San Mateo County Transit District
San Carlos, California

Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2016 and 2015

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San Mateo County

TRANSIT DISTRICT

San Carlos, California

Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2016 and 2015

Prepared by the Finance Division

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Section I

INTRODUCTORY

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January 10, 2017

To the General Manager/CEO, Board of Directors of the San Mateo County Transit District and the Citizens of San Mateo County

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, 2015 through June 30, 2016. 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 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. 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 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 end 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 the contract to operate the rail passenger service was awarded to TransitAmerica Services Inc. on September 2011 Caltrain Board of Directors meeting.

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 District operates through divisions and departments under the direction of the Executive Team.

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

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

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

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

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

Component Units

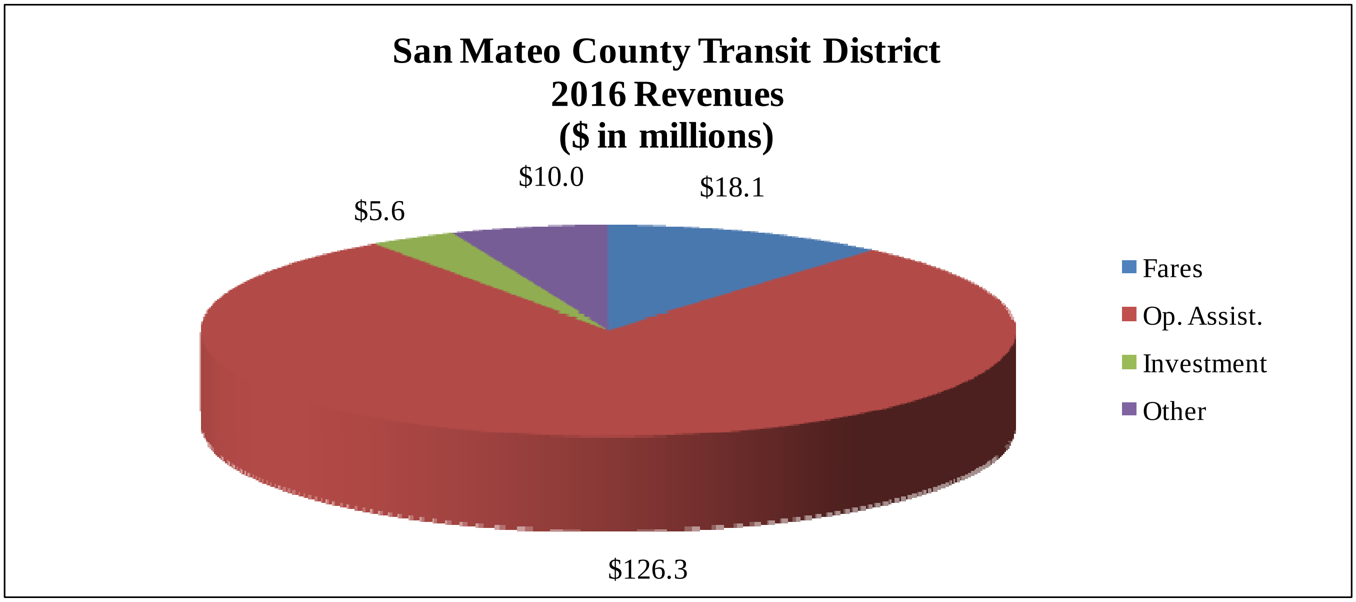
The District is a legally separate and financially independent entity that is not a component unit of San Mateo County or any other organization. While the District administers various activities on behalf of other agencies, such as the Peninsula Corridor Joint Powers Board (JPB), which operates Caltrain, and the San Mateo County Transportation Authority (TA), which administers the County's 1/2-cent transportation sales tax, 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.

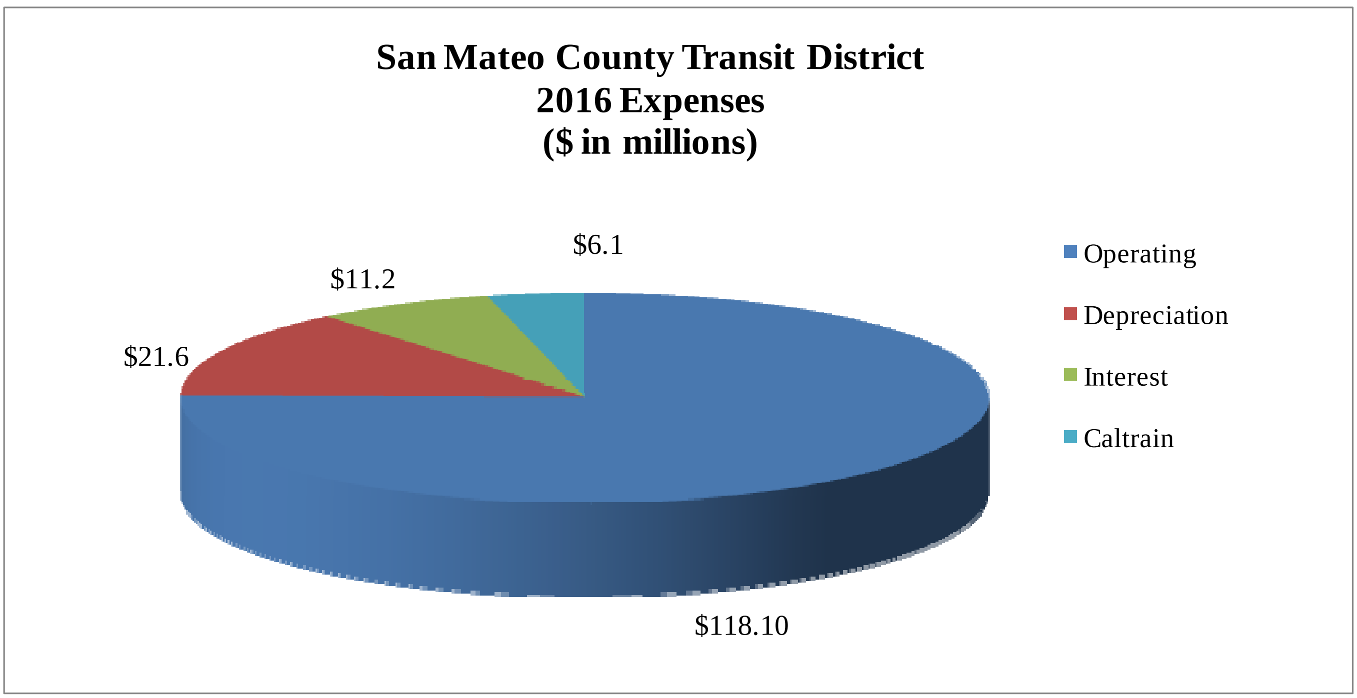
Budget

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, 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. The following pie charts show actual results of the major revenue and expense categories for fiscal year 2016.


San Mateo County Transit District
2016 Revenues
($ in millions)
$10.0
$18.1
$5.6
$126.3
Fares
Op. Assist.
Investment
Other


San Mateo County Transit District
2016 Expenses
($ in millions)
$6.1
$11.2
$21.6
$118.10
Operating
Depreciation
Interest
Caltrain

ECONOMIC CONDITION

Local Economy

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

San Mateo County remains one of the wealthiest counties in California. With significant employment in diverse industries, 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.

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 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 ½ cent sales tax. Over the past several budget cycles, the District has initiated several efforts to help keep annual expenses in line with annual revenues. Some of the deficit reduction exercises included a 7.5 percent service reduction, administrative layoffs, hiring and salary freezes, furlough days, fare increases, reduction in fringe benefit costs, reduction in its contribution to Caltrain, the implementation of a fuel hedge policy and deferring capital purchases. These efforts have made a significant difference; however the District is still facing a modest structural deficit due to a decrease in overall transportation funding and rising costs.

The District recently updated its five-year Strategic Plan. This 2015-2019 Plan Update (which can be viewed online at www.samtrans.com/Planning/Planning and Research/StrategicPlan 2015-2019.html) provides a policy framework to help guide the District's transportation investments. The Plan sets priorities to address three primary areas: expand mobility options, strengthen fiscal health, and improve organizational effectiveness. The 2015-2019 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 is 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 Peninsula 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.

In response to ridership and revenue declines, the District reduced its bus operation from 60 routes to 58 routes in 2003. An additional four routes were eliminated in 2004 concurrent with the opening of the BART Extension to SFO and one route was added in the same year. In 2008, one more route was eliminated. In 2009, an additional seven routes were eliminated and one route was added, representing a 7.5 percent service reduction to address the fiscal year 2010 budget shortfall. In January 2014, the District completed implementation of the SamTrans Service Plan (SSP). The SSP was a realignment of service to better utilize limited resources and put more service where customers could ride SamTrans buses. The District now has 75 routes. 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 SSP has resulted in an initial increase in ridership, which grew three percent in FY2014 and another 2.9 percent in FY2015. However, ridership declined by 2.9 percent in FY2016, and the decline has continued into FY2017. The District is in the process of evaluating its overall service plan and will be taking steps in 2017 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 time between vehicle breakdowns from year to year and is proficient at re-powering vehicles, a task rarely undertaken by other transit operators.

Caltrain Administration

Since 1992, the District has served as staff to the JPB that administers 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 in November 2004 that consolidated several geographically separate facilities, 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 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, Ssan Mateo County Grade Crossing Improvement Program, the South

Terminal and Santa Clara Station Improvements Project, the San Mateo Bridges Rehabilitation Project, Jerrold Avenue Bridge Replacement Project, and the System Station Rehabilitation Project.

Currently, a $2.2 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 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 that 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 prject infrastructure is complete and the project is on pace to be in operation prior to the federal deadline in 2018.

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 support for the Transportation Authority, which administers 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 2016, the SamTrans paratransit program provided a total of 202,515 hours of service to 314,000 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 2015 CAFR for excellence in financial reporting and the Certificate of Achievement appears immediately following this transmittal letter. To be awarded a certificate, a report must be easy to read and efficiently organized, while satisfying both generally accepted accounting principles and applicable legal requirements. We believe our fiscal year 2016 CAFR also meets the requirements for a Certificate of Achievement and have submitted it to the GFOA for evaluation. We would like to thank our independent audit firm Vavrinek, Trine, Day & Co., LLP, for its timely and expert guidance in this matter.

LETTER OF TRANSMITTAL

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 General Manager/CEO and the Board of Directors for their interest and support in the maintenance and development of a reliable financial management and reporting system.

Respectfully submitted,

Shannon Gaffney
Interim CFO

Rima Lobo
Director of Finance

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Mateo County Transit District, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2015

Jeffrey R. Emer

Executive Director/CEO

BOARD OF DIRECTORS

ZOE KERSTEEN-TUCKER, Chair

ROSE GUILBAULT, Vice Chair

JEFF GEE

CAROLE GROOM

SHIRLEY HARRIS

KARYL MATSUMOTO

PETER RATTO

CHARLES STONE

ADRIENNE TISSIER

ZOE KERSTEEN-TUCKER, **Chair,** public member and representative of the Coastal area, was appointed by the District Board of Directors in March 2006. She is 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.

ROSE GUILBAULT, **Vice 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.

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. 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 a member of the California Coastal Commission.

SHIRLEY HARRIS, public member, was appointed by the District Board of Directors in January 1994. She is on the Board of Directors of the Service League of San Mateo County. Ms. Harris has more than 25 years of experience in telecommunications and human resource management. She is a long-time resident of Daly City.

SAN MATEO COUNTY TRANSIT DISTRICT

BOARD OF DIRECTORS

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.

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. A life-long public transit user, Mr. Ratto grew up in Daly City and currently resides in San Mateo.

CHARLES STONE, City Selection Committee appointee for the central portion of San Mateo County. Mr. Stone was appointed in 2014. He is an attorney in Belmont where he lives with his two daughters and wife. He has served on the Belmont City Council since 2013. Mr. Stone was born and raised on the Peninsula and grew up riding the bus in Daly City, San Bruno and San Mateo.

