



SAN MATEO COUNTY
Transportation
Authority

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2006

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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December 29, 2006

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

**Comprehensive Annual Financial Report
Year Ended June 30, 2006**

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the San Mateo County Transportation Authority for fiscal year July 1, 2005 through June 30, 2006. 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.

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:

1. Public Transit
2. Street and Highway Improvements
3. Paratransit
4. Transportation Systems Management
5. Bicycles
6. 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 for all of its governmental funds based on established agency goals, objectives and performance measures to the Board of Directors. The presentation may recommend using financial reserves to balance the budget where proposed expenditures exceed projected revenues. The Board of Directors monitors budget-to-actual performance through monthly staff reports. The Financial Section of this report includes supplemental schedules that compare actual results on a budgetary basis of accounting to the original and final adopted budgets.

Once adopted, the Board of Directors has the authority to amend the budget. While the legal level of budgetary control is at the entity level, the 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 2006 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 2006 was \$433.2 million and the limit for fiscal year 2007 is \$453.2 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 including escalation of original project cost estimates. 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 2006 include:

- Funding for the capitalized start-up costs incurred to implement the Baby Bullet service.
- Provision of local match requirements for federally funded capital construction grants.
- 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 (CEMOF).
- Construction of improvements to the Hillsdale station.
- Preliminary engineering for the Downtown extension.

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:

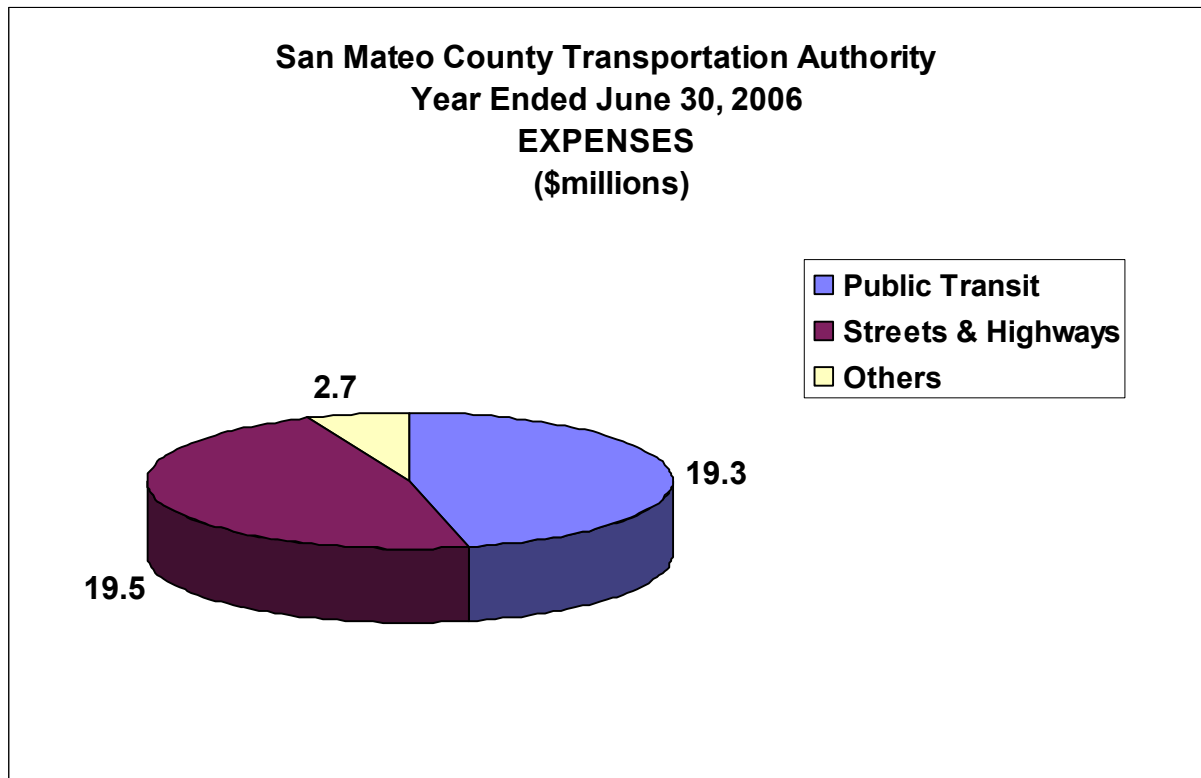
- Roadway widening

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- Interchange reconstruction
- Highway ramp modification
- Travel pattern forecasts

Notable street and highway projects during fiscal year 2006 include:

- Complete design of auxiliary lanes from Third Avenue in San Mateo to Millbrae Avenue.
- 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.
- Complete design of 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 6,100 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 2.3 million paratransit trips for persons with disabilities.

Earnings from the permanent fund have also funded new vehicles, programs training customers to use fixed-route service where feasible and other improvements to service delivery. The 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 six 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 San Mateo county;
- 2) Organizing vanpools and carpools;
- 3) Outreach to new commercial developments; and
- 4) Organizing and managing shuttles to and from Caltrain stations.

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

Bicycle Programs

Several years ago, the 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 2006, local agencies received \$12.8 million, bringing the total local aid since the inception of Measure A to \$169.7 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.

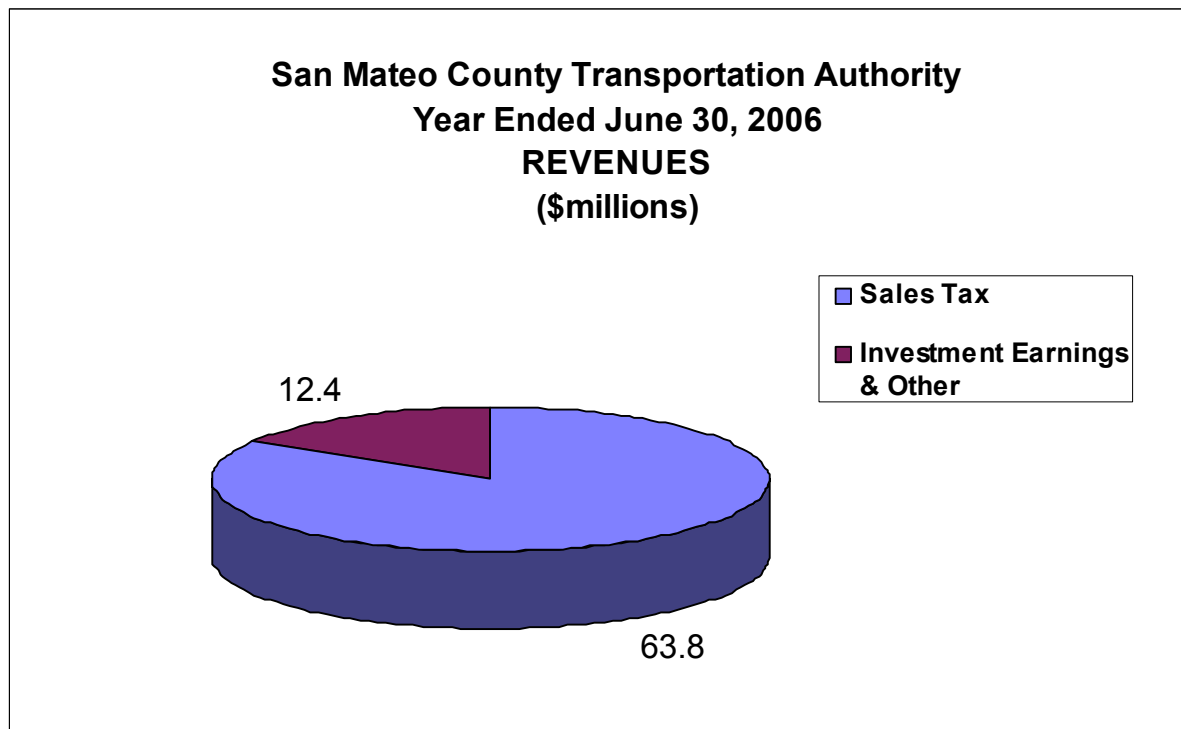
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FACTORS AFFECTING FINANCIAL CONDITION

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. 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 2003. 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 have steadily increased from 2004 through 2006. 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, 2006 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 2005 Comprehensive Annual Financial Report for excellence in financial reporting and the Certificate of Achievement appears immediately following this transmittal letter. To be awarded a certificate, a report must be easy to read and efficiently organized, while satisfying both generally accepted accounting principles and applicable legal requirements. I believe our 2006 Comprehensive Annual Financial Report also meets the requirements for a Certificate of Achievement and have submitted it to the GFOA for evaluation. I thank our independent audit firm, Vavrinek, Trine, Day 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, I 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

**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, 2005

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



President

Executive Director

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
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BOARD OF DIRECTORS

MARK CHURH

JOE FERNEKES

ROSANNE FOUST

RICH GORDON

MICHAEL P. GUINGONA

JOHN LEE

ROSALIE O'MAHONY

MARK CHURCH was elected to the Transportation Authority in 2001 representing the Board of Supervisors. Director 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. Director Church is a third-generation Californian and a San Mateo County native. He was admitted to the California Bar in 1976.

