# San Mateo County Transit District
San Carlos, California


# Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2017 and 2016

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San Mateo County
TRANSIT DISTRICT

## San Carlos, California

# *Comprehensive Annual Financial Report*

## Fiscal Years Ended June 30, 2017 and 2016

**Prepared by the Finance Division**

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## LETTER OF TRANSMITTAL

**December 19, 2017**

**To the Board of Directors of the**
**San Mateo County Transit District and the Citizens of**
**San Mateo County**

**San Carlos, California**

**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 Transit District (District) for the Fiscal Year July 1, 2016 through June 30, 2017. This transmittal letter provides a summary of the District's finances, services, achievements and economic prospects for readers without a technical background in accounting or finance. Readers desiring a more detailed discussion of the District's financial results may refer to the Management's Discussion and Analysis in the Financial Section.

Management assumes sole responsibility for all the information contained in this report, including its presentation and the adequacy of its disclosures. To the best of our knowledge, we believe this report to be 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 District'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 District'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 District 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 District'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*

The District is an independent political subdivision of the State of California formed by the California State Legislature on August 14, 1974 and approved by county voters in the following general election. San Mateo County 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 overall purpose of the District is to plan, develop, finance and operate a modern, coordinated system of transportation that meets local mobility demands and promotes sound growth and economic development for the region. The District provides bus transit services throughout San Mateo County, north into downtown San Francisco, and south to Palo Alto in Santa Clara County. The District also operates a paratransit service and funds shuttles, connecting rail stations to employment centers. The District also is a partner in a three-agency joint powers authority that owns and operates Caltrain, a highly successful commuter rail service between San Francisco and Silicon Valley. In addition, this system works cohesively with other transportation services in the San Francisco Bay Area. No other organization within San Mateo County has a similar scope of responsibility for public transportation.

### *History*

On January 1, 1975, the District began consolidating 11 separate municipal bus systems in San Mateo County and initiated local bus service where none existed. By July 1976, the District had established a viable network of local bus service throughout a 446 square mile service area in San Mateo County. In mid-1977, the District added mainline service between Palo Alto and downtown San Francisco through a contract with Greyhound Lines, Inc. and also inaugurated its Redi-Wheels demand response service for the mobility impaired. During its history of operations, the District has provided transportation to special events such as the Democratic National Convention, the Major League Baseball World Series and All Star Games, the National Football League Super Bowl, World Cup Soccer and the American Public Transportation Association's Commuter Rail Conference.

The District has fought throughout its history to preserve passenger rail service along the San Francisco Peninsula and it led a successful campaign in 1978 to avoid an impending decision by the Southern Pacific Railroad to discontinue the commuter rail service. Two years later, the California Department of Transportation negotiated a purchase of service agreement with the Southern Pacific to continue to operate the commuter rail service under the name "Caltrain" while the local counties determined if they could assume control of Caltrain. As a result, the Peninsula Corridor Joint Powers Board (JPB) was formed with the three member agencies: City and County of San Francisco, San Mateo County Transit District and Santa Clara Valley Transportation Authority. The JPB purchased the Southern Pacific right of way and selected the District as the Managing Agency for Caltrain passenger service in 1992. Amtrak served as the JPB's operator until May 2012. After that the contract to operate the rail passenger service was awarded to TransitAmerica Services Inc.

### *Governance*

A nine-member Board of Directors governs the District. The publicly-elected County Board of Supervisors appoints two of its own members and an individual with transportation expertise to the District board. The mayors of the cities throughout the county appoint three elected city officials, bringing the District board membership to six. These six members then select the remaining three board members from the general public, one of which must be a coastal resident, due to a geographical diversity policy in place for public members. The Board of Directors meets once a month to determine overall policy for the District. In addition, the Board has created a 15-member Citizens Advisory Committee (CAC) with the principal objective of articulating the interests and needs of current and future customers.

***Administration***

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

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

The Bus Division is responsible for SamTrans bus service, employer and other shuttles, paratransit service pursuant to the requirements of the Americans with Disabilities Act (ADA), quality assurance, and service planning.

The Rail Division is responsible for Caltrain rail service, operations planning, capital project engineering, and construction.

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

The Caltrain Modernization Program (CalMod) is responsible for guiding the planning and implementation of projects that will upgrade the performance, operating efficiency, capacity, safety and reliability of Caltrain's commuter rail service.

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 District is a legally separate and financially independent entity that is not a component unit of San Mateo County or any other organization. The District administers various activities on behalf of other agencies, such as the Peninsula Corridor Joint Powers Board (JPB), which operates Caltrain, and the San Mateo County Transportation Authority (TA), which administers the Expenditure Plan funded by a half-cent transportation sales tax approved by San Mateo County voters in 2004 which will continue in effect until 2033. These agencies have their own separate corporate identity and governance, and they are not component units of the District. Therefore, this CAFR and the financial statements contained within represent solely the activities, transactions and status of the District.

***Budget***

State law requires the District to adopt an annual budget by resolution of the Board of Directors. In the spring preceding the start of each fiscal year on July 1, staff presents an annual budget based on established agency goals, objectives and performance measures to the Board of Directors. The presentation may recommend using financial reserves to balance the budget when 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 a supplemental schedule that compares actual results on a budgetary basis of accounting to the 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 District maintains stricter control at division, departmental and line item levels to serve various needs. Cost center managers monitor budget-to-actual performance monthly on an accrual basis. The Board has delegated the authority to transfer budget amounts between divisions and departments to the General Manager/CEO or his designee. However, any increase to the expenditure budget as a whole requires the approval of the Board. In addition, the District uses the encumbrance system to reduce budget balances by issuing purchase orders to avoid over-commitment of resources.

The District employs the same basis and principles for both budgeted and actual revenues and expenses, 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.

## 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 District began operations in 1976 as a fixed-route bus service. Today, the District has grown into a multimodal system of coordinated transit services, including bus, paratransit, shuttles and rail, each playing an integral role in meeting the transportation needs of San Mateo County. The rising costs of providing services, coupled with the District's commitment to additional services without new revenue sources, has resulted in an unsustainable financial condition. Specifically, debt service and the costs associated with the District's commitment to BART and the anticipated need to increase contributions to subsidize Caltrain are significantly impacting the long-term financial condition of the District. The District is currently updating its long term financial model. The upturn in the economy and reduction measures have made a positive impact on SamTrans' finances in the short-term.

The District has been working to improve its long-term financial condition through a variety of measures. Improvement measures have included a restructuring of $211 million in debt, dissolution of the BART to SFO agreement and the reauthorization of the Measure A half-cent sales tax. The District initiated several efforts in the early part of the current decade to help keep annual expenses in line with annual revenues. These efforts have made a significant difference, however, the District is still facing a structural deficit due to a decrease in overall transportation funding and rising costs.

The District recently updated its ten-year Strategic Plan. This 2017-2026 Plan Update (which can be viewed online at http://www.samtrans.com/Assets/_Planning/2017-2026+SamTrans+Short+Range+Transit+Plan.pdf) provides a policy framework to help guide the District's transportation investments. The new Plan sets priorities to address the three primary areas: expand mobility options, strengthen fiscal health, and improve organizational effectiveness. The 2017-2026 Plan builds on the District's 2009 Strategic Plan by prioritizing actions that can "move the needle", and by turning ideas into results. To do so, the Plan helps identify key factors that the District can control, and describes strategies for focusing District resources on achieving specific goals.

***Major Initiatives***

The District plans to continue providing coordinated transit services including bus, paratransit, shuttle and rail. The Association of Bay Area Governments (ABAG) projections assume there will be intensified population growth along the El Camino Real Corridor, parallel to the Caltrain line. It also assumes that there will be higher density development in all cities along this corridor which will increase demand for transportation services.

In addition to providing local transportation for municipalities, the District has committed significant resources to support other transportation modes. These include Caltrain rail services and shuttle bus service to and from Caltrain and BART stations. Dedicated bus shuttles distributing rail patrons to regional employers will be vital to transportation over the next several years as local agencies are encouraged to implement Transportation Systems Management plans designed to reduce highway congestion and improve air quality. Continuing a long history of serving San Mateo County residents with mobility impairments, the District also expects to meet an expanding demand for a variety of paratransit activities.

***Motor Bus Operations***

The District designs its bus services to meet the needs of San Mateo County residents, workers and visitors. Bus service is offered throughout San Mateo County and into part of San Francisco and Palo Alto. Many bus routes make key connections to Caltrain stations, BART stations and the San Francisco International Airport. Each bus has a bicycle rack, allowing for multimodal use. Some level of service is offered throughout the day and night.

Fixed-route bus ridership peaked in San Mateo County at 19.0 million in fiscal year 1998, but has since declined to 12.4 million in 2013. The implementation of the Samtrans Service Plan, adopted in May 2013, resulted in an initial increase in ridership, which grew three percent in FY 2014 and another 2.9 percent in FY 2015. However, ridership declined by 2.8 percent in FY 2016, and the decline has continued into FY 2017 and FY 2018. The District is in the process of evaluating its overall service plan and has taken steps to eliminate underperforming routes and add new service that reflect evolving mobility demands in San Mateo County.

The safety and maintenance improvement programs have produced extremely successful results. The safety program includes sensitivity training to familiarize operators with the special needs of mobility impaired passengers. Many bus operators have received safe driving awards for up to 35 years of driving without an at-fault accident. The maintenance program has consistently improved the average mileage between vehicle breakdowns from year to year.

***Caltrain Administration***

Since 1992, the District has served as staff to the JPB administering the operation of commuter rail service on a 77-mile corridor between San Francisco in the north and Gilroy in the south. In September 2003, Caltrain instituted a "proof-of-payment" fare collection system that has increased internal controls and freed conductors from onboard ticket sales, allowing them to focus more on customer service and safety. In June 2004, Caltrain introduced limited-stop, express service, dubbed "Baby Bullet," that reduced travel time between San Jose and

San Francisco from an hour-and-a-half to just under an hour. Also in June 2004, Caltrain resumed weekend service that had been discontinued for nearly two years to allow for right of way improvements in preparation for the Baby Bullet service. After many years of planning, Caltrain broke ground on a centralized equipment maintenance and operations facility ("CEMOF") in November 2004 that consolidated several geographically separate maintenance operations, increasing efficiency. In October 2007, the JPB issued fare box revenue bonds to fund eight new Bombardier rail cars which have been placed in service, and in 2015 the agency took similar steps to purchase an additional 16 cars, adding extra capacity to many of the system's most popular trains.
In the near term, Caltrain will focus on its State-of-Good Repair Program, including the replacement and rehabilitation of infrastructure, communication and control systems and rolling stock, in order to continue to provide safe, quality service to its customers. Some of the more recent projects completed by Caltrain include the San Bruno Grade Separation Project, San Mateo County Grade Crossing Improvement Program, the South Terminal and Santa Clara Stations Improvements Project, the San Mateo Bridges Rehabilitation Project, Jerrold Avenue Bridge Replacement Project, and the System Station Rehabilitation Project.

Currently, a $1.98 billion Caltrain Modernization Program is being advanced. This program is focused on meeting the growing commuter ridership demand in the region, preparing the corridor to accommodate statewide high-speed rail, and improving system wide safety. The Peninsula Corridor Electrification Project includes the installation of electric infrastructure that will help prepare the corridor to accommodate high-speed rail and the procurement of new, high-performance electric trains. The new electrified Caltrain service will substantially increase the ridership capacity of the system. In 2016, Caltrain awarded contracts to design and build the project, which is targeted for revenue service in 2021. The effort also includes implementation of the Communications Based Overlay Signal System-Positive Train Control (CBOSS-PTC) project. CBOSS-PTC is a federally-mandated safety improvement that automatically enforces train movements to avoid collisions. Installation of the project infrastructure is complete and the project is on pace to enter revenue service demonstration within the next 18 months.

District staff produces a separate CAFR for the JPB, and readers may obtain this report upon request.

***San Mateo County Transportation Authority (Transportation Authority)***
The District provides staff and administrative support for the TA, which programs and appropriates funds from a half-cent county sales tax authorized by voters in 1988 and extended by voters in November 2004 through 2033. Together with a series of highway projects, the TA invests in Caltrain capital improvements and a paratransit trust fund to provide services for the mobility impaired. The TA also allocates funds for Alternative Congestion Relief programs aimed at reducing highway congestion and air pollution.

District staff produces a separate CAFR for the Transportation Authority that readers may obtain upon request.

***Paratransit Services***
The District provides accessible transportation services throughout San Mateo County with fixed-route, Redi-Wheels and RediCoast services. The entire fleet of fixed-route buses is equipped with wheelchair lifts or ramps and a kneeling feature to make boarding easier. Redi-Wheels and RediCoast members and their Personal Care Attendants are allowed to ride all regular fixed-route SamTrans buses for free. For some seniors and many persons with disabilities who cannot use fixed-route buses, Redi-Wheels and RediCoast are the only means of transportation available. In fiscal year 2017, the SamTrans paratransit program provided service to 361,000 customers.

### ACKNOWLEDGMENTS AND AWARDS

The staff and contracted firms of the District bring an effective combination of skill, experience and dedication to carrying out the District'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.

The Government Finance Officers Association (GFOA) recognized the District's 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 CAFR 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 maintenance and development of a reliable financial management and reporting system.

Respectfully submitted,

**Jim Hartnett**
General Manager/CEO

**Derek Hansel**
Chief Financial Officer/Treasurer

Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

**San Mateo County Transit District**

**California**

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

**June 30, 2016**

Christopher P. Morrill

Executive Director/CEO

## BOARD OF DIRECTORS

**ROSE GUILBAULT, Chair**

**CHARLES STONE, Vice Chair**

**JEFF GEE**

**CAROLE GROOM**

**ZOE KERSTEEN-TUCKER**

**KARYL MATSUMOTO**

**DAVE PINE**

**JOSH POWELL**

**PETER RATTO**

**ROSE GUILBAULT**, **Chair**, public member, was appointed by the San Mateo County Transit District Board of Directors in March 2006. Ms. Guilbault is a Board Trustee for the Mineta Transportation Institute. She is also author of "Farmworker's Daughter: Growing up Mexican in America", a childhood memoir and "The Latinas Guide to Success in the Workplace." Ms. Guilbault is a resident of Burlingame.

**CHARLES STONE**, Vice Chair, City Selection Committee appointee for the central portion of San Mateo County. Mr. Stone was appointed in 2014. He was elected to the Belmont City Council in November 2013. He also serves on Peninsula Clean Energy. Mr. Stone was born and raised on the Peninsula and grew up riding the bus in Daly City, San Bruno and San Mateo.

**JEFF GEE**, City Selection Committee appointee for the southern portion of San Mateo County. Mr. Gee was appointed in June 2011. Mr. Gee has been a member of the City Council of Redwood City since 2009. He is chair of the Peninsula Congestion Relief Alliance and immediate past chair of the San Francisco Airport Community Roundtable. Mr. Gee serves on the governing body of the Peninsula Corridor Joint Powers Board. He is Vice President/General Manager of Swinerton Management & Consulting and a licensed California architect.

**CAROLE GROOM,** was appointed by the San Mateo County Board of Supervisor in January 2011. She was elected to the Board of Supervisors in June 2010, served as President of the Board in 2011 and 2015.Ms. Groom represents the Second District which includes the cities of Belmont, Foster City and San Mateo. Prior to joining the Board of Supervisors, she served nine years on the San Mateo City Council. Ms. Groom has also spearheaded Active San Mateo County, an annual conference on creating healthy communities, and Streets Alive, an annual countywide event that promotes parks and public spaces. She is also serves on the San Mateo County Transportation Authority, California Coastal Commission and Peninsula Clean Energy.

# SAN MATEO COUNTY TRANSIT DISTRICT

## BOARD OF DIRECTORS

**ZOE KERSTEEN-TUCKER,** public member and representative of the Coastal area, was appointed by the District Board of Directors in March 2006. She serves on the San Mateo County Planning Commission. Ms. Kersteen-Tucker is principal owner of Pacific Development Associates which specializes in leading and training nonprofit executives and boards. Ms. Kersteen-Tucker resides in Moss Beach.

**KARYL MATSUMOTO**, City Selection Committee appointee for the northern portion of San Mateo County. Ms. Matsumoto was appointed in February 2007. Ms. Matsumoto was elected to the City of South San Francisco City Council in November 1997. Ms. Matsumoto is the representative of the governing body of the San Mateo County Transportation Authority. She is a representative on the City/County Association of Governments of San Mateo County. Ms. Matsumoto also serves on the Water Transportation Advocates and the Caltrain Modernization Local Policy Maker Group.

**DAVE PINE**, was appointed by the San Mateo County Board of Supervisors in January 2017. He was first elected to the San Mateo County Board of Supervisors in a special election in May 2011, and served as Board President in 2014. He represents District 1 which includes Burlingame, Hillsborough, Millbrae, and portions of San Bruno and South San Francisco; the unincorporated communities of San Mateo Highlands, Baywood Park and Burlingame Hills; and the San Francisco Airport. Mr. Pine also serves on the Peninsula Clean Energy Authority, the Peninsula Corridor Joint Powers Board, the Association of Bay Area Governments, the Bay Conservation & Development Commission, the San Francisco Bay Restoration Authority, the Bay Area Regional Collaborative, Joint Venture Silicon Valley, SF Bay Conservation and Development Commission, and the San Francisquito Creek Joint Powers Authority.

**JOSH POWELL**, public member, was appointed by the San Mateo County Transit District in January 2017. He is a Software Engineering Manager at Apple. He serves as a public member on C/CAG's Congestion Management Environmental Quality Committee. Mr. Powell is a resident of Belmont.

**PETER RATTO**, transportation expert, was appointed by the Board of Supervisors in February 2015. Prior to serving on the Board, Mr. Ratto served nine years on the SamTrans Citizen Advisory Committee representing multimodal riders. Mr. Ratto holds a BA degree in Transportation Management from San Francisco State University and has over 40 years of experience in the waste management and recycling industry. Mr. Ratto also serves as a representative on C/CAG's Congestion Management Environmental Quality Committee. A life-long public transit user, Mr. Ratto grew up in Daly City and currently resides in San Mateo.

