

San Mateo County Transportation Authority
San Carlos, California



Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2017
With Comparative Totals for 2016



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SAN MATEO COUNTY
***Transportation
Authority***

San Carlos, California

Comprehensive Annual Financial Report

**Fiscal Year Ended June 30, 2017
(With Comparative Totals for 2016)**

Prepared by the Finance Division

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Table of Contents

	Page
I. INTRODUCTORY SECTION	
Letter of Transmittal	i
GFOA Certificate of Achievement	ix
Board of Directors	x
Executive Management	xii
Organization Chart	xiii
Map	xiv
Table of Credits	xv
II. FINANCIAL SECTION	
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Fund Balance Sheet	12
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	13
Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances	14
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances – to the Government Wide Statement of Activities	15
Notes to Basic Financial Statements	17
REQUIRED SUPPLEMENTARY INFORMATION	
General Fund – Budgetary Comparison Schedule	33
Notes to Required Supplementary Schedule	34

Table of Contents

	Page
III. STATISTICAL SECTION	
Financial Trends:	
Net Position and Change in Net Position.....	36
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance.....	38
Fund Balances of Governmental Funds	40
Revenue Capacity:	
Revenue Base and Revenue Rate.....	41
Principal Revenue Payers	43
Demographics and Economic Information:	
Population, Income and Unemployment Rates.....	44
Principal Employers.....	45
Operating Information:	
Capital Outlay	46
Employees.....	48
Capital Assets.....	49
IV. COMPLIANCE SECTION	
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 <i>Government Auditing Standards</i>	51
Schedule of Findings and Questioned Costs.....	53
Status of Prior Year Findings and Questioned Costs.....	54

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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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

LETTER OF TRANSMITTAL



December 19, 2017

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

**Comprehensive Annual Financial Report
Year Ended June 30, 2017**

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, 2016 through June 30, 2017. This transmittal letter includes the formal transmittal of the CAFR, a profile of the TA, information useful in assessing the government's economic condition and awards and acknowledgements. Readers desiring an analytical overview of the basic financial statements or TA's financial activities may refer to the Management's Discussion and Analysis in the Financial Section.

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

To test the performance of the internal control system, the TA contracted for independent auditing services from Vavrinek, Trine, Day & Co., LLP, a certified public accounting firm licensed to practice in the State of California. The auditor expressed an opinion that the TA's financial statements are fairly stated in all material respects and in compliance with accounting principles generally accepted in the United States of America. This conclusion is the most favorable kind and is commonly known as an "unmodified" or "clean" opinion.

PROFILE OF THE ORGANIZATION

Basic Information

San Mateo County, with a population of over 750,000, is located on a peninsula south of the City and County of San Francisco, bordered on the west by the Pacific Ocean, on the east by San Francisco Bay and on the south by the counties of Santa Clara and Santa Cruz. The voters of San Mateo County approved the creation of the Transportation Authority pursuant to the Bay Area County Traffic and Transportation Funding Act in June 1988. This Measure A vote authorized an annual one-half cent county sales tax levy. The Transportation Authority programs and allocates sales tax revenues to designated project sponsors that are responsible for

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

LETTER OF TRANSMITTAL

delivering a broad spectrum of transportation projects and programs pursuant to a Transportation Expenditure Plan over a period of 20 years. In November 2004, the voters reauthorized the levy of the sales tax with a new publicly developed Expenditure Plan containing transportation programs and projects to be implemented over an additional 25 years beyond the original expiration date of 2008. The 2004 Transportation Expenditure Plan includes six program categories including:

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

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

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

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

Governance

A seven-member Board of Directors governs the Transportation Authority with input from a 15-member Citizens Advisory Committee. The Board members are selected as follows:

- The publicly elected County Board of Supervisors appoints two of its members to serve on the Board.
- Local governments participate in a Cities Selection Committee to appoint four Board members, one each to represent the interests of North County, Central County, South County and the cities-at-large.
- The San Mateo County Transit District (District) (SamTrans) appoints one Board member.

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

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

LETTER OF TRANSMITTAL

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

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

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

The *Rail Division and the Caltrain Modernization Program (CalMod)* assists sponsors with implementation of certain projects, primarily grade separations with expertise offered by the capital project engineering and construction teams.

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

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

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

Component Units

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

Budget

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

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.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

LETTER OF TRANSMITTAL

The Transportation Authority employs the same basis of controls and accounting principles for both budgeted and actual revenues and expenditures, except that actual proceeds from the sale of capital assets, unrealized investment gains and losses and inter-fund transfers are not included in the budget. Pursuant to procedures established in its enabling legislation, the Transportation Authority establishes an appropriation limit for each annual budget cycle. The appropriation limit for Fiscal Year 2017 was \$656.4 million and the limit for Fiscal Year 2018 is \$684.4 million.

FINANCIAL AND ECONOMIC OUTLOOK

Local Economy

The Bay Area's economy continues to grow slightly faster than the rest of the country, with employment growing 3.3 percent in 2016 (latest data available) and San Mateo County employment growing 4.5 percent. In 2016, the largest employment increases in San Mateo County were observed in professional services (+3,700 jobs), information (+3,300 jobs), and transportation and utilities (+3,100 jobs). Meaningful job losses were not observed in any major sector. San Mateo County currently has the lowest unemployment rate in the state of California. The county's June 2017 unemployment rate (not adjusted for seasonality) of 2.9 percent is better than the 2016 same period rate of 3.1 percent, the statewide rate of 4.9 percent and the nationwide rate of 4.5 percent.

San Mateo County remains one of the wealthiest counties in California. With significant employment in diverse industries, including aviation, technology, biotechnology, financial services, healthcare and education, San Mateo County is not dependent on any one employment sector for its prosperity. This broad base is helping to ensure long-term stability for San Mateo County residents. Between 2017 and 2022, employment growth is forecast to be led by professional services, information, education and healthcare, transportation and utilities, and leisure services. Together, these sectors are forecast to account for 88 percent of net employment growth over this period.

Long-term Financial and Strategic Planning

The goal of the TA 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 TA's mission through 2033. The implementation guidelines in the TEP required that the TA 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. Notable are the original Measure A revenues contributed to the Caltrain right of way purchase, the purchase of the Dumbarton rail corridor, and 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 160 percent. 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.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

LETTER OF TRANSMITTAL

To reduce local traffic congestion and improve safety, Measure A funds were allocated for the construction of grade separation projects, including the completed San Bruno Grade Separation, as well as the recently awarded construction of the 25th Ave Grade Separation in the city of San Mateo, and pre-construction work 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.

Measure A funds have also been allocated for numerous highway improvement projects including the following that were under construction in Fiscal Year 2017: Highway 101/Broadway Interchange, Highway 101/Willow Interchange and the Highway 92/El Camino Real Interchange. The 101 Managed Lane Project, which is in the environmental phase, is another high profile highway project that has been allocated Measure A Highway Program funds. At the local level, Measure A Local Streets and Transportation funds are directly allocated to cities and the county for streets and road improvements, and other transportation investments to be chosen by the cities and county for implementation.

The pedestrian and bicycle program provided funds for the Ralston Avenue Bicycle/Pedestrian Overcrossing over Highway 101, as well as funds for other cities to complete preliminary phases of three additional proposed crossings over Highway 101. Bike lanes, sidewalks, multi-use pedestrian/bicycle trails, and safer crosswalks at multiple locations throughout the county, round out the active transportation investments funded by Measure A.

The Measure A Shuttle Program funded 36 shuttles that were in operation during Fiscal Year 2017, providing first- and/or last-mile connections to Caltrain and BART, as well as community serving routes that are a viable local mobility option to the private automobile to meet the needs of people dependent on transit.

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

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

MAJOR INITIATIVES

Transit Programs

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

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

LETTER OF TRANSMITTAL

Notable recent projects supporting the JPB include:

- Programming and allocation of \$65.3 million for the right of way and construction for 25th Avenue Grade Separation Project
- Ongoing work for the previously funded Peninsula Corridor Electrification & the Communications Based Overlay Signal System Positive Train Control (CBOSS PTC) Projects
- Provision of local match requirements for federally funded capital construction grants

Other notable recent public transit projects include:

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

Highway Program

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

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

Notable street and highway projects include:

- Completion of construction work for the 101/Broadway Interchange project
- 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.