JOE FERNEKES was elected to the Transportation Authority in 2006 representing the North County. He has served as a South San Francisco City Councilman since 1991, winning re-election three times and serving three terms as mayor. Born in Broadmoor, Director Fernekes worked for seven years as a schoolteacher and has had a diverse business and public service background. Since 1998, Mr. Fernekes has been the Material Control Supervisor with Bay Area Rapid Transit (BART).

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

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. Prior to his election to the San Mateo County Board of Supervisors, Director 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.

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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. Director Guingona also serves as a member of the Board of Directors of SamTrans. Director Guingona is co-host of “Citizen Pinoy,” a cable television show that addresses critical issues facing immigrants, particularly within the Filipino community.

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

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

EXECUTIVE MANAGEMENT

EXECUTIVE DIRECTOR

Michael J. Scanlon

CHIEF OFFICERS

George Cameron, Chief Administrative Officer

Virginia Harrington, Chief Financial Officer

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

Rita Haskin, Chief Communications Officer

Ian McAvoy, Chief Development Officer

SPECIAL ASSISTANT TO THE CEO

Mark Simon

ADMINISTRATIVE & BOARD SUPPORT

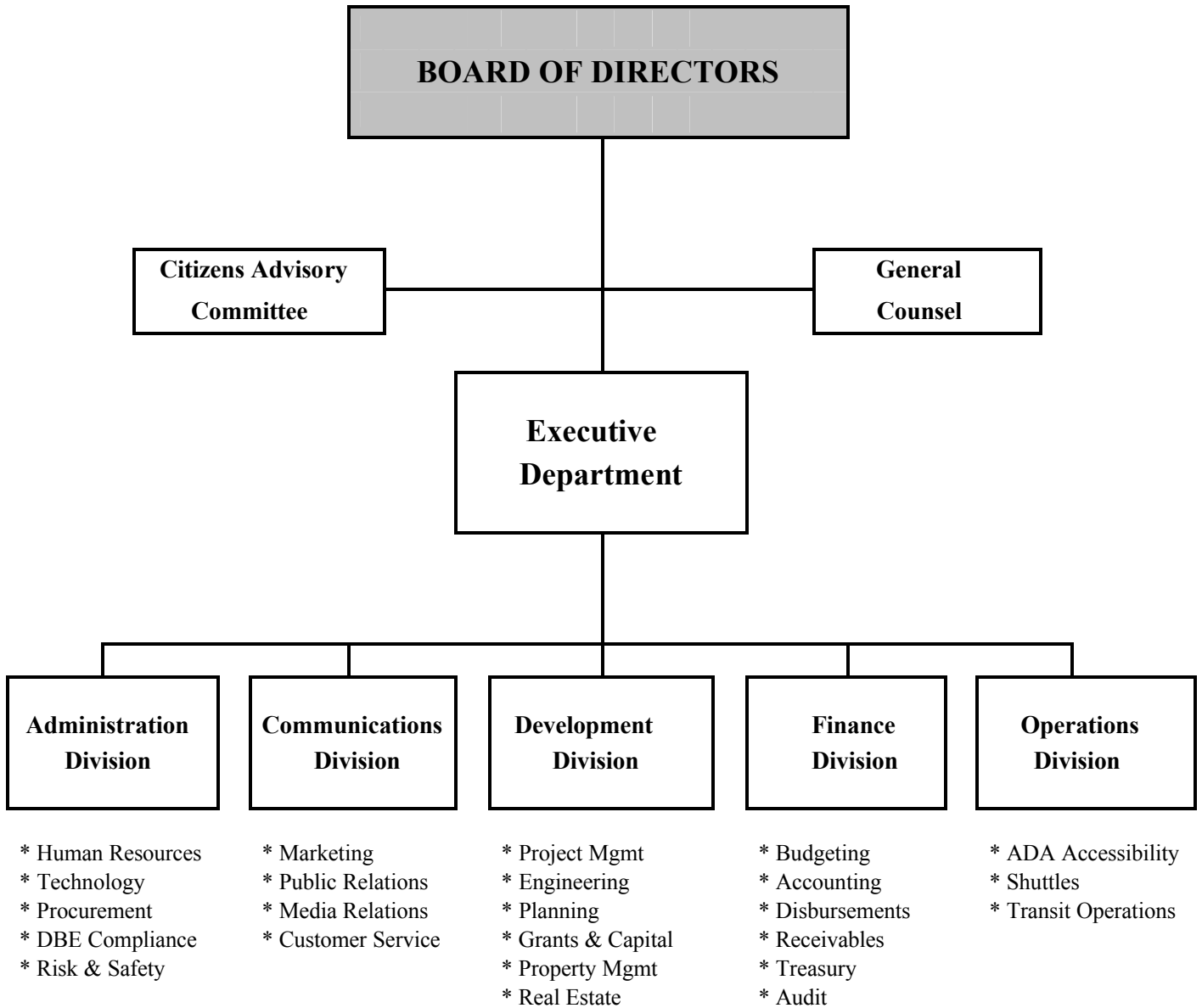
Martha Martinez, Manager, Executive/Governing Boards Support

Jennifer Hardie, Administrative/Board Secretary

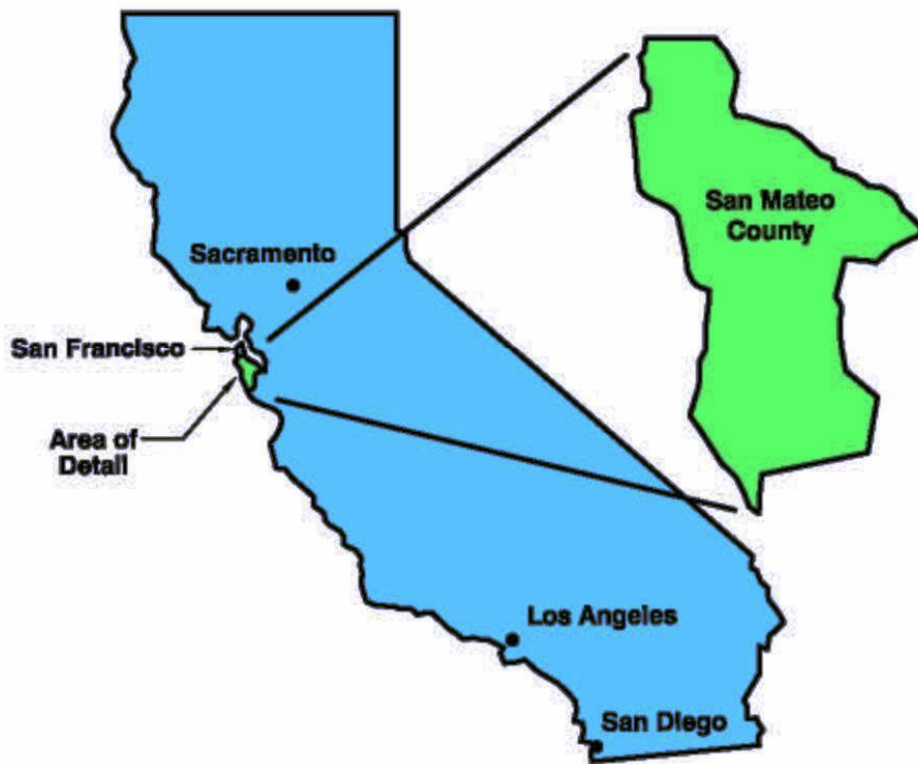
GENERAL COUNSEL

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

ORGANIZATION CHART



San Mateo County, California



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TABLE OF CREDITS

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

<u>Finance:</u>	Donna Fong	Manager, Capital & Grants Accounting
	Éva Goode	Senior Accountant
	Angela Ho	Senior Accountant
	Brian Lee	Manager, Treasury
	Rima Lobo	Manager, General Ledger
	Ladi Millard	Manager, Budget
	Angustia Pacumio	Senior Accountant
<u>Development:</u>	Joseph Hurley	Director, Transportation Authority Program
	Jim McKim	Senior Engineer
<u>Audit Firm:</u>	Ahmad Gharaibeh	Audit Manager
	Leonard Danna	Partner

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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, 2006, 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, 2005 financial statements and, in our report dated September 30, 2005, 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, 2006, 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. 44, *Economic Condition Reporting: The Statistical Section an amendment of NCGA Statement No. 1*.