# EXECUTIVE MANAGEMENT

**GENERAL MANAGER/CEO**

Jim Hartnett

**EXECUTIVE OFFICERS**

Carter Mau – Deputy Executive Director

Michelle Bouchard - Chief Operating Officer, Rail

Michael Burns, Chief Officer - Caltrain Planning/CalMod Program

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

Derek Hansel - Chief Financial Officer/Treasurer

Martha Martinez - Executive Officer - District Secretary/Executive Administration

Seamus Murphy - Chief Communications Officer

David A. Olmeda - Chief Operating Officer, Bus

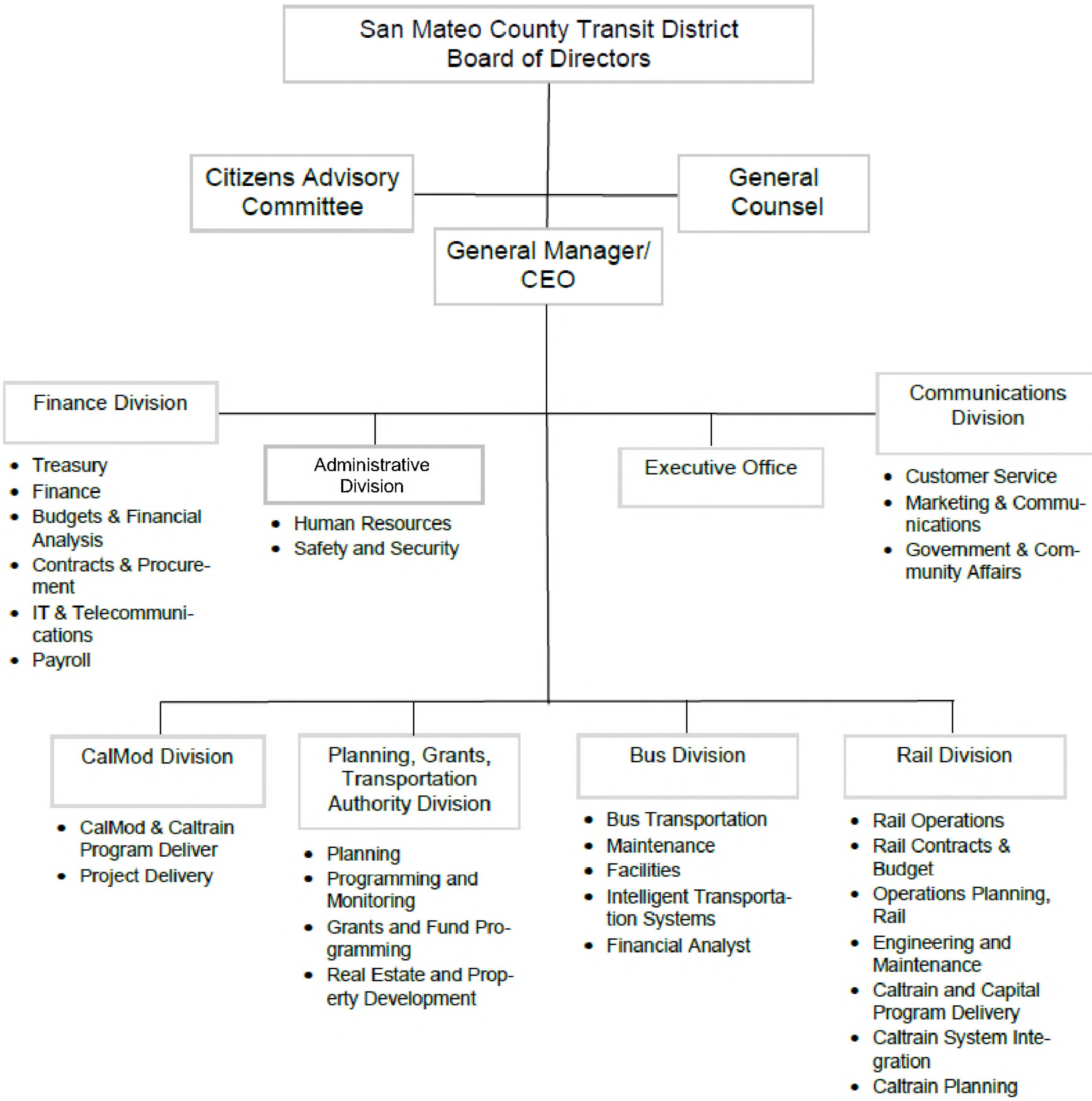
**GENERAL COUNSEL**

Hanson Bridgett, LLP:

Joan Cassman, Esq.

## SAN MATEO COUNTY TRANSIT DISTRICT

## ORGANIZATION CHART



## MAPS


San Mateo County, California
San Mateo
County
Sacramento
San Francisco
Area of
Detail
Los Angeles
San Diego

## SAN MATEO COUNTY TRANSIT DISTRICT

## MAPS

# TABLE OF CREDITS

The following individuals contributed to the production of the Fiscal Year 2017 Comprehensive Annual Financial Report:

**Finance**:

| | |
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| Director of Finance | Rima Lobo |
| Director of Treasury | Connie Mobley-Ritter |
| Director, Budgets and Financial Analysis | Ladi Millard |
| Interim Manager, General Ledger | Jeannie Chen |
| Manager, Financial Planning & Analysis | Ryan Hinchman |

**Audit Firm**:

| | |
|---|---|
| Partner | Ahmad Gharaibeh, CPA |
| Supervisor | Tomohito Oku, CPA |

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# *Section II*

## FINANCIAL

Independent Auditor’s Report

Management’s Discussion and Analysis

Basic Financial Statements:

- Statements of Net Position
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- Statements of Cash Flows
- Notes to the Financial Statements

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- Schedule of Funding Progress – Retiree Healthcare Supplementary Information
- Schedule of Changes in the Net Pension Liability and Related Ratios
- Schedule of Pension Contributions

Supplementary Information

- Supplementary Schedule of Revenues, Expenses, Capital Outlay, and Long- Term Debt Payment Comparison of Budget to Actual (Budgetary Basis)
- Notes to Supplementary Schedule

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
San Mateo County Transit District
San Carlos, California

## Report on the Financial Statements

We have audited the accompanying financial statements of the San Mateo County Transit District (District) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District'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.



260 Sheridan Avenue, Suite 440 Palo Alto, CA 94306 Tel: 650.462.0400 www.vtdcpa.com Fax: 650.462.0500

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2017 and 2016, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress for retiree healthcare, schedule of changes in the net pension liability and related ratios and the schedule of pension contributions, 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 District's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, budgetary comparison information, the introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and budgetary comparison information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the budgetary comparison information, as listed in the table of contents, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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 District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 19, 2017

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# *MANAGEMENT'S DISCUSSION AND ANALYSIS*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the San Mateo County Transit District's (District) financial performance provides an overview of the District's activities for Fiscal Year 2017 with comparisons to the prior two fiscal years. 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

- At June 30, 2017, the assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources by $66.4 million *(net position).* Of this amount, a negative $131.4 million represents the unrestricted net position. At June 30, 2016, the assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources by $37.9 million. Of this amount, a negative $156.7 million represents the unrestricted net position. At June 30, 2015, the assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources by $22.4 million (net position). Of this amount, a negative $180.3 million represents the unrestricted net position.

- The District's total net position increased by $28.4 million and $15.5 million in the fiscal year 2017 and 2016 respectively because of a surplus of operating assistance and capital contributions over operating expenses.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of this report presents the District's financial statements as two components: basic financial statements and notes to the financial statements. It also includes other supplemental information in addition to the basic financial statements intended to furnish additional detail to support the basic financial statements themselves.

### Basic Financial Statements

The *Statement of Net Position* presents information about assets, deferred outflows and liabilities and deferred inflows with the difference between the four reported as *net position*. The change in net position over time is an indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* reports how net position has changed during the year and presents a comparison between operating revenues and operating expenses. Operating revenues and expenses are related to the District's principal business of providing bus transit services. Operating expenses include the cost of direct services to passengers, administrative expenses, contracted services and depreciation on capital assets. All other revenues and expenses not included in these categories are reported as nonoperating.

The *Statement of Cash Flows* reports inflows and outflows of cash and is classified into four major components:

- *Cash flows from operating activities* which includes transactions and events reported as components of operating income in the statement of revenues, expenses and changes in net position.

- *Cash flows from non-capital financing activitie*s which includes operating grant proceeds as well as operating subsidy payments from third parties and other nonoperating items.

- *Cash flows from capital and related financing activities* which arise from the borrowing and repayment (principal and interest) of capital-related debt, the acquisition and construction of capital assets and the proceeds of capital grants and contributions.

- *Cash flows from investing activities* which includes the proceeds from the sale of investments and receipt of interest. Outflows in this category include the purchase of investments.

**Notes to the Financial Statements**

Various notes provide additional information that is essential to a full understanding of the information provided in the basic financial statements and are found immediately following the financial statements to which they refer.

**Other Information**

This report also presents certain required supplementary information in accordance with the requirements of generally accepted accounting principles providing information about the status of the District's pension liability for its public employee retirement system and information about its other post-employment benefits unfunded liability. Additional supplementary information and associated notes concerning compliance with the District's annual budget appear immediately following the required supplementary information.

**Analysis of Basic Financial Statements**

In Fiscal Year 2017, total assets and deferred outflows were $472.5 million, an increase of $38.4 million or 8.8% compared to June 30, 2016. In Fiscal Year 2016, total assets and deferred outflows were $434.1 million, an increase of $8.5 million or 2.0% compared to June 30, 2015. Total current assets increased $11.4 million or 7.0% to $174.7 million on June 30, 2017 from $163.3 million on June 30, 2016 and an increase of $9.1 million or 5.9% at June 30, 2016 compared to June 30, 2015. Capital assets net of accumulated depreciation increased by $3.2 million or 1.9% to $171.0 million at June 30, 2017 compared to 2016 and decreased by $8.8 million or 5.0% in 2016 compared to 2015. Land, buses and related equipment and building and related improvements comprise most of the District's capital assets.

**CONDENSED STATEMENTS OF NET POSITION**
**(in thousands)**

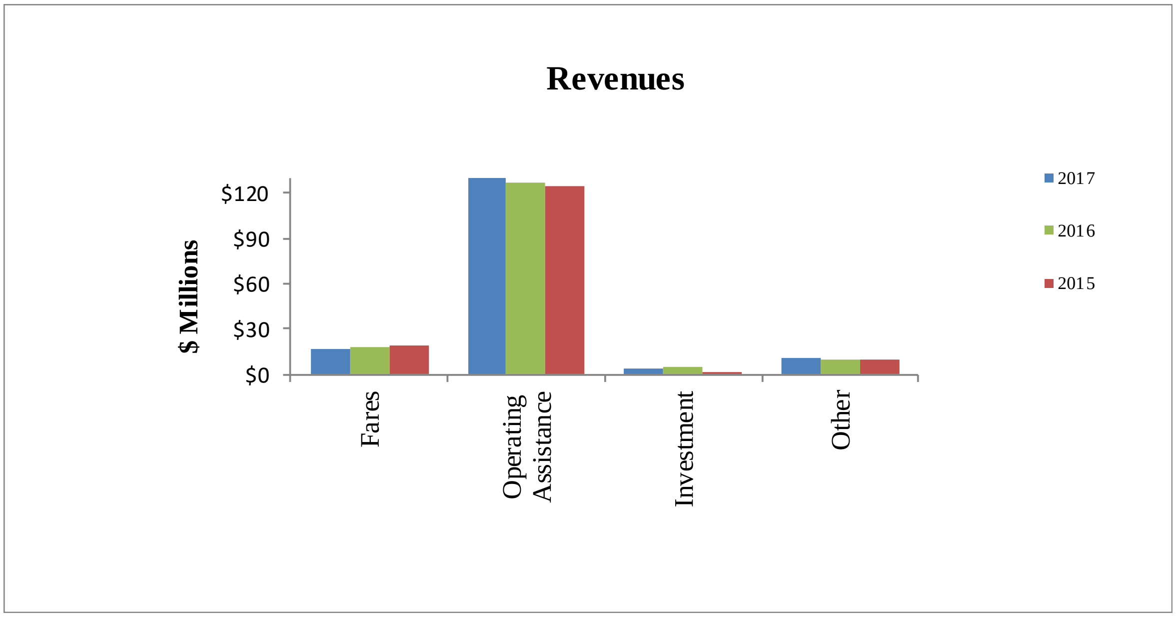
| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Current assets | $ 174,740 | $ 163,314 | $ 154,203 |
| Capital assets, net of depreciation | 171,022 | 167,850 | 176,616 |
| Other noncurrent assets | 97,556 | 86,660 | 78,146 |
| **Total assets** | 443,318 | 417,824 | 408,965 |
| **Deferred outflows of resources** | 29,146 | 16,237 | 16,617 |
| Current liabilities | 81,379 | 67,774 | 58,936 |
| Long-term debt | 242,526 | 257,575 | 272,518 |
| Other noncurrent liabilities | 78,920 | 64,555 | 55,245 |
| **Total liabilities** | 402,825 | 389,904 | 386,699 |
| **Deferred inflows of resources** | 3,252 | 6,213 | 16,451 |
| Net investment in capital assets | 171,022 | 167,850 | 176,616 |
| Restricted | 26,811 | 26,804 | 26,087 |
| Unrestricted | (131,446) | (156,710) | (180,271) |
| **Total net position** | $ 66,387 | $ 37,944 | $ 22,432 |

In Fiscal Year 2017, total liabilities and deferred inflows were $406.1 million, an increase of $10.0 million or 2.5% compared to Fiscal Year 2017. In Fiscal Year 2016, total liabilities and deferred inflows were $396.1 million, a decrease of $7.0 million or 1.7% compared to 2015. The increase for 2017 was mostly due to an increase in accounts payable and accrued expenses, current insurance and net pension cost. The decrease for 2016 was mostly due to deferral of pension expense and payment of the District's bonds.

At June 30, 2017, net position of $66.4 million, an increase of $28.4 million or 75.0% compared to $37.9 million at June 30, 2016. On June 30, 2016, net position was $15.5 million or 69.2% higher than June 30, 2015. The $171.0 million invested in capital assets net of related debt on June 30, 2017 comprise the majority of net position. Total restricted net position at June 30, 2017 were $26.8 million. The remaining ($131.4) million of total net position at June 30, 2017 was unrestricted net position. The District reported a negative unrestricted net position because it funded the BART to SFO extension but does not report the capital asset related to that project as it does not hold title to the capital asset. The cost of the project was over $410.3 million and was paid for in combination of bond proceeds and District funds. All of our outstanding bonds and related premiums and deferrals in the amount of $244.3 million were used to fund the BART to SFO extension. In addition, the District net position was negatively impacted by the implementation of the GASB 68. The District reported in Fiscal Year 2017 $41.4 million in net pension liability and related deferrals which negatively impacted the District's net position.

## Revenue Highlights

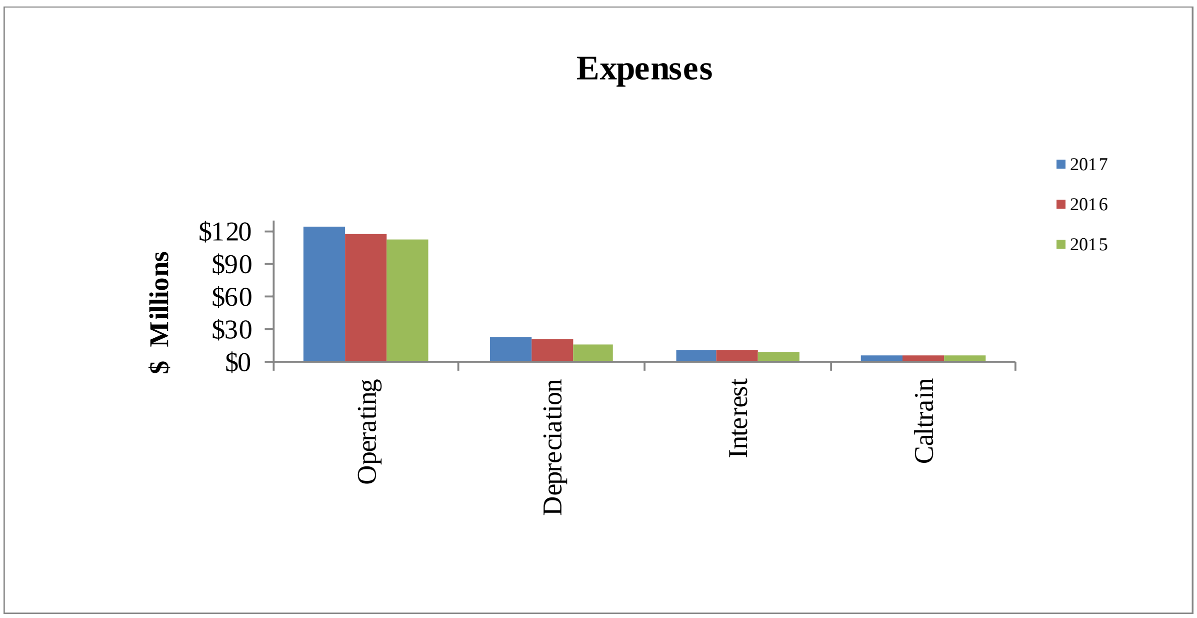
Operating revenues generated from passenger fares of $17.0 million decreased by $1.0 million or 5.7% during Fiscal Year 2017 compared to Fiscal Year 2016 and decreased by $0.7 or 3.9% in Fiscal Year 2016 compared to Fiscal Year 2015. The decrease for both 2017 and 2016 was the result of lower ridership.




In Fiscal Year 2017, nonoperating revenues increased by $9.3 million or 6.6% to $150.9 million. The increase was mainly due to an increase in operating assistance and other income. Operating assistance of $135.9 million accounted for the majority of fiscal year 2017 nonoperating revenues. This amount consisted of 59.4% from transaction and use tax, 29.3% from local transportation funds, 11.3% from others. In Fiscal Year 2016, nonoperating revenues increased by $5.6 million or 4.1% to $141.6 million. This increase was mainly due to an increase in operating assistance and investment income. Operating assistance of $126.3 million accounted for the majority of fiscal year 2016 nonoperating revenues. This amount consisted of 56.8% from transaction and use tax, 27.6% from local transportation funds, 15.6% from others.

