

San Mateo County Transportation Authority
San Carlos, California



Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2016
With Comparative Totals for 2015



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SAN MATEO COUNTY
***Transportation
Authority***

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2016
(With Comparative Totals for 2015)

Prepared by the Finance Division

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Section I

INTRODUCTORY

Letter of Transmittal

GFOA Certificate of Achievement

Board of Directors

Executive Management

Organization Chart

Map

Table of Credits

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January 31, 2017

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

**Comprehensive Annual Financial Report
Year Ended June 30, 2016**

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, 2015 through June 30, 2016. This transmittal letter includes the formal transmittal of the CAFR, a profile of the Transportation Authority, information useful in assessing the government's economic condition and awards and acknowledgements. Readers desiring an analytical overview of the basic financial statements or Transportation Authority'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 Transportation Authority's assets from loss, to identify and record transactions accurately and to compile the information necessary to produce financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not exceed the likely benefits, the Transportation Authority's internal control system intends to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement.

To test the performance of the internal control system, the Transportation Authority 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 Transportation Authority's financial statements are fairly stated and in compliance with accounting principles generally accepted in the United States of America. This conclusion is the most favorable kind and is commonly known as an "unqualified" or "clean" opinion.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

LETTER OF TRANSMITTAL

PROFILE OF THE ORGANIZATION

Basic Information

San Mateo County, with a population of nearly 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 funded the T Transportation Authority with an annual one-half cent county sales tax levy and charged the Transportation Authority with 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 Transportation Authority and its publicly developed expenditure plan for an additional 25 years beyond the original expiration date of 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 state, federal and local funds by matching grant funds with Measure A dollars. These efforts have led to effective partnerships with city, county, state and federal agencies for designing and completing transportation projects. Thus, the Transportation Authority will continue to fund vital transportation improvements to the benefit of San Mateo County residents through 2033.

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 and delivers projects per 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.

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 and Rail Divisions* are responsible for SamTrans bus service, Caltrain rail service, employer and other shuttles, paratransit service pursuant to the requirements of the Americans with Disabilities Act (ADA), service planning, quality assurance, capital project engineering and construction.

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

The *Caltrain Planning/CalMod* is responsible for guiding the planning and implementation of projects that will upgrade the performance, operating efficiency, capacity, safety and reliability of Caltrain's commuter rail.

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

The *Office of the Chief of Staff* is responsible for human resources and safety and security.

Component Units

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

Budget

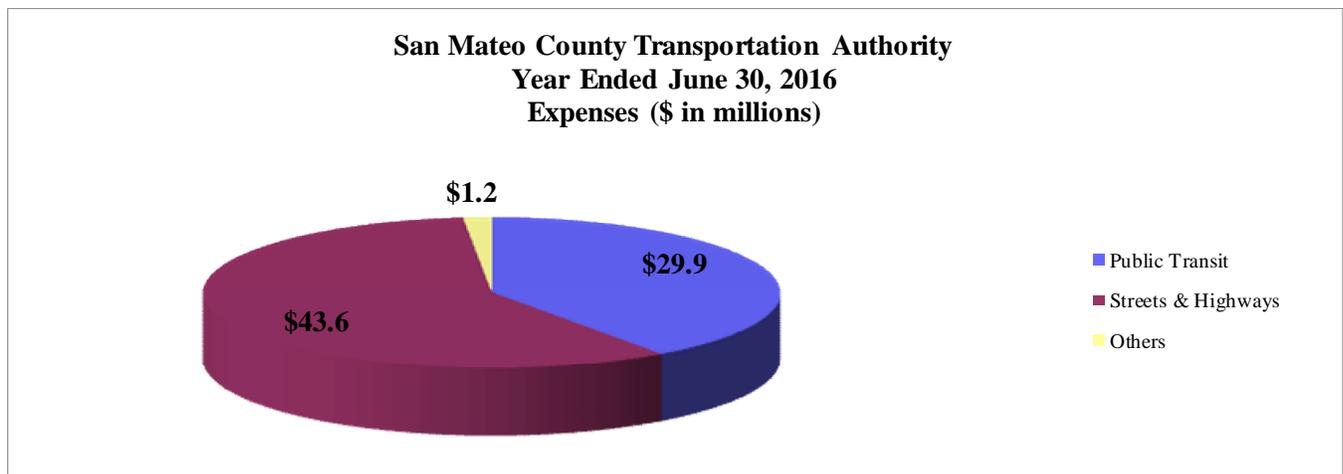
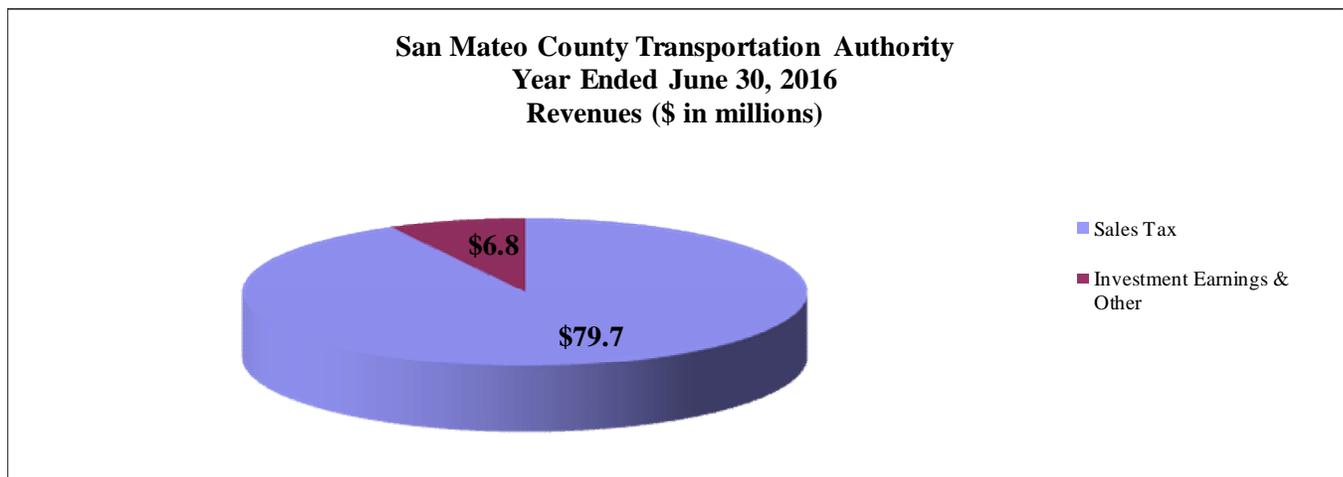
State law requires the Transportation Authority to adopt an annual budget by resolution of the Board of Directors. In the spring preceding the start of each Fiscal Year, staff presents an annual budget for the General Fund based on established agency goals, objectives and performance measures to the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

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. The pie charts below show actual results for the major revenue and expense categories of Fiscal Year 2016. 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 2016 was \$617.3 million and the limit for Fiscal Year 2017 is \$656.4 million.



ECONOMIC CONDITION

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

LETTER OF TRANSMITTAL

Local Economy

The Bay Area's economy continues to grow slightly faster than the rest of the country, but the growth rate will slow as a result of low unemployment. The area no longer has the remaining labor force to support faster growth. San Mateo County's current unemployment rate of 2.6 percent is better than the June 2016 statewide rate of 5.2 percent and nationwide rate of 4.5 percent. As in the past few years, the main driver is the growth in the technology sector as well as the professional services sector.

The Transportation Authority's major revenue source is dependent upon taxable sales activity in the county. Taxable sales are expected to undergo a steady weakening in 2017. Sales tax revenue decreased 1.5 percent in 2016 after a 4.3 percent increase in FY 2015.

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 (TEP) in November 2004 by a 75.3 percent majority, extending the Transportation Authority's mission through 2033. The implementation guidelines in the TEP 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 TEP.

Significant strides have been made with the funds in both the original and new Measure A programs. Most notably, original Measure A revenues contributed to the Caltrain right of way purchase, the purchase of the Dumbarton rail corridor, and provided funding for Caltrain operational improvements such as the construction of passing tracks and new signal and control systems. These improvements enabled the Baby Bullet service that has contributed to Caltrain ridership growth of 143 percent.¹ Measure A funding has also contributed significantly to the Caltrain Modernization Program (CalMod), which includes 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, fewer greenhouse gas emissions, and improved safety.

To reduce local traffic congestion and improve safety, Measure A funds were allocated for the construction of grade separation projects, including the San Bruno Grade Separation, as well as the environmental phase for a 25th Ave Grade Separation in the city of San Mateo, and planning studies for grade separations in the cities of San Bruno, South San Francisco, Burlingame, and Menlo Park. Measure A also contributes toward BART service in San Mateo County; its contribution largely accounts for SamTrans' local match for the San Francisco Airport/Millbrae extension.

¹ Source: 2015 Caltrain Annual Passenger Count Key Findings

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

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In Fiscal Year 2016, \$108 million of Measure A funds were allocated to eight highway projects. The allocation included funding for the construction phase of three projects, the environmental phase of four and the design phase of one. On the local level, Measure A Local Streets and Transportation funds are passed 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 Measure A Shuttle Program provides first - or last-mile connections to Caltrain and BART, and a viable local mobility option to the private automobile to meet the needs of people dependent on transit.

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. In FY16, the TA Board allocated \$3 million to SamTrans in support of the Paratransit Program.