The financial statements include prior-year comparative information as explained in Note 1(J). Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United State of America. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2005, from which such comparative information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2006, 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 agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 and the Budgetary Comparison Schedule and its accompanying notes on pages 38 through 40, 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 43 and 44 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vawrinek Trime Day + Co. LLP

Palo Alto, California
October 13, 2006

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

FINANCIAL HIGHLIGHTS

- Compared to June 30, 2005, total assets increased by \$25.0 million, or 6.1 percent, to \$437.8 million at June 30, 2006. Cash and investments comprised \$385.7 million, or 88.1 percent, of the total 2006 year-end amount.
- Sales tax revenue for all funds reached \$63.8 million during 2006, an increase of \$3.9 million, or 6.4 percent, over 2005. This positive result indicates a continuous improvement in the economy which had suffered considerably in recent years.
- The Authority expended \$22.3 million in capital outlay during 2006, a decrease of \$7.6 million, or 25.5 percent, over 2005. This amount included improvements to Caltrain rail service of \$9.3 million and another \$6.5 million to upgrade streets and highways within San Mateo County.
- Total liabilities decreased \$9.8 million, or 25.5 percent, from the June 30, 2005 amount to \$28.7 million at June 30, 2006. Repayment of limited tax bonds accounted for the majority of this reduction.
- Compared to June 30, 2005, total net assets increased by \$34.8 million, or 9.3 percent, to \$409.1 million at June 30, 2006. In addition, the ending *unreserved fund balance* for the Special Revenue Fund grew \$28.7 million, or 7.8 percent, to \$369.1 million at 2006 year-end. These increases are due primarily to sales tax revenue exceeding expenditures in 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

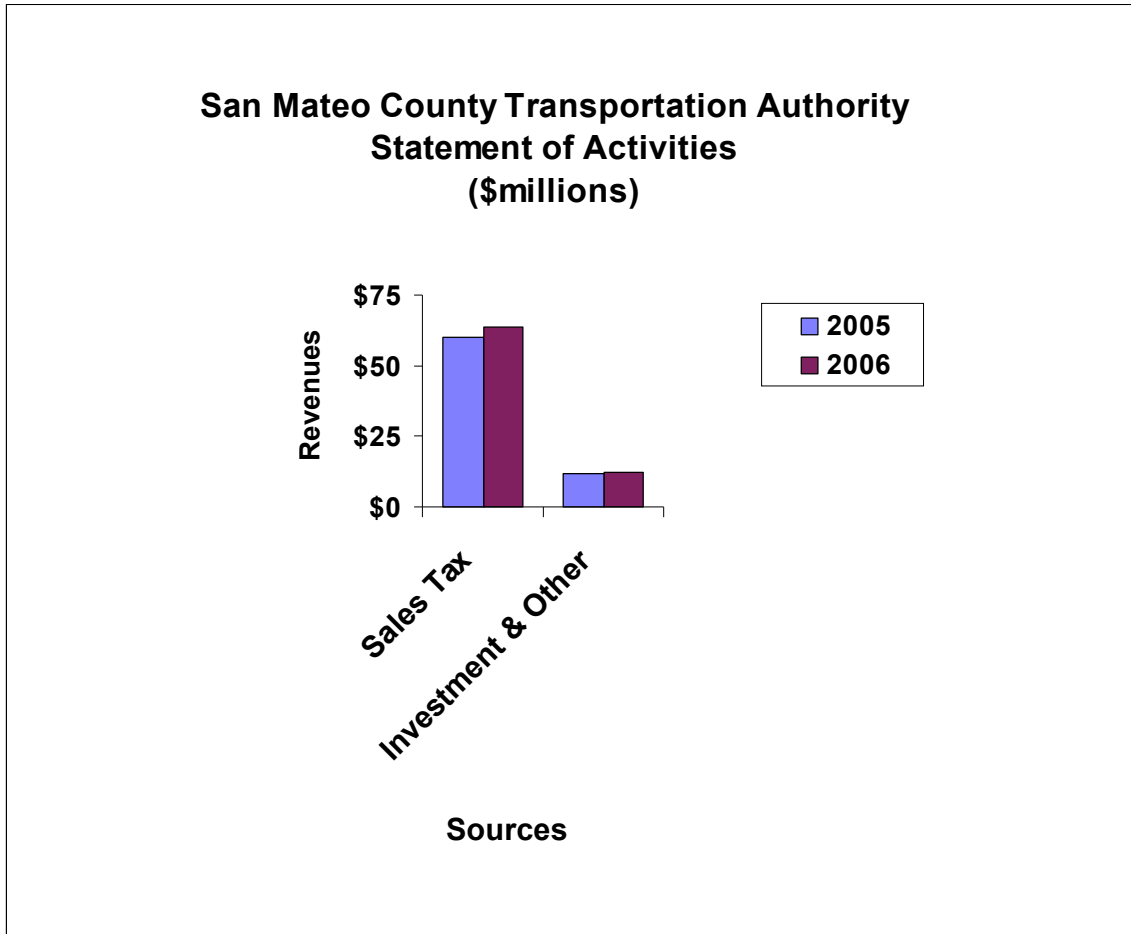
The Financial Section of this report presents the Authority's basic financial statements in three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Other supplementary information also appears in addition to the basic financial 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 TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2006**

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 *non-major* are grouped and reported in a single column. Elsewhere in this report, *combining statements* report data for each of the non-major 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 TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2006**

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.

The Authority reports the following *non-major 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 funded by *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 Systems 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.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2006**

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 non-major governmental funds appear immediately following the *required supplementary information*.

Government-wide Financial Analysis

At June 30, 2006, total assets were \$437.8 million, an increase of \$25.0 million, or 6.1 percent, over June 30, 2005. Cash and investments comprise \$385.7 million of this amount. With only \$28.7 million in total liabilities, the Authority is in an excellent position to meet its obligations for current construction projects. As of the end of 2006, existing encumbrances and expected future costs combined for these projects are estimated to total \$206.3 million.

Restricted assets ended 2006 at \$8.8 million with no significant change from 2005 year-end. This amount is set aside and restricted to debt service on limited tax bonds.

Capital assets of \$18.2 million also remain unchanged between years and no property acquisitions occurred in 2006.

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	
	2006	2005
Current and other assets	\$410,808,820	\$385,834,718
Restricted assets	8,826,024	8,805,491
Capital assets	18,160,975	18,160,975
Total assets	\$437,795,819	\$412,801,184
Long-term liabilities outstanding	21,287,421	29,442,115
Other liabilities	7,390,987	9,070,344
Total liabilities	\$28,678,408	\$38,512,459
Net assets:		
Invested in capital assets, net of related debt	18,160,975	18,160,975
Restricted	35,403,029	35,395,273
Unrestricted	355,553,407	320,732,477
Total net assets	\$409,117,411	\$374,288,725

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2006**

Total liabilities decreased by \$9.8 million, or 25.5 percent, to \$28.7 million at June 30, 2006 compared to \$38.5 on June 30, 2005. The reduction is primarily due to the repayment of limited tax bonds in the amount of \$8.1 million.

Net assets increased by \$34.8 million, or 9.3 percent, to \$409.1 million at June 30, 2006, the result of revenues exceeding expenses by that amount in 2006.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY		
CHANGES IN NET ASSETS		
	Governmental Activities	
	2006	2005
Revenues:		
Program revenues		
Charges for services	\$891,822	\$992,292
Operating grants/contributions	1,785,460	1,171,152
General revenues		
Sales tax	63,811,468	59,953,123
Investment earnings and others	9,709,555	9,592,466
Total revenues	\$76,198,305	\$71,709,033
Expenses:		
Public transit	\$19,255,115	\$21,374,724
Streets and highways	19,452,328	22,417,266
Others	2,662,176	2,408,515
Total expenses	\$41,369,619	\$46,200,505
Change in net assets	\$34,828,686	\$25,508,528
Net assets - July 1, 2005	374,288,725	348,780,197
Net assets - June 30, 2006	\$409,117,411	\$374,288,725

Governmental Activities

Total expenses for governmental activities were \$41.4 million in 2006, a decrease of \$4.8 million, or 10.5 percent, compared to 2005. The functional components of total expenses are public transit (46.5 percent), streets and highways (47.0 percent) and other programs (6.5 percent). The following are the highlights of the Authority's governmental activities:

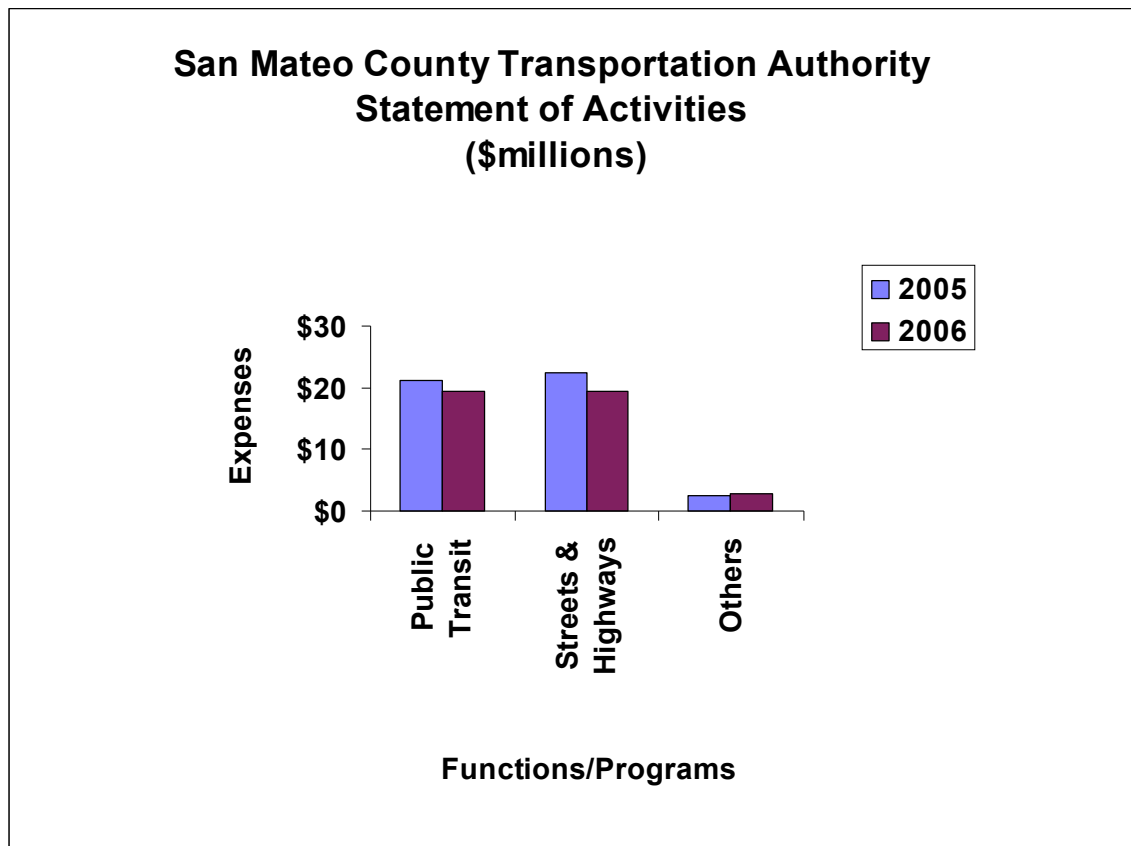
- Sales tax revenue increased by \$3.9 million, or 6.4 percent, to \$63.8 million in 2006 over 2005. This positive performance is an indication that the economy is slowly recovering from its decline of recent years. Consequently, the Authority's distribution of construction funds to local entities, set at 20.0 percent of sales tax revenue, increased by \$0.8 million to \$12.8 million in 2006 over 2005.
- Investment earnings and other revenues of \$9.7 million in 2006 exceeded 2005 results by a modest \$0.1 million, or 1.2 percent. Although actual interest from investments for 2006 increased by \$3.3 million compared to prior year, it was offset by a \$3.3 million increase in unrealized loss to adjust investments to the "mark-to-market" requirements of GASB 31. The GASB 31 adjustment for 2005 was also a loss but only in the amount of \$1.9 million.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2006**

