5,954	-	-	-	5,954	7,149
Debt Service:						
Principal	-	-	7,780,000	-	7,780,000	7,465,000
Interest	-	-	1,480,305	-	1,480,305	1,793,835
Total current	518,383	-	9,265,455	-	9,783,838	9,772,878
Distribution to local entities	11,990,625	879,766	-	400,170	13,270,561	14,307,207
Caltrain shuttles program	712,000	-	-	-	712,000	835,146
Dumbarton corridor maintenance	230,960	-	-	-	230,960	287,350
Measure A information	32,386	-	-	-	32,386	-
Capital outlays (Note 16)	29,978,644	-	-	-	29,978,644	24,608,040
Total Expenditures	43,462,998	879,766	9,265,455	400,170	54,008,389	49,810,621
Excess (Deficiency) of Revenues						
Over Expenditures	18,253,473	(36,854)	333	(400,170)	17,816,782	8,764,663
OTHER FINANCING SOURCES (USES)						
Transfer in	-	-	-	-	-	1,795,000
Transfer out	-	-	-	-	-	(1,795,000)
Total Other Financing Sources (Uses)	-	-	-	-	-	-
Net Change in Fund Balances	18,253,473	(36,854)	333	(400,170)	17,816,782	8,764,663
Fund Balances, Beginning of Year	330,269,769	4,825,840	2,363,940	30,389,014	367,848,563	359,083,900
Fund Balances, End of Year	\$ 348,523,242	\$ 4,788,986	\$ 2,364,273	\$ 29,988,844	\$ 385,665,345	\$ 367,848,563

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, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Amounts reported for governmental activities in the statement of activities are different because:		
Net Changes in fund balances - total governmental funds	\$ 17,816,782	\$ 8,764,663
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.	7,780,000	7,465,000
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.	27,879	(123,359)
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>(116,133)</u>	<u>(111,005)</u>
Change in Net Assets of Governmental Activities	<u>\$ 25,508,528</u>	<u>\$ 15,995,299</u>

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

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

San Mateo County Transportation Authority (Authority) was formed in June 1988 as a result of the approval of Measure A (One-Half Cent Sales Tax and Transportation Expenditure Plan) by the voters of San Mateo County pursuant to the Bay Area County Traffic and Transportation Funding Act. The Authority is responsible for the administration of funds collected through the one-half cent sales tax for a period of 20 years for transportation projects. San Mateo County Transit District (SamTrans) was designated as the entity responsible for overall management of the Authority.

B. Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 40 - In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB No. 3. This statement modifies the Deposit and Investment Risk Categorization Disclosures and requires additional information on an entity's portfolio. This statement is effective for periods beginning after June 15, 2004. The Authority adopted the provisions of GASB 40 during fiscal year 2004-05.

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

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

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

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

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

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

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

GASB Statement No. 47 - In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes accounting guidance and disclosure requirements for termination benefit arrangements. This statement is effective in two parts. For termination benefits provided through an existing defined benefit other post employment benefit plan (OPEB), the provisions should be implemented simultaneously with GASB Statement No. 45. For all other termination benefits, this Statement is effective for periods beginning after June 15, 2005. The Authority 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 Authority. The statement of activities presents a comparison between direct expenses and program revenues for each function of the Authority. 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.

When both restricted and unrestricted net assets are available for the same purpose, restricted resources are used only after the unrestricted resources are depleted.

Fund Financial Statements

The fund financial statements provide information about the Authority'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 nonmajor funds.

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

C. Basis of Presentation (Continued)

The Authority reports the following major governmental funds:

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

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

The Authority reports the following nonmajor governmental funds in an aggregated column:

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 (the 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 was to clarify the intent of the Authority 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 Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include one-half cent 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.

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. 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 determines fair value or trustee using quoted market prices or valuation services, as applicable.

G. 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 Authority from the one-half cent 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 in the Authority's books.

H. Comparative Data

The comparative data for fiscal year ended June 30, 2004 provided on these financial statements is not required for a fair presentation of the financial statements, but is presented as additional analytical data.

I. 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, 2005 AND 2004

NOTE #2 – DEPOSITS AND INVESTMENTS

The deposits and investments as of June 30, 2005 and 2004 were as follows:

	Fair Value	
	2005	2004
Cash and Investments		
Special Revenue Fund		
Cash and Cash Equivalents		
Bank balance	\$ 255,612	\$ 264,958
Investment in San Mateo County Investment Pool	291,159,505	277,440,046
Investment in Local Agency Investment Fund	4,334	4,253
	<u>291,419,451</u>	<u>277,709,257</u>
Investments	36,100,250	37,371,875
Total Special Revenue Fund	<u>327,519,701</u>	<u>315,081,132</u>
Paratransit Special Revenue Fund		
Cash and Cash Equivalents		
Investment in San Mateo County Investment Pool	5,431,197	5,138,674
Debt Service Fund		
Cash and Cash Equivalents		
Bank Balance	49,429	49,212
Other Governmental Funds		
Cash and Cash Equivalents		
Investment in San Mateo County Investment Pool		
Paratransit Permanent Fund	25,000,000	25,000,000
TSM Special Revenue Fund	5,014,831	5,414,491
Total Other Governmental Funds	<u>30,014,831</u>	<u>30,414,491</u>
Total Cash and Investments	<u>\$ 363,015,158</u>	<u>\$ 350,683,509</u>
Restricted Assets (See Note 7)		
Special Revenue Fund		
Investments in U.S. Treasury Notes	\$ 7,838,115	\$ 8,023,032
Money market funds	195,645	-
Total Special Revenue Fund	<u>8,033,760</u>	<u>\$ 8,023,032</u>
Debt Service Fund		
Investment in Trustee's Pool	771,731	771,692
Total Restricted Assets	<u>\$ 8,805,491</u>	<u>\$ 8,794,724</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE #2 – DEPOSITS AND INVESTMENTS (continued)

The Authority's cash and investments as of June 30, 2005 and 2004 consist of the following:

	2005	2004
Deposits with financial institutions	\$ 1,272,417	\$ 1,085,862
Deposits in external investment pools	326,609,867	312,997,464
Investments	43,938,365	45,394,907
	<u>\$ 371,820,649</u>	<u>\$ 359,478,233</u>

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

In accordance with the California Government Code, the Authority 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	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
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, 2005 AND 2004

NOTE #2 – DEPOSITS AND INVESTMENTS (continued)

The table below identifies the investment types that are authorized for the Authority by the Authority’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 Authority’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	5 years	None	None
U.S. Agency Securities	5 years	None	None
San Mateo Country 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 that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by maintaining its portfolio in shorter term investments.