For the past seventeen 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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

LETTER OF TRANSMITTAL

Key initiatives in Commute.org's Fiscal Year 2017 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 \$445,000 in support of Commute.org's Fiscal Year 2017 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 TA has issued three Pedestrian and Bicycle Calls for Projects, awarding approximately \$16 million in funds for 39 projects.

Local Programs

The original Measure A required the Transportation Authority to earmark 20 percent of its sales tax revenue to local cities and San Mateo County for various transportation-related improvements according to a formula based on population and number of road-miles. The total local funds distributed from the original Measure A was \$203.3 million. The new Measure A requires the Transportation Authority to earmark 22.5 percent for this purpose. During Fiscal Year 2017, local agencies received \$18.7 million from the new Measure A, bringing the total local aid since the inception of the new Measure A to \$138 million. The recipients of these funds principally use them for street and road projects.

AWARDS AND ACKNOWLEDGMENTS

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

LETTER OF TRANSMITTAL

The Government Finance Officers Association (GFOA) recognized the Transportation Authority's Fiscal Year 2016 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 2017 CAFR also meets the requirements for a Certificate of Achievement and have submitted it to the GFOA for evaluation. We would like to thank our independent audit firm, Vavrinek, Trine, Day & Co., LLP for its timely and expert guidance in this matter.

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

Respectfully submitted,



Jim Hartnett
Executive Director



Derek Hansel
Chief Financial Officer/Treasurer

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

GFOA CERTIFICATE OF EXCELLENCE



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, 2016

Christopher P. Morill

Executive Director/CEO

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

BOARD OF DIRECTORS

CAROLE GROOM, CHAIR

DON HORSLEY, VICE CHAIR

EMILY BEACH

MAUREEN FRESCHET

KEN IBARRA

CAMERON JOHNSON

KARYL MATSUMOTO

CAROLE GROOM, CHAIR was appointed to the TA 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 also serves on the San Mateo County Transit District Board and California Coastal Commission.

DON HORSLEY, VICE CHAIR was appointed to the TA 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.

EMILY BEACH was elected to the TA in 2017, representing Cities at Large. She was elected to the City of Burlingame Council in 2015. Ms. Beach also services on the Caltrain Modernization Local Policy Makers Group, El Camino Real (California Highway 82) Task Force, Commute.org, San Mateo County Congestion Management and Environmental Quality Committee and the Grand Boulevard Task Force.

MAUREEN FRESCHET was elected to the TA in 2016, representing Central County. She was elected to the San Mateo City Council in November 2011. Ms. Freschet 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 TA 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 TA in 2015, representing South County. He was elected to the San Carlos City Council in 2013 and served as the mayor in 2016. Mr. Johnson also serves on City/County Association of Governments of San Mateo County, Grand Boulevard Initiative, and San Mateo County Community Choice Energy (CCE). He previously served as Chair of the San Mateo County Mental Health and Substance Abuse Recovery Commission, and has previously served on the San Carlos Economic Development Advisory Commission.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

BOARD OF DIRECTORS

KARYL MATSUMOTO was elected to the TA 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. She was elected to the San Mateo County Transit District Board in February 2007. Ms. Matsumoto also serves on the City/County Association of Governments, Water Transportation Advocates and the Caltrain Modernization Local Policy Maker Group.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

EXECUTIVE MANAGEMENT

EXECUTIVE MANAGEMENT

EXECUTIVE DIRECTOR

Jim Hartnett

EXECUTIVE OFFICERS

Carter Mau – Deputy Executive Officer

Michelle Bouchard – Chief Operating Officer, Rail

Michael Burns – Interim Chief Officer, Caltrain Planning/CalMod Program

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

Derek Hansel – Chief Financial Officer

Martha Martinez – Executive Officer - District Secretary/Executive Administration

Seamus Murphy – Chief Communications Officer

David Olmeda – Chief Operating Officer, Bus

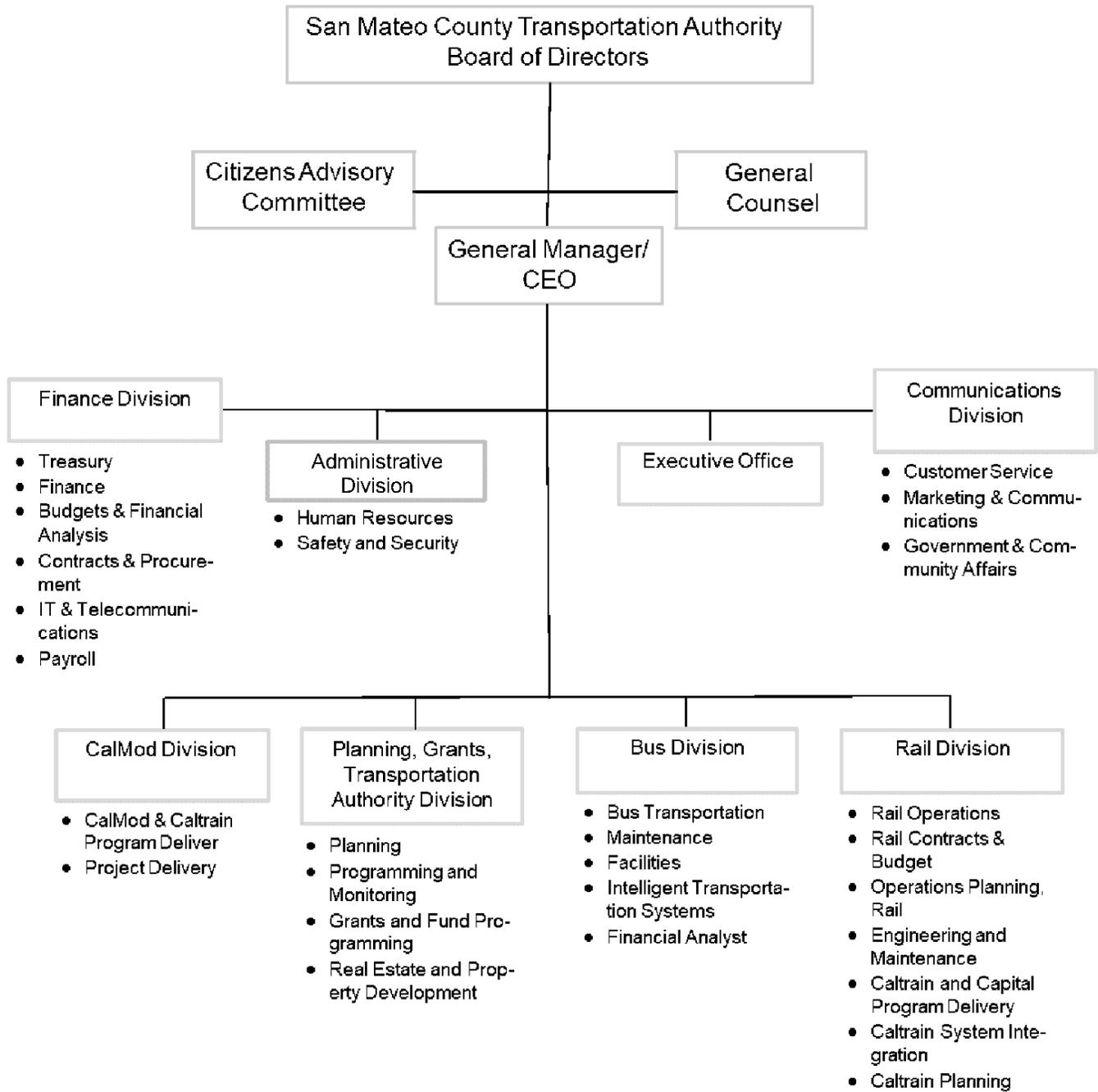
GENERAL COUNSEL

Hanson Bridgett LLP

Joan Cassman, Esq.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

ORGANIZATION CHART



SAN MATEO COUNTY TRANSPORTATION AUTHORITY

MAP



SAN MATEO COUNTY TRANSPORTATION AUTHORITY

TABLE OF CREDITS

TABLE OF CREDITS

The following individuals contributed to the production of the Fiscal Year 2017 CAFR:

Finance:

Director of Finance
Director of Treasury
Director, Budget and Financial Analysis
Interim Manager, General Ledger
Manager of Finance Planning and Analysis

Rima Lobo
Connie Mobley-Ritter
Ladi Millard
Jeannie Chen
Ryan Hinchman

Audit Firm:

Partner
Supervisor

Ahmad Gharaibeh, CPA
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, 2017, 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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior-Year Comparative Information

We have previously audited the Transportation Authority's 2016 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities and each major fund in our report dated January 31, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 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
December 19, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS

JUNE 30, 2017

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, 2017, with comparisons to the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the transmittal letter contained in the introductory section and with the statements and related notes contained in the financial section.

