

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2018
With Comparative Totals for 2017



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SAN MATEO COUNTY
***Transportation
Authority***

San Carlos, California

Comprehensive Annual Financial Report

**Fiscal Year Ended June 30, 2018
(With Comparative Totals for 2017)**

Prepared by the Finance Division

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INTRODUCTORY

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

LETTER OF TRANSMITTAL



November 5, 2018

**To the 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, 2018**

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the San Mateo County Transportation Authority (Transportation Authority) for fiscal year July 1, 2017 through June 30, 2018. This transmittal letter includes the formal transmittal of the CAFR, a profile of the TA, information useful in assessing the government's economic condition and awards and acknowledgements. Readers desiring an analytical overview of the basic financial statements or TA's financial activities may refer to the Management's Discussion and Analysis in the Financial Section.

Management assumes sole responsibility for the information contained in this report, including its presentation and the adequacy of its disclosures. To the best of our knowledge, this report is complete and reliable in all material respects. To provide a reasonable basis for making this representation, we have established a comprehensive system of internal controls designed to protect the TA's assets from loss, to identify and record transactions accurately and to compile the information necessary to produce financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not exceed the likely benefits, the TA's internal control system intends to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement.

To test the performance of the internal control system, the TA contracted for independent auditing services from Vavrinek, Trine, Day & Co., LLP, a certified public accounting firm licensed to practice in the State of California. The auditor expressed an opinion that the TA's financial statements are fairly stated in all material respects 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 "unmodified" or "clean" opinion.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

LETTER OF TRANSMITTAL

PROFILE OF THE ORGANIZATION

Basic Information

San Mateo County, with a population of over 750,000, is located on a peninsula south of the City and County of San Francisco, bordered on the west by the Pacific Ocean, on the east by San Francisco Bay and on the south by the counties of Santa Clara and Santa Cruz. The voters of San Mateo County approved the creation of the Transportation Authority pursuant to the Bay Area County Traffic and Transportation Funding Act in June 1988. This Measure A vote authorized an annual one-half cent county sales tax levy. The Transportation Authority programs allocates sales tax revenues to designated project sponsors that are responsible for delivering a broad spectrum of transportation projects and programs pursuant to a Transportation Expenditure Plan over a period of 20 years. In November 2004, the voters reauthorized the levy of the sales tax with a new publicly developed Expenditure Plan containing transportation programs and projects to be implemented over an additional 25 years beyond the original expiration date of December 31, 2008. The 2004 Transportation Expenditure Plan includes six program categories including:

1. Transit
2. Highways
3. Local Streets/Transportation
4. Grade Separations
5. Pedestrian and Bicycle
6. Alternative Congestion Relief Programs

Whenever possible, the Transportation Authority seeks to attract matching funds which grantees provide in the form of state, federal and local funds. These efforts have led to effective partnerships with city, county, state and federal agencies for designing and completing transportation projects, though the Transportation Authority itself is not a recipient of federal assistance.

Interested readers may view the 1988 and the 2004 Measure A Transportation Expenditure Plans online at http://www.smcta.com/about/Expenditure_Plans.html or by contacting:

Director, Transportation Authority Program San Mateo County Transportation Authority
1250 San Carlos Avenue
P.O. Box 3006
San Carlos, California 94070-1306

Governance

A seven-member Board of Directors governs the 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 the interests of North County, Central County, South County and the cities-at-large.
- The San Mateo County Transit District (District) (SamTrans) appoints one Board member.

The Board of Directors meets once a month to determine overall policy for the Transportation Authority and to review the progress of the Transportation Expenditure Plans.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

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Administration

The 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 county sales tax, allocates the funds to grantees as authorized by the Board, and monitors delivery of projects included in the Transportation Expenditure Plans. The Transportation Authority reimburses the District for the cost of its direct services charged to the Transportation Authority cost centers and also for indirect charges pursuant to overhead rates approved by the U.S. Department of Transportation. Currently, District divisions and departments provide a complete and responsive team for all the Transportation Authority activities as follows:

The *Executive Office* is responsible for directing and overseeing all activities and for providing support to the Board of Directors and Citizens Advisory Committee.

The *Finance Division* is responsible for financial accounting and reporting, capital budgeting, operational budgeting, payroll and vendor disbursements, investments and cash management, debt management, revenue control, purchasing, contract administration, risk management, and information technology.

The *Bus Division* provides technical support for the Transportation Authority project sponsors, particularly for employer and other shuttles. The Bus Division also operates the Redi-Wheels paratransit program funded by the Transportation Authority.

The *Rail Division and the Caltrain Modernization Program (CalMod)* manages the Caltrain service, carries out state of good repairs and assists sponsors with implementing major projects such as grade separations with expertise offered by the capital project engineering and construction teams.

The *Communications Division* is responsible for customer service, marketing, advertising, public information, media relations, legislative activities and community outreach.

The *Planning, Grants and Transportation Authority Division* is responsible for oversight of voter-approved Transportation Expenditure Plans, strategic planning and performance, grant administration, and property management.

The *Administrative Division* provides management assistance to executive divisions and is responsible for human resources and safety and security.

Component Units

The Transportation Authority is a legally separate and financially independent governmental agency similar to a special district, that is not a component unit of the County of San Mateo, the San Mateo County Transit District (District) or any other entity. This CAFR and the financial statements contained within represent solely the activities, transactions and status of the Transportation Authority.

Budget

State law requires the Transportation 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 the General Fund based on established agency goals, objectives and performance measures to the Board of Directors. The staff may recommend financial reserves be made available 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.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

LETTER OF TRANSMITTAL

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 Transportation Authority maintains more stringent 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 and departments to the Executive Director or his designee. However, any increase to the expenditure budget as a whole requires the approval of the Board. In addition, the Transportation Authority uses the encumbrance system to reduce budget balances by issuing purchase orders to avoid over-commitment of resources.

The Transportation Authority employs the same basis of controls and accounting principles for both budgeted and actual revenues and expenditures, except that actual proceeds from the sale of capital assets, unrealized investment gains and losses and inter-fund transfers are not included in the budget. Pursuant to procedures established in its enabling legislation, the Transportation Authority establishes an appropriation limit for each annual budget cycle. The appropriation limit for Fiscal Year 2018 was \$684.4 million and the limit for Fiscal Year 2019 is \$684.4 million.

FINANCIAL AND ECONOMIC OUTLOOK

Local Economy

The Bay Area had the fastest rates of population and economic growth in the most current economic cycle of California's statewide growth in 2017 and during the first half of 2018. However this trend has started to change as the Central Valley became the region with faster job creation and faster growing population due to comparatively affordable homes and improving job prospects. Economic forecasts estimate income gains will still be especially rapid in the Bay Area, where a large number of jobs in the technology and business services sectors will be generated. This, combined with meaningful in-migration, will generate estimated income growth of 3.3 percent per year from 2017 to 2020.

The San Mateo County economy is expanding very rapidly. In 2017 the county gained 11,100 jobs, representing a growth rate of 2.8 percent. By comparison, statewide growth was observed at 2.0 percent. The San Mateo County unemployment rate was exceptionally low in 2017, falling to 2.7 percent, which is near its lowest sustainable level. The economy has now reached a "full employment" scenario, meaning that almost everyone who wants a job already has a job. Despite a recent construction boom and building activity, housing production has not kept pace with population growth. Home prices are now 48 percent above their bubble-era peak, and housing affordability is becoming a major problem. High home prices are reducing migration to San Mateo County. Population growth has decelerated, and is now below the statewide average. Because home prices are expected to rise faster than incomes, worsening the housing affordability problem, net migration will be low for the foreseeable future.

The San Mateo County technology sector continues to expand rapidly. Venture capital funding to technology companies has been very high for most of the current business cycle, allowing new startups to form and existing firms to expand. The county now has 24,700 workers at software firms, 15,000 workers at Internet publishing and search companies, 3,800 workers in data services and hosting companies, and 2,800 workers at computer systems design firms. Inflation-adjusted salaries are projected to rise by an average of 2.7 percent per year between 2018 and 2023, which will be faster than statewide growth. Real per capita income is expected to increase at a rate of 2.3 percent per year, surpassing \$126,000 by 2023, and population is expected to increase by 0.6 percent per year from 2018 to 2023, which will be similar to the statewide average.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

LETTER OF TRANSMITTAL

Long-term Financial and Strategic Planning

The goal of the Transportation Authority is to administer the proceeds from Measure A to fund a broad spectrum of projects and programs as approved by the San Mateo County voters. Long-term financial planning is crucial towards accomplishing this goal, and to ensure funds are expended in the most efficient and effective manner possible.

Voters reauthorized Measure A with the 2004 Transportation Expenditure Plan in November 2004 by a 75.3 percent majority, extending the Transportation Authority's mission through 2033. The implementation guidelines in the Transportation Expenditure Plan required that the Transportation Authority prepare a strategic plan and update it at least every five years. The current plan, Strategic Plan 2014-2019, was adopted December 4, 2014, and can be viewed at www.smcta.com. The plan establishes a framework of policies to guide the decision-making process of prioritizing transportation projects and programs consistent with the goals and objectives of the Countywide Transportation Plan and the Transportation Expenditure Plan.

Significant strides have been made with the funds in both the original and new Measure A programs. Notable are the original Measure A revenues contributed to the Caltrain right of way purchase, the purchase of the Dumbarton rail corridor, funding for Caltrain operation, and capital improvements, such as the construction of passing tracks and new signal and control systems. These improvements enabled the Baby Bullet service, initiated in 2004, that has contributed to the significant ridership growth on Caltrain (over 130% through 2018). Measure A funding has also contributed significantly to the Caltrain Modernization Program (CalMod), which includes future electrification of the railroad from San Francisco to San Jose and installation of Positive Train Control. CalMod is a transformative project which will provide quicker, more frequent train service, with many ancillary benefits such as lower operational costs, lower greenhouse gas emissions, improved safety, and reduced travel times.

To reduce local traffic congestion and improve safety, Measure A funds were allocated for the development and construction of grade separations, including the completed San Bruno Grade Separation, the 25th Avenue Grade Separation in the City of San Mateo that is currently under construction, and pre-construction work for grade separations in the cities of Burlingame, Menlo Park, Redwood City, San Bruno and South San Francisco. Measure A also contributes toward BART service in San Mateo County.

Measure A funds have also been allocated for numerous highway improvement projects including the following that were under construction in Fiscal Year 2018: US 101/Broadway Interchange, US 101/Willow Interchange, the SR 92/El Camino Real Interchange and the Calera Parkway Adaptive Signal Timing Project. The US 101 Managed Lane Project, which is in the environmental phase, is another high profile highway project that has been allocated Measure A Highway Program funds. At the local level, Measure A Local Streets and Transportation funds are directly allocated to cities and the county for streets and road improvements, and other transportation investments to be chosen by the cities and county for implementation.

The pedestrian and bicycle program provided funds for the US 101/Ralston Avenue Pedestrian/Bicycle Overcrossing and will help fund the construction of the US 101/Holly Street Pedestrian/Bicycle Overcrossing. Bike lanes, sidewalks, multi-use pedestrian/bicycle trails, and safer crosswalks at multiple locations throughout the county, round out the active transportation investments funded by Measure A.

The Measure A Shuttle Program funded 37 shuttles that were in operation during Fiscal Year 2018, providing first- and/or last-mile connections to Caltrain and BART, as well as community serving routes that are a viable local mobility option to the private automobile to meet the needs of people dependent on transit.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

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With an aging population, Accessible Services are becoming an even more critical component of providing mobility options for county residents. Measure A provides approximately 20 percent of Samtrans' annual Paratransit budget, providing an essential lifeline for the county's mobility-impaired population.

With recent job growth on the Peninsula, traffic congestion on the roadways has become a substantial challenge for the region. Measure A allocates funds toward Alternative Congestion Relief programs, such as the transportation demand management programs of Commute.org that educates employers and employees of the county about alternatives to driving alone to work, such as transit, carpooling, vanpooling, telecommuting, and bicycling.

