SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2016

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2016

Sonoma-Marin Area Rail Transit District

Petaluma, California

Report Prepared by the Finance Department

Sonoma-Marin Area Rail Transit District
Comprehensive Annual Financial Report
For the Year Ended June 30, 2016

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INTRODUCTORY SECTION

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November 21, 2016

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Sonoma-Marin Area Rail Transit District (SMART or the District) for the Fiscal Year July 1, 2015 through June 30, 2016.

This report was prepared in accordance with the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA) and is in conformance with Generally Accepted Accounting Principles (GAAP). Responsibility of the accuracy, completeness, and fairness of the data and clarity of the presentation, including all disclosures, rests with the management of SMART. To the best of our knowledge, this report is complete and accurate in all material respects, and is reported in a manner that fairly presents SMART's financial position.

We contracted with Macias Gini & O'Connell LLP to perform the audit of our financial statements. The purpose of the independent audit is to offer reasonable assurance that the financial statements are free of material misstatement. The independent auditor's report can be found at the beginning of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements. This narrative is given in the form of the Management's Discussion and Analysis (MD&A), and is meant to complement this letter of transmittal. The MD&A can be found following the independent auditor's report.

PROFILE OF THE ORGANIZATION

SMART is a transit agency created by the State of California to oversee the development, implementation and operation of a passenger rail system in Sonoma and Marin Counties. Since its creation, the District has been working to build a rail transit system and an accompanying multi-use pathway. SMART is in the final stages of completing the first phase of a transit system that will run along 70 miles of the historic Northwestern Pacific Railroad alignment and will connect 14 stations between Cloverdale in Sonoma County and Larkspur in Marin County.

SMART is governed by a 12-member Board of Directors, made up of two county supervisors from each county, three City Council members from each county and two representatives from the Golden Gate Bridge, Highway and Transportation District. The Board has the authority under State law to own, operate, manage, and maintain a passenger rail system within the territory of the SMART District.

The SMART Rail and Pathway project is funded by a one-quarter percent sales tax approved by voters in the SMART District in 2008. The Phase 1 project currently in the final stages will create rail service from the Downtown San Rafael Station to the Airport Boulevard Station in Santa Rosa and multiple SMART pathway segments in San Rafael, Novato, Cotati, Rohnert Park and Santa Rosa. Subsequent phases of the project will include additional SMART rail stations in Coverdale, Healdsburg, Windsor, Petaluma, and in Larkspur; and further extensions of the pathway. All future phases will be completed as funding becomes available. Passengers north and south of the Phase 1 project will connect to the SMART transit system by SMART contracted connector bus and local transit connections. The project provides a much-needed alternative to Highway 101, the only North-South direct connection between Marin and Sonoma.

LOCAL AND REGIONAL ECONOMY

Marin and Sonoma Counties are home to a mix of tourism, recreation, agriculture, and industry. The major population centers of Marin and Sonoma are located along the Highway 101 corridor and the parallel SMART rail line. More than 75% of commuters in the North Bay travel either within or between the two counties to get to work and are often stuck in congestion that ranks in the top 15 most congested segments in the Bay Area. SMART's transit alternative will provide a valuable addition to the region when it opens, since 77% of all jobs in the two counties are located within 3 miles of a SMART rail station.

Economic forecasts locally and for the region indicate a full recovery since the 2008 recession. Job growth has outpaced the national average and investments in infrastructure such as the regional airport have led to increased economic activity. SMART's finances rely directly on the strength of sales tax revenues and its strong link to employment rates and median incomes. The District is home to a fairly wealthy taxpayer base, with a weighted per capita income base of $66,125 compared to California's $49,985 and $44,765 for the United States according to available reports from the U.S. Bureau of Economic Analysis (BEA). The District's residents have shown stable employment rates in the past year. The seasonally unadjusted unemployment rates in Marin and Sonoma Counties in August of 2016 were 3.5% and 4.1%, respectively. Sales tax revenues continue to grow but the rate of that growth decreased in the past year. For the year that ended June 30, 2016, SMART sales tax receipts, net of state fees, increased by 2.75% and equaled $34.8 million. Economic forecasts for the region continue to be positive. Sonoma County's economy has seen strong job growth in leisure, hospitality, healthcare and food and beverage manufacturing. In Marin County, personal income which is already the highest in the State of California is projected to grow again 2017. Health care, professional services and construction led total job growth in Marin County, with an additional 220 payroll jobs in the past year.

DISTRICT ACTIVITIES in Fiscal Year 2015-16

Construction of SMART Rail and Pathway Project

Phase 1 construction, which began in 2012, approached substantial completion at the end of Fiscal Year 2015-16, a major milestone for a very complex and challenging infrastructure project. Final testing of the complex, state-of-the-art communications and signal system is continuing since the close of Fiscal Year 2015-16, now that 43 miles of infrastructure related to passenger rail service has been installed. This infrastructure, reflected in our asset schedules, included all track, 56 grade crossings; three passing sidings, 22 bridge repairs or replacements; 1 major moveable bridge replacement, 12 stations platforms with passenger amenities, and the Rail Operations Center where seven new rail vehicles receive their necessary servicing and SMART staff dispatch rail traffic for the entire system.

Progress on the SMART pathway during Fiscal Year 2015-16 included the long-awaited completion of the federal environmental permitting process. This environmental approval allowed the award of federally funded contracts for pathway segments in Rohnert Park as well as regionally funded pathway segments in Santa Rosa. Several other segments along the corridor are in contract and awaiting local permitting. The District continues to work cooperatively with local jurisdictions to provide funding, right of way and other support for pathway segments, such as Sonoma County's construction of the Hearn Avenue to Joe Radota Trail segment that will be part of SMART's pathway system. Significant this past year was the opening of the Central Marin Ferry Connector Project in Larkspur, which is owned by SMART but built by Marin County and provides a pathway over Sir Francis Drake Boulevard from the Cal-Park tunnel to the Larkspur Ferry.

This substantial work scope completed in Fiscal Year 2015-16 has led to the most visible changes for the public happening now, including the installation of signage, security features and fare vending machines on our new station platforms. Along the right of way, crews are performing final safety checks at each rail crossing, and critically important rail vehicle testing by our Engineer-Conductors will ensure a safe and reliable system for our passengers. In addition, as Phase 1 activities wind down, SMART's capital activities related to the Larkspur extension ramp up. In Fiscal Year 2015-16, SMART entered the Small Starts capital grant process with the Federal Transit Administration to begin the important 2-mile extension to Larkspur. In addition, SMART completed a competitive process for design and construction management services in anticipation of awarding a construction contract in the coming year.

Operations Planning and Start Up

Fiscal Year 2015-16 also saw a marked increase in the development of SMART rail operations capability with more staff, facilities and the assumption of responsibility for the rail and pathway infrastructure nearly complete. The proportion of expenses related to operations now constitutes a greater portion of our financial activities. SMART's Operations department is now fully developed, with three main functions of Transportation, Vehicle Maintenance and Maintenance of Way, under the supervision of the Operations Manager. The annual budget for operations doubled over the prior year, with staffing and significant equipment necessary for 24-hour train dispatching, operations, maintenance of signals and the entire built corridor. In addition, the Board moved forward with the consideration and approval of a fare structure during operation that will lead to a sustainable operation in the years to come.

OTHER FINANCIAL INFORMATION

Risk Management

We continue to focus on our comprehensive safety and risk management program. Commuter rail systems must meet specific safety and insurance requirements and can face large exposures in an accident. In the past year, we increased our substantial rail liability limit to be commensurate with the risk involved in high speed testing and passenger service. We continue to build required financial reserves and self-insured retentions as needed to fully address the financial needs of our risk strategies. Simultaneously, increased safety and security measures have been implemented in preparation for increased activities and are the daily focus of operations managers. This includes a System Safety Plan and an Emergency Management Plan.

Cash Management

SMART's funds are invested pursuant to policy approved by the Board each year. SMART maintains its fund balances in the County of Sonoma's Pooled Investment Fund with transfers as needed to manage accounts payable transactions. In doing so, SMART places its highest priority on the preservation of capital, liquidity and yield, in that order of priority. Our policy addresses the soundness of financial institutions holding our assets and the types of investments permitted by the California Government Code. SMART does not maintain its own retirement fund and is a pooled participant of California Public Employees' Retirement System (CalPERS) which follow policies established by its governing board.

Internal Controls

The District's financial reporting system and business processes have been designed with an emphasis on the importance of strong but reasonable internal financial controls, including the proper recording of revenues and expenditures and maintenance of budgetary control for the allocation of available resources. Existing internal controls are monitored and changes are implemented as needed as the District grows in size and complexity. These controls are designed to provide reasonable, but not absolute, assurance that assets are safeguarded against waste, fraud, and non-authorized use and the District's financial records can be relied upon to produce financial statements free of any material misstatements and in accordance with GAAP. The concept of reasonable assurance recognizes that the cost of maintaining the system of internal controls should not exceed benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgements by management. We believe that the District's internal accounting controls achieve that goal. In the past year, the District has transitioned from utilizing the County of Sonoma's services for accounting, payroll and treasury services, to systems managed directly by the District. That transition has been achieved with no disruption to the operations of the District but an increase in control of all aspects of our financial activities.

Certificate of Achievement

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to SMART for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. This was the third consecutive year that SMART has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and are submitting it to the GFOA to determine its eligibility for another certificate.

CONCLUSION

The financial statements presented here once again illustrate the dramatic growth in public assets that have resulted from the voters' approval of the SMART sales tax measure. Measure Q revenues have made possible not only the construction of a world-class transit system, but also the ongoing operation and maintenance of that system in the future. With continued leadership from the Board and ongoing vigilance on maintaining necessary reserves and financial transparency, SMART's current and future operations will remain on solid footing.

ACKNOWLEDGEMENTS

The preparation of this report was made possible by the combined efforts of the SMART staff and we would like to thank them for their hard work and dedication. We would also like to thank Macias Gini & O'Connell LLP for their contributions. In addition, we would like to express our appreciation for the continued support and commitment of the Board for their interest and support in planning and conducting the District's financial operations.