**Expense Highlights**

In Fiscal Year 2017, total operating expenses (excluding depreciation) were $125.0 million, an increase of $6.9 million or 5.8% compared to Fiscal Year 2016. The increase was due to an increase in salaries and benefits, contracted services, insurance and miscellaneous expenses. In Fiscal Year 2016, total operating expenses (excluding depreciation) were $118.1 million, an increase of $5.1 million or 4.5% compared to Fiscal Year 2015. Total operating expenses (excluding depreciation) in 2017 consisted of $60.7 million or 48.5% for salaries and benefits, $43.5 million or 34.8% for contract operations and other services, and $20.8 million or 16.7% for others. Total operating expenses (excluding depreciation) in 2016 consisted of $58.6 million or 49.6% for salaries and benefits, $41.7 million or 35.3% for contract operations and other services, and $17.8 million or 15.1% for others. Depreciation and amortization expenses were $22.3 million and $21.6 million for Fiscal Year 2017 and Fiscal Year 2016 respectively, a $0.7 million or 3.3% increase in Fiscal Year 2017 compared to Fiscal Year 2016 and $4.7 million or 27.5% increase in Fiscal Year 2016 compared to Fiscal Year 2015.




In Fiscal Year 2017, nonoperating expenses were $17.7 million, an increase of $0.4 million or 2.4% compared to Fiscal Year 2016. In Fiscal Year 2016, nonoperating expenses were $17.3 million, an increase of $1.2 million or 7.1% compared to Fiscal Year 2015. In Fiscal Year 2017, the District paid the JPB $6.5 million for its contribution toward the Caltrain rail service operation. In Fiscal Year 2016, the District paid the JPB $6.1 million for its contribution toward the Caltrain rail service operation. A more detailed discussion of the District's relationship with the JPB can be found in *Note #7 – Peninsula Corridor Joint Powers Board (JPB)* in the Notes to the Financial Statements.

**CONDENSED STATEMENTS OF CHANGES IN NET POSITION**
**(in thousands)**

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Operating revenues-passenger fares | $ 17,041 | $ 18,078 | $ 18,816 |
| Operating expenses-transit services | 124,979 | 118,099 | 112,986 |
| Operating loss before depreciation and amortization | (107,938) | (100,021) | (94,170) |
| Depreciation and amortization | (22,252) | (21,550) | (16,860) |
| Operating loss | (130,190) | (121,571) | (111,030) |
| Nonoperating revenues | | | |
| Operating assistance | 135,910 | 126,254 | 124,097 |
| Investment income | 3,536 | 5,580 | 1,782 |
| Other income, net | 11,492 | 9,777 | 10,119 |
| Total Nonoperating revenues | 150,938 | 141,611 | 135,998 |
| Nonoperating expenses | | | |
| Interest expense | (11,249) | (11,226) | (9,896) |
| Caltrain service subsidy | (6,480) | (6,080) | (6,260) |
| Total Nonoperating expenses | (17,729) | (17,306) | (16,156) |
| Net loss before capital contributions | 3,019 | 2,734 | 8,812 |
| Capital contributions | 25,424 | 12,778 | 33,361 |
| Change in net position | 28,443 | 15,512 | 42,173 |
| Net position - beginning of year, as restated | 37,944 | 22,432 | (19,741) |
| Net position - end of year | $ 66,387 | $ 37,944 | $ 22,432 |

**Capital Program**

The District received capital contributions of $25.4 million in Fiscal Year 2017 and $12.8 million in Fiscal Year 2016, which was  an increase of $12.6 million or 99.0% in Fiscal Year 2017 compared to Fiscal Year 2016 and a decrease of $20.6 million or 61.7% in Fiscal Year 2016 compared to Fiscal Year 2015.

The following is a summary of the District’s major capital expenditures for Fiscal Year 2017.

- Purchase of Revenue Vehicles ($17.2 million)
- San Carlos Transit Center ($2.9 million)
- Communication Information System ($1.8 million)
- Purchase of Paratransit Vehicles ($1.1 million)
- Maintenance and Administrative Building ($0.9 million)
- Replacement of bus parts in accordance with FTA guidelines ($1.1 million)
- Capital project development, control and monitoring ($0.5 million)

Additional information concerning the District’s Capital Assets can be found in *Note #6 - Capital Assets* in the Notes to the Financial Statements.

## Debt

At June 30, 2017, the District had $254.3 million in limited tax bonds outstanding, a decrease of $14.9 million or 5.6%, compared to $269.2 million in limited tax bonds outstanding at June 30, 2016. This decrease resulted from retirement of principal in scheduled debt service payments. The District pledges sales tax revenues to secure the 2015 Series A Bonds and the 2015 Series B Bonds. Interest payments on the 2015 Series A Bonds and the 2015 Series B Bonds are due on June 1 and December 1 of each year. Principal payments on the 2015 Series A Bonds begins on June 1, 2019. The final maturity date for the 2015 Series A Bonds is June 1, 2034. Interest rates on the 2015 Series A Bonds range from 3.0 percent to 5.0 percent. Principal payments on the 2015 Series B Bonds begins on June 1, 2016. The final maturity date for the 2015 Series B Bonds is June 1, 2019. Interest rates on the 2015 Series B Bonds range from 0.410 percent to 1.953 percent. More information on the District's long-term debt activity appears in *Note #10 - Long-term Debt* of the *Notes to the Financial Statements*.

## Economic Factors and Next Year's Budget

The District's Board adopted the fiscal year 2018 Operating and Capital Budget on June 7, 2017. As in the past years, District staff has taken steps to manage costs and undertake efficiencies while continuing to enhance service and revenues. The economy has continued to improve, with stabilizing sales revenues. The Operating Budget is one of restrained optimism, planning for a future in which recent growth of revenue could level off. The District continues to work with its funding partners and employees to pursue its goals of excellent service. The Capital Budget contains projects necessary and essential to sustain the District's existing service and infrastructure network, without compromising the vision set forth in the adopted Strategic Plan.

The Fiscal Year 2018 Operating Budget consists of $146.7 million in revenues and expenditures. Passenger fares for both Motor Bus and ADA services are at $17.0 million based on a slight increase in ridership from Fiscal Year 2017 projected actuals. Local, State, and Federal funds are projected to increase to $47.0 million due to more Transportation Development Act (TDA) and State Transportation Assistance (STA). The District's half-cent sales tax receipts are projected to be $84.7 million. Operating costs are projected to increase by $1.6 million in Fiscal Year 2018. The increase is mostly due to an increase in wages and fringe benefits and increased rates for renewed contract bus service.

The $16.4 million Capital Budget contains projects that were reviewed and prioritized consistent with District policy directives and key Strategic Plan Initiatives. Major projects being undertaken in Fiscal Year 2018 include the implementation of Traffic Signal Priority technology, the purchase of 10 electric buses with charging infrastructure, and a Transit Asset Management Plan. The estimated total cost is $8.6 million. Other components of the budget include an information technology refresh to meet changing needs and decreased risk of obsolescence, funding for a comprehensive strategy to define a business plan that reinvents the District vision for delivering public transit, improvement projects for the maintenance and administrative facilities, and security improvement projects such as repaving the Linda Mar Park-n-ride.

## Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate accountability for the funds the District receives. If you have questions about this report or need additional financial information, please contact the San Mateo County Transit District, attn: Chief Financial Officer, 1250 San Carlos Ave., P.O. Box 3006, San Carlos, California 94070-1306.

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*BASIC FINANCIAL STATEMENTS AND NOTES*

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# SAN MATEO COUNTY TRANSIT DISTRICT

## STATEMENTS OF NET POSITION
## JUNE 30, 2017 AND 2016 (in thousands)

| | 2017 | 2016 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents (Notes 1E & 2) | $ 20,046 | $ 27,413 |
| Restricted cash (Notes 1G & 2) | 23,160 | 23,108 |
| Subtotal | 43,206 | 50,521 |
| Investments (Notes 1F & 2) | 21,722 | 30,698 |
| Restricted investments (Notes 1G & 2) | 5,529 | 7,441 |
| Receivables: | | |
| Transaction and use tax | 16,218 | 14,542 |
| Receivable from Peninsula Corridor Joint Powers Board (Note 7) | 48,639 | 23,219 |
| Receivable from San Mateo County Transportation Authority (Note 9) | 4,168 | 11,369 |
| Federal grants (Note 4) | 20,974 | 9,515 |
| State and local grants | 4,773 | 9,627 |
| Interest | 524 | 327 |
| Other | 4,247 | 2,402 |
| Allowance for doubtful accounts | (98) | (98) |
| Total Receivables - Net | 99,445 | 70,903 |
| Inventories (Note1I) | 1,566 | 1,679 |
| Prepaid expenses | 3,272 | 2,072 |
| Total Current Assets | 174,740 | 163,314 |
| NONCURRENT ASSETS: | | |
| Noncurrent investments (Notes 1F & 2) | 76,072 | 67,102 |
| Restricted investments (Notes 1G & 2) | 21,450 | 19,518 |
| Capital assets (Notes 1J & 6): | | |
| Buses and bus equipment | 157,353 | 153,955 |
| Buildings and building improvements | 69,031 | 64,868 |
| Maintenance and other equipment | 33,642 | 32,063 |
| Furniture and fixtures | 33,861 | 31,734 |
| Shelters and bus stop signs | 592 | 592 |
| Other vehicles | 2,273 | 2,159 |
| Total capital assets | 296,752 | 285,371 |
| Less accumulated depreciation | (203,009) | (181,610) |
| Land (Note 6) | 53,855 | 53,855 |
| Construction in progress (Note 1K) | 23,424 | 10,234 |
| Capital assets - Net (Note 6) | 171,022 | 167,850 |
| Other assets | 34 | 40 |
| Total Noncurrent Assets | 268,578 | 254,510 |
| Total Assets | 443,318 | 417,824 |

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

## SAN MATEO COUNTY TRANSIT DISTRICT

## STATEMENTS OF NET POSITION (CONTINUED)
## JUNE 30, 2017 AND 2016 (in thousands)

| | 2017 | 2016 |
|---|---|---|
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred charges on refunding | 10,017 | 11,221 |
| Deferred outflows from pension activities (Note 1T&11) | 19,129 | 5,016 |
| Total Deferred Outflows of Resources | 29,146 | 16,237 |
| LIABILITIES | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | 31,218 | 13,677 |
| Current portion of compensated absences (Note 1O) | 6,364 | 6,179 |
| Current portion of self-insurance liabilities (Note 13) | 6,189 | 4,206 |
| Accrued interest | 1,674 | 1,641 |
| Unearned revenues | 24,169 | 30,411 |
| Current portion of long-term debt (Note 10) | 11,765 | 11,660 |
| Total Current Liabilities | 81,379 | 67,774 |
| NONCURRENT LIABILITIES: | | |
| Self-insurance liabilities, less current portion (Note 13) | 6,054 | 6,040 |
| Other noncurrent liabilities | 4,472 | 7,623 |
| Compensated absences, less current portion (Note 1O) | 2,324 | 2,537 |
| Long-term debt, less current portion (Note 10) | 242,526 | 257,575 |
| Postemployment benefits (Note 12) | 8,770 | 8,928 |
| Net pension liability (Note 1R&11) | 57,300 | 39,427 |
| Total Noncurrent Liabilities | 321,446 | 322,130 |
| Total Liabilities | 402,825 | 389,904 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows from pension (Note 1T&11) | 3,252 | 6,213 |
| NET POSITION | | |
| Net investment in capital assets | 171,022 | 167,850 |
| Restricted for: | | |
| Debt service | 1,811 | 1,804 |
| Paratransit fund (Note 14) | 25,000 | 25,000 |
| Unrestricted | (131,446) | (156,710) |
| Total Net Position | $ 66,387 | $ 37,944 |

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

## SAN MATEO COUNTY TRANSIT DISTRICT

## STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

| | 2017 | 2016 |
|---|---|---|
| OPERATING REVENUES: | | |
| Passenger fares | $ 17,041 | $ 18,078 |
| Total operating revenues | 17,041 | 18,078 |
| | | |
| OPERATING EXPENSES: | | |
| Salaries and benefits | 60,665 | 58,598 |
| Contract operations and maintenance services | 34,621 | 33,326 |
| Other services | 8,856 | 8,388 |
| Materials and supplies | 6,588 | 6,626 |
| Provisions for claims and claims adjustments | 6,651 | 4,505 |
| Miscellaneous | 7,598 | 6,656 |
| Total operating expenses before depreciation and amortization | 124,979 | 118,099 |
| Depreciation | 22,252 | 21,550 |
| Total operating expenses | 147,231 | 139,649 |
| OPERATING LOSS | (130,190) | (121,571) |
| | | |
| NONOPERATING REVENUES (EXPENSES): | | |
| Operating assistance (Note 3) | 135,910 | 126,254 |
| Investment income | 3,536 | 5,580 |
| Interest expense | (11,249) | (11,226) |
| Caltrain service subsidy (Note 7) | (6,480) | (6,080) |
| Other income, net | 11,492 | 9,777 |
| Total nonoperating revenues (expenses) | 133,209 | 124,305 |
| | | |
| Net income (loss) before capital contributions | 3,019 | 2,734 |
| Capital grants (Note 1P) | 25,424 | 12,778 |
| | | |
| CHANGE IN NET POSITION | 28,443 | 15,512 |
| Net position - beginning of year | 37,944 | 22,432 |
| Net position - end of year | $ 66,387 | $ 37,944 |

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

## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

| | 2017 | 2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers | $ 17,041 | $ 18,078 |
| Payments to vendors for services | (52,105) | (55,820) |
| Payments to employees | (78,271) | (85,346) |
| Net cash (used for) operating activities | (113,335) | (123,088) |
| | | |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Operating grants received, including transaction and use tax | 143,881 | 124,038 |
| Caltrain service | (6,480) | (6,080) |
| Net cash provided by non-capital financing activities | 137,401 | 117,958 |
| | | |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition and construction of capital assets | (25,418) | (12,781) |
| Capital contributions from grants | 15,668 | 15,103 |
| Bond principal paid | (11,660) | (11,610) |
| Interest paid on capital debt | (13,296) | (13,268) |
| Net cash (used for) capital and related financing activities | (34,706) | (22,556) |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of investment securities | 130,878 | 94,150 |
| Purchases of investment securities | (132,147) | (96,898) |
| Investment income received | 4,594 | 5,476 |
| Net cash provided by investing activities | 3,325 | 2,728 |
| | | |
| Net (decrease) in cash and cash equivalents | (7,315) | (24,958) |
| Cash and cash equivalents, beginning of year | 50,521 | 75,479 |
| | | |
| Cash and cash equivalents, end of year | $ 43,206 | $ 50,521 |

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

## STATEMENTS OF CASH FLOWS (CONTINUED)
## FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (in thousands)

| | 2017 | 2016 |
|---|---|---|
| RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED) IN OPERATING ACTIVITIES: | | |
| Operating loss | $ (130,190) | $ (121,571) |
| Adjustments to reconcile operating (loss) to net cash (used in) operating activities: | | |
| Depreciation and amortization | 22,252 | 21,550 |
| Effect of changes in: | | |
| Accounts receivable | (18,219) | (25,141) |
| Inventories | 113 | 9 |
| Prepaid expenses | (1,200) | (238) |
| Accounts payable and accrued liabilities | 11,299 | 4,435 |
| Other postemployment liability | (158) | 192 |
| Net pension liability | 17,873 | 8,783 |
| Compensated absences | (28) | 480 |
| Self-insurance liabilities | 1,997 | (525) |
| Deferred inflows and outflows from pension activities | (17,074) | (11,062) |
| Net cash (used in) operating activities | $ (113,335) | $ (123,088) |
| | | |
| NONCASH INVESTING AND CAPITAL ACTIVITIES: | | |
| Capital contributions | $ 9,756 | $ (2,325) |
| Change in fair value of investments | $ 1,283 | $ (1,103) |

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

***INDEX TO THE NOTES***

## NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Operations

The San Mateo County Transit District (District) was formed by the California State Legislature and approved by the electorate in 1974 to meet the public transit needs of San Mateo County. The District operates buses throughout San Mateo County and also provides, through purchased service with independent contractors, demand-response transportation services and certain other fixed route bus service. The District also shares in the costs of operating the Caltrain rail service. The District provided the local costs of extending the San Francisco Bay Area Rapid Transit District (BART) rail system into San Mateo County and previously provided the net cost to operate the extension. However, on April 27, 2007, the District and BART entered into a Settlement Agreement and Release of Claims pursuant to which BART receives 2% of the revenue generated annually from the half-cent sales tax administered by the Transportation Authority and in return which the District is relieved of any and all further responsibility for payment of past and future operating costs, as well as capital costs, associated with the extension.

### B. Financial Reporting Entity

The District's reporting entity includes only the San Mateo County Transit District.

### C. Basis of Accounting

The District is a single enterprise fund and maintains its records 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### D. Net Position

Net position is reported on the statement of net position in the following categories:

**Net investment in capital assets -** This category includes all capital assets, net of accumulated depreciation, reduced by related debt.

**Restricted net position -** This category represents net position restricted by parties outside (such as creditors, grantors, contributors, and laws and regulations of other governments) and includes unspent proceeds of bonds issued to acquire or construct capital assets.

**Unrestricted net position -** This category represents net position of the District that is not restricted for any project or other purpose.

### E. Cash and Cash Equivalents

For purpose of the statement of cash flows, the District considers all highly liquid investments with an initial maturity of 90 days or less when purchased to be cash equivalents. Cash and equivalents also include amounts invested in LAIF.

### F. Investments

Current investments represent securities which mature within the next 12 months. Noncurrent investments represent the portion of the District's investment portfolio that is not expected to be liquidated during the next 12 months. Investments in nonparticipating interest-earning investment contracts (guaranteed investment contracts) are reported at cost. Investment in money market accounts are also reported at net asset value. All other investments are at fair value. The fair value of investments is determined annually and is based on current market prices permitted. Investments are regulated by state and statutes and could be further restricted by the grantors or enabling legislation.

