

**ALAMEDA-CONTRA COSTA
TRANSIT DISTRICT**

Measure B Schedules with
Independent Accountant's Report

Year Ended June 30, 2007
Board of Directors



MACIAS GINI & O'CONNELL LLP
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Alameda-Contra Costa Transit District
Oakland, California

INDEPENDENT ACCOUNTANT'S REPORT

We have examined the Alameda-Contra Costa Transit District's (District) compliance with the requirements described in the Measure B Sales Tax for Mass Transit Funds Agreement (Agreement) between the District and the Alameda County Transportation Improvement Authority (ACTIA) that were allocated to the District for the year ended June 30, 2007. Measure B sales tax revenues and related expenses are included in the accompanying Schedule of Revenues and Expenses of Measure B 2000 Funds. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements that are applicable to the Measure B funds as specified in the Agreement for the year ended June 30, 2007.

This report is intended solely for the information and use of the District's Board of Directors and management, ACTIA, and the ACTIA Citizens' Watchdog Committee and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP
Certified Public Accountants
Walnut Creek, California

December 7, 2007

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

Schedule of Revenues and Expenses of Measure B 2000 Funds
For the Year Ended June 30, 2007

Revenues:

Paratransit - A.C. Transit - North	\$	3,670,965
Paratransit - A.C. Transit - Central		825,424
A.C. Transit: North		10,298,568
A.C. Transit: Central		5,149,459
A.C. Transit: South		1,746,172
ACTD: Welfare to Work - North		1,343,292
ACTD: Welfare to Work - Central		238,309
Non-Specific Measure B		16,213
Total Revenues	\$	<u>23,288,402</u>

Operating Expenses:

Paratransit - A.C. Transit - North	\$	3,670,965
Paratransit - A.C. Transit - Central		825,424
A.C. Transit: North		10,298,568
A.C. Transit: Central		5,149,459
A.C. Transit: South		1,746,172
ACTD: Welfare to Work - North		1,343,292
ACTD: Welfare to Work - Central		238,309
Non-Specific Measure B		16,213
Total Operating Expenses	\$	<u>23,288,402</u>

**ALAMEDA-CONTRA COSTA
TRANSIT DISTRICT**
Oakland, California

Independent Auditor's Report,
Management's Discussion and Analysis,
Basic Financial Statements, and
Supplementary Information

Year Ended June 30, 2007

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

Year Ended June 30, 2007

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To the Board of Directors
Alameda-Contra Costa Transit District
Oakland, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activity and the pension trust fund of the Alameda-Contra Costa Transit District (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the pension trust fund. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the pension trust fund, is based solely on the report of the other auditors.


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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and pension trust fund of the District, as of June 30, 2007 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2007 on our consideration of the District's internal control over financial reporting and on 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 and the schedule of funding progress, as listed in the table of contents, 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 and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors 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 District's basic financial statements. The introductory section, other supplementary information, and statistical section identified in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. The other supplementary 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 introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


Certified Public Accountants
Walnut Creek, California

December 5, 2007

Management's Discussion and Analysis
(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Required Supplementary Information)

INTRODUCTION

The purpose of Management's Discussion and Analysis (MD&A) is to provide an objective and easily readable analysis of the Alameda-Contra Costa Transit District's (the District's) financial activities based on currently known facts, conditions, or decisions as of June 30, 2007.

FINANCIAL STATEMENTS

The District's financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board. The District is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except for land and construction in progress) are depreciated over their useful lives. Amounts are restricted, where applicable, for construction purposes.

FINANCIAL POSITION SUMMARY

Total net assets serve over time as a useful indicator of the District's financial position. The District's assets exceed liabilities by \$264.8 million at June 30, 2007, a \$21.5 million increase from June 30, 2006.

A condensed summary of the District's statement of net assets at June 30, 2007 and 2006 is shown below (in thousands):

	2007	2006
Assets:		
Current and other assets	\$ 153,378	\$ 108,767
Capital assets	244,786	241,271
Total assets	398,164	350,038
Liabilities:		
Current liabilities	57,037	59,872
Long-term portion of certificates of participation	16,480	17,652
Other non-current liabilities	59,834	29,224
Total liabilities	133,351	106,748
Net assets:		
Invested in capital assets, net of related debt	229,109	222,482
Restricted for debt requirements	-	1,975
Unrestricted	35,704	18,833
Total net assets	\$ 264,813	\$ 243,290

The largest portion of the District's assets each year (61.5% and 68.9% at June 30, 2007 and 2006, respectively) represents its investment in capital assets (e.g. land, work-in-progress, buses, buildings, improvements, and equipment). The District uses these capital assets to provide services to its employees and its patrons and passengers; consequently these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations and subsidies since the capital assets themselves cannot be used to liquidate liabilities.

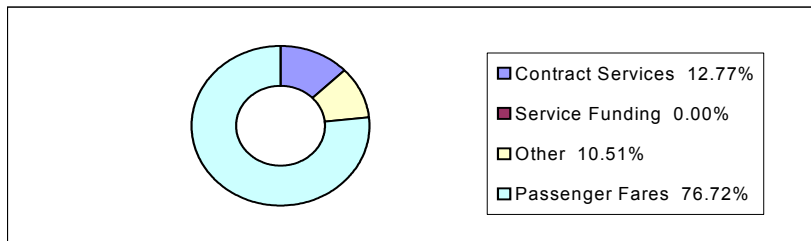
Current and other assets increased by 41.0%, from \$108.8 million in FY 2005-06 to \$153.4 million in FY 2006-07. The increase is due primarily to an increase in accounts receivable resulting from the District's higher level of involvement with the Regional Management 2 program (RM2). Current liabilities decreased by 4.8%, from \$59.9 million in FY2005-06 to \$57.0 million in FY 2006-07. The decrease in current liabilities is due primarily to reductions in trade accounts payable and accrued sick leave in the amounts of \$1.3 million and \$1.9 million, respectively. The balance in trade accounts payable reflects timing of payments while the balance in accrued sick leave is actuarially determined.

FINANCIAL OPERATIONS HIGHLIGHTS

A condensed summary of the District's changes in net assets for the years ended June 30, 2007 and 2006 is shown below (in thousands):

	2007	2006
Operating revenues:		
Passenger fares	\$ 49,377	\$ 48,159
Contract service	9,089	8,753
Other	6,870	6,151
Non-operating revenues:		
Property taxes	77,655	73,078
Local sales taxes	58,077	56,090
Local funds	53,299	52,533
Federal revenues	31,317	32,996
State revenues	21,670	16,624
Interest income	3,104	2,290
Total revenues	310,458	296,674
Operating expenses:		
Salaries and wages	115,570	108,948
Fringe benefits	96,971	95,775
Depreciation	36,994	30,938
Other operating expenses	73,941	67,258
Non-operating expenses:		
Interest expense	1,726	1,928
Total expenses	325,202	304,847
Loss before capital contributions	(14,744)	(8,173)
Capital contributions	36,267	22,592
Change in net assets	21,523	14,419
Net assets, beginning of year	243,290	228,871
Net assets, end of year	\$ 264,813	\$ 243,290

- Operating revenue increased by 3.5%, from \$63.1 million in FY 2005-06 to \$65.3 million in FY 2006-07. The increase is attributable to the increase in passenger fares brought on by the full year's impact of the September 2005 \$0.25 per ride fare increase and improvements in passenger service.
- The following chart shows the major sources and the percentage of operating revenues for the year ended June 30, 2007:



- Non-operating revenues increased by 4.9%, from \$233.6 million in FY 2005-06 to \$245.1 million in FY 2006-07. The increase is due primarily to increases in property tax and state revenues. While property taxes increased by 6.3%, revenue from the \$48 dollar parcel tax increased by only 0.7%. State revenues increased by 30.4%, from \$16.6 million in FY 2005-06 to \$21.7 million in FY 2006-07. The increase is due primarily to activity from the Regional Management 2 program (RM2) for the Telegraph/International Blvd. Bus Rapid Transit Project and the Transportation Congestion Relief Program funding of the District's Fuel Cell Program.
- Capital contributions increased by 60.5%, from \$22.6 million in FY 2005-06 to \$36.3 million in FY 2006-07. The increase is attributable to the higher level of involvement in the RM2 program. RM2 is a regional traffic relief plan approved by voters in seven Northern California counties in the March 2, 2004 election.
- Operating expenses increased by \$20.6 million, from \$302.9 million in FY 2005-06 to \$323.5 million in FY 2006-07. The increase is due primarily to the following: Salaries and wages increased by \$6.6 million resulting from step and cost of living increases as per the labor agreements; fringe benefits increased by \$1.2 million due to increases in employee health care plans and retiree health and welfare programs; depreciation expense increased by \$6.1 million as a result of additions to revenue vehicles and other equipment; and other expenses increased by \$6.7 million, primarily as a result of increases in services and materials and supplies.