ADRIENNE TISSIER was appointed by the San Mateo County Board of Supervisors in January 2005. Ms. Tissier represents the Fifth District, which includes the cities of Brisbane, Colma, Daly City, South San Francisco, and unincorporated Broadmoor Village. Ms. Tissier serves on the governing body of the Peninsula Corridor Joint Powers Board. She also represents San Mateo County on the Metropolitan Transportation Commission (MTC), a regional transportation financing body, representing San Mateo County.

EXECUTIVE MANAGEMENT

GENERAL MANAGER/CEO

Jim Hartnett

EXECUTIVE OFFICERS

Michelle Bouchard, Chief Operating Officer, Rail

Michael Burns, Chief Officer, Caltrain Planning/CalMod Program

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

Shannon Gaffney, Interim Chief Financial Officer

Martha Martinez - Executive Officer, District Secretary/Executive Administration

Seamus Murphy - Chief Communications Officer

David Olmeda - Chief Operating Officer, Bus

Mark Simon - Chief of Staff

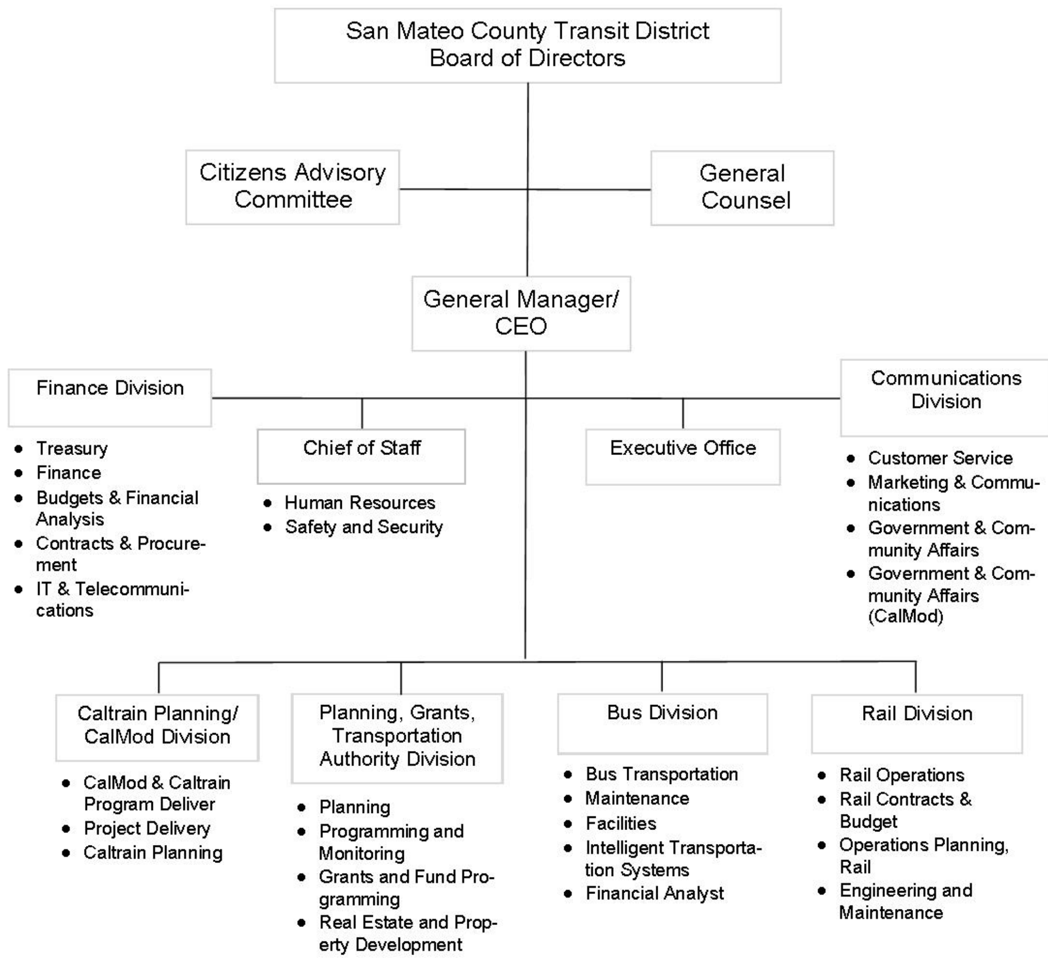
GENERAL COUNSEL

Hanson Bridgett LLP

Joan Cassman, Esq.

SAN MATEO COUNTY TRANSIT DISTRICT

ORGANIZATION CHART



MAPS


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

MAPS

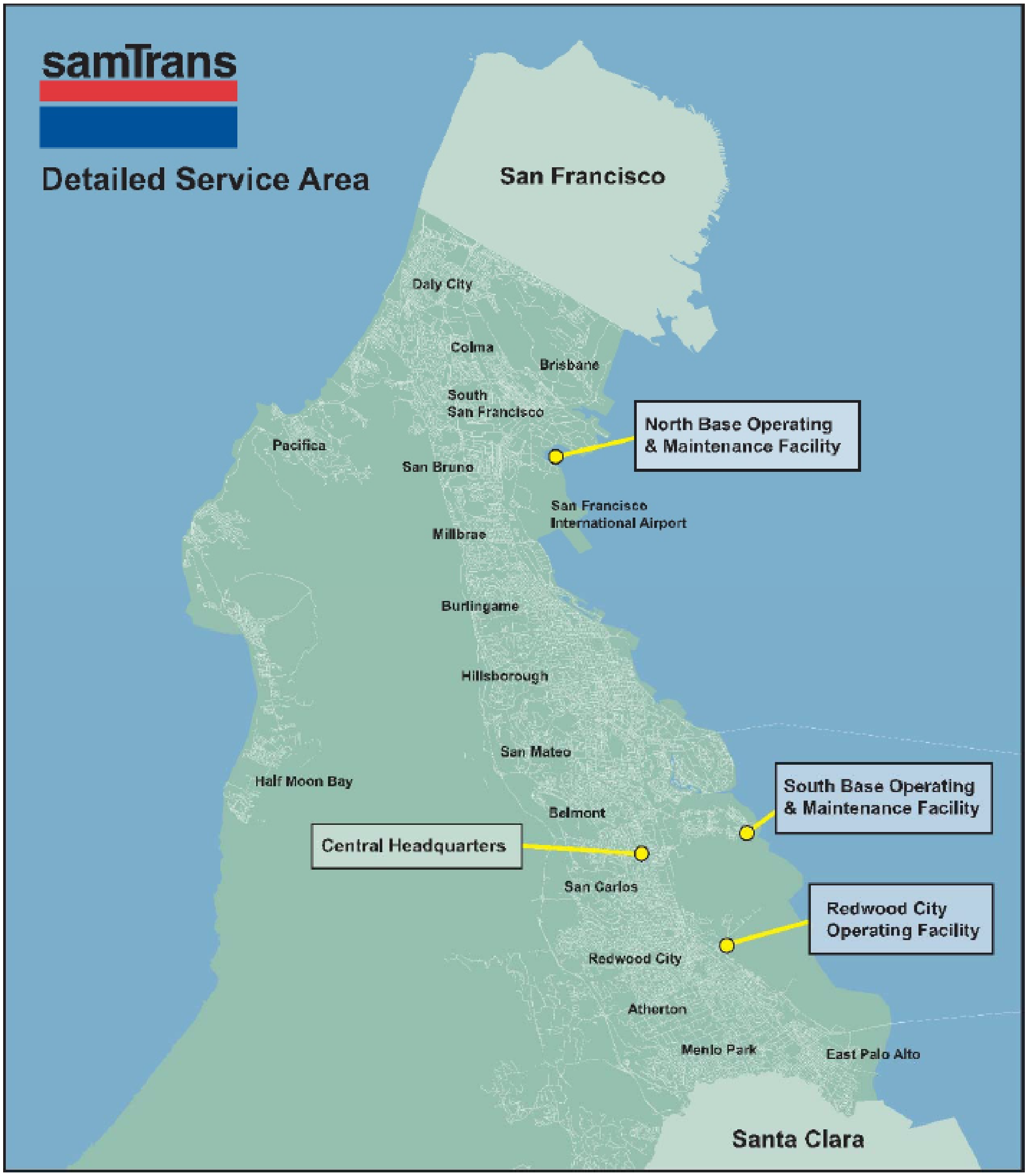

samTrans
Detailed Service Area
San Francisco
Daly City
Colma
Brisbane
South
San Francisco
North Base Operating
& Maintenance Facility
Pacifica
San Bruno
San Francisco
International Airport
Millbrae
Burlingame
Hillsborough
San Mateo
South Base Operating
& Maintenance Facility
Half Moon Bay
Belmont
Central Headquarters
San Carlos
Redwood City
Operating Facility
Redwood City
Atherton
Menlo Park
East Palo Alto
Santa Clara

TABLE OF CREDITS

The following individuals contributed to the production of the Fiscal Year 2015 Comprehensive Annual Financial Report:

Finance:

Manager, General Ledger	Sheila Tioyao
Director of Treasury	Carl Cubba
Senior Accountant	Jeannie Chen
Director of Budgets and Financial Analysis	Ladi Millard

Audit Firm:

Partner	Ahmad Gharaibeh, CPA
Supervisor	Maggie Li, CPA

FINANCIAL

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements:

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Cash Flows
- Notes to the Financial Statements

Required Supplementary Information

- 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 and Expenses - 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, 2016 and 2015, 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, 2016 and 2015, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District adopted the following new accounting pronouncements: GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, as of July 1, 2014. Our opinion is not modified with respect to this matter.

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 January 10, 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
January 10, 2017

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 2016 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, 2016, total assets stand at $417.8 million, an increase of $8.9 million or 2.2 percent compared to June 30, 2015. At June 30, 2015, total assets stand at $409.0 million, an increase of $39.7 million or 10.8 percent compared to June 30, 2014. The increases for 2016 were mainly due to delay on collection from interagency that resulted an increase in receivables and the increases for 2015 were mainly due to increase in Cash and cash equivalent, investments and bus and bus equipment.

- At June 30, 2016, total deferred outflows of resources were $16.2 million a decrease of $0.4 million or 2.3 percent compared to June 30, 2015. The 2016 decrease was due to amortization of refunding costs and deferral of pension expense. At June 30, 2015, total deferred outflows of resources were $16.6 million an increase of $14.5 million or 701.6 percent compared to June 30, 2014. The 2015 increase was due to refinancing and recognition of GASB 68 on pension expense.

- At June 30, 2016, total liabilities were $389.9 million, an increase of $3.2 million or 0.8 percent compared to June 30, 2015. The 2016 increase was mainly due to recognition of additional pension liability and other noncurrent liabilities. At June 30, 2015, total liabilities were $386.7 million, an increase of $39.5 million or 11.4 percent compared to June 30, 2014. The 2015 increase was due to recognition of GASB 68 on pension liability and other noncurrent liabilities.

- For Fiscal Year 2016, passenger fares were $18.1 million, a decrease of $0.7 million or 3.9 percent compared to Fiscal Year 2015. For Fiscal Year 2015, passenger fares were $18.8 million, an increase of $0.3 million or 1.4 percent compared to Fiscal Year 2014. The decrease for 2016 was the result of lower ridership. The increase for 2015 was the result of higher ridership.

- In Fiscal Year 2016, total operating expenses were $139.6 million, an increase of $9.8 million or 7.5 percent compared to Fiscal Year 2015. The increase in 2016 was mainly due to increase in pension liabilities and other services. In Fiscal Year 2015, total operating expenses were $129.8 million, an increase of $0.9 million or 0.7 percent compared to Fiscal Year 2014. The increase in 2015 was mainly due to increase in pension liabilities.