### G. Restricted Cash and Investments

Restricted cash and investments represent unused bond proceeds, bond reserves and other funds designated for financing the District's capital projects and related debt service. These funds are held as liquid investments or have been invested in U.S. Treasury notes, mutual funds or guaranteed investment contracts. The District also maintains restricted cash and investment accounts in the amount of $25,000,000 for Paratransit operations.

### H. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for the same purpose (e.g. a construction project), the District's policy is to use all available restricted resources first before unrestricted resources are utilized.

### I. Inventories

Inventories consist primarily of bus replacement parts and fuel and are stated at average cost which approximates market. Inventories are charged to expense at the time that individual items are withdrawn from inventory.

### J. Capital assets

Capital assets are stated at historical cost. Donated capital assets are recorded at estimated acquisition value at the date of donation plus ancillary charges, if any. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

| | |
|---|---|
| Buses and bus equipment | 2 to 12 Years |
| Other vehicles, shelters and bus stops, maintenance and other equipment, and furniture and fixtures | 3 to 20 Years |
| Building | 30 Years |
| Building improvements | 2 to 5 Years |

The District's policy is to capitalize all capital assets with a cost greater than $5,000 and a useful life of more than one year.

### K. Construction in progress

Construction in progress consists of the following projects at June 30 (in thousands):

| | 2017 | 2016 |
|---|---|---|
| Information technology support | $ 98 | $ 458 |
| Bus communication system | - | 67 |
| Transit-oriented development | 4,429 | 2,038 |
| Administration building improvement | 622 | 2,657 |
| Bus fleet improvements | 17,855 | 2,531 |
| Other | 420 | 2,483 |
| Total Construction in Progress | $ 23,424 | $ 10,234 |

### L. State and Local Operating Assistance

State and local operating assistance is recorded as revenue upon approval by the granting agencies. The District serves as the cash conduit for State Transit Assistance received on behalf of the Peninsula Corridor Joint Powers Board (see Note 7) and does not recognize revenues or expenses associated with this agency function.

### M. Bond Issuance Costs

Bond issuance costs are expensed upon the issuance of related debt except for bond prepaid insurance. Bond discounts, prepaid insurance and premiums are amortized over the life of the bonds.

### N. Arbitrage

Arbitrage is reviewed on an annual basis and the corresponding liability is accrued accordingly.

### O. Compensated Absences

Employees accrue compensated absence time by reason of tenure at annual rates ranging from 160 to 312 hours per year. Employees are allowed to accumulate from 800 hours up to 1,440 hours of compensated absence time, depending upon the number of years of service.

The changes in compensated absences were as follows for fiscal year ended June 30 (in thousands):

| | 2017 | 2016 |
|---|---|---|
| Beginning Balance | $ 8,716 | $ 8,236 |
| Additions | 6,403 | 6,191 |
| Payments | (6,431) | (5,711) |
| Ending Balance | 8,688 | 8,716 |
| Current Portion | 6,364 | 6,179 |
| Non-current Portion | $ 2,324 | $ 2,537 |

**P. Capital Contributions**

The District receives grants from the Federal Transit Administration (FTA), State, and local transportation funds for the acquisition of buses and other equipment and improvements. Capital contributions are recorded as revenues and the cost of the related assets are generally included as additions to property and equipment. Depreciation of assets acquired with capital grant funds is included in the depreciation expense in the statement of revenues, expenses and changes in net position.

Capital contributions for the years ended June 30 were as follows (in thousands):

| | 2017 | 2016 |
|---|---|---|
| Federal grants | $ 16,808 | $ 2,568 |
| State grant (Prop 1B) | 4,791 | 2,158 |
| Local assistance - sales tax | 3,825 | 8,052 |
| Total | $ 25,424 | $ 12,778 |

**Q. Operating and Nonoperating Revenues and Expenses**

The District distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from directly providing services in connection with the District's principal operations of bus transit services. These revenues are primarily passenger fares. Operating expenses include cost of sales and services, administrative expenses, contracted services and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**R. Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**S. Use of Estimates**

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the financial statements.

**T. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position also reports deferred outflows of resources. This separate element represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The District reports deferred outflows from pension activities and bond refunding.

In addition to liabilities, the statement of net position also reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows from pension activities.

**U. Fair Value Measurement**

Generally Accepted Accounting Principles provide 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 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.

**V. New Accounting Pronouncements**

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 District.

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 District 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 District.

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 District.

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 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 District.

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. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018-19 fiscal year. The District 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 District 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 District 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 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 District is evaluating the effect of this pronouncement.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, Leases. 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. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-21 fiscal year. The District is evaluating the effect of this pronouncement.

## NOTE 2 – CASH AND INVESTMENTS

### Policies

The District's investments are generally carried at fair value, as required by generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end and includes the effects of these adjustments as a component of interest and investment income for that fiscal year. The District is in compliance with the Board approved Investment Policy and California Government Code requirements.

### Classification

The District's cash and investments as of June 30 are classified in the statement of net position as follows (in thousands):

| | 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents | $ 43,206 | $ 50,521 |
| Current investments | 21,722 | 30,698 |
| Current restricted investments | 5,529 | 7,441 |
| Noncurrent investments | 76,072 | 67,102 |
| Noncurrent restricted investments | 21,450 | 19,518 |
| Total | $ 167,979 | $ 175,280 |

The District's cash and investments consist of the following at June 30 (in thousands):

| | 2017 | 2016 |
|---|---|---|
| Cash on hand | $ 21 | $ 21 |
| Deposits with financial institutions | 42,055 | 31,890 |
| Investments | 125,903 | 143,369 |
| Total | $ 167,979 | $ 175,280 |

**Investments Authorized by the California Government Code and the District's Investment Policy**

The table below identifies the investment types that are authorized for the District by the California Government Code or the District's investment policy, whichever is more restrictive, that addresses interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the Districts investment policy.

| 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 |

**Investments Authorized by Debt Agreements**

Investment of debt proceeds held by bond trustees are governed by provisions of the debt covenants, rather than the general provisions of the California Government Code or the District's investment policy. These provisions allow for the acquisition of investment agreements, repurchase agreements and U.S. Treasury Securities with maturities of up to 30 years.

**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 District 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 District's weighted average maturity of its investment portfolio at June 30, 2017 was as follows:

| Investment Type | Amount (in thousands) | Weighted Average Maturity (in years) |
|---|---|---|
| U.S. Agency Securities | $ 34,679 | 2.44 |
| U.S. Government Securities | 20,466 | 3.32 |
| Local Agency Investment Fund (LAIF) | 1,129 | 0.53 |
| Commercial Paper | 11,405 | 0.29 |
| Corporate Bonds and Notes | 48,218 | 2.57 |
| Money Market Mutual Funds | 10,006 | 0.00 |
| Total | $ 125,903 | |
| Portfolio Weighted Average Maturity | | 2.23 |

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

| Investment Type | Amount (in thousands) | Weighted Average Maturity (in years) |
|---|---|---|
| U.S. Agency Securities | $ 3,816 | 1.83 |
| U.S. Government Securities | 111,008 | 2.22 |
| Local Agency Investment Fund (LAIF) | 18,610 | 0.46 |
| Money Market Mutual Funds | 9,935 | 0.00 |
| Total | $ 143,369 | |
| Portfolio Weighted Average Maturity | | 1.83 |

**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 June 30 for each investment type.

| | | S&P Rating as of June 30, 2017 | | | |
|---|---|---|---|---|---|
| Investment Type | Amount (in thousands) | AAA | AA | A | Not Rated |
| U.S. Agency Securities | $ 34,679 | $ - | $ 34,679 | $ - | $ - |
| U.S. Government Securities | 20,466 | - | 20,466 | - | - |
| Local Agency Investment Fund (LAIF) | 1,129 | - | - | - | 1,129 |
| Commercial Paper | 11,405 | - | - | 11,405 | - |
| Corporate Bonds and Notes | 48,218 | 8,063 | 11,750 | 23,379 | 5,026 |
| Money Market Mutual Funds | 10,006 | 10,006 | - | - | - |
| Total | $ 125,903 | $ 18,069 | $ 66,895 | $ 34,784 | $ 6,155 |

| | | S&P Rating as of June 30, 2016 | | |
|---|---|---|---|---|
| Investment Type | Amount (in thousands) | AAA | AA | Not Rated |
| U.S. Agency Securities | $ 3,816 | $ - | $ 3,816 | $ - |
| U.S. Government Securities | 111,008 | - | 111,008 | - |
| Local Agency Investment Fund (LAIF) | 18,610 | - | - | 18,610 |
| Money Market Mutual Funds | 9,935 | 9,935 | - | - |
| Total | $ 143,369 | $ - | $ 114,824 | $ 28,545 |

**Concentration of Credit Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5 percent or more of the District's total investments are as follows at June 30 (in thousands):

| Issuer | Investment Type | 2017 | 2016 |
|---|---|---|---|
| Federal Home Loan Banks | U.S. Agency Securities | $ 12,112,373 | $ - |
| Federal National Mortgage Association | U.S. Agency Securities | 8,823,152 | - |
| Federal Home Loan Mortgage Corporation | U.S. Agency Securities | 7,790,741 | - |
| Total | | $ 28,726,266 | $ - |

There were no investments in any one issuer that exceeded 5% of the District's total investment portfolio for the year ended June 30, 2016.

**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. The following is the District's fair value hierarchy table as of June 30, 2017:

| Investment Type | Total | Level 1 | Level 2 | Uncategorized |
|---|---|---|---|---|
| U.S. Agency Securities | $ 34,679 | $ - | $ 34,679 | $ - |
| U.S. Government Securities | 20,466 | 20,466 | - | - |
| Local Agency Investment Fund (LAIF) | 1,129 | - | - | 1,129 |
| Commercial Paper | 11,405 | - | 11,405 | - |
| Corporate Bonds and Notes | 48,218 | - | 48,218 | - |
| Money Market Mutual Funds | 10,006 | - | 10,006 | - |
| Total investments by fair value type | $ 125,903 | $ 20,466 | $ 104,308 | $ 1,129 |

The following is the District's fair value hierarchy table as of June 30, 2016:

| Investment Type | Total | Level 1 | Level 2 | Uncategorized |
|---|---|---|---|---|
| U.S. Agency Securities | $ 3,816 | $ - | $ 3,816 | $ - |
| U.S. Government Securities | 111,008 | 111,008 | - | - |
| Local Agency Investment Fund (LAIF) | 18,610 | - | - | 18,610 |
| Money Market Mutual Funds | 9,935 | - | 9,935 | - |
| Total investments by fair value type | $ 143,369 | $ 111,008 | $ 13,751 | $ 18,610 |

**Custodial Credit Risk**

The custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the District 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 District 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 percent of the District's cash on deposit, or first trust deed mortgage notes with a market value of 150 percent of the deposit, as collateral for these deposits. Under California law, this collateral is held in a separate investment pool by another institution in the pool's name and places the pool, which includes the District's deposits, ahead of general creditors of the institution.

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

As of June 30, 2017 and 2016, the District had $42,055,000 and $31,890,000, respectively, of deposits with financial institutions recorded on the financial statements. Additionally, the District is required to hold certain capital fund amounts in interest bearing accounts. These balances are in excess of the federal depository insurance limits, and are collateralized with securities held by the pledging financial institution. The amount of deposits exposed to custodial credit risk at June 30, 2017 and 2016 was $45,596,000 and $34,070,000, respectively. However due to California State Law, the excess balances are collateralized with pledged securities by the financial institutions holding the District's deposits.

**Investment in State Investment Pool**

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not registered with the Securities and Exchange Commission.

As of June 30, 2017 and June 30, 2016, the District had a contractual withdrawal value in LAIF of $1,128,000 and $18,562,000, respectively. Investments in LAIF are not categorized because deposits and withdrawals are made on the basis of $1 and not fair value.

## NOTE 3 – OPERATING ASSISTANCE

The District receives operating assistance from various federal, state and local sources. The District receives a half-cent transaction and use tax levied on all taxable sales in San Mateo County, which is collected and administered by the State Board of Equalization. Transportation Development Act funds are received from San Mateo County to meet, in part, operating and capital requirements based on annual claims filed by the District and approved by the Metropolitan Transportation Commission (MTC). Federal funds are distributed to the District by the Federal Transportation Administration (FTA) after approval by MTC. The District also receives Transportation Authority funds as a result of the approval and re-authorization of 2004 Measure A (half-cent county sales tax) for funding of certain transportation projects and programs.

Operating assistance is summarized as follows for the years ended June 30 (in thousands):

| | 2017 | 2016 |
|---|---|---|
| Transaction and use tax | $ 80,717 | $ 71,734 |
| Local transportation funds | 39,796 | 34,905 |
| Federal operating and planning assistance | 3,602 | 6,882 |
| State transit assistance | 1,898 | 2,990 |
| Measure A funds - local | 8,307 | 8,188 |
| Measure M funds - local | 1,400 | 1,400 |
| AB434 and other | 190 | 155 |
| Total | $ 135,910 | $ 126,254 |

## NOTE 4 – FEDERAL CAPITAL GRANTS

The District has a number of grant contracts with the FTA that provide federal funds for the acquisition of buses and other equipment and improvements. Capital additions at June 30, 2017 and 2016 applicable to these projects are $21,606,000 and $3,205,000, respectively. The related federal participation is $16,808,000 and $2,568,000, respectively.

The District has recorded receivables of $19,384,000 and $2,568,000, at June 30, 2017 and 2016, respectively, for qualifying capital project expenditures under FTA grant contracts in excess of reimbursements. The remaining federal receivable balance is related to federal operating grants.

Under the terms of the grants, contributions for equipment sold or retired during its useful life are refundable to the federal government in proportion to the related capital grant funds received, unless the net book value or proceeds from sale is under grant-prescribed limits.

## NOTE 5 – BAY AREA RAPID TRANSIT (BART) DISTRICT EXTENSION AGREEMENTS

The District entered into a comprehensive agreement with the San Francisco Bay Area Rapid Transit (BART) on March 1, 1990. The purpose was to extend BART from the Daly City station to Caltrain and the San Francisco International airport via new stations at Colma, South San Francisco, San Bruno, Millbrae, and the San Francisco International Airport (SFO Extension).

The agreement called for two projects. The first was the Colma Project, approximately 1.6 miles from the existing Daly City station to the new Colma station. The second was the SFO Extension, which included construction of 10.1 miles of additional track, four additional stations and related facilities.  On June 22, 2003, the SFO Extension opened, providing service to South San Francisco, San Bruno, San Francisco International and Millbrae stations.

The total contributions made by the District for the BART projects mentioned above were $410,280,000 over the period from 1990 to 2007. These contributions were funded with District funds and proceeds from the sale of bonds. The District's net position was impacted by the contributions made to BART. The project serves the citizens and taxpayers of the County of San Mateo, however, the capital asset was not recorded on the District's financial statements because the District does not hold title to the capital asset nor does it manage the operation and maintenance of the BART extension. The debt outstanding related to the BART project along with the implementation of the pension standards described in Note 11 negatively impacted the District's net position. While these are long-term liabilities recorded on the financial statements, our net position available for operations and projects is presented below without the impact of these long-term liabilities:

| | |
|---|---|
| Unrestricted net position as reported on the financial statements | $ (131,446) |
| Outstanding debt (plus premiums, net of deferred costs) related to BART contributions | 244,274 |
| Net pension liability and related deferrals | 41,423 |
| Net position earmarked for operations and projects | $ 154,251 |

## NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows (in thousands):

| | Balance at July 1, 2016 | Additions | Deletions | Balance at June 30, 2017 |
|---|---|---|---|---|
| Depreciable Capital Assets | | | | |
| Buses and bus equipment | $ 153,955 | $ 3,927 | $ (529) | $ 157,353 |
| Buildings and building improvements | 64,868 | 4,163 | - | 69,031 |
| Maintenance and other equipment | 32,063 | 1,579 | - | 33,642 |
| Furniture and fixtures | 31,734 | 2,127 | - | 33,861 |
| Shelters and bus stop signs | 592 | - | - | 592 |
| Other vehicles | 2,159 | 439 | (325) | 2,273 |
| Total Depreciable Capital Assets | 285,371 | 12,235 | (854) | 296,752 |
| Less Accumulated Depreciation for: | | | | |
| Buses and bus equipment | (93,847) | (9,289) | 529 | (102,607) |
| Buildings and building improvements | (53,812) | (2,818) | - | (56,630) |
| Maintenance and other equipment | (10,599) | (6,171) | - | (16,770) |
| Furniture and fixtures | (20,782) | (3,837) | - | (24,619) |
| Shelters and bus stop signs | (580) | (5) | - | (585) |
| Other vehicles | (1,990) | (133) | 325 | (1,798) |
| Total Accumulated Depreciation | (181,610) | (22,253) | 854 | (203,009) |
| Nondepreciable Capital Assets | | | | |
| Land | 53,855 | - | | 53,855 |
| Construction in progress | 10,234 | 25,424 | (12,234) | 23,424 |
| Total Nondepreciable Capital Assets | 64,089 | 25,424 | (12,234) | 77,279 |
| Capital Assets, Net | $ 167,850 | $ 15,406 | $ (12,234) | $ 171,022 |

Capital asset activity for the fiscal year ended June 30, 2016, was as follows (in thousands):

| | Balance at July 1, 2015 | Additions | Deletions | Balance at June 30, 2016 |
|---|---|---|---|---|
| Depreciable Capital Assets | | | | |
| Buses and bus equipment | $ 167,272 | $ - | $ (13,317) | $ 153,955 |
| Buildings and building improvements | 64,838 | 30 | - | 64,868 |
| Maintenance and other equipment | 6,523 | 25,540 | - | 32,063 |
| Furniture and fixtures | 19,656 | 12,078 | - | 31,734 |
| Shelters and bus stop signs | 592 | - | - | 592 |
| Other vehicles | 2,159 | - | - | 2,159 |
| Total Depreciable Capital Assets | 261,040 | 37,648 | (13,317) | 285,371 |
| Less Accumulated Depreciation for: | | | | |
| Buses and bus equipment | (97,574) | (9,590) | 13,317 | (93,847) |
| Buildings and building improvements | (51,601) | (2,211) | - | (53,812) |
| Maintenance and other equipment | (4,715) | (5,884) | - | (10,599) |
| Furniture and fixtures | (17,241) | (3,541) | - | (20,782) |
| Shelters and bus stop signs | (575) | (5) | - | (580) |
| Other vehicles | (1,876) | (114) | - | (1,990) |
| Total Accumulated Depreciation | (173,582) | (21,345) | 13,317 | (181,610) |
| Nondepreciable Capital Assets | | | | |
| Land | 53,855 | - | - | 53,855 |
| Construction in progress | 35,303 | 12,579 | (37,648) | 10,234 |
| Total Nondepreciable Capital Assets | 89,158 | 12,579 | (37,648) | 64,089 |
| Capital Assets, Net | $ 176,616 | $ 28,882 | $ (37,648) | $ 167,850 |

## NOTE 7 – PENINSULA CORRIDOR JOINT POWERS BOARD (JPB)

The District is a member in the Peninsula Corridor Joint Powers Board (JPB) along with the VTA and the CCSF. The JPB is governed by a separate board comprised of nine members – three from each member agency. The JPB was established in 1988 to keep Caltrain operating after the state's responsibility ended. The JPB was formed to plan, administer and operate the Caltrain service. The JPB began operating the Caltrain service on July 1, 1992. Prior to July 1, 1992, such rail service was operated by the California Department of Transportation (Caltrans) and Southern Pacific Railroad.