- Expenses for public transit projects in 2006 decreased by \$2.1 million to \$19.3 million, or 9.9 percent, compared to 2005. Most of these expenses funded capital improvements for Caltrain rail service.
- Spending for streets and highways in 2006 decreased by \$3.0 million, or 13.2 percent, to \$19.5 million compared to 2005 mainly because most of the capital work done for streets and highways were related to design. Once construction activities resume, capital expenditure is expected to increase.

Financial Analysis of the Authority's Funds

At June 30, 2006, governmental funds reported combined fund balances of \$412.3 million, an increase of \$26.6 million, or 6.9 percent, higher than June 30, 2005. The total unreserved fund balances represent \$376.9 million, or 91.4 percent, of the total governmental fund 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.



**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2006**

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 \$377.2 million on June 30, 2006, an increase of \$28.7 million, or 8.2 percent, over June 30, 2005, as sales tax revenue exceeded expenditures during 2006. Of the total fund balance, \$369.1 million, or 97.9 percent, 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, 2006, the estimated cost to complete on-going projects is \$206.3 million, or 55.9 percent, of unreserved fund balance.

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 are also reported in this fund. At June 30, 2006, the *Paratransit Special Revenue Fund* had a fund balance of \$3.2 million, all of which is designated for Paratransit programs.

The *Debt Service Fund* ended 2006 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 2006 was minimal.

At June 30, 2006, the combined fund balances of *Other Governmental Funds* are \$29.6 million, which is \$0.4 million, or 1.4 percent, lower than June 30, 2005. The *Paratransit Permanent Fund* at \$25.0 million on June 30, 2006 represents 84.5 percent of the *Other Governmental Funds* combined fund balance and is not available for expenditure. The remaining balance of \$4.6 million is the balance of 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 77.4 percent of the *Special Revenue Fund's* total budgeted revenue for 2006. Actual sales tax revenue for the year was \$54.5 million, which exceeded the budget by \$5.5 million or 11.2 percent.

Total investment income for the *Special Revenue Fund* totaled \$14.3 million in 2006. It exceeded the budget by \$3.4 million, or 30.6 percent, mainly due to higher than anticipated interest rates.

Program administration cost for the *Special Revenue Fund* was over budget by a very minimal amount.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2006**

The Authority spent \$22.3 million, or 39.8 percent, of its final 2006 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 2005 is not included in the 2006 *Budgetary Comparison Schedule*.

Capital Projects

The Authority spent \$22.3 million on capital projects in 2006, a decrease of \$7.6 million, or 25.5 percent, compared to 2005. Following are the major capital expenditures:

- Studies and design costs associated with the grade separation projects for San Bruno Avenue in San Bruno and Linden Avenue in South San Francisco (\$5.5 million).
- Funding for the 2006 local capital match requirement assessed to San Mateo County according to the Caltrain Joint Powers Agreement (\$3.9 million).
- Funding for the capitalized start-up costs incurred to implement the Baby Bullet service (\$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 (\$2.2 million).
- Design costs of proposed improvements on State Route 92 in the City of Half Moon Bay (\$1.9 million).
- Preliminary engineering and environmental studies for the Dumbarton Rail Corridor (\$1.3 million).
- Construction costs of a new maintenance, storage and operations facility in San Jose for Caltrain locomotives and passenger cars (\$1.2 million).
- Construction of improvements to the Hillsdale station in San Mateo (\$1.1 million).

More information on the Authority's capital asset activity appears in *Notes #16 and #17 – Capital Outlay and Construction Commitments* beginning on page 36 of the *Notes to the Financial Statements*.

Debt

At June 30, 2006, the Authority had \$17.3 million in outstanding bonds compared to \$25.4 million at June 30, 2005, a decrease of \$8.1 million, or 31.9 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 as of the end of fiscal year 2006 was \$0.5 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.

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 4.0 percent by June 2006. Consequently, consumer spending increased in 2004 and 2005 but, more so in 2006, resulting in the Authority achieving \$63.8 million in sales tax revenue for all funds during fiscal year June 30, 2006. 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 Ave., P.O. Box 3006, San Carlos, California, 94070-1306.

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BASIC FINANCIAL STATEMENTS
Government-Wide Financial Statements

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY
STATEMENTS OF NET ASSETS
JUNE 30, 2006 AND 2005

	Governmental Activities	
	2006	2005
ASSETS		
Cash and investments (Note 2)	\$ 385,657,059	\$ 363,015,158
Receivables:		
Sales tax (Note 3)	11,914,534	11,713,462
Interest (Note 4)	5,085,143	3,479,007
Note (Note 5)	7,231,163	7,231,163
Other (Note 6)	737,365	202,133
Prepaid expenses	183,556	193,795
Restricted assets (Notes 2 & 7)	8,826,024	8,805,491
Capital assets (Note 8)		
Non-depreciable	18,160,975	18,160,975
Total Assets	<u>\$ 437,795,819</u>	<u>\$ 412,801,184</u>
LIABILITIES		
Accounts payable (Note 9)	\$ 3,147,499	\$ 1,203,068
Accrued liabilities (Note 10)	4,191,771	7,352,553
Deferred revenue (Note 11)	12,619	482,165
Deposits	39,098	32,558
Long-term liabilities (Note 12):		
Due within one year	8,475,000	8,115,000
Due beyond one year	12,812,421	21,327,115
Total Liabilities	<u>28,678,408</u>	<u>38,512,459</u>
NET ASSETS		
Invested in capital assets, net of related debt	18,160,975	18,160,975
Restricted for (Notes 1 & 13):		
Debt service	10,403,029	10,395,273
Paratransit programs - nonexpendable	25,000,000	25,000,000
Unrestricted (Note 13)	355,553,407	320,732,477
Total Net Assets	<u>409,117,411</u>	<u>374,288,725</u>
Total Liabilities and Net Assets	<u>\$ 437,795,819</u>	<u>\$ 412,801,184</u>

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2006 AND 2005

	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets	
		Charges for Services	Operating Contributions and Grants	2006	2005
Governmental Activities:					
Public Transit					
Upgrades and extensions	\$ 9,274,721	\$ -	\$ -	\$ (9,274,721)	\$ (14,435,532)
Grade separations	5,016,413	731,128	-	(4,285,285)	(3,819,899)
Paratransit	2,358,200	-	636,089	(1,722,111)	(187,291)
Dumbarton spur	1,595,377	160,694	1,149,371	(285,312)	(142,794)
Street and highways					
Distributions to local entities	12,762,294	-	-	(12,762,294)	(11,990,624)
Projects funding	6,690,034	-	-	(6,690,034)	(10,426,642)
Caltrain shuttle program	1,010,404	-	-	(1,010,404)	(625,764)
Transportation systems management	408,170	-	-	(408,170)	(400,170)
Program administration	1,132,804	-	-	(1,132,804)	(550,769)
Interest on long-term debt	1,121,202	-	-	(1,121,202)	(1,457,576)
Total Governmental Activities	<u>\$ 41,369,619</u>	<u>\$ 891,822</u>	<u>\$ 1,785,460</u>	<u>(38,692,337)</u>	<u>(44,037,061)</u>
General Revenues:					
Sales tax				63,811,468	59,953,123
Unrestricted investment earnings				9,548,579	9,591,069
Other income				160,976	1,397
Total General Revenues				<u>73,521,023</u>	<u>69,545,589</u>
Change in Net Assets				34,828,686	25,508,528
Net Assets at Beginning of Year				374,288,725	342,124,197
Prior year restatement (Note 19)				-	6,656,000
Net Assets at End of Year				<u>\$ 409,117,411</u>	<u>\$ 374,288,725</u>