CAPITAL ACQUISITIONS, CONSTRUCTION ACTIVITIES, AND SALES

Capital asset acquisitions are capitalized at cost. Acquisitions are funded using a variety of financing techniques, including Federal grants, with matching State grants and District reserve funds, debt issuance, and District revenues.

Capital asset additions transferred from construction in progress were \$36.3 million during FY 2006-07 consisting primarily of \$30.3 million for diesel fuel buses, \$3.3 million for operating yards and stations, and \$3.0 million for service vehicles and other equipment. A total of \$42.1 million was added to construction in progress during FY 2006-07 consisting of various acquisition activities for revenue equipment, service vehicles, and other equipment. During FY 2006-07 the District sold buses with an original acquisition cost of \$6.7 million.

Additional information on the District's capital assets and commitments can be found in note (4) of the basic financial statements.

DEBT ADMINISTRATION

On September 25, 2001, proceeds from the issuance of \$23.8 million of Refunding Certificates of Participation (2001 COPS) was used to refund the 1989 Certificates of Participation and to establish a \$2.0 million debt reserve fund in accordance with the terms of the 2001 COPS Trust Agreement. The District issued the 2001 COPS to refinance the debt on its administrative office building and make improvements to the District's Division 3 garage. The District has covenanted in the lease agreement that as long as the property is available for the District's use and possession, it will make all lease payments and other payments obligations and include the repayment in its annual budget. At June 30, 2007, the outstanding principal component of the annual lease payment was \$18.1 million. The District plans to repay the obligation over twelve years, by August 2018.

In October 2006, the District borrowed \$25 million from the ACTIA. Interest on the loan accrues at an annual rate equal to the interest rate paid by the Local Agency Investment Fund (LAIF), plus 1% for administrative fees associated with the service of the loan.

Additional information on the District's long-term debt can be found in note (8) of the basic financial statements.

CREDIT RATINGS AND BOND INSURANCE

Standard & Poor's and Moody's gave the District's 2001 COPS a Municipal Bond Rating of AAA and Aaa, respectively, judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge."

Standard & Poor's definition of AAA bond rating for long-term issue credit ratings:

An obligor rated AAA has extremely strong capacity to meet its financial commitments. AAA is the highest issuer credit rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is very strong.

Moody's definition of Aaa bond rating for long-term issue credit ratings:

Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair fundamentally strong position of such issues.

In conjunction with the 2001 COPS transaction, Ambac Assurance Company issued a financial guaranty insurance policy insuring the scheduled payment of principal and of interest on the 2001 COPS when due. In addition, a Lease Payment Fund and a Reserve Fund (\$2.0 million) have been established for the District to deposit funds to make lease payments and to protect the District from default on required lease payments in accordance with the lease agreement.

ECONOMIC FACTORS

At the September 19, 2007 Board meeting, the Board of Directors authorized the General Manager to begin contract negotiations with Cherry Road Technologies and the Oracle Corporation for the replacement and implementation of the Finance and Human Resources (FHR) system. The Board also authorized the General Manager to structure a Certificates of Participation transaction to fund the acquisition and implementation of the FHR system.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District's Department of Finance, 1600 Franklin Street, Oakland, CA 94612.

Basic Financial Statements

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT**STATEMENT OF FUND NET ASSETS
BUSINESS-TYPE ACTIVITY - ENTERPRISE FUND
JUNE 30, 2007
(In thousands)**

ASSETS**CURRENT ASSETS:**

Cash and cash equivalents	\$	44,805
Investments		870
Receivables:		
Federal and local grants:		
Capital		40,787
Planning, operating and other		34,606
Property tax		3,180
Local sales tax		11,013
Interest		279
Other, principally trade receivables		4,932
Total receivables - net		<u>94,797</u>
Inventories at average cost		8,874
Prepaid expenses		<u>1,658</u>
Total current assets		<u>151,004</u>

NONCURRENT ASSETS:

Investments restricted for certificates of participation		1,975
Capital assets:		
Nondepreciable		52,111
Depreciable, net		<u>192,675</u>
Total capital assets, net		<u>244,786</u>
Certificates of participation issuance costs net of accumulated amortization		<u>399</u>
Total noncurrent assets		<u>247,160</u>
Total assets		<u>398,164</u>

LIABILITIES**CURRENT LIABILITIES:**

Accounts payable and accrued expenses		8,266
Accrued salaries and wages		3,494
Current portion of accrued vacation and sick leave		14,843
Due to Pension Trust Fund		25
Other accrued liabilities		7,783
Accrued interest payable		596
Unearned revenue		706
Current portion of claims liabilities		20,152
Current portion of certificates of participation		<u>1,172</u>
Total current liabilities		<u>57,037</u>

NONCURRENT LIABILITIES:

Notes payable		25,000
Accrued vacation and sick leave		6,111
Claims liabilities		28,723
Certificates of participation		<u>16,480</u>
Total noncurrent liabilities		<u>76,314</u>
Total liabilities		<u>133,351</u>

NET ASSETS

Invested in capital assets, net of related debt		229,109
Unrestricted		<u>35,704</u>
TOTAL NET ASSETS	\$	<u>264,813</u>

See accompanying notes to the basic financial statements.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
BUSINESS-TYPE ACTIVITY - ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2007
(In thousands)**

OPERATING REVENUES:

Passenger fares	\$ 49,377
Contract services	9,089
Other	6,870
Total operating revenues	<u>65,336</u>

OPERATING EXPENSES:

Operator wages	63,044
Other wages	52,526
Fringe benefits	96,971
Depreciation and amortization	36,994
Fuel and oil	14,928
Other material and supplies	11,858
Services	18,733
Insurance	7,029
Net expenses of joint venture	11,282
Other	10,111
Total operating expenses	<u>323,476</u>
Operating loss	<u>(258,140)</u>

NONOPERATING REVENUES (EXPENSE):

Operating assistance:	
Property taxes	77,655
Local sales tax	58,077
Local funds	53,299
Federal	31,317
State	21,670
Interest income	3,104
Interest expense	(1,726)
Net nonoperating revenues	<u>243,396</u>
Loss before capital contributions	<u>(14,744)</u>

CAPITAL CONTRIBUTIONS 36,267

CHANGE IN NET ASSETS 21,523

NET ASSETS, beginning of year 243,290NET ASSETS, end of year \$ 264,813

See accompanying notes to the basic financial statements.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT**STATEMENT OF CASH FLOWS**
BUSINESS-TYPE ACTIVITY - ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2007
(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 54,069
Cash payments to suppliers for goods and services	(79,983)
Cash payments to employees for services	(206,444)
Other operating receipts	7,052
Net cash used in operating activities	<u>(225,306)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating assistance received	225,985
Proceeds from notes payable	25,000
Interest paid on notes payable	(777)
Net cash provided by noncapital financing activities	<u>250,208</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(42,142)
Capital contributions from grants	14,662
Principal paid on certificates of participation	(1,175)
Interest paid on certificates of participation	(812)
Net cash used in capital and related financing activities	<u>(29,467)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	3,936
Purchase of investments	(3,930)
Interest received on investments	2,860
Net cash provided by investing activities	<u>2,866</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(1,699)
CASH AND CASH EQUIVALENTS, beginning of year	46,504
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 44,805</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	\$ (258,140)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	36,994
Loss on disposal of capital assets	1,600
Effect of changes in assets and liabilities:	
Receivables	(910)
Inventories	(390)
Prepaid expenses	(67)
Accounts payable and accrued expenses	(7,006)
Accrued salaries and wages	1,081
Accrued vacation and sick leave	(935)
Claims liabilities	2,467
Net cash used in operating activities	<u>\$ (225,306)</u>