During Fiscal Year 1992, the District advanced the CCSF's and VTA's initial contribution in the amount of $8,294,000 and $34,652,000, respectively, to acquire from Southern Pacific the rail corridor right of way between San Francisco and San Jose and perpetual trackage rights between San Jose and Gilroy. The District and the JPB are tenants in common to all right of way property acquired in that December 1992 acquisition transaction and located in San Mateo County until the District receives the full reimbursement of the initial contribution plus interest from CCSF and VTA. CCSF and VTA agreed to use their best efforts individually and collectively to advocate for and obtain grants from non-local sources to reimburse the District for their respective contributions (see Note 8 "Caltrain Right of Way").

Since the JPB's inception in 1988, the District has been appointed and served as its Managing Agency, providing administrative personnel and facilities. The District's role as Managing Agency of the JPB will Continue so long as the District desires to serve in this capacity pursuant to the Agreement described in Note 8, "Caltrain Right of Way."

The District is responsible for 31.69 and 30.82 percent of the mainline net operating costs and the administrative expenses of the JPB for the years ended June 30, 2017 and 2016, respectively. The District recognizes the entire amount of contributions paid to the JPB as an expense in the year disbursed. During the years ended June 30, 2017 and 2016, the District contributed $6,480,000 and $6,080,000 respectively, to the JPB for operating needs.

The District has total receivables from the JPB of $48,639,000 and $23,219,000 at June 30, 2017 and 2016 respectively, for advances of staff support and operating costs. Complete financial statements for the JPB can be obtained from the Peninsula Corridor Joint Powers Board at 1250 San Carlos Ave., San Carlos, California 94070.

## NOTE 8 – LAND AND RIGHT OF WAY

### Dumbarton Land and Right of Way

In November 1994, the San Mateo County Transportation Authority (Transportation Authority) contributed the Dumbarton land and right of way to the District. The basis of this property is $7,134,000. In December 2001, the Transportation Authority contributed the Redwood City Wye land and right of way, adjacent to the Dumbarton parcels, to the District. The basis of this property is $7,103,000.

### San Carlos Land and Right of Way

On December 27, 2007, the District acquired four acres of property located in San Carlos along the Caltrain right of way from the Transportation Authority for a promissory note of $4,343,000. The fair market value for the land, accounting for the risk associated with hazardous materials, is $7,739,000. The District recognized the difference of the fair market value and the promissory note as a local grant contribution from the Transportation Authority. Originally, the property had been acquired by the Transportation Authority for the purpose of constructing a railroad grade separation structure. Having completed the grade separation, the Transportation Authority Board of Directors agreed to sell the property to the District. Under the terms of the transaction, the District is permitted to pay the purchase price over time subject to the payment of interest prospectively at the current rate of return earned by the Transportation Authority on its investment portfolio until the principal is paid in full before December 1, 2033.

### Caltrain Right of Way

On October 31, 2008, all three of the JPB member agencies signed an agreement to fully resolve all outstanding financial issues related to the acquisition of the right of way. Both the City and County of San Francisco (CCSF) and Santa Clara Valley Transportation Authority (VTA) have agreed to reimburse the District using gasoline "spillover" funds. The population based "spillover" funds are to be paid directly to the District from the Metropolitan Transportation Commission (MTC), and revenue based "spillover" funds are to be paid to the District from the San Francisco Municipal Transportation Agency (SFMTA) and VTA. The parties agreed to make best efforts to allocate the funds in full within two to four years and, in no event, later than 10 years. As of June 30, 2017, the District has received a total of $33.5 million from "spillover", Federal Transportation Improvement Program funds as well as local VTA and SFMTA funds. In consideration for the District's reduction in the interest rate applied to the District's advance of funds to purchase the right of way, the parties amended the

Joint Powers Agreement (Agreement) to designate the District as the managing agency of the Peninsula Corridor Joint Powers Board. The Agreement further provides that the District "will serve in that capacity unless and until it no longer chooses to do so."

Out of the total $53.3 million per this agreement, $33.5 million has been collected. The District still has a commitment from MTC on behalf of CCSF and VTA for the remaining amount of $19.8 million. As the funding sources change, the multi-party agreement may need to be modified to ensure the District is repaid in full for the right of way. Ultimately, when all payments have been received by the District, the District will reconvey to the JPB all of its interest in the title to the right of way.

## NOTE 9 – SAN MATEO COUNTY TRANSPORTATION AUTHORITY

The Transportation Authority was formed in June 1988 as a result of the approval of Measure A (half-cent county sales tax and Transportation Expenditure Plan) by the voters of San Mateo County pursuant to the Bay Area County Traffic and Transportation Funding Act. The Transportation Authority was to be responsible for the administration of funds to be used for transportation projects collected over a period of 20 years by the half-cent county sales tax. The District is designated as the entity responsible for overall management of the Transportation Authority. 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 December 31, 2008. The Transportation Authority will continue to fund vital transportation improvements for the benefit of San Mateo County residents through 2033.

The District provides administrative personnel and facilities to the Transportation Authority. The Transportation Authority has funded various real estate acquisitions, which are necessary for transportation projects. Generally, the Transportation Authority has chosen not to hold title to real estate. The District holds title to properties, both as an accommodation to Transportation Authority as well as for use in transit. The District has recorded these parcels as capital assets.

Please refer to the discussion of the San Carlos Right of Way in Note 8. The note of $4,343,000 is included in other noncurrent liabilities on the statement of net position. The District also has an accrued interest liability of $850,000 and $809,000, respectively, as of June 30, 2017 and 2016 for the promissory note.

The District has total receivables from the Transportation Authority of $4,168,000 and $11,369,000 at June 30, 2017 and 2016 respectively, for advances of staff support and operating costs and reimbursement of Caltrain subsidy. Complete financial statements for the Transportation Authority can be obtained from the Transportation Authority at 1250 San Carlos Ave., San Carlos, California, 94070.

## NOTE 10 – LONG TERM DEBT

### Composition and Changes

The District generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The District's debt issues and transactions are summarized below and discussed in detail thereafter.

Long-term debt activity for the year ended June 30, 2017 is as follows (in thousands):

| | Original Issue Amount | Balance at July 1, 2016 | Additions | Deletions | Balance at June 30, 2017 | Current Balance at June 30, 2017 |
|---|---|---|---|---|---|---|
| **Limited Tax Bonds** | | | | | | |
| 2015 Series A Refunding Bonds 3.00%-5.00%, due 6/1/2034 | $ 210,280 | $ 210,280 | $ - | $ - | $ 210,280 | $ - |
| 2015 Series B Refunding Bonds 0.41%-1.953%, due 6/1/2019 | 39,965 | 28,355 | - | (11,660) | 16,695 | 11,765 |
| Total debt | | 238,635 | - | (11,660) | 226,975 | $ 11,765 |
| Unamortized bond premium | | 30,600 | - | (3,284) | 27,316 | |
| Total bonds payable | | $ 269,235 | $ - | $ (14,944) | $ 254,291 | |

Long-term debt activity for the year ended June 30, 2016 is as follows (in thousands):

| | Original Issue Amount | Balance at July 1, 2015 | Additions | Deletions | Balance at June 30, 2016 | Current Balance at June 30, 2016 |
|---|---|---|---|---|---|---|
| **Limited Tax Bonds** | | | | | | |
| 2015 Series A Refunding Bonds 3.00%-5.00%, due 6/1/2034 | $ 210,280 | $ 210,280 | $ - | $ - | $ 210,280 | $ - |
| 2015 Series B Refunding Bonds 0.41%-1.953%, due 6/1/2019 | 39,965 | 39,965 | - | (11,610) | 28,355 | 11,610 |
| Total debt | | 250,245 | - | (11,610) | 238,635 | $ 11,610 |
| Unamortized bond premium | | 33,883 | - | (3,283) | 30,600 | |
| Total bonds payable | | $ 284,128 | $ - | $ (14,893) | $ 269,235 | |

### Description of the District's Long-Term Debt Issues

**2015 Series A and Series B Refunding Bonds –** In Fiscal Year 2015, the District issued $210,280,000 of the Limited Tax Bonds, Refunding 2015 Series A (the 2015 Series A Bonds) and $39,965,000 of the Limited Tax Bonds, Refunding 2015 Series B (Federally Taxable) (the 2015 Series B Bonds, and, together with the 2015 Series A Bonds, the 2015 Series Bonds) to advance refund the 1993 Series A Bonds, the 2005 Series A Bonds, and the 2009 Series A Bonds, all of which were issued to assist in the financing or refinancing of facilities necessary or convenient for the provision of transit services.

The 2015 Series Bonds were issued pursuant to an Indenture, dated as of April 1, 2015, as supplemented and amended from time to time pursuant to its terms (the Indenture), between the District and U.S. Bank National Association, as trustee (the Trustee).

The District issued the 2015 Series Bonds in order to advance refund all of its prior debt secured by the Sales Tax, comprised of $56,420,000 aggregate principal amount of the 1993 Series A Bonds, $218,990,000 aggregate principal amount of the 2005 Series A Bonds and $10,505,000 aggregate principal amount of the 2009 Series A Bonds. The proceeds of the 2015 Series Bonds, together with funds held on deposit under the 1990 Indenture, to refund and legally defease all of the 1993 Series A Bonds, the 2005 Series A Bonds and the 2009 Series A Bonds (hereinafter collectively referred to as the Prior Bonds). In connection with the refunding and defeasance of the Prior Bonds, the District entered into an Escrow Agreement, dated as of April 1, 2015 (the Escrow Agreement), with U.S. Bank National Association, as trustee and escrow agent (the Escrow Agent), pursuant to which the Escrow Agent established escrow funds (each, an Escrow Fund) to provide for the payment of the principal of and interest on the Prior Bonds to their date of redemption or maturity, as applicable. Amounts deposited in each Escrow Fund are expected to be invested in direct obligations of, or obligations which are unconditionally guaranteed by, the United States of America (the Escrow Securities), the principal of and interest on which, together with any cash held uninvested in such Escrow Fund, will be sufficient to pay the principal of and interest on the Prior Bonds secured by such Escrow Fund to the date of their redemption or maturity, as applicable. Amounts deposited in each Escrow Fund are pledged to the payment of the Prior Bonds secured by such Escrow Fund and will not be available for the payment of any bonds other than the Prior Bonds secured by such Escrow Fund.

Interest on the 2015 Series Bonds is payable semiannually on June 1 and December 1 of each year. The 2015 Series Bonds are subject to optional redemption prior to their respective stated maturities. Principal on the 2015 Series A is payable on June 1, 2019 and annually thereafter on June 1 of each year through 2034. Principal on the 2015 Series B is payable on June 1 of each year through 2019.

Proceeds from the 2015 Refunding Bonds were used to purchase U.S. Government Securities and were placed in an irrevocable trust, in an amount necessary to satisfy principal and interest payments on the 1993 Series A Bonds and 2009 Series A Refunding Bonds. The 2005 Bonds were called and paid off in Fiscal Year 2015. The outstanding balance of the refunded 1993 and 2009 Bonds is $13,430,000 as of June 30, 2017.

The 2015 Series Bonds are special obligations of the District payable from the receipts of a sales tax to assist in the financing or refinancing of facilities necessary or convenient for the provision of transit services. The amount and terms of pledged revenue is the outstanding secured debt service as noted on the debt service requirement schedule in the following paragraph. The amount of pledged revenues recognized during fiscal year 2017 related to the principal and interest requirements for the secured debt were $84.4 million and $21.6 million respectively. The pledged revenue coverage was 3.90 percent.

### Debt Service Requirements to Maturity

Debt Service requirements for as of June 30, 2017 are as follows (in thousands):

| Fiscal Year Ending June 30, | 2015 Series A Principal | 2015 Series A Interest | 2015 Series A Total | 2015 Series B Principal | 2015 Series B Interest | 2015 Series B Total |
|---|---|---|---|---|---|---|
| 2018 | $ - | $ 9,617 | $ 9,617 | $ 11,765 | $ 263 | $ 12,028 |
| 2019 | 7,000 | 9,617 | 16,617 | 4,930 | 96 | 5,026 |
| 2020 | 10,060 | 9,337 | 19,397 | - | - | - |
| 2021 | 10,320 | 8,867 | 19,187 | - | - | - |
| 2022 | 10,780 | 8,413 | 19,193 | - | - | - |
| 2023-2027 | 62,175 | 33,773 | 95,948 | - | - | - |
| 2028-2032 | 79,180 | 16,770 | 95,950 | - | - | - |
| 2033-2034 | 30,765 | 1,527 | 32,292 | - | - | - |
| Total debt service | $ 210,280 | $ 97,921 | $ 308,201 | $ 16,695 | $ 359 | $ 17,054 |

### NOTE 11 – PENSION PLAN

### Plan Description

***General Information about the Pension Plans***

***Plan Descriptions*** – All qualified permanent and probationary employees are eligible to participate in the District’s defined benefit pension plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefits are established by contract with CalPERS in accordance with the provisions of the Public Employees' Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

***Benefits Provided*** – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of CalPERS credited service are eligible to retire at age 50 with statutorily reduced benefits. Effective January 1, 2013, new CalPERS members are subject to the Public Employees' Pension Reform Act (PEPRA), and to be eligible for retirement, a PEPRA employee must be at least 52 years of age to retire. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The plan provisions and benefits in effect at June 30, 2017, are summarized as follows:

| Hire date | Prior to January 1, 2013 | On or after January 1, 2013 |
|---|---|---|
| Benefit formula | 2.0% at 55 | 2% at 62 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 - 55 | 52 - 67 |
| Required employee contribution rates | 7.000% | 6.250% |
| Required employer contribution rates | 11.496% | 11.496% |

***Employees Covered*** – At June 30, 2017, the following employees were covered by the plan:

| | |
|---|---|
| Inactive employees (or their beneficiaries) currently receiving benefits | 479 |
| Inactive employees entitled to but not yet receiving benefits | 510 |
| Active employees | 667 |
| Total number of employees covered by the benefit terms | 1,656 |

***Contributions*** – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers to be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

**Net Pension Liability**

The District's net pension liability for Fiscal Year 2017 is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability for Fiscal Year 2017 is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's net pension liability for Fiscal Year 2016 is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability for Fiscal Year 2016 is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used in the latest actuarial valuation to determine the net pension liability is shown below.

***Actuarial Assumptions*** – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

| | |
|---|---|
| Valuation Date | June 30, 2015 |
| Measurement Date | June 30, 2016 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Projected Salary Increase | Varies by Entry-Age and Service |
| Investment Rate of Return | 7.65% (1) |
| Mortality | (2) |

(1) Net of pension plan investment expenses, including inflation.
(2) The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Further details regarding the experience study can be found on the CalPERS website.

***Discount Rate*** – The discount rate used to measure the total pension liability was 7.65 percent for each Plan. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the District's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected 7.65% rate of return on pension plan investments, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

| Asset Class | New Strategic Allocation | Real Return Years 1 - 10(a) | Real Return Years 11+(b) |
|---|---|---|---|
| Global Equity | 46.0% | 5.25% | 5.71% |
| Global Fixed Income | 20.0% | 0.99% | 2.43% |
| Inflation Sensitive | 9.0% | 0.45% | 3.36% |
| Private Equity | 8.0% | 6.83% | 6.95% |
| Real Estate | 11.0% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2% | 4.50% | 5.09% |
| Liquidity | 4% | -0.55% | -1.05% |
| Total | 100% | | |

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

***Changes of Assumptions*** - The discount rate of 7.65 percent used for the June 30, 2015 and 2016 (Fiscal Year ended June 30, 2016 and 2017) measurement date is without reduction of pension plan administrative expense.