Erin McGrath
Chief Financial Officer

Farhad Mansourian
General Manager

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Sonoma-Marin Area Rail Transit District

California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2015

Jeffrey R. Emer

Executive Director/CEO

Sonoma-Marin Area Rail Transit District
Fiscal Year 15-16 Principal Officials

Judy Arnold, Chair
Marin County Board of Supervisors

Barbara Pahre, Vice-Chair
Golden Gate Bridge, Highway and Transportation District

Jim Eddie
Golden Gate Bridge, Highway and Transportation District

Debora Fudge
Sonoma County Mayors and Councilmembers Association

Eric Lucan
Transportation Authority of Marin

Jake Mackenzie
Sonoma County Mayors and Councilmembers Association

Stephanie Moulton-Peters
Marin Council of Mayors and Councilmembers

Gary Phillips
Transportation Authority of Marin

David Rabbitt
Sonoma County Board of Supervisors

Carol Russell
Sonoma County Mayors and Councilmembers Association

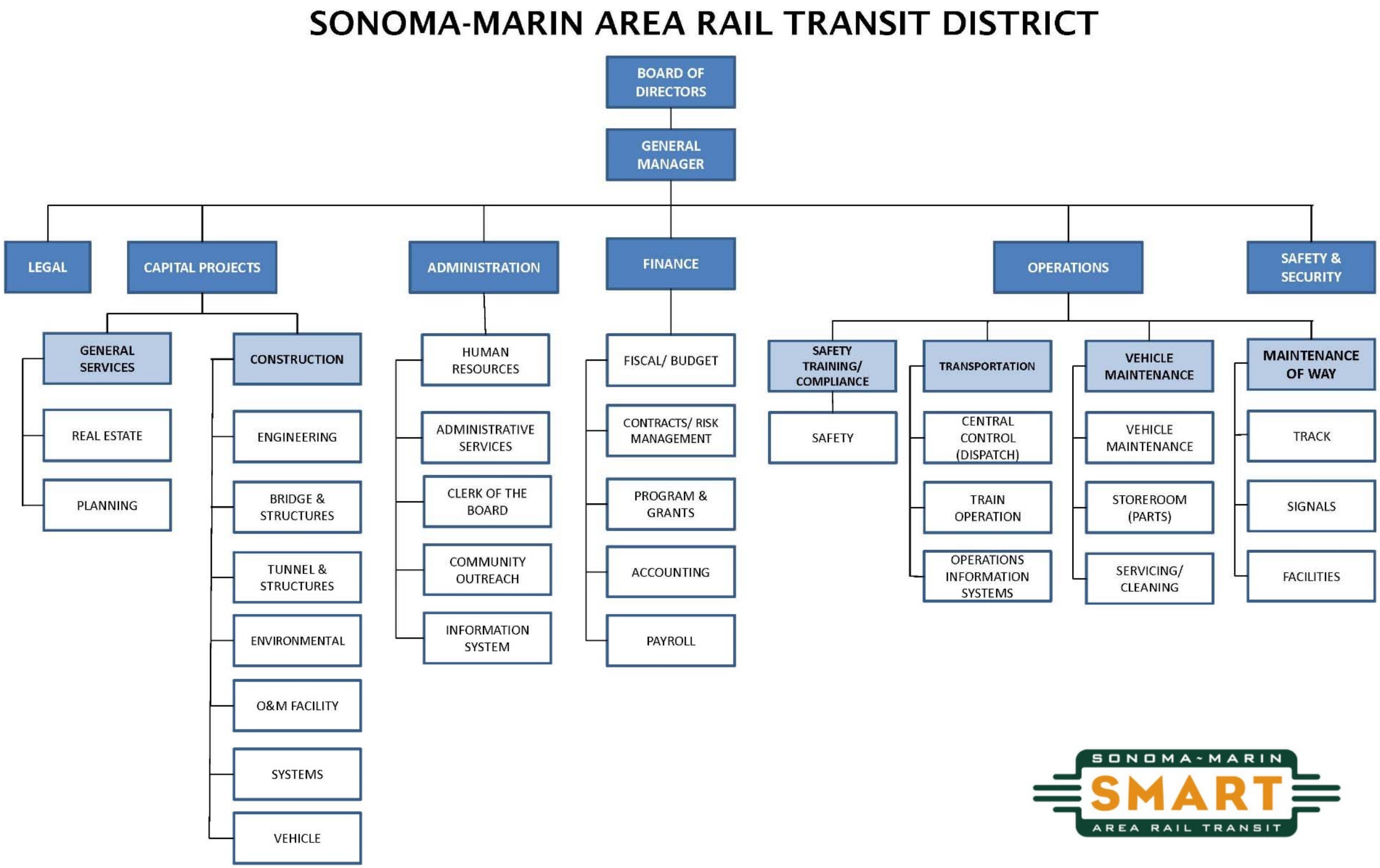
Kathrin Sears
Marin County Board of Supervisors

Shirlee Zane
Sonoma County Board of Supervisors

Farhad Mansourian
General Manager

Erin McGrath
Chief Financial Officer

Sonoma-Marin Area Rail Transit District
Organization Chart



Sonoma-Marin Area Rail Transit District
Service Area Map

FINANCIAL SECTION

Independent Auditor's Report

The Board of Directors of the
Sonoma-Marin Area Rail Transit District
Petaluma, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Sonoma-Marin Area Rail Transit District (SMART), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise SMART'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 an opinion 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 opinion.

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of SMART's proportionate share of the net pension liability, the schedule of contributions – pension plans, and the schedule of funding progress identified in the accompanying 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 an opinion on the financial statements that collectively comprise SMART's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016 on our consideration of SMART'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 SMART's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 21, 2016

As management of the Sonoma-Marin Area Rail Transit District (SMART or the District), we offer readers of SMART's financial statements this narrative overview and analysis of the financial activities of SMART for the year ended June 30, 2016. We encourage readers to combine the information presented here with SMART's basic financial statements and the accompanying notes to the basic financial statements.

Fiscal Year 2016 Financial Highlights

- SMART's financial activity for the year ended June 30, 2016 involves significant work toward completion of the SMART Phase 1 capital project and growing operational expenses related to the anticipated startup of rail service.
- Assets of SMART exceeded its liabilities at the close of the year ended June 30, 2016 by $386,176,315 (net position). Of this amount, $76,452,056 is unrestricted.
- SMART's net position increased $42,465,963 during the year ended June 30, 2016, due to an increased investment into capital assets, primarily crossings, stations and track improvements under construction.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to SMART's basic financial statements which are comprised of financial statements and the notes to the basic financial statements. SMART provides its financial information utilizing enterprise fund reporting. This type of fund reporting is used for funds whose activities are financed with bonds secured solely by a pledge of net revenues from fees or charges of the activity and for which fees are designed to recover costs, as a matter of policy. These requirements apply to SMART and, furthermore, enterprise fund accounting is employed by most government transit districts.

Basic Financial Statements

The financial statements are designed to provide readers with a broad overview of SMART's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of SMART's assets, deferred outflows of resources, liabilities and deferred inflow of resources, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SMART is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how SMART's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected rental revenue and earned but unused vacation leave).

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found on pages 13-32 of this report.

Analysis of the Financial Statements

The financial statements provide both short-term and long-term information about the District's overall financial condition. This analysis addresses the financial statements of the District as a whole. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. SMART's net position was $386,176,315 on June 30, 2016.

The largest portion of SMART's net position (80%) reflects its investment in capital assets (e.g., land, tracks and crossing equipment, bridges and tunnels). SMART will use these capital assets to provide passenger rail services to its customers and a multiuse pathway for the general public; consequently, these assets are not available for future spending.

Statements of Net Position

	2016	2015	2016 - 2015 Change
Current and other assets	$ 111,208,435	$ 154,393,051	$ (43,184,616)
Capital assets	476,586,202	399,307,788	77,278,414
Total assets	587,794,637	553,700,839	34,093,798
Deferred outflows of resources	1,216,475	536,559	679,916
Current liabilities	23,174,900	23,553,993	(379,093)
Non-current liabilities	179,251,010	186,707,244	(7,456,234)
Total liabilities	202,425,910	210,261,237	(7,835,327)
Deferred inflows of resources	408,887	265,809	143,078
Net position:			
Net investment in capital assets	309,724,259	228,244,612	81,479,647
Unrestricted	76,452,056	115,465,740	(39,013,684)
Total net position	$ 386,176,315	$ 343,710,352	$ 42,465,963

SMART's net position at the end of fiscal year 2016 increased by $42,465,963 from the prior fiscal year. This increase is primarily the result of SMART continuing to invest its revenues, restricted bond funds, and grants into capital assets, primarily crossings, train systems stations and track improvements. This also includes a donated multiuse pathway built on SMART property in the City of Larkspur. Current and other assets at June 30, 2016, decreased by $43,184,616, from $154,393,051 on June 30, 2015 to $111,208,435 on June 30, 2016. The decrease was primarily due to drawdown of operating cash and bond funds to pay project expenditures. Current liabilities at June 30, 2016, decreased by $379,093, from $23,553,993 on June 30, 2015 to $23,174,900 on June 30, 20156, which was primarly due to reduced payables at year-end related to SMART's capital asset activity.

Sonoma-Marin Area Rail Transit District
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2016

Statements of Revenues, Expenses and Changes in Net Position

	2016	2015	2016 - 2015 Change
Operating Revenues:			
Charges for services	$ 529,191	$ 640,249	$ (111,058)
Operating Expenses:			
Public transportation - rail/pathway development:			
Salaries and employee benefits	8,582,645	4,881,763	3,700,882
Capitalized employee costs	(845,752)	(578,405)	(267,347)
Services and supplies	5,998,630	5,275,106	723,524
Depreciation	4,610,295	4,575,530	34,765
Other charges	7,541	380,000	(372,459)
Total operating expenses	18,353,359	14,533,994	3,819,365
Operating loss	(17,824,168)	(13,893,745)	(3,930,423)
Nonoperating Revenues (Less Expenses):			
Sales/Use taxes	34,776,012	33,845,426	930,586
Investment earnings	585,178	1,384,557	(799,379)
Other revenues	2,264,334	49,351	2,214,983
Capital expense passed through to other agencies	(295,894)	(1,557,743)	1,261,849
Interest and related fees	(805,558)	(2,761,502)	1,955,944
Total Nonoperating Revenues (Net):	36,524,072	30,960,089	5,563,983
Capital grants and contributions	23,766,059	9,194,005	14,572,054
Change in net position	42,465,963	26,260,349	16,205,614
Net position, beginning of year	343,710,352	317,450,003	26,260,349
Net position - end of the year	$ 386,176,315	$ 343,710,352	$ 42,465,963

Fiscal Year 2016 Revenues

- SMART revenues consist of operating revenues of $529,191 and non-operating revenues less expenses of $36,524,072 -- the majority of which is sales tax receipts. Sales tax, SMART's single largest ongoing source of revenue, continues to grow at 2.75% over the previous year but at a slower pace than in the years after the recession.
- Capital grants and contributions of $23,766,059 are $14,572,054 higher than the year ended June 30, 2015. The increase is primarily the result of the acceptance of the multiuse path and bridge contributed to SMART in the City of Larkspur.

Fiscal Year 2016 Expenses

- SMART had operating expenses of $18,353,359, tied to salaries, benefits, other services and supplies and depreciation.
- Salaries and benefits increased significantly over the year ended June 30, 2015, by $3,700,882, due to the hiring of more operating staff.
- Services and supplies increased over the year ended June 30, 2015 by $723,524, primarily due to increased services related to operations start up activities.
- Capital expenses passed through to other agencies decreased over the year ended June 30, 2015 by $1,261,849 since SMART performed less work on behalf of other jurisdictions.
- Interest and related fees decreased over the year ended June 30, 2015 by $1,995,944 primarily due to interest expense net of capitalized amounts.

Capital Assets and Debt

Capital Assets

SMART's capital assets, as of June 30, 2016 are $476,586,202 (net of accumulated depreciation) which is an increase of $77,278,414 over June 30, 2015. This increased investment in capital assets includes land, construction in progress, infrastructure (tracks/rails, crossings, bridges, fencing, tunnels, road crossings and pathway improvements), buildings and improvements, and equipment. The increase is also due to a significant donated asset, the Central Marin Ferry Connector multiuse path and bridge in the City of Larkspur, Marin County.

Capital Assets

	2016	2015	2016 - 2015 Change
Land	$ 40,981,773	$ 40,790,104	$ 191,669
Intangible Assets (Non-Amortizable)	18,770	-	18,770
Infrastructure	90,643,875	74,421,769	16,222,106
Buildings & improvements	4,430,137	4,292,272	137,865
Construction in progress	364,083,697	299,344,307	64,739,390
Equipment	1,251,975	673,066	578,909
Accumulated depreciation	(24,824,024)	(20,213,730)	(4,610,294)
Total capital assets, net	$ 476,586,202	$ 399,307,788	$ 77,278,414

Additional information on SMART's capital assets can be found in Note II.E of the notes to the basic financial statements.

Debt

SMART had $183,318,018 in bonds outstanding and unamortized bond premium at June 30, 2016 compared to $190,096,688 on June 30, 2015. Additional information on SMART's long-term debt can be found in Note II.F.