FINANCIAL HIGHLIGHTS

- The assets of the Transportation Authority exceeded its liabilities at the close of the most recent fiscal year by \$506.1 million (net position). Of this amount, \$11.7 million represents net investment in capital assets and \$494.4 million represents restricted net position, which is restricted to Measure A programs.
- The Transportation Authority's total net position increased \$16.5 million mainly because sales tax revenue increased by \$4.7 million while total expense decreased by \$3.0 million.
- At the close of the current fiscal year, the Transportation Authority's governmental fund reported a balance of \$489.2 million, an increase of \$16.5 million in comparison with the prior year. Of this amount, \$0.4 million represents nonspendable which is comprised of prepaid items, \$424.3 million represents restricted fund balance for current Measure A projects and \$64.5 million represents restricted fund balance for future Measure A projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

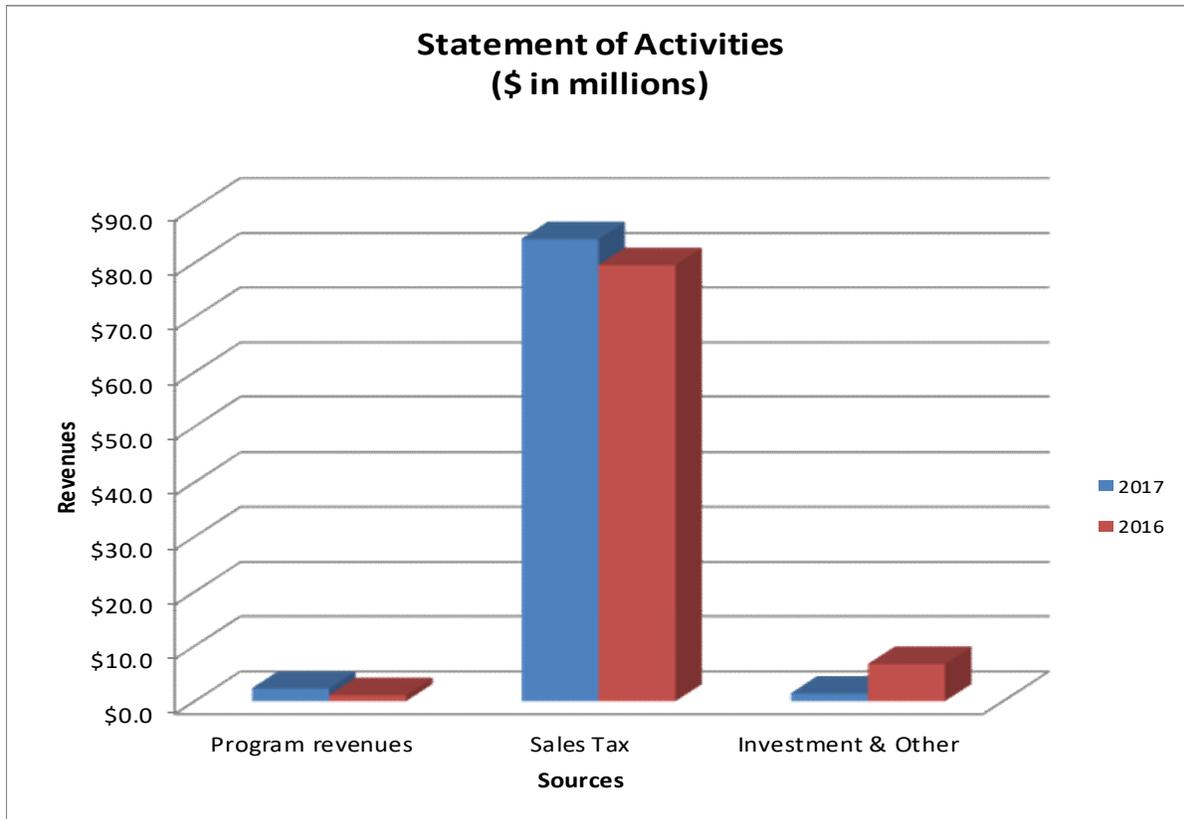
The *Statement of Net Position* presents total assets and total liabilities with the difference between the two reported as net position. Changes in net position over time provide an indicator of whether the financial position of the government is improving or deteriorating.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS

JUNE 30, 2017

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, 2017

The Transportation Authority classifies all of its funds as *governmental*. Unlike the *government-wide* financial statements discussed above, the financial statements for *governmental funds* focus on the inflows, outflows and balances of spendable resources, rather than net position. This information is useful for evaluating the Transportation Authority's current financing requirements.

The Transportation Authority has only General Fund:

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

Notes to the Financial Statements

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

Other Information

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

Government-wide Financial Analysis

At June 30, 2017, total assets were \$524.8 million, an increase of \$9.1 million or 1.8% from June 30, 2016. Cash and investments comprise \$484.3 million of this amount. With \$18.7 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 2017, existing encumbrances and expected future costs combined for current construction projects are estimated to total \$424.3 million.

Capital assets of \$11.7 million in 2017, remained unchanged from June 30, 2016.

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, 2017

	Governmental Activities	
	2017	2016
Current and other assets	\$ 513,086,538	\$ 504,023,286
Capital assets	11,681,806	11,681,806
Total assets	<u>524,768,344</u>	<u>515,705,092</u>
Other liabilities	18,714,696	26,181,404
Total liabilities	<u>18,714,696</u>	<u>26,181,404</u>
Net position:		
Net investment in capital assets	11,681,806	11,681,806
Restricted	494,371,842	477,841,882
Total net position	<u>\$ 506,053,648</u>	<u>\$ 489,523,688</u>

Total liabilities decreased by \$7.5 million or 28.5% to \$18.7 million at June 30, 2017, compared to \$26.2 million at June 30, 2016. The decrease was due to less accruals for capital projects.

Net position increased by \$16.5 million or 3.4% to \$506.1 million at June 30, 2017, the result of revenues exceeding expenditures in 2017 which is mainly because sales tax revenue has increased by \$4.7 million while total expenses has decreased by \$3.0 million.

	Governmental Activities	
	2017	2016
Revenues:		
Program revenues		
Charges for services	\$ 1,223,663	\$ 1,167,385
Operating grants/contributions	1,210,306	-
General revenues		
Sales tax	84,354,070	79,703,951
Investment earnings and others	1,487,772	6,791,576
Total revenues	<u>88,275,811</u>	<u>87,662,912</u>
Expenses:		
Public transit	25,800,888	29,939,083
Streets and highways	44,628,657	43,564,516
Others	1,316,306	1,211,033
Total expenses	<u>71,745,851</u>	<u>74,714,632</u>
Change in net position	16,529,960	12,948,280
Net position - July 1,	489,523,688	476,575,408
Net position - June 30,	<u>\$ 506,053,648</u>	<u>\$ 489,523,688</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