**Changes in the Net Pension Liability**

The changes in the net pension liability recognized over the measurement period ended June 30, 2016 (Fiscal Year ended June 30, 2017) is as follow (in thousands):

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability/(Asset) (c) = (a) - (b) |
| Balance at June 30, 2016 | $ 282,024 | $ 242,597 | $ 39,427 |
| Changes recognized for the measurement period | | | |
| Service cost | 7,020 | - | 7,020 |
| Interest on the total pension liability | 21,338 | - | 21,338 |
| Difference between Expected and Actual Experience | (903) | - | (903) |
| Contributions from the employer | - | 5,014 | (5,014) |
| Contributions from employees | - | 3,428 | (3,428) |
| Net investment income | - | 1,287 | (1,287) |
| Benefit Payments, including Refunds | (11,410) | (11,410) | - |
| Administrative Expense | - | (148) | 148 |
| Net changes | 16,044 | (1,829) | 17,873 |
| Balance at June 30, 2017 | $ 298,067 | $ 240,768 | $ 57,300 |

The changes in the Net Pension Liability recognized over the measurement period ended June 30, 2015 (Fiscal Year ended June 30, 2016) is as follow (in thousands):

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability/(Asset) (c) = (a) - (b) |
| Balance at June 30, 2015 | $ 270,804 | $ 240,160 | $ 30,644 |
| Changes recognized for the measurement period | | | |
| Service cost | 6,831 | - | 6,831 |
| Interest on the total pension liability | 20,157 | - | 20,157 |
| Changes of assumptions | (4,780) | - | (4,780) |
| Difference between Expected and Actual Experience | (894) | - | (894) |
| Contributions from the employer | - | 4,192 | (4,192) |
| Contributions from employees | - | 3,199 | (3,199) |
| Net investment income | - | 5,413 | (5,413) |
| Benefit Payments, including Refunds | (10,095) | (10,095) | - |
| Administrative Expense | - | (273) | 273 |
| Net changes | 11,219 | 2,436 | 8,783 |
| Balance at June 30, 2016 | $ 282,023 | $ 242,596 | $ 39,427 |

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*** – The following presents the net pension liability for the measurement period ended June 30, 2016 (Fiscal Year ended June 30, 2017) calculated using the plan discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate (in thousands):

| | 1% Decrease | Current | 1% Increase |
|---|---|---|---|
| Discount Rate | 6.65% | 7.65% | 8.65% |
| Net Pension Liability | $95,711 | $57,300 | $25,196 |

The following presents the net pension liability for the measurement period ended June 30, 2015 (Fiscal Year ended June 30, 2016) calculated using the plan discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate (in thousands):

| | 1% Decrease | Current | 1% Increase |
|---|---|---|---|
| Discount Rate | 6.65% | 7.65% | 8.65% |
| Net Pension Liability | $76,118 | $39,427 | $8,761 |

***Pension Plan Fiduciary Net Position*** – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions** – For the year ended June 30, 2017, the District recognized pension expense of $6,742,000. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date | $ 5,943 | $ - |
| Changes of Assumptions | - | (2,196) |
| Differences between Expected and Actual Experiences | - | (1,056) |
| Net differences between projected and actual earnings on plan investments | 13,186 | - |
| Total | $ 19,129 | $ (3,252) |

Deferred outflows of resources related to contributions subsequent to the measurement date is $5,943,000 , which will be recognized as a reduction of the net pension liability and a component of pension expense in the year ending June 30, 2018.

Other amounts reported as deferred inflows of resources related to pensions will be recognized as a reduction to pension expense as follows (in thousands):

| Year Ended June 30 | | |
|---|---|---|
| 2018 | $ | 90 |
| 2019 | | 550 |
| 2020 | | 5,866 |
| 2021 | | 3,428 |
| | $ | 9,934 |

**NOTE 12 – POST-RETIREMENT HEALTH CARE BENEFITS**

**Plan Description**

In August 1993, the District's Board of Directors adopted the San Mateo County Transit District Retiree Healthcare Plan (Plan). The Plan is an agent multiple employer plan administered by the CalPERS system. The Plan provides post retirement medical care insurance to qualified retirees and their surviving spouses, those who have attained at least 50 years of age and have at least five years of District service. Benefit allowance provisions are established, and may be amended, through agreements and memorandums of understanding (MOU) between the District, its management employees and unions representing District employees. The benefit provides a lifetime allowance to eligible plan members and their lifetime beneficiaries.

The District contributes to the California Employers' Retirement Benefit Trust (CERBT), an irrevocable trust established to fund postemployment healthcare benefits. The CERBT fund is an agent multiple employer plan that is established by CalPERS, and is managed by an appointed board not under the control of the District. This trust is not considered a component unit of the District and is excluded from these financial statements. The CERBT issues a publicly available annual financial report, which may be obtained from the CalPERS website.

**Funding Policy**

In April 2008, the District's Board of Directors adopted an Other Post Employment Benefit (OPEB) funding plan authorizing the establishment of an Internal Revenue Code (IRC) tax qualified trust which was established through the CalPERS California Employer's Retiree Benefit Trust (CERBT) in April 2009. The Plan also called for increasing amounts to be funded into the trust each year until the full Annual Required Contribution (ARC) can be funded on an annual basis. The District is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Effective January 2009, the District's medical plan changed in several ways due to the new union negotiated contract. The District established a PERS cafeteria plan which includes an employer contribution, an employee cafeteria benefit contribution and an Extended Illness Benefit. Employer contributions to the plan are based on the "equal method." The District's contribution towards medical premiums for Bay Area HMO's is 85 percent of the 2009 premiums for all coverage levels and is fixed at that rate. For active employees, the District contributes to the cafeteria benefit in an amount, that when added to the employer's contribution, will equal 90 percent of the PERS Bay Area HMO plan premiums. Annual increases to the Bay Area HMO plan premiums will be added to the employee's cafeteria benefit each year to equal the monthly premium.

The District established a retiree medical reimbursement trust for active employees to make tax exempt payroll contributions to help employees save for future retiree medical costs. These funds can only be used upon separation for eligible medical expenses (e.g. premium contributions and unreimbursed medical expenses) in accordance with rules established under the Internal Revenue Code and the medical reimbursement trust.

In fiscal year ended June 30, 2017, the District contributed $2,000,000 to the established trust fund through CERBT. In addition, the District contributed $2,317,000 in pay-as-you-go amounts for the year ended June 30, 2017. Additional contributions were in the form of an implicit subsidy in the amount of $715,000 were made.

In fiscal year ended June 30, 2016, the District contributed $1,800,000 to the established trust fund through CERBT. In addition, the District contributed $2,193,000 in pay-as-you-go amounts for the year ended June 30, 2016.

**Annual OPEB Cost and Net Obligation**

The District's annual OPEB cost (expense) is calculated based on the ARC of the employer. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan (in thousands) for the fiscal years ended June 30, 2017 and June 30, 2016:

| | For the Year Ended June 30, 2017 | For the Year Ended June 30, 2016 |
|---|---|---|
| Annual required contribution | $ 5,089 | $ 5,009 |
| Interest on net OPEB obligation | 639 | 590 |
| Adjustment to annual required contribution | (854) | (801) |
| Annual OPEB cost (expense) | 4,874 | 4,798 |
| Contribution made | (5,032) | (4,606) |
| Increase in net OPEB obligation | (158) | 192 |
| Net OPEB obligation, beginning of year | 8,928 | 8,736 |
| Net OPEB obligation, end of year | $ 8,770 | $ 8,928 |

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows (in thousands):

| Year Ended June 30, | Annual OPEB Cost | Actual Contribution | Percentage Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| 2017 | $ 4,874 | $ 5,032 | 103.2% | $ 8,770 |
| 2016 | 4,798 | 4,606 | 96.0% | 8,928 |
| 2015 | 3,694 | 3,672 | 99.4% | 8,736 |

**Funded Status and Funding Progress**

The funded status of the plan is as follows (in thousands):

| Valuation date | June 30, 2015 | June 30, 2013 |
|---|---|---|
| Actuarial accrued liability (AAL) | $ 48,787 | $ 38,409 |
| Actuarial value of plan assets | 8,897 | 4,881 |
| Unfunded actuarial accrued liability (UAAL) | $ 39,890 | $ 33,528 |
| Funded ratio (actuarial value of plan assets/AAL) | 18.2% | 12.7% |
| Covered payroll (active plan members) | $ 51,753 | $ 47,607 |
| UAAL as a percentage of covered payroll | 77.08% | 70.43% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress located in the required supplementary information section shows multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefit for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

In the June 30, 2015 actuarial valuation, the Entry Age Normal (EAN) cost method was used. The actuarial assumptions included a discount rate of 6.75 percent based on the Board approved funding plan and a three percent inflation rate. Healthcare cost trends rates ranged from an initial rate of 7.2 to 5.0 percent in 2021. The assumptions also included a payroll increase rate of 3.25 percent and 3 percent inflation. The actuarial value of the District’s assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over 5 years. The UAAL is being amortized as a level percent of payroll on a closed basis. The remaining amortization period at June 30, 2017 was 21 years.

## NOTE 13 – INSURANCE PROGRAMS

The District 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; injuries to employees, and natural disasters. The District is self-insured for a portion of its public liability, property damage and workers' compensation liability. As of June 30, 2017, coverage provided by self-insurance and excess coverage (purchased by the District) is generally summarized as follows:

| Type of coverage | Self-Insured Retention | Excess Insurance |
|---|---|---|
| General Liability and Property of Others | $1,000,000 per occurrence | $100,000,000 per occurrence/ annual aggregate |
| Workers' Compensation | $1,000,000 per occurrence | $10,000,000 per occurrence |
| Employment Practices | $150,000 per occurrence | $5,000,000 aggregate |
| Bus Physical Damage | $50,000 maximum per occurrence | $238,381,802 Total Insurable Values (TIV) |
| Real and Personal Property | $10,000 per occurrence | $110,000,000 Total Insurable Values (TIV) |
| Environmental Liability | $50,000 per occurrence | $5,000,000 3-year policy aggregate |
| Fiduciary Liability | $10,000 per occurrence | $2,000,000 Aggregate |
| Cyber Liability | $10,000 per occurrence | $5,000,000 aggregate |
| Crime Insurance/Employee Dishonesty | $25,000 per occurrence Except Computer Fraud and Funds Transfer $50,000 per occurrence | $15,000,000 per loss |

All rolling stock is insured at full replacement value for total insurable values of $238,382,000. Real and personal property is insured for total insurable values (TIV) of $110,000.000 and is inclusive of $25,000,000 in state and federally mandated flood insurance. General Liability is inclusive of Public Officials Liability up to $50,000,000 and coverage extends to the Transportation Authority in excess of the Authority's own $3,000,000 public officials liability policy. Terrorism coverage applies to Liability and Property. Earthquake coverage remains cost prohibitive. To date, there have been no significant reductions in any of the District's insurance coverage. Settlements have not exceeded coverages for each of the past three fiscal years.

The unpaid claims liabilities are based on the results of actuarial studies and include amounts for claims incurred but not reported and incremental claim expenses. Allocated and unallocated claims adjustment expenses are included in the claims liability balances. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

Annual expense is charged using various allocation methods that include actual costs, trends in claims experience, and number of participants. It is the District's practice to obtain full actuarial studies annually.

Changes in the balances of claims liabilities for the two years ended June 30 for public liability, property damage and workers' compensation are as follows (in thousands):

| | 2017 | 2016 |
|---|---|---|
| Self-insurance liabilities, beginning of year | $ 10,246 | $ 10,771 |
| Incurred claims and changes in estimates | 1,210 | (1,018) |
| Claim payments and related costs | (787) | (493) |
| Total Self-insurance claims liabilities | 12,243 | 10,246 |
| Less current portion | 6,189 | 4,206 |
| Noncurrent portion | $ 6,054 | $ 6,040 |

### NOTE 14 – PARATRANSIT TRUST FUND

Early in calendar year 2009, the Transportation Authority transferred the $25 million corpus of the paratransit trust fund to the District for oversight. The Transportation Authority established the trust fund to continue in perpetuity from Measure A sales tax revenues. The Transportation Authority was required to transfer the corpus of the paratransit trust fund to the District for administration upon expiration of Measure A on December 31, 2008 per the 1988 Transportation Expenditure Plan. The District now administers the fund and utilizes earnings on the corpus to fund paratransit activities. The amount is included as a component of restricted net position.

### NOTE 15 – COMMITMENT AND CONTINGENT LIABILITIES

#### Legal

The District is directly and indirectly involved in various litigation matters relating principally to claims arising from construction contracts, personal injury and property damage. In addition, the District has identified several sites which require environmental assessment and could result in undetermined cleanup costs. The potential costs to the District related to these environmental sites are highly uncertain, and the determination of the District's liability is dependent on the extent, if any, to which such costs are recoverable from insurance or other parties. In the opinion of District management, the ultimate resolution of these matters will not materially affect the District's financial position.

#### Grants

The District's grants are subject to review and audit. Such audits could lead to requests for reimbursement for expenditures disallowed under the terms of the grants. In the opinion of management, such allowances, if any, will not materially affect the District's financial position.

## NOTE 16 – PTMISEA GRANTS

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, approved by the voters as Proposition 1B on November 7, 2006, includes a program of funding in the amount of $4 billion to be deposited in the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA). Of this amount, $3.6 billion in the PTMISEA is available to project sponsors in California for allocation to eligible public transportation projects.

The following table shows the changes in activity related to the PTMISEA grant funds during the fiscal year as well as the remaining commitment as of June 30, 2017:

| | PTMISEA 2010 Various Projects Allocation (Fund 3606) | PTMISEA 2011 Various Projects Allocation (Fund 3622) | PTMISEA 2012 Various Projects Allocation (Fund 3618) | PTMISEA 2015 Various Projects Allocation (Fund 3643) | PTMISEA 2015 Various Projects Allocation (Fund 3639) | PTMISEA 2015 Various Projects Allocation (Fund 3646) | Various PTMISEA Grant Interest (Fund 3636) |
|---|---|---|---|---|---|---|---|
| Available proceeds June 30, 2016 | $ 862,863 | $ 504,338 | $ 1,401,752 | $ 7,657,921 | $ 5,708,022 | $ 1,230,533 | $ 246,194 |
| Allocations received | - | - | - | - | - | - | 35,567 |
| Total Expenditures | (553,352) | - | (1,075,349) | (1,290) | (2,621,646) | - | (181,598) |
| Available proceeds June 30, 2017 | $ 309,511 | $ 504,338 | $ 326,403 | $ 7,656,631 | $ 3,086,376 | $ 1,230,533 | $ 100,163 |

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*REQUIRED SUPPLEMENTARY INFORMATION*

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SAN MATEO COUNTY TRANSIT DISTRICT

# REQUIRED SUPPLEMETARY INFORMATION
# POST EMPLOYMENT HEALTHCARE SCHEDULE OF FUNDING PROGRESS
# FOR THE YEAR ENDED JUNE 30, 2017

Amounts in thousands

| Valuation Date | Actuarial Accrued Liability | Actuarial Value of Assets | Unfunded (Overfunded) Liability (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as Percentage of Payroll |
|---|---|---|---|---|---|---|
| 6/30/2015 [1] | $ 48,787 | $ 8,897 | $ 39,890 | 18.2% | $ 51,753 | 77.1% |
| 6/30/2013 | 38,409 | 4,881 | 33,528 | 12.7% | 47,607 | 70.4% |
| 6/30/2011 | 34,906 | 1,280 | 33,626 | 3.7% | 49,055 | 68.5% |

(1) Most recent information available

## SAN MATEO COUNTY TRANSIT DISTRICT

## REQUIRED SUPPLEMETARY INFORMATION
## SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
## FOR THE YEAR ENDED JUNE 30, 2017

| (Amounts in thousands) | 2017 | 2016 (2) | 2015 (1) |
|---|---|---|---|
| **Total pension liability** | | | |
| Service cost | $ 7,020 | $ 6,831 | $ 7,062 |
| Interest on the total pension liability | 21,338 | 20,157 | - |
| Changes of assumptions | - | (4,780) | - |
| Difference between expected and actual experience | (903) | (894) | 18,965 |
| Benefit payments, including refunds of employee contributions | (11,410) | (10,095) | (9,115) |
| Net change in total pension liability | 16,044 | 11,219 | 16,912 |
| Total pension liability - beginning of year | 282,023 | 270,804 | 253,892 |
| Total pension liability - end of year (a) | $ 298,067 | $ 282,023 | $ 270,804 |
| | | | |
| **Plan fiduciary net position** | | | |
| Contributions from the employer | $ 5,014 | $ 4,192 | $ 4,023 |
| Contributions from employees | 3,428 | 3,199 | 3,312 |
| Net investment income | 1,287 | 5,413 | 35,934 |
| Benefit payments, including refunds of employee contributions | (11,410) | (10,095) | (9,115) |
| Administrative expense | (148) | (273) | - |
| Net change in fiduciary net position | (1,829) | 2,436 | 34,154 |
| Fiduciary net position - beginning of year | 242,596 | 240,160 | 206,006 |
| Fiduciary net position - end of year (b) | $ 240,767 | $ 242,596 | $ 240,160 |
| | | | |
| Net pension liability (a) - (b) | $ 57,300 | $ 39,427 | $ 30,644 |
| | | | |
| **Plan fiduciary net position as a percentage of the total pension liability** | 80.78% | 86.02% | 88.68% |
| **Covered payroll** | 47,112 | 47,169 | 45,795 |
| **Plan net pension liability as percentage of covered payroll** | 121.63% | 83.59% | 66.92% |

(1) Ten year information is not available before the implementation of the pension standards

(2) In 2017, there were no changes. In 2016. the discount rate was changed to 7.65 percent from 7.5 percent

# SAN MATEO COUNTY TRANSIT DISTRICT

## REQUIRED SUPPLEMETARY INFORMATION
## SCHEDULE OF PENSION CONTRIBUTIONS
## FOR THE YEAR ENDED JUNE 30, 2017

| (Amounts in thousands) | 2017 | 2016 | 2015 [(1)] |
|---|---|---|---|
| Contractually required contribution (actuarially determined) | $ 5,943 | $ 5,014 | $ 4,192 |
| Contributions in relation to the actuarially determined contributions | (5,943) | (5,014) | (4,192) |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| Covered payroll | $ 49,777 | $ 47,112 | $ 47,169 |
| Contributions as a percentage of covered payroll | 11.94% | 10.64% | 8.53% |

(1) Ten year information is not available before the implementation of the pension standards

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*SUPPLEMENTARY INFORMATION AND NOTES*

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## SAN MATEO COUNTY TRANSIT DISTRICT

## SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, CAPITAL OUTLAY, AND LONG - TERM DEBT PAYMENT COMPARISON OF BUDGET TO ACTUAL (BUDGETARY BASIS)
## FOR THE YEAR ENDED JUNE 30, 2017

| Amounts in thousands | Budget * | Actual | Variance Positive (Negative) |
|---|---|---|---|
| OPERATING REVENUES - Passenger fares | $ 19,517 | $ 17,041 | $ (2,476) |
| OPERATING EXPENSES: | | | |
| Salaries and benefits | 62,540 | 60,025 | 2,515 |
| Contract operations and maintenance services | 36,838 | 34,621 | 2,217 |
| Other services | 10,216 | 8,856 | 1,360 |
| Materials and supplies | 9,303 | 6,588 | 2,715 |
| Insurance | 7,882 | 6,651 | 1,231 |
| Miscellaneous | 9,064 | 7,598 | 1,466 |
| Total operating expenses | 135,843 | 124,339 | 11,504 |
| Operating loss | (116,326) | (107,298) | 9,028 |
| NONOPERATING REVENUES (EXPENSES): | | | |
| Operating assistance | 133,129 | 135,910 | 2,781 |
| Investment income | 1,091 | 1,636 | 545 |
| Interest expense | (10,111) | (10,045) | 66 |
| Caltrain service subsidy | (6,640) | (6,480) | 160 |
| Other income, net | 10,141 | 11,492 | 1,351 |
| Total nonoperating income (expenses) | 127,610 | 132,513 | 4,903 |
| Income (loss) before capital outlay and long-term debt principal payments | 11,284 | 25,215 | 13,931 |
| CAPITAL OUTLAY: | | | |
| Capital assistance | 18,282 | 25,424 | 7,142 |
| Capital expenditures | (18,282) | (25,424) | (7,142) |
| Net capital outlay | - | - | - |
| Long-term debt principal or interest payment | (11,660) | (11,660) | - |
| EXCESS (DEFICIENCY) OF REVENUES AND NONOPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENTS | $ (376) | $ 13,555 | $ 13,931 |

* Changes reflect the actual revised budget as of June 30, 2017.