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

BASIC FINANCIAL STATEMENTS
Fund Financial Statements

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006 AND 2005

	Special	Special	Debt	Other	Total Governmental	
	Revenue	Revenue	Service	Governmental	Funds	
	Fund	Fund	Fund	Funds	2006	2005
ASSETS						
Cash and investments (Note 2)	\$ 351,590,071	\$ 4,403,334	\$ 56,451	\$ 29,607,203	\$ 385,657,059	\$ 363,015,158
Receivables:						
Sales tax (Note 3)	10,370,931	-	1,543,603	-	11,914,534	11,713,462
Interest (Note 4)	4,785,304	299,839	-	-	5,085,143	3,479,007
Note (Note 5)	7,231,163	-	-	-	7,231,163	7,231,163
Other (Note 6)	737,365	-	-	-	737,365	202,133
Prepaid	183,556	-	-	-	183,556	193,795
Restricted assets (Notes 2 & 7)	8,054,049	-	771,975	-	8,826,024	8,805,491
Total Assets	\$ 382,952,439	\$ 4,703,173	\$ 2,372,029	\$ 29,607,203	\$ 419,634,844	\$ 394,640,209
LIABILITIES						
Accounts payable (Note 9)	1,557,474	1,524,260	-	-	3,081,734	1,107,588
Accrued liabilities (Note 10)	4,165,242	-	-	26,529	4,191,771	7,352,553
Deferred revenue (Note 11)	12,619	-	-	-	12,619	482,165
Deposits	39,098	-	-	-	39,098	32,558
Total Liabilities	5,774,433	1,524,260	-	26,529	7,325,222	8,974,864
FUND EQUITY						
Fund Balances:						
Reserved for (Notes 1 & 13):						
Debt service	8,031,000	-	2,372,029	-	10,403,029	10,395,273
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	206,277,759	-	-	-	206,277,759	172,497,968
Future Measure A Projects	162,869,247	-	-	-	162,869,247	167,994,274
Paratransit programs	-	3,178,913	-	-	3,178,913	4,788,986
Nonmajor special revenue funds						
Designated	-	-	-	4,580,674	4,580,674	4,988,844
Total Fund Balances	377,178,006	3,178,913	2,372,029	29,580,674	412,309,622	385,665,345
Total Liabilities and						
Fund Balances	\$ 382,952,439	\$ 4,703,173	\$ 2,372,029	\$ 29,607,203	\$ 419,634,844	\$ 394,640,209

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, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Fund Balances - Total Governmental Funds	\$ 412,309,622	\$ 385,665,345
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets of governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	18,160,975	18,160,975
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is paid. On the government-wide statements, unmatured interest on long-term debt is recognized as it accrues.	(65,765)	(95,480)
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	(17,330,000)	(25,445,000)
Cumulative rebate liability	(507,421)	(386,139)
Loan from State of California	(3,450,000)	(3,450,000)
Other	-	(160,976)
Subtotal	<u>(21,287,421)</u>	<u>(29,442,115)</u>
Net Assets of Governmental Activities	<u>\$ 409,117,411</u>	<u>\$ 374,288,725</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, 2006 AND 2005

	Special Revenue Fund	Special Revenue Paratransit Fund	Debt Service Fund	Other Governmental Fund	Total	
					2006	2005
REVENUES						
Sales tax	\$ 54,549,967	\$ -	\$ 9,261,500	\$ -	\$ 63,811,467	\$ 59,953,123
Investment income (Note 14)	9,545,652	748,127	12,171	-	10,305,950	10,399,675
Rental income	891,822	-	-	-	891,822	993,693
Grant proceeds	1,149,371	-	-	-	1,149,371	478,680
Total Revenues	66,136,812	748,127	9,273,671	-	76,158,610	71,825,171
EXPENDITURES						
Current:						
Staff support (Note 15)	417,951	-	-	-	417,951	350,191
Board compensation	5,600	-	-	-	5,600	7,200
Professional and legal fees	115,252	-	-	-	115,252	121,629
Other services and supplies	58,179	-	5,150	-	63,329	38,559
Travel and meeting	3,655	-	-	-	3,655	5,954
Debt Service:						
Principal	-	-	8,115,000	-	8,115,000	7,780,000
Interest	-	-	1,145,765	-	1,145,765	1,480,305
Total current	600,637	-	9,265,915	-	9,866,552	9,783,838
Distribution to local entities	12,762,296	2,358,200	-	408,170	15,528,666	13,270,561
Caltrain shuttles program	1,010,404	-	-	-	1,010,404	712,000
Dumbarton corridor maintenance	246,336	-	-	-	246,336	230,960
Election costs	520,724	-	-	-	520,724	-
Measure A information	11,443	-	-	-	11,443	32,386
Capital outlays (Note 16)	22,330,208	-	-	-	22,330,208	29,978,644
Total Expenditures	37,482,048	2,358,200	9,265,915	408,170	49,514,333	54,008,389
Excess (Deficiency) of Revenues						
Over Expenditures	28,654,764	(1,610,073)	7,756	(408,170)	26,644,277	17,816,782
Net Change in Fund Balances	28,654,764	(1,610,073)	7,756	(408,170)	26,644,277	17,816,782
Fund Balances, Beginning of Year	348,523,242	4,788,986	2,364,273	29,988,844	385,665,345	367,848,563
Fund Balances, End of Year	\$ 377,178,006	\$ 3,178,913	\$ 2,372,029	\$ 29,580,674	\$ 412,309,622	\$ 385,665,345

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, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Amounts reported for governmental activities in the statement of activities are different because:		
Net Changes in fund balances - total governmental funds	\$ 26,644,277	\$ 17,816,782
Repayment of Limited Tax Bonds principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	8,115,000	7,780,000
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.	29,715	27,879
An accrued contingency related to a construction project has been settled by the State on behalf of the Authority. The amount was recorded as a revenue on the governmental funds but reduces long-term liabilities in the statement of net assets	160,976	-
Some expenses do not require use of current financial resources and therefore, are not recorded in governmental funds, but increase long-term liabilities in the statement of net assets.		
Increase in cumulative rebate liability	<u>(121,282)</u>	<u>(116,133)</u>
Change in Net Assets of Governmental Activities	<u>\$ 34,828,686</u>	<u>\$ 25,508,528</u>

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

BASIC FINANCIAL STATEMENTS
Notes to the Basic Financial Statements

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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 (“District”) was designated as the entity responsible for overall management of the Authority.

B. Implementation of Governmental Accounting Standards Board Statements

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. The Authority adopted the provisions of GASB 42 during fiscal year 2005-2006. This statement did not have an impact on the Authority’s financial statements.

GASB Statement No. 43 - In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes accounting and financial reporting standards for plans that provide postemployment benefits other than pension benefits (known as other postemployment benefits or OPEB). This statement is not effective until June 30, 2007. This statement is not expected to have a significant impact on the financial statements of the 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. The Authority adopted the provisions of GASB 44 during fiscal year 2005-2006.

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

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

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 adopted the provisions of GASB 46 during fiscal year 2005-2006. This statement did not have an impact on the Authority's financial statements.

GASB Statement No. 47 - In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes accounting guidance and disclosure requirements for termination benefit arrangements. This statement is effective in two parts. For termination benefits provided through an existing defined Other Postemployment Benefit plan (OPEB), the provisions should be implemented simultaneously with GASB Statement No. 45. For all other termination benefits, this Statement is effective for periods beginning after June 15, 2005. The 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 clarified 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.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

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

D. Basis of Accounting (Continued)

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

E. Non-Current Governmental Assets/Liabilities

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

F. Interfund Balances

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

G. Prepaid Expenditures

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

H. Cash and Investments

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

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

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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

I. Capital Assets

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

Construction projects financed by the 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.

J. Comparative Data

The comparative data for fiscal year ended June 30, 2005 provided on these financial statements is not required for a fair presentation of the financial statements, but is presented as additional analytical data.