See accompanying notes to the basic financial statements.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT**STATEMENT OF PLAN NET ASSETS - PENSION TRUST FUND****DECEMBER 31, 2006****(In thousands)**

ASSETS

Contributions receivable	\$	2,174
Receivable from brokers		745
Interest receivable on investments		582
Investments for payment of accrued pension costs:		
Corporate equity securities		111,459
U.S. government securities money market fund		3,829
U.S. government securities fixed income securities		11,635
Non-U.S. government fixed income securities		46,726
Mutual funds		220,476
Total investments for payment of accrued pension costs		<u>394,125</u>
Total assets		<u>397,626</u>

LIABILITIES

Accrued expenses		352
Due to Enterprise Fund		1,926
Advance contribution from Enterprise Fund		186
Payable to brokers for unsettled transactions		<u>3,730</u>
Total liabilities		<u>6,194</u>

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS**\$ 391,432**

See accompanying notes to the basic financial statements.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT**STATEMENT OF CHANGES IN PLAN NET ASSETS - PENSION TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2006
(In thousands)**

ADDITIONS:

Earnings on investments	\$ 10,840
Net appreciation in fair value of investments	34,508
Net investment income	<u>45,348</u>
Contributions	<u>22,033</u>
Total additions	<u>67,381</u>

DEDUCTIONS:

Benefit payments	22,595
Administrative expenses	<u>1,909</u>
Total deductions	<u>24,504</u>

NET INCREASE

42,877

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:

Beginning of year	<u>348,555</u>
End of year	<u>\$ 391,432</u>

See accompanying notes to the basic financial statements.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

(1) THE FINANCIAL REPORTING ENTITY

Organization – The Alameda-Contra Costa Transit District (the District) is a political subdivision of the State of California established in 1956 and is subject to Transit District Law as codified in the California Public Utilities Code.

Reporting Entity – The District follows the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended. This statement sets forth accountability of a government's elected officials to their constituents as the basic criteria for inclusion of an organization in a governmental reporting entity. The governmental reporting entity consists of the District (primary government) and organizations for which the District is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the District's ability to impose its will on the organization or (ii) the potential for the organization to provide a financial benefit to, or impose a financial burden on the District.

The basic financial statements include legally separate component units, which are so financially intertwined with the District that they are, in substance, part of the District. The component units discussed below are included in the District's reporting entity because of the significance of their operational or financial relationships with the District.

For financial reporting purposes, the District's basic financial statements include all financial activities that are controlled by or are dependent upon actions taken by the District's Board of Directors. As such, the basic financial statements include the financial activities of the District's Special Transit Service Districts (Special Districts) No. 1 and No. 2 and other areas in which the District has contracted to provide transit service. Because these districts are not legally separate entities, they are not considered component units under GASB Statement No. 14. Special District No. 1 was the designation used from the creation of the District for its original territory, consisting of the cities and unincorporated areas from roughly Richmond and San Pablo through Hayward. Special District No. 2 was created by annexation agreements among the cities of Fremont and Newark, the County of Alameda and the District and ratified by a subsequent special election in November 1974 in Fremont and Newark. All property within the Special Districts is subject to taxes that may be levied by the District.

In May 1988, the District created AC Transit Financing Corporation (the Corporation), a nonprofit public benefit corporation incorporated in the State of California under the guidelines of the Nonprofit Public Benefit Corporation Law. Legally separate from the District, the Corporation is blended with the primary government because its sole purpose is to provide financial assistance to the District by financing, refinancing, acquiring, constructing, improving, leasing and selling buildings, equipment, land, building improvements, and other public improvements.

The financial activities of the Alameda-Contra Costa Transit District Employees' Pension Plan (the Plan) are blended in the basic financial statements because the Plan exclusively serves the employees of the District. The financial position and changes in financial position of the Plan are reported on a calendar year basis.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2007

The Plan is administered by the five-member Retirement Board made up of two representatives of the general public selected by the District's Board, two District employees who are elected officials of the Amalgamated Transit Union, Local 192 (ATU) and one District employee selected by the District's Board of Directors from the employees who are not represented by ATU. The Retirement Board has administrative and fiduciary responsibility over the Plan. The Retirement Board utilizes a third-party banking institution as custodian over the Plan's assets.

Separate financial statements for the Corporation and the Plan may be obtained from the District Controller.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The basic financial statements provide information about the District's enterprise fund and the pension trust fund. Separate statements for each fund category – *enterprise and fiduciary* – are presented. The basic 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 when a liability is incurred, regardless of the timing of the related cash flows. On an accrual basis, revenues from operating activities are recognized in the fiscal year that the operations were provided; revenues from property taxes are recognized in the fiscal year for which the taxes are levied; revenue from sales taxes are recognized in the fiscal year when the underlying exchange occurs; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

Enterprise Fund (proprietary fund) – The accounts of the District are organized on the basis of a proprietary fund-type, specifically an enterprise fund. The activities of this fund are accounted for with a set of self-balancing accounts that comprises the District's assets, liabilities, net assets, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's cost of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) with pricing policies that establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to passengers for services provided. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets and equipment. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2007

existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes accounting principles generally accepted in the United States of America (GAAP) for governmental units. The District has elected not to follow subsequent private-sector guidance of FASB after November 30, 1989.

Pension Trust Fund – The Pension Trust Fund accounts for the accumulated resources to be used for retirement annuity payments to all members of the Plan.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Any restricted cash and investments used to service debt principal and interest payments of the District would not be considered cash equivalents.

Investments – The District applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which require governmental entities to report certain investments at fair value in the statement of net assets and the statement of plan net assets and recognize the corresponding change in fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the District has reported its investments at fair value based on quoted market information obtained from fiscal agents or other sources.

Restricted Investments – The Corporation is required to maintain a reserve fund related to its 2001 Certificates of Participation equal to the lesser of (1) 10% of the aggregate original principal component of installment payments or (2) 100% of the maximum amount of installment payments due in the current year or any future year or (3) 125% of the average amount of installment payments due in the current year or any future year. At June 30, 2007, the restricted portion of investments is valued at approximately \$1,975,000. Pursuant to a trust agreement by and between the Corporation, the District and the trustee, the restricted assets can only be used to service the principal and interest on the outstanding certificates of participation. In addition, the District manages cash and investments restricted for the Plan, which are managed by several investment managers and are held by a bank serving as the Plan's custodian.

Pension Plan – The District's noncontributory pension plan provides retirement benefits for all qualifying union and non-union employees. The District's annual contribution to fund the Plan is actuarially determined based on a percentage of gross payroll, which includes the normal cost of the Plan plus amortization of prior service costs over a period of not more than thirty years. Cash and investments in the Plan are restricted by the Pension Board to provide for the future payment of pension benefits and related expenses.

Inventories – Inventories consist primarily of bus replacement parts and fuel and are stated at average cost. Inventory usages are charged to expense, on a weighted-average basis, at the time that individual items are withdrawn from inventory.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2007

Capital Assets – Capital assets are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

Buildings, structures and other improvements	30 years
Revenue equipment	12 years
Service vehicles and other equipment	3 to 10 years
Engines and transmissions	4 years
Revenue vehicles (Mini Vans)	7 years

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

Operating Assistance - Grants are accounted for as nonoperating revenue as soon as all eligibility requirements have been met.

Contract Services – The Metropolitan Transportation Commission (MTC) allocates a portion of the Bay Area Rapid Transit's (BART) State Transportation Assistance funds to the District for allowing BART passengers to ride District buses at a discounted rate when they provide a BART transfer. Allocations from MTC totaled approximately \$4,493,000 for the year ended June 30, 2007 and are recorded as contract services. The remaining amount of approximately \$4,596,000 is by the District's ADA Paratransit division from the East Bay Paratransit Consortium, a related party. See footnote 12 for additional discussion on the East Bay Paratransit Consortium.

Property Taxes, Collection and Maximum Rates – The State of California (State) Constitution Article XIII A provides that the maximum basic property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless the property is sold, transferred or improved. The State Legislature has determined the method of distribution of receipts of the tax levy among the counties, cities, school districts and other districts, including the District.

Alameda and Contra Costa counties assess properties, bill for, collect and distribute property taxes. Property taxes are recorded as nonoperating revenue (including secured delinquent property taxes) net of estimated uncollectible amounts, in the fiscal year of levy.