Economic and Other Factors

Economy

The completion of SMART's capital projects and ongoing operations rely directly on the strength of its designated Measure Q sales and use tax receipts. The strength of this revenue source is dependent on the economic health of the two counties of the SMART district, particularly employment rates and job growth. As discussed in the Introductory Section, the economy of the District continues to grow and exhibit healthy trends in employment and other key factors. While the District anticipates continued economic stability in the coming year we are monitoring what appears to be declining increases in sales tax indicating the possible end of eight continuous years of growth.

Other Factors

SMART continues to hold multi-year contracts with several independent contractors for significant amounts for construction of the SMART capital program. All but one of those contracts is anticipated to conclude in Fiscal Year 2016-17. SMART's contract related to the manufacturing of diesel multiple unit rail vehicles, was amended in Fiscal Year 2016-17 to exercise additional car options valued at $11 million to be delivered in late 2018 with a warranty period through 2020. At June 30, 2016, SMART's total outstanding commitments under these and other construction-related contracts were approximately $54.7 million.

Request for Additional Information

This financial report is designed to provide a general overview of SMART's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma-Marin Area Rail Transit District, Chief Financial Officer, 5401 Old Redwood Highway, Suite 200, Petaluma, CA 94954.

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Sonoma-Marin Area Rail Transit District
Statement of Net Position
June 30, 2016

Assets		
Current assets:		
Cash and cash equivalents	$	69,658,225
Restricted cash, cash equivalents and investments with trustee		21,633,044
Due from other governments		4,994,921
Other receivables		5,995,606
Deposits with others		8,262,033
Prepaid expenses		420,870
Total current assets		110,964,699
Non-current assets:		
Capital assets:		
Non-depreciable:		
Land		40,981,773
Construction in progress		364,083,697
Intangible assets		18,770
Depreciable (net of accumulated depreciation):		
Infrastructure		68,096,055
Buildings and improvements		2,709,386
Equipment		696,521
Total capital assets, net		476,586,202
Other receivables - long term		243,736
Total assets		587,794,637
Deferred outflows of resources		
Deferred outflows of resources related to pensions		1,216,475
Liabilities		
Current liabilities:		
Accounts payable and other current liabilities		14,208,386
Unearned revenue		425,326
Interest payable		2,758,450
Compensated absences - due within one year		457,738
Long-term debt - due within one year		5,325,000
Total current liabilities		23,174,900
Non-current liabilities:		
Compensated absences		234,446
Net post-employment benefits obligation		438,394
Net pension liability		585,152
Long-term debt		177,993,018
Total non-current liabilities		179,251,010
Total liabilities		202,425,910
Deferred inflows of resources		
Deferred inflows of resources related to pensions		408,887
Net Position		
Net investment in capital assets		309,724,259
Unrestricted		76,452,056
Total net position	$	386,176,315

The notes to the basic financial statements are an integral part of this statement.

Sonoma-Marin Area Rail Transit District

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2016

Operating Revenues	
Charges for services	$ 529,191
Operating Expenses	
Public transportation - rail/pathway development:	
Salaries and employee benefits	8,582,645
Capitalized employee costs	(845,752)
Services and supplies	5,998,630
Depreciation	4,610,295
Other Charges	7,541
Total operating expenses	18,353,359
Operating loss	(17,824,168)
Nonoperating Revenues (Expenses)	
Sales/Use taxes	34,776,012
Investment earnings	585,178
Miscellaneous revenue	2,264,334
Capital expense passed through to other agencies	(295,894)
Interest expense	(805,558)
Total nonoperating revenues (expenses)	36,524,072
Income before capital grants and contributions	18,699,904
Capital grants and contributions	
State of California	284,094
Metropolitan Transportation Commission	2,683,108
Sonoma County Transportation Authority - Measure M	47,780
Federal Highway Administration	2,392,222
Federal Transit Administration	1,387,373
Other governmental agencies	749,376
Donated asset	16,222,106
Total capital grants and contributions	23,766,059
Change in net position	42,465,963
Net position, beginning of year	343,710,352
Net position, end of year	$ 386,176,315

The notes to the basic financial statements are an integral part of this statement.

Sonoma-Marin Area Rail Transit District

Statement of Cash Flows

For the Year Ended June 30, 2016

Cash Flows from Operating Activities	
Receipts from tenants	$ 474,801
Receipts from others	54,390
Payments to suppliers for goods and services	(1,183,514)
Payments to employees for services	(7,378,303)
Payments to employee retirement system	(585,216)
Net cash used in operating activities	(8,617,842)
Cash Flows from Noncapital Financing Activities	
Sales tax received	34,261,535
Net cash provided by noncapital financing activities	34,261,535
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	(65,162,059)
Labor costs related to capital projects	(845,752)
Capital grants and contributions received restricted for capital purposes	4,248,505
Cash paid on projects on behalf of other governments	(295,894)
Cash receipts for third party infrastructure	720,598
Principal payments on long-term debt	(4,540,000)
Interest paid on capital debt	(8,456,951)
Net cash used in capital and related financing activities	(74,331,553)
Cash Flows from Investing Activities	
Investment income received	585,178
Proceeds from maturity of restricted investments	2,000,311
Net cash provided by investing activities	2,585,489
Net change in cash and cash equivalents	(46,102,371)
Cash and Cash Equivalents	
Beginning of year	137,393,640
End of year	$ 91,291,269
Reconciliation to Statement of Net Position	
Cash and cash equivalents	$ 69,658,225
Restricted cash, cash equivalents, and investments with trustee	21,633,044
Total cash and cash equivalents	$ 91,291,269

The notes to the basic financial statements are an integral part of this statement.

Sonoma-Marin Area Rail Transit District

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2016

Reconciliation of Operating Loss to		
Net Cash used in Operating Activities		
Operating loss	$	(17,824,168)
Adjustments to reconcile operating loss to		
net cash used in operating activities:		
Depreciation		4,610,295
Changes in operating assets and liabilities:		
Prepaid expenses		(347,976)
Accounts payable and other accrued liabilties		5,170,633
Compensated absences		213,513
Net post-employment benefits obligation		145,077
Net pension liability and related deferred outflow/inflow of resources		(585,216)
Net cash used in operating activities	$	(8,617,842)

Noncash Capital and Related Financing Activities		
Amortization of premiums	$	2,238,670
Capitalized interest		5,352,190
Change in accounts payable related to acquisition of capital assets		5,176,969
Donated asset		16,222,106

The notes to the basic financial statements are an integral part of this statement.

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Sonoma-Marin Area Rail Transit District (SMART or the District) was formed in January 2003 by provisions of the Sonoma-Marin Area Rail Transit District Act, as successor to the Sonoma-Marin Area Rail Transit Commission and the Northwestern Pacific Railroad Authority in the California Counties of Sonoma and Marin. Its purpose, as defined by the State, is to provide for a unified, comprehensive institutional structure for the ownership and governance of a passenger rail system within the Counties of Sonoma and Marin that shall operate in concert with existing freight service that operates upon the same rail line and serves the Counties of Humboldt, Marin, Mendocino, Napa and Sonoma. The District also owns and is constructing additional portions of a multiuse non-motorized pathway within its right-of-way.

SMART is governed by a 12-member Board of Directors consisting of two supervisors from the counties of Marin and Sonoma, two members from the Golden Gate Bridge, Highway and Transportation District, and six members representing jurisdictions within the SMART District.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

SMART uses a proprietary (enterprise) fund to account for its activities. An enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are required for any activity whose principal external revenue sources meet any of the following criteria: (1) issued debt is backed solely by fees and charges, (2) the cost of providing services for any activity (including capital costs such as depreciation or debt service) must be legally recovered through fees or charges, or (3) if the government's policy is to establish activity fees or charges designed to recover the cost of providing services.

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets and liabilities associated with the operation of the District are included on the statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales taxes are recorded when earned and reported as non-operating revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges for services. Operating expenses for the District include expenses relating to the operating and maintaining passenger railway as well as administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Cash Equivalents

The District considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The District's cash and investments in the Sonoma County Treasury Pool (Treasury Pool) are, in substance, demand deposits and are considered cash equivalents.

I. Summary of Significant Accounting Policies (Continued)

D. Investments

SMART measures its investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, using observable market transactions or available market information.

E. Restricted Cash and Investments with Trustee

Assets whose use is restricted to specific purposes by bond indenture or otherwise are segregated on the statement of net position. These assets are primarily restricted for direct project-related expenses and debt service purposes. Bond interest and redemption represent funds accumulated for debt service payments due in the next twelve months and reserve funds set aside to make up potential future deficiencies. A bond trustee holds these funds.

F. Receivables

Receivables consist of amounts owed to SMART by other governmental agencies and the public. Amounts due from other governments are considered fully collectible. Accounts receivable from the public include reimbursements from other entities for services provided or for use of SMART-owned assets. An allowance for doubtful accounts receivable is established when, based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection may not occur.

G. Capital Assets

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at their fair value at the date of donation. Capital assets include land, construction in progress, infrastructure (tracks & rails, switches, fencing, tunnels, bridges, and road crossings), buildings and improvements, and equipment. It is SMART's policy to capitalize qualifying machinery and equipment with an initial cost of more than $5,000, land and buildings with an initial cost of more than $25,000, infrastructure and intangible assets with an initial cost of more than $100,000, and an estimated useful life in excess of one year.

Infrastructure and buildings and improvements are being depreciated using the straight-line method over their estimated useful lives of 20 to 99 years. Equipment is depreciated using the straight-line method over their estimated useful lives of 5 years. Computer equipment, which on the financial statements is included in equipment, is being depreciated using the straight-line method over 5 years based on commonly used governmental computer technology standards.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized.

I. Summary of Significant Accounting Policies (Continued)

H. Compensated Absences

It is SMART's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay reported in the basic financial statements is accrued when earned. Twenty-five percent of sick leave is payable on termination and is accrued as it is earned.

I. Deferred Outflows and Inflows of Resources

Deferred outflows and inflows resources related to pensions are certain changes in total pension liabilities and fiduciary net position that are to be recognized in future pension expense. Excluding deferred pension contributions, the remaining pension-related deferred outflows and inflows of resources are amortized over five years for the difference between projected and actual earnings and the expected average remaining service lifetime (approximately four years) for all other items.

J. Net Position

Net Position is classified into two components: 1) net investment in capital assets and 2) unrestricted. These classifications are defined as follows:

- *Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and is reduced by outstanding debt related to financing the acquisition of capital assets. Deferred outflows of resources and deferred inflows of resources attributable to the acquisition, construction, or improvement of the capital assets or related debt are included in this component of net position.

- *Unrestricted* – This component of net position consists of resources that do not meet the definitions of "restricted" or "net investment in capital assets."

SMART applies restricted resources first when expenses are incurred for purposes for which both restricted and unrestricted resources are available.

K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

I. Summary of Significant Accounting Policies (Continued)

L. New Accounting Pronouncements

During the year, SMART implemented the following accounting standards:

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which is intended to improve accounting and financial reporting for state and local governments' investments by enhancing the comparability of financial statements among governments by requiring measurements of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. See Note II A for full disclosure.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles (GAAP) for State and Local Governments*, which clarifies the hierarchy of GAAP and reduces the hierarchy to two categories of authoritative GAAP, it also addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the scope of authoritative GAAP. This statement did not have an impact on SMART's financial statements.