- For Fiscal Year 2016, nonoperating revenues net of nonoperating expenses were $124.3 million, an increase of $4.5 million or 3.7 percent compared to Fiscal Year 2015. The 2016 increase was mainly due to increase in operating assistance and investment income. For Fiscal Year 2015, nonoperating revenues net of nonoperating expenses were $119.8 million, an increase of $3.5 million or 3.0 percent compared to Fiscal Year 2014. The 2015 increase was due to increase in other income and reduction in interest expense.

- At June 30, 2016, net position was $37.9 million, an increase of $15.5 million or 69.2 percent from June 30, 2015. The 2016 increase was mainly due to additional sales tax and investment income. At June 30, 2015, net position was $22.4 million, a decrease of $1.7 million or 7.0 percent from June 30, 2014. The 2015 decrease was due to increase in capital contributions, increase in sales tax revenues reduced by the recognition of the net pension liabilities as a result of the change in accounting principle.

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.

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 have 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 2016, total assets and deferred outflows were $434.1 million, an increase of $8.5 million or 2.0 percent compared to June 30, 2015. In Fiscal Year 2015, total assets and deferred outflows were $425.6 million, an increase of $54.3 million or 14.6 percent compared to June 30, 2014. Total current assets increased $9.1 million or 5.9 percent to $163.3 million on June 30, 2016 from $154.2 million on June 30, 2015 and an increase of $54.1 million or 54.1 percent at June 30, 2015 compared to June 30, 2014. Capital assets – net of accumulated depreciation, and all other non-current assets combined, decreased by $0.3 million or 0.1 percent in 2016 and decreased $14.4 million or 5.4 percent in 2015.

Capital assets net of accumulated depreciation decreased by $8.8 million or 5.0 percent to $167.9 million at June 30, 2016 compared to 2015 and increased of $16.6 million or 10.4 percent in 2015 compared to 2014. Land, buses and related equipment and building and related improvements comprise most of the District's capital assets.

SAN MATEO COUNTY TRANSIT DISTRICT
NET POSITION
(in thousands)

	2016	2015	2014
Current Assets	$ 163,314	$ 154,203	$ 100,067
Capital assets, net of depreciation	167,850	176,616	160,050
Other noncurrent assets	86,660	78,146	109,139
Total assets	417,824	408,965	369,256
Deferred outflows of resources	16,237	16,617	2,073
Current liabilities	37,363	32,633	33,846
Long-term debt	257,575	272,518	280,223
Other noncurrent liabilities	94,966	81,548	33,138
Total liabilities	389,904	386,699	347,207
Deferred inflows of resources	6,213	16,451	-
Net investment in capital assets	167,850	176,616	160,050
Restricted	26,804	26,087	25,000
Unrestricted	(156,710)	(180,271)	(160,928)
Total net position	$ 37,944	$ 22,432	$ 24,122

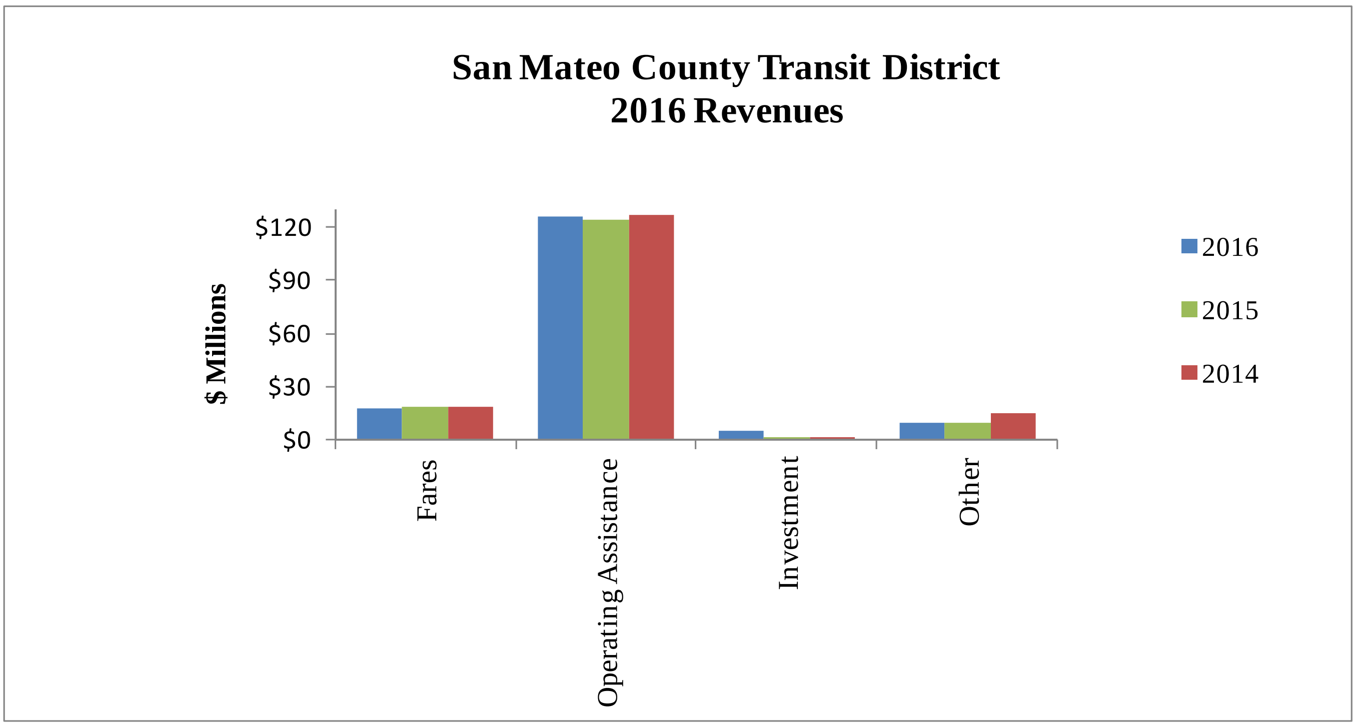
** 2015 Net position was restated to include pension amounts. Amounts were not available for 2014.*

In Fiscal Year 2016, total liabilities and deferred inflows were $396.1 million, a decrease of $7.0 million or 1.7 percent compared to Fiscal Year 2015. In Fiscal Year 2015, total liabilities and deferred inflows were $403.2 million, an increase of $55.9 million or 16.1 percent compared to 2014. The decrease for 2016 was mostly due to deferral of pension expense and payment of the District's bonds.

At June 30, 2016, net position of $37.9 million was $15.5 million or 69.2 percent more than the $22.4 million at June 30, 2015 and was $1.7 million or 7.0 percent less than on June 30, 2015 compared to $24.1 million at June 30, 2014. The $167.9 million invested in capital assets net of related debt at June 30, 2016 comprise the majority of net position. Total restricted assets at June 30, 2016 were $26.8 million. The remaining ($156.7) million of total net position at June 30, 2016 was unrestricted net position. The District reported a negative net position because the District funded the BART to SFO extension and at the same time, did not report the capital asset related to that project because the District does not hold title to the capital asset nor does it manage the operation and maintenance of the extension. The cost of the project was over $410 million that 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 $258 million were used to fund the BART to SFO extension. In addition, the District net position was negatively impacted by the implementation of the pension standards. The District reported $40 million in net pension liability and related deferrals which negatively impacted the District's net position.

Revenue Highlights

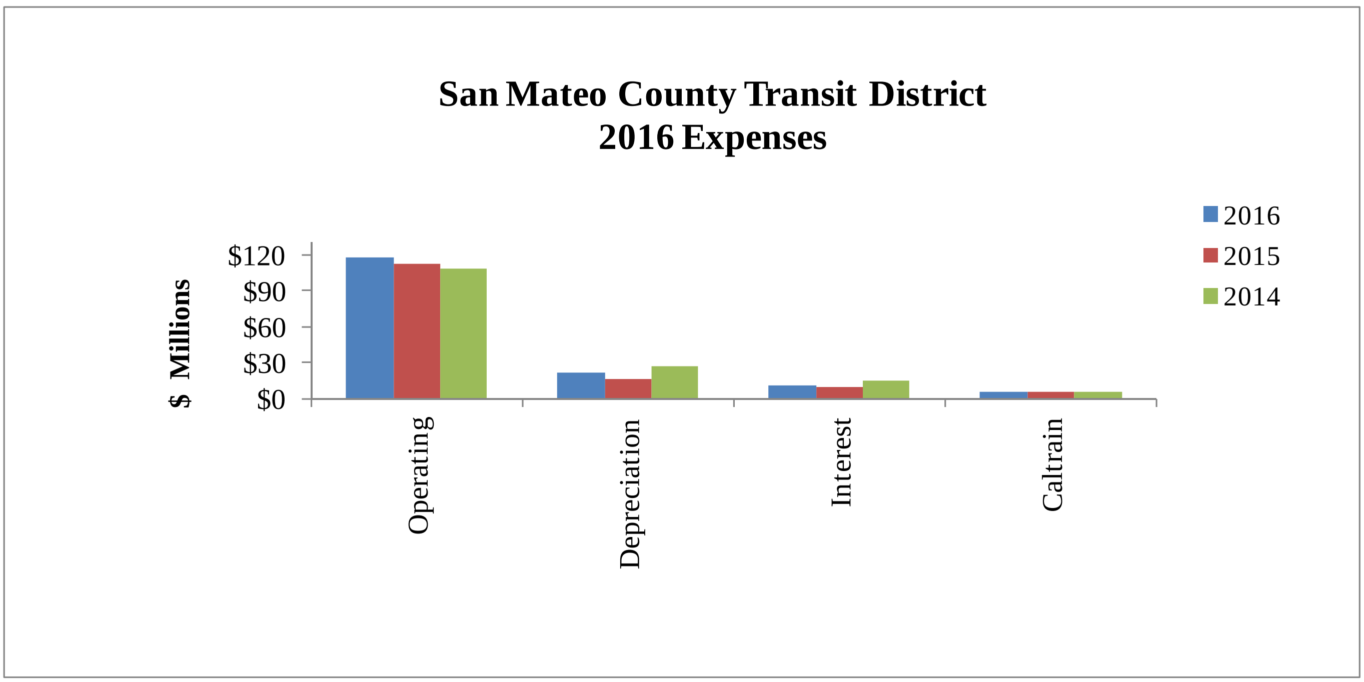
Operating revenues generated from passenger fares of $18.1 million decreased by $738 thousand or 3.9 percent during Fiscal Year 2016 compared to Fiscal Year 2015 and increased by $259 thousand or 1.4 percent in Fiscal Year 2015 compared to Fiscal Year 2014. The decrease for 2016 was the result of lower ridership. The increase for 2015 was the result of high ridership.



In Fiscal Year 2016, nonoperating revenues increased by $5.6 million or 4.1 percent to $141.6 million. This increase was mainly due to more 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 percent from transaction and use tax, 27.6 percent from local transportation funds, 5.5 percent from federal assistance and 10.1 percent from Measure A, state transit assistance and AB434 funds combined. In Fiscal Year 2015, nonoperating revenues decreased by $1.3 million or 1.0 percent to $136.0 million. This decrease was mainly due to less funding from State transit assistance. Operating assistance of $124.1 million accounted for the majority of fiscal year 2015 nonoperating revenues. This amount consisted of 54.7 percent from transaction and use tax, 29.4 percent from local transportation funds, 5.8 percent from federal assistance and 10.1 percent from Measure A, state transit assistance and AB434 funds combined.

Expense Highlights

In Fiscal Year 2016, total operating expenses (excluding depreciation) were $118.1 million, an increase of $5.1 million or 4.5 percent compared to Fiscal Year 2015. In Fiscal Year 2015, total operating expenses (excluding depreciation) were $113.0 million, an increase of $11.2 million or 11.0 percent compared to Fiscal Year 2014. Total operating expenses (excluding depreciation) in 2016 consisted of $58.6 million or 49.6 percent for wages and benefits, $33.3 million or 28.2 percent for contract operations and other services, and $26.2 million or 22.2 percent for materials, insurance and other miscellaneous expenses combined. Total operating expenses (excluding depreciation) in 2015 consisted of $55.4 million or 49.0 percent for wages and benefits, $33.4 million or 29.6 percent for contract operations and other services, and $24.2 million or 21.4 percent for materials, insurance and other miscellaneous expenses combined. Depreciation and amortization expenses were $21.6 million and $16.9 million for Fiscal Year 2016 and Fiscal Year 2015 respectively, a $4.7 million or 27.8 percent increase in Fiscal Year 2016 compared to Fiscal Year 2015 and $10.3 million or 38.0 percent decrease in Fiscal Year 2015 compared to Fiscal Year 2014.