Assessed values are determined annually by the Assessor's Offices of Alameda and Contra Costa counties on January 1, and become a lien on the real properties at January 1. The levy date for secured and unsecured properties is July 1 of each year. Secured taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent after August 31.

The District accrues delinquent property taxes. The cumulative amount of delinquent taxes uncollected for the current and prior years has been recorded as a receivable. The District, through the County of Alameda (County), is under the Teeter plan whereby, delinquent taxes are received by the District from the County's own funds in the event that delinquent taxes are not received by a certain due date. In return, the District forgoes the penalties and interests that would accrue on these delinquent property taxes.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2007

On November 5, 2002, the voters approved the parcel tax, Measure AA, which imposes \$24 per year for 5 years on each parcel of taxable land in Special District No. 1. This tax became effective July 1, 2003 and terminates on June 30, 2008. The revenue derived from this measure is to be used to sustain public transportation services provided by the District in Special District No. 1. On November 30, 2004, the voters approved Measure BB, which supersedes the Measure AA parcel tax. Measure BB changes the terms of the parcel tax by increasing the amount of the annual tax to \$48 per year and by increasing the term of the tax to 10 years from the date of implementation. The tax became effective on July 1, 2005 and terminates on June 30, 2015. The District received approximately \$13.9 million in Measure BB taxes during the year ended June 30, 2007.

Compensated Absences – The personnel policies of the District generally allow employees to accrue up to 240 hours of vacation and 140 days of sick leave. Unused accrued vacation is paid to the employee upon termination from District employment. Unused accrued, vested sick leave is paid, upon retirement, to those employees with ten or more years of District service.

Capital Contributions – The District receives grants from the Federal Transit Administration (FTA) and state and local transportation funds for the acquisition of buses and other equipment and improvements. Capital contributions are recorded as revenues after net nonoperating revenues and the cost of the related assets is included in capital assets.

Net Assets – The 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. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Unrestricted net assets – This category represents net assets of the District, not restricted for any projects or other purposes.

Use of Estimates – Management has made estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare the basic financial statements in conformity with GAAP. Actual results could differ from those estimates.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2007

(3) CASH AND INVESTMENTS

Investment policy - The District's investment policy, which is more restrictive than required by the California Government Code, stipulates the type, maturity limit, and diversification of securities held by the District. The objectives of the policy, in order of priority, are compliance with applicable laws, preservation of capital, liquidity to meet required cash demands and maximization of income. The District's investment policy does not permit investments in medium term notes, municipal securities or reverse repurchase agreements, which are permitted by the California Government Code. In accordance with the District's investment policy, the District may invest in the following types of investments, subject to certain restrictions, such as rating quality or maximum percentages of the portfolio:

- (a) Repurchase agreements
- (b) Securities of U.S. government and its agencies
- (c) California Local Agency Investment Fund
- (d) Negotiable certificates of deposit
- (e) Commercial paper
- (f) Bankers acceptances

The Plan manages its investment portfolio in order to provide a reasonable long-term rate of return to the Plan while undertaking a certain degree of market risk. The Plan utilizes overall asset allocation targets as a means of controlling the overall risk of the portfolio, without constraining the discretionary, tactical decision making process of its investment managers. In accordance with the Plan's policy, investment managers may invest in the following types of investments:

Domestic Securities & International Equity Securities

Domestic security investments may be diversified by industry and number, while international equity securities shall be diversified by country, industry and number. For both security types, no more than 5% of the total portfolio may be invested in any single issuer, or 5% of the total Company's outstanding shares. For both domestic and international equity securities, unless specifically authorized by the Plan's Board, investment managers may not invest in transactions involving stock option derivatives, short sales, purchases on margin, letter stocks, private placement securities or commodities. For domestic securities, the use of foreign equity instruments which trade on U.S. based exchanges shall not constitute more than 5% of the investment manager's portfolio and the use of other non-US equity securities is prohibited. For international equity securities, defensive currency hedging is permitted; however, no more than 20% of the fund market value will be invested in emerging market countries or countries which are not part of the MSCI EAFE Index.

Fixed-Income Securities

Fixed income securities shall be investments in marketable, fixed-income securities. Investment managers are required to maintain a minimum overall portfolio quality rating of "AA/Aa" or better at all times. The following instruments are acceptable at purchase:

- (a) Commercial Paper or variable notes
- (b) Certificates of Deposit and Bankers Acceptances
- (c) United States Treasury Bonds, Notes and Bills
- (d) Repurchase agreements with U.S. Treasury Securities and/or U.S. Agencies as collateral
- (e) Debt instruments issued by agencies of/or guaranteed by the United States government
- (f) All investment grade Corporate debt issues
- (g) Asset-backed securities

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2007

- (h) All investment grade Municipal debt issues
- (i) Mortgage-backed pass through securities issued by Government Sponsored Enterprises (CSE's) and Commercial (CMBS)
- (j) Certain tranches of Collateralized Mortgage Obligations (CMO's) backed by pools of mortgages guaranteed by the full faith and credit of the U.S. government or its agencies
- (k) With explicit permission of the Plan's Board, the following; private placements (5% maximum exposure); Eurodollar securities and non-dollar denominated instruments (15% maximum exposure); and preferred stock (10% maximum exposure), debt for equity exchanges (5% maximum exposure), defensive currency hedging using futures and forward contracts, un-rated corporate securities or securities rated below investment grade.

Total allocations to mortgage backed derivative instruments such as principal only strips (PO), real estate mortgage investment conduits (REMIC), structured notes, targeted amortization classes (TAC's) and level II planned amortization classes (PAC II) are limited to 10% of the portfolio. Interest-only strips (IO), support or companion tranches (other than TAC's and PAC II's), and inverse floaters are not permitted.

Presentation - At June 30, 2007 (December 31, 2006 for the Plan), the District's cash and investments consisted of the following (in thousands):

Cash and cash equivalents	\$ 44,805
Investments	<u>396,970</u>
Total	<u><u>\$ 441,775</u></u>
Reported in the Enterprise Fund as:	
Cash and cash equivalents	\$ 44,805
Investments (unrestricted)	870
Investments restricted for certificates of participation	1,975
Reported in the Pension Trust Fund as:	
Investments restricted for payment of accrued pension costs (at December 31, 2006)	<u>394,125</u>
Total	<u><u>\$ 441,775</u></u>

Interest rate risk – The District has limited exposure to interest rate risk due to its liquidity needs to meet cash flow demand requirements. All of its investments have a remaining maturity at date of purchase of three months or less. None of the District's investments are highly sensitive to interest rate changes.

For the Plan, interest rate risk is managed through the duration of its fixed income securities. Bond prices are highly sensitive to the movement of interest rates. A decline in interest rates will tend to increase bond prices while an increase in rates will depress prices. Duration is a measure of interest rate risk with a higher duration signifying greater price volatility in response to a change in interest rates.

The duration of the fixed income portfolio was approximately 4.4 years on December 31, 2006. The duration of the fixed income portfolio closely tracks the duration of the Lehman Aggregate Fixed Income benchmark. The Plan Investment Guidelines require investment managers to maintain duration of within 20% of the duration of the Lehman Aggregate Fixed Income benchmark (at December 31,

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2007

2006 this was 4.4 years). Below is a table summarizing fixed income securities held by the Plan as of December 31, 2006.

<u>Investment type</u>	<u>Duration/ Years</u>	<u>Credit Quality (1)</u>	<u>Amount</u>	<u>Percent</u>
U.S. Government Securities	5.9	Exempt	\$ 11,635	19.9%
U.S. Government Agency	3.6	AAA	34,237	58.7%
Fixed Income Securities	2.8	AAA	5,744	9.8%
Fixed Income Securities	7.2	AA	1,048	1.8%
Fixed Income Securities	6.3	A	2,809	4.8%
Fixed Income Securities	9.0	BBB	2,124	3.6%
Fixed Income Securities	7.2	Other	764	1.3%
Total			<u>\$ 58,361</u>	100.0%
Measured Effective Duration	4.4			

(1) Credit rating from Standard & Poor's Investor Services

Credit Risk – The District's credit rating risk is governed by the California Government Code 53601 which limits investments in money market mutual funds to the highest ranking attained by the rating agency which is Aaam. The District had investments in U.S. government agencies, bank repurchase agreements (underlying of U.S. Treasury securities) and in money market mutual funds. There are no credit limits on the securities of U.S. Treasury since these investments are backed by the full faith and credit of the United States government. The following is a summary of the credit quality distribution for securities with credit exposure as a percentage of total investments as rated by Standard & Poor's:

<u>Investment</u>	<u>Standard & Poor's Rating</u>	<u>Total Investment Portfolio</u>
U.S. Treasury	Exempt	2.6%
U.S. Government Agencies	Aaa	62.6%
Bank Repurchase agreements (underlying of U.S. Treasury)	Not rated	34.8%
Money Market Mutual Funds	Aaam	<0.1%

For the Plan, fixed income assets are managed by two outside money managers. One manager is limited to only purchasing investment grade securities while the other manager has some latitude to purchase fixed income securities below investment grade. Some of these securities are held in the pooled investment managed by Payden & Rygel.