As of June 30, 2005, the Authority had the following investments:

Investment Type	Amount	Maturity Date
US Treasury Note	\$ 7,838,115	11/30/2005
US Treasury Note	10,093,000	11/15/2005
US Treasury Note	15,544,350	10/15/2006
US Treasury Note	10,462,900	2/15/2008
	\$ 43,938,365	

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 Authority’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 Authority 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 represent 5% or more of total investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government 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 Authority'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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The bank balance reported by the Authority represents its share in the managing entity's (SamTrans) bank account balance. The credit risk for the SamTrans bank balance is discussed in its Comprehensive Annual Financial Report.

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

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 Authority 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 Authority's investment custodian provides market value on each investment instrument. The investments held by the Authority are widely traded in the financial markets and trading values are readily available from numerous published sources. The Authority 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, 2005 AND 2004**

NOTE #2 – DEPOSITS AND INVESTMENTS (continued)

San Mateo County Treasurer's Investment Pool: The Authority holds investments in the County Pool that are subject to being adjusted to "fair value". The Authority is required to disclose its methods and assumptions used to estimate the fair value of its holdings in the County Pool. The Authority relied upon information provided by the County Treasurer in estimating the Authority's fair value position of its holdings in the County Pool. The Authority had a contractual withdrawal value of \$329,020,511 and \$314,947,278 at June 30, 2005 and 2004, respectively, that is recorded at \$326,605,533 and \$312,993,211 on the balance sheet after the adjustment for unrealized gains/losses for years ending 2005 and 2004 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 Authority is a voluntary participant in the investment pool.

State of California State Treasurer's Local Agency Investment Fund ('LAIF'): The Authority holds an investment in LAIF that is subject to being adjusted to "fair value". The Authority is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. The Authority relied upon information provided by the State Treasurer in estimating the Authority's fair value position of its holdings in LAIF. The Authority had a contractual withdrawal value of \$4,253 at fiscal years ending 2005 and 2004. 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 Authority 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, 2005.

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, 2005 AND 2004

NOTE #5 – NOTE RECEIVABLE

The note receivable is for the amount drawn by a project lead agency from an approved loan in the principal amount of \$10,750,000. The loan provides the lead agency a contingent source of funding to complete a major project in the expenditure plan. The amount owed bears an interest rate equal to the payee's rate of return on its long-term investment portfolio. The maturity date is October 1, 2008, when the entire unpaid principal and accrued interest becomes due. Prepayments are required in the event the payee draws the maximum loan amount. As of June 30, 2005 and 2004, the amount outstanding was \$7,231,163 and \$2,852,888 respectively.

NOTE #6 – OTHER RECEIVABLES

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

	<u>2005</u>	<u>2004</u>
Metropolitan Transportation Commission	\$ 62,815	\$ -
State Department of Transportation	-	68,120
County of San Mateo	61,990	-
San Mateo County Transit District (SamTrans)	16,429	13,496
Alameda County Transportation Improvement Authority	30,373	200,000
Santa Clara Valley Transportation Authority	30,374	-
Other	152	1,476
Total Other Receivables	<u>\$ 202,133</u>	<u>\$ 283,092</u>

NOTE #7 – RESTRICTED ASSETS

Bond covenants require the Authority to set aside with a trustee prescribed amounts of resources that can be used only for debt service on limited tax bonds. See Note #12 – Long Term Liabilities.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE #8 – CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2005 were as follows:

	Balance at July 1, 2004	Additions	Deletions	Balance at June 30, 2005
Capital Assets Not Being depreciated				
Land	\$ 11,504,975	\$ -	\$ -	\$ 11,504,975

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

NOTE #9 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2005 and 2004 were for the following:

	2005	2004
Salaries and benefits	\$ 83,507	\$ 54,825
Capital Projects	-	56,370
Shuttle Program	112,282	332,038
Paratransit Program	879,765	473,410
Other	32,034	246,976
Total reported on Governmental	1,107,588	1,163,619
Interest Accrual	95,480	123,359
Total reported on Entity-Wide	\$ 1,203,068	\$ 1,286,978

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2005 AND 2004**

NOTE #10 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2005 and 2004 were for the following:

	2005	2004
Disbursement to local entities for transportation projects	\$ 2,863,116	\$ 2,019,184
Capital projects	4,438,204	4,006,155
Paratransit Programs	-	43,424
TSM Programs	25,987	25,477
Other	25,246	11,313
Total	\$ 7,352,553	\$ 6,105,553

NOTE #11 – DEFERRED REVENUE

Under a debt service forward sale agreement the Authority received a fee of \$1,711,000 relating to investment of funds set aside in the Debt Service Fund. The fee was recorded as deferred revenue and is being amortized over the life of the related limited tax bonds. The unamortized balance of \$482,165 as of June 30, 2005 is included in deferred revenue. The amortization amount for the fiscal year of \$157,571 is included in investment income in the Government-wide Financial Statements and Fund Financial Statements.

NOTE #12 – LONG-TERM LIABILITIES

Limited Tax Bonds

In August 1997, the Authority issued \$80,310,000 of 1997 Series A Bonds to reimburse the Authority 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 Authority 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. The payment of principal and interest on the due dates is insured.