SMART is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes new accounting and financial reporting requirements for Other Post-Employment Benefits (OPEB) plans, as well as for certain nonemployer governments that have a legal obligation to provide financial support to OPEB provided to the employees of other entities. GASB Statement No. 74 also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. GASB Statement No. 74 is effective for SMART's fiscal year ending June 30, 2017.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB plans to improve the accounting and financial reporting by state and local government employers about financial support for OPEB that is provided by other entities. The statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB Statement No. 75 is effective for SMART's fiscal year ending June 30, 2018.

I. Summary of Significant Accounting Policies (Continued)

L. New Accounting Pronouncements (Continued)

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose additional information about the agreements, including brief descriptive information, the gross dollar amount of taxes abated during the period, and commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. GASB Statement No. 77 is effective for SMART's fiscal year ending June 30, 2017.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is to address issues regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pension.* This Statement establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local government through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and non-state or local governmental employees, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). GASB Statement No. 78 is effective for SMART's fiscal year ending June 30, 2017.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14,* to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments, which was established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*. GASB Statement No. 80 is effective for the District's fiscal year ending June 30, 2017.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize revenues, assets, liabilities, and deferred inflows of resources. GASB Statement No. 81 is effective for the District's fiscal year ending June 30, 2018.

In March 2016, GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73,* 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 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The 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 Actuarial Standards of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 is effective for the District's fiscal year ending June 30, 2017.

II. Detailed Notes

A. Cash and Investments

Carrying Amount at Fair Value

Cash, cash equivalents, and investments are carried at fair value and are categorized as follows at June 30, 2016:

	Available for Operations	Held by Trustee	Total
Cash equivalent:			
Sonoma County Treasury Pool	$ 61,584,128	$ 21,633,044	$ 83,217,172
Deposits	8,074,097	-	8,074,097
Total	$ 69,658,225	$ 21,633,044	$ 91,291,269

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of an asset. 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. The District's investment in the Sonoma County Treasury Pool is exempt from the fair value hierarchy.

Investment in the Sonoma County Treasurer's Investment Pool

As authorized by Government Code Section 53630 et seq. and Public Utilities Code Section 105125, SMART's cash is pooled with the Sonoma County Treasurer's investment pool. The fair value of SMART's investment in this pool is reported in the accompanying financial statements at amounts based upon SMART's pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee has oversight for all monies deposited into the Treasury Pool. The Treasury Pool had a total portfolio value of approximately $1.9 billion at June 30, 2016. At June 30, 2016, these investments have an average maturity of 828 days.

II. Detailed Notes (Continued)

A. Cash and Investments (Continued)

Investment Guidelines

SMART's pooled cash and investments in the Treasury Pool are invested pursuant to investment policy guidelines established by the Sonoma County Treasurer and approved by the Sonoma County Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and yield. The policy addresses the soundness of financial institutions in which Sonoma County will deposit funds, types of investment instruments as permitted by the California Government Code 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the Sonoma County investment policy is available upon request from the Sonoma County Auditor-Controller-Treasurer-Tax-Collector's Office at 585 Fiscal Drive, Room 100, Santa Rosa, California, 95403.

Investments Authorized by Debt Agreements

The District must maintain required amounts of cash and investments with fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds. The California Government Code requires these funds to be invested in accordance with SMART's Policy, bond indentures or State statute. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Certificates of Deposit	360 days	A-1/ P-1	None	None
Bankers Acceptances	360 days	A-1/ P-1	None	None
Commercial Paper	270 days	A-1	None	None
Money Market Mutual Funds	N/A	AAAm	None	None
Repurchase Agreements	N/A	N/A	None	None
Reverse Repurchase Agreements	N/A	N/A	None	None
Municipal Obligations	N/A	N/A	None	None
General Obligations of States	N/A	A2/A	None	None
Local Agency Investment Fund (LAIF)	N/A	N/A	None	None
Shares in a common law trust	N/A	N/A	None	None
County Pooled Investment	N/A	N/A	None	None

II. Detailed Notes (Continued)

A. Cash and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates may 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. As a means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the liquidity needed for operations.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government 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 counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Treasury Pool's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

- The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure SMART deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. SMART's cash deposits at the Bank of Marin are secured by at least 110% government issued securities.

- The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool).

II. Detailed Notes (Continued)

A. Cash and Investments (Continued)

Concentration of Credit Risk

SMART's Investment Policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. SMART was invested in the Treasury Pool and the Bank of Marin at June 30, 2016. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total Treasury Pool, refer to the 2016 Sonoma County Comprehensive Annual Financial Report.

B. Due from Other Governments

Due from Other Governments primarily represents the amounts of outstanding claims submitted to Caltrans (acting as a pass-through agency for Federal Highway Administration funds), The City of Petaluma (acting as a pass-through for Federal Transportation Funds) and the Metropolitan Transportation Commission for reimbursements of eligible costs expended for the Commuter Rail Project.

C. Deposits with Others

Deposits with others represents SMART's contractual obligation to its construction contractors where 5% of construction payments are placed into an escrow account and released upon substantial completion of the project. Substantial completion is estimated to occur in Fiscal Year 2016-17.

D. Other Receivables

Other Receivables are comprised of sales and use tax revenues due from the Board of Equalization and property lease revenues.

E. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	July 1, 2015	Additions	Retirements	June 30, 2016
Capital assets not being depreciated:				
Land	$ 40,790,104	$ 191,669	$ -	$ 40,981,773
Intangible assets	-	18,770	-	18,770
Construction in progress	299,344,307	64,739,390	-	364,083,697
Total capital assets not being depreciated	340,134,411	64,949,829	-	405,084,240
Capital assets being depreciated:				
Infrastructure	74,421,769	16,222,106	-	90,643,875
Buildings and improvements	4,292,272	137,865	-	4,430,137
Equipment	673,066	578,909	-	1,251,975
Total capital assets being depreciated	79,387,107	16,938,880	-	96,325,987
Less accumulated depreciation for:				
Infrastructure	(18,296,226)	(4,251,594)	-	(22,547,820)
Buildings and improvements	(1,502,295)	(218,456)	-	(1,720,751)
Equipment	(415,209)	(140,245)	-	(555,454)
Total accumulated depreciation	(20,213,730)	(4,610,295)	-	(24,824,025)
Total capital assets being depreciated, net	59,173,377	12,328,585	-	71,501,962
Capital assets, net	$ 399,307,788	$ 77,278,414	$ -	$ 476,586,202

II. Detailed Notes (Continued)

E. Capital Assets (Continued)

Capital assets increased due to significant construction activity during the fiscal year ended June 30, 2016. This includes track replacement, crossings upgrades, rail car construction and pathway engineering. Assets were also significantly increased as a result of the acceptance of a donated multi-use pathway and bridge in SMART's right of way, the Central Marin Ferry Connector.

SMART recognized $4.6 million in depreciation expense for assets previously placed in service, and $5.4 million of capitalized interest in connection with SMART's construction projects during fiscal year ended June 30, 2016.

F. Long-Term Debt

In December 2011, the District issued $190,145,000 in variable rate Measure Q Sales Tax Revenue Bonds Series 2011A (Initial Series 2011A Bonds). The Initial Series 2011A Bonds had an initial term of 1% until January 10, 2013. Although the Initial Series 2011A Bonds had a maturity date of March 1, 2029, they had certain provisions that allowed SMART to remarket them. In May 2012, SMART successfully remarketed the Initial Series 2011A Bonds and raised $199,172,032 (Remarketed Series 2011A Bonds). The Remarketed Series 2011A Bonds were issued to finance the construction of the initial phase of a passenger rail system and adjacent multi-use pathway from Santa Rosa, California to San Rafael, California. The fixed rate Remarketed Series 2011A Bonds will bear interest between 3-5% and mature by March 1, 2029.

Long-term debt activity for the year ended June 30, 2016 was as follows:

	July 1, 2015	Additions	Retirements	June 30, 2016	Due Within One Year
Bonds payable:					
Remarketed Series 2011A	$ 170,725,000	$ -	$ 4,540,000	$ 166,185,000	$ 5,325,000
Unamortized bond premium	19,371,688	-	(2,238,670)	17,133,018	-
Total long-term debt, net	$ 190,096,688	$ -	$ 2,301,330	$ 183,318,018	$ 5,325,000

The total projected Measure Q Sales Tax revenue, as reported in the 2014 Measure Q Strategic Plan, is expected to approximate $756.6 million over the 20 year life of the tax, which is sufficient to repay the estimated debt service, including interest. The Measure Q Sales Tax revenue recognized during the fiscal year ended June 30, 2016 was $34,776,012 whereas debt service on the Measure Q bonds was $12,996,951 for the fiscal year ended June 30, 2016.

II. Detailed Notes (Continued)

F. Long-Term Debt (Continued)

Annual Future Payments

The following table presents the District's aggregate annual amount of principal and interest payments required to amortize the outstanding debt as of June 30, 2016:

Year ending June 30:	Principal	Interest
2017	$ 5,325,000	$ 8,275,350
2018	6,195,000	8,009,100
2019	8,365,000	7,730,850
2020	9,435,000	7,312,600
2021	10,565,000	6,840,850
2022-2026	71,785,000	25,065,500
2027-2029	54,515,000	5,306,500
	$ 166,185,000	$ 68,540,750

G. Other Long-Term Liabilities

Other long-term liability activity for the year ended June 30, 2016 related to employees and a long term lease in Petaluma.

Employee liabilities are as follows:

	July 1, 2015	Additions	Reductions	June 30, 2016	Due Within One Year
Compensated absences	$ 478,671	$ 671,251	$ (457,738)	$ 692,184	$ 457,738

SMART's future noncancellable lease payments are:

Year Ending June 30,	Minimum Lease Payment
2017	$ 641,516
2018	661,194
2019	110,761
Total	$ 1,413,471

H. Unearned Revenues

During the fiscal year ended June 30, 2015, SMART entered into an agreement to provide a grade crossing at a private road in the amount of $425,326. Work on the grade crossing was not complete as of June 30, 2016.

III. Other Information

A. Risk Management

SMART is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which SMART carries commercial insurance, including, but not limited to, comprehensive railroad liability and other relevant liability policies, automobile, employment and workers compensation policies. In addition, SMART has policies and procedures that ensure appropriate insurance coverage and risk procedures for third-party service providers doing work on behalf of the agency.

SMART did not settle any claims that exceeded SMART's insurance coverage during the past three years, nor did it reduce its insurance coverage from the prior year.

B. Purchase Commitments

At June 30, 2016, SMART had outstanding purchase and contract commitments for the rail and pathway project of approximately $54.7 million.

C. Employee Retirement Plan

SMART has contracts with the California Public Employees' Retirement System (CalPERS) for purposes of providing a defined pension benefit plan for its employees, defined by CalPERS as the "Miscellaneous Plan." SMART currently has different pension tiers, depending on an employee's hire date. For all employees hired before June 1, 2012, SMART is part of CalPERS cost-sharing multiple-employer plan known as the "Miscellaneous 2.0% at 55 Risk Pool" whereby the benefit obligations are pooled. There are two tiers of employee within this pool. The CalPERS reporting system does not track Tier 2, which contains three employees, separately. Therefore the liability for this tier is tracked under the Miscellaneous 2.0% at 55 Risk Pool. For employees hired on June 1, 2012, and through December 31, 2012, SMART is part of the "Miscellaneous 2% at 60 Risk Pool." As of January 2013, all new employees were subject to California's Public Employees' Pension Reform Act of 2013 (PEPRA), which mandates a "Miscellaneous 2% at 62 Plan." For each pool, an actuarial valuation is performed covering all participants, all employers contribute at the same rate, and all plan assets are available to pay plan benefits pertaining to the employees and retirees of any employer.