Of the securities held in custody at State Street, the overwhelming majority of the portfolio is held in high quality debt. Approximately 79% is backed by the U.S. government or an agency of the U.S. government. Another 16% is rated "A" or better. Another 4% is rated "BBB." The remaining 1% is rated below investment grade. Debt rated "BBB" or higher is considered to be investment grade while debt rated below this level is considered more speculative in nature and considered by the market to be "high-yield."

Over 97% of the securities owned by the Plan and not held in a pooled investment vehicle are investment grade in nature. The Board manages credit risk by setting guidelines and hiring outside

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2007

money managers to actively monitor credit risk in the portfolio and to take appropriate action when the Plan's investments are not in conformity with the investment guidelines to ensure that the Plan is not subject to an undue amount of credit risk. The Board also requires managers to broadly diversify their holdings across issuers and industries.

Concentration of Credit Risk – The District manages this risk by requiring that no more than 20% of its total investment portfolio (with the exception of securities of the U.S. Treasury or U.S. government agencies) be invested in a single security type or with a single financial institution. For the District, no investment in a single security type or with a single financial institution exceeds more than 20% of the entire portfolio. Disclosure requirements state that any investments in a single security type or held with a single financial institution that are greater than 5% of the District's investments must be disclosed. The District held FNMA notes totaling \$24,918,789, or 53.2%, of the District's investments and FHLB notes totaling \$4,997,000, or 10.7%, of the District's investments.

The Plan also has investments that represent 5% or more of Plan net assets as of December 31, 2006. The Plan held FNMA notes totaling \$20,949,000, or 5.3%, of the Plan's investments.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The California Government Code requires California banks and savings and loan associations to secure governmental deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure governmental deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. Such collateral is considered to be held in the District's name.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2007

(4) CAPITAL ASSETS

Following is a summary of capital assets at June 30, 2007 (in thousands):

	<u>July 1, 2006</u>	<u>Additions/ Transfers</u>	<u>Reductions/ Transfers</u>	<u>June 30, 2007</u>
Non-depreciable capital assets:				
Land	\$ 11,403	\$ -	\$ -	\$ 11,403
Work-in-progress	<u>34,893</u>	<u>42,142</u>	<u>(36,327)</u>	<u>40,708</u>
Total	<u>46,296</u>	<u>42,142</u>	<u>(36,327)</u>	<u>52,111</u>
Depreciable capital assets:				
Revenue equipment	212,976	33,288	(5,614)	240,650
Service vehicles and other equipment	122,613	3,005	(1,111)	124,507
Buildings, structure and improvements	<u>134,126</u>	<u>-</u>	<u>-</u>	<u>134,126</u>
Total	<u>469,715</u>	<u>36,293</u>	<u>(6,725)</u>	<u>499,283</u>
Less accumulated depreciation:				
Revenue equipment	(109,556)	(16,245)	4,014	(121,787)
Service vehicles and other equipment	(85,467)	(6,646)	1,111	(91,002)
Buildings, structure and improvements	<u>(79,716)</u>	<u>(14,103)</u>	<u>-</u>	<u>(93,819)</u>
Total	<u>(274,739)</u>	<u>(36,994)</u>	<u>5,125</u>	<u>(306,608)</u>
Depreciable capital assets, net of accumulated depreciation	<u>194,976</u>	<u>(701)</u>	<u>(1,600)</u>	<u>192,675</u>
Capital assets, net of accumulated depreciation	<u>\$ 241,272</u>	<u>\$ 41,441</u>	<u>\$ (37,927)</u>	<u>\$ 244,786</u>

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2007

(5) INTERFUND RECEIVABLES/PAYABLES

The Enterprise Fund in the accompanying basic financial statements is reported as of June 30, 2007 and the Pension Trust Fund is reported as of December 31, 2006; therefore, interfund payables and receivables do not equal. Interfund receivables and payables arise due to the timing of reimbursements from the Pension Trust Fund for administration costs and retiree benefits payments made by the District and payments to the Pension Trust Fund for contributions based on covered payroll.

June 30, 2007		
<u>Interfund receivable</u>	<u>Interfund payable</u>	
Pension trust fund	Enterprise fund	\$ 25

December 31, 2006		
<u>Interfund payable</u>	<u>Interfund receivable</u>	
Pension trust fund	Enterprise fund	\$ 1,926

(6) CAPITAL ASSISTANCE

The District has 18 grant contracts in process with the FTA that provide federal funds for the acquisition of buses, other equipment and improvements. Under the terms of the grants, proceeds from equipment sold or retired are refundable to the federal government in proportion to the original federal capital grant funds used in the purchase. The District has also received allocations of funds generated from net bridge toll revenues (State grants) of the San Francisco-Oakland Bay Bridge. These funds are received under provisions of the California Streets and Highways Code and are allocated based on claims approved by the MTC. These grants are summarized at June 30, 2007 as follows (in thousands):

Federal grants	\$ 3,007
State grants	<u>33,260</u>
	<u>\$ 36,267</u>

(7) OPERATING ASSISTANCE

State and Local Operating Assistance - The Transportation Development Act (TDA) creates in each local jurisdiction a Local Transportation Fund that is funded by a ¼ cent from the retail sales tax collected statewide. The State Board of Equalization returns these funds to the local jurisdiction according to the amount of sales taxes collected in that jurisdiction. TDA funds are allocated to the District from Alameda and Contra Costa counties to meet, in part, the District's operating requirements. The allocation is based on population within the District.

State Transportation Assistance (Proposition 111) funds are allocated to the District based on the portion of the District's qualifying revenues as a portion of qualifying revenues statewide and the population of the areas that the District serves. The qualifying revenues are property taxes, Measures B and C funds, and other funds generated at the local level excluding state or federal subsidies.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2007

Supplementary service revenues (AB 2972) are formula allocated funds that are passed to the District through the Oakland Unified School District (OUSD) for OUSD's home to school service program. Funds are allocated for this program based on the cost of running the OUSD program as a percentage of total school districts statewide applying for these funds.

Welfare to work grant funding is provided by the State to match the federal welfare to work program that is used to fund the District's Job Access and Reverse Commute program. The welfare to work grant is funded based on the population within a local area that are below the poverty level and comprise CalWORKS recipients. The Job Access and Reverse Commute program provides transportation to key low-income neighborhoods, homeless centers and targeted work centers particularly during evening, night and weekend hours.

Below is a summary of state and local operating assistance for the year ended June 30, 2007 (in thousands):

Local funds:	
Transportation Development Act	<u>\$ 53,299</u>
State operating assistance:	
Proposition 111	\$ 6,991
Supplementary service/welfare to work	<u>14,679</u>
	<u>\$ 21,670</u>

Local Sales Tax – The local sales tax assistance (AB1107) is derived from the one-half percent retail tax imposed on the three BART counties (Alameda, Contra Costa and San Francisco). Of the total amount collected, 75% is a direct BART subsidy with the District and the San Francisco Municipal Railway System (MUNI) sharing the remaining 25% equally.

In 1987, the District began receiving local sales tax revenue under Measure B. Approved by the voters of Alameda County, Measure B provides for the collection and distribution by the Alameda County Transportation Authority of a one-half percent transactions and use tax. The District is authorized to receive 11.617% of the annual tax collected under the condition that the money be used for service exclusively in Alameda County.

In 1988, the District began receiving local sales tax revenue under Measure C, which authorizes the Contra Costa Transportation Authority (CCTA) to collect a one-half percent sales tax for improvement of public and paratransit services. As a transit operator in Contra Costa County, the District is eligible to submit project proposals to CCTA for funding under Measure C.