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 #13 – Net Assets / Fund Balance.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE #12 – LONG-TERM LIABILITIES (continued)

In connection with the 1997 Series A Bonds, the Authority through its Trustee entered into a Forward Sale Agreement (FSA). The FSA is structured to meet the Authority’s debt service requirements for the 1997 Series A Bonds. Under the terms of the FSA, the Authority is required to make scheduled payments to the principal and interest accounts for the months of July through May of each fiscal year. However, the Authority has given its rights to Bear Stearns Capital Markets, Inc., (Provider) and authorized them to invest these funds up and until the required debt service payment date (i.e., June 1 and December 1). In exchange, the Authority received a fee from the Provider in the amount of \$1,711,000 representing an advance of investment income from the principal and interest accounts. The advanced investment income was recorded as Deferred Revenue in Statement of Net Assets and is being amortized over the life of the 1997 Series A Bonds.

The Authority, through its Trustee, also entered into a Debt Service Reserve Forward Delivery Agreement (FDA). The FDA is structured to meet the Authority’s debt service requirements for the 1997 Series A Bonds. Under the terms of the FDA, the Authority has given its rights to the reserve funds to Westdeutsche Landesbank, (Provider) and authorized them to invest these funds up and until the required debt service payment date (i.e., June 1 and December 1). In exchange, the Authority receives a fee from the Provider in the amount of 5.72% per annum on the scheduled reserve amount. The fee is recorded as interest income in the period earned.

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% of the cumulative liability became due and was subsequently paid to the federal government.

As of June 30, 2005 and 2004, the cumulative rebate liability as calculated by the bond counsel was \$386,139 and \$270,006 respectively. The liability was recorded as long-term liability in the government-wide financial statements.

Debt service requirements to maturity for the limited tax bonds as of June 30, 2005, were as follows:

Year Ending June 30,	Principal	Interest
2006	\$ 8,115,000	\$ 1,145,765
2007	8,475,000	788,705
2008	8,855,000	407,330
Total	<u>\$ 25,445,000</u>	<u>\$ 2,341,800</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE #12 – LONG-TERM LIABILITIES (continued)

Loan from State

The Authority borrowed \$3,450,000 from the State of California in the 1994-95 fiscal year to purchase property from Southern Pacific Transportation Company. The loan agreement requires the Authority to pay the full amount by December 31, 2009. No interest will be charged.

Other Long Term Payable

Other long-term payable of \$160,976 represents the Authority's maximum liability under a cost sharing agreement if a disputed claim is settled. The merited amount and the Authority's contribution, if any, are undetermined at this time.

Summary of long- term liabilities as of June 30, 2005, were as follows:

	Balance at July 1, 2004	Adjustments/ Additions	Deletions	Balance at June 30, 2005	Amounts Due within One Year
Governmental					
Activities					
Limited Tax Series					
1997A Bonds issued in August 1997	\$ 33,225,000	\$ -	\$ 7,780,000	\$ 25,445,000	\$ 8,115,000
Cumulative rebate liability on arbitrage earnings	270,006	116,133	-	386,139	-
Loan payable to the State of California	3,450,000	-	-	3,450,000	-
Other long-term payable	160,976	-	-	160,976	-
Total Long-Term Liabilities	<u>\$ 37,105,982</u>	<u>\$ 116,133</u>	<u>\$ 7,780,000</u>	<u>\$ 29,442,115</u>	<u>\$ 8,115,000</u>
		Due within one year		\$ 8,115,000	
		Due beyond one year		21,327,115	
				<u>\$ 29,442,115</u>	

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE #13 – 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.

Restricted Net Assets - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restriction 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, and retained in a bond reserve fund as required by the bond covenants.

Unrestricted Net Assets - This category represents net assets of the Authority available for projects and other purposes specified under Measure A. Of the \$320,732,477 unrestricted amount, \$172,497,968 has been appropriated for current Measure A projects as of June 30, 2005.

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 Authority also "designates" portions of fund balance based on tentative spending plans. Should such plans change, the Authority 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:

- \$340,492,242 in the major Special Revenue Fund designated for projects and other purposes specified under Measure A. As of June 30, 2005, \$172,497,968 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 \$4,788,986 to the fund pursuant to Board Resolutions 1999-19, 2000-32, 2002-11 and 2003-12 and investment earnings except unrealized gains that are undesignated.
- 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, 2005 AND 2004

NOTE #14 – INVESTMENT INCOME

Investment income is comprised of:

	<u>2005</u>	<u>2004</u>
Interest income	\$ 12,141,665	\$ 11,445,002
Net decrease in fair value of investments	<u>(1,858,123)</u>	<u>(10,305,109)</u>
Investment income - statement of activities (see below)	10,283,542	1,139,893
Increase in cumulative rebate liability	<u>116,133</u>	<u>111,005</u>
Investment income - statement of revenues, expenditures and changes in fund balance	<u>\$ 10,399,675</u>	<u>\$ 1,250,898</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	\$ 692,473	\$ 51,289
Unrestricted investment earnings	<u>9,591,069</u>	<u>1,088,604</u>
	<u>\$ 10,283,542</u>	<u>\$ 1,139,893</u>

NOTE #15 – STAFF SUPPORT EXPENDITURE

Staff support expenditures comprise of:

	<u>2005</u>	<u>2004</u>
Salaries and benefits	\$ 552,702	\$ 504,971
Other related charges	4,934	2,650
Indirect costs	336,567	479,076
Costs allocated to projects	<u>(544,012)</u>	<u>(627,695)</u>
Total	<u>\$ 350,191</u>	<u>\$ 359,002</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE #16 – CAPITAL OUTLAY

The expenditure on public transportation projects during the 2004-2005 fiscal year was \$29,978,644. Total expenditures on such projects from inception through June 30, 2005 and 2004 are summarized below:

	2005	2004
Dumbarton Spur	\$ 16,795,147	\$ 16,376,681
CalTrain-Downtown Extension	95,757,864	81,322,332
Railroad Grade Separations	130,344,868	125,646,868
Streets and Highways	112,988,642	102,751,942
Oversight	1,151,634	961,692
Total	<u>\$ 357,038,155</u>	<u>\$ 327,059,515</u>

The Dumbarton Spur expenditure of \$16,795,147 was partially financed by a state loan of \$3,450,000.