<u>Plan Description</u> - All full-time and certain other qualifying employees of the District are eligible to participate in CalPERS, a cost-sharing multiple-employer plan (the Plan). CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. CalPERS provides retirement, disability and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service. Benefit provisions and other requirements are established by State statute and by District resolution.

<u>Benefits Provided</u> – Through CalPERS, SMART 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. The death benefit provided by SMART is the 1959 Survivor Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

III. Other Information (Continued)

C. Employee Retirement Plan (Continued)

The Plan's provisions and benefits in effect at June 30 2016, are summarized as follows:

SMART PENSION TIERS AND CONTRIBUTION RATES			
	Date of Hire	Employee Paid	SMART paid
Tier 1	Before 9/1/11	0.00%	15.00%
Tier 2	9/1/11 -6/1/12	7.00%	8.00%
Tier 3	6/2/12-12/31/12	6.85%	6.85%
Tier 4	1/1/13 and after	6.25%	6.24%

Contributions – The Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers 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 for the Plan 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.

For the year ended June 30, 2016, the employer contributions to the Plans were $409,897.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – As of June 30, 2016, the District's reported total net pension liability of $585,152 for its proportionate shares of the net pension liability. The District's net pension liability is measured as the proportionate share of the net pension liability of the cost-sharing plan. The net pension liability of each of the Plan is measured as of June 30, 2015, and the total pension liability for each of the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was actuarially determined at the valuation date.

For the year ended June 30, 2016, the District recognized a pension benefit of $175,319. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 409,897	$ -
Differences between expected and actual experience	22,087	-
Change in assumptions	-	208,968
Net differences between projected and actual earnings on pension plan investments	-	104,758
Changes in employer's proportion	464,628	95,161
Difference between the employer's contributions and the employer's proportionate share of contributions	319,863	-
Total	$ 1,216,475	$ 408,887

III. Other Information (Continued)

C. Employee Retirement Plan (Continued)

At June 30, 2016, the District reported $409,897 as deferred outflows of resources related to contributions paid subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Total
2017	$ 105,103
2018	102,185
2019	56,497
2020	133,906
Total	$ 397,691

<u>Actuarial Assumptions</u> - The total pension liabilities was 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%
Payroll Growth	Varies by Entry Age and Service
Projected Salary Increase	3.30% to 14.20% depending on Age, Service, and Type of Employement
Investment Rate of Return	7.65% net of pension plan investment expenses, includes inflation
Mortality	Derived using CalPERS' Membership Data for all Funds

III. Other Information (Continued)

C. Employee Retirement Plan (Continued)

Discount Rate – The discount rate used to measure the total pension liability at June 30, 2016 was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress-tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund for the June 30, 2015. The stress test results are presented in a detailed report named "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB Statement No. 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. Administrative expenses are assumed to be 15 basis points. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require CalPERS Board action and proper stakeholder outreach. CalPERS will continue to check the materiality of the difference in calculation until such time as it changes its methodology.

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 rate of return, 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 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.

III. Other Information (Continued)

C. Employee Retirement Plan (Continued)

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.

The target allocation for the June 30, 2015 measurement date was as follows:

Asset Class	New Strategic Allocation	Real Return Year 1-10 (a)	Real Return Year 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.50% used for this period
(b) An expected inflation of 3.00% used for this period

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability of the Plans as of the measurement date, calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Decrease Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Increase Rate + 1% (8.65%)
Proportionate Share of Net Pension Liability	$ 973,374	$ 585,152	$ 264,630

Pension Plan Fiduciary Net Position – CalPERS issues a separate comprehensive annual financial report, copies of which may be obtained from the CalPERS Executive Offices, Lincoln Plaza East, 400 Q Street, Sacramento, California 95814.

III. Other Information (Continued)

D. Other Post-Employment Health Care Benefits (OPEB)

By SMART Board of Directors resolution, SMART will provide certain health care benefits for retired employees under third-party insurance plans. Employees become eligible to retire and receive healthcare benefits upon reaching retirement age with at least 5 years of service or being converted to disability, retiring directly from the District, and continue participating in Public Employees' Medical and Hospital Care Act (PEMHCA) after retirement. The PEMHCA minimum benefit was $122 per month in 2015 and is $125 per month in 2016. As of June 30, 2016, there were no retirees receiving OPEB benefits and no participants were eligible to receive benefits.

Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a July 1, 2015 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by SMART and 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 SMART and plan members to that point. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least triennially as results are compared to past expectations and new estimates are made about the future. SMART's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a fixed 30 year amortization period. The remaining amortization period at June 30, 2016, is 26 years.

The actuarial cost method used for determining the benefit obligations of SMART is the Entry Age Normal Cost Method and is amortized over a closed period of 30 years. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit.

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. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan in effect 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 in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

III. Other Information (Continued)

D. Other Post-Employment Health Care Benefits (OPEB) (Continued)

Funding Policy and Actuarial Assumptions (Continued)

The actuarial assumptions used included a discount rate and investment return of 4.00%, a normal cost increase of 4.00% after 2015, and an annual health cost trend rate increase 3.5% per year from 2017-2019, 4.00% per year from 2020-2023, 4.50% per year from 2024-2017, and 5.00% per year thereafter. Eighty percent of future eligible retired employees are assumed to participate in this program. Demographic assumptions regarding turnover, mortality, and retirement are based on statistics from the 2014 CalPERS OPEB Assumption Model at www.calpers.ca.gov.

A significant change in the actuarial assumptions utilized in the calculations for SMART in its most recent analysis are the results of a change in Actuarial Standard of Practice No. 6 that requires that actuarial valuations dated after March 2015 incorporate age-specific claims costs. This application change relates to employers such as SMART who participate in a community-related plan such as CalPERS for health insurance coverage for employees and retirees. This requires a new assumption of an implicit subsidy to retirees by the employer due to the combing of employees and retirees in the same purchasing pool. This change in assumptions significantly increased SMART's Actuarial Present Value of Total Project Benefits by $514,062 in 2015, or 58% of the increase from the 2012 valuation.

Funding Progress and Funded Status

The District has recorded the OPEB liability, representing the ARC as of June 30, 2016:

ARC	$	153,256
Interest on prior year net OPEB obligation		11,733
Adjustment to the ARC		(19,912)
Annual OPEB cost		145,077
Contribution made		-
Increase in net OPEB obligation		145,077
Net OPEB oblitationg- beginning of year		293,317
Net OPEB obligation- end of year	$	438,394

The actuarial accrued liability (AAL) representing the present value of future benefits as of June 30, 2016, included in the actuarial study dated July 1, 2015, amounted to $657,015. As SMART has not made a policy decision as to how to fund the program, the funded ratio as of June 30, 2016 was 0%.

III. Other Information (Continued)

D. Other Post-Employment Health Care Benefits (OPEB) (Continued)

Funding Progress and Funded Status (Continued)

The ARC and actual contributions for the fiscal year ended June 30, 2016, is set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Costs Contibuted	Net OPEB (Obligation)
2014	$ 60,845	$ -	-%	$ (156,468)
2015	136,849	-	-%	(293,317)
2016	145,077	-	-%	(438,394)

The schedule of funding progress presents the actuarial value of plan assets compared to the actuarial accrued liability for benefits as of July 1, 2015, the most recent actuarial valuation:

Actuarial accured liability (AAL)	$ 657,015
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 657,015
Funded ratio (actuarial value of plan assets/ AAL)	-%
Covered payroll (active plan members)	$ 6,017,592
UAAL as a percentage of covered payroll	10.9%

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Sonoma-Marin Area Rail Transit District
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2016

Schedule of the District's Proportionate Share of the Net Pension Liability

Last 10 Years *

	2015	2016
Measurement period	2014	2015
Proportion of net pension liability	0.01018%	0.00853%
Proportionate share of the net pension liability	$ 633,530	$ 585,152
Covered-employee payroll	$ 3,572,374	$ 6,017,592
Proportionate share of the net pension liability as a percentage of covered-employee payroll	17.73%	9.72%
Plan fiduciary net position as a percentage of total pension liability	81.15%	78.40%

Notes to Schedule:

Change in benefit terms - The figures above do not include any liability impact that may have resulted from plan changes which occurred after the measuremnt dates. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.
Changes in assumptions - The discount rate was changed from 7.50 percent (net of administrative expense) in 2015 to 7.65 percent in 2016.

* Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only two years of information is shown.

Sonoma-Marin Area Rail Transit District

Required Supplementary Information (Unaudited)

For the Year Ended June 30, 2016

Schedule of Contributions – Pension Plan

Last 10 Years *

	2014	2015	2016
Contractually required contribution (actuarially determined)	$ 302,716	$ 347,672	$ 409,897
Contractually in relation to the actuarially determined contributions	(302,716)	(347,672)	(477,840)
Contribution deficiency (excess)	$ -	$ -	$ (67,943)
Covered-employee payroll	3,073,231	3,572,374	6,017,592
Contributions as a percentage of covered-employee payroll	9.85%	9.73%	7.94%

Notes to Schedule:

The actuarial methods and assumptions used to determine the fiscal year 2015-16 contribution rates are as follows:

Valuation date:	6/30/2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll, closed
Asset Valuation Method	15 year smooth market
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.5% net of pension plan investment and administrative expenses, includes inflation
Retirement Age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period 1997 to 2007.
Mortality	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 projected mortality improment using Scale AA published by the Society of Actuaries.

* Fiscal year 2015 was the first year of implementation of GASB Statement No. 68, therefore only three years of information is shown.

Sonoma-Marin Area Rail Transit District
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2016

Schedule of Funding Progress
Other Post-Employment Healthcare Benefits

The Schedule of Funding Progress presented below provides a consolidated snapshot of the SMART's ability to meet current and future liabilities with the plan assets. The most recent actuarial valuation was performed as of July 1, 2015.

Actuarial Valuation Date	Actuarial Value of Assets (A)	AAL (B)	Unfunded (Overfunded) AAL (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) AAL as Percentage of Covered Payroll [(B-A)/C]
7/1/2012	$ -	$ 164,159	$ 164,159	0.0%	$ 1,927,000	8.5%
7/1/2015	-	657,015	657,015	0.0%	6,017,592	10.9%

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STATISTICAL SECTION

STATISTICAL SECTION INDEX

This part of the Sonoma-Marin Area Rail Transit District's (SMART or the District) Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

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Financial Trends 38
These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

- Table 1 – Net Position by Component
- Table 2 – Changes in Net Position
- Table 3 – Summary of Expenditure/ Expense by Function

Revenue Capacity 41
These schedules contain information to help the reader assess the District's significant revenue source, capital grants and contributions. Also included in this section is current information on the District's ongoing significant source of revenues, the sales tax.