Local sales tax assistance for the year ended June 30, 2007 is summarized below (in thousands):

AB1107	\$ 33,180
Measure B	23,288
Measure C	<u>1,609</u>
	<u>\$ 58,077</u>

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2007

Section 5307 Funding Sources – All federal funding sources are distributed by FTA after approval by the MTC. Federal funding sources for the year ended June 30, 2007 are summarized below (in thousands):

Preventive maintenance	\$ 25,761
Americans with Disabilities program – ADA set aside	5,627
Other federal assistance / Planning Grant	684
Less amount reported within net expenses of joint venture	<u>(755)</u>
	<u>\$ 31,317</u>

At June 30, 2007 Federal Section 5307 funds totaling approximately \$30,848,000 were recorded as a receivable.

(8) LONG-TERM LIABILITIES

The following is a summary of changes in the District’s long-term liabilities for the year ended June 30, 2007 (in thousands):

	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2007</u>	<u>Amounts Due Within One Year</u>
2001 Certificates of Participation	\$ 19,245	\$ -	\$ (1,175)	\$ 18,070	\$ 1,210
Less unamortized deferred amount on refunding	(456)		38	(418)	(38)
ACTIA Note	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>	<u>-</u>
 Total long-term debt, net	 18,789	 25,000	 (1,137)	 42,652	 1,172
 Accrued vacation and sick leave	 21,889	 9,659	 (10,594)	 20,954	 14,843
Claims liability	<u>46,408</u>	<u>18,464</u>	<u>(15,997)</u>	<u>48,875</u>	<u>20,152</u>
 Total long-term liabilities	 <u>\$ 87,086</u>	 <u>\$ 53,123</u>	 <u>\$ (27,728)</u>	 <u>\$ 112,481</u>	 <u>\$ 36,167</u>

On September 25, 2001, proceeds from the issuance of \$23,800,000 of Refunding Certificates of Participation, Series 2001 (2001 COPS) were used to refund the 1989 COPS. Interest on the 2001 COPS is payable semi-annually on February 1 and August 1 of each year through the year 2018. The interest rate ranges from 2.1% to 4.8% and the final maturity is on August 1, 2018.

In September 2006, the District borrowed \$25,000,000 from the Alameda County Transportation Improvement Authority (ACTIA). This loan accrued interest at the prevailing State Local Agency Investment Fund (LAIF) rate plus 1%. This loan is due in December 2008. This loan was made to enable the District to implement cost reduction and revenue enhancing programs.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2007

The District's debt service requirements to maturity for each of the next 5 fiscal years and thereafter are summarized as follows (in thousands):

Year Ending		
June 30	Principal	Interest
2008	\$ 1,210	\$ 2,055
2009	26,250	1,355
2010	1,290	654
2011	1,340	604
2012	1,390	548
2013 - 2017	7,910	1,774
2018 - 2019	<u>3,680</u>	<u>176</u>
Total	<u>\$ 43,070</u>	<u>\$ 7,166</u>

Debt Limit

Board policy on debt limitation (as defined by Ordinance No. 3773) states that "total annual debt service expenses shall not exceed ten percent of operating revenue (including subsidies) provided that in no event shall such indebtedness exceed twenty percent of the assessed value of all real and personal property within the District." The District's legal annual debt service limit as of June 30, 2007, is approximately \$34.7 million.

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the District performed a calculation to determine if there were any excess investment earnings on the District's 2001 COPS at June 30, 2007, and as a result of this calculation the District does not expect to incur a liability.

(9) PENSION PLAN

Plan Description – The Plan) is a noncontributory single-employer defined benefit pension plan, which provides retirement benefits for all qualifying union and non-union employees. Administration of the Plan is performed by the Plan's management staff and overseen by the Plan's Retirement Board. All permanent full-time District employees are eligible to participate in the Plan.

The District makes contributions, based upon the Plan's actuarial calculation each fiscal year. The Plan's members are the Amalgamated Transit Union (ATU), the America Federation of State, County and Municipal Employees (AFSCME), the International Brotherhood of Electrical Workers (IBEW) and unrepresented employees. Each union vesting period is based upon its individual collective bargaining entity, which is 5 years for all employees other than ATU employees who have a 10-year vesting requirement.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2007

Actuarial methods and assumptions

Valuation date	January 1, 2006
Actuarial cost method	Projected unit credit
Amortization method	Level percentage open
Remaining amortization period	24 years (decreasing one year annually, 15 year minimum)
Asset valuation method	Market value less unrecognized investment gains or losses during the prior four years, phased in at 20% per year, but required to be within 20% of market value.
Actuarial assumptions:	
Investment rate of return*	7.70%
Projected salary increases*	3.7% to 10.7% for ATU/IBEW participants 3.7% for AFSCME participants
*Includes inflation at	3.20%
Cost of living adjustments	None

Basis of Accounting – Contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds of prior contributions are recognized when due and payable in accordance with the terms of the Plan. Investments are stated at fair value. Quoted market values are used to value investments. Investment gains and losses are based on average cost. Purchases and sales of securities are recorded on the trade date.

Funding Policy – The District’s contributions to the Plan normally are made in accordance with actuarially determined requirements. The Plan’s funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when they are due. Significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the District’s actuarial accrued liability.

The District’s actuarially required contribution in the current year was \$23,069,205, representing 19.15% of covered payroll.

The three-year trend information for the Plan is as follows (dollars in thousands):

<u>Fiscal</u> <u>Year</u> <u>Ended</u>	<u>Annual</u> <u>Pension Cost</u> <u>(APC)</u>	<u>Percentage of</u> <u>APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
6/30/2005	\$ 19,396	99.5%	\$ 83
6/30/2006	20,997	100.0%	83
6/30/2007	23,069	100.4%	0

The Plan issues stand-alone financial statements and copies of these statements can be obtained from the AC Transit Retirement Department, 1600 Franklin Street, Oakland, CA 94621.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2007

(10) COMMITMENTS AND CONTINGENCIES

There are claims and litigation pending, which are considered normal to the District's operation of the transit system. The District maintains insurance coverage for such incidents, as summarized in Note 11, and provisions have been made in the financial statements for estimated losses under the self-insurance retention limits of insurance policies.

(11) RISK MANAGEMENT

The District is self-insured for automotive liability and property damage for claims up to \$1,000,000 per occurrence; self-insured for general liability claims up to \$150,000 per occurrence; and workers' compensation claims up to \$2,000,000 per occurrence. Insurance policies provide excess coverage for claims that exceed these self-insured retentions, with general liability, property damage and statutory workers' compensation insurance coverage up to \$45,000,000.

There have been no significant reductions in any of the District's insurance coverage from the prior year, and no settlement amounts have exceeded insurance coverage for the last three fiscal years.

The District accrues a liability for claims and litigation (including a reserve for claims incurred but not reported) based on an actuarial study. The liability includes allocated and unallocated claims adjustment expenses and incremental claim expense. In addition, the District is partially self-insured for health and dental exposure. Management has evaluated the potential liability and recorded an accrual, which includes an amount for incurred but not reported claims.

During the year ended June 30, 2007, the actuarial estimates based on the 50th percentile discounted at 4.5% to estimate its liability for worker's compensation and the public liability claims were \$43.2 million and \$5.7 million, respectively.

Changes in the reported liability resulted from the following (in thousands):

	Workers' compensation liability	Public liability	Health and dental liability	Total
Balance at June 30, 2005	\$ 37,954	\$ 3,992	\$ 361	\$ 42,307
Claims and changes in estimates	11,349	3,771	4,447	19,567
Claim payments	(7,981)	(3,031)	(4,454)	(15,466)
Balance at June 30, 2006	41,322	4,732	354	46,408
Claims and changes in estimates	9,624	4,662	4,272	18,558
Claim payments	(7,776)	(3,689)	(4,626)	(16,091)
Balance at June 30, 2007	\$ 43,170	\$ 5,705	\$ -	\$ 48,875

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) YEAR ENDED JUNE 30, 2007

The classification of the current and long-term portion of the self-insurance liabilities for the year ended June 30, 2007 are summarized as follows (in thousands):

	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
Workers' compensation liability	\$ 16,404	\$ 26,766	\$ 43,170
Public liability	3,748	1,957	5,705
	<u>\$ 20,152</u>	<u>\$ 28,723</u>	<u>\$ 48,875</u>

(12) JOINT VENTURE

In 1994, the District and BART executed an agreement establishing the East Bay Paratransit Consortium. The District supports the project primarily through its own operating funds, with some financial assistance from Alameda County Measure B funds. The purpose of the Consortium is to provide Americans with Disabilities complementary paratransit services in Alameda and western Contra Costa counties. The area served encompasses the AC Transit/BART coordinated service area. Revenues and expenses for the Consortium are split 69% and 31% between the District and BART, respectively, and the District's financial statements reflect its portion of revenues and expenses as operating activities. The District has no equity interest in the Consortium.