In Fiscal Year 2016, nonoperating expenses were $17.3 million, an increase of $1.1 million or 7.1 percent compared to Fiscal Year 2015. In Fiscal Year 2015, nonoperating expenses were $16.2 million, a decrease of $4.8 million or 23.1 percent compared to Fiscal Year 2014. In Fiscal Year 2016, the District paid the JPB $6.1 million for its contribution toward the Caltrain rail service operation. In Fiscal Year 2015, the District paid the JPB $6.3 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 #8 – Peninsula Corridor Joint Powers Board (JPB) in the Notes to the Financial Statements.*

SAN MATEO COUNTY TRANSIT DISTRICT
CHANGES IN NET POSITION
(in thousands)

	2016	2015	2014
Operating revenues-passenger fares	$ 18,078	$ 18,816	$ 18,557
Operating expenses-transit services	118,099	112,986	101,775
Operating loss before depreciation and amortization	(100,021)	(94,170)	(83,218)
Depreciation and amortization	(21,550)	(16,860)	(27,184)
Operating loss	(121,571)	(111,030)	(110,402)
Nonoperating revenues			
Operating assistance	126,254	124,097	126,786
Investment income	5,580	1,782	1,663
Other income, net	9,777	10,119	8,866
Total Nonoperating revenues	141,611	135,998	137,315
Nonoperating expenses			
Interest expense	(11,226)	(9,896)	(15,559)
Caltrain service subsidy	(6,080)	(6,260)	(5,440)
Total Nonoperating expenses	(17,306)	(16,156)	(20,999)
Net loss before capital contributions	2,734	8,812	5,914
Capital contributions	12,778	33,361	33,281
Change in net position	15,512	42,173	39,195
Net position - beginning of year, as restated	22,432	(19,741)	(15,073)
Net position - end of year *	$ 37,944	$ 22,432	$ 24,122

** 2015 Net position was restated to include pension amounts. Amounts were not available for 2014.*

Capital Program

The District received capital contributions of $12.8 million in Fiscal Year 2016 and $33.4 million in Fiscal Year 2015, which was a decrease of $20.6 million or 61.7 percent in Fiscal Year 2016 compared to Fiscal Year 2015 and an increase of $0.1 million or 0.2 percent in Fiscal Year 2015 compared to Fiscal Year 2014.

The following is a summary of the District's major capital expenditures for Fiscal Year 2016.

- Communication Information System ($6.9 million)
- Replacement of bus parts in accordance with FTA guidelines ($1.9 million)
- Capital project development, control and monitoring ($0.4million)
- Purchase of Non Revenue service vehicles ($0.4 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, 2016, the District had $269.2 million in limited tax bonds outstanding, a decrease of $14.9 million or 5.2 percent, compared to $284.1 million in limited tax bonds outstanding at June 30, 2015. This decrease resulted from debt service payments. The District issued the 2015 Series A Bonds and the 2015 Series B Bonds on April 22, 2015. 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 2017 Operating and Capital Budget on June 1, 2016. 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 on 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 FY2017 Operating Budget consists of $145.0 million in revenues and expenditures. Passenger fares for both Motor Bus and ADA services are at $19.5 million based on increase in ridership from FY2016 projected actuals. Local, State, and Federal funds are projected to increase to $46.5 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 $83.0 million. Operating costs are projected to increase by $6.7 million in FY2017. The increase is mostly due to an increase in wages and fringe benefits, increased rates for renewed contract bus service, and an increase in demand for paratransit taxi service.

The $16.3 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 FY2017 include the acquisition of 3 cutaway vehicles to accommodate Redi-Wheels' growth of service, and a pilot program to procure, operate, and maintain 6 fully-electric buses with charging infrastructure. The estimated total cost is $7.7 million. Other components of the budget include an information technology refresh to meet changing needs and decreased risk of obsolescence, funding for an express bus feasibility study, improvement projects for the maintenance and administrative facilities, and security improvement projects such as a fencing installation along the Dumbarton Rail Corridor.

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: CFO, 1250 San Carlos Ave., P.O. Box 3006, San Carlos, California 94070-1306.

SAN MATEO COUNTY TRANSIT DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2016 AND 2015 (in thousands)

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 1E & 2)	$ 27,413	$ 64,568
Restricted cash (Notes 1G & 2)	23,108	10,911
Subtotal	50,521	75,479
Investments (Notes 1F & 2)	30,698	37,812.00
Restricted investments (Notes 1G & 2)	7,441	6,096
Receivables:		
Transaction and use tax	14,542	14,484
Receivable from Peninsula Corridor Joint Powers Board (Note 8)	23,219	7,210
Receivable from San Mateo County Transportation Authority (Note 9)	11,369	2,237
Federal grants (Note 4)	9,515	2,025
State and local grants	9,627	3,442
Interest	327	223
Other	2,402	1,771
Allowance for doubtful accounts	(98)	(98)
Total Receivables - Net	70,903	31,294
Inventories (Note1I)	1,679	1,688
Prepaid expenses	2,072	1,834
Total Current Assets	163,314	154,203
NONCURRENT ASSETS:		
Noncurrent investments (Notes 1F & 2)	67,102	58,485
Restricted investments (Notes 1G & 2)	19,518	19,618
Capital assets (Notes 1J & 6):		
Buses and bus equipment	153,955	167,272
Buildings and building improvements	64,868	64,838
Maintenance and other equipment	32,063	6,523
Furniture and fixtures	31,734	19,656
Shelters and bus stop signs	592	592
Other vehicles	2,159	2,159
Total capital assets	285,371	261,040
Less accumulated depreciation	(181,610)	(173,582)
Land (Note 6)	53,855	53,855
Construction in progress (Note 1K)	10,234	35,303
Capital assets - Net (Note 6)	167,850	176,616
Other assets	40	43
Total Noncurrent Assets	254,510	254,762
Total Assets	417,824	408,965

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

STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2016 AND 2015 (in thousands)

	2016	2015
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	11,221	12425
Deferred outflows from pension activities (Note 1T&11)	5,016	4,192
Total Deferred Outflows of Resources	16,237	16,617
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	13,677	9,242
Current portion of compensated absences (Note 1O)	6,179	5,813
Current portion of self-insurance liabilities (Note 13)	4,206	4,364
Accrued interest	1,641	1,604
Current portion of long-term debt (Note 10)	11,660	11,610
Total Current Liabilities	37,363	32,633
NONCURRENT LIABILITIES:		
Self-insurance liabilities, less current portion (Note 13)	6,040	6,407
Other noncurrent liabilities	38,034	33,338
Compensated absences, less current portion (Note 1O)	2,537	2,423
Long-term debt, less current portion (Note 10)	257,575	272,518
Postemployment benefits (Note 12)	8,928	8,736
Net pension liability (Note 1R&11)	39,427	30,644
Total Noncurrent Liabilities	352,541	354,066
Total Liabilities	389,904	386,699
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pension (Note 1T&11)	6,213	16,451
NET POSITION		
Net investment in capital assets	167,850	176,616
Restricted for:		
Debt service	1,804	1,087
Paratransit fund (Note 14)	25,000	25,000
Unrestricted	(156,710)	(180,271)
Total Net Position	$ 37,944	$ 22,432

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

SAN MATEO COUNTY TRANSIT DISTRICT

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (in thousands)

	2016	2015
OPERATING REVENUES:		
Passenger fares	$ 18,078	$ 18,816
Total operating revenues	18,078	18,816
OPERATING EXPENSES:		
Salaries and benefits	58,598	55,382
Contract operations and maintenance services	33,326	33,399
Other services	8,388	6,092
Materials and supplies	6,626	8,158
Provisions for claims and claims adjustments	4,505	4,171
Miscellaneous	6,656	5,784
Total operating expenses before depreciation and amortization	118,099	112,986
Depreciation	21,550	16,860
Total operating expenses	139,649	129,846
OPERATING LOSS	(121,571)	(111,030)
NONOPERATING REVENUES (EXPENSES):		
Operating assistance (Note 3)	126,254	124,097
Investment income	5,580	1,782
Interest expense	(11,226)	(9,896)
Caltrain service subsidy (Note 8)	(6,080)	(6,260)
Other income, net	9,777	10,119
Total nonoperating revenues (expenses)	124,305	119,842
Net income (loss) before capital contributions	2,734	8,812
Capital grants (Note 1P)	12,778	33,361
CHANGE IN NET POSITION	15,512	42,173
Net position - beginning of year	22,432	133,461
Prior period adjustment (Note 17)	-	(153,202)
Net position - beginning of year, as restated	22,432	(19,741)
Net position - end of year	$ 37,944	$ 22,432

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

SAN MATEO COUNTY TRANSIT DISTRICT

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (in thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 18,078	$ 19,616
Payments to vendors for services	(55,820)	(58,067)
Payments to employees	(85,346)	(63,966)
Net cash (used for) operating activities	(123,088)	(102,417)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received, including transaction and use tax	124,038	155,657
Caltrain service	(6,080)	(6,260)
Net cash provided by non-capital financing activities	117,958	149,397
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(12,781)	(33,426)
Capital contributions from grants	15,103	32,898
Bond principal paid	(14,893)	(6,225)
Interest paid on capital debt	(9,985)	(20,590)
Net cash provided (used) in capital and related financing activities	(22,556)	(27,343)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investment securities	94,150	45,831
Purchases of investment securities	(96,898)	(47,825)
Investment income received	5,476	1,792
Net cash provided by investing activities	2,728	(202)
Net increase (decrease) in cash and cash equivalents	(24,958)	19,435
Cash and cash equialents, beginning of year	75,479	56,044
Cash and cash equivalents, end of year	$ 50,521	$ 75,479

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

SAN MATEO COUNTY TRANSIT DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (in thousands)

	2016	2015
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED) IN OPERATING ACTIVITIES:		
Operating loss	$ (121,571)	$ (125,939)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:		
Depreciation and amortization	21,550	24,545
Effect of changes in:		
Accounts receivable	(25,141)	800
Inventories	9	132
Prepaid expenses	(238)	37
Other assets	-	776
Accounts payable and accrued expenses	4,435	(1,408)
Other postemployment liability	192	22
Net pension liability	8,783	(13,219)
Compensated absences	480	535
Self-insurance liabilities	(525)	(957)
Deferred inflows and outflows from pension activities	(11,062)	12,259
Net cash used in operating activities	$ (123,088)	$ (102,417)
NONCASH INVESTING ACTIVITIES:		
Change in fair value of investments	$ (1,103)	$ 33

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 as well as 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 to relieve the District of any and all responsibility for payment of past and future operating costs, as well as capital costs, associated with the SFO 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. 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. In addition, restricted cash and investments include a $25,000,000 restricted for paratransit operations. These funds are held as liquid investments or have been invested in U.S. Treasury notes, mutual funds or guaranteed investment contracts.