- Table 4 – General Revenue by Source
- Table 5 – Revenue Base and Revenue Rate
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Debt Capacity 45
These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

- Table 8 – Debt Service Coverage – Pledged Sales Tax Revenue
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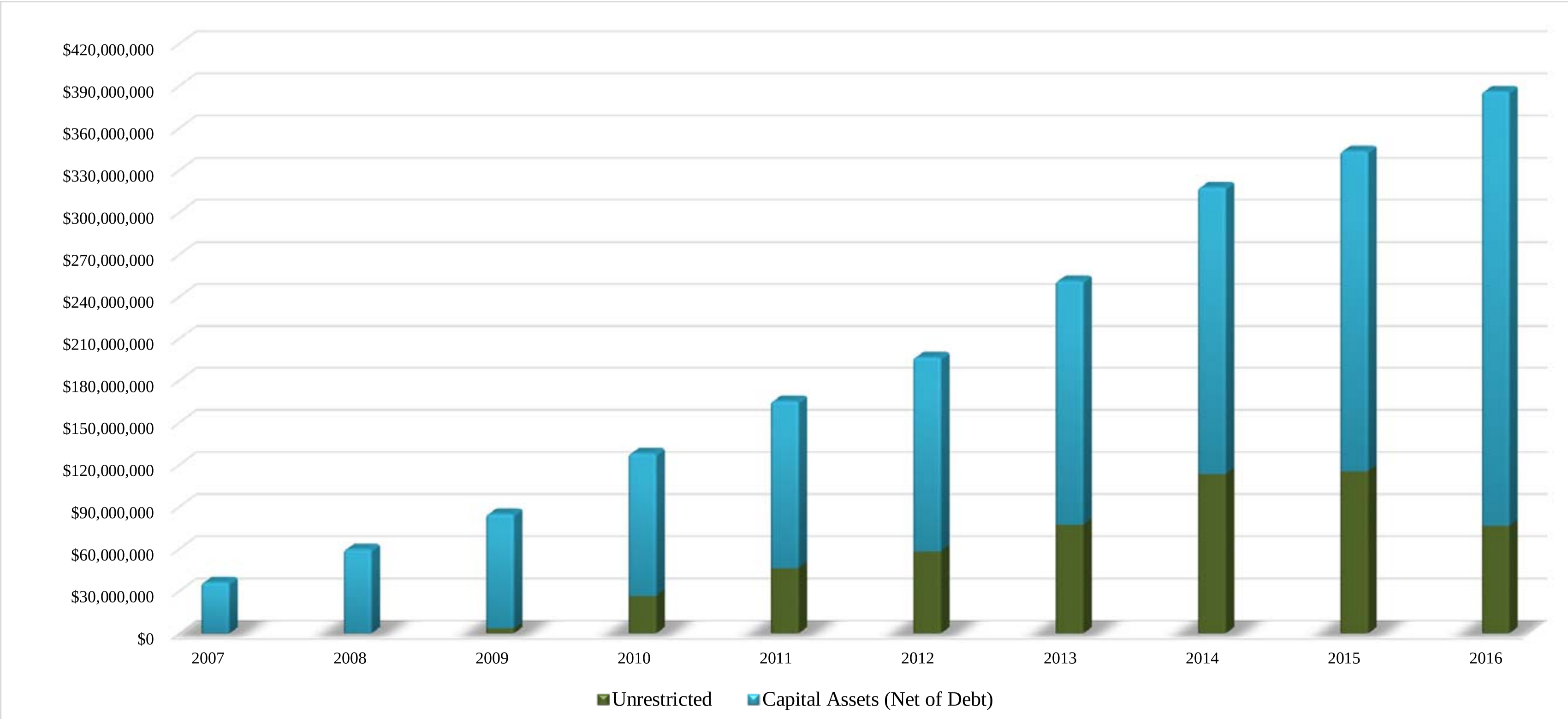
- Table 13 – Employees

Table 1
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Net Position by Component (Unaudited)

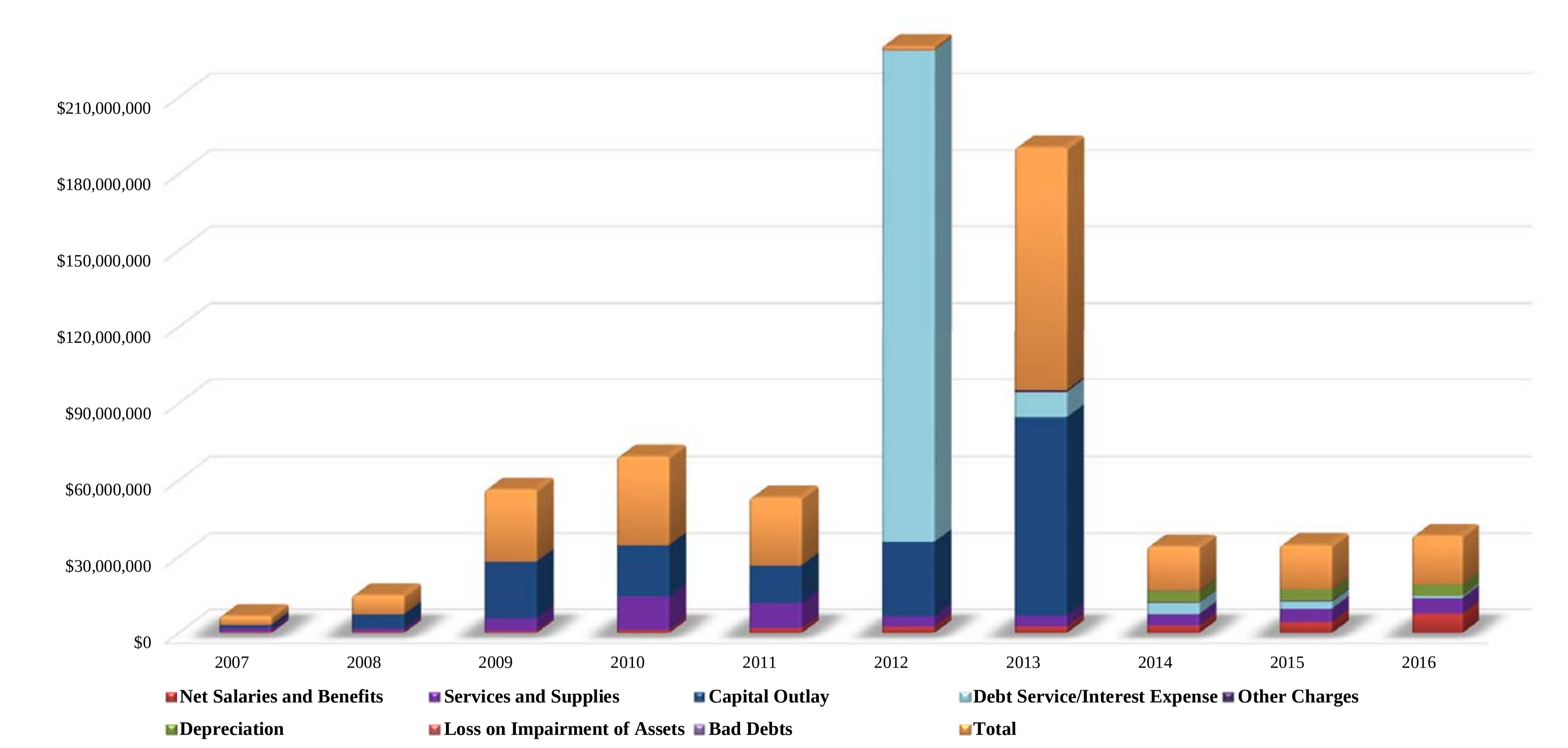


	Fiscal Year Ended June 30:									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net investment in capital assets	$ 36,270,070	$ 59,670,832	$ 81,333,573	$ 101,247,802	$ 118,948,132	$ 137,997,431	$ 173,996,072	$ 204,389,312	$ 228,244,612	$ 309,724,259
Unrestricted	(46,650)	130,252	3,564,545	26,788,017	46,507,406	58,533,319	77,347,530	113,506,183	115,465,740	76,452,056
Total net positon	**$ 36,223,420**	**$ 59,801,084**	**$ 84,898,118**	**$ 128,035,819**	**$ 165,455,538**	**$ 196,530,750**	**$ 251,343,602**	**$ 317,895,495**	**$ 343,710,352**	**$ 386,176,315**

Table 2
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Changes in Net Position (Unaudited)

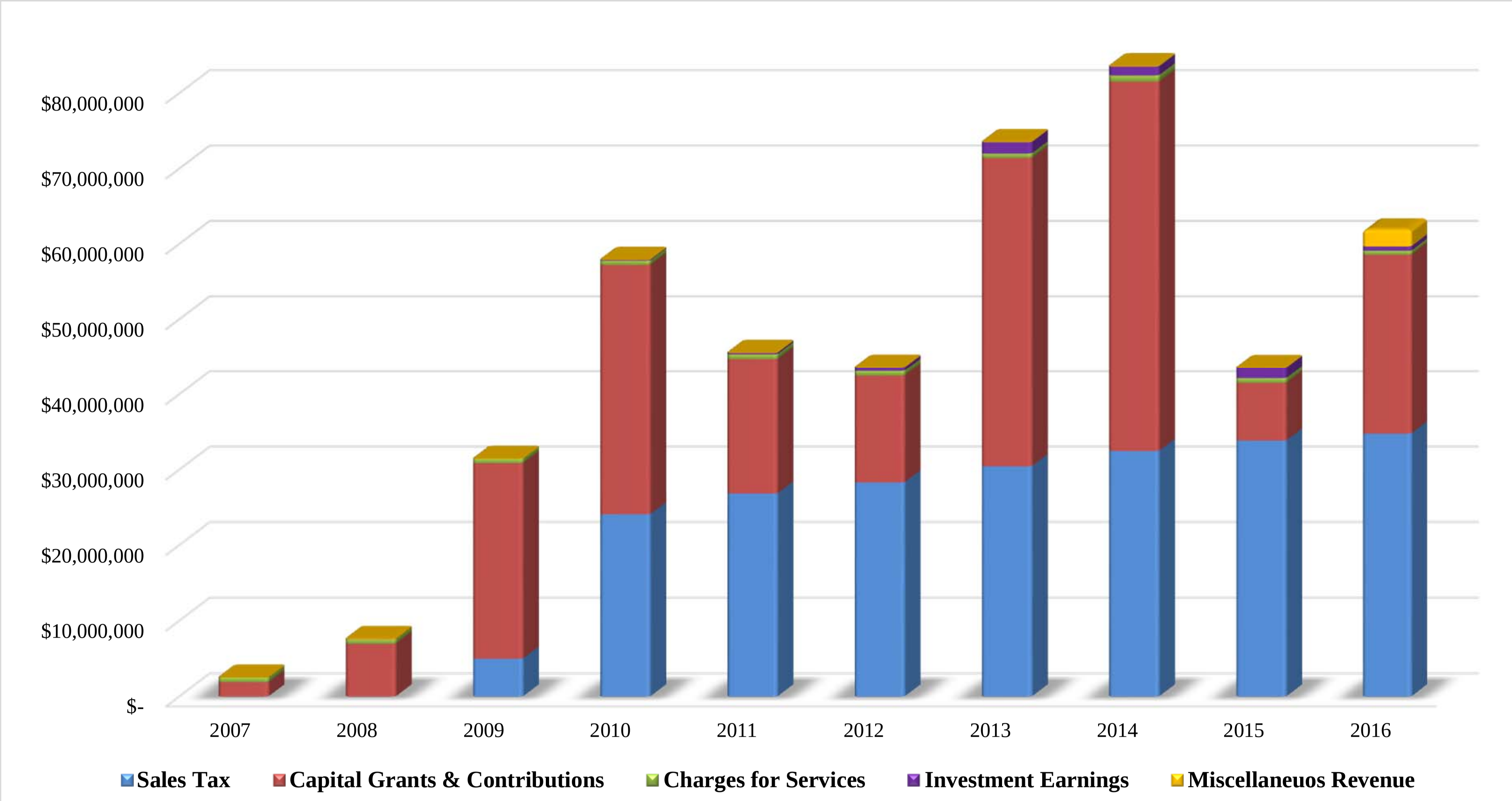
	Fiscal Year Ended June 30									
Operating Revenues	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Charges for services	$ 600,167	$ 559,127	$ 570,507	$ 564,502	$ 635,670	$ 650,877	$ 597,880	$ 840,586	$ 640,249	$ 529,191
Operating Expenses										
Public transportation - rail/pathway development:										
Net salaries and employee benefits	460,197	643,402	790,751	1,330,192	1,831,476	2,597,001	2,683,628	3,041,027	4,303,358	7,736,893
Services and supplies	1,392,791	1,117,859	5,102,761	13,000,858	10,097,972	4,179,668	4,772,700	4,466,562	5,275,106	5,998,630
Depreciation	99,737	196,136	410,750	420,488	472,061	4,527,575	4,527,575	4,473,500	4,575,530	4,610,295
Bad Debt	160,229	63,731	31,821	1,725	-	-	-	-	-	-
Loss on impairment of assets	25,406	-	-	-	-	-	-	433,295	-	-
Other Charges	45,000	-	2,725	3,180	53,471	76,671	700,783	215,922	380,000	7,541
Total operating expenses	2,183,360	2,021,128	6,338,808	14,756,443	12,454,980	11,380,915	12,684,686	12,630,306	14,533,994	18,353,359
Operating loss	(1,583,193)	(1,462,001)	(5,768,301)	(14,191,941)	(11,819,310)	(10,730,038)	(12,086,806)	(11,789,720)	(13,893,745)	(17,824,168)
Nonoperating Revenues (Expenses)										
Sales/Use taxes	-	-	4,976,687	24,059,929	26,826,843	28,303,501	30,435,753	32,473,329	33,845,426	34,776,012
Investment earnings	10,805	19,845	65	93,215	192,500	437,618	1,495,066	1,182,159	1,384,557	585,178
Sale of contract option	-	-	-	-	758,825	-	-	-	-	-
Capital expense passed through to other agencies	-	-	-	-	-	-	-	-	(1,557,743)	(295,894)
Miscellaneous revenue	16,000	2,871	36,070	38,445	46,400	26,236	62,178	65,638	49,351	2,264,334
Interest expense	-	-	-	-	-	(1,117,492)	(5,328,770)	(4,420,558)	(2,761,502)	(805,558)
Total nonoperating revenues (expenses)	26,805	22,716	5,012,822	24,191,589	27,824,568	27,649,863	26,664,227	29,300,568	30,960,089	36,524,072
Income before capital contributions	(1,556,388)	(1,439,285)	(755,479)	9,999,648	16,005,258	16,919,825	14,577,421	17,510,848	17,066,344	18,699,904
Capital grants and contributions:										
State of California	1,021,388	1,650,878	4,452,430	12,810,517	9,787,099	8,148,143	24,130,596	4,295,318	3,381	284,094
Metropolitan Transportation Commission	751,606	932,071	3,382,776	1,871,307	6,046,018	-	4,541,421	35,500,504	7,119,973	2,683,108
Sonoma County Transportation Authority - Measu	91,637	75,972	-	-	-	4,594,099	5,758,121	5,136,487	35,358	47,780
Federal Highway Administration	-	-	-	-	-	1,203,349	5,815,731	2,365,308	476,476	2,392,222
Federal Transit Administration	-	-	-	-	1,960,000	-	206,107	197,273	24,119	1,387,373
Other governmental agencies	550,088	4,400,394	18,017,307	18,456,229	3,621,344	209,796	666,592	1,543,983	1,534,698	749,376
Donated asset	-	-	-	-	-	-	-	-	-	16,222,106
Total program revenues	2,414,719	7,059,315	25,852,513	33,138,053	21,414,461	14,155,387	41,118,568	49,038,873	9,194,005	23,766,059
Change in net position	$ 858,331	$ 5,620,030	$ 25,097,034	$ 43,137,701	$ 37,419,719	$ 31,075,212	$ 55,695,989	$ 66,549,721	$ 26,260,349	$ 42,465,963