MAJOR INITIATIVES

Transit Programs

Measure A funds help subsidize San Mateo County's share of the Peninsula Corridor Joint Powers Board (JPB) annual operating and capital funding needs. The JPB provides public transit services via its Caltrain railroad over a 77-mile right of way extending from San Francisco in the north to Gilroy in the south. Projects funded include new construction and improvements and studies for the following:

- Railway and trackage
- Maintenance facility
- Passenger stations
- Parking facilities
- Grade crossings and separations
- Safety improvements
- Signal and communications upgrades

Notable recent projects supporting the JPB include:

- Construction for 25th Avenue Grade Separation Project
- Ongoing construction for the Peninsula Corridor Electrification & the Positive Train Control Projects
- Provision of local match requirements for federally funded capital construction grants Other notable recent public transit projects include:
- Contributions to SamTrans for paratransit and other accessible services
- Contributions to BART for the SFO Extension
- Contribution to local shuttles

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

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Highway Program

On October 6, 2011, the Board adopted the Short-range Highway plan, a 10-year outlook which includes a policy framework for making investment decisions and developing a capital improvement plan over time. A call for projects process is used to make short term funding decisions anchored to long term goals for the program. The following are some types of projects undertaken:

- Roadway widening
- Interchange reconstruction
- Highway ramp modification
- Travel pattern forecasts
- Travel time information system

Notable street and highway projects include:

- Completion of construction work for the 101/Broadway Interchange project
- Ongoing construction for the US 101/Willow Interchange
- Ongoing Project Approval and Environmental Document (PA&ED) phase work for the U.S. 101 Managed Lanes Projects

The TA programmed approximately \$46 million and allocated over \$25 million to 7 projects in FY 18 from its third Highway Call for Projects.

Alternative Congestion Relief Programs

The Transportation Authority funds alternative congestion relief (ACR) programs aimed at reducing single vehicle occupancy (SVO) trips on congested freeways and busy city streets. These customized programs target both infrastructure problems and personal driving habits. ACR 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.

The Transportation Authority has provided the majority of its ACR funding to Commute.org, which serves 17 cities. Commute.org concentrates on four primary activities:

- 1) Employer outreach and support services
- 2) Employer-based shuttle program
- 3) Commuter outreach and incentive programs
- 4) Development of public/private partnerships to reduce congestion

In addition to ongoing operations, key initiatives in Commute.org's Fiscal Year 2018 work plan include: continuation with the deployment and promotion of the STAR (Support, Track and Reward) Platform, which is a data-based software tool used to promote, track and incentivize commuting behavior; continuation of the Guaranteed Ride Home (GRH) Program, that allows commuters using a qualifying alternative commute mode that experience an emergency while at work or college, to use any form of transportation to get home and receive reimbursement up to 4 times a year; and Technology-based Transportation Projects and Partnerships, working with partners that are developing and deploying technology, such as the use of apps, that will lead to the reduction of SOV trips.

The Transportation Authority made an allocation of \$458,500 in support of Commute.org's Fiscal Year 2018 work plan.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

LETTER OF TRANSMITTAL

Shuttle Program

A joint Shuttle Program Call for Projects with the City and County Association of Governments was issued in FY18 which resulted in the allocation of approximately \$9 million of Measure A funding. This funding will support a combination of 33 commuter and community-serving services for FY19 and FY20.

Bicycle Programs

Three percent of New Measure A funds are available for the Pedestrian and Bicycle Program. The purpose of the program is to fund specific projects to encourage and improve walking and bicycling conditions. The 2004 Transportation Expenditure Plan includes a list of candidate bikeways and overcrossings. Funding considerations are made through a call for projects where project review committees evaluate applications and review the projects based on a set of criteria which were approved as part of the adoption of the Measure A Strategic Plan.

The TA allocated approximately \$5.7 million to 10 projects in FY 18 from its fourth Pedestrian and Bicycle Call for Projects.

Local Programs

The original Measure A required the Transportation Authority to earmark 20 percent of its 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. The total local funds distributed from the original Measure A was \$203.3 million. The new Measure A requires the Transportation Authority to earmark 22.5 percent for this purpose. During Fiscal Year 2018, local agencies received \$19.8 million from the new Measure A. The recipients of these funds primarily use them for street and road projects.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

LETTER OF TRANSMITTAL

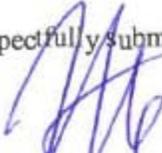
AWARDS AND ACKNOWLEDGMENTS

The staff and contracted firms of the Transportation Authority bring an effective combination of skill, experience and dedication to carrying out the Transportation Authority's mission. Together, they plan, develop and finance the creation of a modern, coordinated multimodal transportation system offering convenient access to the many attributes of the Bay Area and beyond. Although we expect sales tax growth to be modest, the Transportation Authority expects the continued enthusiasm and dedication of its transit professionals to meet the transportation challenges of the future.

The Government Finance Officers Association (GFOA) recognized the Transportation Authority's Fiscal Year 2017 CAFR for excellence in financial reporting and the Certificate of Achievement appears immediately following this transmittal letter. To be awarded a certificate, a report must be easy to read and efficiently organized, while satisfying both generally accepted accounting principles and applicable legal requirements. We believe our Fiscal Year 2018 CAFR also meets the requirements for a Certificate of Achievement and have submitted it to the GFOA for evaluation. We would like to thank our independent audit firm, Vavrinek, Trine, Day & Co., LLP for its timely and expert guidance in this matter.

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

Respectfully submitted,



Jim Hartnett
Executive Director



Derek Hansel
Chief Financial Officer/Treasurer



Government Finance Officers Association

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, 2017

Christopher P. Morill

Executive Director/CEO

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

BOARD OF DIRECTORS

DON HORSLEY, CHAIR

CAMERON JOHNSON, VICE CHAIR

EMILY BEACH

MAUREEN FRESCHET

CAROLE GROOM

KARYL MATSUMOTO

RICO E. MEDINA

DON HORSLEY, Chair, was appointed to the Transportation Authority in 2011 representing the San Mateo County Board of Supervisors. He has served District 3 since 2010, representing several Bayside cities, unincorporated parts of San Mateo County as well as the Coastsides. Prior to joining the Board of Supervisors, Mr. Horsley dedicated his life to public service as a police officer in both the City of Daly City and the San Mateo County Sheriff's Office. In 1993, he successfully ran for the elected Sheriff's position and held that position for the next 14 years. Mr. Horsley also serves on the Sequoia Healthcare District. Mr. Horsley holds a Bachelor's degree from San Francisco State University.

CAMERON JOHNSON, Vice Chair, was appointed to the Transportation Authority in 2015 representing South County. He was elected to the San Carlos City Council in 2013 and served as Mayor in 2016. Mr. Johnson also serves on the City/County Association of Governments, the San Mateo County Library Governing Board, and San Mateo County Community Choice Energy (CCE). He previously served as Chair of the San Mateo County Mental Health and Substance Abuse Recovery Commission and served on the San Carlos Economic Development Advisory Commission. Mr. Johnson has an MBA degree from Stanford Business School and a Bachelor of Arts degree in political science from Reed College.

EMILY BEACH was appointed to the Transportation Authority in 2017 representing the Cities at Large. She was elected to the City of Burlingame Council in 2015. Ms. Beach's professional experience spans non-profit, public and private sectors, previously working as a business executive in Silicon Valley before re-inventing herself as a stay-at-home mom and active community volunteer. She served as a U.S. Army officer in Saudi Arabia, South Korea, and Texas. During her four years on active duty, she earned the rank of Captain and obtained the U.S. Army Parachutist Badge. Ms. Beach also serves on the Caltrain Modernization Local Policy Makers Group, El Camino Real (California Highway 82) Task Force, Peninsula Congestion Relief Alliance, the San Mateo County Congestion Management and Environmental Quality committee and the Grand Boulevard Initiative Task Force.

Ms. Beach holds a Bachelor's degree from the University of Notre Dame in Government and Spanish, Magna Cum Laude.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

BOARD OF DIRECTORS

MAUREEN FRESCHET was appointed to the Transportation Authority in 2016 representing Central San Mateo County. She was elected to the San Mateo City Council in November 2011, re-elected in 2015 and is currently serving her second term. She also served on the San Mateo Planning Commission from 2009 to 2011 and on the San Mateo Civic Arts Committee from 2010-11. Ms. Freschet currently serves on the San Mateo County City/County Association of Governments and the Grand Boulevard Task Force. She worked for Notre Dame de Namur for 22 years in the role of Executive Director for Constituent Relations and Conference Services.

CAROLE GROOM was appointed to the Transportation Authority Board by the San Mateo County Board of Supervisors in January 2009. She was elected to the Board of Supervisors in June 2009 and served as President of the Board in 2011 and 2015. Ms. Groom represents the District 2, which includes the cities of Belmont, Foster City and San Mateo. Prior to joining the Board of Supervisors, Supervisor Groom she served on the San Mateo City Council for nine years; two terms as Mayor and spearheaded many ongoing community events such as Active San Mateo County; an annual conference on creating healthy communities and “Streets Alive! Parks Alive!” an annual event to promote parks and public spaces. She is also serves on the San Mateo County Transit District, the California Coastal Commission and the Peninsula Clean Energy board.

KARYL MATSUMOTO, City Selection Committee appointee for the northern portion of San Mateo County and was appointed in February 2007. Ms. Matsumoto was elected to the City of South San Francisco City Council in November 1997 and has served as Mayor four times. Ms. Matsumoto is also the representative of the governing body of the San Mateo County Transit District (“SamTrans”), the City/County Association of Governments of San Mateo County and the Caltrain Modernization Local Policy Maker Group. She holds a Bachelor’s degree in Business Administration and her work experience covers both public, private and nonprofit sectors.

RICO E. MEDINA was appointed to the Transportation Authority in 2018, representing Northern San Mateo County. He has served on the San Bruno City Council since 2005 and was directly elected as San Bruno’s Mayor in November 2017. Mr. Medina serves on the Association of Bay Area Governments board, the Peninsula Traffic Congestion Relief Alliance (Commute.org) and the San Mateo County Operational Area Emergency Services Council.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

EXECUTIVE MANAGEMENT

EXECUTIVE DIRECTOR

Jim Hartnett

EXECUTIVE OFFICERS

Carter Mau – Deputy Chief Executive Officer

Michelle Bouchard – Chief Operating Officer, Rail

John Funghi – Chief Officer, CalMod Program

April Chan – Chief Officer, Planning, Grants, and the Transportation Authority

Derek Hansel – Chief Financial Officer

Cindy Gumpal – Acting Executive Officer District Secretary/Executive Administration