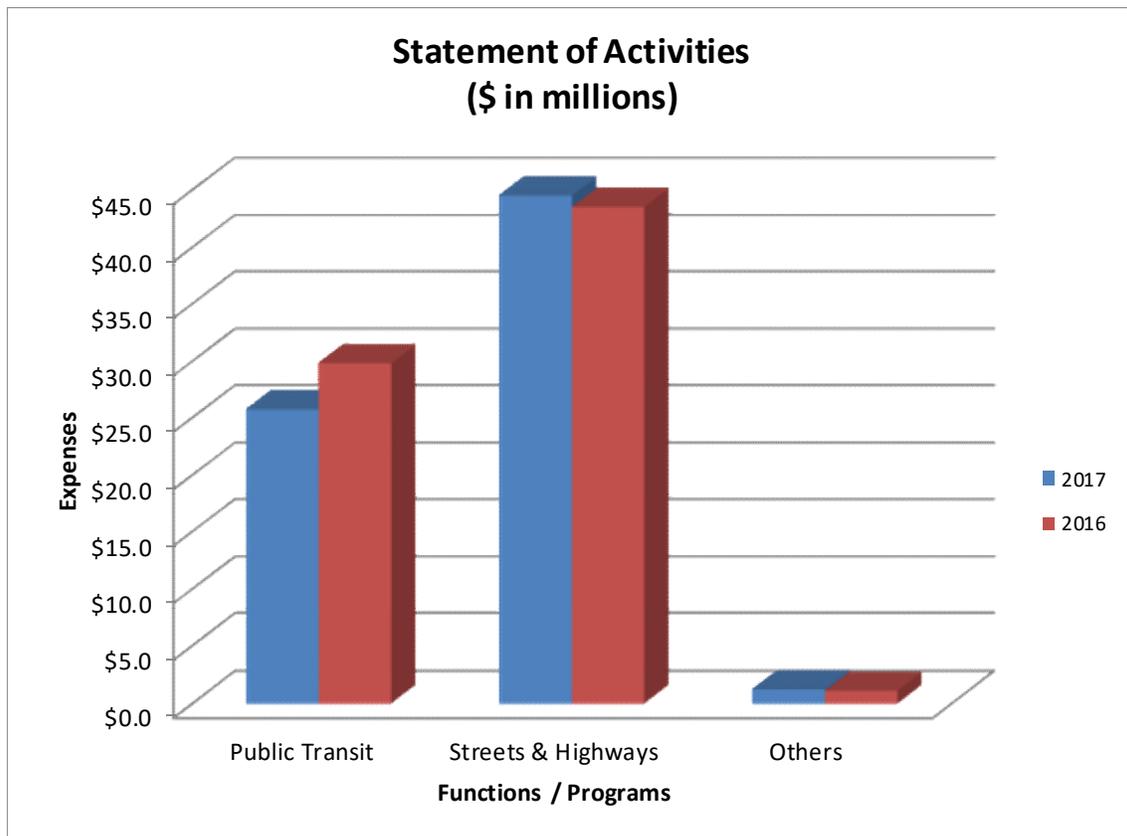
MANAGEMENT'S DISCUSSION & ANALYSIS

JUNE 30, 2017

Governmental Activities

Total expenses for governmental activities were \$71.7 million in 2017, a decrease of \$3.0 million or 4.0% compared to 2016. The functional components of total expenses are public transit (36.0%), streets and highways (62.2%) and other programs (1.8%). The following are the highlights of the Transportation Authority's governmental activities:

- Sales tax revenue increased by \$4.7 million or 5.8% to \$84.4 million in 2017 from 2016.
- Investment earnings and other revenues of \$1.5 million in 2017 was \$5.3 million or 78.1% lower compared to 2016.
- Expenses for public transit projects in 2017 decreased by \$4.1 million or 13.8% to \$25.8 million compared to 2016. The decrease was mainly due to lower expenditures in the San Bruno Grade Separation Project as it was completed and the 25th Ave Grade Separation that just started late in the fiscal year.
- Spending for streets and highways in 2017 increased by \$1.1 million or 2.4% to \$44.6 million compared to 2016 mainly due to the traffic study for the U.S. 101 Managed Lanes Projects.



SAN MATEO COUNTY TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS

JUNE 30, 2017

Financial Analysis of the Transportation Authority's Fund

The *General Fund* is the operating fund of the Transportation Authority. The fund balance reached \$489.2 million at June 30, 2017, an increase of \$16.5 million or 3.5% from June 30, 2016, as total revenues exceeded total expenditures during 2017. The total fund balance at June 30, 2017 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, 2017, the estimated cost to complete on-going projects is \$424.3 million or 86.7% 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 95.1% of the *General Fund's* total budgeted revenue for FY 2017. Actual sales tax revenue for the year was \$84.4 million, which is slightly more than the budget by \$1.35 million or 1.6%.

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

The Transportation Authority spent \$39.6 million or 28.4% of its final 2017 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 2016 is not included in the 2017 *Budgetary Comparison Schedule*.

Capital Projects

The Transportation Authority spent \$39.6 million on capital projects in 2017, a decrease of \$4.8 million or 10.7% compared to 2016. Following are the major capital expenditures:

- Construction costs associated with the 101/Broadway Interchange project (\$8.4 million)
- Environmental assessment/preliminary engineering costs associated with the Caltrain Electrification project (\$7.9 million)
- Construction costs associated with the 101/HOV Lane Whipple – San Bruno project (\$5.7 million)
- Funding for the 2016 local capital match requirement assessed to San Mateo County according to the Caltrain Joint Powers Agreement (\$5.0 million)
- Shuttles Call for Project (\$3.0 million)
- Construction costs associated with the SR92 El Camino Real Ramp (\$2.4 million)
- Construction costs associated with the 101/Willow Interchange project (\$1.5 million)
- Construction costs associated with the 25th Ave Grade Separation (\$0.8 million)
- Close out work related to the San Pedro Creek Bridge Replacement Project (\$0.7 million)

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS

JUNE 30, 2017

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 TA's Board adopted the fiscal year 2018 Budget of \$86.8 million on June 1, 2017. The TA's role is to administer the proceeds from Measure A to fund a broad spectrum of transportation-related projects. In accordance with the 2004 Transportation Expenditure Plan, annual allocations have been budgeted to four plan categories based on a percentage of projected sales tax revenues. The total annual allocation is approximately \$30.9 million. The TA's projected program expenditures are approximately \$52.9 million and compose the funding requirements for Alternative Congestion Relief, Dumbarton, Caltrain, Pedestrian and Bicycle, Local Shuttle, Streets and Highways programs, Grade Separation and the San Mateo County Ferry Service.

Of the \$0.8 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 \$6.8 million has been set aside to fund system-wide capital improvements anticipated to be undertaken in FY2018 for the Caltrain system. These include State of Good Repair rolling stock, signal, track and station work. These funds will be matched with monies from the Caltrain partners, Santa Clara Valley Transportation Authority and the City and County of San Francisco. \$1.7 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 \$14.6 million and \$8.6 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 FY18 budget is \$12.7 million for Grade Separation 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.

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BASIC FINANCIAL STATEMENTS

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**STATEMENT OF NET POSITION
JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)**

	Governmental Activities	
	2017	2016
ASSETS		
Cash and investments (Note 2)	\$ 484,323,737	\$ 482,236,017
Receivables:		
Sales tax (Note 3)	16,217,931	14,542,587
Interest (Note 4)	2,402,434	1,943,646
Note receivable (Note 5 and 7)	4,343,404	4,343,404
Other (Note 6)	5,444,179	957,632
Prepays	354,853	-
Capital assets, nondepreciable (Note 7)	11,681,806	11,681,806
Total Assets	524,768,344	515,705,092
LIABILITIES		
Accounts payable (Note 8)	5,907,828	13,533,734
Accrued liabilities (Note 9)	12,753,003	11,473,739
Unearned revenue	4,848	1,124,914
Deposits	49,017	49,017
Total Liabilities	18,714,696	26,181,404
NET POSITION (Note 10)		
Net investment in capital assets	11,681,806	11,681,806
Restricted for Measure A Programs	494,371,842	477,841,882
Total Net Position	\$ 506,053,648	\$ 489,523,688

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Contributions and Grants	2017	2016
GOVERNMENTAL ACTIVITIES					
Public Transit					
Upgrades and extensions	\$ 13,364,369	\$ -	\$ -	\$ (13,364,369)	\$ (15,681,912)
Grade separations	821,367	915,855	-	94,488	(3,267,324)
Dumbarton spur	137,812	307,808	-	169,996	87,578
BART	1,687,081	-	-	(1,687,081)	(1,594,079)
Caltrain	6,748,326	-	-	(6,748,326)	(6,376,316)
Projects funding	3,041,933	-	-	(3,041,933)	(1,939,645)
Street and highways					
Distributions to local entities	22,937,780	-	-	(22,937,780)	(21,595,578)
Projects funding	21,690,877	-	1,210,306	(20,480,571)	(21,968,938)
Program administration	1,316,306	-	-	(1,316,306)	(1,211,033)
Total Governmental Activities	\$ 71,745,851	\$ 1,223,663	\$ 1,210,306	(69,311,882)	(73,547,247)
GENERAL REVENUES:					
Sales tax				84,354,070	79,703,951
Investment earnings and other (Note 11)				1,487,772	6,785,738
Miscellaneous				-	5,838
Total General Revenues				85,841,842	86,495,527
Change in Net Position				16,529,960	12,948,280
Net Position-Beginning of Year				489,523,688	476,575,408
Net Position-Ending of Year				\$ 506,053,648	\$ 489,523,688