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. 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):

	2016	2015
Information technology support	$ 458	$ 20,136
Bus communication system	67	10,511
Transit-oriented development	2,038	1,226
Administration building improvement	2,657	1,083
Bus fleet improvements	2,531	795
Other	2,483	1,552
Total Construction in Progress	$ 10,234	$ 35,303

L. State and Local Operating Assistance

State and local operating assistance are 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 8) 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. Bond discounts 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):

	2016	2015
Beginning Balance	$ 8,236	$ 7,701
Additions	6,191	6,168
Payments	(5,711)	(5,633)
Ending Balance	8,716	8,236
Current Portion	6,179	5,813
Non-current Portion	$ 2,537	$ 2,423

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 on 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):

	2016	2015
Federal grants	$ 2,568	$ 14,736
State grant (Prop 1B)	2,158	5,248
Local assistance - sales tax	8,052	13,377
Total	$ 12,778	$ 33,361

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 of assets, deferred outflows, deferred inflows and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

The District adopted Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurements and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes, applying fair value to investments, and disclosures related to a hierarchy established by generally accepted accounting principles. The 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. 72 – In February 2015, GASB issued Statement No. 72, Fair Value Measurement and Application. The primary objective of this statement is to define fair value and describe how fair value should be measured, define what assets and liabilities should be measured at fair value, and determine what information about fair value should be disclosed in the notes to the financial statements. The Statement is effective for periods beginning after June 15, 2015, or the fiscal year 2015-16. The District implemented the provisions of this statement as of July 1, 2014.

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 after June 15, 2017, or the fiscal year 2017-18. The District has not determined the effect of this Statement to its financial statements.

GASB Statement No. 82 – In March 2016, GASB issued Statement No. 82, Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The District has implemented the provisions of this Statement as of July 1, 2014.

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):

	2016	2015
Cash and cash equivalents	$ 50,521	$ 75,479
Current investments	30,698	37,812
Current restricted investments	7,441	6,096
Noncurrent investments	67,102	58,485
Noncurrent restricted investments	19,518	19,618
Total	$ 175,280	$ 197,490

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

	2016	2015
Cash on hand	$ 21	$ 19
Deposits with financial institutions	31,890	25,406
Investments	143,369	172,065
Total	$ 175,280	$ 197,490

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, where more restrictive. The table also identifies certain provisions of the California Government Code or the District's investment policy, where more restrictive, that addresses interest rate risk, credit 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	11 years	None	None
U.S. Agency Securities	11 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	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	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-through Securities	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Investment Trust of California (CalTRUST)	N/A	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 monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. With respect to this metric, the District’s policies are as follows:

- No investment shall be made in securities with a remaining useful life exceeding 11 years.
- No more than 25 percent of the portfolio shall be invested in securities with a remaining life of 5 to 11 years.
- The weighted average maturity of the portfolio shall not exceed 5 years.

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
Held by bond trustee:		
Money Market Mutual Funds	9,935	0.00
Total	$ 143,369	
Portfolio Weighted Average Maturity		1.83

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

Investment Type	Amount (in thousands)	Weighted Average Maturity (in years)
U.S. Agency Securities	$ 45,312	0.65
U.S. Government Securities	75,210	1.54
Local Agency Investment Fund (LAIF)	50,054	0.65
Held by bond trustee:		
Money Market Mutual Funds	1,489	0.00
Total	$ 172,065	
Portfolio Weighted Average Maturity		1.03

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.

Investment Type	Amount (in thousands)	Rating as of June 30, 2016 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
Held by bond trustee:				
Money Market Mutual Funds	9,935	-	-	9,935
Total	$ 143,369	$ -	$ 114,824	$ 28,545

Investment Type	Amount (in thousands)	Rating as of June 30, 2015 AAA	AA	Not Rated
U.S. Agency Securities	$ 45,312	$ -	$ 45,312	$ -
U.S. Government Securities	75,210	-	75,210	-
Local Agency Investment Fund (LAIF)	50,054	-	-	50,054
Held by bond trustee:				
Money Market Mutual Funds	1,489	-	-	1,489
Total	$ 172,065	$ -	$ 120,522	$ 51,543

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	2016	2015
Federal Home Loan Mortgage Corp (FHLMC)	U.S. Agency Securities	$ -	$ 13,509
Federal National Mortgage Association (FNNIE)	U.S. Agency Securities	-	20,020
Federal National Mortgage Association (FNMA)	U.S. Agency Securities	-	10,806
Total		$ -	$ 44,335

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 asset assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments categorized as Level 2 are valued using the market approach and quoted market prices. The following is the District's fair value hierarchy table as of June 30, 2016:

Investment Type	Total	Level 1 Inputs	Level 2 Inputs	Uncategorized
U.S. Agency Securities	$ 3,816	$ -	$ 3,816	$ -
U.S. Government Securities	111,008	110,938	70	-
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	$ 110,938	$ 13,821	$ 18,610

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

Investment Type	Total	Level 1 Inputs	Level 2 Inputs	Uncategorized
U.S. Agency Securities	$ 45,312	$ -	$ 45,312	$ -
U.S. Government Securities	75,210	75,210	-	-
Local Agency Investment Fund (LAIF)	50,054	-	-	50,054
Money Market Mutual Funds	1,489	-	1,489	-
Total investments by fair value type	$ 172,065	$ 75,210	$ 46,801	$ 50,054

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, 2016 and 2015, the District had $31,910,000 and $30,336,000, 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, 2016 and 2015 was $34,070,000 and $29,836,000, respectively.

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 City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City'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.

As of June 30, 2016 and June 30, 2015, the District had a contractual withdrawal value in LAIF of $18,562,000 and $50,035,000, 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 TA funds as a result of the approval and re-authorization of Measure A (half-cent county sales tax) for funding of transportation projects.

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

	2016	2015
Transaction and use tax	$ 71,734	$ 67,916
Local transportation funds	34,905	36,512
Federal operating and planning assistance	6,882	7,182
State transit assistance	2,990	3,087
Measure A funds - local	8,188	7,562
Measure M funds - local	1,400	1,400
AB434 and other	155	438
Total	$ 126,254	$ 124,097

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, 2016 and 2015 applicable to these projects are $3,205,000 and $22,113,000, respectively. The related federal participation is $2,568,000 and $14,736,000, respectively.

The District has recorded receivables of $2,568,000 and $321,000, at June 30, 2016 and 2015, 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	$	(156,710)
Outstanding debt (plus premiums, net of deferred costs) related to BART contributions		258,014
Net pension liability and related deferrals		40,624
Net position earmarked for operations and projects	$	141,928

NOTE 6 – CAPITAL ASSETS

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

Capital asset activity for the fiscal year ended June 30, 2015, was as follows (in thousands):

	Balance at July 1, 2014	Additions	Deletions	Balance at June 30, 2015
Depreciable Capital Assets				
Buses and bus equipment	$ 149,751	$ 17,791	$ (270)	$ 167,272
Buildings and building improvements	64,815	319	(296)	64,838
Maintenance and other equipment	5,822	1,008	(307)	6,523
Furniture and fixtures	20,272	316	(932)	19,656
Shelters and bus stop signs	579	13	-	592
Other vehicles	2,226	-	(67)	2,159
Total Depreciable Capital Assets	243,465	19,447	(1,872)	261,040
Less Accumulated Depreciation for:				
Buses and bus equipment	(86,158)	(11,686)	270	(97,574)
Buildings and building improvements	(49,387)	(2,510)	296	(51,601)
Maintenance and other equipment	(4,015)	(1,007)	307	(4,715)
Furniture and fixtures	(16,765)	(1,408)	932	(17,241)
Shelters and bus stop signs	(558)	(17)	-	(575)
Other vehicles	(1,711)	(232)	67	(1,876)
Total Accumulated Depreciation	(158,594)	(16,860)	1,872	(173,582)
Nondepreciable Capital Assets				
Land	53,855	-	-	53,855
Construction in progress	21,324	33,425	(19,446)	35,303
Total Nondepreciable Capital Assets	75,179	33,425	(19,446)	89,158
Capital Assets, Net	$ 160,050	$ 36,012	$ (19,446)	$ 176,616

NOTE 7 – 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, 2016, 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 8 – 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 facilitate completion of the acquisition of 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 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.

The District has been appointed as managing agency for JPB, providing administrative personnel and facilities. The District is responsible for 30.82 percent of the mainline net operating costs and the administrative expenses of the JPB for the years ended June 30, 2016 and 2015. 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, 2016 and 2015, the District contributed $6,080,000and $6,260,000 respectively, to the JPB for operating needs.

The District has total receivables from the JPB of $23,219,000 and $7,210,000 at June 30, 2016 and 2015 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 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. 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.

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 $4,343,404. The fair market value for the land, accounting for the risk associated with hazardous materials, is $7,739,455. 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. The note of $4,343,404 is included in other noncurrent liabilities on the statement of net position. The District also has an accrued interest liability of $809,075 and $767,471, respectively, as of June 30, 2016 and 2015 for the promissory note.

The District has total receivables from the Transportation Authority of $11,369,000 and $2,237,000 at June 30, 2016 and 2015 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, 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	11,660
Total debt		250,245	-	(11,610)	238,635	$ 11,660
Unamortized bond premium		33,883	-	(3,283)	30,600	
Net bonds payable		$ 284,128	$ -	$ (14,893)	$ 269,235	

Long-term debt activity for the year ended June 30, 2015 is as follows (in thousands):

	Original Issue Amount	Balance at July 1, 2014	Additions	Deletions	Balance at June 30, 2015	Current Balance at June 30, 2015
Limited Tax Bonds						
1993 Series A Bonds 5.00-8.00%, due 6/01/20	$ 150,555	$ 56,420	$ -	$ (56,420)	$ -	$ -
2005 Series A Bonds 3.00-5.00%, due 6/01/34	218,990	218,990	-	(218,990)	-	-
2009 Series A Bonds 4.375-5.00%, due 6/01/19	19,040	10,505	-	(10,505)	-	-
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	-	39,965	11,610
Total debt		285,915	250,245	(285,915)	250,245	$ 11,610
Unamortized bond premium		4,568	34,504	(5,189)	33,883	
Unamortized bond discount		(130)	-	130	-	
Net bonds payable		$ 290,353	$ 284,749	$ (290,974)	$ 284,128	

Description of the District's Long-Term Debt Issues

1993 Series A Bonds – In June 1993, the District issued $150,555,000 of 1993 Series A Limited Tax Bonds (1993 Series A Bonds) to refund a portion of the 1990 Series A Bonds (pursuant to a crossover refunding) and to reimburse the District for prior capital project expenditures. The 1993 Series A Bonds, with interest rates ranging from 5.0 to 8.0 percent, were limited obligations of the District, were be payable from, and secured by, a pledge of sales tax revenues received by the District on and after June 1993. The 1993 Series A Bonds were refunded and legally defeased in the 2015 Fiscal Year.

2005 Series A Refunding Bonds – In October 2005, the District issued $218,990,000 in 2005 Series A Bonds to advance refund and legally defease the outstanding 1997, 1998 and 1999 Series A Bonds. The 2005 Series A Refunding Bonds were refunded and legally defeased in the 2015 Fiscal Year. All 2005 bonds were callable and were fully paid off in 2015 Fiscal Year.

2009 Series A Refunding Bonds – During Fiscal Year 2009, the District refunded its California Transit Finance Authority (CTFA) variable rate 1998 Junior Lien Sales Tax Revenue Bonds (CTFA Bonds). The 2009 Series A Refunding Bonds were refunded and legally defeased in the 2015 Fiscal Year.

2015 Series A and Series B Refunding Bonds – During 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 an 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 $18,190,000 as of June 30, 2016.

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 2016 related to the principal and interest requirements for the secured debt were $79.7 million and the pledged revenue coverage was 3.68 percent.

Debt Service Requirements to Maturity

Debt Service requirements for as of June 30, 2016 are as follows (in thousands):

	2015 Series A			2015 Series B		
Fiscal Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2017	$ -	$ 9,617	$ 9,617	$ 11,660	$ 371	$ 12,031
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	-	-	-
2022-2026	59,295	36,656	95,951	-	-	-
2027-2031	75,445	20,504	95,949	-	-	-
2032-2034	48,160	3,321	51,481			
Total debt service	$ 210,280	$ 107,538	$ 317,818	$ 28,355	$ 730	$ 29,085

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. Benefit provisions under the plan are established by State statute and District resolution. 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 total service are eligible to retire at age 50 with statutorily reduced benefits. 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, 2016, 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	6.818%	6.250%
Required employer contribution rates	10.216%	6.250%

Employees Covered – At June 30, 2016, the following employees were covered by the plan:

Inactive employees (or their beneficiaries) currently receiving benefits	451
Inactive employees entitled to but not yet receiving benefits	399
Active employees	660
Total number of employees covered by the benefit terms	1,510

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 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. The District's net pension liability for Fiscal Year 2015 is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability for Fiscal Year 2015 is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.65% (2)
Mortality	(3)

(1) Varies by Entry-Age and Service.
(2) Net of pension plan investment and administrative expenses, including inflation.
(3) The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projecated mortality improvement using Scale AA publised by the Society of Actuaries.