Seamus Murphy – Chief Communications Officer

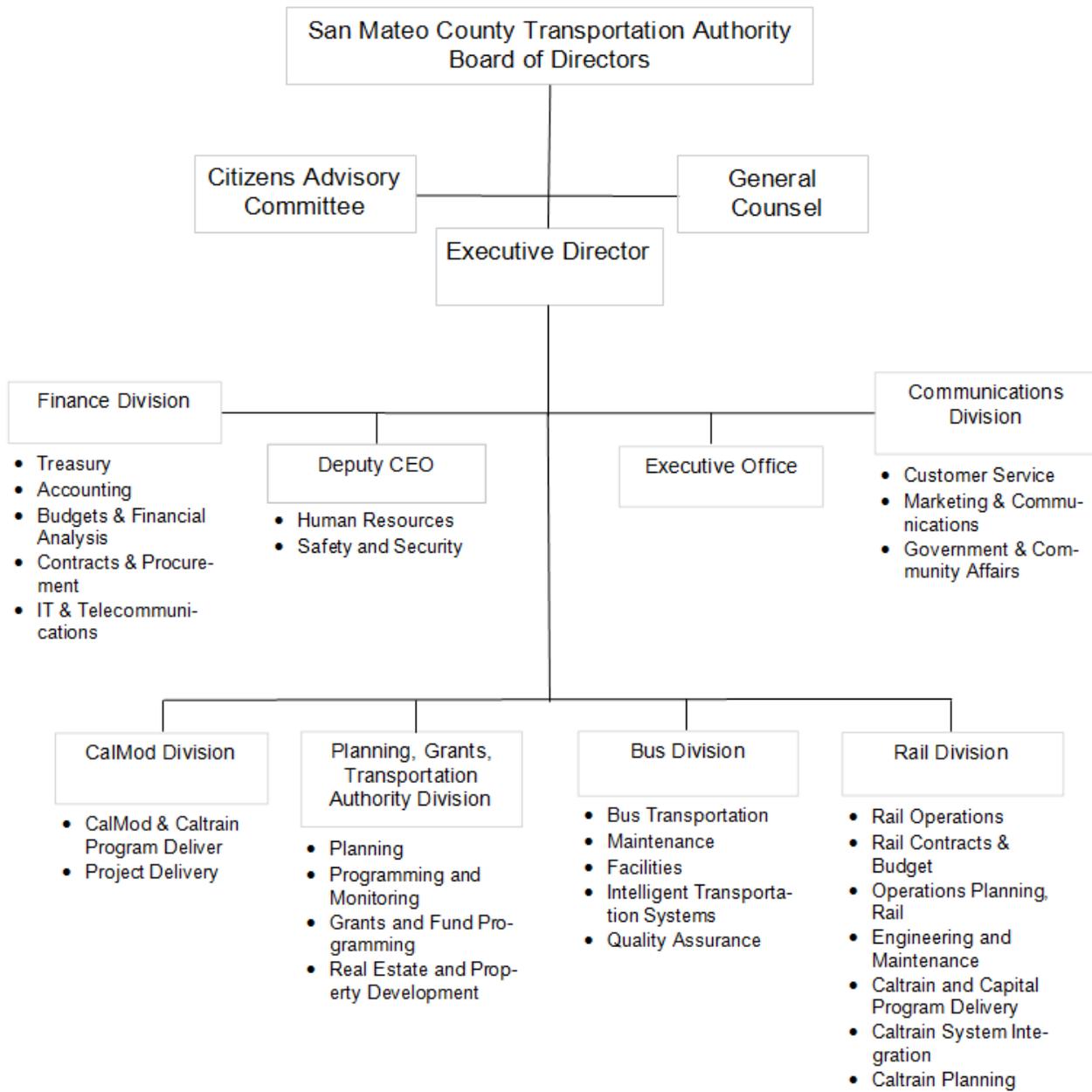
David Olmeda – Chief Operating Officer, Bus

GENERAL COUNSEL

Hanson Bridgett LLP Joan Cassman, Esq.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

ORGANIZATION CHART



SAN MATEO COUNTY TRANSPORTATION AUTHORITY

MAP

San Mateo County, California



SAN MATEO COUNTY TRANSPORTATION AUTHORITY

TABLE OF CREDITS

TABLE OF CREDITS

The following individuals contributed to the production of the Fiscal Year 2018 CAFR:

Finance:	Director of Accounting	Grace Martinez, CPA
	Director of Treasury	Connie Mobley-Ritter
	Director, Budgets and Financial Analysis	Ladi Millard - Olmeda
	Manager, Financial Reporting and General Ledger	Jennifer Ye, CPA
	Manager of Finance Planning and Analysis	Ryan Hinchman
Audit Firm:	Partner	Ahmad Gharaibeh, CPA
	Manager	Tomohito Oku, CPA

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 Financial Statements

Required Supplementary Information

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the San Mateo County Transportation Authority (Transportation Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Transportation Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Transportation Authority, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior-Year Comparative Information

We have previously audited the Transportation Authority's 2017 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities and each major fund in our report dated December 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the general fund budgetary comparison schedule, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Transportation Authority's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2018 on our consideration of the Transportation Authority'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transportation Authority's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
November 5, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS JUNE 30, 2018

MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis of the Transportation Authority's financial position addresses the Transportation Authority's activities for the fiscal year ended June 30, 2018, with comparisons to the fiscal year ended June 30, 2017. 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

- The assets of the Transportation Authority exceeded its liabilities at June 30, 2018 by \$421.4 million (net position). Of this amount, \$11.7 million represents net investment in capital assets and \$409.7 million represents restricted net position, which is restricted to Measure A programs.
- The Transportation Authority's total net position decreased by \$84.7 million mainly because expenses in the public transit projects and street and highways projects increased by \$108.3 million.
- At June 30, 2018, the Transportation Authority's governmental fund reported a balance of \$404.5 million, a decrease of \$84.7 million in comparison with the prior year. Of this amount, \$330.7 million represents restricted fund balance for current Measure A projects and \$73.8 million represents restricted fund balance for future Measure A projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

The *Statement of Activities* reports on the change in net position 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 separately as general revenues. The Transportation Authority reports all changes in net position as soon as underlying events occur, regardless of the timing of the related cash flows. Thus, some revenues and expenses reported in the *Statement of Activities* result in cash flows in a future period.

Fund Financial Statements

A *fund* is a set of accounts used to control resources segregated for specific activities or objectives. Funds classified as *major* are reported individually on the financial statements. The Transportation Authority reports one major fund only. The Transportation Authority uses fund accounting to ensure compliance with various legal requirements, such as the annually adopted budget. Accordingly, certain financial schedules in this report provide a comparison between budgeted and actual amounts.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS

JUNE 30, 2018

The Transportation 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 position. This information is useful for evaluating the Transportation Authority's current financing requirements.

The Transportation Authority has only General Fund:

- The *General Fund* which accounts for the proceeds of the one-half cent county sales tax. These funds are legally restricted to expenditures for specific transportation improvement projects authorized in a referendum approved by San Mateo County voters. This referendum is referred to as *Measure A* and the list of eligible projects can be found in the *Transportation Expenditure Plan*.

Notes to the Financial Statements

The *Notes to the Financial Statements* provide additional information that is essential to fully understand the *government-wide* and *fund* financial statements. These notes begin immediately following the financial statements to which they refer.

Other Information

This report also presents certain *required supplementary information* concerning compliance with the Transportation Authority's annual budget for the *General Fund* which is the Transportation Authority's main operating fund and the equivalent of a *general fund*. This information and associated notes immediately follow the *financial statements* and their accompanying notes.

Government-wide Financial Analysis

At June 30, 2018, total assets were \$449.7 million, a decrease of \$75.0 million or -14.3% from June 30, 2017. Cash and investments comprise \$416.4 million of this amount. With \$28.3 million in total liabilities, the Transportation Authority is in an excellent position to meet its obligations for current construction projects. As of the end of fiscal year 2018, existing encumbrances and expected future costs combined for current construction projects are estimated to total \$330.7 million.

Capital assets of \$11.7 million in 2018, remained unchanged from June 30, 2017.

The Transportation Authority does not record the capital assets created by the construction projects it finances on its own accounting books since these assets are of value only to the local government units to which the Transportation Authority's grants were made. For more information on capital assets, please refer to *Note #7-Capital Assets* of the *Notes to the Financial Statements*.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2018**

	Governmental Activities	
	2018	2017
Assets:		
Current and other assets	\$ 438,049,583	\$ 513,086,538
Capital assets	11,681,806	11,681,806
Total assets	449,731,389	524,768,344
Liabilities:		
Other liabilities	28,328,013	18,714,696
Total liabilities	28,328,013	18,714,696
Net position:		
Investment in capital assets	11,681,806	11,681,806
Restricted	409,721,570	494,371,842
Total net position	\$ 421,403,376	\$ 506,053,648

Total liabilities increased by \$9.6 million or 51.4% to \$28.3 million at June 30, 2018, compared to \$18.7 million at June 30, 2017. The increase was due to more accruals for capital projects.

Net position decreased by \$84.7 million or -16.7% to \$421.4 million at June 30, 2018, the result of expenditures exceeding revenues in 2018 which is mainly because expenses in the public transit projects and street and highways projects increased by \$108.3 million.

	Governmental Activities	
	2018	2017
Revenues:		
Program revenues:		
Charges for services	\$ 1,073,673	\$ 1,223,663
Operating grants/contributions	3,040,078	1,210,306
General revenues:		
Sales tax	87,817,926	84,354,070
Investment earnings and others	3,840,838	1,487,772
Total revenues	95,772,515	88,275,811
Expenses:		
Public transit	90,664,954	25,800,888
Streets and highways	88,068,470	44,628,657
Others	1,689,363	1,316,306
Total expenses	180,422,787	71,745,851
Change in net position	(84,650,272)	16,529,960
Net position - beginning	506,053,648	489,523,688
Net position - ending	\$ 421,403,376	\$ 506,053,648

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

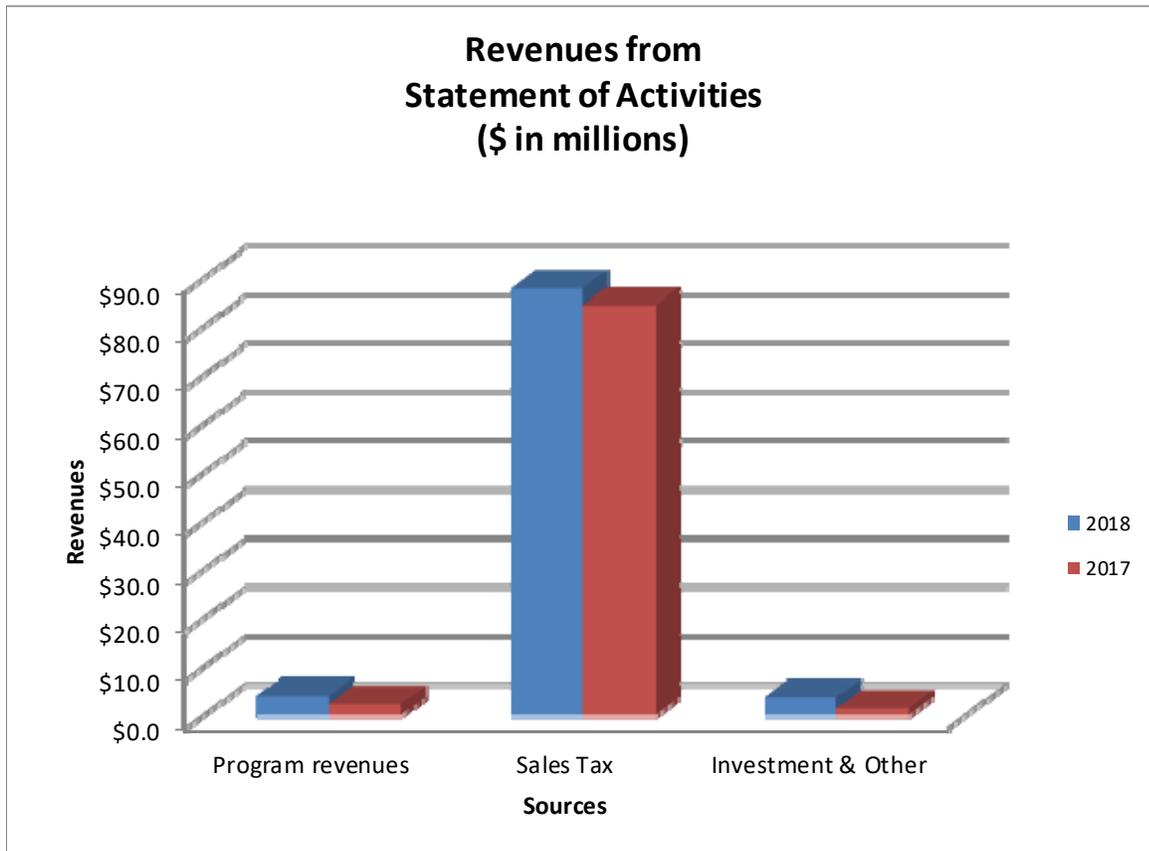
MANAGEMENT'S DISCUSSION & ANALYSIS

JUNE 30, 2018

Governmental Activities

Total expenses for governmental activities were \$180.4 million in 2018, an increase of \$108.7 million or 151.5% compared to 2017. The functional components of total expenses are public transit (50.2%), streets and highways (48.8%) and other programs (0.9%). The following are the highlights of the Transportation Authority's governmental activities:

- Sales tax revenue increased by \$3.5 million or 4.1% to \$87.8 million in 2018 from 2017.
- Investment earnings and other revenues of \$3.8 million in 2018 was \$2.4 million or 158.2% higher compared to 2017.