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**GOVERNMENTAL FUNDS – GENERAL FUND
BALANCE SHEET
JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)**

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and investments (Note 2)	\$ 484,323,737	\$ 482,236,017
Receivables:		
Sales tax (Note 3)	16,217,931	14,542,587
Interest (Note 4)	2,402,434	1,943,646
Other (Note 6)	5,444,179	957,632
Prepaid items	354,853	-
Total Assets	<u>508,743,134</u>	<u>499,679,882</u>
LIABILITIES		
Accounts payable (Note 8)	5,907,828	13,533,734
Accrued liabilities (Note 9)	12,753,003	11,473,739
Unearned revenues	4,848	1,124,914
Deposits	49,017	49,017
Total Liabilities	<u>18,714,696</u>	<u>26,181,404</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenues	<u>850,149</u>	<u>809,075</u>
FUND BALANCES		
Fund balances (Note 10)		
Nonspendable:		
Prepays	354,853	-
Restricted for:		
Current Measure A projects	424,346,895	324,762,553
Future Measure A Projects	64,476,541	147,926,850
Total Fund Balances	<u>489,178,289</u>	<u>472,689,403</u>
Total Liabilities, Deferred inflows and Fund Balances	<u>\$ 508,743,134</u>	<u>\$ 499,679,882</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)**

	<u>2017</u>	<u>2016</u>
Amounts reported for governmental activities in the statement of net position are different because:		
TOTAL FUND BALANCES - GOVERNMENTAL FUND	\$ 489,178,289	\$ 472,689,403
Capital assets of governmental activities are not current financial resources and, therefore, are not reported in the governmental fund.	11,681,806	11,681,806
Long term note receivable is not a financial resource and, therefore, is not reported in the governmental fund:	4,343,404	4,343,404
Long-term interest receivables are not available to pay for current period expenditures and therefore are deferred in the governmental fund	850,149	809,075
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 506,053,648</u>	<u>\$ 489,523,688</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, 2017
(WITH COMPARATIVE TOTALS FOR 2016)**

	2017	2016
REVENUES		
Sales tax	\$ 84,354,070	\$ 79,703,951
Investment income (Note 11)	1,446,698	6,744,134
Rental income	1,223,663	1,167,385
Other income	1,210,306	5,838
Total Revenues	<u>88,234,737</u>	<u>87,621,308</u>
EXPENDITURES		
Public Transit		
Upgrades and extensions	13,364,369	15,681,912
Grade separations	821,367	4,141,788
Dumbarton spur	137,812	205,343
BART	1,687,081	1,594,079
Caltrain	6,748,326	6,376,316
Projects funding	3,041,933	1,939,645
Street and highways		
Distributions to local entities	22,937,780	21,595,578
Projects funding	21,690,877	21,968,938
Program administration	1,316,306	1,211,033
Total Expenditures	<u>71,745,851</u>	<u>74,714,632</u>
NET CHANGE IN FUND BALANCES	16,488,886	12,906,676
BEGINNING FUND BALANCES	472,689,403	459,782,727
ENDING FUND BALANCES	<u>\$ 489,178,289</u>	<u>\$ 472,689,403</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)**

	<u>2017</u>	<u>2016</u>
Amounts reported for governmental activities in the statement of activities are different because of the following:		
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUND	\$ 16,488,886	\$ 12,906,676
Accrual of interest revenue on the note receivable for the sale of land is recorded as revenue in the government-wide statement of activities, but is not recorded in the governmental fund.	41,074	41,604
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 16,529,960</u>	<u>\$ 12,948,280</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

<i>INDEX TO THE NOTES</i>		<i>Pages</i>
(1)	Reporting Entity and Significant Accounting Policies	17
(2)	Cash and Investments	21
(3)	Sales Tax Receivables	26
(4)	Interest Receivable	26
(5)	Note Receivable	27
(6)	Other Receivables	27
(7)	Capital Assets	27
(8)	Accounts Payable	28
(9)	Accrued Liabilities	28
(10)	Net Position/Fund Balance	28
(11)	Investment Income	29
(12)	Staff Support Expenditures	30
(13)	Capital Projects	30
(14)	Commitments and Contingencies	31
(15)	Insurance Programs	32

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

NOTE 1 - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The San Mateo County Transportation Authority (Transportation Authority) was formed in June 1988 as a result of the approval of Measure A (one-half cent county sales tax and Transportation Expenditure Plan) by the voters of San Mateo County pursuant to the Bay Area County Traffic and Transportation Funding Act. The Transportation Authority is responsible for the administration of funds collected through the one-half cent county sales tax, initially for a period of 20 years from its formation. In November 2004, the voters reauthorized the 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. 74 – In June 2015, GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The objective of the Statement is to address the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated. The Statement is effective for periods beginning after June 15, 2016, or the fiscal year 2016-17. This pronouncement did not have an impact on the financial statements of the Transportation Authority.

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. The objective of the Statement is to replace the requirements of GASB Statement No. 45. In addition, the Statement requires governments to report a liability on the face of the financial statements for the OPEB provided and requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Statement is effective for the periods beginning June 15, 2017, or the fiscal year 2017-18. The Transportation Authority is evaluating the effect of this pronouncement.

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77, Tax Abatement Disclosures. The Statement requires state and local governments to disclose information about tax abatement agreements. The Statement is effective for the periods beginning after December 15, 2015, or the fiscal year 2016-17. This pronouncement did not have an impact on the financial statements of the Transportation Authority.

GASB Statement No. 78 – In December 2015, GASB issued Statement No 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. The Statement amends the scope and applicability of GASB Statement No. 68 to exclude certain types of cost-sharing multiple-employer plans. The Statement is effective for the periods beginning after December 15, 2015, or the fiscal year 2016-17. This pronouncement did not have an impact on the financial statements of the Transportation Authority.

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14. The objective of the Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. The additional criterion requires blending of a component

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The Statement is effective for the reporting periods beginning after June 15, 2016, or the fiscal year 2016-17. This pronouncement did not have an impact on the financial statements of the Transportation Authority.

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government’s ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018-19 fiscal year. The Transportation Authority is evaluating the effect of this pronouncement.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-20 fiscal year. The Transportation Authority is evaluating the effect of this pronouncement.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-18 fiscal year. The Transportation Authority is evaluating the effect of this pronouncement.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-18 fiscal year. The Transportation Authority is evaluating the effect of this pronouncement.

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-21 fiscal year. The Transportation Authority is evaluating the effect of this pronouncement.

C. Basis of Presentation

Government-wide Financial Statements

The Statement of Net position and Statement of Activities report the financial activities of the Transportation Authority. The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Transportation Authority. Direct expenses are those that are specifically associated with a program or a function and therefore, are clearly identifiable to a particular function. Program revenues refer to charges paid by the recipients of goods or services offered by the program. Revenues that are not classified as program revenues, including sales tax revenues, are presented instead as general revenues.

Fund Financial Statements

The Transportation Authority accounts for its sales tax revenue in the General Fund. Sales tax proceeds are legally restricted to improve, construct, maintain, and operate certain transportation projects and facilities contained in the 2004 Transportation Expenditure Plan (Plan) adopted by the Board of Supervisors of San Mateo County 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 when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered available when their receipt occurs within 180 days after the end of the accounting period. Sales tax and investment earnings are recorded when measurable and available. Expenditures are recognized in the accounting period in which the liability is incurred. Capital asset acquisitions are reported as expenditures in governmental funds.