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 Stretegic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	2%	-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 7.50 percent used for the June 30, 2014 (Fiscal Year ended 2015) measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 (Fiscal Year ended June 30, 2016) 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, 2015 (Fiscal Year ended June 30, 2016) is as follow (in thousands):

	Total Pension Liability (a)	Increase (Decrease) 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 of employee contributions	(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

The changes in the Net Pension Liability recognized over the measurement period ended June 30, 2014 (Fiscal Year ended June 30, 2015) is as follow (in thousands):

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2014	$ 253,892	$ 206,006	$ 47,886
Changes recognized for the measurement period			
Service cost	7,062	-	7,062
Interest on the total pension liability	18,965	-	18,965
Changes of assumptions			
Contributions from the employer	-	4,023	(4,023)
Contributions from employees	-	3,312	(3,312)
Net investment income	-	35,934	(35,934)
Employee contributions	(9,115)	(9,115)	-
Net changes	16,912	34,154	(17,242)
Balance at June 30, 2015	$ 270,804	$ 240,160	$ 30,644

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, 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

The following presents the net pension liability for the measurement period ended June 30, 2014 (Fiscal Year ended June 30, 2015) 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	6.50%	7.50%	8.50%
Net Pension Liability	$64,891	$30,644	$1,880

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, 2016, the District recognized pension expense of $2,737,000. At June 30, 2016, 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	$ 5,016	$ -
Changes of Assumptions	-	(3,487)
Differences between Expected and Actual Experiences	-	(653)
Net differences between projected and actual earnings on plan investments	-	(2,073)
Total	$ 5,016	$ (6,213)

Deferred outflows of resources related to contributions subsequent to the measurement date is $5,016,000 , which will be recognized as a reduction of the net pension liability and a component of pension expense in the year ending June 30, 2017.

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		
2017	$	(3,080)
2018		(3,080)
2019		(2,620)
2020		2,567
	$	(6,213)

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 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 participates in 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. The current ARC rate is 9.7% of annual covered payroll.

Since January 1991, the District's contribution to the health care plan was based on prior year's retiree contribution plus 10 percent of active contribution based on the "unequal method" for all levels of coverage.

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. Eligible employees who elect not to participate in PERS medical can receive a monthly Cafeteria Plan benefit that may only be used to purchase the Cafeteria Plan Extended Illness Benefit. The Extended Illness Benefit may only be used by an employee who is on an approved leave of absence pursuant to FMLA, California's Family Right Act ("CFRA") or the Pregnancy Disability Act ("PDA") and has used all accrued paid time off.

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 internal revenue code deductible expenses (e.g. premium contributions and unreimbursed medical expenses).

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. Additional contributions were in the form of an implicit subsidy in the amount of $613,000 were made.

In fiscal year ended June 30, 2015, the District contributed $1,600,000 to the established trust fund through CERBT. In addition, the District contributed $2,072,000 in pay-as-you-go amounts for the year ended June 30, 2015.

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, 2016 and June 30, 2015:

	For the year ended June 30, 2016	For the year ended June 30, 2015
Annual required contribution	$ 5,009	$ 3,929
Interest on net OPEB obligation	590	580
Adjustment to annual required contribution	(801)	(815)
Annual OPEB cost (expense)	4,798	3,694
Contribution made	(4,606)	(3,672)
Increase in net OPEB obligation	192	22
Net OPEB obligation, beginning of year	8,736	8,714
Net OPEB obligation, end of year	$ 8,928	$ 8,736

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
2016	$ 4,798	$ 4,606	96.0%	$ 8,928
2015	3,694	3,672	99.4%	8,736
2014	3,640	3,291	90.4%	8,714

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	4,881.00
Unfunded actuarial accrued liability (UAAL)	$ 39,890	$ 33,528
Funded ratio (actuarial value of plan assets/AAL)	18.2%	13%
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 growth rate of 3.0 percent. 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, 2016 was 22 years.

NOTE 13 – SELF-INSURANCE

The District is exposed to various risks of loss 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, 2016, coverage provided by self-insurance and excess coverage is generally as follows:

Type of Coverage	Self-Insurance (in Aggregate)	Excess Coverage (in Aggregate)
Public Liability and Property Damage	Up to $1,000,000 per occurrence	$100,000,000 per occurrence/annual aggregate
Workers' Compensation	Up to $1,000,000 per occurrence	$10,000,000 per occurrence

All property is insured at full replacement value. 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):

	2016	2015
Self-insurance liabilities, beginning of year	$ 10,771	$ 11,728
Incurred claims and changes in estimates	2,719	2,472
Claim payments and related costs	(3,244)	(3,429)
Total Self-insurance claims liabilities	10,246	10,771
Less current portion	(4,206)	(4,364)
Noncurrent portion	$ 6,040	$ 6,407

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.

Fuel Hedge Program

In June 2015, the District entered into a diesel fuel price cap agreement with Barclays Bank to hedge the cost of fuel for fiscal year 2016 which capped the price of fuel hedged by the District at $2.00 per gallon. The District's fiscal year 2016 adopted budget for fuel expenses is $6.3 million. The District purchases fuel based on the average weekly spot price for Oil Price Information Service (OPIS) index. This method leaves the District open to fluctuation in the market for diesel fuel. The primary goal of the fuel hedging program was to reduce volatility and uncertainty in the fuel budget. The District hedged 1.2 million gallons, which represents approximately 70 percent of estimated fuel consumption for fiscal year 2016. In order to maximize the hedging program's potential for economic efficiency, the District partnered with the JPB, which hedged 2.3 million gallons. To provide protection to the District, the agreement document require the District's fuel hedge counterparty to collateralize its exposure to the District in connection with the diesel fuel price cap in the event that the rating assigned to the fuel hedge counterparty by any nationally assigned statistical rating agency falls to or below "A. Implementing this fuel hedging program allowed the District to reduce uncertainty in the fuel budget for fiscal year 2016 and to take advantage of the relatively low market prices on the closing date of the transaction. Staff has recommended to the Board not to implement the Fuel Hedge Program for FY2017 as oil prices have continued to stay low and stable.

The fuel hedge program was inaugurated in fiscal year 2010 and had been consistently implemented for fiscal years 2010 through 2016.

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, 2016 (in thousands):

	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, 2015	$ 827,972	$ 515,746	$ 1,817,721	$ 7,657,921	$ 5,708,022	$ -	$ 221,328
Allocations received	34,891	-	-	-	-	1,230,533	24,866
Total Expenditures	-	(11,408)	(415,969)	-	-	-	-
Available proceeds June 30, 2016	$ 862,863	$ 504,338	$ 1,401,752	$ 7,657,921	$ 5,708,022	$ 1,230,533	$ 246,194

NOTE 17 – PRIOR PERIOD ADJUSTMENT

During fiscal year ended June 30, 2015 the District implemented GASB 68 effective July 1, 2014. Refer to Note 11 for further disclosures related to the plan and related balances. In addition, the District removed the capital assets related to BART SFO extension because the District did not hold title to the assets or manage the operation of the extension. As a result of the implementation and the removal of BART asset, the District restated beginning net position as noted below (in thousands):

Beginning of the year, net position as previously reported	$	133,461
Contributions after the measurement date - deferred outflows of resources		4,023
Net pension liability		(47,886)
Removal of BART asset		(109,339)
Beginning of the year, net position as restated	$	(19,741)

The following is the pro forma effect of the retrospective application:

	June 30, 2014 Previously Presented	Restatement	June 30, 2014 Restated
Deferred outflows of resources	$ -	$ 4,023	$ 4,023
Net pension liability	-	(47,886)	(47,886)
Capital contribution to BART, net of amortization	109,339	(109,339)	-
Net Position	133,461	(153,202)	(19,741)

In accordance with GASB Statement No. 68, the restatement of all deferred outflows and inflows was not practicable and therefore not included in the statement of the beginning balances.

SAN MATEO COUNTY TRANSIT DISTRICT

REQUIRED SUPPLEMETARY INFORMATION
POST EMPLOYMENT HEALTHCARE SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016

Amounts in thousands

Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as % 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, 2016

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

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

(2) 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, 2016

SCHEDULE OF CONTRIBUTIONS

Amounts in thousands	**2016** [2]	**2015** [1]
Contractually required contribution (actuarially determined)	$ 4,192	$ 4,023
Contributions in relation to the actuarially determined contributions	(4,192)	(4,023)
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 47,112	$ 47,169
Contributions as a percentage of covered-employee payroll	8.90%	8.53%

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

(2) In 2016. the discount rate was changed to 7.65 percent from 7.5 percent

Notes to Schedule:

Valuation date: June 30, 2014

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll
Asset valuation method	Market value
Inflation	2.75%
Investment rate of return	7.65%
Retirement age	55
Mortality	Based on CalPERS Experience Study

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, 2016

	Budget *	Actual	Variance Positive (Negative)
OPERATING REVENUES - Passenger fares	$ 18,945	$ 18,078	$ (867)
OPERATING EXPENSES:			
Salaries and benefits	59,620	60,684	(1,064)
Contract operations and maintenance services	35,042	33,326	1,716
Other services	8,459	8,388	71
Materials and supplies	9,313	6,626	2,687
Insurance	7,508	4,505	3,003
Miscellaneous	2,990	6,656	(3,666)
Total operating expenses	122,932	120,185	2,747
Operating loss	(103,987)	(102,107)	1,880
NONOPERATING REVENUES (EXPENSES):			
Operating assistance	124,692	126,254	1,562
Investment income	910	1,169	259
Interest expense	(10,082)	(10,010)	72
Caltrain service subsidy	(6,080)	(6,080)	-
Other income, net	3,599	9,777	6,178
Total nonoperating income (expenses)	113,039	121,110	8,071
Income (loss) before capital outlay and long-term debt principal payments	9,052	19,003	9,951
CAPITAL OUTLAY:			
Capital assistance	48,128	12,778	(35,350)
Capital expenditures	(48,128)	(12,778)	35,350
Net capital outlay	-	-	-
Long-term debt principal or interest payment	(11,610)	(11,610)	-
EXCESS (DEFICIENCY) OF REVENUES AND NONOPERATING INCOME OVER EXPENSES, CAPITAL OUTLAY AND DEBT PRINCIPAL PAYMENTS	$ (2,558)	$ 7,393	$ 9,951

* Changes reflect the actual revised budget as of 6/30/16

NOTES TO SUPPLEMANTARY SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016

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		$ 7,393
Capital expenditures	$ 12,778	
Depreciation and amortization	(21,550)	
Postemployment benefits accrual	(192)	
Pension Expense - GASB 68	2,278	
Long-term debt principal payments	11,610	
GASB 31 unrealized gain/loss	1,103	
Capital gain on investment	25	
Bond refunding costs amortization expense	(1,216)	
Bond premium amortization	3,283	
Sub-total reconciling items		8,119
Change in net position, GAAP basis		$ 15,512

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 2007 THROUGH 2016 (in thousands)

Fiscal year	2016	2015	2014	2013
OPERATING REVENUES - Passenger Fares	$ 18,078	$ 18,816	$ 18,557	$ 17,808
OPERATING EXPENSES:				
Salaries and benefits	58,598	55,382	60,001	57,227
Contract operations and maintenance	33,326	33,399	31,471	30,152
Other services	8,388	6,092	4,666	5,580
Materials and supplies	6,626	8,158	8,769	9,487
Insurance	4,505	4,171	(2,094)	6,770
Miscellaneous	6,656	5,784	5,514	4,935
Total operating expenses	118,099	112,986	108,327	114,151
Operating loss before depreciation, amortization and administrative expenses capitalized	(100,021)	(94,170)	(89,770)	(96,343)
Depreciation and amortization	(21,550)	(16,860)	(27,184)	(26,939)
OPERATING LOSS	(121,571)	(111,030)	(116,954)	(123,282)
NONOPERATING REVENUES (EXPENSES):				
Operating assistance	126,254	124,097	126,786	121,788
Investment income	5,580	1,782	1,663	586
Interest expense	(11,226)	(9,896)	(15,559)	(16,400)
Caltrain service subsidy	(6,080)	(6,260)	(5,440)	(14,000)
SFO/Colma BART station revenue/(deficit)	-	-	-	-
Interagency administrative income	-	-	6,552	5,501
Other income, net	9,777	10,119	8,866	13,941
Transfers, net	-	-	-	-
Total nonoperating revenues, net	124,305	119,842	122,868	111,416
Net income (loss) before capital contributions	2,734	8,812	5,914	(11,866)
Capital contributions	12,778	33,361	33,281	-
CHANGE IN NET POSITION	15,512	42,173	39,195	(11,866)
NET ASSET COMPONENTS				
Invested in capital assets	167,850	176,616	(20,964)	(34,446)
Restricted	26,804	26,087	25,000	27,745
Unrestricted	(156,710)	(180,271)	129,425	100,967
Restatement	-	-	(153,202)	-
NET POSITION	$ 37,944	$ 22,432	$ (19,741)	$ 94,266

[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.