Table 3
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Summary of Expenditure/Expense by Function (Unaudited)



Fiscal Year Ended June 30	Net Salaries and Benefits	Services and Supplies	Capital Outlay	Debt Service/Interest Expense	Other Charges	Depreciation	Loss on Impairment of Assets	Bad Debts	Total
2007	$ 449,290	$ 1,392,791	$ 1,292,174	$ -	$ 45,000	$ -	$ 25,406	$ 160,229	$ 3,364,890
2008	631,805	1,117,859	5,639,264	-	-	-	-	63,731	7,452,659
2009	776,514	5,102,761	22,261,261	-	2,725	-	-	31,821	28,175,082
2010	1,290,967	13,000,858	20,334,717	-	3,180	-	-	1,725	34,631,447
2011	1,847,662	10,097,972	14,614,169	-	53,471	-	-	-	26,613,274
2012	2,462,175	4,179,668	29,232,652	192,575,357	76,671	-	-	-	228,526,523
2013	2,558,849	4,406,463	77,629,877	9,866,442	700,783	-	-	-	95,162,414
2014	3,041,027	4,466,562	-	4,420,558	215,922	4,473,500	433,295	-	17,050,864
2015	4,303,358	5,275,106	-	2,761,502	380,000	4,575,530	-	-	17,295,496
2016	7,736,893	5,998,630	-	805,558	7,541	4,610,295	-	-	19,158,917

Table 4
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
General Revenue by Source (Unaudited)



Fiscal Year Ended June 30	Sales Tax	Capital Grants & Contributions	Charges for Services	Investment Earnings	Miscellaneuos Revenue	Total
2007	$ -	$ 1,864,631	$ 600,167	$ 10,805	$ 16,000	$ 2,491,603
2008	-	6,951,193	559,127	19,845	110,993	7,641,158
2009	4,976,687	25,852,513	570,507	65	36,070	31,435,842
2010	24,059,929	33,138,053	564,502	93,215	38,445	57,894,144
2011	26,826,843	17,856,239	635,670	192,500	46,400	45,557,652
2012	28,303,501	14,155,387	650,877	437,618	26,236	43,573,619
2013	30,435,753	40,952,030	597,880	1,495,066	62,178	73,542,907
2014	32,473,329	49,038,873	840,586	1,182,159	65,638	83,600,585
2015	33,845,426	7,636,262	640,249	1,384,557	49,351	43,555,845
2016	34,776,012	23,766,059	529,191	585,178	2,264,334	61,920,774

Table 5
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Revenue Base and Revenue Rate (Unaudited)

Fiscal Year	SMART Sales Tax Rate	Total Sales Tax Revenue	Marin County Total Taxable Sales (In Thousands)	Sonoma County Total Taxable Sales (In Thousands)	SMART District Total Taxable Sales (In Thousands)
2016 ***	0.25%	$34,776,012	N/A	N/A	$13,910,405
2015 ***	0.25%	$33,845,426	N/A	N/A	$13,538,170
2014 **	0.25%	$32,473,329	$4,769,878	$8,264,339	$13,034,217
2013	0.25%	$30,435,753	$4,500,247	$7,711,052	$12,211,299
2012	0.25%	$28,303,501	$4,185,542	$7,152,875	$11,338,417
2011	0.25%	$26,826,843	$3,928,074	$6,701,426	$10,629,500
2010	0.25%	$24,059,929	$3,751,474	$6,321,094	$10,072,568
2009 *	0.25%	$4,976,687	$3,812,948	$6,682,219	$10,495,167

*Sales Tax effective April 1, 2009
**Latest available breakdown
***Estimate for Fiscal Year 2016 and 2015 is based on sales tax revenue received
Source: California State Board of Equalization

Table 6
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Overlapping Governments and Sales Tax Rates (Unaudited)

Marin County

Fiscal Year	State	City	County[2]	SMART[4]	Total
2016	7.50%	0 to 0.50%	0.75%	0.25%	8.5% to 9%
2015	7.50%	0 to 0.50%	0.75%	0.25%	8.5% to 9%
2014	7.50%	0 to 0.50%	0.75%	0.25%	8.5% to 9%
2013	7.50%[1]	0 to 0.50%	0.50%	0.25%	8% to 8.5%
2012	7.25%	0 to 0.50%	0.50%	0.25%	8% to 8.5%

Sonoma County

Fiscal Year	State	City	County[3]	SMART[4]	Total
2016	7.50%	0 to 0.75%	0.50%	0.25%	8.25% to 9%
2015	7.50%	0 to 0.75%	0.50%	0.25%	8.25% to 9%
2014	7.50%	0 to 0.75%	0.50%	0.25%	8.25% to 9%
2013	7.50%[1]	0 to 0.50%	0.50%	0.25%	8.25% to 8.5%
2012	7.25%	0 to 0.50%	0.50%	0.25%	8.25% to 8.5%

Source: California State Board of Equalization

1. Statewide sales and use tax rate increased 0.25% on January 1, 2013
2. Marin Parks/Open Space/Farmland Preservation Transactions and Use Tax (0.25%, effective 04-01-13) and Transportation Authority of Marin County (0.50%, effective 04-01-05)
3. Sonoma County Open Space Authority (0.25%, 04-01-91 to 03-31-11), Sonoma County Transportation Authority (0.25%, 04-01-05), Sonoma County Agricultural Preservation & Open Space District Transactions and Use Tax (0.25%, 04-01-11)
4. SMART sales tax effective April 1, 2009

Table 7
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Principal Revenue Payers (Unaudited)

	FY 2015**			FY 2010*		
Principal Revenue Payers	**Rank**	**Percentage Taxable Sales**	**Amount**	**Rank**	**Percentage Taxable Sales**	**Amount**
All Other Outlets	1	27.47%	$ 3,580,799	1	27.06%	$ 2,725,918
Motor Vehicle and Parts Dealers	2	13.03%	1,698,026	2	11.22%	1,130,269
Food Services and Drinking Places	3	10.14%	1,321,473	5	9.84%	991,488
Gasoline Stations	4	8.85%	1,153,255	3	8.59%	865,041
General Merchandise Stores	5	7.71%	1,004,938	4	9.17%	923,240
Bldg. Matrl. and Garden Equip. and Supplies	6	7.28%	949,381	6	7.16%	720,865
Food and Beverage Stores	7	6.27%	816,837	7	6.83%	688,180
Clothing and Clothing Accessories Stores	8	5.20%	678,152	8	5.10%	513,810
Miscellaneous Store Retailers	9	3.80%	495,630	9	4.16%	419,104
Sporting Goods, Hobby, Book, and Music Stores	10	2.35%	306,801	10	2.84%	285,859
Electronics and Appliance Stores	11	2.17%	282,586	11	2.75%	276,825
Health and Personal Care Stores	12	2.13%	277,724	12	2.38%	239,383
Furniture and Home Furnishings Stores	13	1.97%	256,279	13	2.13%	214,785
Nonstore Retailers	14	1.63%	212,335	14	0.77%	77,799
Total All Outlets		100.0%	$ 13,034,217		100.0%	$ 10,072,567

*First full year of SMART sales tax collection
**Latest available
Source: California State Board of Equalization

Table 8
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Debt Service Coverage -- Pledged Sales Tax Revenue

Fiscal Year Ending	Sales Tax Revenue Actual	Sales Tax Revenue Projected*	Series 2011A Bonds Interest**	Series 2011A Bonds Principal	Series 2011A Bonds Debt Service Total	Annual Debt Service Coverage Ratio
6/30/2016	$ 34,776,012		$ 8,456,950		$ 12,996,950	2.68x
6/30/2017		$ 35,819,292	8,275,350	$ 5,325,000	13,600,350	2.63x
6/30/2018		36,893,871	8,009,100	6,195,000	14,204,100	2.60x
6/30/2019		38,000,687	7,730,850	8,365,000	16,095,850	2.36x
6/30/2020		39,140,708	7,312,600	9,435,000	16,747,600	2.34x
6/30/2021		40,314,929	6,840,850	10,565,000	17,405,850	2.32x
6/30/2022		41,524,377	6,315,000	11,745,000	18,060,000	2.30x
6/30/2023		42,770,108	5,727,750	12,990,000	18,717,750	2.29x
6/30/2024		44,053,212	5,078,250	14,290,000	19,368,250	2.27x
6/30/2025		45,374,808	4,363,750	15,660,000	20,023,750	2.27x
6/30/2026		46,736,052	3,580,750	17,100,000	20,680,750	2.26x
6/30/2027		48,138,134	2,725,750	18,610,000	21,335,750	2.26x
6/30/2028		49,582,278	1,795,250	20,195,000	21,990,250	2.25x
6/30/2029		51,069,746	785,500	15,710,000	16,495,500	3.10x
				Maximum Annual Debt Service Coverage:		**2.25x**