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 (formally known as Peninsula Congestion Relief Alliance) 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 and contributions from the District support the county's share of the Peninsula Corridor Joint Powers Board (JPB). The JPB provides public transit services via its Caltrain railroad over a 77-mile right of way extending from San Francisco in the north to Gilroy in the south. Projects funded include new construction 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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

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Notable projects supporting the JPB during Fiscal Year 2016 include:

- Construction work for the 101/Broadway Interchange project.
- Project Approval and Environmental Document (PA&ED) phase of the US 101/Woodside Road Interchange
- Construction of the 101/Poplar Interchange
- Design Phase of the 101/Holly Interchange Reconstruction Project
- Initiated the Project Approval and Environmental Document (PA&ED) phase of the 101 Managed Lanes Project
- Final design of the Route 92/ECR Interchange
- Final design of the 101/Willow Interchange

Other notable public transit projects during Fiscal Year 2016 include:

- Contributions to SamTrans for paratransit and other accessible services
- Contributions to BART for the SFO Extension
- Contribution to local shuttles

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. The call for projects process will be 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 during Fiscal Year 2016 include:

- Construction work for the 101/Broadway Interchange project.
- Project Approval and Environmental Document (PA&ED) phase of the US 101/Woodside Road Interchange
- Close out work for San Pedro Creek/Route 1 Bridge Replacement project in Pacifica.
- Traffic study for the U.S. 101 Managed Lanes Projects

Alternative Congestion Relief Programs

The Transportation Authority funds alternative congestion relief (ACR) programs aimed at reducing vehicular traffic 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.

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For the past sixteen years, 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 transit alternatives
- 4) Partnerships with other agencies and special projects

Key initiatives in Commute.org's Fiscal Year 2016 work plan include: employer outreach and support services that include guaranteed emergency ride home program, bicycle parking incentives and safety workshops, shuttle program, commuter outreach and incentive programs that include direct marketing, vanpool/carpool/transit incentive programs and Bike to Work Day; and the development of public/private partnership in support of reducing traffic in San Mateo County.

The Transportation Authority made an allocation of \$435,000 in support of Commute.org's Fiscal Year 2016 work plan..

Shuttle Program

A joint Shuttle Program Call for Projects with the City and County Association of Governments was issued in FY16 which resulted in the allocation of more than \$8 million of Measure A funding. This funding will support a combination of 38 commuter and community-serving services for FY17 and FY18..

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 Transportation Authority has allocated nearly \$5 million of Measure A to 10 pedestrian and bicycle projects throughout the County. The various projects included: safe route to school improvements, under and overcrossing and bike trail gap closures and connectivity improvements.

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 aid 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 2016, local agencies received \$17.9 million from the new Measure A, bringing the total local aid since the inception of the new Measure A to \$119.3 million. The recipients of these funds principally 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 minimal in the coming years as we emerge from the recession, 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 2015 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 2016 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 Executive Director and the Board of Directors for their interest and support in the development and maintenance of a reliable financial management and reporting system.

Respectfully submitted,



Shannon Gaffney
Interim CFO



Rima Lobo
Director of Finance



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, 2015

A handwritten signature in black ink, reading "Jeffrey R. Egan".

Executive Director/CEO

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

BOARD OF DIRECTORS

2016 BOARD OF DIRECTORS

CAROLE GROOM, CHAIR

DON HORSLEY, VICE CHAIR

MAUREEN FRESCHET

KEN IBARRA

CAMERON JOHNSON

KARYL MATSUMOTO

MARY ANN NIHART

CAROLE GROOM, CHAIR was appointed to the Transportation Authority in 2009 representing the Board of Supervisors. She has served as a member of the San Mateo County Board of Supervisors since 2009 and served as president in 2011 and 2015. Prior to joining the Board of Supervisors, she served nine years on the San Mateo City Council, and two terms as mayor. She is also a member of the California Coastal Commission.

DON HORSLEY, VICE CHAIR was appointed to the Transportation Authority in 2011 representing the Board of Supervisors. He has served as a member of the San Mateo County Board of Supervisors since 2010. Prior to joining the Board of Supervisors, he served as the elected county sheriff for 14 years and was board president of the Sequoia Healthcare District.

MAUREEN FRESCHET was elected to the Transportation Authority in 2016 representing Central County. She was elected to the San Mateo City Council in November 2011. She served on the San Mateo Planning Commission from 2009 to 2011 (Chair in 2011), and serves on the City/County Association of Governments of San Mateo County and the Grand Boulevard Task Force.

KEN IBARRA was elected to the Transportation Authority in 2016 representing North County. He has served on the San Bruno City Council since 1996 and, among other assignments, serves on the City/County Association of Governments of San Mateo County Bicycle and Pedestrian Committee, the Affordable Housing Task Force, and the Grand Boulevard Task Force.

CAMERON JOHNSON was elected to the Transportation Authority in 2015 representing South County. He was elected to the San Carlos City Council in 2013 and serves as the mayor. He also serves on the City/County Association of Governments of San Mateo County. He previously served as Chair of the San Mateo County Mental Health and Substance Abuse Recovery Commission, and has previously served on the San Carlos Economic Development Advisory Commission.

KARYL MATSUMOTO was elected to the Transportation Authority in 2008 representing the San Mateo County Transit District. She was first elected to the South San Francisco City Council in 1997. She has served as mayor in 2000, 2004, 2009, and in 2014.

MARYANN NIHART was elected to the Transportation Authority in 2015 representing San Mateo County's cities-at-large. She is a councilmember and former mayor for the city of Pacifica. She is Chair on the City/County Association of Governments and a member of the Association of Bay Area Governments Executive Board.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

EXECUTIVE MANAGEMENT

EXECUTIVE MANAGEMENT

EXECUTIVE DIRECTOR

Jim Hartnett

EXECUTIVE OFFICERS

Michelle Bouchard – Chief Operating Officer, Rail

Michael Burns – Chief Officer, Caltrain Planning/CalMod Program

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

Shannon Gaffney – Interim Chief Financial Officer

Martha Martinez – Executive Officer, District Secretary/Executive Administration

Seamus Murphy – Chief Communications Officer

David Olmeda – Chief Operating Officer, Bus

Mark Simon – Chief of Staff

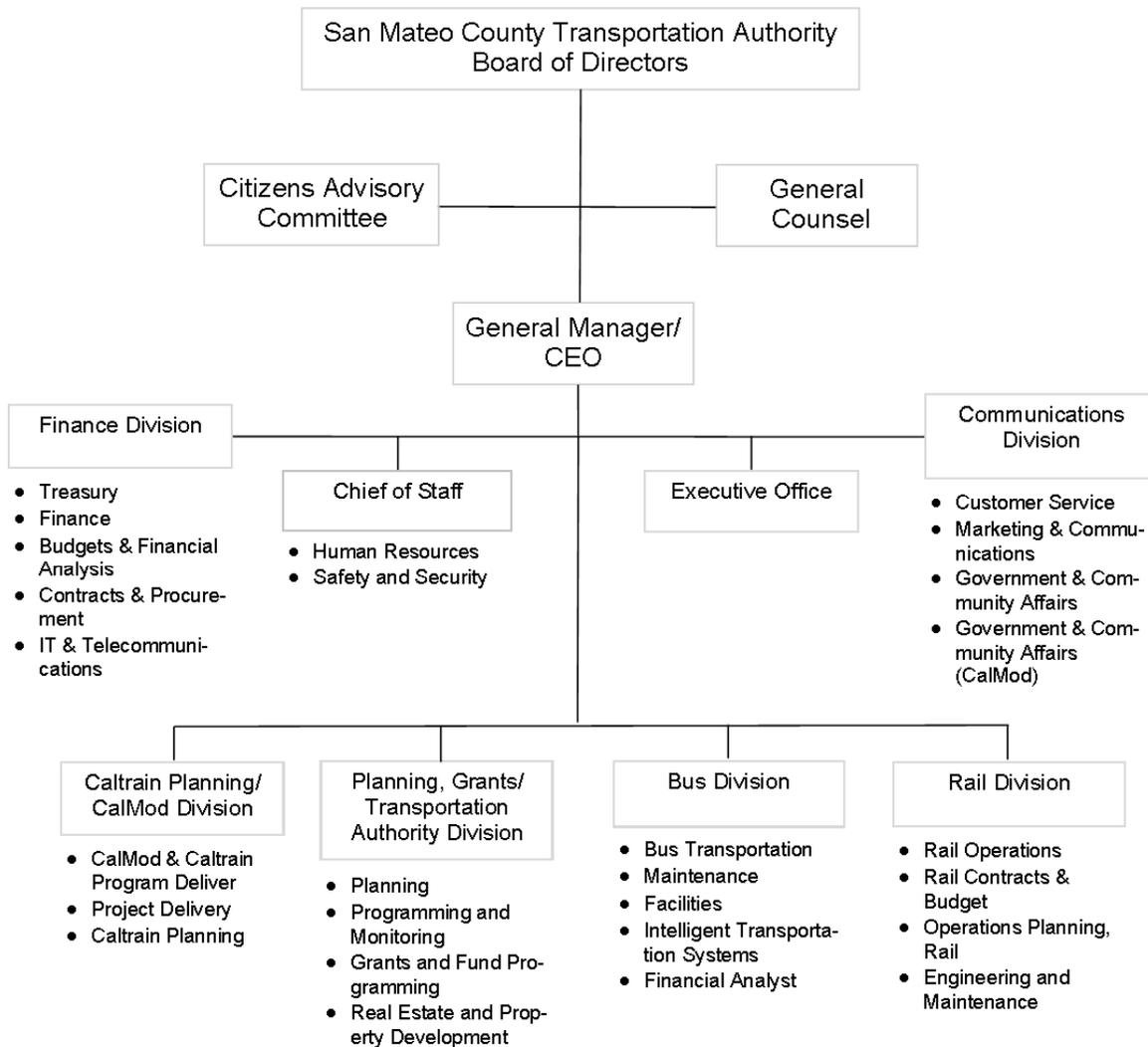
GENERAL COUNSEL

Hanson Bridgett LLP

Joan Cassman, Esq.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

ORGANIZATION CHART



SAN MATEO COUNTY TRANSPORTATION AUTHORITY

MAP



SAN MATEO COUNTY TRANSPORTATION AUTHORITY

TABLE OF CREDITS

The following individuals contributed to the production of the Fiscal Year 2016 Comprehensive Annual Financial Report:

Finance:	Manager, General Ledger	Sheila Tioyao
	Director of Treasury	Carl Cubba
	Director of Budget and Financial Analysis	Ladi Millard
Audit Firm:	Partner	Ahmad Gharaibeh, CPA
	Supervisor	Tomohito Oku, CPA

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Section II

FINANCIAL

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements:

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

Required Supplementary Information

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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, 2016, 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, 2016, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Transportation Authority adopted the following new accounting pronouncements: GASB Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2015, from which such partial information was 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 January 31, 2017 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
January 31, 2017

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Management's Discussion and Analysis

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS JUNE 30, 2016

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, 2016, with comparisons to the Fiscal Year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the transmittal letter contained in the introductory section and with the statements and related notes contained in the financial section.