K. Reclassifications

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE #2 – DEPOSITS AND INVESTMENTS

The deposits and investments as of June 30, 2006 and 2005 are as follows:

	Fair Value	
	2006	2005
Cash and Investments		
Special Revenue Fund		
Cash and Cash Equivalents		
Bank Balance	\$ 405,280	\$ 255,612
Investment in San Mateo County Investment Pool	326,080,308	291,159,505
Investment in Local Agency Investment Fund	4,483	4,334
	<u>326,490,071</u>	<u>291,419,451</u>
Investments	25,100,000	36,100,250
Total Special Revenue Fund	<u>351,590,071</u>	<u>327,519,701</u>
Paratransit Special Revenue Fund		
Cash and Cash Equivalents		
Investment in San Mateo County Investment Pool	4,403,334	5,431,197
Debt Service Fund		
Cash and Cash Equivalents		
Bank Balance	56,451	49,429
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	4,607,203	5,014,831
Total Other Governmental Funds	<u>29,607,203</u>	<u>30,014,831</u>
Total Cash and Investments	<u>\$ 385,657,059</u>	<u>\$ 363,015,158</u>
Restricted Assets (See Note 7)		
Special Revenue Fund		
Investments in U.S. Treasury Securities	\$ 7,865,481	\$ 7,838,115
Money Market Funds	188,568	195,645
Total Special Revenue Fund	<u>8,054,049</u>	<u>8,033,760</u>
Debt Service Fund		
Investment in Trustee's Pool	771,975	771,731
Total Restricted Assets	<u>\$ 8,826,024</u>	<u>\$ 8,805,491</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE #2 – DEPOSITS AND INVESTMENTS (continued)

The Authority's cash and investments as of June 30, 2006 and 2005 are as follows:

	2006	2005
Deposits with financial institutions	\$ 1,422,274	\$ 1,272,417
Deposits in external investment pools	360,095,328	326,609,867
Investments	32,965,481	43,938,365
	<u>\$ 394,483,083</u>	<u>\$ 371,820,649</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, 2006 AND 2005

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 County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Disclosures Relating to Interest Rate Risk

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

As of June 30, 2006, the Authority’s investments are as follows:

Investment Type	Amount	Maturity Date
US Treasury Notes	\$ 15,046,875	10/15/2006
US Treasury Notes	10,053,125	2/15/2008
US Treasury Bill	7,865,481	11/30/2006
	<u>\$ 32,965,481</u>	

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The 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 beyond that stipulated by the California Government Code.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, 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, 2006 AND 2005

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 \$366,745,947 and \$329,020,511 at June 30, 2006 and 2005, respectively, that is recorded at \$360,090,845 and \$326,605,533 on the balance sheet before the adjustment for unrealized gains/losses for years ending 2006 and 2005 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 \$4,483 and \$4,333 at fiscal years ending 2006 and 2005, respectively. The fair value change in this investment for the year came to an amount that was not material for presentation in the financial statements.

The LAIF is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee, comprised of California State officials and various participants, provide oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office. The 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, 2006.

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, 2006 AND 2005

NOTE #5 – NOTE RECEIVABLE

The note receivable is for the amount drawn by a project lead agency (the City of South San Francisco) 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, 2006 and 2005, the amount outstanding was \$7,231,163 and \$7,231,163 respectively.

NOTE #6 – OTHER RECEIVABLES

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

	2006	2005
Metropolitan Transportation Commission	\$ 157,375	\$ 62,815
City of Belmont	69,921	-
County of San Mateo	-	61,990
San Mateo County Transit District (SamTrans)	28,133	16,429
Peninsula Joint Powers Board	70,684	-
Alameda County Transportation Improvement Authority	239,374	30,373
Santa Clara Valley Transportation Authority	166,220	30,374
Other	5,658	152
Total Other Receivables	<u>\$ 737,365</u>	<u>\$ 202,133</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, 2006 AND 2005

NOTE #8 – CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2006 are as follows:

	Balance at July 1, 2005 (as restated)	Additions	Deletions	Balance at June 30, 2006
Capital Assets Not Being depreciated				
Land	\$ 18,160,975	\$ -	\$ -	\$ 18,160,975

Land represents the cost of right-of-way acquisitions for future grade separation projects as well as for corridor preservation purposes. At the beginning of fiscal year 2005, the Authority restated the beginning Capital Asset amounts as discussed in Note 19.

NOTE #9 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2006 and 2005 are as follows:

	2006	2005
Salaries and benefits	\$ 126,339	\$ 83,507
Capital Projects	887,194	-
Shuttle Program	245,518	112,282
Paratransit Program	1,524,260	879,765
Other	298,423	32,034
Total reported on Governmental	3,081,734	1,107,588
Interest Accrual	65,765	95,480
Total reported on Entity-Wide	\$ 3,147,499	\$ 1,203,068

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE #10 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2006 and 2005 are as follows:

	2006	2005
Disbursement to local entities for transportation projects	\$ 2,384,824	\$ 2,863,116
Capital projects	1,772,487	4,438,204
TSM Programs	26,529	25,987
Other	7,931	25,246
Total	\$ 4,191,771	\$ 7,352,553

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 was being amortized over the life of the related limited tax bonds. In fiscal year 2006, the Authority determined that the fee received had no legal restriction; therefore, the unamortized balance was recognized as revenue in the current fiscal year. The amount of \$482,165 is included as additional investment income in the Government Wide Financial Statements and the 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.

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, 2006 AND 2005

NOTE #12 – LONG-TERM LIABILITIES (continued)

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, 2006 and 2005, the cumulative rebate liability as calculated by the bond counsel was \$507,421 and \$386,139 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, 2006, are as follows:

Year Ending June 30,	Principal	Interest
2007	\$ 8,475,000	\$ 788,705
2008	8,855,000	407,330
Total	<u>\$ 17,330,000</u>	<u>\$ 1,196,035</u>

Loan from State

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

Other Long Term Payable

The prior year's liability of \$160,976 related to a cost sharing agreement of a disputed claim was settled in fiscal year 2006. The Authority made no payments since the claim was settled exclusively by the State.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE #12 – LONG-TERM LIABILITIES (continued)

Summary of long- term liabilities as of June 30, 2006, are as follows:

	Balance at July 1, 2005	Adjustments/ Additions	Deletions	Balance at June 30, 2006	Amounts Due within One Year
Governmental					
Activities					
Limited Tax Series					
1997A Bonds issued in					
August 1997	\$ 25,445,000	\$ -	\$ 8,115,000	\$ 17,330,000	\$ 8,475,000
Cumulative rebate					
liability on arbitrage					
earnings	386,139	121,282	-	507,421	-
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>\$ 29,442,115</u>	<u>\$ 121,282</u>	<u>\$ 8,275,976</u>	<u>\$ 21,287,421</u>	<u>\$ 8,475,000</u>
				\$ 8,475,000	
				<u>12,812,421</u>	
				<u>\$ 21,287,421</u>	

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.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE #13 – NET ASSETS/FUND BALANCE (continued)

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

Unrestricted Net Assets - This category represents net assets of the Authority available for projects and other purposes specified under Measure A. Of the \$355,553,407 unrestricted amount, \$206,277,759 has been appropriated for current Measure A projects as of June 30, 2006.

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:

- \$ 369,147,006 in the major Special Revenue Fund designated for projects and other purposes specified under Measure A. As of June 30, 2006, \$206,277,759 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 \$3,178,913 to the fund pursuant to Board Resolutions 1999-19, 2000-32, 2002-11, 2003-12 and 2005-05 and investment earnings.
- The TSM Special Revenue Fund's balance set-aside for TSM programs.

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE #14 – INVESTMENT INCOME

Investment income is as follows:

	<u>2006</u>	<u>2005</u>
Interest income	\$ 15,304,868	\$ 12,141,665
Net decrease in fair value of investments	<u>(5,120,200)</u>	<u>(1,858,123)</u>
Investment income - statement of activities (see below)	10,184,668	10,283,542
Increase in cumulative rebate liability	<u>121,282</u>	<u>116,133</u>
Investment income - statement of revenues, expenditures and changes in fund balance	<u>\$ 10,305,950</u>	<u>\$ 10,399,675</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	\$ 636,089	\$ 692,473
Unrestricted investment earnings	<u>9,548,579</u>	<u>9,591,069</u>
	<u>\$ 10,184,668</u>	<u>\$ 10,283,542</u>

NOTE #15 – STAFF SUPPORT EXPENDITURE

Staff support expenditures is as follows:

	<u>2006</u>	<u>2005</u>
Salaries and benefits	\$ 326,954	\$ 552,702
Other related charges	280	4,934
Indirect costs	90,717	336,567
Costs allocated to projects	-	(544,012)
Total	<u>\$ 417,951</u>	<u>\$ 350,191</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE #16 – CAPITAL OUTLAY

The expenditure on public transportation projects during the 2006 fiscal year was \$22,330,208. Total expenditures on such projects from inception through June 30, 2006 and 2005 are as follows:

	2006	2005
Dumbarton Spur	\$ 18,190,090	\$ 16,841,049
CalTrain-Downtown Extension	104,940,946	95,666,225
Railroad Grade Separations	142,003,309	136,986,896
Streets and Highways	120,899,944	114,399,310
Oversight and Bicycle	1,947,422	1,758,023
Total	<u>\$ 387,981,711</u>	<u>\$ 365,651,503</u>

The Dumbarton Spur expenditure of \$18,144,188 was partially financed by a state loan of \$3,450,000. Of the total expenditures of \$387,981,711 for capital outlay, \$2,894,107 was funded by contributions from external entities.

NOTE #17 – CONSTRUCTION COMMITMENTS

At June 30, 2006 and 2005, the Authority estimated the cost to complete the following unfinished projects:

Capital Project	Remaining Project Commitment	
	2006	2005
Dumbarton Spur	\$ 4,676,126	\$ 6,025,167
CalTrain-Downtown Extension	23,719,303	13,554,024
Railroad Grade Separations	34,619,883	15,776,296
Streets and Highways	142,640,366	136,791,000
Oversight	622,081	351,481
Total	<u>\$ 206,277,759</u>	<u>\$ 172,497,968</u>

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

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.

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE #19 – PRIOR PERIOD ADJUSTMENT

During fiscal year 2006, the Authority's management determined that \$6,656,000 related to the acquisition of some property in 1996, had not been reflected on the Authority's statement of net assets in prior years. As a result of this determination, the Authority has restated beginning net assets as of July 1, 2004 to reflect this change.