*Sales tax revenue growth projected 3% in future years
**Debt service shown is cash basis

Table 9
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Comparisons of Total Debt and Debt Service Coverage (Unaudited)*

TOTAL DEBT TO INCOME RATIO

		Marin County		Sonoma County	
Year	Total Outstanding Debt	Personal Income	Ratio of Debt to Income	Personal Income	Ratio of Debt to Income
2016	$ 183,318,018	$ 27,282,904,319	0.67%	$ 26,105,257,578	0.70%
2015	190,096,688	26,488,256,620	0.72%	25,344,910,270	0.75%
2014	192,365,524	25,716,754,000	0.75%	24,606,709,000	0.78%
2013	194,634,360	25,093,401,000	0.78%	24,905,827,000	0.78%

TOTAL DEBT SERVICE TO NON-CAPITAL EXPENSES

Year	Total Debt Service	Non-Capital Expenditures	Ratio Debt Service to Non-Capital Expenditures
2016	$ 12,996,951	$ 19,158,917	68%
2015	8,456,950	17,295,496	49%
2014	8,456,950	17,050,864	50%
2013	9,866,442	17,532,537	56%

Sources: Bureau of Economic Analysis U.S. Department of Commerce;Series 2011A bond documents

*Personal Income data only available through 2014 at the time of publication. Data for 2015 & 2016 assumes a 3% increase over previous year.

*Fiscal Year 2013 is the first full year that SMART had outstanding debt and debt service payments on Series 2011A bonds

Table 10
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Demographic and Economic Statistics (Unaudited)

Marin County

Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate
2014*	260,750	$ 25,716,754	$ 98,626	4.3%
2013	258,365	25,093,401	97,124	5.0%
2012	254,882	23,918,732	93,407	6.3%
2011	254,359	22,741,276	89,009	7.4%
2010	252,731	20,748,885	82,021	8.0%
2009	259,772	20,188,247	80,476	7.7%
2008	257,968	22,862,328	92,039	4.7%
2007	255,592	22,428,914	91,083	3.7%
2006	253,561	21,801,503	89,139	3.5%
2005	252,348	20,100,642	82,310	3.9%
2004	250,900	18,634,770	76,444	4.4%
2003	250,746	17,057,946	69,609	4.9%

Sonoma County

Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate
2014*	500,292	$ 24,606,709	$ 49,185	5.6%
2013	495,025	24,905,827	50,312	6.7%
2012	489,283	23,548,182	47,879	8.6%
2011	486,778	22,356,767	45,805	9.8%
2010	484,084	21,080,297	43,482	10.5%
2009	490,231	20,653,880	43,076	9.6%
2008	485,478	21,868,731	46,225	5.7%
2007	480,656	22,056,522	47,194	4.3%
2006	477,395	21,253,619	45,688	4.0%
2005	476,405	19,744,321	42,375	4.5%
2004	474,953	18,830,872	40,340	5.0%
2003	472,356	18,147,977	38,903	5.5%

Sources: California Department of Finance, Bureau of Economic Analysis U.S. Department of Commerce, and California Employment Development Department
*Latest Available

Table 11
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Major Employers (Unaudited)

Marin County 2016

Employer	Number of Employees	Percent of Total Employment*
County of Marin	2194	1.58%
Kaiser Permanente San Rafael Medical Center	1855	1.34%
San Quentin State Prison	1645	1.19%
Marin General Hospital	1614	1.16%
Novato Unified School District	900	0.65%
BioMarin Pharmaceutical	850	0.61%
Autodesk	748	0.54%
Dominican University of California	485	0.35%
Bradley Real Estate	435	0.31%
Wells Fargo	326	0.24%

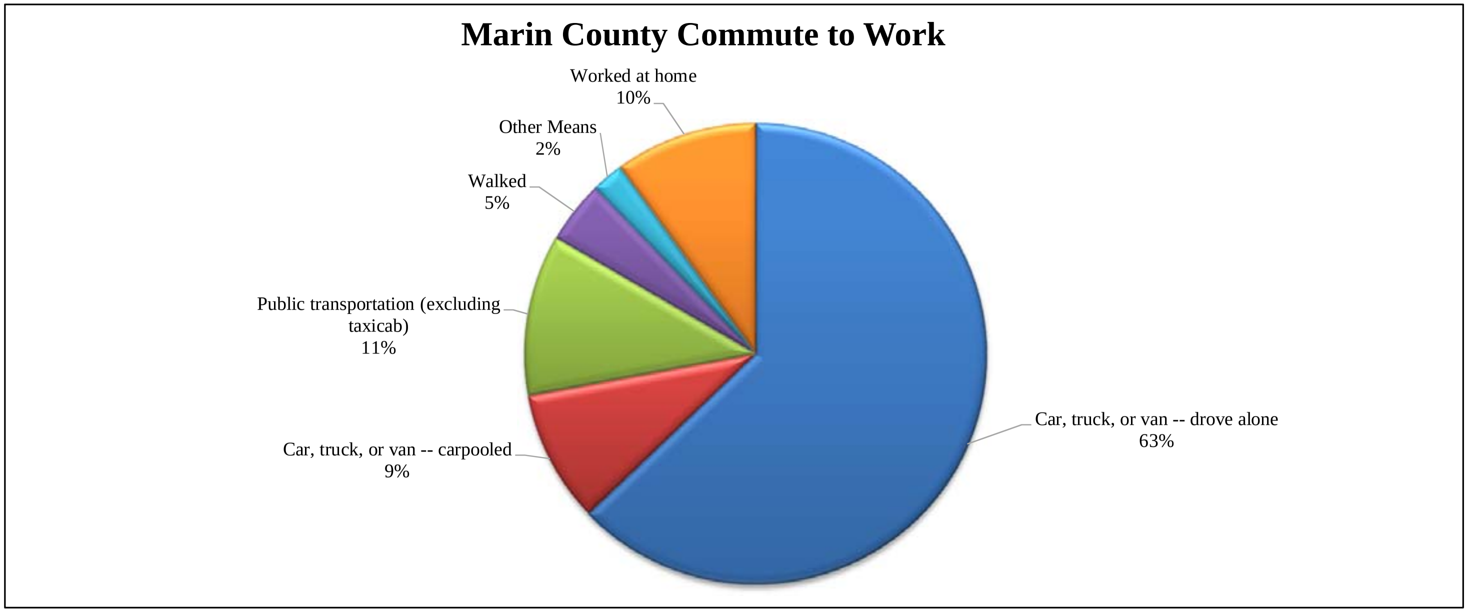
Sonoma County 2016

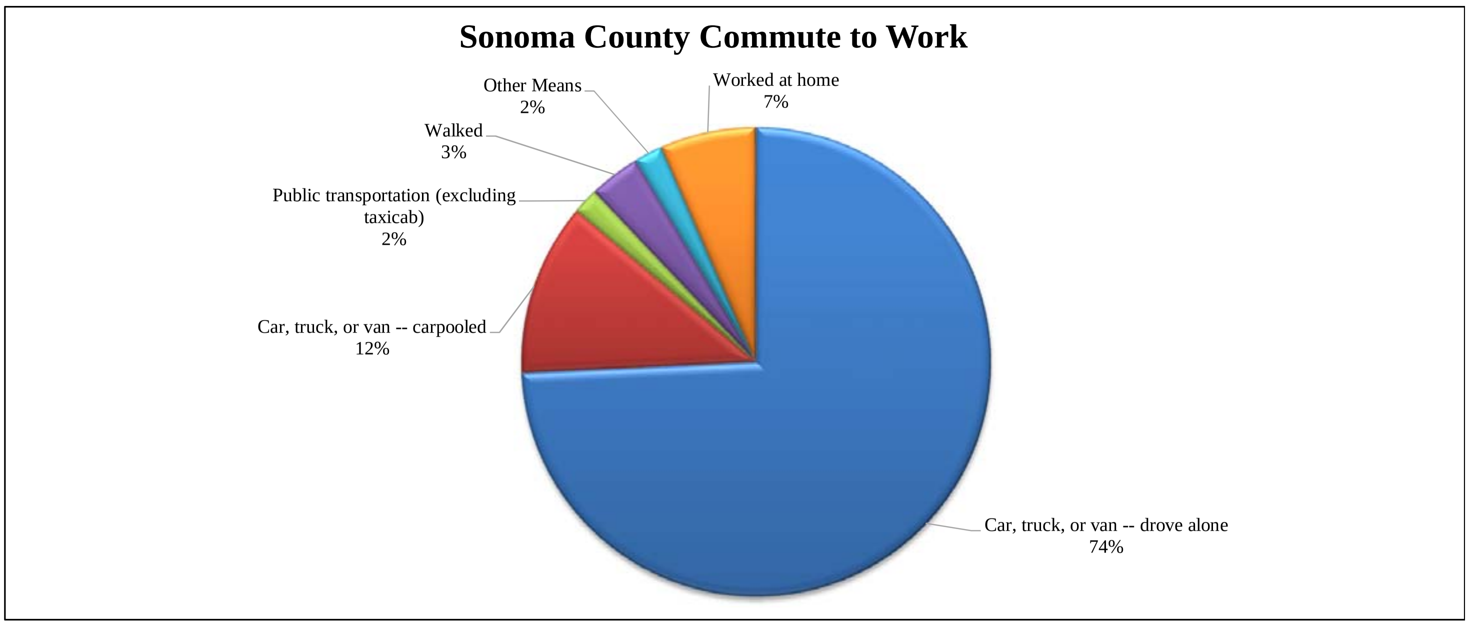
Employer	Number of Employees	Percent of Total Employment*
County of Sonoma	3949	1.57%
Kaiser Permanente Santa Rosa Medical Center	2640	1.05%
Graton Resort & Casino	2000	0.79%
Santa Rosa School District	1900	0.76%
Santa Rosa Junior College	1762	0.70%
St. Joseph Health, Sonoma County	1578	0.63%
City of Santa Rosa	1500	0.60%
Keysight Technologies	1275	0.51%
Sutter Medical Center of Santa Rosa	936	0.37%
Amy's Ktichen	870	0.35%

Sources:

North Bay Business Journal
County of Marin
San Quentin State Prison
Novato Unified School District
County of Sonoma
City of Santa Rosa
* Calculated using California Employment Development Department
June 2016 No. of Employed

Table 12
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Transit Demand Indicators (Unaudited)





Source: US Census Bureau (2015 American Community Survey 1-Year Estimates)

Table 13
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Operating Information-Employees
Full-Time Equivalent (Unaudited)

	Fiscal Year Ended June 30			
Division	**2016**	**2015**	**2014**	**2013**
General Manager	1.00	1.00	1.00	1.00
Legal	1.34	1.00	0.80	0.00
Capital Projects	13.23	13.90	13.80	11.80
Administration	9.00	8.40	8.00	5.60
Finance	6.13	5.80	5.80	5.80
Operations	36.94	4.70	1.30	1.00
Safety & Security	1.00	0.80	0.00	0.00
Total	**68.64**	**35.60**	**30.70**	**25.20**

* FY 2013 was the initial year tracking full time equivalents, as it was the first year SMART prepared a CAFR