FINANCIAL HIGHLIGHTS

- Total assets increased by \$20.9 million or 4.2% to \$515.7 million at June 30, 2016, compared to June 30, 2015. Cash and investments comprised \$482.2 million or 93.5% of the total 2016 year-end amount.
- Sales tax revenue for all funds was \$79.7 million during 2016, a decrease of \$1.3 million or 1.6% from 2015.
- The Transportation Authority expended \$44.4 million in capital projects during 2016, a decrease of \$2.7 million or 5.7% over 2015. This amount included construction costs related to the US-101 Broadway Interchange Project and environmental and preliminary engineering work for the Caltrain Electrification Project.
- Total liabilities increased by \$7.9 million or 43.5% to \$26.2 million at June 30, 2016, compared to June 30, 2015.
- Total net position increased by \$12.9 million or 2.7% to \$489.5 million at June 30, 2016, compared to June 30, 2015. The increase is due primarily to total revenues exceeding total expenditures in 2016.

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.

Government-wide Financial Statements

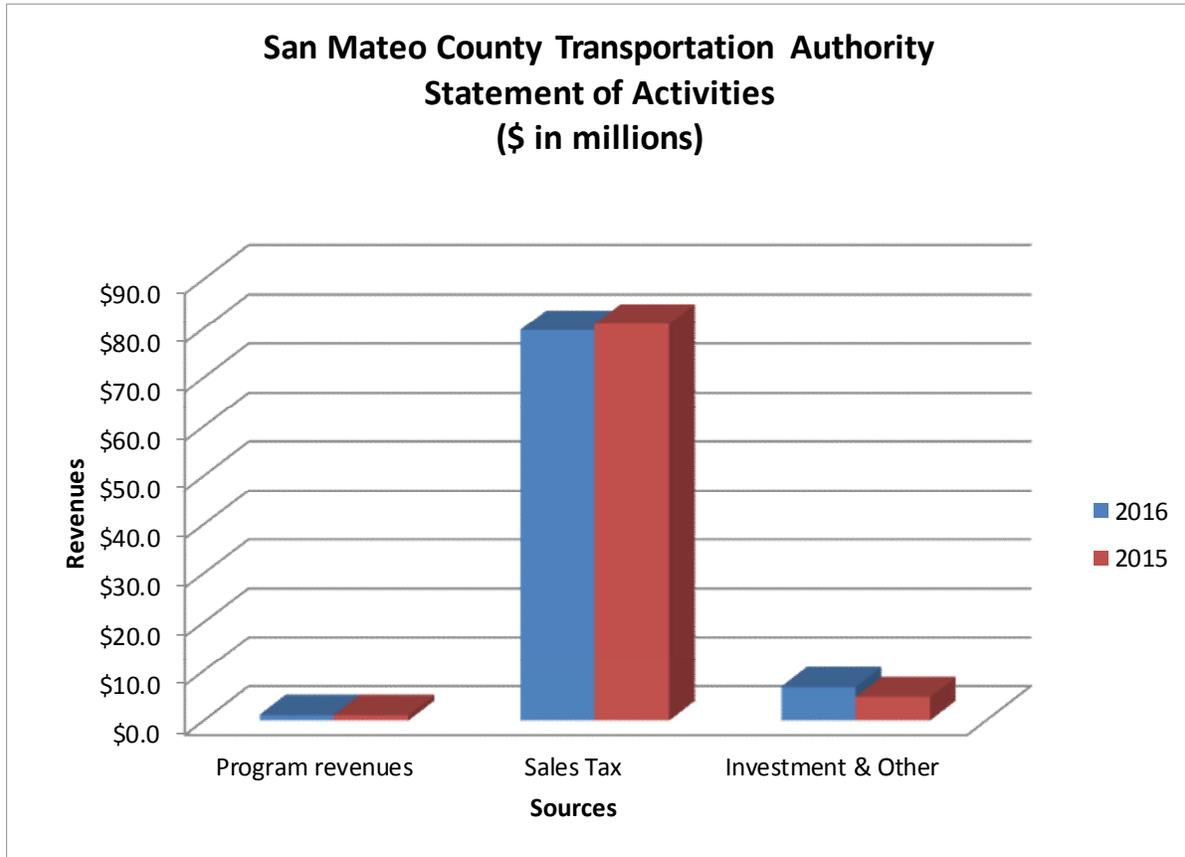
The *Statement of Net Position* presents total assets and total liabilities with the difference between the two reported as net position. Changes in net position over time provide an indicator of whether the financial position of the government is improving or deteriorating.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS

JUNE 30, 2016

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, 2016

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 reports the following 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 a full understanding of 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. This information and associated notes immediately follow the *financial statements* and their accompanying notes.

Government-wide Financial Analysis

At June 30, 2016, total assets were \$515.7 million, an increase of \$20.9 million or 4.2% from June 30, 2015. Cash and investments comprise \$482.2 million of this amount. With only \$26.2 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 2016, existing encumbrances and expected future costs combined for current construction projects are estimated to total \$324.8 million.

Capital assets of \$11.7 million in 2016, remained unchanged from June 30, 2015.

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 in which they are located. 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, 2016

	Governmental Activities	
	2016	2015
Current and other assets	\$ 504,023,286	\$ 483,136,091
Capital assets	11,681,806	11,681,806
Total assets	<u>515,705,092</u>	<u>494,817,897</u>
Other liabilities	26,181,404	18,242,489
Total liabilities	<u>26,181,404</u>	<u>18,242,489</u>
Net position:		
Investment in capital assets	11,681,806	11,681,806
Restricted	477,841,882	464,893,602
Total net position	<u>\$ 489,523,688</u>	<u>\$ 476,575,408</u>

Total liabilities increased by \$7.9 million or 43.5% to \$26.2 million at June 30, 2016, compared to \$18.2 million at June 30, 2015. The increase was due to more accruals for capital projects.

Net position increased by \$12.9 million or 2.7% to \$489.5 million at June 30, 2016, the result of revenues exceeding expenses in 2016.

	Governmental Activities	
	2016	2015
Revenues:		
Program revenues		
Charges for services	\$ 1,167,385	\$ 1,218,594
Operating grants/contributions	-	15
General revenues		
Sales tax	79,703,951	80,974,178
Investment earnings and others	6,791,576	4,775,200
Total revenues	<u>87,662,912</u>	<u>86,967,987</u>
Expenses:		
Public transit	29,939,083	31,610,650
Streets and highways	43,564,516	45,033,220
Others	1,211,033	1,208,242
Total expenses	<u>74,714,632</u>	<u>77,852,112</u>
Change in net position	12,948,280	9,115,875
Net position - July 1,	476,575,408	467,459,533
Net position - June 30,	<u>\$ 489,523,688</u>	<u>\$ 476,575,408</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

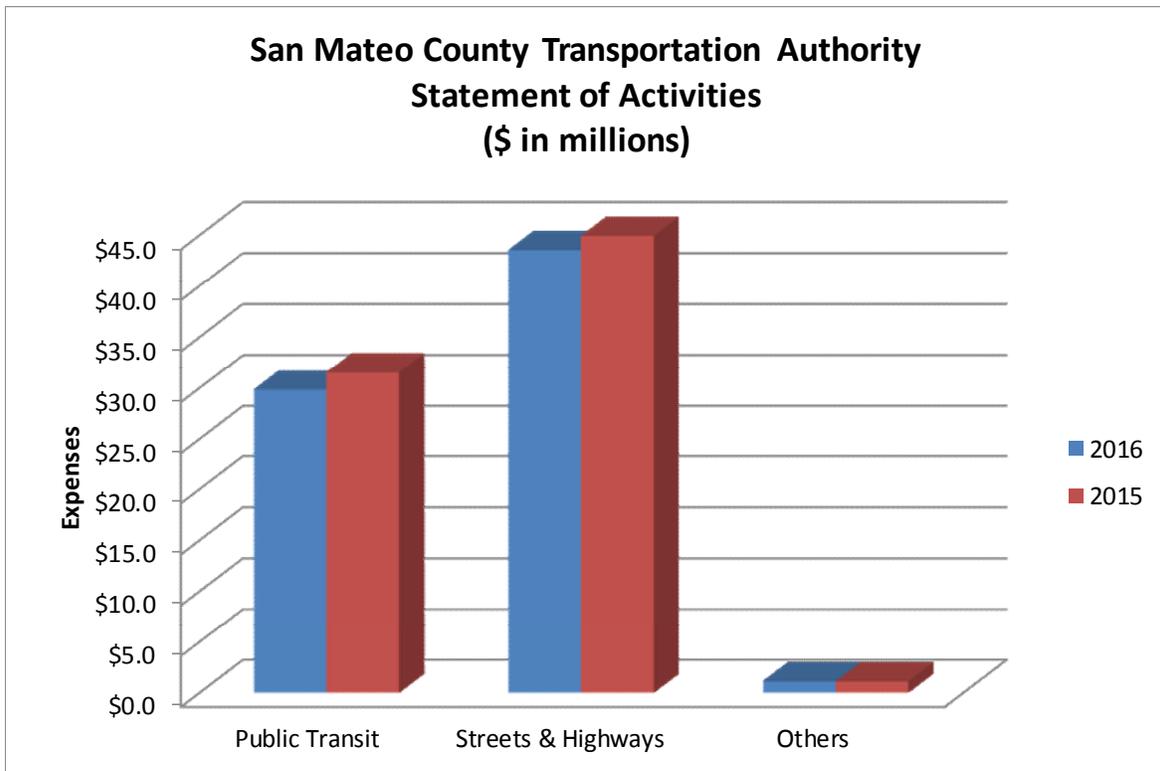
MANAGEMENT'S DISCUSSION & ANALYSIS

JUNE 30, 2016

Governmental Activities

Total expenses for governmental activities were \$74.7 million in 2016, a decrease of \$3.1 million or 4.0% compared to 2015. The different components of total expenses are public transit (40.0%), streets and highways (58.4%) and other programs (1.6%). The following are the highlights of the Transportation Authority's governmental activities:

- Sales tax revenue decreased by \$1.3 million or 1.6% to \$79.7 million in 2016 from 2015.
- Investment earnings and other revenues of \$4.8 million in 2016 was \$6.8 million or 42.2% higher compared to 2015.
- Expenses for public transit projects in 2016 decreased by \$1.7 million or 5.3% to \$29.9 million compared to 2015. The decrease was mainly due to the completion of the San Bruno Grade Separation Project.
- Spending for streets and highways in 2016 decreased by \$1.5 million or 3.3% to \$43.6 million compared to 2015 mainly due to the near completion of the Highway 101 Auxiliary Lanes – Marsh to San Mateo/Santa Clara County project. The Highway 92-El Camino Real Interchange project had less expenditures as the project moves to the construction phase.



SAN MATEO COUNTY TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS

JUNE 30, 2016

Financial Analysis of the Transportation Authority's Funds

The *General Fund* is the operating fund of the Transportation Authority. The fund balance reached 472.7 million at June 30, 2016, an increase of \$12.9 million or 2.8% from June 30, 2015, as total revenues exceeded total expenditures during 2016. The total fund balance at June 30, 2016 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, 2016, the estimated cost to complete on-going projects is \$324.8 million or 68.7% 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 91.7% of the *General Fund's* total budgeted revenue for FY 2016. Actual sales tax revenue for the year was \$79.7 million, which is slightly less than the budget by \$0.30 million or 0.4%.

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

The Transportation Authority spent \$44.4 million or 67.3 percent of its final 2016 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 2015 is not included in the 2016 *Budgetary Comparison Schedule*.

Capital Projects

The Transportation Authority spent \$44.4 million on capital projects in 2016, a decrease of \$2.7 million or 5.7% compared to 2015. Following are the major capital expenditures:

- Construction costs associated with the 101/Broadway Interchange project (\$11.9 million).
- Funding for the 2016 local capital match requirement assessed to San Mateo County according to the Caltrain Joint Powers Agreement (\$5.0 million).
- Environmental assessment/preliminary engineering costs associated with the Caltrain Electrification project (\$4.2 million).
- Construction costs associated with the San Mateo Bridges Improvement Project (\$4.6 million).
- Shuttles Call for Project (\$1.9 million).
- Close out work related to the San Pedro Creek Bridge Replacement Project (\$1.8 million).

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS

JUNE 30, 2016

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*.

Economic Factors and Next Year's Budget

The Transportation Authority's Board adopted the Fiscal Year 2017 Budget of \$102.5 million on June 1, 2016. The Transportation Authority'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 \$30.3 million. The Transportation Authority's projected program expenditures are approximately \$69.5 million which is mostly made up of funding requirement for Alternative Congestion Relief, Caltrain, Pedestrian and Bicycle, Local Shuttle and Streets and Highways programs.

Of the \$0.8 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 \$6.6 million has been set aside to fund system-wide capital improvements anticipated to be undertaken in Fiscal Year 2017 for the Caltrain system. These include State of Good Repair rolling stock, and 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. \$1.6 million has been approved for the SFO BART extension. The Streets and Highways program, which include funding for key congested corridors has a budget of \$14.4 million and \$8.5 million for the supplemental roadway projects. The TA will put out a call for projects in order to allocate these funds to eligible recipients. Also included in the Fiscal Year 2017 budget is \$5.8 million for the Pedestrian and Bicycle and Local Shuttle programs. Similar to the Streets and Highway Program, there will be a call for projects that will determine where these funds will be spent.

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
Government-wide Financial Statements

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**STATEMENT OF NET POSITION
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

	Governmental Activities	
	2016	2015
ASSETS		
Cash and investments (Note 2)	\$ 482,236,017	\$ 460,187,064
Receivables:		
Sales tax (Note 3)	14,542,587	14,483,806
Interest (Note 4)	1,943,646	1,535,562
Note receivable (Note 5 and 7)	4,343,404	4,343,404
Other (Note 6)	957,632	800,035
Prepays	-	1,786,220
Capital assets, nondepreciable (Note 7)	11,681,806	11,681,806
Total Assets	515,705,092	494,817,897
LIABILITIES		
Accounts payable (Note 8)	13,533,734	7,547,907
Accrued liabilities (Note 9)	11,473,739	10,635,717
Unearned revenues	1,124,914	9,848
Deposits	49,017	49,017
Total Liabilities	26,181,404	18,242,489
NET POSITION (Note 10)		
Investment in capital assets	11,681,806	11,681,806
Restricted for Measure A Programs	477,841,882	464,893,602
Total Net Position	\$ 489,523,688	\$ 476,575,408

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services		2016	2015
GOVERNMENTAL ACTIVITIES					
Public Transit					
Upgrades and extensions	\$ 15,681,912	\$ -	\$ (15,681,912)	\$ (14,572,768)	
Grade separations	4,141,788	874,464	(3,267,324)	(5,630,326)	
Dumbarton spur	205,343	292,921	87,578	113,936	
BART	1,594,079	-	(1,594,079)	(1,619,484)	
Caltrain	6,376,316	-	(6,376,316)	(6,477,934)	
Projects funding	1,939,645	-	(1,939,645)	(2,205,480)	
Street and highways					
Distributions to local entities	21,595,578	-	(21,595,578)	(21,902,434)	
Projects funding	21,968,938	-	(21,968,938)	(23,130,786)	
Program administration	1,211,033	-	(1,211,033)	(1,208,227)	
Total Governmental Activities	\$ 74,714,632	\$ 1,167,385	(73,547,247)	(76,633,503)	
GENERAL REVENUES:					
Sales tax			79,703,951	80,974,178	
Investment earnings and other (Note 11)			6,785,738	4,106,440	
Recovery from Lehman Brothers (Note 2)			-	666,886	
Miscellaneous			5,838	1,874	
Total General Revenues			86,495,527	85,749,378	
Change in Net Position			12,948,280	9,115,875	
Net Position-Beginning of Year			476,575,408	467,459,533	
Net Position-Ending of Year			\$ 489,523,688	\$ 476,575,408	

BASIC FINANCIAL STATEMENTS
Fund Financial Statements

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**GOVERNMENTAL FUNDS – GENERAL FUND
BALANCE SHEET
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and investments (Note 2)	\$ 482,236,017	\$ 460,187,064
Receivables:		
Sales tax (Note 3)	14,542,587	14,483,806
Interest (Note 4)	1,943,646	1,535,562
Other (Note 5)	957,632	800,035
Prepays	-	1,786,220
Total Assets	<u>499,679,882</u>	<u>478,792,687</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
LIABILITIES		
Accounts payable (Note 8)	13,533,734	7,547,907
Accrued liabilities (Note 9)	11,473,739	10,635,717
Unearned rent revenues	1,124,914	9,848
Deposits	49,017	49,017
Total Liabilities	<u>26,181,404</u>	<u>18,242,489</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenues	<u>809,075</u>	<u>767,471</u>
FUND BALANCES		
Nonspendable:		
Prepays	-	1,786,220
Restricted for (Note 10):		
Current Measure A projects	324,762,553	331,485,040
Future Measure A Projects	147,926,850	126,511,467
Total Fund Balances	<u>472,689,403</u>	<u>459,782,727</u>
Total Liabilities, Deferred inflows and Fund Balances	<u>\$ 499,679,882</u>	<u>\$ 462,700,290</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

	<u>2016</u>	<u>2015</u>
Amounts reported for governmental activities in the statement of net position are different because:		
TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 472,689,403	\$ 459,782,727
Capital assets of governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	11,681,806	11,681,806
Long term note receivable is not a financial resource and, therefore, is not reported in the governmental funds	4,343,404	4,343,404
Long-term receivables are not available to pay for current period expenditures and therefore are deferred in the governmental funds	809,075	767,471
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 489,523,688</u>	<u>\$ 476,575,408</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**GOVERNMENTAL FUNDS – GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES
FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

	2016	2015
REVENUES		
Sales tax	\$ 79,703,951	\$ 80,974,178
Investment income (Note 11)	6,744,134	4,181,166
Rental income	1,167,385	1,218,594
Other income	5,838	2,461,901
Total Revenues	87,621,308	88,835,839
EXPENDITURES		
Public Transit		
Upgrades and extensions	15,681,912	14,572,768
Grade separations	4,141,788	6,524,841
Dumbarton spur	205,343	210,143
BART	1,594,079	1,619,484
Caltrain	6,376,316	6,477,934
Projects funding	1,939,645	2,205,480
Street and highways		
Distributions to local entities	21,595,578	21,902,434
Projects funding	21,968,938	23,130,784
Program administration	1,211,033	1,208,242
Total Expenditures	74,714,632	77,852,110
NET CHANGE IN FUND BALANCES	12,906,676	10,983,729
BEGINNING FUND BALANCES	459,782,727	448,798,998
ENDING FUND BALANCES	\$ 472,689,403	\$ 459,782,727

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

	<u>2016</u>	<u>2015</u>
Amounts reported for governmental activities in the statement of activities are different because of the following:		
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 12,906,676	\$ 10,983,729
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 funds.	41,604	41,315
Proceed from sale of capital assets is reported as revenues in the governmental funds. The difference between the sales proceeds and the carrying amount is reported in the statement of activities	<u>-</u>	<u>(1,909,169)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 12,948,280</u>	<u>\$ 9,115,875</u>

BASIC FINANCIAL STATEMENTS
Notes to the Financial Statements

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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(4)	Interest Receivable	31
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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

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 was responsible for the administration of funds collected through the one-half cent county sales tax for a period of 20 years, initially. In November 2004, the voters reauthorized the Transportation Authority and its publicly developed expenditure plan for an additional 25 years beyond the original expiration date of 2008. The San Mateo County Transit District (District) was designated as the entity responsible for overall management of the Transportation Authority.