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

2012	2011	2010	2009	2008	2007
$ 17,452	$ 17,373	$ 17,149	$ 17,325	$ 17,203	$ 16,830
58,921	58,473	59,835	62,708	64,175	58,521
29,851	29,250	28,706	28,710	27,902	26,482
5,866	4,004	3,651	4,655	3,747	3,580
8,768	7,873	7,344	8,432	9,589	8,151
7,430	6,900	6,607	5,621	6,074	6,010
4,433	4,628	6,263	6,437	7,269	6,585
115,269	111,128	112,406	116,563	118,756	109,329
(97,817)	(93,755)	(95,257)	(99,238)	(101,553)	(92,499)
(24,297)	(41,838)	(21,887)	(29,687)	(23,899)	(40,399)
(122,114)	(135,593)	(117,144)	(128,925)	(125,452)	(132,898)
110,672	98,173	91,672	92,673	115,004	113,565
1,375	2,197	4,659	9,830	11,637	9,745
(16,247)	(16,940)	(17,371)	(17,674)	(17,783)	(18,075)
(10,620)	(14,708)	(16,521)	(16,521)	(16,040)	(14,478)
-	-	-	-	-	(5,289)
3,483	3,342	4,375	3,151	8,327	6,944
13,152	8,349	10,241	7,520	5,806	12,613
-	-	-	25,000	-	-
101,815	80,413	77,055	103,979	106,951	105,025
(20,299)	(55,180)	(40,089)	(24,946)	(18,501)	(27,873)
11,049	14,396	54,560	11,092	6,425	2,304
(9,250)	(40,784)	14,471	(13,854)	(12,076)	(25,569)
(23,448)	(18,519)	1,204	(46,833)	(35,006)	(33,619)
33,982	32,702	31,875	37,048	3,517	3,569
87,706	93,307	115,195	143,588	179,146	189,783
(3,557)	-	-	-	-	-
$ 94,683	$ 107,490	$ 148,274	$ 133,803	$ 147,657	$ 159,733

SAN MATEO COUNTY TRANSIT DISTRICT

REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 2007 THROUGH 2016

Fiscal year ending	**2016**	**2015**	**2014**	**2013**
Passenger fares (in thousands)	$ 18,078	$ 18,816	$ 18,557	$ 17,808
Revenue Base				
Number of passengers (in thousands)	12,794	13,488	12,784	12,752
Fare structure				
Adults local fare	$ 2.25	$ 2.00	$ 2.00	$ 2.00
Senior citizen / disabled/ Medicare cardholder	$ 1.10	$ 1.00	$ 1.00	$ 1.00
Youth	$ 1.10	$ 1.25	$ 1.25	$ 1.25
Redi-Wheels (Paratransit)	$ 3.75	$ 3.75	$ 3.75	$ 3.75
Sales tax rate	0.50%	1%	0.50%	0.50%
Sales tax revenue (in thousands)	$ 79,705	$ 80,975	$ 77,606	$ 73,859
Taxable sales in San Mateo County (in thousands) [1]	$ 15,941,000	$ 16,194,800	$ 15,521,200	$ 14,771,800

[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.

SAN MATEO COUNTY TRANSIT DISTRICT

REVENUE CAPACITY – REVENUE BASE AND REVENUE RATE
FISCAL YEARS 2007 THROUGH 2016

2012	2011	2010	2009	2008	2007	2006
$ 17,452	$ 17,373	$ 17,149	$ 17,325	$ 17,203	$ 16,830	$ 16,296
12,995	13,531	14,255	15,284	14,915	14,669	14,508
$ 2.00	$ 2.00	$ 2.00	$ 1.75	$ 1.50	$ 1.50	$ 1.50
$ 1.00	$ 1.00	$ 1.00	$ 0.75	$ 0.75	$ 0.75	$ 0.75
$ 1.25	$ 1.25	$ 1.25	$ 1.00	$ 1.00	$ 1.00	$ 1.00
$ 3.75	$ 3.50	$ 3.00	$ 3.00	$ 2.50	$ 2.50	$ 2.50
0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
$ 69,370	$ 63,514	$ 58,488	$ 60,015	$ 68,667	$ 66,198	$ 63,813
$ 13,906,978	$ 13,020,643	$ 11,966,338	$ 11,327,022	$ 13,137,913	$ 13,326,306	$ 12,900,391

SAN MATEO COUNTY TRANSIT DISTRICT

REVENUE CAPACITY – OVERLAPPING REVENUE
FISCAL YEARS 2007 THROUGH 2016

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	San Mateo County Transactions and Use Tax	Total
2016	6.50%	1.00%	0.50%	0.50%	0.25%	0.50%	0.50%	9.75%
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%
2007	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.
[7] San Mateo County Transactions and Use Tax (SMGT), tax rates effective on April 1, 2013.

This table presents the tax rates for local authorities in San Mateo County. The District receives a half-cent county transaction and use tax.

Source: California State Board of Equalization

SAN MATEO COUNTY TRANSIT DISTRICT

REVENUE CAPACITY – PRINCIPAL REVENUE PAYERS
FISCAL YEARS 2006 AND 2015 (in thousands)

	FY2015*			FY2006		
Principal Revenue Payers	**Rank**	**Percent of Taxable Sales**	**Amount**	**Rank**	**Percent of Taxable Sales**	**Amount**
All other outlets	1	31.9%	$1,125,575	1	27.1%	$3,499,262
Automotive group	2	13.2%	465,514	2	12.9%	1,666,602
Food Services/drinking places	10	4.1%	144,973	10	3.2%	$411,438
Gasoline (Service) stations	7	6.1%	214,500	6	7.1%	917,482
General merchandise stores	5	6.9%	244,038	3	10.2%	1,313,029
Building materials group	6	6.4%	224,535	7	7.0%	908,205
Apparel stores	9	5.0%	176,232	11	3.1%	398,192
Food/Beverage stores	3	12.8%	451,055	5	9.0%	1,158,608
Miscellaneous Store Retailers	4	8.5%	300,836	8	5.3%	677,986
Electronics & Appliance stores						
Furniture/Home furnishings				9	4.0%	512,423
Health and personal services						
Sporting Goods, Hobby, Book &				4		1,249,966
Music Stores (Specialty stores)					9.7%	
Nonstore Retailers	8	5.2%	183,646	12	1.4%	187,198
Total		100.0%	$3,530,904		100.0%	$12,900,391

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

This table ranks the top 14 principal tax payers by industry.

Source: California State Board of Equalization

SAN MATEO COUNTY TRANSIT DISTRICT

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

Fiscal Year	Revenue Bonds for SamTrans (in thousands)[1]	Personal Income for San Mateo County[2]	As a Percent of Personal Income
2016	$ 269,235	$ 65,246,461	0.41%
2015	284,128	63,346,079	0.45%
2014	290,353	61,501,048	0.47%
2013	300,357	59,709,755	0.50%
2012	306,802	58,665,994	0.52%
2011	315,409	51,745,573	0.61%
2010	323,615	47,469,961	0.68%
2009	331,451	46,381,026	0.71%
2008	338,135	48,856,877	0.69%
2007	344,425	49,894,436	0.69%

[1] Current and prior years' CAFRs

[2] U.S. Department of Commerce, Bureau of Economic Analysis, calendar year figures. Personal Income data for 2014 and 2015 are based on an estimated three percent annual increase over 2013.

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 2007 THROUGH 2016

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
2016	$ 269,235	$ 15,941,000 [1]	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, 2016

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 2007 THROUGH 2016 (in thousands)

Fiscal Year	Sales Tax Revenue	Principal	Interest	Total	Coverage
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
2007	66,198	6,315	17,265	23,580	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 finnacial 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

SAN MATEO COUNTY TRANSIT DISTRICT

DEMOGRAPHICS AND ECONOMIC INFORMATION – POPULATION, INCOME AND UNEMPLOYMENT RATES
FISCAL YEARS 2007 THOUGH 2016

Year	Population [1]	Total Personal Income (in thousands) [2]	Per Capita Personal Income [2]	Average Unemployment Rates [3]
2016	762,327	$ 65,246,461 *	$ 100,480 *	3.2%
2015	753,123	63,346,079 *	84,758 *	3.3%
2014	745,635	61,501,048 *	82,290 *	4.2%
2013	736,647	59,709,755	79,893	5.7%
2012	727,795	58,665,994	79,420	7.0%
2011	722,372	51,745,573	71,051	8.3%
2010	718,614	47,469,961	65,953	8.9%
2009	713,818	46,381,026	64,994	8.9%
2008	707,820	48,856,877	69,416	4.8%
2007	701,838	49,894,436	71,910	4.0%
2006	699,347	47,184,337	68,366	3.8%

[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 2014 and 2015 is based on an estimated three percent annual increase over 2013.

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

SAN MATEO COUNTY TRANSIT DISTRICT

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

	2014*			2006		
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	10,000	1	2.42%	9,600	1	2.73%
Genentech Inc.	9,800	2	2.37%	7,845	2	2.23%
Oracle Corp.	6,750	3	1.63%	5,642	4	1.61%
County of San Mateo	5,472	4	1.32%	5,777	3	1.64%
Facebook Inc.	3,957	5	0.96%			
Kaiser Permanente	3,900	6	0.94%	3,609	5	1.03%
Visa USA/Visa International	3,500	7	0.85%			
Gilead Sciences Inc.	3,115	8	0.75%			
Mills-Peninsula Health Services	2,500	9	0.61%	1,800	9	0.51%
San Mateo County Community College District	2,285	10	0.55%			
Safeway Inc.				2,280	6	0.65%
United States Postal Service				2,174	7	0.62%
Applera (Applied Biosystems)				1,578	10	0.45%
Electronic Arts Inc.				2,000	8	0.57%
Total	51,279		12.40%	42,305		12.04%

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

This table presents the top 10 principal employers in San Mateo County for 2014 and 2006.