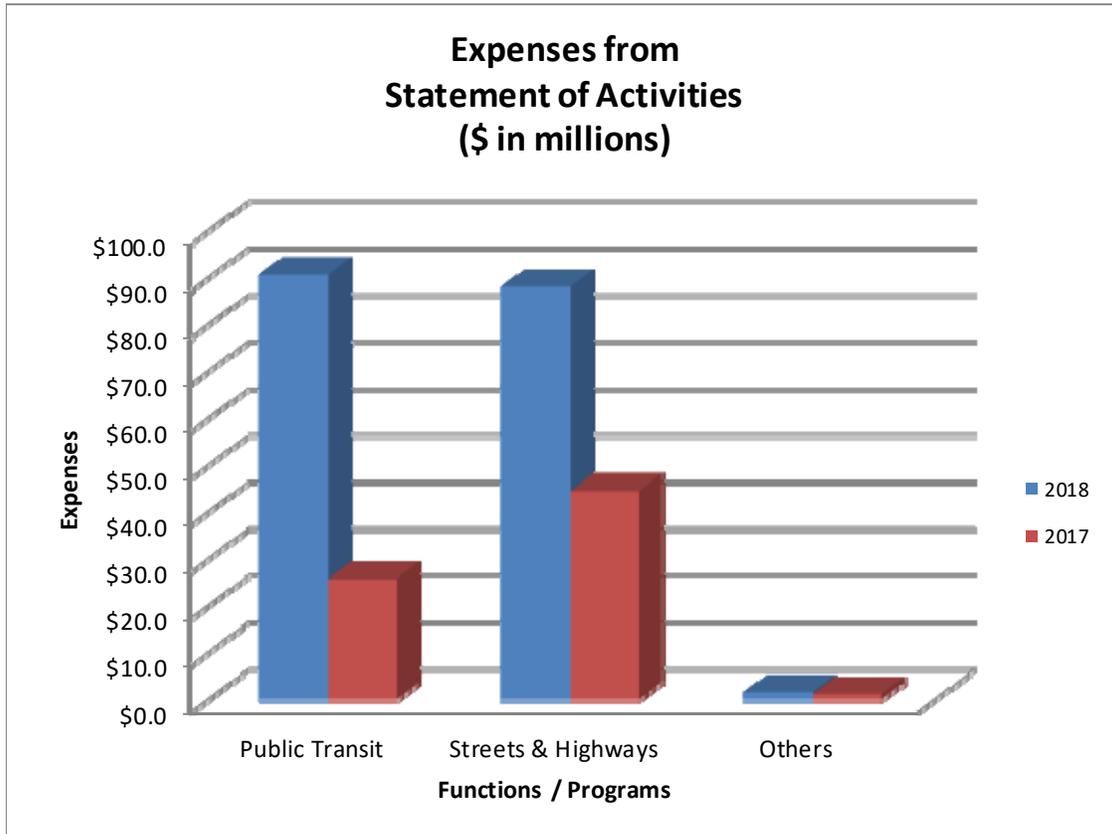


SAN MATEO COUNTY TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS

JUNE 30, 2018

- Expenses for public transit projects in 2018 increased by \$64.9 million or 251.4% to \$90.7 million compared to 2017. The increase was mainly due to more expenditures in the Caltrain electrification project.
- Spending for streets and highways in 2018 increased by \$43.4 million or 97.3% to \$88.1 million compared to 2017 mainly due to the expenses in the 101 Interchange to Willow project.



SAN MATEO COUNTY TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS JUNE 30, 2018

Financial Analysis of the Transportation Authority's Fund

The *General Fund* is the operating fund of the Transportation Authority. The fund balance reached \$404.5 million at June 30, 2018, a decrease of \$84.7 million or 17.3% from June 30, 2017, as expenses in the public transit projects and street and highways projects increased by \$108.3 million during 2018. The total fund balance at June 30, 2018 is restricted for Measure A projects and is available for spending at the discretion of the Transportation Authority's Board of Directors in accordance with the Transportation Expenditure Plan. Since the Transportation Authority principally passes funding through to other organizations, the most accurate indicator of the Transportation Authority's ability to meet its current and future obligations is a comparison of its fund balance to its future commitments. At June 30, 2018, the estimated cost to complete on-going projects is \$330.7 million or 81.8% of total fund balance.

General Fund Budgetary Highlights

GAAP requires a discussion of the budget-to-actual performance for the general fund. The *General Fund* employs the same accounting basis and principles for both its budget and actual revenues and expenditures, except that proceeds from the sale of capital assets, unrealized investment gains and losses and inter-fund transfers are not included in the budget. Sales tax represented 94.7% of the *General Fund's* total budgeted revenue for FY 2018. Actual sales tax revenue for the year was \$87.8 million, which is slightly more than the budget by \$3.16 million or 3.7%.

Total program expenses excluding capital outlay for the *General Fund* were slightly under budget.

During the fiscal year 2018, there was a \$1.7 million increase in the capital outlays between the original and final amended budget. Capital outlay budget, which is a "pass-through", was trued up based on the actual sales tax received. The Transportation Authority spent \$147.6 million or 264.6% of its final 2018 budget for capital outlays, which included the cost of completing on-going capital projects. Since capital projects normally span more than one year, the Transportation Authority carries over unexpended budgets to succeeding years. However, to enhance understanding of the Transportation Authority's fund balance for the *General Fund*, the carry-over amount from 2017 is not included in the 2018 *Budgetary Comparison Schedule*.

Capital Projects

The Transportation Authority spent \$147.6 million on capital projects in 2018, an increase of \$103.23 million or 232.5% compared to 2017. Following are the major capital expenditures:

- Caltrain Electrification project (\$51.5 million)
- Funding for the South San Francisco Caltrain Station (\$6.5 million)
- Funding for the CBOSS/PTC project (7.7 million)
- Construction costs associated with the SR92 El Camino Real Ramp (\$12.7 million)
- Construction costs associated with the 101/Willow Interchange project (\$34.7 million)
- Construction costs associated with the 101/Broadway Interchange project (\$7.1 million)
- Construction costs associated with the 101/HOV Lane Whipple - San Bruno project (\$4.1 million)
- Close out work related to the 25th Avenue Grade Separation project (\$17.7 million)

More information on the Transportation Authority's capital project activity appears in *Notes #13 and #14 – Capital Project and Construction Commitments* in the *Notes to the Financial Statements*.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS

JUNE 30, 2018

Economic Factors and Next Year's Budget

The TA's Board adopted the fiscal year 2019 Budget of \$76.2 million on June 7, 2018. The TA's role is to administer the proceeds from Measure A to fund a broad spectrum of transportation-related projects. In accordance with the 2004 Transportation Expenditure Plan, annual allocations have been budgeted to four plan categories based on a percentage of projected sales tax revenues. The total annual allocation is approximately \$31.5 million. The TA's projected program expenditures are approximately \$41.0 million and compose the funding requirements for Alternative Congestion Relief, Dumbarton, Caltrain, Pedestrian and Bicycle, Local Shuttle, Streets and Highways programs, Grade Separation and the San Mateo County Ferry Service.

Of the \$0.9 million budgeted for the Alternative Congestion Relief program, \$0.5 million was proposed to be set aside for Peninsula Traffic Congestion Relief Alliance's Transportation Demand Management (TDM) Program. A budget of \$6.9 million has been set aside to fund system-wide capital improvements for the Caltrain system. These include State of Good Repair rolling stock, signal, track and station work. These funds will be matched with monies from the Caltrain partners, Santa Clara Valley Transportation Authority and the City and County of San Francisco. The Streets and Highways program, which include funding for key congested corridors has a budget of \$15.0 million and \$8.8 million for the supplemental roadway projects. The TA will put out a call for projects in order to allocate these funds to eligible recipients.

Requests for Information

This financial report intends to provide our citizens, taxpayers, customers and creditors with a general overview of the Transportation 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.

BASIC FINANCIAL STATEMENTS

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**STATEMENT OF NET POSITION
JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)**

	Governmental Activities	
	2018	2017
ASSETS:		
Cash and investments (Note 2)	\$ 416,431,075	\$ 484,323,737
Receivables:		
Sales tax (Note 3)	14,267,853	16,217,931
Interest (Note 4)	2,707,005	2,402,434
Note receivable (Note 5 and 7)	4,343,404	4,343,404
Other (Note 6)	300,246	5,444,179
Prepaid items	-	354,853
Capital assets, nondepreciable (Note 7)	11,681,806	11,681,806
Total assets	449,731,389	524,768,344
LIABILITIES:		
Accounts payable (Note 8)	4,734,978	5,907,828
Accrued liabilities (Note 9)	23,562,015	12,753,003
Unearned revenue	3,797	4,848
Deposits	27,223	49,017
Total liabilities	28,328,013	18,714,696
NET POSITION (Note 10):		
Investment in capital assets	11,681,806	11,681,806
Restricted for Measure A Programs	409,721,570	494,371,842
Total net position	\$ 421,403,376	\$ 506,053,648

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Contributions and Grants	2018	2017
GOVERNMENTAL ACTIVITIES:					
Public Transit					
Upgrades and extensions	\$ 62,256,966	\$ -	\$ -	\$ (62,256,966)	\$ (13,364,369)
Grade separations	18,041,622	707,865	-	(17,333,757)	94,488
Dumbarton spur	209,831	365,808	-	155,977	169,996
BART	1,756,359	-	-	(1,756,359)	(1,687,081)
Caltrain	6,191,353	-	-	(6,191,353)	(6,748,326)
Projects funding	2,208,823	-	-	(2,208,823)	(3,041,933)
Street and highways					
Distributions to local entities	23,611,782	-	-	(23,611,782)	(22,937,780)
Projects funding	64,456,688	-	3,040,078	(61,416,610)	(20,480,571)
Program administration	1,689,363	-	-	(1,689,363)	(1,316,306)
Total governmental activities	\$ 180,422,787	\$ 1,073,673	\$ 3,040,078	(176,309,036)	(69,311,882)
GENERAL REVENUES:					
Sales tax				87,817,926	84,354,070
Investment earnings and other (Note 11)				3,840,838	1,487,772
Total general revenues				91,658,764	85,841,842
Change in net position				(84,650,272)	16,529,960
Net position-beginning of year				506,053,648	489,523,688
Net position-end of year				\$ 421,403,376	\$ 506,053,648

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

GOVERNMENTAL FUNDS – GENERAL FUND

BALANCE SHEET

JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	<u>2018</u>	<u>2017</u>
ASSETS:		
Cash and investments (Note 2)	\$ 416,431,075	\$ 484,323,737
Receivables:		
Sales tax (Note 3)	14,267,853	16,217,931
Interest (Note 4)	2,707,005	2,402,434
Other (Note 6)	300,246	5,444,179
Prepaid items	-	354,853
Total Assets	<u>433,706,179</u>	<u>508,743,134</u>
LIABILITIES:		
Accounts payable (Note 8)	4,734,978	5,907,828
Accrued liabilities (Note 9)	23,562,015	12,753,003
Unearned revenues	3,797	4,848
Deposits	27,223	49,017
Total Liabilities	<u>28,328,013</u>	<u>18,714,696</u>
DEFERRED INFLOWS OF RESOURCES:		
Unavailable revenues	<u>904,206</u>	<u>850,149</u>
FUND BALANCES:		
Fund balances (Note 10)		
Nonspendable:		
Prepays	-	354,853
Restricted for:		
Current Measure A projects	330,713,010	424,346,895
Future Measure A Projects	73,760,950	64,476,541
Total fund balances	<u>404,473,960</u>	<u>489,178,289</u>
Total liabilities, deferred inflows and fund Balances	<u><u>\$ 433,706,179</u></u>	<u><u>\$ 508,743,134</u></u>