Of the total expenditures of \$357,038,155 for capital outlay, \$1,744,736 was funded by contributions from external entities.

NOTE #17 – CONSTRUCTION COMMITMENTS

At June 30, 2005 and 2004, the Authority estimated the cost to complete the following unfinished projects:

Capital Project	Remaining Project Commitment	
	2005	2004
Dumbarton Spur	\$ 6,025,167	\$ 117,633
CalTrain-Downtown Extension	13,554,024	15,164,482
Railroad Grade Separations	15,776,296	20,034,480
Streets and Highways	136,791,000	98,031,499
Oversight	351,481	132,624
Total	<u>\$ 172,497,968</u>	<u>\$ 133,480,718</u>

NOTE #18 – RISK MANAGEMENT

The Authority is not exposed to a significant number of risks, as its primary function is to receive and allocate one-half cent sales tax. All projects funded by the Authority are managed by various local agencies as well as CalTrans (lead agencies). The Authority 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 Authority and its managing entity, SamTrans, had an aggregate insurance coverage of \$100,000,000.

REQUIRED SUPPLEMENTARY INFORMATION

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**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance,				
Beginning of Year	\$ 299,043,879	\$ 331,552,636	\$ 331,552,636	\$ -
Resources (inflows)				
Sales tax	47,906,600	47,906,600	\$ 50,692,702	2,786,102
Investment income	11,355,900	11,355,900	11,372,665	16,765
Rental income	837,000	837,000	993,693	156,693
Grant proceeds	-	-	478,680	478,680
Amounts Available for Appropriation	<u>60,099,500</u>	<u>60,099,500</u>	<u>63,537,740</u>	<u>3,438,240</u>
Charges to appropriation (outflows)				
Program Administration				
Staff support	526,510	526,510	350,191	176,319
Board compensation	8,400	8,400	7,200	1,200
Professional and legal fees	140,000	140,000	121,629	18,371
Other services and supplies	77,590	77,590	33,409	44,181
Travel and meeting	12,500	12,500	5,954	6,546
	<u>765,000</u>	<u>765,000</u>	<u>518,383</u>	<u>246,617</u>
Distribution to local entities	11,433,400	11,433,400	11,990,625	(557,225)
Caltrain shuttles program	972,600	972,600	712,000	260,600
Dumbarton corridor maintenance	410,000	410,000	230,960	179,040
Measure A information	331,000	331,000	32,386	298,614
Capital outlays	61,451,201	69,877,201	29,978,644	39,898,557
Total Charges to Appropriations	<u>75,363,201</u>	<u>83,789,201</u>	<u>43,462,998</u>	<u>40,326,203</u>
Budgetary Fund Balance, End of Year	<u>\$ 283,780,178</u>	<u>\$ 307,862,935</u>	<u>\$ 351,627,378</u>	<u>\$ 43,764,443</u>
Explanation of Differences Between Budgetary Inflows and GAAP Revenues				
Actual amounts available for appropriation - budgetary basis from above				\$ 63,537,740
Unrealized losses under GASB 31				<u>(1,821,269)</u>
Total revenues in the Statement of Revenues, Expenditures and Changes in Fund Balances - GAAP basis				<u>\$ 61,716,471</u>

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

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
 PARATRANSIT SPECIAL REVENUE FUND
 BUDGETARY COMPARISON SCHEDULE
 YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance,				
Beginning of Year	\$ 5,014,000	\$ 5,014,000	\$ 5,014,000	\$ -
Resources (inflows)				
Interest	910,600	910,600	879,766	(30,834)
Amounts Available for Appropriation	910,600	910,600	879,766	(30,834)
Charges to appropriation (outflows)				
Distribution to local entities	910,600	910,600	879,766	30,834
Other Financing (Uses)				
Transfer out	-	-	-	-
Total Charges to Appropriations	910,600	910,600	879,766	30,834
Budgetary Fund Balance,				
End of Year	\$ 5,014,000	\$ 5,014,000	\$ 5,014,000	\$ -
Explanation of Differences Between Budgetary Inflows and GAAP Revenues				
Actual amounts available for appropriation - budgetary basis from above				\$ 879,766
Unrealized losses under GASB 31				(36,854)
Total revenues in the Statement of Revenues, Expenditures and Changes in Fund Balances - GAAP basis				\$ 842,912

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

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
 NOTES TO REQUIRED SUPPLEMENTARY SCHEDULE
 JUNE 30, 2005**

NOTE #1 – BUDGETS AND THE BUDGETARY PROCESS

The Authority 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 Authority 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 Authority 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.

NOTE #3 – RESTATEMENT OF BUDGETARY FUND BALANCE

During the fiscal year, management adjusted the beginning budgetary fund balance of the special revenue and paratransit special revenue fund to more closely reflect the results of its operations with the legally adopted budget as follows:

	<u>Special Revenue Fund</u>	<u>Paratransit Special Revenue Fund</u>
Budgetary fund balance, beginning of year	\$ 339,444,202	\$ 5,215,480
Adjustments	(7,891,566)	(201,480)
Budgetary fund balance, as restated	<u>\$ 331,552,636</u>	<u>\$ 5,014,000</u>

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OTHER SUPPLEMENTAL INFORMATION