# NOTES TO SUPPLEMANTARY SCHEDULE
# FOR THE YEAR ENDED JUNE 30, 2017

## NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The District prepares its budget on a basis of accounting that differs from Generally Accepted Accounting Principles (GAAP). The actual results of operations are presented in the supplemental schedule on the budgetary basis to provide a meaningful comparison of actual results with budget. In addition, certain budget amounts have been reclassified to conform to the presentation of actual amounts in the supplemental schedule. Budgeted amounts presented are the original adopted budget. The primary difference between the budgetary basis of accounting and GAAP concerns capital assets. Depreciation and amortization expense per GAAP is not budgeted and budgeted capital expenditures are not recorded as an expense per GAAP. In addition, unrealized gains and losses under GASB Statement No. 31 are not recognized as well as some long-term expenses such as OPEB and bond related payments.

## NOTE 2 – RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

A reconciliation of the budgetary basis of accounting to GAAP is as follows (in thousands):

| | | |
|---|---|---|
| Excess of revenues and non-operating income over expenses, capital outlay and debt principal payment | | $ 13,555 |
| Capital expenditures | $ 25,424 | |
| Depreciation and amortization | (22,252) | |
| Postemployment benefits accrual | 158 | |
| Pension Expense - GASB 68 | (798) | |
| Long-term debt principal payments | 11,660 | |
| GASB 31 unrealized gain/loss | (1,283) | |
| Capital gain on investment | 27 | |
| Bond refunding costs amortization expense | (1,204) | |
| Interest Income Invest Premium/Discount | (127) | |
| Bond premium amortization | 3,283 | |
| Sub-total reconciling items | | 14,888 |
| Change in net position, GAAP basis | | $ 28,443 |

# Section III

## STATISTICAL

### Financial Trends

- Net Position and Change in Net Position

### Revenue Capacity

- Revenue Base and Revenue Rate
- Overlapping Revenue
- Principal Revenue Payers

### Debt Capacity

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

### Demographics and Economic Information

- Population, Income, and Unemployment Rates
- Principal Employers

### Operating Information

- Ridership and Fares
- Farebox Recovery and Miles
- Employees (Full-time Equivalents)
- Capital Assets

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# STATISTICAL SECTION

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

## Financial Trends

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

## Revenue Capacity

These schedules contain information to assist readers in understanding and assessing the factors affecting the District's ability to generate passenger fares.

## Debt Capacity

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

## Demographics and Economic Information

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

## Operating Information

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

## SAN MATEO COUNTY TRANSIT DISTRICT

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

| Fiscal year | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| OPERATING REVENUES - Passenger Fares | $ 17,041 | $ 18,078 | $ 18,816 | $ 18,557 |
| OPERATING EXPENSES: | | | | |
| Salaries and benefits | 60,665 | 58,598 | 55,382 | 60,001 |
| Contract operations and maintenance | 34,621 | 33,326 | 33,399 | 31,471 |
| Other services | 8,856 | 8,388 | 6,092 | 4,666 |
| Materials and supplies | 6,588 | 6,626 | 8,158 | 8,769 |
| Insurance | 6,651 | 4,505 | 4,171 | (2,094) |
| Miscellaneous | 7,598 | 6,656 | 5,784 | 5,514 |
| Total operating expenses | 124,979 | 118,099 | 112,986 | 108,327 |
| Operating loss before depreciation, amortization and administrative expenses capitalized | (107,938) | (100,021) | (94,170) | (89,770) |
| Depreciation and amortization | (22,252) | (21,550) | (16,860) | (27,184) |
| OPERATING LOSS | (130,190) | (121,571) | (111,030) | (116,954) |
| NONOPERATING REVENUES (EXPENSES): | | | | |
| Operating assistance | 135,910 | 126,254 | 124,097 | 126,786 |
| Investment income | 3,536 | 5,580 | 1,782 | 1,663 |
| Interest expense | (11,249) | (11,226) | (9,896) | (15,559) |
| Caltrain service subsidy | (6,480) | (6,080) | (6,260) | (5,440) |
| Interagency administrative income | - | - | - | 6,552 |
| Other income, net | 11,492 | 9,777 | 10,119 | 8,866 |
| Transfers, net | - | - | - | - |
| Total nonoperating revenues, net | 133,209 | 124,305 | 119,842 | 122,868 |
| Net income (loss) before capital contributions | 3,019 | 2,734 | 8,812 | 5,914 |
| Capital contributions | 25,424 | 12,778 | 33,361 | 33,281 |
| CHANGE IN NET POSITION | 28,443 | 15,512 | 42,173 | 39,195 |
| NET ASSET COMPONENTS | | | | |
| Net investment in capital assets | 171,022 | 167,850 | 176,616 | (20,964) |
| Restricted | 26,811 | 26,804 | 26,087 | 25,000 |
| Unrestricted | (131,446) | (156,710) | (180,271) | 129,425 |
| Restatement | - | - | - | (153,202) [2] |
| NET POSITION | $ 66,387 | $ 37,944 | $ 22,432 | $ (19,741) |

[1] 2012 restatement due to implementation of GASB 65.
[2] 2014 restatement due to implementation of GASB 68 and reversal of the BART contribution.
This table presents revenues and expenses, contributions, depreciation and amortization and net position components.

Source: Current and prior years' CAFRs.

| 2013 | 2012 | | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| $ 17,808 | $ 17,452 | | $ 17,373 | $ 17,149 | $ 17,325 | $ 17,203 |
| | | | | | | |
| 57,227 | 58,921 | | 58,473 | 59,835 | 62,708 | 64,175 |
| 30,152 | 29,851 | | 29,250 | 28,706 | 28,710 | 27,902 |
| 5,580 | 5,866 | | 4,004 | 3,651 | 4,655 | 3,747 |
| 9,487 | 8,768 | | 7,873 | 7,344 | 8,432 | 9,589 |
| 6,770 | 7,430 | | 6,900 | 6,607 | 5,621 | 6,074 |
| 4,935 | 4,433 | | 4,628 | 6,263 | 6,437 | 7,269 |
| 114,151 | 115,269 | | 111,128 | 112,406 | 116,563 | 118,756 |
| | | | | | | |
| (96,343) | (97,817) | | (93,755) | (95,257) | (99,238) | (101,553) |
| (26,939) | (24,297) | | (41,838) | (21,887) | (29,687) | (23,899) |
| (123,282) | (122,114) | | (135,593) | (117,144) | (128,925) | (125,452) |
| | | | | | | |
| 121,788 | 110,672 | | 98,173 | 91,672 | 92,673 | 115,004 |
| 586 | 1,375 | | 2,197 | 4,659 | 9,830 | 11,637 |
| (16,400) | (16,247) | | (16,940) | (17,371) | (17,674) | (17,783) |
| (14,000) | (10,620) | | (14,708) | (16,521) | (16,521) | (16,040) |
| 5,501 | 3,483 | | 3,342 | 4,375 | 3,151 | 8,327 |
| 13,941 | 13,152 | | 8,349 | 10,241 | 7,520 | 5,806 |
| - | - | | - | - | 25,000 | - |
| 111,416 | 101,815 | | 80,413 | 77,055 | 103,979 | 106,951 |
| (11,866) | (20,299) | | (55,180) | (40,089) | (24,946) | (18,501) |
| - | 11,049 | | 14,396 | 54,560 | 11,092 | 6,425 |
| (11,866) | (9,250) | | (40,784) | 14,471 | (13,854) | (12,076) |
| | | | | | | |
| (34,446) | (23,448) | | (18,519) | 1,204 | (46,833) | (35,006) |
| 27,745 | 33,982 | | 32,702 | 31,875 | 37,048 | 3,517 |
| 100,967 | 87,706 | | 93,307 | 115,195 | 143,588 | 179,146 |
| - | (3,557) | [1] | - | - | - | - |
| $ 94,266 | $ 94,683 | | $ 107,490 | $ 148,274 | $ 133,803 | $ 147,657 |

# SAN MATEO COUNTY TRANSIT DISTRICT

## REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
## FISCAL YEARS 2008 THROUGH 2017

| Fiscal year ending | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Passenger fares (in thousands) | $ 17,041 | $ 18,078 | $ 18,816 | $ 18,557 |
| Revenue Base | | | | |
| Number of passengers (in thousands) | 11,817 | 12,794 | 13,488 | 12,784 |
| Fare structure | | | | |
| Adults local fare | $ 2.25 | $ 2.25 | $ 2.00 | $ 2.00 |
| Senior citizen / disabled/ Medicare cardholder | $ 1.10 | $ 1.10 | $ 1.00 | $ 1.00 |
| Youth | $ 1.10 | $ 1.10 | $ 1.25 | $ 1.25 |
| Redi-Wheels (Paratransit) | $ 3.75 | $ 3.75 | $ 3.75 | $ 3.75 |
| Sales tax rate | 0.50% | 1% | 1% | 0.50% |
| Sales tax revenue (in thousands) | $ 84,353 | $ 79,705 | $ 80,975 | $ 77,606 |
| Taxable sales in San Mateo County (in thousands) [1] | $ 16,870,577 | $ 15,941,000 | $ 16,194,800 | $ 15,521,200 |

[1] Taxable sales are estimates based on sales tax revenues received;

This table presents passenger fares, number of passengers and revenue fare structure, the half-cent transaction and use tax received by the District and the total taxable sales in San Mateo County.

Source: California State Board of Equalization and CAFRs.

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| $ 17,808 | $ 17,452 | $ 17,373 | $ 17,149 | $ 17,325 | $ 17,203 |
| 12,752 | 12,995 | 13,531 | 14,255 | 15,284 | 14,915 |
| $ 2.00 | $ 2.00 | $ 2.00 | $ 2.00 | $ 1.75 | $ 1.50 |
| $ 1.00 | $ 1.00 | $ 1.00 | $ 1.00 | $ 0.75 | $ 0.75 |
| $ 1.25 | $ 1.25 | $ 1.25 | $ 1.25 | $ 1.00 | $ 1.00 |
| $ 3.75 | $ 3.75 | $ 3.50 | $ 3.00 | $ 3.00 | $ 2.50 |
| 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% |
| $ 73,859 | $ 69,370 | $ 63,514 | $ 58,488 | $ 60,015 | $ 68,667 |
| $ 14,771,800 | $ 13,906,978 | $ 13,020,643 | $ 11,966,338 | $ 11,327,022 | $ 13,137,913 |

# SAN MATEO COUNTY TRANSIT DISTRICT

## REVENUE CAPACITY – OVERLAPPING REVENUE
## FISCAL YEARS 2008 THROUGH 2017

| Fiscal year | State | City and County | Other Special Districts | San Mateo County Transit District [1] | City of San Mateo Transactions and Use Tax | City of Half Moon Bay Transactions and Use Tax | City of South San Francisco Transactions and Use Tax | San Mateo County Transactions and Use Tax | Total |
|---|---|---|---|---|---|---|---|---|---|
| 2017 | 6.50% | 1.00% | 0.50% | 0.50% | 0.25% | 0% | 0.50% | 0.50% | 9.75% |
| 2016 | 6.50% [8] | 1.00% | 0.50% | 0.50% | 0.25% | 0.50% | 0.50% [9] | 0.50% | 10.25% |
| 2015 | 6.50% | 1.00% | 0.50% | 0.50% | 0.25% | 0.50% | | 0.50% | 9.75% |
| 2014 | 6.50% | 1.00% | 0.50% | 0.50% | 0.25% | 0.50% | | 0.50% | 9.75% |
| 2013 | 6.50% [5] | 1.00% | 0.50% | 0.50% | 0.25% | 0.50% [6] | | 0.50% [7] | 9.75% |
| 2012 | 6.25% | 1.00% | 0.50% | 0.50% | 0.25% | | | | 8.50% |
| 2011 | 6.25% [4] | 1.00% | 0.50% | 0.50% | 0.25% | | | | 8.50% |
| 2010 | 7.25% | 1.00% | 0.50% | 0.50% | 0.25% [3] | | | | 9.50% |
| 2009 | 7.25% [2] | 1.00% | 0.50% | 0.50% | | | | | 9.25% |
| 2008 | 6.25% | 1.00% | 0.50% | 0.50% | | | | | 8.25% |

[1] State legislation requires the District to obtain the approval of a majority of the voters in a public election to approve any sales tax measure.

[2] 2009 State portion includes 1% Proposition 1A 1-cent sales tax increase effective on April 1, 2009.

[3] 2010 City of San Mateo Transactions and Use Tax (SMTG), tax rates effective on April 1, 2010.

[4] State sales tax reduced to 6.25% effective July 1, 2011.

[5] State sales tax increased to 6.50% effective January 1, 2013.

[6] City of Half Moon Bay Transactions and Use Tax (HMBG), tax rates effective on April 1, 2013, expires March 31, 2016.

[7] San Mateo County Transactions and Use Tax (SMGT), tax rates effective on April 1, 2013.

[8] State sales tax and local sales tax effective October 1, 2016.

[9] South San Francisco Fiscal Stability & Essential Services Transcations and Use Tax (SSFR), tax effective April 1, 2016

[9] State sales tax and local sales tax effective July 1, 2017

## REVENUE CAPACITY – PRINCIPAL REVENUE PAYERS
## FISCAL YEARS 2008 AND 2017 (in thousands)

| | 2016* | | | 2007 | | |
|---|---|---|---|---|---|---|
| **Principal Revenue Payers** | **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
Taxable Sales in California Counties, by type of Business

## DEBT CAPACITY – RATIO OF OUTSTANDING BONDS
## FISCAL YEARS 2008 THROUGH 2017

| Fiscal Year | Revenue Bonds for SamTrans (in thousands)[1] | Personal Income for San Mateo County[2] | As a Percent of Personal Income |
|---|---|---|---|
| 2017 | $ 254,291 | $ 79,186,861 | 0.32% |
| 2016 | 269,235 | 76,880,447 | 0.35% |
| 2015 | 284,128 | 74,641,211 | 0.38% |
| 2014 | 290,353 | 69,717,150 | 0.42% |
| 2013 | 300,357 | 65,192,835 | 0.46% |
| 2012 | 306,802 | 64,765,189 | 0.47% |
| 2011 | 315,409 | 57,964,665 | 0.54% |
| 2010 | 323,615 | 52,889,544 | 0.61% |
| 2009 | 331,451 | 51,620,897 | 0.64% |
| 2008 | 338,135 | 54,426,270 | 0.62% |

[1] Current and prior years' CAFRs

[2] U.S. Department of Commerce, Bureau of Economic Analysis, calendar year figures. Personal Income data for 2016 and 2017 are based on an estimated three percent annual increase over 2015.

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

# SAN MATEO COUNTY TRANSIT DISTRICT

## DEBT CAPACITY – BONDED DEBT
## FISCAL YEARS 2008 THROUGH 2017

| Fiscal Year | Revenue Bonds for Sam Trans (in thousands) | Total Taxable Sales in San Mateo County | As a Percent of Total Taxable Sales in San Mateo County |
|---|---|---|---|
| 2017 | $ 254,291 | $ 16,870,577 [1] | 1.51% |
| 2016 | 269,235 | 15,941,000 | 1.69% |
| 2015 | 284,128 | 16,194,800 | 1.75% |
| 2014 | 290,353 | 15,521,200 | 1.87% |
| 2013 | 300,357 | 14,771,800 | 2.03% |
| 2012 | 306,802 | 13,906,978 | 2.21% |
| 2011 | 315,409 | 13,020,643 | 2.42% |
| 2010 | 323,615 | 11,966,338 | 2.70% |
| 2009 | 331,451 | 11,327,022 | 2.93% |
| 2008 | 338,135 | 13,137,913 | 2.57% |
| 2007 | 344,425 | 13,326,306 | 2.58% |

[1] Taxable sales are estimates based on sales tax revenues received

This table presents the capacity of the District to issue revenue bonds based on total taxable sales in San Mateo County.

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

## DEBT CAPACITY – DIRECT AND OVERLAPPING DEBT AND DEBT LIMITATIONS JUNE 30, 2017

The District does not have overlapping debt with other governmental agencies. Additionally, the District does not have a legal debt limit.

## DEBT CAPACITY – PLEDGED REVENUE COVERAGE
## FISCAL YEARS 2008 THROUGH 2017 (in thousands)

| Fiscal Year | Sales Tax Revenue | Principal | Interest | Total | Coverage |
|---|---|---|---|---|---|
| 2017 | $ 84,353 | $ 11,660 | $ 9,988 | $ 21,648 | 4 |
| 2016 | 79,705 | 11,610 | 10,035 | 21,645 | 4 |
| 2015 | 80,975 | - | 9,145 | 9,145 | 9 |
| 2014 | 77,606 | 9,655 | 14,799 | 24,454 | 3 |
| 2013 | 73,859 | 9,233 | 15,220 | 24,453 | 3 |
| 2012 | 69,370 | 8,770 | 15,680 | 24,450 | 3 |
| 2011 | 63,514 | 8,370 | 16,082 | 24,452 | 3 |
| 2010 | 58,488 | 8,031 | 16,419 | 24,450 | 2 |
| 2009 | 60,015 | 6,940 | 16,115 | 23,055 | 3 |
| 2008 | 68,667 | 6,620 | 16,801 | 23,421 | 3 |

This table presents the relationship between total sales tax revenue, debt service payments and the capacity of the District to meet its debt obligations.