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)**

	<u>2018</u>	<u>2017</u>
Amounts reported for governmental activities in the statement of net position are different because:		
TOTAL FUND BALANCES - GOVERNMENTAL FUND	\$ 404,473,960	\$ 489,178,289
Capital assets of governmental activities are not current financial resources and, therefore, are not reported in the governmental fund.	11,681,806	11,681,806
Long term note receivable is not a financial resource and, therefore, is not reported in the governmental fund:	4,343,404	4,343,404
Long-term interest receivables are not available to pay for current period expenditures and therefore are deferred in the governmental fund	904,206	850,149
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 421,403,376</u></u>	<u><u>\$ 506,053,648</u></u>

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

GOVERNMENTAL FUNDS – GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND

BALANCES

FOR THE YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	2018	2017
REVENUES:		
Sales tax	\$ 87,817,926	\$ 84,354,070
Investment income (Note 11)	3,786,781	1,446,698
Rental income	1,073,673	1,223,663
Other income	3,040,078	1,210,306
Total revenues	95,718,458	88,234,737
EXPENDITURES:		
Public Transit:		
Upgrades and extensions	62,256,966	13,364,369
Grade separations	18,041,622	821,367
Dumbarton spur	209,831	137,812
BART	1,756,359	1,687,081
Caltrain	6,191,353	6,748,326
Projects funding	2,208,823	3,041,933
Street and highways:		
Distributions to local entities	23,611,782	22,937,780
Projects funding	64,456,688	21,690,877
Program administration	1,689,363	1,316,306
Total expenditures	180,422,787	71,745,851
Net change in fund balances	(84,704,329)	16,488,886
Beginning fund balances	489,178,289	472,689,403
Ending fund balances	\$ 404,473,960	\$ 489,178,289

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)**

	<u>2018</u>	<u>2017</u>
Amounts reported for governmental activities in the statement of activities are different because of the following:		
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUND	\$ (84,704,329)	\$ 16,488,886
Accrual of interest revenue on the note receivable for the sale of land is recorded as revenue in the government-wide statement of activities, but is not recorded in the governmental fund.	54,057	41,074
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (84,650,272)</u></u>	<u><u>\$ 16,529,960</u></u>

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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(4)	Interest Receivable	27
(5)	Note Receivable	27
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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

NOTE 1 - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The San Mateo County Transportation Authority (Transportation Authority) was formed in June 1988 as a result of the approval of Measure A (one-half cent county sales tax and Transportation Expenditure Plan) by the voters of San Mateo County pursuant to the Bay Area County Traffic and Transportation Funding Act. The Transportation Authority is responsible for the administration of funds collected through the one-half cent county sales tax, initially for a period of 20 years from its formation. In November 2004, the voters reauthorized the sales tax to be administered by the Transportation Authority and a new publicly developed Expenditure Plan for an additional 25 years beyond the original expiration date of 2008. The Transportation Authority has designated the San Mateo County Transit District (District) as the entity responsible for overall management of the Transportation Authority.

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

Effective this fiscal year

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75 – Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions. The objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). This Statement is effective for fiscal years (FY) beginning after June 15, 2017, i.e., FY 2017/2018. The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 81 – In March 2016, GASB issued Statement No. 81, Irrevocable Split-Interest Agreements. The objective of the Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective for the reporting periods beginning after December 15, 2016, i.e., FY 2017/2018. The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (pensions and other post-employment benefits [OPEB]). The Statement is effective for the reporting periods beginning after June 15, 2017, i.e., FY 2017/2018. The implementation of this Statement did not have a material effect on the financial statements.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources — resources other than the proceeds of refunding debt — are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, i.e., FY 2017/2018. The implementation of this Statement did not have a material effect on the financial statements.

Effective in Future Fiscal Years

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government’s ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, i.e., FY 2018/2019. The Authority is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance related to fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, i.e., FY 2019/2020. The Authority is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, i.e., FY 2020/2021. The Authority is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 88 – GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements. The objective of this Statement is to improve note disclosures related to debt. This Statement requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. This Statement is effective for reporting periods beginning after June 15, 2018, i.e., FY 2018/2019. The Authority is evaluating the impact of this Statement on the financial statements.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. The objectives of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, i.e., FY 2020/2021. The Authority is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 90 – In August 2018, GASB issued Statement No. 90, Majority Equity Interest, an amendment of GASB statement No. 14 and No. 61. The objectives of this Statement is to improve how majority equity interest is reported. The Statement specifies that a majority equity interest in a legally separate organization should be reported as an investment using the equity method if a government’s holding of the equity interest meets the definition of an investment and for all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, i.e., FY 2019/2020. The Authority is evaluating the impact of this Statement on the financial statements.

C. Basis of Presentation

Government-wide Financial Statements

The Statement of Net position and Statement of Activities report the financial activities of the Transportation Authority. The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Transportation 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 program. Revenues that are not classified as program revenues, including sales tax revenues, are presented instead as general revenues.

Fund Financial Statements

The Transportation Authority accounts for its sales tax revenue in the General Fund. Sales tax proceeds are legally restricted to improve, construct, maintain, and operate certain transportation projects and facilities contained in the 2004 Transportation Expenditure Plan (Plan) adopted by the Board of Supervisors of San Mateo County, all of the Cities in the County, and the voters in San Mateo County with the approval of the sales tax. That Plan may be amended from time to time pursuant to the Plan and applicable law.

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 when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

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 180 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. Capital asset acquisitions are reported as expenditures in governmental funds.

E. Fair Value Measurement

Generally accepted accounting principles provides guidance for determining a fair value measurement for reporting purposes, applying fair value to investments, and disclosures related to a hierarchy established by generally accepted accounting principles. The Transportation Authority's fair value hierarchy, which has three levels, is based on the valuation inputs used to measure fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

F. Prepaid items

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

G. Cash and Investments

All highly liquid investments with maturities of three months or less when purchased are considered cash equivalents. Investments are reported at fair value. Cash deposits are reported at carrying amount.

H. Capital Assets

Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated acquisition value at the date of donation plus ancillary charges, if any. 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 Transportation Authority from the one-half cent county sales tax include highways, streets and grade separations. These infrastructure assets are of value only to the local government units in whose jurisdiction they are constructed and are not recorded as capital assets on the Transportation Authority's books. The Transportation Authority does not have depreciable capital assets. The Transportation Authority's policy is to capitalize all capital assets with a cost greater than \$5,000 and a useful life of more than one year.

I. Use of Estimates

The Transportation Authority's management has made a number of estimates and assumptions relating to the reported amounts of the financial statements and the related disclosures in conformity with Generally Accepted Accounting Principles (GAAP). Actual results could differ from those estimates.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)**

J. Summarized Data

The summarized partial data provided in these financial statements for Fiscal Year ended June 30, 2017 is not a requirement for fair presentation of the financial statements, but is being presented as additional analysis. Such information does not provide sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Transportation Authority’s financial statements for the year ended June 30, 2017 from which such comparative partial information was derived.

NOTE 2 - CASH AND INVESTMENTS

The Transportation Authority pools cash from all sources and funds so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

The Transportation Authority records investment transactions on the trade date. Investments are reported at fair value. Fair value is defined as the amount that the Transportation Authority could reasonably expect to receive for an investment in a current sale between a willing buyer and seller, and is generally measured by quoted market prices. The Transportation Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end. The effects of changes in market value are reflected as a component of investment income. Deposits and investments as of June 30 are categorized as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Cash and Investments		
Cash in bank	\$ 7,214,156	\$ 1,334,280
Investments	409,216,919	482,989,457
Total cash and investments	<u><u>\$ 416,431,075</u></u>	<u><u>\$ 484,323,737</u></u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)**

Authorized Investments by the Transportation Authority

In accordance with the California Government Code or its investment policy when more restrictive, the Transportation Authority may acquire investments as identified in the table below:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	15%	5%
Commercial Paper	270 days	15%	10%
Negotiable Certificates of Deposit	5 years	10%	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	10%	5%
Money Market Mutual Funds	N/A	20%	5%
Mortgage Pass-through Securities	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
San Mateo County Pool	N/A	None	None
Municipal Bonds	5 years	None	None

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)**

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 Transportation Authority manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Transportation Authority monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. With respect to this metric, the Transportation Authority’s policies are as follows:

The Transportation Authority’s weighted average maturity of its investment portfolio at June 30, 2018 was as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity (in years)</u>
U.S. Treasury Bond/Note	\$ 39,197,032	3.15
Federal Agency Collateralized & Agency Bond/Note	23,970,433	2.55
Commercial Paper	13,887,147	0.31
Certificate of Deposit	16,973,176	1.40
Asset-Backed Security/Collateralized Mortgage Obligation	22,486,797	1.38
Corporate Bonds and Notes	39,924,733	1.99
Money Market Mutual Funds	1,140,575	-
LAIF	991,846	0.53
San Mateo County Pool	250,645,180	0.91
Total	\$ 409,216,919	
Portfolio Weighted Average Maturity		1.35

The Transportation Authority’s weighted average maturity of its investment portfolio at June 30, 2017 was as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity (in years)</u>
US Agency Securities	\$ 49,106,953	2.32
US Government Securities	28,925,732	3.43
Commercial Paper	16,050,189	0.24
Corporate Bonds and Notes	62,741,594	2.66
Money Market Mutual Funds	178,791	-
LAIF	981,061	0.53
San Mateo County Pool	325,005,137	1.01
Total	\$ 482,989,457	
Portfolio Weighted Average Maturity		1.13

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)**

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the fiscal year end for each investment type.

Transportation Authority’s investment portfolio credit quality ratings at June 30, 2018 were as follows:

Investment Type	Amount	S&P Rating as of June 30, 2018			
		AAA	AA	A	Not Rated
U.S. Treasury Bond/Note	\$ 39,197,032	\$ -	\$ 39,197,032	\$ -	\$ -
Federal Agency Collateralized & Agency Bond/Note	23,970,433	-	23,970,433	-	-
Commercial Paper	13,887,147	-	-	13,887,147	-
Certificate of Deposit	16,973,176	-	5,804,599	11,168,577	-
Asset-Backed Security/Collateralized Mortgage Obligation	22,486,797	10,498,763	-	-	11,988,034
Corporate Bonds and Notes	39,924,733	1,500,575	11,127,566	27,296,592	-
Money Market Mutual Funds	1,140,575	-	-	-	1,140,575
LAIF	991,846	-	-	-	991,846
San Mateo County Pool	250,645,180	-	-	-	250,645,180
Total	\$ 409,216,919	\$ 11,999,338	\$ 80,099,630	\$ 52,352,316	\$ 264,765,635

Transportation Authority’s investment portfolio credit quality ratings at June 30, 2017 were as follows:

Investment Type	Amount	S&P Rating as of June 30, 2017			
		AAA	AA	A	Not Rated
US Agency Securities	\$ 49,106,953	\$ -	\$ 49,106,953	\$ -	\$ -
US Government Securities	28,925,732	-	28,925,732	-	-
Commercial Paper	16,050,189	-	-	16,050,189	-
Corporate Bonds and Notes	62,741,594	10,861,016	15,932,093	30,560,387	5,388,097
Money Market Mutual Funds	178,791	178,791	-	-	-
LAIF	981,061	-	-	-	981,061
San Mateo County Pool	325,005,137	-	-	-	325,005,137
Total	\$ 482,989,457	\$ 11,039,808	\$ 93,964,778	\$ 46,610,576	\$ 331,374,295

Concentration of Credit Risk

There were no investments in any one issuer that exceeded 5% of the Transportation Authority’s total investment portfolio for the years ended June 30, 2018 and 2017.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

Custodial Credit Risk

The custodial credit risk for deposit is the risk that, in the event of the failure of a depository financial institution, the Transportation Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that in the event of the failure of the counter party (e.g. broker-dealer) to a transaction, the Transportation Authority will not be able to recover the value of its investment or collateral securities that are in possession of another party.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the cash on deposit in the name of the pool, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law, this collateral is held in a separate investment pool by another institution and places the pool ahead of general creditors of the institution in which the Transportation Authority is a participant.