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2005 AND 2004

	Special Revenue	Permanent	Total Nonmajor Governmental Funds	
	Transportation System Management	Paratransit Fund	2005	2004
ASSETS				
Cash and investments	\$ 5,014,831	\$ 25,000,000	\$ 30,014,831	\$ 30,414,491
Total Assets	\$ 5,014,831	\$ 25,000,000	\$ 30,014,831	\$ 30,414,491
LIABILITIES				
Accrued liabilities	25,987	-	25,987	25,477
Total Liabilities	25,987	-	25,987	25,477
FUND BALANCES				
Reserved	-	25,000,000	25,000,000	25,000,000
Unreserved:				
Designated	4,988,844	-	4,988,844	5,389,014
Total Fund Balances	4,988,844	25,000,000	29,988,844	30,389,014
Total Liabilities and Fund Balances	\$ 5,014,831	\$ 25,000,000	\$ 30,014,831	\$ 30,414,491

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 2005 AND 2004

	Special Revenue	Permanent	Total Nonmajor Governmental Funds	
	Transportation System Management	Paratransit Fund	2005	2004
REVENUES				
Interest	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Distribution to local entities	400,170	-	400,170	392,320
Total Expenditures	400,170	-	400,170	392,320
Net Change in Fund Balances	(400,170)	-	(400,170)	(392,320)
Fund Balances, Beginning of Year	5,389,014	25,000,000	30,389,014	30,781,334
Fund Balances, End of Year	\$ 4,988,844	\$ 25,000,000	\$ 29,988,844	\$ 30,389,014

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance,				
Beginning of Year	\$ 2,363,940	\$ 2,363,940	\$ 2,363,940	\$ -
Resources (inflows)				
Sales tax	9,260,400	9,260,400	9,260,421	21
Investment income	7,800	7,800	5,367	(2,433)
Amounts Available for Appropriation	<u>9,268,200</u>	<u>9,268,200</u>	<u>9,265,788</u>	<u>(2,412)</u>
Charges to appropriation (outflows)				
Bond principal payment	7,780,000	7,780,000	7,780,000	-
Bond interest expense	1,480,300	1,480,300	1,480,305	(5)
Other services	5,200	5,200	5,150	50
Total Charges to Appropriations	<u>9,265,500</u>	<u>9,265,500</u>	<u>9,265,455</u>	<u>45</u>
Budgetary Fund Balance, End of Year	<u>\$ 2,366,640</u>	<u>\$ 2,366,640</u>	<u>\$ 2,364,273</u>	<u>\$ (2,367)</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NONMAJOR GOVERNMENTAL FUNDS
TRANSPORTATION SYSTEM MANAGEMENT FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Budgetary Fund Balance,				
Beginning of Year	\$ 5,389,014	\$ 5,389,014	\$ 5,389,014	\$ -
Charges to appropriation (outflows)				
Distribution to local entities	400,200	400,200	400,170	30
Total Charges to Appropriations	400,200	400,200	400,170	30
Budgetary Fund Balance,				
End of Year	\$ 4,988,814	\$ 4,988,814	\$ 4,988,844	\$ 30

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Section III

STATISTICAL

Revenues and Expenditures as Percent of Totals

Revenues and Expenditures – Ten-Year Comparison

Capital Expenditures as Percent of Totals

Measure A Allocation to Local Entities

Paratransit Special Revenue Fund Allocations

Transportation System Management Fund Allocation

Transportation System Management Reserves

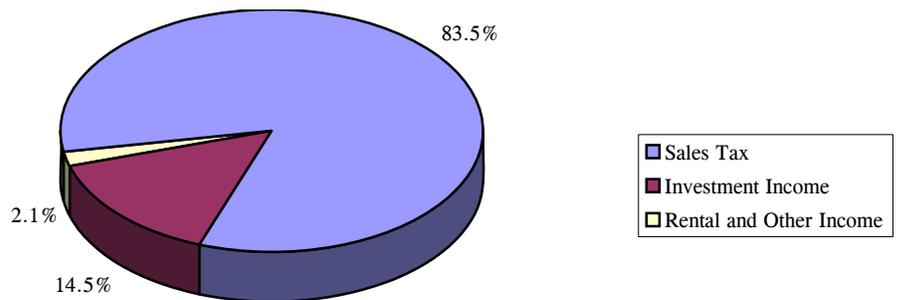
Demographic Data

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY
REVENUES AND EXPENDITURES AS PERCENT OF TOTALS
YEAR ENDED JUNE 30, 2005
(In thousands)

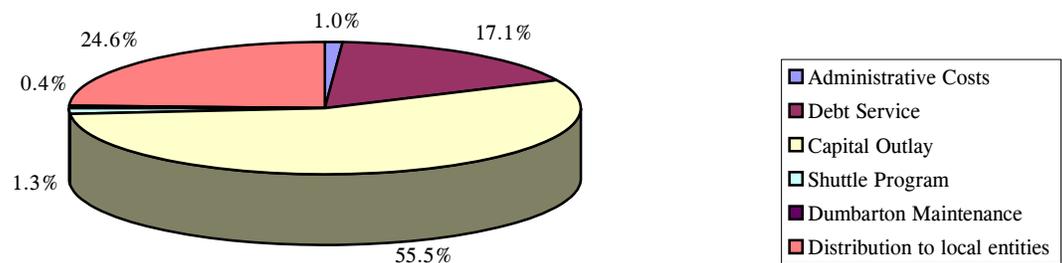
Revenue sources:

Sales Tax	\$ 59,953	83.47%
Investment Income	10,400	14.48%
Rental and Other Income	<u>1,473</u>	<u>2.05%</u>
Total Revenue	<u>\$ 71,826</u>	<u>100.0%</u>



Expenditures:

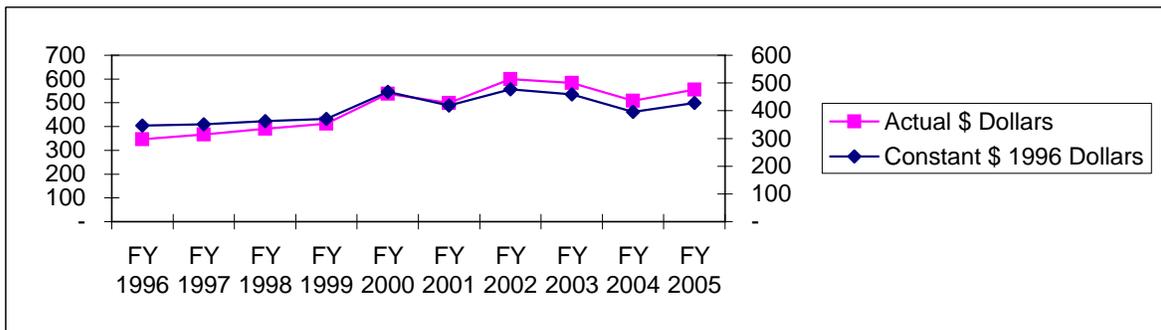
Administrative Costs	\$ 556	1.03%
Debt Service	9,260	17.15%
Capital Outlay	29,979	55.51%
Shuttle Program	712	1.32%
Dumbarton Maintenance	231	0.43%
Distribution to local entities	<u>13,271</u>	<u>24.57%</u>
Total Expenditures	<u>\$ 54,009</u>	<u>100.0%</u>



SAN MATEO COUNTY TRANSPORTATION AUTHORITY
REVENUES AND EXPENDITURES - TEN-YEAR COMPARISON
FY1996 through FY 2005 (In thousands)

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Revenue:										
Sales Tax	43,101	47,519	51,435	54,351	63,062	66,746	57,161	54,855	55,394	59,953
Investment Income	5,487	6,032	11,668	10,647	11,219	21,674	17,712	17,672	1,251	10,400
Rental Income	-	478	475	460	489	526	636	542	870	994
Other Income	40	78	3,905	1,024	22	358	-	470	1,060	479
Total Revenue	48,628	54,107	67,483	66,482	74,792	89,304	75,509	73,539	58,575	71,826
Expenditures:										
Administrative Costs	346	367	391	412	538	499	600	583	509	556
Debt Service/Bond Issuance Costs	-	-	9,738	9,260	9,260	9,260	9,260	9,263	9,264	9,260
Shuttle Program							176	623	835	712
Dumbarton Maintenance								270	287	231
Allocations to Local Entities	10,885	11,257	10,287	11,123	14,393	16,250	13,926	14,428	14,307	13,271
Capital Outlays	26,085	21,664	22,038	32,030	20,633	16,976	30,138	28,348	24,608	29,979
Total Expenditures	37,316	33,288	42,454	52,825	44,824	42,985	54,100	53,515	49,810	54,009
Excess of Revenues over Expenditures	11,312	20,819	25,029	13,657	29,968	46,319	21,409	20,024	8,765	17,817

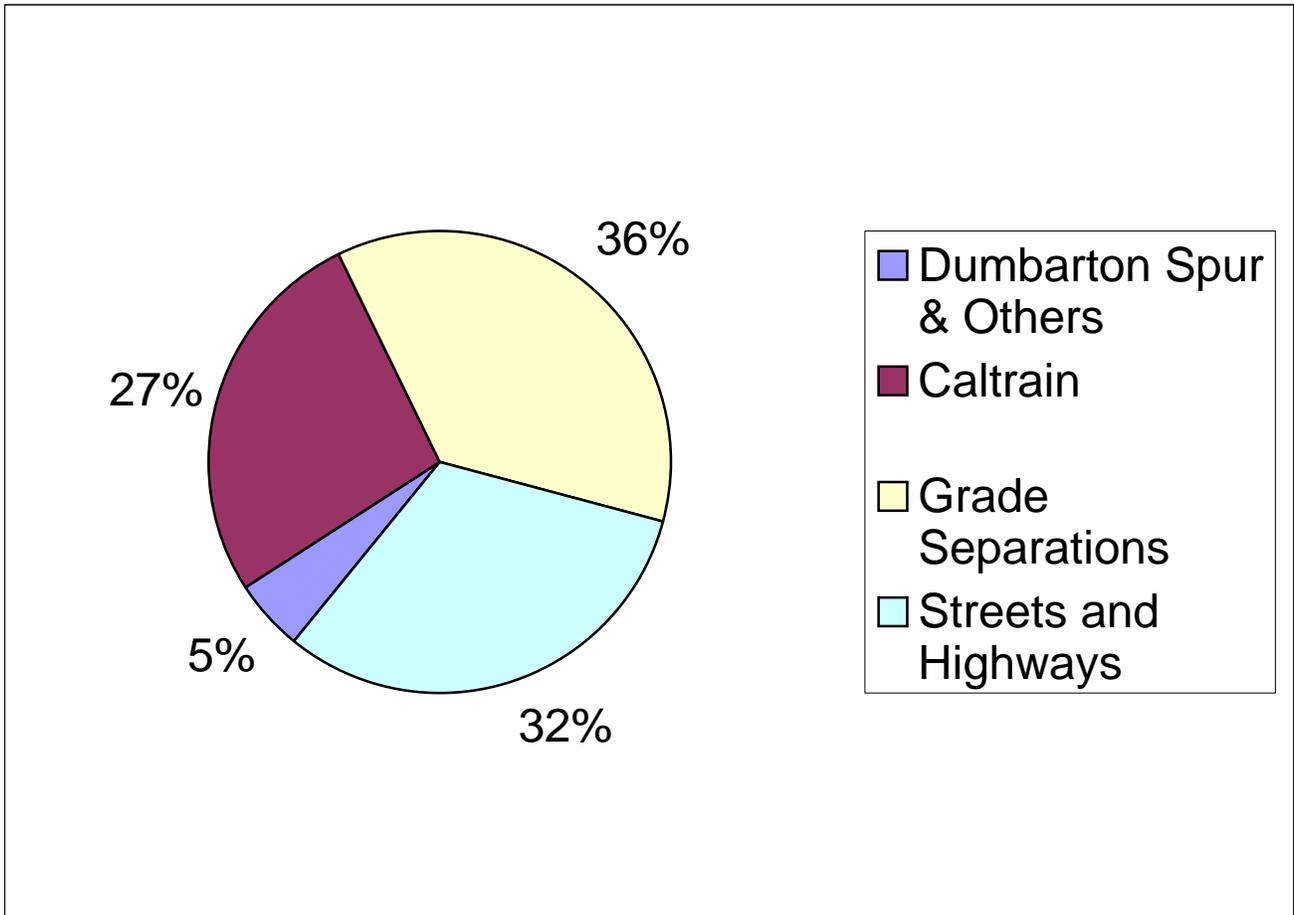
Administrative Costs - Actual Dollars Compared to Constant Dollars