Effective October 1, 2003, the Consortium discontinued the practice of rotating lead agency responsibilities on an annual basis. Key administrative support functions are now permanently assigned to each participating agency. Also effective October 1, 2003, a Service Review Advisory Committee (SRAC) was established to serve in an advisory capacity to the Service Review Committee. The primary mission of the SRAC will be to advise on planning, policy and other matters related to the Consortium; advocate for high quality, safe, reliable and courteous paratransit services; and to provide a forum for public input and participation in the review, assessment and evaluation of the ADA paratransit service.

In fiscal year 2007, the District incurred net expenses of approximately \$8,473,000 related to the Consortium.

**Required Supplementary Information
(Other than MD&A - Unaudited)**

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

SCHEDULE OF FUNDING PROGRESS
 ALAMEDA-CONTRA COSTA TRANSIT EMPLOYEES' PENSION PLAN (UNAUDITED)
 YEAR ENDED DECEMBER 31, 2006
 (In Thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability</u>	<u>Unfunded actuarial accrued liability</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>Unfunded liability as a percent of payroll</u>
1/1/04	\$ 311,161	\$ 387,292	\$ 76,131	80%	\$ 117,394	65%
1/1/05	322,626	417,662	95,036	77%	117,267	81%
1/1/06	349,766	449,786	100,020	78%	120,487	83%

Other Supplementary Information

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

COMPARATIVE STATEMENTS OF FUND NET ASSETS
 BUSINESS-TYPE ACTIVITY - ENTERPRISE FUND
 JUNE 30, 2007 AND 2006
 (In thousands)

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 44,805	\$ 46,504
Investments	870	36
Receivables:		
Federal and local grants:		
Capital	40,787	18,642
Planning, operating and other	34,606	8,658
Property tax	3,180	3,823
Local sales tax	11,013	13,797
Interest	279	789
Other, principally trade receivables	4,932	4,033
Total receivables - net	<u>94,797</u>	<u>49,742</u>
Inventories at average cost	8,874	8,484
Prepaid expenses	1,658	1,591
Total current assets	<u>151,004</u>	<u>106,357</u>
NONCURRENT ASSETS:		
Investments restricted for certificates of participation	1,975	1,975
Capital assets:		
Nondepreciable	52,111	46,296
Depreciable, net	192,675	194,975
Total capital assets, net	<u>244,786</u>	<u>241,271</u>
Certificates of participation issuance costs, net of accumulated amortization	399	435
Total noncurrent assets	<u>247,160</u>	<u>243,681</u>
TOTAL ASSETS	<u>398,164</u>	<u>350,038</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	8,266	9,581
Accrued salaries and wages	3,494	2,412
Current portion of accrued vacation and sick leave	14,843	15,007
Due to Pension Trust Fund	25	36
Other accrued liabilities	7,783	6,778
Accrued interest payable	596	330
Unearned revenue	706	525
Current portion of claims liabilities	20,152	24,066
Current portion of certificates of participation	1,172	1,137
Total current liabilities	<u>57,037</u>	<u>59,872</u>
NONCURRENT LIABILITIES:		
Notes payable	25,000	-
Accrued vacation and sick leave	6,111	6,882
Claims liabilities	28,723	22,342
Certificates of participation	16,480	17,652
Total noncurrent liabilities	<u>76,314</u>	<u>46,876</u>
Total liabilities	<u>133,351</u>	<u>106,748</u>
NET ASSETS		
Invested in capital assets, net of related debt	229,109	222,482
Restricted for debt service	-	1,975
Unrestricted	35,704	18,833
TOTAL NET ASSETS	<u>\$ 264,813</u>	<u>\$ 243,290</u>

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
BUSINESS-TYPE ACTIVITY - ENTERPRISE FUND
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(In thousands)**

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES:		
Passenger fares	\$ 49,377	\$ 48,159
Contract services	9,089	8,753
Other	6,870	6,151
Total operating revenues	<u>65,336</u>	<u>63,063</u>
OPERATING EXPENSES:		
Operator wages	63,044	60,141
Other wages	52,526	48,807
Fringe benefits	96,971	95,775
Depreciation and amortization	36,994	30,938
Fuel and oil	14,928	14,126
Other material and supplies	11,858	9,925
Services	18,733	16,560
Insurance	7,029	7,073
Net expenses of joint venture	11,282	12,567
Other	10,111	7,007
Total operating expenses	<u>323,476</u>	<u>302,919</u>
Operating loss	<u>(258,140)</u>	<u>(239,856)</u>
NONOPERATING REVENUES (EXPENSE):		
Operating assistance:		
Property taxes	77,655	73,078
Local sales tax	58,077	56,090
Local funds	53,299	52,533
Federal	31,317	32,996
State	21,670	16,624
Interest income	3,104	2,290
Interest expense	(1,726)	(1,928)
Net nonoperating revenues	<u>243,396</u>	<u>231,683</u>
Loss before capital contributions	(14,744)	(8,173)
CAPITAL CONTRIBUTIONS	<u>36,267</u>	<u>22,592</u>
CHANGE IN NET ASSETS	21,523	14,419
NET ASSETS, beginning of year	<u>243,290</u>	<u>228,871</u>
NET ASSETS, end of year	<u>\$ 264,813</u>	<u>\$ 243,290</u>

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT**COMPARATIVE STATEMENTS OF CASH FLOWS
BUSINESS-TYPE ACTIVITY - ENTERPRISE FUND
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(In thousands)**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 54,069	\$ 48,826
Cash payments to suppliers for goods and services	(79,983)	(67,096)
Cash payments to employees for services	(206,444)	(192,676)
Other operating receipts	7,052	10,754
Net cash used in operating activities	<u>(225,306)</u>	<u>(200,192)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating assistance received	225,985	254,762
Proceeds from notes payable	25,000	-
Principal paid on notes payable	-	(20,000)
Interest paid on notes payable	(777)	(1,153)
Net cash provided by noncapital financing activities	<u>250,208</u>	<u>233,609</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(42,142)	(30,051)
Capital contributions from grants	14,662	9,136
Principal paid on certificates of participation	(1,175)	(1,140)
Interest paid on certificates of participation	(812)	(814)
Net cash provided by (used in) capital and related financing activities	<u>(29,467)</u>	<u>(22,869)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	3,936	3,976
Purchase of investments	(3,930)	(3,974)
Interest received on investments	2,860	1,653
Net cash provided by investing activities	<u>2,866</u>	<u>1,655</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>(1,699)</u>	<u>12,203</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>46,504</u>	<u>34,301</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 44,805</u>	<u>\$ 46,504</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (258,140)	\$ (239,856)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	36,994	30,938
Loss on disposal of capital assets	1,600	7
Effect of changes in assets and liabilities:		
Receivables	(910)	564
Inventories	(390)	(1,089)
Prepaid expenses	(67)	46
Accounts payable and accrued expenses	(7,006)	517
Accrued salaries and wages	1,081	59
Accrued vacation and sick leave	(935)	4,521
Claims liabilities	2,467	4,101
Net cash used in operating activities	<u>\$ (225,306)</u>	<u>\$ (200,192)</u>

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT**COMPARATIVE SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
BUDGETARY BASIS - BUSINESS-TYPE ACTIVITY - ENTERPRISE FUND
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(In thousands)**