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

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The primary objective of this statement is to define fair value and describe how fair value should be measured, define what assets and liabilities should be measured at fair value, and determine what information about fair value should be disclosed in the notes to the financial statements. The Statement is effective for periods beginning after June 15, 2015, or the Fiscal Year 2015-16. The Transportation Authority has implemented the provisions of this statement as of July 1, 2015.

GASB Statement No. 76 – In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The GAAP hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Transportation Authority has implemented the provisions of this Statement as of July 1, 2015.

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.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

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 and all of the Cities in the County. 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 at the time liabilities are incurred regardless of when the related cash flows take place.

Nonexchange transactions, in which the Transportation Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include one-half cent county sales tax receipts and distributions to local entities. On an accrual basis, revenues from the one-half cent county sales tax are recognized when the underlying exchange transactions occur.

Governmental funds are reported using the current financial resources management 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. Prepays

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.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

H. Capital Assets

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

J. Summarized Data

The summarized partial data provided in these financial statements for Fiscal Year ended June 30, 2015 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, 2015 from which such comparative partial information was derived.

NOTE 2 – CASH AND INVESTMENTS

The Transportation Authority pools cash from all sources and funds except cash and investments with trustees 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:

	June 30, 2016	June 30, 2015
Cash and Investments		
Cash in banks	\$ 8,709,407	\$ 1,581,700
Investments	473,526,610	458,605,364
Total cash and investments	<u>\$ 482,236,017</u>	<u>\$ 460,187,064</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

Authorized Investments by the Transportation Authority

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	15 years	None	None
U.S. Agency Securities or Government Sponsored Enterprises	15 years	None	None
Banker's Acceptances	180 days	15%	10%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	10%	5%
Repurchase Agreements	1 year	100%	50%
Reverse Repurchase Agreements	92 days	20% of base value	20%
Medium-term Notes	5 years	30%	10%
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-through Securities	5 years	20%	5%
San Mateo County Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk incurred when market interest rates adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the 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:

- No investment shall be made in securities with a remaining useful life exceeding 15 years.
- The weighted average maturity of the portfolio shall not exceed 5 years.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

The Transportation Authority's weighted average maturity of its investment portfolio at June 30, 2016 was as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity (in years)</u>
U.S. Treasury Securities	\$ 136,920,247	2.45
U.S. Agency Securities	20,596,619	0.57
San Mateo County Investment Pool	315,034,765	1.06
Local Agency Investment Fund	974,979	0.46
	<u>\$ 473,526,610</u>	
Portfolio Weighted Average Maturity		1.44

The Transportation Authority's weighted average maturity of its investment portfolio at June 30, 2015 was as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity (in years)</u>
U.S. Treasury Securities	\$ 93,917,728	1.45
U.S. Agency Securities	59,927,779	0.86
San Mateo County Investment Pool	283,464,154	1.63
Local Agency Investment Fund	21,295,703	0.65
	<u>\$ 458,605,364</u>	
Portfolio Weighted Average Maturity		1.45

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.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

Transportation Authority's investment portfolio credit quality ratings at June 30 were as follows:

Investment Type	Amount	Rating as of June 30, 2016	
		AA	Not Rated
U.S. Treasury Securities	\$ 136,920,247	\$ 136,920,247	\$ -
U.S. Agency Securities	20,596,619	20,596,619	-
Investment in County Pool	315,034,765	-	315,034,765
Investment in State Pool	974,979	-	974,979
Total	<u>\$ 473,526,610</u>	<u>\$ 157,516,866</u>	<u>\$ 316,009,744</u>

Investment Type	Amount	Rating as of June 30, 2015	
		AA	Not Rated
U.S. Treasury Securities	\$ 93,917,728	\$ 93,917,728	\$ -
U.S. Agency Securities	59,927,779	59,927,779	-
Investment in County Pool	283,464,154	-	283,464,154
Investment in State Pool	21,295,703	-	21,295,703
Total	<u>\$ 458,605,364</u>	<u>\$ 153,845,507</u>	<u>\$ 304,759,857</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represented five percent or more of the Transportation Authority’s total investments at June 30, 2015, were held in the General Fund as follows.

<u>Issuer</u>	<u>Investment Type</u>	<u>Fair Value 2015</u>
Federal National Mortgage Association (FNMA)	U.S. Agency Security	\$ 59,927,779

There were no investments exceeding five percent of the Transportation Authority’s total investments at June 30, 2016.

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, Transportation Authority employs the Trust Department of a bank or trustee as the custodian of certain Transportation Authority managed investments, regardless of their form.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

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 asset 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 the County Pool and in the State pool (LAIF) are not categorized 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, 2016:

Investment Type	Quoted Prices (Level I)	Observable Inputs (Level II)	Unobservable Inputs (Level III)	Total
Debt securities				
U.S. Treasury Notes	\$ 136,920,247	\$ -	\$ -	\$ 136,920,247
U.S. Agency Securities	-	20,596,619	-	20,596,619
	\$ 136,920,247	\$ 20,596,619	\$ -	157,516,866
LAIF				974,979
San Mateo County Investment Pool				315,034,765
Cash				8,709,407
Total investments by fair value type				\$ 482,236,017

The following is the Transportation Authority's fair value hierarchy table as of June 30, 2015:

Investment Type	Quoted Prices (Level I)	Observable Inputs (Level II)	Unobservable Inputs (Level III)	Total
Debt securities				
U.S. Treasury Notes	\$ 93,917,728	\$ -	\$ -	\$ 93,917,728
U.S. Agency Securities	-	59,927,779	-	59,927,779
	\$ 93,917,728	\$ 59,927,779	\$ -	153,845,507
LAIF				21,298,703
San Mateo County Investment Pool				283,464,154
Cash				1,581,700
Total investments by fair value type				\$ 460,190,064

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 TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

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 \$314,073,699 and \$282,569,529, at June 30, 2016 and 2015, respectively, that is recorded at \$315,034,765 and \$283,464,154 on the balance sheet after the adjustment for unrealized gains/losses for Fiscal Years ended June 30, 2016 and 2015, 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.

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 \$974,979 and \$21,295,703 (which is reported using the amortized cost) after the adjustment for unrealized gains/losses for Fiscal Year 2016 and 2015, 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, 2016.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

NOTE 4 – INTEREST RECEIVABLE

Interest receivables at June 30 consist of the following sources:

	2016	2015
Interest due from investment portfolio	\$ 1,134,571	\$ 768,091
Accrued interest on note receivable	809,075	767,471
Total interest receivables	<u>\$ 1,943,646</u>	<u>\$ 1,535,562</u>

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 the 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 at no cost; however, the District is obligated to transfer half its interest in the railroad corridor property on the JPB as San Mateo County's share of contributions for future capital projects. The District is required to make the principal and interest payments before December 1, 2033.

NOTE 6 – OTHER RECEIVABLES

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

	2016	2015
Metropolitan Transportation Commission	\$ 25,610	\$ 587,936
San Mateo County Transit District	812,681	126,331
Alameda County Transportation Commission	53,209	53,209
Santa Clara Valley Transportation Authority	19,810	19,810
Other	46,322	12,749
Total other receivables	<u>\$ 957,632</u>	<u>\$ 800,035</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

NOTE 7 – CAPITAL ASSETS

Capital assets activities for the year ended June 30, 2015 and 2016 are as follow:

	Balance at June 30, 2015	Acquisitions	Dispositions	Balance at June 30, 2016
Capital Assets - Land	\$ 11,681,806	\$ -	\$ -	\$ 11,681,806

	Balance at June 30, 2014	Acquisitions	Dispositions	Balance at June 30, 2015
Capital Assets - Land	\$ 13,590,975	\$ -	\$ 1,909,169	\$ 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:

	2016	2015
District - Salaries and benefits	\$ 1,920,182	\$ 321,681
Shuttle program	-	95,351
Paratransit program	3,188,158	587,185
Caltrain	8,370,067	1,196,752
Capital project	43,208	5,193,355
Other	12,119	153,583
Total	\$ 13,533,734	\$ 7,547,907

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

NOTE 9 – ACCRUED LIABILITIES

Accrued liabilities at June 30 are as follows:

	2016	2015
Disbursements to local entities for transportation projects	\$ 3,282,099	\$ 4,033,548
Capital projects	7,835,590	6,252,822
BART	290,852	289,676
Other	65,199	59,671
Total	\$ 11,473,739	\$ 10,635,717

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 three 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.

Unrestricted – All other amounts not reported as investment in capital assets or restricted.

When both restricted and unrestricted resources are available for the same purpose (e.g. construction projects), the Transportation Authority’s policy is to use all available restricted resources first before unrestricted resources are utilized.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

Fund Balances

The General Fund (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.