	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Actual \$ Dollars	346	367	391	412	538	499	600	583	509	556
Constant \$ 1996 Dollars	346	351	363	371	468	419	477	459	396	428
CPI Percent Change	2.3%	3.1%	3.4%	3.8%	4.2%	6.6%	1.2%	1.6%	1.4%	1.1%
Cumulative Percent	2.3%	4.6%	7.7%	11.1%	14.9%	19.1%	25.7%	26.9%	28.5%	29.9%

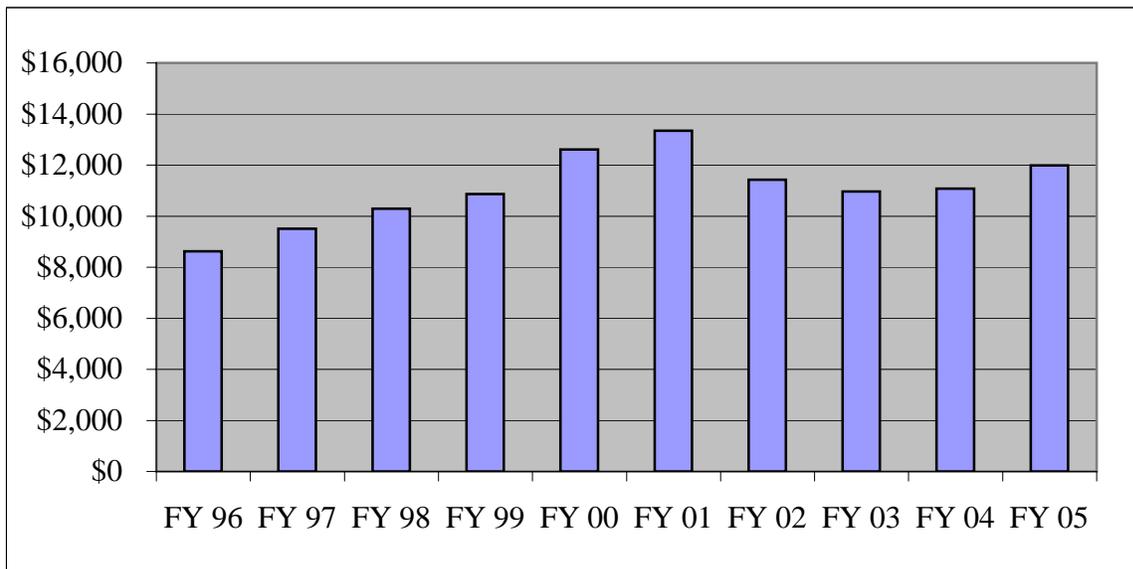
SAN MATEO COUNTY TRANSPORTATION AUTHORITY
CAPITAL EXPENDITURES AS PERCENT OF TOTALS
INCEPTION TO JUNE 30, 2005 (In thousands)

Dumbarton Spur & Others	\$ 17,947	5.03%
Caltrain	95,758	26.82%
Grade Separations	130,345	36.51%
Streets and Highways	112,989	31.65%
	<u>\$ 357,039</u>	<u>100.00%</u>



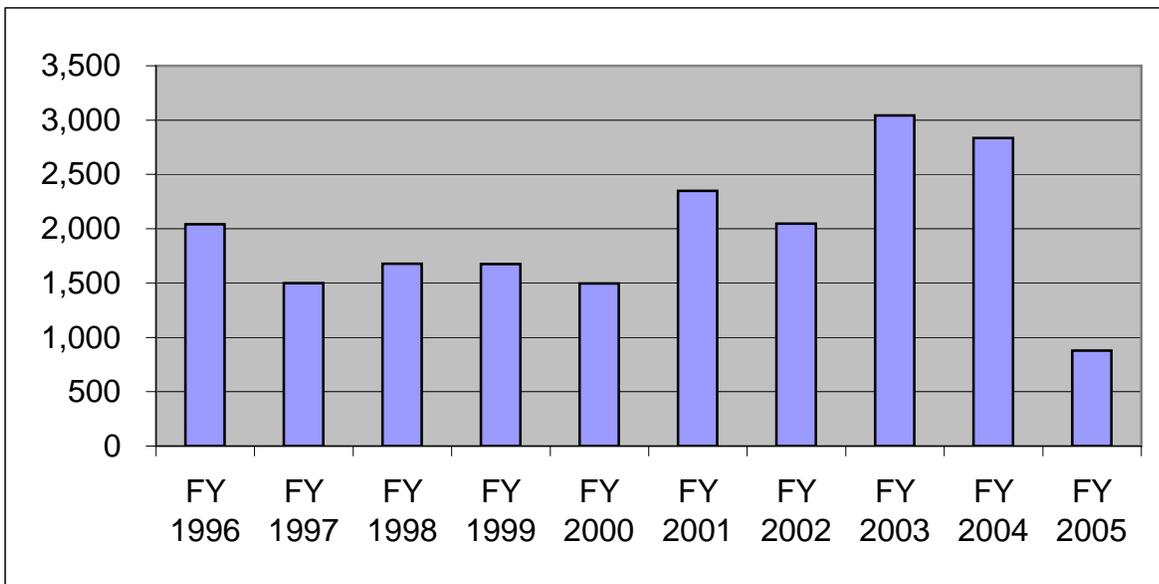
SAN MATEO COUNTY TRANSPORTATION AUTHORITY
MEASURE A ALLOCATION TO LOCAL ENTITIES
FY1996 through FY 2005 (In thousands)