The Transportation Authority invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to increase security, the Transportation Authority employs the Trust Department of a bank or trustee as the custodian of certain Transportation Authority managed investments, regardless of their form.

Fair Value Measurements

Fair value measurements are categorized based on the valuation inputs used to measure fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments categorized as Level 2 are valued using the market approach and quoted market prices. Investments in County Pool and in State pool (LAIF) are not measured using the input levels above because the Transportation Authority's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share. The following is the Transportation Authority's fair value hierarchy table as of June 30, 2018:

Investment Type	Quoted Prices (Level I)	Observable Inputs (Level II)	Total
Investment securities:			
U.S. Treasury Bond/Note	\$ 39,197,032	\$ -	\$ 39,197,032
Federal Agency Collateralized & Agency Bond/Note	-	23,970,433	23,970,433
Commercial Paper	-	13,887,147	13,887,147
Certificate of Deposit	-	16,973,176	16,973,176
Asset-Backed Security/Collateralized Mortgage Obligation	-	22,486,797	22,486,797
Corporate Bonds and Notes	-	39,924,733	39,924,733
Money Market Mutual Funds	-	1,140,575	1,140,575
Total	<u>\$ 39,197,032</u>	<u>\$ 118,382,861</u>	157,579,893
LAIF			991,846
San Mateo County Investment Pool			250,645,180
Cash			7,214,156
Total investments by fair value type			<u>\$ 416,431,075</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)**

The following is the Transportation Authority’s fair value hierarchy table as of June 30, 2017:

Investment Type	Quoted Prices (Level I)	Observable Inputs (Level II)	Total
Investment securities:			
US Agency Securities	\$ -	\$ 49,106,953	\$ 49,106,953
US Government Securities	28,925,732	-	28,925,732
Commercial Paper	-	16,050,189	16,050,189
Corporate Bonds and Notes	-	62,741,594	62,741,594
Money Market Mutual Funds	-	178,791	178,791
Total	\$ 28,925,732	\$ 128,077,527	157,003,259
LAIF			981,061
San Mateo County Investment Pool			325,005,137
Cash			1,334,280
Total investments by fair value type			\$ 484,323,737

Methods and assumptions used to estimate fair value: The Transportation 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 Transportation Authority’s investment custodian provides the market value on each investment instrument. The investments held by the Transportation Authority are widely traded in the financial markets and trading values are readily available from numerous published sources. The Transportation Authority has elected to report its money market investments (those investments with maturities of less than one year) using the net asset value method.

San Mateo County Treasurer’s Investment Pool: The Transportation Authority holds investments in the County Pool that are subject to adjustments to “fair value.” The Transportation Authority had a contractual withdrawal value (which is reported using the amortized cost) of \$251,783,240 and \$325,366,293, at June 30, 2018 and 2017, respectively, that is recorded at \$250,645,180 and \$325,005,137 on the balance sheet after the adjustment for unrealized gains/losses for fiscal years ending June 30, 2018 and 2017, respectively. The fair value change in these investments for the year just ended is shown as unrealized gain/losses in the statement of revenues, expenditures and changes in fund balance as well as in the statement of activities via inclusion in the amount of Investment Income.

The Transportation Authority is a voluntary participant in the San Mateo County Treasurer’s Investment Pool. The 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 auspices of the County Treasurer’s office.

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NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

During September 2008, Lehman Brothers Holding filed for Chapter 11 bankruptcy protection. The San Mateo County Portfolio included \$155 million of Lehman Brothers Holding investment at the time, in both commercial paper and floating securities. The County Pool wrote off these investments as of September, 2009, consequently showing a loss of \$155 million out of the total portfolio of approximately \$2.6 billion. The Transportation Authority had approximately \$453 million invested through the County Pool at the time, and therefore incurred its percentage share of this loss during October 2009. The loss the Transportation Authority incurred was approximately \$25.3 million. All funds subsequently recovered by the County Pool will be distributed to participants in proportion to their participation in the loss. Lehman exited bankruptcy in March 2012 and began making settlement payments to creditors. To date, the Transportation Authority has successfully recovered \$11,630,679, or approximately \$0.46 on the dollar.

State of California State Treasurer’s Local Authority Investment Fund (LAIF): The Transportation Authority holds an investment in LAIF that is subject to “fair value” adjustments. The Transportation Authority had a contractual withdrawal value of \$991,846 and \$981,061 (which is reported using the amortized cost) after the adjustment for unrealized gains/losses for fiscal year 2018 and 2017, respectively. 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 Transportation Authority is a voluntary participant in the investment pool.

NOTE 3 - SALES TAX RECEIVABLES

Sales tax receivable consists of sales tax due from the State Board of Equalization of the quarter ended June 30, 2018.

NOTE 4 - INTEREST RECEIVABLE

Interest receivables at June 30 consist of the following sources:

	2018	2017
Interest due from investment portfolio	\$ 1,802,799	\$ 1,552,285
Accrued interest on note receivable	904,206	850,149
Interest receivable on the statement of net position	\$ 2,707,005	\$ 2,402,434

NOTE 5 - NOTE RECEIVABLE

On December 27, 2007, the Transportation Authority transferred 174,047 square feet of development and railroad corridor property owned by the Transportation Authority and located at the northeast corner of Holly Street and El Camino Real in the City of San Carlos to San Mateo County Transportation District. The property was originally acquired by the Transportation Authority for a grade separation project but eventually became excess property. The development portion of the property was transferred to the District and the TA holds a note for the payments due. The District is required to make the principal and interest payments before December 1, 2033.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)**

NOTE 6 - OTHER RECEIVABLES

Other receivables at June 30 consist of amounts owed by other government agencies and miscellaneous receivables as follows:

	<u>2018</u>	<u>2017</u>
Metropolitan Transportation Commission	\$ 79,876	\$ 25,610
San Mateo County Transit District	214,532	5,305,168
Alameda County Transportation Commission	-	53,209
Santa Clara Valley Transportation Authority	-	2,378
Other	5,838	57,814
Total other receivables	<u>\$ 300,246</u>	<u>\$ 5,444,179</u>

NOTE 7 - CAPITAL ASSETS

Capital assets activities for the year ended June 30, 2017 and 2018 are as follow:

	<u>Balance at June 30, 2017</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>Balance at June 30, 2018</u>
Capital Assets - Land	\$ 11,681,806	\$ -	\$ -	\$ 11,681,806

	<u>Balance at June 30, 2016</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>Balance at June 30, 2017</u>
Capital Assets - Land	\$ 11,681,806	\$ -	\$ -	\$ 11,681,806

Land represents the cost of right of way acquisition for future grade separation projects, as well as for corridor preservation purposes. On December 27, 2007, the Transportation Authority conveyed right of way on the land located on Holly Street to the District for a promissory note of \$4,343,404. The original acquisition cost of the property was \$4,570,000. *See Note 5 – Note Receivable.*

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30 are as follows:

	<u>2018</u>	<u>2017</u>
District - Salaries and benefits	\$ 1,206,949	\$ 1,762,326
Paratransit program	1,592,327	841,561
Caltrain	1,883,301	1,683,122
Capital project	-	1,359,708
Other	52,401	261,111
Total	<u>\$ 4,734,978</u>	<u>\$ 5,907,828</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)**

NOTE 9 - ACCRUED LIABILITIES

Accrued liabilities at June 30 are as follows:

	2018	2017
Disbursements to local entities for transportation projects	\$ 3,879,700	\$ 3,649,034
Capital projects	19,256,689	8,703,492
BART	219,918	324,359
Other	205,708	76,118
Total	\$ 23,562,015	\$ 12,753,003

NOTE 10 - NET POSITION/FUND BALANCE

Net position is measured on the full accrual basis while fund balance is measured on the modified accrual basis.

Net Position

Net Position is the excess of all the Transportation Authority’s assets over all its liabilities. Net position is divided into two captions. These captions apply only to net position, which is determined only at the government-wide level, and are described below:

Investment in Capital Assets – The investment in capital assets reported on the statement of net position, represents the Transportation Authority’s ownership of right of way classified as nondepreciable land under capital assets, as described at Note 7.

Restricted – The restricted net position reported on the statement of net position represents the resources available to the Transportation Authority that are legally restricted to improve, construct, maintain, and operate certain transportation projects and facilities contained in the 2004 Transportation Expenditure Plan adopted by the Board of Supervisors of San Mateo County and all of the Cities in the County. That Plan may be amended from time to time pursuant to the Plan and applicable law.

Fund Balances

The General Fund (the Fund) balance is classified in accordance with generally accepted accounting principles, which require the Transportation Authority to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the Transportation Authority prioritizes and expends funds in the following order, as applicable: restricted, committed, assigned, and unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

Nonspendables - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. The restricted fund balance reported on the governmental fund balance sheet represents the resources available to the Transportation Authority that are legally restricted to improve, construct, maintain, and operate certain transportation projects and facilities contained in the 2004 Transportation Expenditure Plan adopted by the Board of Supervisors of San Mateo County and all of the Cities in the County. That Plan may be amended from time to time pursuant to the Plan and applicable law.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)**

NOTE 11 - INVESTMENT INCOME

Investment income activity for the fiscal year ended June 30 is as follows:

	<u>2018</u>	<u>2017</u>
Interest income	\$ 6,886,822	\$ 5,006,400
Net increase (decrease) in fair value of investments	<u>(3,045,984)</u>	<u>(3,518,628)</u>
Investment income - Statements of Activities	3,840,838	1,487,772
Increase in long-term interest receivable	<u>(54,057)</u>	<u>(41,074)</u>
Investment income - Statements of Revenues, Expenditures and Changes in Fund Balance	<u>\$ 3,786,781</u>	<u>\$ 1,446,698</u>

NOTE 12 - STAFF SUPPORT EXPENDITURES

As discussed in Note 1A, the San Mateo County Transit District has been designated as the entity responsible for overall management of the Transportation Authority. The Transportation Authority reimburses the District for staff support services.

Staff support expenditures for the year ended June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Salaries and benefits	\$ 592,525	\$ 522,917
Indirect costs	<u>432,348</u>	<u>131,666</u>
Total	<u>\$ 1,024,873</u>	<u>\$ 654,583</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)**

NOTE 13 - CAPITAL PROJECTS

The expenditures on public transportation projects during fiscal years 2018 and 2017 were \$147,635,279 and \$44,406,657, respectively. Total expenditures on such projects from inception through June 30, are as follows:

Capital Projects	2018	2017
Dumbarton Spur	\$ 33,656,943	\$ 33,447,112
Caltrain	291,837,214	229,908,267
Paratransit	6,510	6,510
Ferry	8,090,377	8,090,377
Local Shuttle	13,100,843	10,892,020
Railroad Grade Separations	269,226,117	251,184,494
Streets and Highways	377,040,469	314,829,049
Alternative Congestion Relief	2,269,285	1,810,785
Administration	1,755	1,755
Oversight and Bicycle	21,114,672	18,538,537
Total	\$ 1,016,344,185	\$ 868,708,906

Of the total expenditures of \$1,016,344,185 for capital projects, \$26,042,680 was funded by contributions from external entities.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Capital projects

At June 30, the Transportation Authority estimated the cost to complete the following committed projects:

Capital Projects	2018	2017
Dumbarton Spur	\$ 14,166,691	\$ 12,656,241
Caltrain	11,880,408	66,928,229
Paratransit	2,761	2,761
Ferry	1,721,661	1,380
Local Shuttle	14,740,087	13,508,347
Railroad Grade Separations	107,033,078	112,172,590
Streets and Highways	165,987,185	204,337,736
Alternative Congestion Relief	1,602,624	1,200,983
Administration	564	564
Oversight and Bicycle	13,577,951	13,538,064
Total	\$ 330,713,010	\$ 424,346,895

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

Litigation

The Transportation Authority is involved in litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the Transportation Authority at June 30, 2018.