NOTE 11 – INVESTMENT INCOME

Investment income activity for the Fiscal Year ended June 30 is as follows:

	<u>2016</u>	<u>2015</u>
Interest income	\$ 3,758,366	\$ 2,743,230
Net increase (decrease) in fair value of investments	<u>3,027,372</u>	<u>1,363,210</u>
Investment income - Statements of Activities	6,785,738	4,106,440
Increase on long-term interest receivable	<u>(41,604)</u>	<u>(41,315)</u>
Investment income - Statements of Revenues, Expenditures and Changes in Fund Balance	<u>\$ 6,744,134</u>	<u>\$ 4,065,125</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

NOTE 12 – STAFF SUPPORT EXPENDITURES

As discussed in Note 1A, the San Mateo County Transit District was 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:

	2016	2015
Salaries and benefits	\$ 501,714	\$ 415,095
Indirect costs	114,658	266,417
Total	\$ 616,372	\$ 681,512

NOTE 13 – CAPITAL PROJECTS

The expenditures on public transportation projects during Fiscal Years 2016 and 2015 were \$44,406,662 and \$47,089,506, respectively. Total expenditures on such projects from inception through June 30, are as follows:

Capital Projects	2016	2015
Dumbarton Spur	\$ 33,309,299	\$ 33,103,956
Caltrain	216,918,088	201,236,175
Paratransit	6,510	6,510
Ferry	8,090,377	8,090,377
Local Shuttle	7,850,087	5,910,442
Railroad Grade Separations	250,363,127	246,221,339
Streets and Highways	294,845,532	275,287,141
Alternative Congestion Relief	1,365,551	896,521
Project administration	1,755	1,750
Oversight and Bicycle	16,319,078	13,908,531
Total	\$ 829,069,404	\$ 784,662,742

Of the total expenditures of \$829,069,404 for capital projects, \$21,793,796 was funded by contributions from external entities.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Capital projects

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

Capital Projects	2016	2015
Dumbarton Spur	\$ 12,544,053	\$ 12,741,396
Caltrain	73,302,092	82,824,005
Paratransit	2,761	2,761
Ferry	1,381	1,381
Local Shuttle	6,017,798	4,877,443
Railroad Grade Separations	45,026,225	45,064,764
Streets and Highways	176,065,653	174,449,045
Alternative Congestion Relief	1,154,176	83,207
Project administration	564	564
Oversight and Bicycle	10,647,850	11,440,474
Total	\$ 324,762,553	\$ 331,485,040

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, 2016.

NOTE 15 – RISK MANAGEMENT

The Transportation Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

The following is a summary the Transportation Authority’s insurance coverage on June 30, 2016:

Type of Coverage	Self-insurance (in aggregate)	Excess Coverage (in aggregate)
Commerical General Liability	Up to \$1,000,000 per occurrence	Up to \$10,000,000 per occurrence
Public Officials Liability	\$50,000 per claim	\$3,000,000

There were no claims that exceed the coverages above in the past three years.

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REQUIRED SUPPLEMENTARY INFORMATION

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Resources (inflows)				
Sales tax	\$ 77,000,000	\$ 80,000,000	\$ 79,703,951	\$ (296,049)
Investment income	2,985,683	2,985,683	3,716,762	731,079
Rental income	1,232,840	1,232,840	1,167,385	(65,455)
Other income	-	3,000,000	5,838	(2,994,162)
Amounts available for appropriation	<u>81,218,523</u>	<u>87,218,523</u>	<u>84,593,936</u>	<u>(2,624,587)</u>
Charges to appropriations (outflows)				
Program Administration				
Staff support	739,869	739,869	616,373	123,496
Board compensation	9,400	9,400	7,300	2,100
Professional and legal fees	183,525	198,525	213,221	(14,696)
Other services and supplies	389,038	374,038	137,963	236,075
Travel and meeting	13,850	13,850	1,712	12,138
Total program Administration	<u>1,335,682</u>	<u>1,335,682</u>	<u>976,569</u>	<u>359,113</u>
Distributions to local entities	20,405,000	21,200,000	21,127,533	72,467
BART	1,540,000	1,600,000	1,594,079	5,921
Caltrain	6,160,000	6,400,000	6,376,316	23,684
Measure A information	16,500	16,500	233,478	(216,978)
Capital outlays	35,080,000	65,977,555	44,406,657	21,570,898
Total charges to Appropriations	<u>\$ 64,537,182</u>	<u>\$ 96,529,737</u>	<u>74,714,632</u>	<u>\$ 21,815,105</u>
Fund balances				
Beginning of Year			<u>459,782,727</u>	
End of Year			469,662,031	
Explanation of differences between budgetary basis and GAAP fund balances				
Unrealized gains under GASB 31			<u>3,027,372</u>	
Total Fund Balances in the Statement of Revenues, Expenditures and Changes in Fund Balances - GAAP basis			<u>\$ 472,689,403</u>	

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTE TO REQUIRED SUPPLEMENTARY SCHEDULE JUNE 30, 2016

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 adopted by the Transportation Authority includes amounts for the General Fund. This fund's 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 or actual column for the General Fund.

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
- Fund Balances of Governmental Funds

Revenue Capacity

- Revenue Base and Revenue Rate
- Principal Revenue Payers

Debt Capacity

- Ratio of Outstanding Debt
- Bonded Debt
- Direct and Overlapping Debt and Debt Limitation
- Pledged Revenue Coverage

Demographics and Economic Information

- Population, Income and Unemployment Rates
- Principal Employers

Operating Information

- Capital Outlay
- Employees
- Capital Assets

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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 and required supplementary 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/fund balances 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

These schedules assist readers in understanding and assessing the Transportation Authority's debt burden and its capacity to issue future debt.

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.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**FINANCIAL TRENDS – NET POSITION AND CHANGE IN NET POSITION
FISCAL YEARS 2007 THROUGH 2016 (in thousands)**

Fiscal year	2016	2015	2014	2013
GOVERNMENTAL ACTIVITIES:				
PROGRAM REVENUES				
Grade Separations	\$ 874	\$ 895	\$ 888	\$ 839
Paratransit	-	-	-	-
Dumbarton Spur	293	324	397	694
Projects Funding	-	-	52	2,408
Total Program Revenues	1,167	1,219	1,337	3,941
PROGRAM EXPENDITURES				
Upgrades and Extension	15,682	14,573	7,671	4,270
Grade Separations	4,142	6,525	27,553	21,421
Paratransit	-	-	-	-
Dumbarton Spur	205	210	329	674
BART	1,594	1,619	1,552	1,477
Caltrain	6,376	6,478	6,210	5,909
Distribution to local entities	21,596	21,902	20,573	19,982
Projects funding	23,909	25,336	11,155	28,681
Caltrain Shuttle Program	-	-	-	-
Transportation Systems Management	-	-	-	-
Program Administration	1,211	1,208	838	666
Interest on debt	-	-	-	-
Total Program Expenditures	74,715	77,851	75,881	83,080
NET REVENUES (EXPENDITURES)	(73,548)	(76,632)	(74,544)	(79,139)
General revenues				
Sales tax	79,704	80,974	77,626	73,858
Unrestricted investment earnings	6,786	4,106	3,065	378
Other revenues	6	669	7,172	2,239
CHANGE IN NET POSITION	12,948	9,117	13,319	(2,664)
Net Position Components				
Invested in capital assets	11,682	11,682	13,591	13,591
Restricted	477,842	464,893	453,869	440,549
Unrestricted	-	-	-	-
NET POSITION	\$ 489,524	\$ 476,575	\$ 467,460	\$ 454,140

Source: Current and prior years' CAFRs

This table presents governmental activities program revenues and expenses, general revenues, sales tax and other general revenues.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**FINANCIAL TRENDS – NET POSITION AND CHANGE IN NET POSITION
FISCAL YEARS 2007 THROUGH 2016 (in thousands) (Continued)**

2012	2011	2010	2009	2008	2007
\$ 819	\$ 786	\$ 1,103	\$ 3,209	\$ 876	\$ 731
-	-	-	-	1,149	1,411
1,916	994	1,930	5,287	1,942	620
1,979	9	-	-	-	-
<u>4,714</u>	<u>1,789</u>	<u>3,033</u>	<u>8,496</u>	<u>3,967</u>	<u>2,762</u>
3,574	16,285	19,709	9,612	12,481	8,136
9,157	9,607	14,445	9,118	4,525	1,867
-	-	2,339	26,071	2,780	2,542
2,044	1,017	2,146	6,045	2,286	852
1,390	1,270	1,170	535	-	-
5,558	5,081	4,679	2,142	-	-
18,809	17,289	13,159	12,674	13,734	13,240
13,521	8,948	16,779	24,577	31,634	19,928
1,448	1,377	1,322	1,339	1,075	1,064
-	-	473	462	483	476
825	833	719	746	803	670
-	-	-	-	379	764
<u>56,325</u>	<u>61,707</u>	<u>76,940</u>	<u>93,321</u>	<u>70,180</u>	<u>49,539</u>
<u>(51,611)</u>	<u>(59,918)</u>	<u>(73,907)</u>	<u>(84,825)</u>	<u>(66,213)</u>	<u>(46,777)</u>
69,476	63,516	58,485	60,022	68,670	66,202
3,569	5,201	7,866	(12,249)	18,313	20,564
1,528	-	-	-	(227)	-
<u>22,962</u>	<u>8,799</u>	<u>(7,556)</u>	<u>(37,051)</u>	<u>20,543</u>	<u>39,989</u>
13,591	13,591	13,591	13,591	13,591	18,161
443,213	420,251	-	-	25,000	35,413
-	-	411,452	419,008	431,060	395,533
<u>\$ 456,804</u>	<u>\$ 433,842</u>	<u>\$ 425,043</u>	<u>\$ 432,599</u>	<u>\$ 469,651</u>	<u>\$ 449,107</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**FINANCIAL TRENDS – GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE
FISCAL YEARS 2007 THROUGH 2016 (in thousands) (Continued)**