E. Fair Value Measurement

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

F. Prepaids

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

G. Cash and Investments

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

H. Capital Assets

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

I. Use of Estimates

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

J. Summarized Data

The summarized partial data provided in these financial statements for Fiscal Year ended June 30, 2016 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, 2016 from which such comparative partial information was derived.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

NOTE 2 - CASH AND INVESTMENTS

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

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

	June 30, 2017	June 30, 2016
Cash and Investments		
Cash in bank	\$ 1,334,280	\$ 8,709,407
Investments	482,989,457	473,526,610
Total cash and investments	<u>\$ 484,323,737</u>	<u>\$ 482,236,017</u>

Authorized Investments by the Transportation Authority

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

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk incurred when market interest rates adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Transportation Authority manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Transportation Authority monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. With respect to this metric, the Transportation Authority's policies are as follows:

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

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity (in years)</u>
US Agency Securities	\$ 49,106,953	2.32
US Government Securities	28,925,732	3.43
Commercial Paper	16,050,189	0.24
Corporate Bonds and Notes	62,741,594	2.66
Money Market Mutual Funds	178,791	-
LAIF	981,061	0.53
SM County Pools	325,005,137	1.01
	<u>\$ 482,989,457</u>	
Portfolio Weighted Average Maturity		1.48

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)**

Investment Type	Amount	Weighted Average Maturity (in years)
US Agency Securities	\$ 20,596,619	0.57
US Government Securities	136,920,247	2.45
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

Disclosures Relating to Credit Risk

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

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

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

Transportation Authority's investment portfolio credit quality ratings at June 30, 2016 were as follows:

Investment Type	Amount	S&P Rating as of June 30, 2016	
		AA	Not Rated
U.S. Agency Securities	\$ 20,596,619	\$ 20,596,619	\$ -
U.S. Treasury Notes	136,920,247	136,920,247	-
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>

Concentration of Credit Risk

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

There were no investments in any one issuer that exceeded 5% of the Transportation Authority's total investment portfolio for the years ended June 30, 2017 and 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, the Transportation Authority employs the Trust Department of a bank or trustee as the custodian of certain Transportation Authority managed investments, regardless of their form.

Fair Value Measurements

Fair value measurements are categorized based on the valuation inputs used to measure fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments categorized as Level 2 are valued using the market approach and quoted market prices. Investments in County Pool and in State pool (LAIF) are not measured using the input levels above because the Transportation Authority's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share. The following is the Transportation Authority's fair value hierarchy table as of June 30, 2017:

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)**

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

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)	Total
Debt securities			
US Agency Securities	\$ -	\$ 20,596,619	\$ 20,596,619
US Government Securities	136,920,247	-	136,920,247
	\$ 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

Methods and assumptions used to estimate fair value: The Transportation Authority maintains investment accounting records on amortized cost and adjusts those records to “fair value” on an annual basis. Unrealized gains and losses are recorded on an annual basis and the carrying value of its investments is considered “fair value.” The Transportation Authority’s investment custodian provides the market value on each investment instrument. The investments held by the Transportation Authority are widely traded in the financial markets and trading values are readily available from numerous published sources. The Transportation Authority has elected to report its money market investments (those investments with maturities of less than one year) using the net asset value method.

San Mateo County Treasurer’s Investment Pool: The Transportation Authority holds investments in the County Pool that are subject to adjustments to “fair value.” The Transportation Authority had a contractual withdrawal value (which is reported using the amortized cost) of \$325,366,293 and \$314,073,699, at June 30, 2017 and 2016, respectively, that is recorded at \$325,005,137 and \$315,034,765 on the balance sheet after the

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

adjustment for unrealized gains/losses for fiscal years ending June 30, 2017 and 2016, 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 \$981,061 and \$974,979 (which is reported using the amortized cost) after the adjustment for unrealized gains/losses for fiscal year 2017 and 2016, 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, 2017.

NOTE 4 - INTEREST RECEIVABLE

Interest receivables at June 30 consist of the following sources:

	2017	2016
Interest due from investment portfolio	\$ 1,552,285	\$ 1,134,571
Accrued interest on note receivable	850,149	809,075
Interest receivable on the statement of net position	<u>\$ 2,402,434</u>	<u>\$ 1,943,646</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

NOTE 5 - NOTE RECEIVABLE

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

	2017	2016
Metropolitan Transportation Commission	\$ 25,610	\$ 25,610
San Mateo County Transit District	5,305,168	812,681
Alameda County Transportation Commission	53,209	53,209
Santa Clara Valley Transportation Authority	2,378	19,810
Other	57,814	46,322
Total other receivables	\$ 5,444,179	\$ 957,632

NOTE 7 - CAPITAL ASSETS

Capital assets activities for the year ended June 30, 2016 and 2017 are as follow:

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

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

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)**

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30 are as follows:

	2017	2016
District - Salaries and benefits	\$ 1,762,326	\$ 1,920,182
Paratransit program	841,561	3,188,158
Caltrain	1,683,122	8,370,067
Capital project	1,359,708	43,208
Other	261,111	12,119
Total	\$ 5,907,828	\$ 13,533,734

NOTE 9 - ACCRUED LIABILITIES

Accrued liabilities at June 30 are as follows:

	2017	2016
Disbursements to local entities for transportation projects	\$ 3,649,034	\$ 3,282,098
Capital projects	8,703,492	7,835,590
BART	324,359	290,852
Other	76,118	65,199
Total	\$ 12,753,003	\$ 11,473,739

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:

Net Investment in Capital Assets – The net 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.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

Fund Balances

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

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

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

NOTE 11 – INVESTMENT INCOME

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

	<u>2017</u>	<u>2016</u>
Interest income	\$ 5,006,400	\$ 3,758,366
Net increase (decrease) in fair value of investments	<u>(3,518,628)</u>	<u>3,027,372</u>
Investment income - Statements of Activities	1,487,772	6,785,738
Increase on long-term interest receivable	<u>(41,074)</u>	<u>(41,604)</u>
Investment income - Statements of Revenues, Expenditures and Changes in Fund Balance	<u>\$ 1,446,698</u>	<u>\$ 6,744,134</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

NOTE 12 - STAFF SUPPORT EXPENDITURES

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

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

	2017	2016
Salaries and benefits	\$ 522,917	\$ 501,714
Indirect costs	131,666	106,450
Total	\$ 654,583	\$ 608,164

NOTE 13 - CAPITAL PROJECTS

The expenditures on public transportation projects during fiscal years 2017 and 2016 were \$39,639,502 and \$44,406,657, respectively. Total expenditures on such projects from inception through June 30, are as follows:

Capital Projects	2017	2016
Dumbarton Spur	\$ 33,447,112	\$ 33,309,299
Caltrain	229,908,267	216,918,088
Paratransit	6,510	6,510
Ferry	8,090,377	8,090,377
Local Shuttle	10,892,020	7,850,087
Railroad Grade Separations	251,184,494	250,363,127
Streets and Highways	314,829,049	294,845,532
Alternative Congestion Relief	1,810,785	1,365,551
Administration	1,755	1,755
Oversight and Bicycle	18,538,537	16,319,078
Total	\$ 868,708,906	\$ 829,069,404

Of the total expenditures of \$868,708,906 for capital projects, \$23,004,102 was funded by contributions from external entities.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Capital projects

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

Capital Projects	2017	2016
Dumbarton Spur	\$ 12,656,241	\$ 12,544,053
Caltrain	66,928,229	73,302,092
Paratransit	2,761	2,761
Ferry	1,380	1,381
Local Shuttle	13,508,347	6,017,798
Railroad Grade Separations	112,172,590	45,026,225
Streets and Highways	204,337,736	176,065,653
Alternative Congestion Relief	1,200,983	1,154,176
Administration	564	564
Oversight and Bicycle	13,538,064	10,647,850
Total	\$ 424,346,895	\$ 324,762,553

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, 2017.

Peninsula Corridor Electrification Project

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

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

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

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

NOTE 15 - INSURANCE PROGRAMS

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive/(Negative)
Resources (inflows)				
Sales tax	\$ 83,000,000	\$ 83,000,000	\$ 84,354,070	\$ 1,354,070
Investment income	2,974,480	2,974,480	5,102,779	2,128,299
Rental income	1,193,686	1,193,686	1,223,663	29,977
Other income	-	128,000	1,210,306	1,082,306
Amounts available for appropriation	<u>87,168,166</u>	<u>87,296,166</u>	<u>91,890,818</u>	<u>4,594,652</u>
Charges to appropriations (outflows)				
Program Administration				
Staff support	827,084	761,212	695,990	65,222
Board compensation	8,400	8,400	7,800	600
Professional and legal fees	207,612	207,612	207,166	446
Other services and supplies	449,249	515,121	397,418	117,703
Travel and meeting	25,100	25,100	7,812	17,288
Total program administration	<u>1,517,445</u>	<u>1,517,445</u>	<u>1,316,186</u>	<u>201,259</u>
Distributions to local entities	21,995,000	21,995,000	22,354,637	(359,637)
BART	1,660,000	1,660,000	1,687,081	(27,081)
Caltrain	6,640,000	6,640,000	6,748,326	(108,326)
Measure A information	15,000	15,000	120	14,880
Capital outlays	<u>70,707,015</u>	<u>139,728,234</u>	<u>39,639,501</u>	<u>100,088,733</u>
Total charges to appropriations	<u>102,534,460</u>	<u>171,555,679</u>	<u>71,745,851</u>	<u>99,809,828</u>
Fund balances				
Beginning of Year			<u>472,689,403</u>	
End of Year			<u>492,834,370</u>	
Explanation of differences between budgetary inflows and GAAP revenues				
Unrealized gains under GASB 31			<u>(3,656,081)</u>	
Total revenues in the Statement of Revenues, Expenditures and Changes in Fund Balances - GAAP basis			<u>\$ 489,178,289</u>	

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULE JUNE 30, 2017

Budgets and the Budgetary Process

The Transportation Authority Board adopts an annual operating budget in accordance with Section 131265(a) of the Public Utilities Code. Budget amounts may be revised by Board Resolutions. The budget and actual revenues and expenditures are presented as required supplementary information. The basis the Transportation Authority uses to prepare the budget is consistent with the basis used to reflect the actual revenues and expenditure, except that proceeds from sale of capital assets and unrealized gains and losses are not included in the budget for the General Fund.