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES:		
Passenger fares	\$ 49,377	\$ 48,159
Contract services	4,596	4,624
Other	6,870	6,151
Total operating revenues	<u>60,843</u>	<u>58,934</u>
NONOPERATING REVENUES (EXPENSE):		
Operating assistance:		
Property taxes	77,655	73,078
Local sales tax	58,077	56,090
Local funds	53,299	52,533
Federal	31,317	32,996
Capital contribution	36,267	22,592
State	21,670	16,624
Interest income	2,906	2,123
Interest expense	(1,563)	(1,752)
Net nonoperating revenues	<u>279,628</u>	<u>254,284</u>
Total revenues	<u>340,471</u>	<u>313,218</u>
OPERATING EXPENSES:		
Operator wages	61,279	58,633
Other wages	51,723	48,083
Fringe benefits	72,534	73,476
Pension Fund	23,197	21,187
Fuel and oil	14,596	13,799
Other material and supplies	11,732	9,798
Services	18,712	16,555
Insurance	6,764	7,087
Net expenses of joint venture	11,282	12,567
Other	10,111	7,007
Total operating expenses	<u>281,930</u>	<u>268,192</u>
Capital outlay	<u>3,355</u>	<u>2,809</u>
Total expenses	<u>285,285</u>	<u>271,001</u>
Excess of revenues over expenses	<u>\$ 55,186</u>	<u>\$ 42,217</u>

See accompanying notes to other supplementary information.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

**SCHEDULE OF REVENUES, SUBSIDIES AND EXPENSES, BUDGET VERSUS ACTUAL
BUSINESS-TYPE ACTIVITY - ENTERPRISE FUND - TRANSIT ONLY
FOR THE YEAR ENDED JUNE 30, 2007
(In thousands)**

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
OPERATING REVENUES:			
Passenger fares	\$ 49,043	\$ 49,377	\$ 334
Contract services	4,596	4,596	-
Other	4,976	6,870	1,894
Total operating revenues	<u>58,615</u>	<u>60,843</u>	<u>2,228</u>
NONOPERATING REVENUES (EXPENSE):			
Property taxes	74,246	77,655	3,409
State operating assistance	2,905	14,679	11,774
Sales tax (AB1107)	32,110	33,180	1,070
Sales tax (TDA)	54,556	53,299	(1,257)
Federal operating assistance	4,887	6,311	1,424
Preventive maintenance	19,860	25,006	5,146
Measure B	23,410	23,288	(122)
Measure C	1,621	1,609	(12)
State transit assistance	24,070	6,991	(17,079)
Capital contributions	-	36,267	36,267
ADA paratransit consortium	6,809	6,589	(220)
Interest revenue	2,200	2,906	706
Interest expense	(1,000)	(1,563)	(563)
Total nonoperating revenues (expense)	<u>245,674</u>	<u>286,217</u>	<u>40,543</u>
Total revenues	<u>304,289</u>	<u>347,060</u>	<u>42,771</u>
EXPENSES:			
Operator wages	58,778	61,279	(2,501)
Other wages	50,266	51,723	(1,457)
Fringe benefits	71,725	72,534	(809)
Pension	27,152	23,197	3,955
Services	18,418	18,712	(294)
Materials and supplies	24,306	26,328	(2,022)
Utilities	2,899	2,862	37
Insurance	6,320	6,764	(444)
Taxes	2,280	2,763	(483)
Leases and rentals	638	342	296
Expenses of joint venture	19,214	17,871	1,343
Other	477	4,144	(3,667)
Total operating expenses	<u>282,473</u>	<u>288,519</u>	<u>(6,046)</u>
Capital outlay	<u>20,717</u>	<u>3,355</u>	<u>17,362</u>
Total expenses	<u>303,190</u>	<u>291,874</u>	<u>11,316</u>
Excess of revenues over expenses	<u>\$ 1,099</u>	<u>\$ 55,186</u>	<u>\$ 54,087</u>

See accompanying notes to other supplementary information.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT**SCHEDULE OF REVENUES AND EXPENSES BY SERVICE AREA
BUSINESS-TYPE ACTIVITY - ENTERPRISE FUND - TRANSIT ONLY
FOR THE YEAR ENDED JUNE 30, 2007
(In thousands)**

	<u>Special Transit District 1</u>	<u>Special Transit District 2</u>	<u>Total</u>
REVENUES:			
Passenger fares	\$ 47,045	\$ 1,643	\$ 48,688
Other transit fares	827	-	827
BART transfers	4,441	155	4,596
Advertising	2,143	251	2,394
Interest income	2,602	304	2,906
Other	4,007	469	4,476
	<hr/>	<hr/>	<hr/>
Total operating revenues	61,065	2,822	63,887
SUBSIDIES			
Property taxes	51,161	12,589	63,750
Supplementary Service	2,225	1,015	3,240
Sales tax (AB1107)	33,180	-	33,180
Sales tax (TDA)	43,486	9,813	53,299
Federal assistance - ADA set aside	4,441	432	4,873
Federal assistance - Others	23,066	2,624	25,690
Measure BB	13,905	-	13,905
Measure B	21,540	1,748	23,288
Measure C	1,609	-	1,609
ADA paratransit consortium	6,004	584	6,588
State transit assistance	18,358	1,087	19,445
	<hr/>	<hr/>	<hr/>
Total subsidies	218,975	29,892	248,867
Total revenues and subsidies	<hr/>	<hr/>	<hr/>
	280,040	32,714	312,754
EXPENSES:			
Operator wages	55,597	5,682	61,279
Other wages	46,305	5,418	51,723
Fringe benefits	65,409	7,125	72,534
Pension	20,918	2,279	23,197
Services	16,813	1,899	18,712
Fuel and lubricants	13,067	1,529	14,596
Tires and tubes	1,702	199	1,901
Office/printing supplies	640	75	715
Business parts/Maintenance supplies	8,161	955	9,116
Utilities	2,562	300	2,862
Insurance	6,055	709	6,764
Taxes	2,474	289	2,763
Leases and rentals	306	36	342
Other expenses	3,710	434	4,144
ADA Paratransit Service	16,648	1,620	18,268
Interest Expense	1,407	156	1,563
Depreciation	33,119	3,875	36,994
	<hr/>	<hr/>	<hr/>
Total expenses	294,893	32,580	327,473
Income (loss) before capital contributions	(14,853)	134	(14,719)
Capital contributions	<hr/>	<hr/>	<hr/>
	32,468	3,799	36,267
Change in net assets	<hr/>	<hr/>	<hr/>
	\$ 17,615	\$ 3,933	\$ 21,548

See accompanying notes to other supplementary information.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

**NOTES TO OTHER SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007**

Budgetary Basis of Accounting

The District's fiscal policies establish the framework for the management and control of the District's resources to ensure that the District remains fiscally sound. The District's goals and policies, which are approved by the Board of Directors, determine where and how District resources should be dedicated. For this reason, District goals, objectives, short and long-range planning and performance analyses are incorporated into the budget development process.

It is the policy of the District that the Board of Directors approves an annual budget prior to the beginning of each fiscal year. The budget is developed generally using the accrual basis of accounting. See the following section for a reconciliation of budget versus generally accepted accounting principles.

Budgetary Basis Differences

As discussed in Note 2, the accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The following is a summary of the differences between GAAP and budgetary basis:

- Perspective differences resulting from the Corporation and the Paratransit operations not budgeted.
- Capital outlay presented represents capital outlay funded by the District's operations and this is reported as an outflow of budgetary resources but is not considered an expense for financial reporting purposes.
- Depreciation on capital assets funded by District operations is not budgeted, as it is not an outflow of budgetary resources.

The effect of these differences between budgetary and GAAP accounting on the June 30, 2007 basic financial statements of the District's budgeted fund is as follows (in thousands):

Increase in net assets on a GAAP basis	\$ 21,523
Perspective differences	24
Capital outlay of District funds	(3,355)
Depreciation on fixed assets funded by District operations	36,994
Increase in net assets on a budgetary basis	<u>\$ 55,186</u>

Schedule of revenues and expense by service area

As discussed in note 1 to the financial statements, the District's basic financial statements include the financial activities of the District's Special Transit Service Districts No. 1 and No. 2. The amounts recorded in this schedule do not reflect paratransit activity and activity of the AC Transit Financing Corporation. The District's revenues between these Special Transit Service Districts are allocated based predominantly either on estimated actual revenues, farebox revenue allocations or on a ratio that uses service hours and service miles in Special Transit Service Districts No. 1 and No. 2. The District's expenses between these Special Transit Districts are allocated based predominantly either on operator wages or on a ratio that uses service hours and service miles in both Special Transit Service Districts No. 1 and No. 2.