Peninsula Corridor Electrification Project

In its role as a primary source of San Mateo County funds for the Peninsula Corridor Joint Powers Board ("JPB"), the Transportation Authority is a party to a series of funding agreements for the funding of the Peninsula Corridor Electrification Project ("PCEP" or "Project").

For over two decades, the JPB has been preparing to electrify the Caltrain railroad corridor, with revenue service expected on the electrified rail line by 2021/2022. The estimated total budget for the PCEP is \$1.98 billion and, as part of the funding plan, the JPB applied for \$647 million in Federal Transit Administration ("FTA") Core Capacity Grant funds for the PCEP and worked with FTA staff to prepare for approval of a Full Funding Grant Agreement ("FFGA").

In late 2016, the FTA informed the JPB that it would not issue the FFGA without evidence that the JPB will have access to an additional 10% contingency (or \$200 million) beyond the budgeted 16.5% for potential cost overruns or funding shortfalls.

To address this requirement, on January 5, 2017, the Transportation Authority passed a resolution committing to provide up to \$135 million of additional contingency, with Santa Clara Valley Transportation Authority ("VTA") making a similar commitment in the amount of \$65 million. These actions were conditioned upon VTA, the San Francisco County Transportation Authority and the Metropolitan Transportation Commission accepting the obligation to each share equally with the Transportation Authority in funding whatever amount of additional contingency is called upon to complete the Project.

NOTE 15 - INSURANCE PROGRAMS

The Transportation Authority is exposed to various risks of loss including but not limited to those related to torts; theft of, damage to, and destruction of assets; errors and omissions, and natural disasters. As of June 30, 2017, coverage provided by self-insurance and excess coverage (purchased by or for the Transportation Authority) is generally summarized as follows:

Type of coverage	Self-Insured Retention	Excess Insurance
Commercial General Liability and Property of Others	\$50,000 self-insured retention	\$11,000,000 per occurrence/aggregate \$3,000,000 per occurrence/aggregate (\$50,000,000 excess carried by the San Mateo County Transit District on behalf of the Transportation Authority)
Public Officials Liability	\$50,000 self-insured retention	

To date, there have been no significant reductions in any of the Authority's insurance coverage. Settlements have not exceeded coverages for each of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive/ (Negative)
Resources (inflows):				
Sales tax	\$ 84,660,000	\$ 84,660,000	\$ 87,817,926	\$ 3,157,926
Investment income	3,700,000	3,700,000	6,301,629	2,601,629
Rental income	792,930	792,930	1,073,673	280,743
Other income	222,000	222,000	3,040,078	2,818,078
Amounts available for appropriation	<u>89,374,930</u>	<u>89,374,930</u>	<u>98,233,306</u>	<u>8,858,376</u>
Charges to appropriations (outflows):				
Program Administration				
Staff support	1,538,980	1,325,918	1,016,295	309,623
Board compensation	8,400	8,400	6,500	1,900
Professional and legal fees	212,012	212,012	236,929	(24,917)
Other services and supplies	279,402	534,264	413,356	120,908
Travel and meeting	29,800	30,400	10,970	19,430
Total program administration	<u>2,068,594</u>	<u>2,110,994</u>	<u>1,684,050</u>	<u>426,944</u>
Distributions to local entities	22,454,770	22,454,770	23,150,433	(695,663)
BART	1,693,200	1,693,200	1,756,359	(63,159)
Caltrain	6,772,800	6,772,800	6,191,353	581,447
Measure A information	15,000	15,000	5,313	9,687
Capital outlays	<u>54,097,500</u>	<u>55,801,394</u>	<u>147,635,279</u>	<u>(91,833,885)</u>
Total charges to appropriations	<u>87,101,864</u>	<u>88,848,158</u>	<u>180,422,787</u>	<u>(91,574,629)</u>
Fund balances				
Beginning of Year			<u>489,178,289</u>	
End of Year			406,988,808	
Explanation of differences between budgetary inflows and GAAP revenues				
Unrealized gains under GASB 31			<u>(2,514,848)</u>	
Total revenues in the Statement of Revenues, Expenditures and Changes in Fund Balances - GAAP basis			<u>\$ 404,473,960</u>	

See note to required supplementary information.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULE JUNE 30, 2018

Budgets and the Budgetary Process

The Transportation 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 and actual revenues and expenditures are presented as required supplementary information. The basis the Transportation Authority uses to prepare the budget is consistent with the basis used to reflect the actual revenues and expenditure, except that proceeds from sale of capital assets and unrealized gains and losses are not included in the budget for the General Fund. The capital outlays budget does not include the carry-over amount from 2017 and therefore the actual amount exceeded the budgeted amount on the budgetary comparison schedule.

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

Section III

STATISTICAL

Financial Trends

- **Net Position and Change in Net Position**
- **Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance**

Revenue Capacity

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

Debt Capacity

The Transportation Authority had no debt outstanding for the past ten years

Demographics and Economic Information

- **Population, Income and Unemployment Rates**
- **Principal Employers**

Operating Information

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

STATISTICAL SECTION

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

Financial Trends

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

Revenue Capacity

These schedules contain information to assist readers in understanding and assessing the factors affecting the Transportation Authority's ability to generate its most significant local revenue source, sales tax.

Debt Capacity

The Transportation Authority had no debt outstanding for the past ten years.

Demographic and Economic Information

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

Operating Information

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

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**FINANCIAL TRENDS – NET POSITION AND CHANGE IN NET POSITION
FISCAL YEARS 2009 THROUGH 2018 (in thousands)**

Fiscal year	2018	2017	2016	2015
GOVERNMENTAL ACTIVITIES:				
PROGRAM REVENUES:				
Grade Separations	\$ 708	\$ 916	\$ 874	\$ 895
Dumbarton Spur	366	308	293	324
Projects Funding	3,040	1,210	-	3,040
Total Program Revenues	4,114	2,434	1,167	4,259
PROGRAM EXPENSES:				
Upgrades and Extension	62,257	13,364	15,682	14,573
Grade Separations	18,042	821	4,142	6,525
Paratransit	-	-	-	-
Dumbarton Spur	210	138	205	210
BART	1,756	1,687	1,594	1,619
Caltrain	6,191	6,748	6,376	6,478
Distribution to local entities	23,612	22,938	21,596	21,902
Projects funding	66,666	24,733	23,909	25,336
Caltrain Shuttle Program	-	-	-	-
Transportation Systems Management	-	-	-	-
Program Administration	1,689	1,316	1,211	1,208
Total Program Expenditures	180,423	71,745	74,715	77,851
NET PROGRAM REVENUES (EXPENSES)	(176,309)	(69,311)	(73,548)	(73,592)
General revenues				
Sales tax	87,818	84,354	79,704	80,974
Unrestricted investment earnings	3,841	1,488	6,786	4,106
Other income	-	-	6	669
CHANGE IN NET POSITION:	(84,650)	16,531	12,948	12,157
Net Position Components:				
Invested in capital assets	11,682	11,682	11,682	11,682
Restricted	409,721	494,372	477,842	464,893
Unrestricted	-	-	-	-
NET POSITION	\$ 421,403	\$ 506,054	\$ 489,524	\$ 476,575

Source: Current and prior years' CAFRs

This table presents Governmental activity program revenues and expenditures, general revenues, sales tax and other income.

2014	2013	2012	2011	2010	2009
\$ 888	\$ 839	\$ 819	\$ 786	\$ 1,103	\$ 3,209
397	694	1,916	994	1,930	5,287
52	2,408	1,979	9	-	-
<u>1,337</u>	<u>3,941</u>	<u>4,714</u>	<u>1,789</u>	<u>3,033</u>	<u>8,496</u>
7,671	4,270	3,574	16,285	19,709	9,612
27,553	21,421	9,157	9,607	14,445	9,118
-	-	-	-	2,339	26,071
329	674	2,044	1,017	2,146	6,045
1,552	1,477	1,390	1,270	1,170	535
6,210	5,909	5,558	5,081	4,679	2,142
20,573	19,982	18,809	17,289	13,159	12,674
11,155	28,681	13,521	8,948	16,779	24,577
-	-	1,448	1,377	1,322	1,339
-	-	-	-	473	462
838	666	825	833	719	746
<u>75,881</u>	<u>83,080</u>	<u>56,325</u>	<u>61,707</u>	<u>76,940</u>	<u>93,321</u>
<u>(74,544)</u>	<u>(79,139)</u>	<u>(51,611)</u>	<u>(59,918)</u>	<u>(73,907)</u>	<u>(84,825)</u>
77,626	73,858	69,476	63,516	58,485	60,022
3,065	378	3,569	5,201	7,866	(12,249)
7,172	2,239	1,528	-	-	-
<u>13,319</u>	<u>(2,664)</u>	<u>22,962</u>	<u>8,799</u>	<u>(7,556)</u>	<u>(37,051)</u>
13,591	13,591	13,591	13,591	13,591	13,591
453,869	440,549	443,213	420,251	-	-
-	-	-	-	411,452	419,008
<u>\$ 467,460</u>	<u>\$ 454,140</u>	<u>\$ 456,804</u>	<u>\$ 433,842</u>	<u>\$ 425,043</u>	<u>\$ 432,599</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**FINANCIAL TRENDS – GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE
FISCAL YEARS 2009 THROUGH 2018 (in thousands)**

Fiscal year	2018	2017	2016	2015
REVENUES:				
Sales tax	\$ 87,818	\$ 84,354	\$ 79,704	\$ 80,974
Investment income	3,787	1,447	6,744	4,181
Rental income	1,074	1,224	1,167	1,219
Grant proceeds	-	-	-	-
Proceeds from sale of properties	-	-	-	1,793
Other income	3,040	1,210	6	669
Total Revenue	95,719	88,235	87,621	88,836
EXPENDITURES:				
Public Transit				
Upgrades and extensions	62,257	13,364	15,682	14,573
Grade separations	18,042	821	4,142	6,525
Paratransit	-	-	-	-
Dumbarton spur	210	138	205	210
BART	1,756	1,687	1,594	1,619
Caltrain	6,191	6,748	6,376	6,478
Project funding	2,209	3,042	1,940	2,205
Street and highways				
Distributions to local entities	23,612	22,938	21,596	21,902
Projects funding	64,457	21,691	21,969	23,131
Caltrain shuttle program	-	-	-	-
Transportation system management	-	-	-	-
Program administration	1,689	1,316	1,211	1,209
Total Expenditures	180,423	71,745	74,715	77,852
Excess Revenues Over Expenditures	(84,704)	16,490	12,906	10,984
OTHER FINANCING SOURCES (USES):				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change In Fund Balance	(84,704)	16,490	12,906	10,984
Fund Balance				
Non-Spendable	-	355	-	1,786
Restricted	404,474	488,823	472,689	457,997
Total Ending Fund Balance	\$ 404,474	\$ 489,178	\$ 472,689	\$ 459,783