Fiscal year	2016	2015	2014	2013
REVENUES				
Sales tax	\$ 79,704	\$ 80,974	\$ 77,626	\$ 73,858
Investment income	6,744	4,181	3,019	319
Rental income	1,167	1,219	1,204	1,142
Grant proceeds	-	-	121	2,796
Proceeds from sale of properties	-	1,793	-	-
Other income	6	669	7,184	2,241
Total Revenues	87,621	88,836	89,154	80,356
EXPENDITURES				
Public Transit				
Upgrades and extensions	15,682	14,573	7,671	4,270
Grade separations	4,142	6,525	27,553	21,421
Paratransit	-	-	-	-
Dumbarton spur	205	210	329	674
BART	1,594	1,619	1,552	1,477
Caltrain	6,376	6,478	6,210	5,909
Project funding	1,940	2,205	1,646	2,420
Street and highways				
Distributions to local entities	21,596	21,902	20,573	19,982
Projects funding	21,969	23,131	9,509	26,260
Caltrain shuttle program	-	-	-	-
Transportation system management	-	-	-	-
Program administration	1,211	1,208	838	666
Debt service				
Principal	-	-	3,450	-
Interest	-	-	-	-
Total Expenditures	74,715	77,852	79,331	83,079
Excess Revenues Over Expenditures	12,906	10,984	9,823	(2,723)
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change In Fund Balance	12,906	10,984	9,823	(2,723)
Fund Balance				
Non-Spendable	-	1,786	3	3
Restricted	472,689	457,997	448,796	438,973
Total Ending Fund Balance	\$ 472,689	\$ 459,783	\$ 448,799	\$ 438,976
Total Debt Service expenditures as a % Total Noncapital expenditures	0.0%	0.0%	10.6%	0.0%

Source: Current and prior years' CAFRs

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**FINANCIAL TRENDS – GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE
FISCAL YEARS 2007 THROUGH 2016 (in thousands) (Continued)**

2012	2011	2010	2009	2008	2007
\$ 69,476	\$ 63,516	\$ 58,485	\$ 60,022	\$ 68,670	\$ 66,202
3,503	5,120	7,723	(12,630)	18,995	21,985
1,108	1,064	1,072	1,076	997	902
3,607	725	1,961	7,420	1,821	449
-	-	-	-	-	-
1,527	-	-	-	-	-
<u>79,220</u>	<u>70,425</u>	<u>69,241</u>	<u>55,888</u>	<u>90,483</u>	<u>89,538</u>
3,574	16,285	19,709	9,612	12,481	8,136
9,157	9,607	14,445	9,118	4,525	1,867
-	-	2,339	26,073	2,780	2,542
2,044	1,017	2,146	6,045	2,286	852
1,390	1,270	1,170	535	-	-
5,558	5,081	4,679	2,142	-	-
5,664	1,760	512	-	-	-
18,809	17,289	13,159	12,674	13,734	13,240
7,856	7,188	16,267	24,577	31,639	19,934
1,448	1,377	1,322	1,339	1,075	1,064
-	-	473	462	483	476
825	833	719	746	803	670
-	-	-	-	8,855	8,475
-	-	-	-	407	789
<u>56,325</u>	<u>61,707</u>	<u>76,940</u>	<u>93,323</u>	<u>79,068</u>	<u>58,045</u>
<u>22,895</u>	<u>8,718</u>	<u>(7,699)</u>	<u>(37,434)</u>	<u>11,415</u>	<u>31,493</u>
-	-	-	2,902	-	-
-	-	-	(2,902)	-	-
-	-	-	-	-	-
<u>22,895</u>	<u>8,718</u>	<u>(7,699)</u>	<u>(37,434)</u>	<u>11,415</u>	<u>31,493</u>
3	3	3	3	25,000	35,414
<u>441,696</u>	<u>418,801</u>	<u>410,082</u>	<u>417,781</u>	<u>430,217</u>	<u>408,389</u>
<u>\$ 441,699</u>	<u>\$ 418,804</u>	<u>\$ 410,085</u>	<u>\$ 417,784</u>	<u>\$ 455,217</u>	<u>\$ 443,803</u>
0.0%	0.0%	0.0%	0.0%	32.7%	33.7%

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**FINANCIAL TRENDS – GOVERNMENTAL FUND BALANCES COMPONENTS
FISCAL YEARS 2007 THROUGH 2016 (in thousands)**

Fiscal year ended	General Fund		
	Non-Spendable	Restricted	Total
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
2008	-	425,887	425,887
2007	8,031	402,081	410,112

Fiscal year ended	All Other Governmental Funds		
	Non-Spendable	Restricted	Total
2016	\$ -	\$ -	\$ -
2015	-	-	-
2014	-	-	-
2013	-	-	-
2012	-	-	-
2011	-	-	-
2010	-	-	-
2009	-	594	594
2008	25,000	4,330	29,330
2007	27,383	6,307	33,690

Source: Current and prior years' CAFRs.

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE FISCAL YEARS 2007 THROUGH 2016 (in thousands)

Fiscal year	2016	2015	2014
The Transportation Authority's Sales Tax Rate	0.5%	0.5%	0.5%
Total Sales Tax Revenue	\$ 79,704	\$ 80,974	\$ 77,626
Total Taxable Sales in San Mateo County	\$ 15,940,800 ^[1]	\$ 16,194,800 ^[1]	\$ 15,298,434

[1] 2016 and 2015 taxable sales are estimates based on sales tax revenues received; 2014 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.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 2007 THROUGH 2016 (in thousands) (Continued)**

2013	2012	2011	2010	2009	2008	2007
0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
\$ 73,858	\$ 69,476	\$ 63,516	\$ 58,485	\$ 60,022	\$ 68,670	\$ 66,202
\$ 14,611,618	\$ 13,906,978	\$ 13,020,643	\$ 11,966,338	\$ 11,327,022	\$ 13,137,913	\$ 13,326,306

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**REVENUE CAPACITY – PRINCIPAL REVENUE PAYERS
FISCAL YEARS 2007 THROUGH 2016 (in thousands)**

Principal Revenue Payers	FY2015*			FY2006		
	Rank	Percent of Taxable Sales	Amount	Rank	Percent of Taxable Sales	Amount
All other outlets	1	31.9%	\$1,125,575	1	27.1%	\$3,499,262
Automotive group	2	13.2%	465,514	2	12.9%	1,666,602
Food Services/drinking places	10	4.1%	144,973	10	3.2%	\$411,438
Gasoline (Service) stations	7	6.1%	214,500	6	7.1%	917,482
General merchandise stores	5	6.9%	244,038	3	10.2%	1,313,029
Building materials group	6	6.4%	224,535	7	7.0%	908,205
Apparel stores	9	5.0%	176,232	11	3.1%	398,192
Food/Beverage stores	3	12.8%	451,055	5	9.0%	1,158,608
Miscellaneous Store Retailers	4	8.5%	300,836	8	5.3%	677,986
Furniture/Home furnishings		0.0%		9	4.0%	512,423
Sporting Goods, Hobby, Book & Music Stores (Specialty stores)		0.0%		4		1,249,966
Nonstore Retailers	8	5.2%	183,646	12	1.4%	187,198
Total		100.0%	\$3,530,904		100.0%	\$12,900,391

* Principal tax payers information for 2nd Quarter, 2015 is the most current information available.

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

Source: California State Board of Equalization

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

DEBT CAPACITY – RATIO OF OUTSTANDING DEBT FISCAL YEARS 2007 THROUGH 2016

Fiscal Year	Limited Tax Revenue Bonds for SMCTA^[1]	Personal Income for San Mateo County^[2]	As a Percent of Personal Income
2016	\$ -	\$ 65,246,461	0.00%
2015	-	63,346,079	0.00%
2014	-	61,501,048	0.00%
2013	-	59,709,755	0.00%
2012	-	58,665,994	0.00%
2011	-	51,745,573	0.00%
2010	-	47,469,961	0.00%
2009	-	46,381,026	0.00%
2008	-	48,856,877	0.00%
2007	8,855	49,894,436	0.02%

[1] Current and prior years' CAFRs

[2] County of San Mateo, California, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2015. Personal Income data for 2014 and 2015 is based on an estimated three percent annual increase over 2013.

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**DEBT CAPACITY – BONDED DEBT
FISCAL YEARS 2007 THROUGH 2016 (in thousands)**

Fiscal Year	Limited Tax Revenue Bonds for SMCTA	Total Taxable Sales in San Mateo County	As a Percent of Total Taxable Sales in San Mateo County
2016	\$ -	\$ 15,940,800 ^[1]	0.00%
2015	-	16,194,800 ^[1]	0.00%
2014	-	15,298,434	0.00%
2013	-	14,611,618	0.00%
2012	-	13,906,978	0.00%
2011	-	13,020,643	0.00%
2010	-	11,966,338	0.00%
2009	-	11,327,022	0.00%
2008	-	13,137,913	0.00%
2007	8,855	13,326,306	0.07%

[1] 2016 and 2015 taxable sales are estimates based on sales tax revenues received;

2014 taxable sales amount is the most current information available

Source: Current and prior years' CAFRs & California State Board of Equalization

This table presents the ability of the Transportation Authority to issue revenue bonds based on the total taxable sales in San Mateo County.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

DEBT CAPACITY – DIRECT AND OVERLAPPING DEBT AND DEBT LIMITATION JUNE 30, 2016

San Mateo County Transportation Authority Overlapping Debt

The Transportation Authority does not have overlapping debt with other governmental agencies.