* The District's outstanding bonds were restructured in 2015 and those amounts are intended to reflect the full annual economic impact, including measurements of restructuring, on the District's financial position. Other years are cash-basis measures of the District's debt service. The *Long Term Debt note* in the *Notes To Basic Financial Statements* in the Financial Section of this CAFR provides further details.

Source: Current and prior years' CAFRs

# DEMOGRAPHICS AND ECONOMIC INFORMATION – POPULATION, INCOME AND UNEMPLOYMENT RATES
## FISCAL YEARS 2008 THOUGH 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.

## DEMOGRAPHICS AND ECONOMIC INFORMATION – PRINCIPAL EMPLOYERS FISCAL YEARS 2007 AND 2016

| | 2016* | | | 2008 | | |
|---|---|---|---|---|---|---|
| Employers in San Mateo County | 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 | 53,078 | | 12.20% | 42,305 | | 12.04% |

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

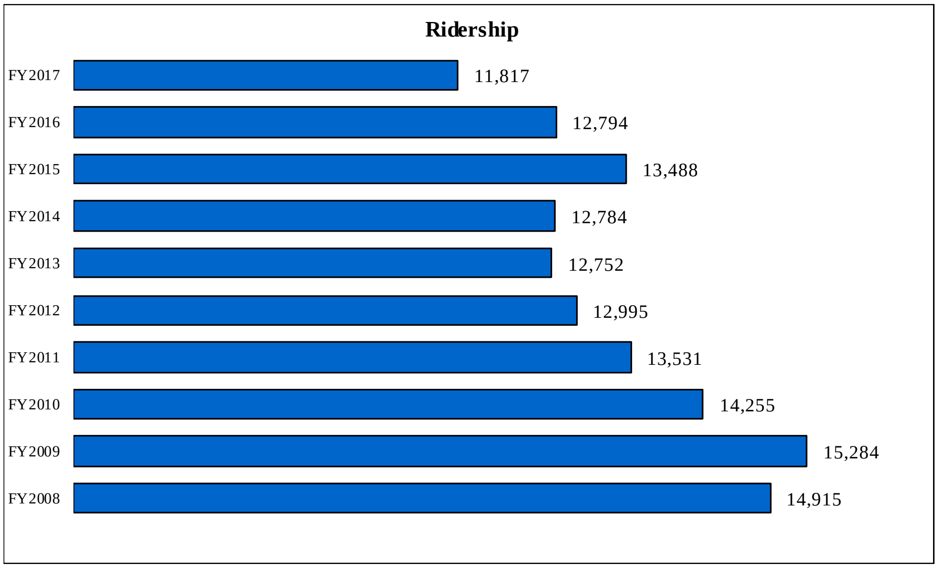
This table presents the top 10 principal employers in San Mateo County for 2016 and 2008.

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

## OPERATING INFORMATION – RIDERSHIP AND FARES
## FISCAL YEARS 2008 THROUGH 2017

### FIXED-ROUTE RIDERSHIP*

The District reduced fixed-route bus service by approximately 7.5% effective December 2009.




Ridership data presents total ridership for motor bus service and shuttle service.

### FIXED-ROUTE PASSENGER FARES

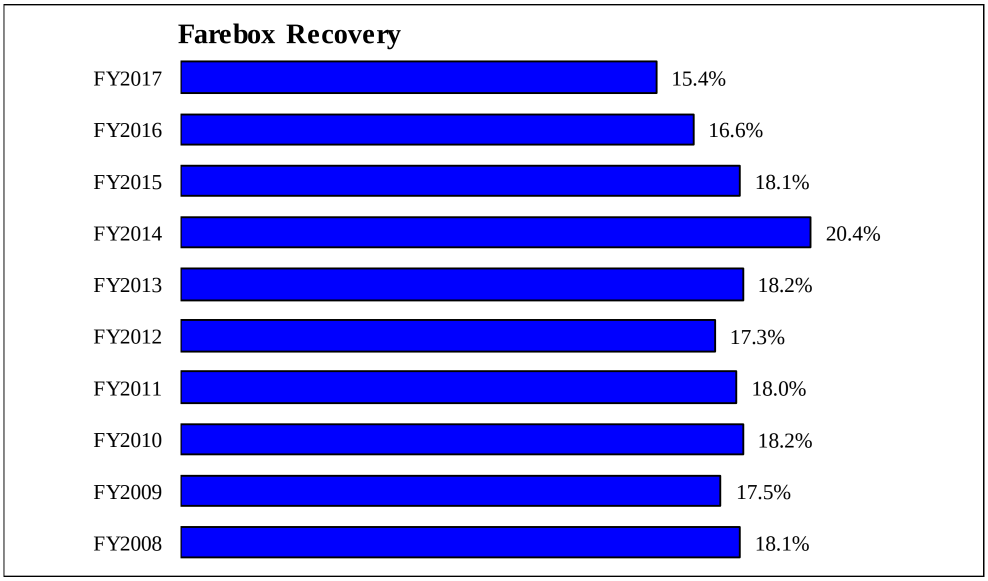

Bus passenger fares data presents the total bus fare revenue for each year.

Source: National Transportation Database

# SAN MATEO COUNTY TRANSIT DISTRICT

# OPERATING INFORMATION – FAREBOX RECOVERY AND MILES FISCAL YEARS 2008 THROUGH 2017

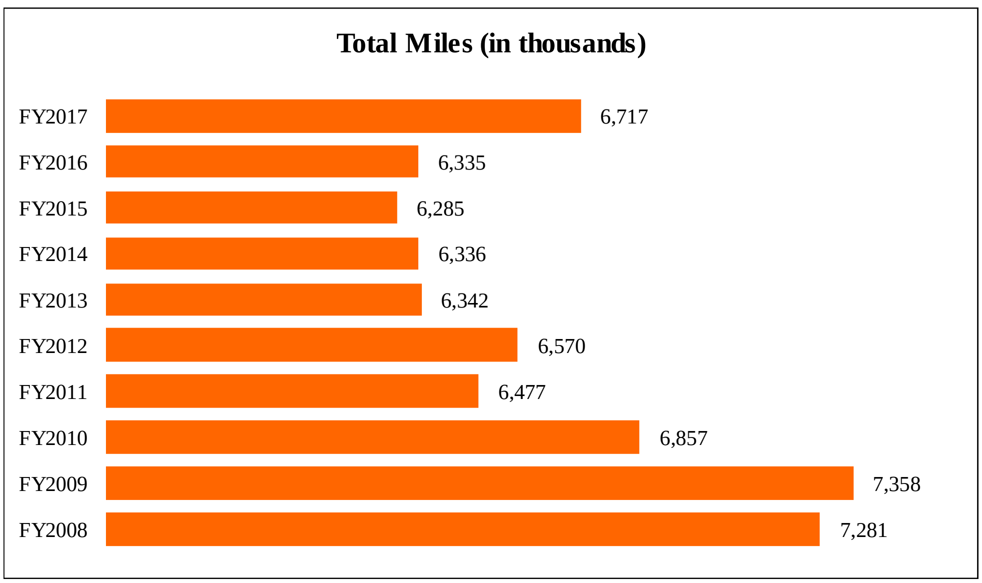
## FIXED-ROUTE FAREBOX RECOVERY




Farebox recovery data presents the percentage of fixed-route fare revenue collected compared to fixed-route operating expenses.

## FIXED-ROUTE REVENUE MILES*

The District reduced fixed-route bus service by approximately 7.5% effective December 2009.




The revenue miles data presents the total fixed-route miles traveled.

*Fixed-route data includes La Honda and shuttle service, which makes up less than 5% of the total data.

Source: National Transportation Database

# SAN MATEO COUNTY TRANSIT DISTRICT

## OPERATING INFORMATION – EMPLOYEES (FULL-TIME EQUIVALENTS)
## FISCAL YEARS 2008 THROUGH 2017

| | Full-Time Equivalents | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Division** | **2017** | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** | **2010** | **2009** | **2008** |
| Caltrain Modernization Program | 0.10 | 0.05 | 0.05 | 0.05 | 0.48 | - | - | - | - | - |
| Customer Service and Marketing | 28.46 | 23.95 | 25.34 | 28.22 | 30.31 | 29.56 | 24.43 | 20.90 | - | - |
| Executive | 5.12 | 3.60 | 3.67 | 3.55 | 3.58 | 3.52 | 3.60 | 3.55 | - | - |
| Finance and Administration | 79.02 | 64.12 | 68.50 | 66.72 | 66.53 | 66.51 | 66.83 | 67.88 | - | - |
| Operations, Engineering and Construction | 471.88 | 453.82 | 454.27 | 457.54 | 449.27 | 448.83 | 451.77 | 453.37 | - | - |
| Planning and Development | 7.66 | 5.63 | 8.20 | 7.80 | 5.03 | 6.64 | 6.04 | 6.00 | - | - |
| Public Affairs | - | 5.15 | 5.00 | 5.00 | 4.60 | 4.44 | 4.20 | 3.25 | - | - |
| Administration | - | - | - | - | - | - | - | - | 42.85 | 43.35 |
| Communication | - | - | - | - | - | - | - | - | 29.97 | 29.58 |
| Development | - | - | - | - | - | - | - | - | 15.12 | 13.75 |
| Executive | - | - | - | - | - | - | - | - | 4.55 | 4.80 |
| Finance | - | - | - | - | - | - | - | - | 33.30 | 33.40 |
| Operations | - | - | - | - | - | - | - | - | 502.25 | 502.50 |
| Total | 592.24 | 556.32 | 565.03 | 568.88 | 559.80 | 559.50 | 556.87 | 554.95 | 628.04 | 627.38 |

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.

Note: Employee counts are for Full-time Equivalents (FTEs) for the District.

This table presents total Full-time Equivalents by division.

Source: Operating and capital budgets.

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

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Depreciable Capital Assets | | | | |
| Buses and bus equipment | $ 157,353 | $ 153,955 | $ 167,272 | $ 149,751 |
| Buildings and building improvements | 69,031 | 64,868 | 64,838 | 64,815 |
| Maintenance and other equipment | 33,642 | 32,063 | 6,523 | 5,822 |
| Furniture and fixtures | 33,861 | 31,734 | 19,656 | 20,272 |
| Shelters and bus stop signs | 592 | 592 | 592 | 579 |
| Other vehicles | 2,273 | 2,159 | 2,159 | 2,226 |
| Total depreciable capital assets | 296,752 | 285,371 | 261,040 | 243,465 |
| Accumulated Depreciation for: | | | | |
| Buses and bus equipment | (102,607) | (93,847) | (97,574) | (86,157) |
| Buildings and building improvements | (56,630) | (53,812) | (51,601) | (49,387) |
| Maintenance and other equipment | (16,770) | (10,599) | (4,715) | (4,015) |
| Furniture and fixtures | (24,619) | (20,782) | (17,241) | (16,765) |
| Shelters and bus stop signs | (585) | (580) | (575) | (558) |
| Other vehicles | (1,798) | (1,990) | (1,876) | (1,711) |
| Total accumulated depreciation | (203,009) | (181,610) | (173,582) | (158,593) |
| Nondepreciable Capital Assets | | | | |
| Land | 53,855 | 53,855 | 53,855 | 53,855 |
| Construction in progress | 23,424 | 10,234 | 35,303 | 21,323 |
| Total nondepreciable capital assets | 77,279 | 64,089 | 89,158 | 75,178 |
| Capital Assets, Net | $ 171,022 | $ 167,850 | $ 176,616 | $ 160,050 |

This table presents total non-depreciable capital assets, total depreciable capital assets and total accumulated depreciation.

Source: Current and prior years' CAFRs.

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| $ 135,297 | $ 138,638 | $ 132,855 | $ 164,448 | $ 140,767 | $ 142,856 |
| 71,935 | 79,294 | 78,844 | 76,150 | 73,868 | 73,686 |
| 9,470 | 16,927 | 15,542 | 15,125 | 14,591 | 24,718 |
| 23,584 | 26,686 | 25,927 | 20,831 | 14,447 | 13,033 |
| 3,178 | 3,190 | 3,185 | 3,166 | 3,165 | 3,271 |
| 2,183 | 2,263 | 2,031 | 2,026 | 2,343 | 2,015 |
| 245,647 | 266,998 | 258,384 | 281,746 | 249,181 | 259,579 |
| | | | | | |
| (80,138) | (75,080) | (68,406) | (105,223) | (102,625) | (97,768) |
| (55,168) | (61,157) | (58,006) | (53,983) | (51,205) | (48,862) |
| (7,740) | (15,035) | (13,258) | (11,897) | (11,454) | (22,538) |
| (17,083) | (20,094) | (17,768) | (13,595) | (12,286) | (8,244) |
| (3,177) | (3,183) | (3,176) | (3,156) | (3,148) | (3,248) |
| (1,457) | (1,417) | (1,245) | (1,382) | (1,586) | (1,671) |
| (164,763) | (175,966) | (161,859) | (189,236) | (182,304) | (182,331) |
| | | | | | |
| 53,855 | 53,855 | 53,855 | 51,435 | 51,435 | 51,435 |
| 11,563 | 10,201 | 9,805 | 36,425 | 16,968 | 18,772 |
| 65,418 | 64,056 | 63,660 | 87,860 | 68,403 | 70,207 |
| | | | | | |
| $ 146,302 | $ 155,088 | $ 160,185 | $ 180,370 | $ 135,280 | $ 147,455 |

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# SINGLE AUDIT

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

**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*, THE TRANSPORTATION DEVELOPMENT ACT AND CALIFORNIA GOVERNMENT CODE SECTION 8879.55**

To the Board of Directors of the
San Mateo County Transit District
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 San Mateo County Transit District (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District'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 District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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.



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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements including the applicable provisions of section 6667 of Title 21 of California Code of Regulation and California Governmental Code Section 8879.55, 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, Section 6667 of Title 21 of the California Regulations or the California Government Code 8879.55 et seq.

**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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 19, 2017

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

To the Board of Directors of the
San Mateo County Transit District
San Carlos, California

## Report on Compliance for Each Major Federal Program

We have audited the San Mateo County Transit District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major Federal program for the year ended June 30, 2017. The major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### *Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.



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***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2017.

**Report on Internal Control over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District 's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal controls over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 19, 2017

# SAN MATEO COUNTY TRANSIT DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## YEAR ENDED JUNE 30, 2017

| Federal Grantor/Program Title | Federal CFDA Number | Grant Identification Number | Federal Expenditures |
|---|---|---|---|
| U.S. DEPARTMENT OF TRANSPORTATION | | | |
| Federal Transit Cluster: | | | |
| Direct Grants | | | |
| Federal Transit Capital Investment Grants | 20.500 | CA-04-0220 | $ 63,198 |
| Federal Transit Capital Investment Grants | 20.500 | CA-04-0221 | 1,465,475 |
| Pass through the California Department of Transportation | | | |
| Federal Transit Formula Grants | 20.500 | TCSPL-6014(015) | 143,836 |
| Total Federal Transit Capital Investment Grants | | | 1,672,509 |
| Direct Grants | | | |
| Federal Transit Formula Grants | | | |
| Federal Transit Formula Grants | 20.507 | CA-90-Y-612 | 131,365 |
| Federal Transit Formula Grants | 20.507 | CA-90-Y-0768 | 293,607 |
| Federal Transit Formula Grants | 20.507 | CA-95-X-187 | 1,212 |
| Federal Transit Formula Grants | 20.507 | CA-2016-091 | 14,716,370 |
| Federal Transit Formula Grants | 20.507 | CA-90-Z-124 | 115,721 |
| Federal Transit Formula Grants | 20.507 | CA-2016-090 | 687,240 |
| Federal Transit Formula Grants | 20.507 | CA-1671-2017-16 | 2,446,430 |
| Federal Transit Formula Grants | 20.507 | CA-57-X073 | 3,344 |
| Total Federal Transit Formula Grants | | | 18,395,289 |
| Total Federal Transit Cluster | | | 20,067,798 |
| Transit Services Programs Cluster: | | | |
| Pass through the California Department of Transportation | | | |
| Enhanced Mobility of Seniors & Individuals with Disabilities | 20.513 | 6445105/6 | 157,821 |
| Pass through the California Department of Transportation | | | |
| Formula Grants for Rural Areas | 20.509 | 64B017-00529 | 154,508 |
| Pass through the California Department of Transportation | | | |
| State Planning and Research | 20.505 | Not Available | 39,146 |
| Total U.S. Department of Transportation | | | 20,419,273 |
| Total Expenditures of Federal Awards | | | $ 20,419,273 |

# NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# YEAR ENDED JUNE 30, 2017

## NOTE 1 – REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the San Mateo County Transit District, and as disclosed in the notes to the Financial Statements.

## NOTE 2 – BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

## NOTE 3 - DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the District by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the District. The Schedule includes both of these types of Federal award programs when they occur.

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

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## SAN MATEO COUNTY TRANSIT DISTRICT

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

### SUMMARY OF AUDITOR'S RESULTS

| | |
|---|---|
| FINANCIAL STATEMENTS | |
| Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified not considered to be material weaknesses? | None Reported |
| Noncompliance material to financial statements noted? | No |
| FEDERAL AWARDS | |
| Internal control over major programs: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified? | None Reported |
| Type of auditors' report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 section 200.516(a)? | No |
| Identification of major programs: | |

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| 20.500/20.507 | Department of Transportation-Federal Transit Cluster |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 750,000 |
| Auditee qualified as low-risk auditee? | Yes |

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

### FINANCIAL STATEMENT FINDINGS

None reported

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

### FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

# 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 District 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 District'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 District'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 District 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.

***Federal Award Prior Year Findings and Questioned Costs***

There were no prior year Federal Award Findings and Questioned Costs reported.