	2014	2013	2012	2011	2010	2009
\$	77,626	\$ 73,858	\$ 69,476	\$ 63,516	\$ 58,485	\$ 60,022
	3,019	319	3,503	5,120	7,723	(12,630)
	1,204	1,142	1,108	1,064	1,072	1,076
	121	2,796	3,607	725	1,961	7,420
	-	-	-	-	-	-
	7,184	2,241	1,527	-	-	-
	<u>89,154</u>	<u>80,356</u>	<u>79,220</u>	<u>70,425</u>	<u>69,241</u>	<u>55,888</u>
	7,671	4,270	3,574	16,285	19,709	9,612
	31,003	21,421	9,157	9,607	14,445	9,118
	-	-	-	-	2,339	26,073
	329	674	2,044	1,017	2,146	6,045
	1,552	1,477	1,390	1,270	1,170	535
	6,210	5,909	5,558	5,081	4,679	2,142
	1,646	2,420	5,664	1,760	512	-
	20,573	19,982	18,809	17,289	13,159	12,674
	9,509	26,260	7,856	7,188	16,267	24,577
	-	-	1,448	1,377	1,322	1,339
	-	-	-	-	473	462
	838	666	825	833	719	746
	<u>79,331</u>	<u>83,079</u>	<u>56,325</u>	<u>61,707</u>	<u>76,940</u>	<u>93,323</u>
	<u>9,823</u>	<u>(2,723)</u>	<u>22,895</u>	<u>8,718</u>	<u>(7,699)</u>	<u>(37,434)</u>
	-	-	-	-	-	2,902
	-	-	-	-	-	(2,902)
	-	-	-	-	-	-
	<u>9,823</u>	<u>(2,723)</u>	<u>22,895</u>	<u>8,718</u>	<u>(7,699)</u>	<u>(37,434)</u>
	3	3	3	3	3	3
	448,796	438,973	441,696	418,801	410,082	417,781
\$	<u>448,799</u>	<u>438,976</u>	<u>441,699</u>	<u>418,804</u>	<u>410,085</u>	<u>417,784</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**FUND BALANCES OF GOVERNMENTAL FUNDS
FISCAL YEARS 2009 THROUGH 2018 (in thousands)**

Fiscal year ended	General Fund		
	Non-Spendable	Restricted	Total
2018	\$ -	\$ 404,474	\$ 404,474
2017	355	488,823	489,178
2016	-	472,689	472,689
2015	1,786	457,997	459,783
2014	3	448,796	448,799
2013	3	438,973	438,976
2012	3	441,696	441,699
2011	3	419,288	419,291
2010	3	410,082	410,085
2009	-	417,189	417,189

Fiscal year ended	All Other Governmental Funds		
	Non-Spendable	Restricted	Total
2018	\$ -	\$ -	\$ -
2017	-	-	-
2016	-	-	-
2015	-	-	-
2014	-	-	-
2013	-	-	-
2012	-	-	-
2011	-	-	-
2010	-	-	-
2009	-	594	594

Source: Current and prior years' CAFRs.

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE FISCAL YEARS 2009 THROUGH 2018 (in thousands)

Fiscal year	2018^[1]	2017^[1]	2016
The Transportation Authority's Sales Tax Rate	0.5%	0.5%	0.5%
Total Sales Tax Revenue	\$ 87,818	\$ 84,354	\$ 79,704
Total Taxable Sales in San Mateo County	\$17,563,600	\$16,870,800	\$15,940,800

[1] 2018 and 2017 taxable sales are estimates based on sales tax revenues received; 2016 taxable sales amount is the most current information available.

Source: California State Board of Equalization

This table presents total sales and total taxable sales in San Mateo County.

2015	2014	2013	2012	2011	2010	2009
0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
\$ 80,974	\$ 77,626	\$ 73,858	\$ 69,476	\$ 63,516	\$ 58,485	\$ 60,022
\$16,194,800	\$15,298,434	\$14,611,618	\$13,906,978	\$13,020,643	\$11,966,338	\$11,327,022

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**REVENUE CAPACITY – PRINCIPAL REVENUE PAYERS
FISCAL YEARS 2016 AND 2007**

Principal Revenue Payers	FY2016*			FY2007		
	Rank	Percent of Taxable Sales	Amount (in thousands)	Rank	Percent of Taxable Sales	Amount (in thousands)
All Other Outlets	1	33.6%	\$5,264,519	1	32.5%	\$4,327,325
Eating and drinking group	2	13.0%	2,027,889	5	9.3%	1,245,105
Automotive group	3	12.2%	1,902,427	2	11.9%	1,579,609
Other retail stores	4	8.9%	1,394,693	3	11.7%	1,564,706
Building materials	5	6.1%	958,806	7	6.4%	846,050
General merchandise group	6	5.8%	906,752	4	10.2%	1,363,715
Home furnishings and appliances	7	5.7%	897,143	8	4.0%	535,371
Service (Gasoline) stations	8	5.4%	850,055	6	7.6%	1,008,460
Apparel stores group	9	5.1%	805,349	10	3.2%	425,086
Food stores group	10	4.2%	650,941	9	3.2%	430,879
Total		100.0%	\$15,658,574		100.0%	\$13,326,306

* Principal tax payers information for full year 2016 is the most current information available.

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

Source: California State Board of Equalization

Taxable Sales in California Counties, by type of Business

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**DEMOGRAPHIC AND ECONOMIC INFORMATION – POPULATION, INCOME AND UNEMPLOYMENT RATES
FISCAL YEARS 2009 THROUGH 2018**

Year	Population ^[1]	Total Personal Income (in thousands) ^[2]	Per Capita Personal Income ^[2]	Average Unemployment Rates ^[3]
2018	774,155	\$ 85,779,129 *	\$ 112,159 *	2.5%
2017	770,203	83,280,708 *	108,893 *	2.7%
2016	765,895	80,855,056	105,721	3.1%
2015	759,609	77,283,538	101,264	3.5%
2014	752,355	70,201,626	92,759	4.2%
2013	745,639	65,192,835	86,911	5.6%
2012	735,256	64,765,189	87,444	6.8%
2011	726,305	57,964,665	79,465	7.9%
2010	718,451	52,889,544	73,460	8.5%
2009	713,818	51,620,897	72,337	8.6%

[1] Data include retroactive revisions by the State of California Department of Finance, Demographic Research Unit.

[2] Data include retroactive revisions by the U.S. Department of Commerce Bureau of Economic Analysis.

[3] Data include retroactive revisions by the State of California Employment Development Department. Unemployment rates are non-seasonally adjusted for June.

*Personal Income and Per Capital Personal Income data for 2017 and 2018 is based on an estimated three percent annual increase over 2016.

This table highlights San Mateo County's total population, total personal and per capita income, and percentage of unemployed residents.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

DEMOGRAPHIC AND ECONOMIC INFORMATION – PRINCIPAL EMPLOYERS FISCAL YEARS 2016 AND 2008

Employers in San Mateo County	2016*			2008		
	Number of Employees	Rank	Percent of Total County Employment	Number of Employees	Rank	Percent of Total County Employment
United Airlines	10,500	1	2.41%	9,600	1	2.73%
Genentech Inc.	10,000	2	2.30%	7,845	2	2.23%
Oracle Corp.	6,750	3	1.55%	5,642	4	1.61%
Facebook Inc.	6,068	4	1.40%	--	--	--
County of San Mateo	5,500	5	1.26%	5,777	3	1.64%
Visa Inc.	3,500	6	0.80%	--	--	--
Gilead Sciences Inc.	3,500	7	0.80%	--	--	--
Mills-Peninsula Health Services	2,500	8	0.57%	1,800	9	0.51%
Safeway Inc.	2,393	9	0.55%	2,280	6	0.65%
Electronic Arts Inc.	2,367	10	0.54%	2,000	8	0.57%
Kaiser Permanente	--	--	0.00%	3,609	5	1.03%
United States Postal Service	--	--	0.00%	2,174	7	0.62%
Applied Biosystems	--	--	0.00%	1,578	10	0.45%
Total	53,078		12.20%	42,305		12.04%

* The latest information available for principal employers in the County.

This table presents the top 10 principal employers in San Mateo County for 2016 and 2008.

Source: County of San Mateo FY2017 CAFR

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

OPERATING INFORMATION – CAPITAL OUTLAY FISCAL YEARS 2009 THROUGH 2018 (in thousands)

Cumulative Capital Projects	2018	2017	2016	2015
Dumbarton Spur	\$ 33,657	\$ 33,447	\$ 33,309	\$ 33,104
Caltrain-Downtown Extension	291,837	229,908	216,918	201,236
Paratransit	7	7	7	7
Ferry	8,090	8,090	8,090	8,090
Local Shuttle	13,101	10,892	7,850	5,910
Railroad Grade Separations	269,226	251,184	250,363	246,221
Streets and Highways	377,040	314,829	294,846	275,287
Alternative Congestion Relief	2,269	1,811	1,366	897
Admin, Oversight and Bicycle	21,117	18,541	16,321	13,911
Total	\$ 1,016,344	\$ 868,709	\$ 829,069	\$ 784,663

Source: Current and prior years' CAFRs

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

2014	2013	2012	2011	2010	2009
\$ 32,894	\$ 32,565	\$ 31,891	\$ 29,847	\$ 28,830	\$ 26,684
186,663	178,993	174,723	171,149	154,880	135,170
2	-	-	-	-	-
8,088	8,087	7,393	2,044	377	-
3,707	2,269	543	228	135	-
239,697	212,143	190,722	181,565	171,958	157,514
253,794	245,552	223,100	216,936	210,320	194,663
456	10	-	-	-	-
12,272	11,005	7,197	5,505	4,933	4,324
\$ 737,573	\$ 690,624	\$ 635,569	\$ 607,274	\$ 571,433	\$ 518,354

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

OPERATING INFORMATION – EMPLOYEES FISCAL YEARS 2009 THROUGH 2018

DIVISION	Full-Time Equivalents								
	2018	2017	2016	2015	2014	2013	2012	2011	2010
CALTRAIN MODERNIZATION PROGRAM	-	0.20	-	-	-	0.02	-	-	-
CUSTOMER SERVICE AND MARKETING	1.50	1.55	0.15	0.15	0.17	0.13	0.14	0.20	0.35
EXECUTIVE	0.49	0.49	0.40	0.57	0.60	0.55	0.57	0.55	0.65
FINANCE AND ADMINISTRATION	2.75	3.78	2.17	2.10	2.29	3.76	4.39	4.00	3.75
OPERATIONS, ENGINEERING AND CONSTRUCTION	0.14	0.08	4.16	4.34	4.35	4.43	4.47	3.66	1.10
PLANNING AND DEVELOPMENT	7.59	6.69	3.39	3.35	3.30	2.63	1.97	2.75	6.80
PUBLIC AFFAIRS	-	-	1.40	1.20	1.20	1.40	1.10	1.00	0.95
TOTAL EMPLOYEES	12.47	12.79	11.67	11.71	11.91	12.92	12.64	12.16	13.60

Note: The organization went through a reorganization in FY2010; Caltrain Modernization Program division was added in FY2013 as a replacement for the Peninsula Rail department.

DIVISION	Full-Time Equivalents
	2009
EXECUTIVE	0.80
ADMINISTRATION	0.80
COMMUNICATIONS	0.75
DEVELOPMENT	11.14
FINANCE	0.90
OPERATIONS	0.25
TOTAL EMPLOYEES	14.64

Source: TA's annual operating and capital budgets.

This table presents total full-time equivalents by division.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

OPERATING INFORMATION – CAPITAL ASSETS FISCAL YEARS 2009 THROUGH 2018 (in thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Capital Assets:				
Land	\$ 11,682	\$ 11,682	\$ 11,682	\$ 11,682
Total	\$ 11,682	\$ 11,682	\$ 11,682	\$ 11,682

Source: Current and prior years' CAFRs.

This table presents capital assets for the past 10 years.

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 13,591	\$ 13,591	\$ 13,591	\$ 13,591	\$ 13,591	\$ 13,591
<u>\$ 13,591</u>					

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INDEPENDENT AUDITOR'S REPORTS

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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

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

We have audited, in accordance with the 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, the financial statements of the governmental activities and the general fund of the San Mateo County Transportation Authority (Transportation Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Transportation Authority’s basic financial statements, and have issued our report thereon dated November 5, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Transportation Authority’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Transportation Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Transportation Authority’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Transportation Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Transportation Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinch, Trine, Day & Co. LLP

Palo Alto, California
November 5, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FINANCIAL STATEMENT FINDINGS

None reported.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Financial Statement Prior Year Findings

There are no prior year financial statement findings reported.