NOTE #20 – SUBSEQUENT EVENT

On November 3, 2005, the Board of Directors approved the sale of approximately four acres of property owned by the Authority located at the northeast corner of Holly Street and El Camino Real in the City of San Carlos to the San Mateo County Transit District (SamTrans). The property had been acquired by the Authority for the purpose of constructing a railroad grade separation structure. That project having been completed, and taking into account the intended use of the property for transit oriented development of benefit to the Caltrain rail system, the Board of Directors agreed to sell the property to SamTrans at the original cost of acquisition by the Authority (\$4,343,404). Under the terms of the transaction, SamTrans will be permitted to pay the purchase price over time subject to the payment of interest prospectively at the then current rate of return earned by the Authority on its investment portfolio until the principal is paid in full. It is anticipated that the transaction will close during Fiscal Year 2006-07.

REQUIRED SUPPLEMENTARY INFORMATION

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**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Budgetary Fund Balance, Beginning of Year	\$ 283,780,178	\$ 307,862,935	\$ 351,627,378	\$ 43,764,443
Resources (inflows)				
Sales tax	49,049,500	49,049,500	\$ 54,549,967	5,500,467
Investment income	10,988,290	10,988,290	14,347,441	3,359,151
Rental income	936,700	936,700	891,822	(44,878)
Grant proceeds	2,407,500	2,407,500	1,149,371	(1,258,129)
Amounts Available for Appropriation	<u>63,381,990</u>	<u>63,381,990</u>	<u>70,938,601</u>	<u>7,556,611</u>
Charges to appropriations (outflows)				
Program Administration				
Staff support	319,203	344,468	417,671	(73,203)
Board compensation	9,300	9,300	6,010	3,290
Professional and legal fees	145,000	145,000	115,252	29,748
Other services and supplies	10,330	65,330	58,049	7,281
Travel and meeting	9,220	9,220	3,655	5,565
	<u>493,053</u>	<u>573,318</u>	<u>600,637</u>	<u>(27,319)</u>
Distribution to local entities	11,662,060	11,662,060	12,762,296	(1,100,236)
Caltrain shuttles program	1,473,898	1,473,898	1,010,404	463,494
Dumbarton corridor maintenance	323,500	298,235	246,336	51,899
Election costs	-	520,724	520,724	-
Measure A information	125,000	70,000	11,443	58,557
Capital outlays	24,870,000	56,110,000	22,330,208	33,779,792
Total Charges to Appropriations	<u>38,947,511</u>	<u>70,708,235</u>	<u>37,482,048</u>	<u>33,226,187</u>
Budgetary Fund Balance, End of Year	<u>\$ 308,214,657</u>	<u>\$ 300,536,690</u>	<u>\$ 385,083,931</u>	<u>\$ 84,547,241</u>
Explanation of Differences Between Budgetary Inflows and GAAP Revenues				
Actual amounts available for appropriation - budgetary basis from above				\$ 70,938,601
Unrealized losses under GASB 31				<u>(4,801,789)</u>
Total revenues in the Statement of Revenues, Expenditures and Changes in Fund Balances - GAAP basis				<u>\$ 66,136,812</u>

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

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
PARATRANSIT SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2006**

	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	833,940	833,940	1,066,538	232,598
Amounts Available for Appropriation	833,940	833,940	1,066,538	232,598
Charges to appropriation (outflows)				
Distribution to local entities	2,358,200	2,358,200	2,358,200	-
Total Charges to Appropriations	2,358,200	2,358,200	2,358,200	-
Budgetary Fund Balance, End of Year	<u>\$ 3,489,740</u>	<u>\$ 3,489,740</u>	<u>\$ 3,722,338</u>	<u>\$ 232,598</u>

Explanation of Differences Between Budgetary Inflows and GAAP Revenues

Actual amounts available for appropriation - budgetary basis from above	\$ 1,066,538
Unrealized losses under GASB 31	(318,411)
Total revenues in the Statement of Revenues, Expenditures and Changes in Fund Balances - GAAP basis	<u>\$ 748,127</u>

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

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY SCHEDULE
JUNE 30, 2006**

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.

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OTHER SUPPLEMENTAL INFORMATION

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006 AND 2005

	Special Revenue	Permanent	Total Nonmajor Governmental Funds	
	Transportation System Management Fund	Paratransit Fund	2006	2005
ASSETS				
Cash and investments	\$ 4,607,203	\$ 25,000,000	\$ 29,607,203	\$ 30,014,831
Total Assets	<u>\$ 4,607,203</u>	<u>\$ 25,000,000</u>	<u>\$ 29,607,203</u>	<u>\$ 30,014,831</u>
LIABILITIES				
Accrued liabilities	26,529	-	26,529	25,987
Total Liabilities	<u>26,529</u>	<u>-</u>	<u>26,529</u>	<u>25,987</u>
FUND BALANCES				
Reserved	-	25,000,000	25,000,000	25,000,000
Unreserved:				
Designated	4,580,674	-	4,580,674	4,988,844
Total Fund Balances	<u>4,580,674</u>	<u>25,000,000</u>	<u>29,580,674</u>	<u>29,988,844</u>
Total Liabilities and Fund Balances	<u>\$ 4,607,203</u>	<u>\$ 25,000,000</u>	<u>\$ 29,607,203</u>	<u>\$ 30,014,831</u>

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 2006 AND 2005**

	Special Revenue	Permanent	Total Nonmajor Governmental Funds	
	Transportation System Management Fund	Paratransit Fund	2006	2005
REVENUES				
Interest	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Distribution to local entities	408,170	-	408,170	400,170
Total Expenditures	408,170	-	408,170	400,170
Net Change in Fund Balances	(408,170)	-	(408,170)	(400,170)
Fund Balances, Beginning of Year	4,988,844	25,000,000	29,988,844	30,389,014
Fund Balances, End of Year	<u>\$ 4,580,674</u>	<u>\$ 25,000,000</u>	<u>\$ 29,580,674</u>	<u>\$ 29,988,844</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance,				
Beginning of Year	\$ 2,366,640	\$ 2,366,640	\$ 2,364,273	\$ (2,367)
Resources (inflows)				
Sales tax	9,260,800	9,260,800	9,261,500	700
Investment income	7,800	7,800	12,171	4,371
Amounts Available for Appropriation	<u>9,268,600</u>	<u>9,268,600</u>	<u>9,273,671</u>	<u>5,071</u>
Charges to appropriations (outflows)				
Bond principal payment	8,115,000	8,115,000	8,115,000	-
Bond interest expense	1,145,760	1,145,760	1,145,765	(5)
Other services	5,200	5,200	5,150	50
Total Charges to Appropriations	<u>9,265,960</u>	<u>9,265,960</u>	<u>9,265,915</u>	<u>45</u>
Budgetary Fund Balance, End of Year	<u>\$ 2,369,280</u>	<u>\$ 2,369,280</u>	<u>\$ 2,372,029</u>	<u>\$ 2,749</u>

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
NONMAJOR GOVERNMENTAL FUNDS
TRANSPORTATION SYSTEM MANAGEMENT FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance,				
Beginning of Year	\$ 4,988,814	\$ 4,988,814	\$ 4,988,844	\$ 30
Charges to appropriations (outflows)				
Distribution to local entities	408,170	408,170	408,170	-
Total Charges to Appropriations	408,170	408,170	408,170	-
Budgetary Fund Balance,				
End of Year	\$ 4,580,644	\$ 4,580,644	\$ 4,580,674	\$ 30

Section III

STATISTICAL

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

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- **Population and Income**
- **Unemployment Rates**
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Operating Information

- **Capital Outlay**
- **Employees**
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SAN MATEO COUNTY TRANSPORTATION AUTHORITY
FINANCIAL TRENDS – NET ASSETS AND CHANGES IN NET ASSETS
FY 2002 through FY 2006 (In thousands)

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

Source: Prior year's comprehensive annual financial reports

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
FINANCIAL TRENDS – GOVERNMENTAL FUNDS
FUND BALANCES AND CHANGES IN FUND BALANCES
FY 1997 through FY 2006 (In thousands)

Fiscal years	2006	2005	2004	2003	2002
REVENUES					
Sales tax	63,811	59,953	55,394	54,855	57,161
Investment income	10,306	10,400	1,251	17,672	17,712
Rental income	892	994	870	715	635
Grant proceeds	1,149	479	1,060	293	-
Proceeds from sale of properties	-	-	-	-	-
Non-Operating reimbursements	-	-	-	-	-
Other income	-	-	-	4	1
Total Revenue	76,159	71,825	58,575	73,538	75,509
EXPENDITURES					
Current:					
Staff support	418	350	359	450	480
Board compensation	6	7	6	7	7
Professional and legal fees	115	122	89	61	52
County services	-	-	-	25	25
Other services and supplies	63	39	53	34	29
Travel and meeting	4	6	7	7	7
Leases and rental	-	-	-	-	-
Bond issuance cost	-	-	-	-	-
Debt Service:					
Principal	8,115	7,780	7,465	7,175	6,890
Interest	1,146	1,480	1,794	2,088	2,371
Total current	9,867	9,784	9,773	9,846	9,861
Distribution to local entities	15,529	13,271	14,307	12,528	13,925
Special Allocation to SamTrans	-	-	-	1,900	-
Caltrain Shuttles Program	1,010	712	835	623	176
Dumbarton corridor maintenance	246	231	287	270	-
Measure A information	11	32	-	-	-
2004 Election	521	-	-	-	-
Capital outlays	22,330	29,979	24,608	28,348	30,138
Total Expenditures	49,514	54,008	49,811	53,514	54,100
Excess (Deficiency) of Revenues					
Over Expenditures	26,644	17,817	8,765	20,024	21,409
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of bonds	-	-	-	-	-
Transfer in	-	-	1,795	2,091	-
Transfer out	-	-	(1,795)	(2,091)	-
Total Other Financing Sources (Uses)	-	-	-	-	-
NET CHANGE IN FUND BALANCES	26,644	17,817	8,765	20,024	21,409
FUND BALANCE					
Reserved	35,403	35,395	35,395	35,398	35,397
Unreserved	376,907	350,270	332,454	323,686	303,663
TOTAL ENDING FUND BALANCE	412,310	385,665	367,849	359,084	339,060