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

Section III

STATISTICAL

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographics and Economic Information

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

Operating Information

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

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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, required supplementary information and other supplemental information and assessing the Transportation Authority's economic condition.

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**FINANCIAL TRENDS – NET POSITION AND CHANGE IN NET POSITION
FISCAL YEARS 2008 THROUGH 2017 (in thousands)**

Fiscal year	2017	2016	2015	2014
GOVERNMENTAL ACTIVITIES:				
PROGRAM REVENUES				
Grade Separations	\$ 916	\$ 874	\$ 895	\$ 888
Paratransit	-	-	-	-
Dumbarton Spur	308	293	324	397
Projects Funding	1,210	-	1,210	52
Total Program Revenues	2,434	1,167	2,429	1,337
PROGRAM EXPENSES				
Upgrades and Extension	13,364	15,682	14,573	7,671
Grade Separations	821	4,142	6,525	27,553
Paratransit	-	-	-	-
Dumbarton Spur	138	205	210	329
BART	1,687	1,594	1,619	1,552
Caltrain	6,748	6,376	6,478	6,210
Distribution to local entities	22,938	21,596	21,902	20,573
Projects funding	24,733	23,909	25,336	11,155
Caltrain Shuttle Program	-	-	-	-
Transportation Systems Management	-	-	-	-
Program Administration	1,316	1,211	1,208	838
Interest on debt	-	-	-	-
Total Program Expenditures	71,745	74,715	77,851	75,881
NET PROGRAM REVENUES (EXPENSES)	(69,311)	(73,548)	(75,422)	(74,544)
General revenues				
Sales tax	84,354	79,704	80,974	77,626
Unrestricted investment earnings	1,488	6,786	4,106	3,065
Other income	-	6	669	7,172
CHANGE IN NET POSITION	16,531	12,948	10,327	13,319
Net Position Components				
Invested in capital assets,	11,682	11,682	11,682	13,591
Restricted	494,372	477,842	464,893	453,869
Unrestricted	-	-	-	-
NET POSITION	\$ 506,054	\$ 489,524	\$ 476,575	\$ 467,460

Source: Current and prior years' CAFRs

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

2013	2012	2011	2010	2009	2008
\$ 839	\$ 819	\$ 786	\$ 1,103	\$ 3,209	\$ 876
-	-	-	-	-	1,149
694	1,916	994	1,930	5,287	1,942
2,408	1,979	9	-	-	-
<u>3,941</u>	<u>4,714</u>	<u>1,789</u>	<u>3,033</u>	<u>8,496</u>	<u>3,967</u>
4,270	3,574	16,285	19,709	9,612	12,481
21,421	9,157	9,607	14,445	9,118	4,525
-	-	-	2,339	26,071	2,780
674	2,044	1,017	2,146	6,045	2,286
1,477	1,390	1,270	1,170	535	-
5,909	5,558	5,081	4,679	2,142	-
19,982	18,809	17,289	13,159	12,674	13,734
28,681	13,521	8,948	16,779	24,577	31,634
-	1,448	1,377	1,322	1,339	1,075
-	-	-	473	462	483
666	825	833	719	746	803
-	-	-	-	-	379
<u>83,080</u>	<u>56,325</u>	<u>61,707</u>	<u>76,940</u>	<u>93,321</u>	<u>70,180</u>
<u>(79,139)</u>	<u>(51,611)</u>	<u>(59,918)</u>	<u>(73,907)</u>	<u>(84,825)</u>	<u>(66,213)</u>
73,858	69,476	63,516	58,485	60,022	68,670
378	3,569	5,201	7,866	(12,249)	18,313
2,239	1,528	-	-	-	(227)
<u>(2,664)</u>	<u>22,962</u>	<u>8,799</u>	<u>(7,556)</u>	<u>(37,051)</u>	<u>20,543</u>
13,591	13,591	13,591	13,591	13,591	13,591
440,549	443,213	420,251	-	-	25,000
-	-	-	411,452	419,008	431,060
<u>\$ 454,140</u>	<u>\$ 456,804</u>	<u>\$ 433,842</u>	<u>\$ 425,043</u>	<u>\$ 432,599</u>	<u>\$ 469,651</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

FINANCIAL TRENDS – GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FISCAL YEARS 2008 THROUGH 2017 (in thousands)

<u>Fiscal year</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
REVENUES				
Sales tax	\$ 84,354	\$ 79,704	\$ 80,974	\$ 77,626
Investment income	1,447	6,744	4,181	3,019
Rental income	1,224	1,167	1,219	1,204
Grant proceeds	-	-	-	121
Proceeds from sale of properties	-	-	1,793	-
Other income	1,210	6	669	7,184
Total Revenue	88,235	87,621	88,836	89,154
EXPENDITURES				
Public Transit				
Upgrades and extensions	13,364	15,682	14,573	7,671
Grade separations	821	4,142	6,525	31,003
Paratransit	-	-	-	-
Dumbarton spur	138	205	210	329
BART	1,687	1,594	1,619	1,552
Caltrain	6,748	6,376	6,478	6,210
Project funding	3,042	1,940	2,205	1,646
Street and highways				
Distributions to local entities	22,938	21,596	21,902	20,573
Projects funding	21,691	21,969	23,131	9,509
Caltrain shuttle program	-	-	-	-
Transportation system management	-	-	-	-
Program administration	1,316	1,211	1,209	838
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	71,745	74,715	77,852	79,331
Excess Revenues Over Expenditures	16,490	12,906	10,984	9,823
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change In Fund Balance	16,490	12,906	10,984	9,823
Fund Balance				
Non-Spendable	355	-	1,786	3
Restricted	488,823	472,689	457,997	448,796
Total Ending Fund Balance	\$ 489,178	\$ 472,689	\$ 459,783	\$ 448,799

Source: Current and prior years' CAFRs

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

	2013	2012	2011	2010	2009	2008
\$	73,858	\$ 69,476	\$ 63,516	\$ 58,485	\$ 60,022	\$ 68,670
	319	3,503	5,120	7,723	(12,630)	18,995
	1,142	1,108	1,064	1,072	1,076	997
	2,796	3,607	725	1,961	7,420	1,821
	-	-	-	-	-	-
	2,241	1,527	-	-	-	-
	<u>80,356</u>	<u>79,220</u>	<u>70,425</u>	<u>69,241</u>	<u>55,888</u>	<u>90,483</u>
	4,270	3,574	16,285	19,709	9,612	12,481
	21,421	9,157	9,607	14,445	9,118	4,525
	-	-	-	2,339	26,073	2,780
	674	2,044	1,017	2,146	6,045	2,286
	1,477	1,390	1,270	1,170	535	-
	5,909	5,558	5,081	4,679	2,142	-
	2,420	5,664	1,760	512	-	-
	19,982	18,809	17,289	13,159	12,674	13,734
	26,260	7,856	7,188	16,267	24,577	31,639
	-	1,448	1,377	1,322	1,339	1,075
	-	-	-	473	462	483
	666	825	833	719	746	803
	-	-	-	-	-	-
	-	-	-	-	-	407
	<u>83,079</u>	<u>56,325</u>	<u>61,707</u>	<u>76,940</u>	<u>93,323</u>	<u>70,213</u>
	<u>(2,723)</u>	<u>22,895</u>	<u>8,718</u>	<u>(7,699)</u>	<u>(37,434)</u>	<u>11,415</u>
	-	-	-	-	2,902	-
	-	-	-	-	(2,902)	-
	-	-	-	-	-	-
	<u>(2,723)</u>	<u>22,895</u>	<u>8,718</u>	<u>(7,699)</u>	<u>(37,434)</u>	<u>11,415</u>
	3	3	3	3	3	25,000
	438,973	441,696	418,801	410,082	417,781	430,217
\$	<u>438,976</u>	<u>441,699</u>	<u>418,804</u>	<u>410,085</u>	<u>417,784</u>	<u>455,217</u>