San Mateo County Transportation Authority Debt Limitation

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**DEBT CAPACITY – PLEDGED REVENUE COVERAGE
FISCAL YEARS 2007 THROUGH 2016 (in thousands)**

Fiscal Year	Pledged Sales Tax Revenue *	Debt Service			Coverage
		Principal	Interest	Total	
2016	\$ 63,763	\$ -	\$ -	\$ -	-
2015	64,779	-	-	-	-
2014	62,101	-	-	-	-
2013	59,086	-	-	-	-
2012	55,581	-	-	-	-
2011	50,813	-	-	-	-
2010	46,788	-	-	-	-
2009	48,018	-	-	-	-
2008	54,936	8,855	407	9,262	6
2007	52,962	8,475	789	9,264	6

* This amount represents 80 percent of the Transportation Authority's total sales tax revenue from the County of San Mateo.

Source: Current and prior years' CAFRs.

This table presents the relationship between total sales tax revenue, debt service payments and the Transportation Authority's ability to meet its debt obligations. The bonds were fully paid in 2009 and accordingly, no revenues were pledged.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

DEMOGRAPHIC AND ECONOMIC INFORMATION – POPULATION, INCOME AND UNEMPLOYMENT RATES FISCAL YEARS 2007 THROUGH 2016

Year	Population ^[1]	Total Personal Income (in millions) ^[2]	Per Capita Personal Income ^[2]	Average Unemployment Rates ^[3]
2016	762,327	\$ 65,246 *	\$ 100,480 *	3.2%
2015	753,123	63,346 *	84,758 *	3.3%
2014	745,635	61,501 *	82,290 *	4.2%
2013	736,647	59,710	79,893	5.7%
2012	727,795	58,666	79,420	7.0%
2011	722,372	51,746	71,051	8.3%
2010	718,614	47,470	65,953	8.9%
2009	713,818	46,381	64,994	8.9%
2008	707,820	48,857	69,416	4.8%
2007	701,838	49,894	71,910	4.0%
2006	699,347	47,184	68,366	3.8%

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

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

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

*Personal Income & Per Capital Personal Income data for 2015 and 2016 is based on an estimated three percent annual increase over 2014.

This table highlights San Mateo County's total population, total personal income, per capita income, and unemployment rates for the past ten years.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

DEMOGRAPHIC AND ECONOMIC INFORMATION – PRINCIPAL EMPLOYERS FISCAL YEARS 2014 AND 2006

Employers in San Mateo County	2014*			2006		
	Number of Employees	Rank	Percent of Total County Employment	Number of Employees	Rank	Percent of Total County Employment
United Airlines	10,000	1	2.42%	9,600	1	2.73%
Genentech Inc.	9,800	2	2.37%	7,845	2	2.23%
Oracle Corp.	6,750	3	1.63%	5,642	4	1.61%
County of San Mateo	5,472	4	1.32%	5,777	3	1.64%
Facebook Inc.	3,957	5	0.96%			
Kaiser Permanente	3,900	6	0.94%	3,609	5	1.03%
Visa USA/Visa International	3,500	7	0.85%			
Gilead Sciences Inc.	3,115	8	0.75%			
Mills-Peninsula Health Services	2,500	9	0.61%	1,800	9	0.51%
San Mateo County Community College	2,285	10	0.55%			
Safeway Inc.				2,280	6	0.65%
United States Postal Service				2,174	7	0.62%
Applera (Applied Biosystems)				1,578	10	0.45%
Electronic Arts Inc.				2,000	8	0.57%
Total	51,279		12.40%	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 2014 and 2006.

Source: San Francisco Business Times - Book of Lists; California Employment Development Department
(provided by San Mateo County Controller's office)

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

OPERATING INFORMATION – CAPITAL OUTLAY FISCAL YEARS 2007 THROUGH 2016 (in thousands)

Cumulative Capital Projects	2016	2015	2014	2013
Dumbarton Spur	\$ 33,309	\$ 33,104	\$ 32,894	\$ 32,565
Caltrain-Downtown Extension	216,918	201,236	186,663	178,993
Paratransit	7	7	2	-
Ferry	8,090	8,090	8,088	8,087
Local Shuttle	7,850	5,910	3,707	2,269
Railroad Grade Separations	250,363	246,221	239,697	212,143
Streets and Highways	294,846	275,287	253,794	245,552
Alternative Congestion Relief	1,366	897	456	10
Admin, Oversight and Bicycle	16,321	13,911	12,272	11,005
Total	<u>\$ 829,069</u>	<u>\$ 784,663</u>	<u>\$ 737,573</u>	<u>\$ 690,624</u>

Source: Current and prior years' CAFRs

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

OPERATING INFORMATION – CAPITAL OUTLAY (CONTINUED)
FISCAL YEARS 2007 THROUGH 2016 (in thousands)

2012	2011	2010	2009	2008	2007
\$ 31,891	\$ 29,847	\$ 28,830	\$ 26,684	\$ 20,881	\$ 18,777
174,723	171,149	154,880	135,170	125,558	113,077
-	-	-	-	-	-
7,393	2,044	377	-	-	-
543	228	135	-	-	-
190,722	181,565	171,958	157,514	148,396	143,871
223,100	216,936	210,320	194,663	171,478	140,360
-	-	-	-	-	-
7,197	5,505	4,933	4,324	2,931	2,415
<u>\$ 635,569</u>	<u>\$ 607,274</u>	<u>\$ 571,433</u>	<u>\$ 518,354</u>	<u>\$ 469,244</u>	<u>\$ 418,500</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

OPERATING INFORMATION – EMPLOYEES FISCAL YEARS 2007 THROUGH 2016

DIVISION	FULL-TIME EQUIVALENTS					
	2016	2015	2014	2013	2012	2011
CALTRAIN MODERNIZATION PROGRAM	-	-	-	0.02	-	-
CUSTOMER SERVICE AND MARKETING	0.15	0.15	0.17	0.13	0.14	0.20
EXECUTIVE	0.40	0.57	0.60	0.55	0.57	0.55
FINANCE AND ADMINISTRATION	2.17	2.10	2.29	3.76	4.39	4.00
OPERATIONS, ENGINEERING AND CONSTRUCTION	4.16	4.34	4.35	4.43	4.47	3.66
PLANNING AND DEVELOPMENT	3.39	3.35	3.30	2.63	1.97	2.75
PUBLIC AFFAIRS	1.40	1.20	1.20	1.40	1.10	1.00
TOTAL EMPLOYEES	11.67	11.71	11.91	12.92	12.64	12.16

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	2008	2007
EXECUTIVE	0.80	0.60	0.60
ADMINISTRATION	0.80	0.15	0.10
COMMUNICATIONS	0.75	0.90	1.00
DEVELOPMENT	11.14	8.00	8.83
FINANCE	0.90	0.80	1.05
OPERATIONS	0.25	0.15	0.20
TOTAL EMPLOYEES	14.64	10.60	11.78

Source: Transportation Authority's annual operating and capital budgets.

This table presents total full-time equivalents by division.

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

OPERATING INFORMATION – CAPITAL ASSETS FISCAL YEARS 2007 THROUGH 2016 (in thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital Assets:				
Land	\$ 11,682	\$ 11,682	\$ 13,591	\$ 13,591
Total	<u>\$ 11,682</u>	<u>\$ 11,682</u>	<u>\$ 13,591</u>	<u>\$ 13,591</u>

Source: Current and prior years' CAFRs.

This table presents capital assets for the past 10 years.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

OPERATING INFORMATION – CAPITAL ASSETS (CONTINUED)
FISCAL YEARS 2007 THROUGH 2016 (in thousands)

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>\$ 13,591</u>	<u>\$ 18,161</u>				
<u><u>\$ 13,591</u></u>	<u><u>\$ 18,161</u></u>				

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INDEPENDENT AUDITOR'S REPORTS

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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, 2016, 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 January 31, 2017.

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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify a deficiency in internal control, described as finding 2016-01 in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency.

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*.

Transportation Authority's Response to Findings

The Transportation Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Transportation Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California
January 31, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENT FINDINGS

The following finding represents a reportable condition related to the financial statements that is required to be reporting in accordance with *Government Auditing Standards*:

2016-01 Year-End Accounting Closing Procedures

Criteria or specific requirement

The Transportation Authority should maintain policies and procedures to ensure that the accounting records are properly closed and all significant general ledger accounts are reconciled and agreed to subsidiary ledgers, in a timely manner.

Condition

It was noted that the Transportation Authority's cash balances were not fully reconciled for the Fiscal Year ended June 30, 2016. Upon further review, it was noted that several months out of the fiscal year were not reconciled.

Context

The above referenced condition was identified during our detailed examination of individual significant account balances and other testing performed.

Effect

The Transportation Authority's accounting records required significant adjustments to account balances in order to properly reconcile amounts to supporting information and close the accounting period.

Cause

It was noted that the post-closing adjustments to the accounting records were attributed to the lack of a timely review, analysis and reconciliation to supporting documentation and/or subsidiary ledgers. In other instances, interagency balances were not reconciled on a timely basis.

Recommendation

We recommend that the Transportation Authority implement policies and procedures to reconcile all cash account balances to subsidiary ledgers and/or supporting information on a timely basis. These procedures can include, reconciliation on a monthly/quarterly basis and/or establishing monthly/year-end closing checklists.

Views of responsible officials and planned corrective actions

The necessary upgrade of our PeopleSoft accounting and auditing software system, the validation and clean-up of the PeopleSoft data converted from the old system, identified as a priority in the prior year's audit, the related PeopleSoft "subclass" tracking project, staff turnover, including the departure of our Chief Financial Officer, caused delays in our preparation for the audit by the pre-established deadline. Through diligent efforts by staff to produce the information required by the auditors, while simultaneously continuing to validate and troubleshoot the PeopleSoft upgrade, all the monthly reporting deadlines required by the audit were met and the audit was successfully completed on time and on schedule. While we agree to make the necessary changes to ensure that such initial delays will not be repeated, it is worth noting, again, that many of the reasons for the initial delays were one-time events and extraordinary circumstances that are not systemic and are unlikely to be repeated.