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Local Entity										
Atherton	\$168	\$181	\$196	\$212	\$241	\$254	\$216	\$207	\$209	\$225
Belmont	315	348	377	397	463	497	405	389	393	423
Brisbane	65	70	76	82	93	114	93	90	91	91
Burlingame	366	401	435	462	532	570	482	463	466	502
Colma	25	29	31	32	38	41	34	33	33	36
Daly City	890	991	1,075	1,123	1,314	1,384	1,195	1,143	1,154	1,244
East Palo Alto	247	271	293	311	359	373	362	355	356	392
Foster City	298	320	347	376	425	456	378	362	373	401
Half Moon Bay	122	141	153	153	187	200	181	175	177	191
Hillsborough	266	289	313	336	383	406	343	329	332	362
Menlo Park	386	449	485	487	595	648	552	534	537	578
Millbrae	263	285	308	331	378	393	335	321	323	350
Pacifica	463	501	542	584	665	710	594	569	573	623
Portola Valley	106	123	134	134	164	198	169	162	165	178
Redwood City	826	942	1,024	1,041	1,251	1,293	1,100	1,056	1,065	1,148
San Bruno	472	485	523	596	643	676	573	548	558	607
San Carlos	372	407	439	470	540	570	482	469	473	511
San Mateo	1,021	1,137	1,229	1,288	1,510	1,582	1,347	1,297	1,307	1,428
South San Franciscoc	652	714	772	822	947	1,033	879	840	847	914
Woodside	139	151	163	175	201	227	193	185	186	211
San Mateo County	1,158	1,267	1,372	1,460	1,682	1,725	1,519	1,445	1,461	1,576
Total	\$8,620	\$9,504	\$10,287	\$10,869	\$12,612	\$13,349	\$11,432	\$10,971	\$11,079	\$11,991



SAN MATEO COUNTY TRANSPORTATION AUTHORITY
PARATRANSIT SPECIAL REVENUE FUND ALLOCATIONS
FY 1996 through FY 2005 (In thousands)

	COASTSIDE ADULT DAY HEALTH	COASTSIDE OPPORTUNITY	SAMTRANS REDI-WHEELS	TOTAL
FY 1996	0	123	1,919	2,042
FY 1997	0	90	1,410	1,500
FY 1998	0	101	1,576	1,677
FY 1999	0	104	1,571	1,675
FY 2000	0	90	1,407	1,497
FY 2001	0	111	2,239	2,350
FY 2002	0	123	1,923	2,046
FY 2003	0	69	2,974	3,043
FY 2004	0	0	2,836	2,836
FY 2005	0	0	880	880
TOTAL	\$0	\$811	\$18,735	\$19,546



SAN MATEO COUNTY TRANSPORTATION AUTHORITY
TRANSPORTATION SYSTEMS MANAGEMENT (TSM) FUND ALLOCATION
FY 1996 through FY 2005 (In thousands)

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	TOTALS
City of Belmont		\$100.00									\$100
City of Burlingame	\$115	53		\$79		\$100					\$347
City of Foster City	5										\$5
City of Half Moon Bay	86										\$86
City of Menlo Park				36	\$44	109	\$51	\$52	\$51	\$52	\$395
City of San Mateo	17										\$17
City of South San Francisco		100									\$100
Multi-City TSM Agency				140							\$140
Peninsula Congestion Relief Alliance					240	342	396	362	341	348	\$2,029
TOTAL	\$223	\$253	\$0	\$255	\$284	\$551	\$447	\$414	\$392	\$400	\$3,219

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
TRANSPORTATION SYSTEMS MANAGEMENT (TSM) RESERVES
FY 1996 through FY 2005 (In thousands)

	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Beginning Balance	\$6,577	\$6,722	\$6,864	\$7,294	\$7,477	\$7,193	\$6,642	\$6,195	\$5,781	\$5,389
Sales Tax Contributions	0	0	0	0	0	0	0	0	0	0
Interest	368	395	430	438	0	0	0	0	0	0
Expenditures	(223)	(253)	(200)	(55)	(284)	(551)	(447)	(414)	(392)	(400)
Carryforward Amounts			200	(200)						
Ending Balance	<u>\$6,722</u>	<u>\$6,864</u>	<u>\$7,294</u>	<u>\$7,477</u>	<u>\$7,193</u>	<u>\$6,642</u>	<u>\$6,195</u>	<u>\$5,781</u>	<u>\$5,389</u>	<u>\$4,989</u>
Fund Balance										
Unreserved Designated	\$5,652	\$5,815	\$5,815	\$6,039	\$7,193	\$6,642	\$6,195	\$5,781	\$5,389	\$4,989
CPI Fund Designation	1,070	1,049	1,479	1,438	n/a	n/a	n/a	n/a	n/a	n/a
TOTAL	<u>\$6,722</u>	<u>\$6,864</u>	<u>\$7,294</u>	<u>\$7,477</u>	<u>\$7,193</u>	<u>\$6,642</u>	<u>\$6,195</u>	<u>\$5,781</u>	<u>\$5,389</u>	<u>\$4,989</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

DEMOGRAPHIC DATA

1990-2000 (Unaudited)

Date of Authority Formation: June 7, 1988
Form of Government: Transportation Planning Agency
Service Area: 446 Square Miles

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

*Source: 2000 Population Projections, United States Bureau of the Census, 1990, adopted
by Metropolitan Transportation Commission and Association of Bay Area Governments.*

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

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 solely for the information and use of the management, others within the Authority, and the Authority Board, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
September 30, 2005