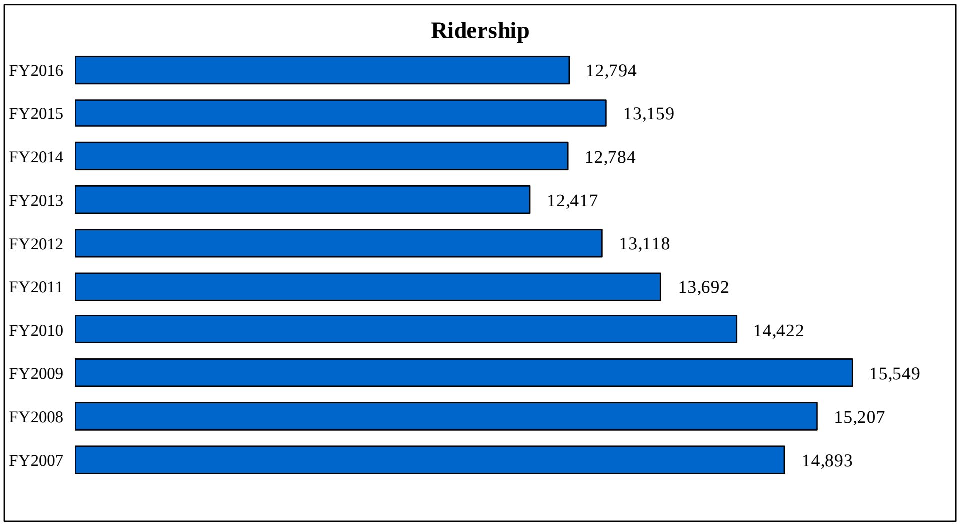
Source: San Francisco Business Times - Book of Lists; California Employment Development Department (provided by San Mateo County Controller's office)

SAN MATEO COUNTY TRANSIT DISTRICT

OPERATING INFORMATION – RIDERSHIP AND FARES
FISCAL YEARS 2007 THROUGH 2016

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.

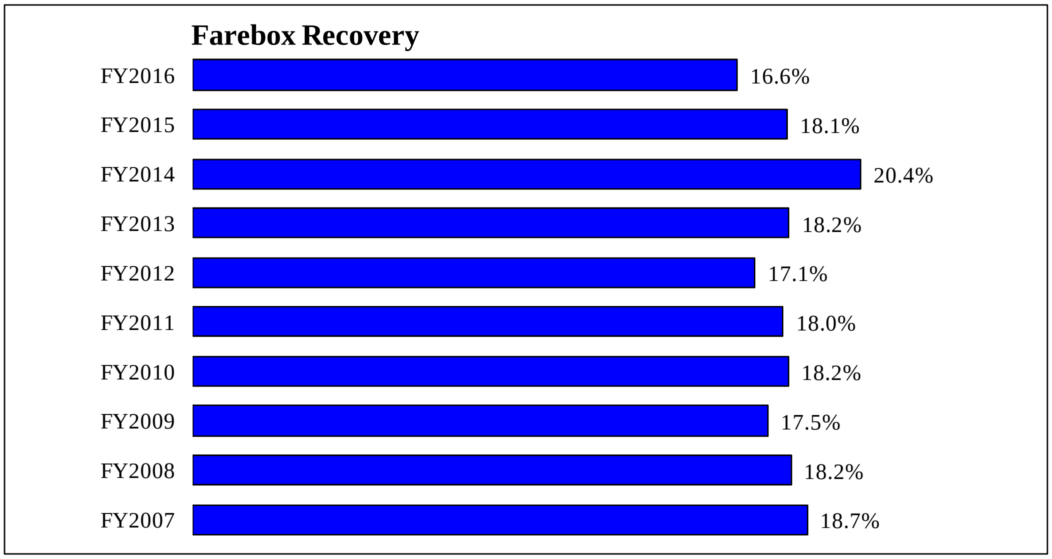
FIXED-ROUTE PASSENGER FARES

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

SAN MATEO COUNTY TRANSIT DISTRICT

OPERATING INFORMATION – FAREBOX RECOVERY AND MILES
FISCAL YEARS 2007 THROUGH 2016

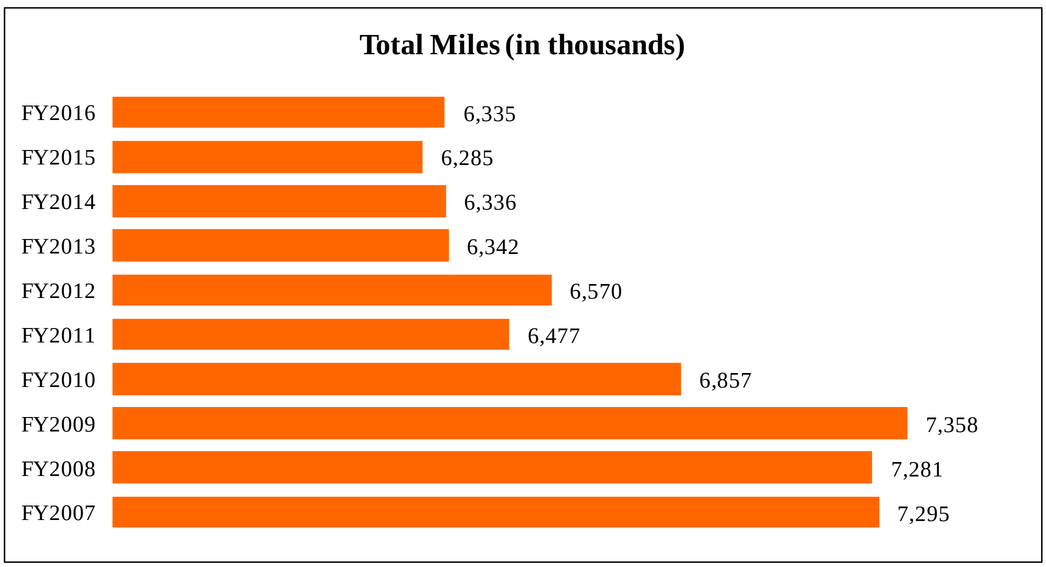
FIXED-ROUTE FAREBOX RECOVERY



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.

SAN MATEO COUNTY TRANSIT DISTRICT

OPERATING INFORMATION – EMPLOYEES (FULL-TIME EQUIVALENTS) FISCAL YEARS 2007 THROUGH 2016

	Full-Time Equivalents									
Division	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
Caltrain Modernization Program	0.05	0.05	0.05	0.48	-	-	-	-	-	-
Customer Service and Marketing	23.95	25.34	28.22	30.31	29.56	24.43	20.90	-	-	-
Executive	3.60	3.67	3.55	3.58	3.52	3.60	3.55	-	-	-
Finance and Administration	64.12	68.50	66.72	66.53	66.51	66.83	67.88	-	-	-
Operations, Engineering and Construction	453.82	454.27	457.54	449.27	448.83	451.77	453.37	-	-	-
Planning and Development	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	42.70
Communication	-	-	-	-	-	-	-	29.97	29.58	33.75
Development	-	-	-	-	-	-	-	15.12	13.75	11.57
Executive	-	-	-	-	-	-	-	4.55	4.80	4.80
Finance	-	-	-	-	-	-	-	33.30	33.40	31.30
Operations	-	-	-	-	-	-	-	502.25	502.50	507.20
Total	556.32	565.03	568.88	559.80	559.50	556.87	554.95	628.04	627.38	631.32

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 2007 THROUGH 2016 (in thousands)

	2016	2015	2014	2013
Depreciable Capital Assets				
Buses and bus equipment	$ 153,955	$ 167,272	$ 149,751	$ 135,297
Buildings and building improvements	64,868	64,838	64,815	71,935
Maintenance and other equipment	32,063	6,523	5,822	9,470
Furniture and fixtures	31,734	19,656	20,272	23,584
Shelters and bus stop signs	592	592	579	3,178
Other vehicles	2,159	2,159	2,226	2,183
Total depreciable capital assets	285,371	261,040	243,465	245,647
Accumulated Depreciation for:				
Buses and bus equipment	(93,847)	(97,574)	(86,157)	(80,138)
Buildings and building improvements	(53,812)	(51,601)	(49,387)	(55,168)
Maintenance and other equipment	(10,599)	(4,715)	(4,015)	(7,740)
Furniture and fixtures	(20,782)	(17,241)	(16,765)	(17,083)
Shelters and bus stop signs	(580)	(575)	(558)	(3,177)
Other vehicles	(1,990)	(1,876)	(1,711)	(1,457)
Total accumulated depreciation	(181,610)	(173,582)	(158,593)	(164,763)
Nondepreciable Capital Assets				
Land	53,855	53,855	53,855	53,855
Construction in progress	10,234	35,303	21,323	11,563
Total nondepreciable capital assets	64,089	89,158	75,178	65,418
Capital Assets, Net	$ 167,850	$ 176,616	$ 160,050	$ 146,302

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

Source: Current and prior years' CAFRs.

SAN MATEO COUNTY TRANSIT DISTRICT

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

2012	2011	2010	2009	2008	2007
$ 138,638	$ 132,855	$ 164,448	$ 140,767	$ 142,856	$ 158,180
79,294	78,844	76,150	73,868	73,686	73,237
16,927	15,542	15,125	14,591	24,718	25,500
26,686	25,927	20,831	14,447	13,033	13,875
3,190	3,185	3,166	3,165	3,271	3,313
2,263	2,031	2,026	2,343	2,015	2,363
266,998	258,384	281,746	249,181	259,579	276,468
(75,080)	(68,406)	(105,223)	(102,625)	(97,768)	(105,380)
(61,157)	(58,006)	(53,983)	(51,205)	(48,862)	(46,734)
(15,035)	(13,258)	(11,897)	(11,454)	(22,538)	(22,350)
(20,094)	(17,768)	(13,595)	(12,286)	(8,244)	(8,474)
(3,183)	(3,176)	(3,156)	(3,148)	(3,248)	(3,200)
(1,417)	(1,245)	(1,382)	(1,586)	(1,671)	(2,098)
(175,966)	(161,859)	(189,236)	(182,304)	(182,331)	(188,236)
53,855	53,855	51,435	51,435	51,435	43,695
10,201	9,805	36,425	16,968	18,772	15,713
64,056	63,660	87,860	68,403	70,207	59,408
$ 155,088	$ 160,185	$ 180,370	$ 135,280	$ 147,455	$ 147,640

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SINGLE AUDIT

INDEPENDENT AUDITOR'S REPORTS

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

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 8879.50

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 10, 2017. Our report contains an emphasis of matter regarding adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application and* GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73,* as of July 1, 2014.

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 entity's 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.

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

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

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 8879.50, 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 8879.50 et seq.

District's Response to Findings

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

Purpose of This Report

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

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
January 10, 2017

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, 2016. 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 the requirements of laws, regulations, contracts, and grants 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, 2016.

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
January 10, 2017

SAN MATEO COUNTY TRANSIT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

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	$ 425,728
Federal Transit Capital Investment Grants	20.500	CA-04-0221	587,751
Pass through the California Department of Transportation			
Federal Transit Formula Grants	20.500	TCSPL-6014(015)	190,399
Total Federal Transit Capital Investment Grants			1,203,878
Direct Grants			
Federal Transit Formula Grants			
Federal Transit Formula Grants	20.507	CA-90-Y-612	38,161
Federal Transit Formula Grants	20.507	CA-90-Y-0768	28,220
Federal Transit Formula Grants	20.507	CA-95-X-187	4,478
Federal Transit Formula Grants	20.507	CA-90-Z-043	5,649,468
Federal Transit Formula Grants	20.507	CA-90-Z-124	1,693,373
Federal Transit Formula Grants	20.507	CA-95-X-144	588,362
Federal Transit Formula Grants	20.507	CA-57-X-073	134,224
Total Federal Transit Formula Grants			8,136,286
Total Federal Transit Cluster			9,340,164
Transit Services Programs Cluster:			
Direct Grants			
Formula Grants for Rural Areas	20.509	Not Available	148,812
Total U.S. Department of Transportation			9,488,976
Total Expenditures of Federal Awards			$ 9,488,976

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

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, 2016

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?	Yes
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
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, 2016

FINANCIAL STATEMENT FINDINGS

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

2016-01 Year-End Accounting Closing Procedures

Criteria or specific requirement
The 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.

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

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

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Financial Statement Prior Year Findings

There were no prior year Financial Statement Findings reported.

Federal Award Prior Year Findings and Questioned Costs

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