Source: Prior year's comprehensive annual financial reports

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
FINANCIAL TRENDS – GOVERNMENTAL FUNDS
FUND BALANCES AND CHANGES IN FUND BALANCES
FY 1997 through FY 2006 (In thousands)

<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
66,746	63,062	54,351	51,435	47,519
21,674	11,219	12,321	13,413	6,032
526	489	460	475	478
-	-	-	-	-
-	-	996	3,852	-
-	21	-	-	-
358	2	28	52	78
<u>89,304</u>	<u>74,792</u>	<u>68,156</u>	<u>69,228</u>	<u>54,107</u>
374	381	252	270	208
5	6	3	4	3
53	63	39	46	34
24	30	19	13	13
38	54	63	22	24
5	4	3	3	2
-	-	33	33	32
-	-	-	664	-
6,625	6,370	6,125	6,435	-
2,636	2,890	3,135	2,639	-
<u>9,759</u>	<u>9,798</u>	<u>9,672</u>	<u>10,129</u>	<u>316</u>
16,250	14,393	12,800	11,963	11,257
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
16,976	20,633	32,030	22,038	21,664
<u>42,985</u>	<u>44,824</u>	<u>54,502</u>	<u>44,130</u>	<u>33,237</u>
<u>46,319</u>	<u>29,968</u>	<u>13,653</u>	<u>25,098</u>	<u>20,870</u>
-	-	-	80,340	-
2,300	-	46	21	-
(2,300)	-	(46)	(21)	-
-	-	-	80,340	-
<u>46,319</u>	<u>29,968</u>	<u>13,653</u>	<u>105,438</u>	<u>20,870</u>
35,389	35,655	35,847	35,435	34,892
282,262	235,677	205,518	192,276	87,381
<u>317,651</u>	<u>271,332</u>	<u>241,365</u>	<u>227,711</u>	<u>122,273</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FY 1997 through FY 2006 (In thousands)

Fiscal years	2006	2005	2004	2003
Authority's Sales Tax Rate	0.5%	0.5%	0.5%	0.5%
Total Sales Tax Revenue	\$ 63,811	\$ 59,953	\$ 55,394	\$ 54,855
Total Taxable Sales in County of San Mateo	\$ 12,451,350	\$ 12,055,706	\$ 11,560,519	\$ 11,352,696

Source: Board of Equalization, California, web posted the Calendar Year 2000 through 3rd Qtr. 2005 Taxable Sales transactions.

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FY 1997 through FY 2006 (In thousands)

<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
\$ 57,161	\$ 66,746	\$ 63,062	\$ 54,351	\$ 51,435	\$ 47,519
\$ 11,967,932	\$ 13,961,577	\$ 13,175,535	\$ 11,295,693	\$ 11,063,977	\$ 10,204,417

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

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

Source: California Board of Equalization

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
DEBT CAPACITY – RATIOS OF OUTSTANDING BONDS
FY 1997 through FY 2006 (In thousands)

Fiscal Year	Limited Tax Revenue Bonds	Personal Income	As a % of Personal Income
1997	\$ -	\$ 27,870,177	N/A
1998	73,875	31,073,546	0.24%
1999	67,750	35,485,821	0.19%
2000	61,380	41,730,460	0.15%
2001	54,755	39,395,344	0.14%
2002	47,865	36,736,603	0.13%
2003	40,690	36,409,914	0.11%
2004	33,225	38,263,811	0.09%
2005	25,445	39,411,725	0.06%
2006	17,330	40,594,077	0.04%

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

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
DEBT CAPACITY – BONDED DEBT
FY 1997 through FY 2006 (In thousands)

Fiscal Year	Revenue Bonds	Total Sales Tax Revenue	As a % of Total Sales Tax Revenue
1997	\$ -	\$ 10,204,417	0.00%
1998	73,875	11,063,977	0.67%
1999	67,750	11,295,693	0.60%
2000	61,380	13,175,535	0.47%
2001	54,755	13,961,577	0.39%
2002	47,865	11,967,932	0.40%
2003	40,690	11,352,696	0.36%
2004	33,225	11,560,519	0.29%
2005	25,445	12,055,706	0.21%
2006	17,330	12,451,350	0.14%

Source: Prior year's comprehensive annual financial reports

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

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

The enabling legislation (Measure A as approved by the voters in 1988) specifically authorized the Authority to issue limited tax bonds from time to time not to exceed \$804,000,000. The Authority does not have an overlapping debt with other governments.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
DEBT CAPACITY – PLEDGED REVENUE COVERAGE
FY 1997 through FY 2006 (In thousands)

Fiscal Year	Available Revenue	Debt Service		Total	Coverage
	Sales Tax Revenue	Principal	Interest		
1997	\$ 47,519	\$ -	\$ -	\$ -	N/A
1998	51,435	6,435	2,639	9,074	5.67
1999	54,351	6,125	3,135	9,260	5.87
2000	63,062	6,370	2,890	9,260	6.81
2001	66,746	6,625	2,635	9,260	7.21
2002	57,161	6,890	2,371	9,261	6.17
2003	54,855	7,175	2,088	9,263	5.92
2004	55,394	7,465	1,794	9,259	5.98
2005	59,953	7,780	1,480	9,260	6.47
2006	63,811	8,115	1,146	9,261	6.89

Source: Prior years comprehensive annual financial reports

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
DEMOGRAPHICS AND ECONOMIC INFORMATION – POPULATION AND INCOME
FY 1990, FY 2000 and FY 2005

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

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

[1] Information not yet available

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
DEMOGRAPHICS AND ECONOMIC INFORMATION – UNEMPLOYMENT RATES
FY 1997 through FY 2006

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

Source: California Labor MarketInfo, Data Library.edd.ca.gov

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

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
 DEMOGRAPHICS AND ECONOMIC INFORMATION – PRINCIPAL EMPLOYERS
 FY 1997 and FY 2005**

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

Source: County of San Mateo

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
OPERATING INFORMATION – CAPITAL OUTLAY
FY 1997 through FY 2006 (In thousands)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Dumbarton Spur	\$ 18,190	\$ 16,841	\$ 16,377	\$ 15,350	\$ 15,143	\$ 7,863	\$ 7,847	\$ 7,793	\$ 7,760	\$ 7,712
CalTrain-Downtown Extension	104,941	95,666	81,322	77,699	69,154	61,697	53,209	46,845	45,421	45,887
Railroad Grade Separations	142,003	136,987	125,647	124,249	120,082	115,255	112,019	103,558	81,922	77,419
Streets and Highways	120,900	114,399	102,752	84,825	69,651	59,077	53,840	48,088	39,154	29,708
Oversight and Bicycle	1,947	1,758	962	330	73	73	73	73	68	68
Total	\$ 387,982	\$ 365,652	\$ 327,060	\$ 302,451	\$ 274,104	\$ 243,965	\$ 226,989	\$ 206,356	\$ 174,326	\$ 160,794

Source: Prior years comprehensive annual financial reports

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
OPERATING INFORMATION – EMPLOYEES
FY 2002 through FY 2006

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

* Note: Employee counts are for Full Time Equivalents charged to the San Mateo County Transportation Authority. Data for 1997 through 2001 was not available.

Source: Prior years Annual Capital and Operating Budgets

This table shows the total full time equivalents by division.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
OPERATING INFORMATION – CAPITAL ASSETS
FY 1997 through FY 2006 (In thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Capital Assets Not Being Depreciated					
Land	18,161	18,161	11,505	11,505	8,115
Furniture and equipment	-	-	-	-	-
Total	<u>18,161</u>	<u>18,161</u>	<u>11,505</u>	<u>11,505</u>	<u>8,115</u>

Source: Prior years comprehensive annual financial reports

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY
OPERATING INFORMATION – CAPITAL ASSETS
FY 1997 through FY 2006 (In thousands)

<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
3,746	3,641	3,641	4,653	8,694
<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>
<u><u>3,786</u></u>	<u><u>3,682</u></u>	<u><u>3,682</u></u>	<u><u>4,694</u></u>	<u><u>8,734</u></u>

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Section IV

INTERNAL CONTROL AND COMPLIANCE

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

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

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

We have audited the basic financial statements of the San Mateo County Transportation Authority (the Authority) of California, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, 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 basic 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 in amounts that would be material in relation to the basic 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

As part of obtaining reasonable assurance about whether the Authority's basic 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
October 13, 2006