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**FUND BALANCES OF GOVERNMENTAL FUNDS
FISCAL YEARS 2008 THROUGH 2017 (in thousands)**

Fiscal year ended	General Fund		
	Non-Spendable	Restricted	Total
2017	\$ 355	\$ 488,823	\$ 489,178
2016	-	472,689	472,689
2015	1,786	457,997	459,783
2014	3	448,796	448,799
2013	3	438,973	438,976
2012	3	441,696	441,699
2011	3	419,288	419,291
2010	3	410,082	410,085
2009	-	417,189	417,189
2008	-	425,887	425,887

Fiscal year ended	All Other Governmental Funds		
	Non-Spendable	Restricted	Total
2017	\$ -	\$ -	\$ -
2016	-	-	-
2015	-	-	-
2014	-	-	-
2013	-	-	-
2012	-	-	-
2011	-	-	-
2010	-	-	-
2009	-	594	594
2008	25,000	4,330	29,330

Source: Current and prior years' CAFRs.

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE FISCAL YEARS 2008 THROUGH 2017 (in thousands)

Fiscal year	2017	2016	2015
The Transportation Authority's Sales Tax Rate	0.5%	0.5%	0.5%
Total Sales Tax Revenue	\$ 84,354	\$ 79,704	\$ 80,974
Total Taxable Sales in San Mateo County	^[1] \$ 16,870,800	^[1] \$ 15,940,800	\$ 16,194,800

[1] 2017 and 2016 taxable sales are estimates based on sales tax revenues received; 2015 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.

2014	2013	2012	2011	2010	2009	2008
0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
\$ 77,626	\$ 73,858	\$ 69,476	\$ 63,516	\$ 58,485	\$ 60,022	\$ 68,670
\$ 15,298,434	\$ 14,611,618	\$ 13,906,978	\$ 13,020,643	\$ 11,966,338	\$ 11,327,022	\$ 13,137,913

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

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

Principal Revenue Payers	FY2016*			FY2007		
	Rank	Percent of Taxable Sales	Amount	Rank	Percent of Taxable Sales	Amount
All other outlets	1	32.7%	\$1,161,241	1	27.7%	\$3,694,958
Automotive group	3	12.4%	439,147	3	11.9%	1,579,609
Food Services/drinking places	2	13.4%	475,973	5	9.3%	1,245,105
Gasoline (Service) stations	8	5.4%	191,300	6	7.6%	1,008,460
General merchandise stores	5	6.6%	234,330	4	10.2%	1,363,715
Building materials group	6	6.2%	220,412	7	6.3%	846,050
Apparel stores	9	4.8%	170,534	10	3.2%	425,086
Food/Beverage stores	10	4.2%	148,549	9	3.2%	430,879
Miscellaneous Store Retailers	4	8.7%	307,677	2	16.5%	2,197,073
Furniture/Home furnishings	7	5.8%	205,732	8	4.0%	535,371
Total		100.0%	\$3,554,895		100.0%	\$13,326,306

* Principal tax payers information for 1st Quarter, 2016 is the most current information available.

This table ranks the top 10 principal tax payers by industry.

Source: California State Board of Equalization

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

DEMOGRAPHIC AND ECONOMIC INFORMATION – POPULATION, INCOME AND UNEMPLOYMENT RATES FISCAL YEARS 2008 THROUGH 2017

Year	Population ^[1]	Total Personal Income (in thousands) ^[2]	Per Capita Personal Income ^[2]	Average Unemployment Rates ^[3]
2017	770,203	\$ 79,186,861 *	\$ 103,494 *	2.9%
2016	765,895	76,880,447 *	100,480 *	3.1%
2015	759,609	74,641,211	97,553	3.5%
2014	752,355	69,717,150	91,935	4.2%
2013	745,639	65,192,835	86,911	5.6%
2012	735,256	64,765,189	87,444	6.8%
2011	726,305	57,964,665	79,465	7.9%
2010	718,451	52,889,544	73,460	8.5%
2009	713,818	51,620,897	72,337	8.6%
2008	707,820	54,426,270	77,329	4.9%

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

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

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

*Personal Income and Per Capital Personal Income data for 2016 and 2017 is based on an estimated three percent annual increase over 2015.

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

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

DEMOGRAPHIC AND ECONOMIC INFORMATION – PRINCIPAL EMPLOYERS FISCAL YEARS 2015 AND 2007

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

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

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

Source: San Francisco Business Times - 2017 Book of Lists; California Employment Development (provided by San Mateo County Controller's office) from the FY2017 County of San Mateo CAFR

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

OPERATING INFORMATION – CAPITAL OUTLAY FISCAL YEARS 2008 THROUGH 2017 (in thousands)

Cumulative Capital Projects	2017	2016	2015	2014
Dumbarton Spur	\$ 33,447	\$ 33,309	\$ 33,104	\$ 32,894
Caltrain-Downtown Extension	229,908	216,918	201,236	186,663
Paratransit	7	7	7	2
Ferry	8,090	8,090	8,090	8,088
Local Shuttle	10,892	7,850	5,910	3,707
Railroad Grade Separations	251,184	250,363	246,221	239,697
Streets and Highways	314,829	294,846	275,287	253,794
Alternative Congestion Relief	1,811	1,366	897	456
Admin, Oversight and Bicycle	18,541	16,321	13,911	12,272
Total	\$ 868,709	\$ 829,069	\$ 784,663	\$ 737,573

Source: Current and prior years' CAFRs

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

2013	2012	2011	2010	2009	2008
\$ 32,565	\$ 31,891	\$ 29,847	\$ 28,830	\$ 26,684	\$ 20,881
178,993	174,723	171,149	154,880	135,170	125,558
-	-	-	-	-	-
8,087	7,393	2,044	377	-	-
2,269	543	228	135	-	-
212,143	190,722	181,565	171,958	157,514	148,396
245,552	223,100	216,936	210,320	194,663	171,478
10	-	-	-	-	-
11,005	7,197	5,505	4,933	4,324	2,931
<u>\$ 690,624</u>	<u>\$ 635,569</u>	<u>\$ 607,274</u>	<u>\$ 571,433</u>	<u>\$ 518,354</u>	<u>\$ 469,244</u>

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SAN MATEO COUNTY TRANSPORTATION AUTHORITY

OPERATING INFORMATION – EMPLOYEES FISCAL YEARS 2008 THROUGH 2017

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

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

FULL-TIME EQUIVALENTS		
DIVISION	2009	2008
EXECUTIVE	0.80	0.60
ADMINISTRATION	0.80	0.15
COMMUNICATIONS	0.75	0.90
DEVELOPMENT	11.14	8.00
FINANCE	0.90	0.80
OPERATIONS	0.25	0.15
TOTAL EMPLOYEES	14.64	10.60

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

This table presents total full-time equivalents by division.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

OPERATING INFORMATION – CAPITAL ASSETS FISCAL YEARS 2008 THROUGH 2017 (in thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Capital Assets:				
Land	\$ 11,682	\$ 11,682	\$ 11,682	\$ 13,591
Total	<u>\$ 11,682</u>	<u>\$ 11,682</u>	<u>\$ 11,682</u>	<u>\$ 13,591</u>

Source: Current and prior years' CAFRs.

This table presents capital assets for the past 10 years.

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>\$ 13,591</u>					
<u>\$ 13,591</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, 2017, 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 December 19, 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Transportation Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California
December 19, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>No</u>
Noncompliance material to financial statements noted?	<u>No</u>

FINANCIAL STATEMENT FINDINGS

None reported.

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2017

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Financial Statement Prior Year Findings 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.

Current year status

Implemented.