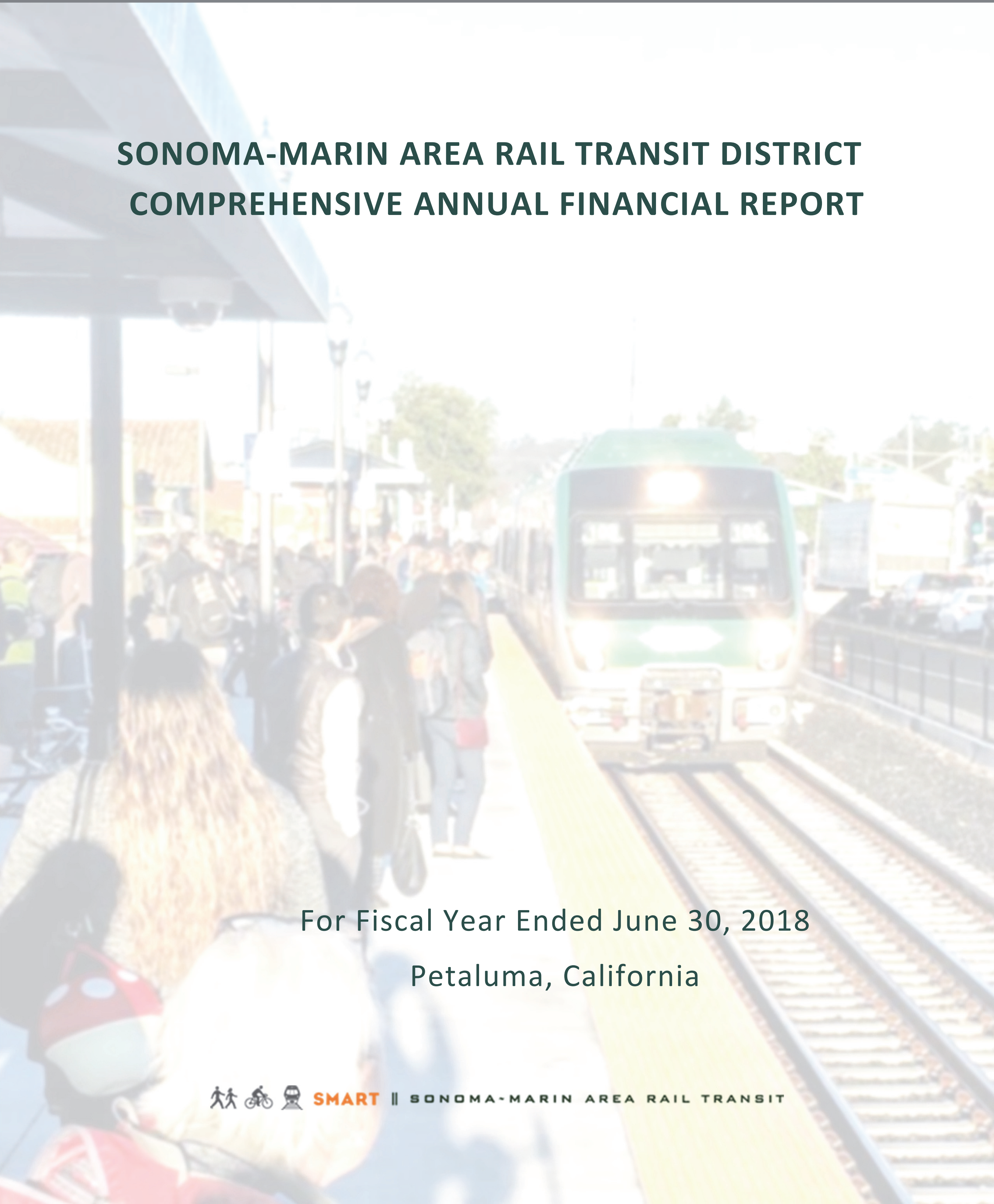

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2018

Petaluma, California

SMART || SONOMA-MARIN AREA RAIL TRANSIT

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Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2018

Sonoma-Marin Area Rail Transit District

Petaluma, California

Report Prepared by the Finance Department

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SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2018

Table of Contents

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2018

Table of Contents

INTRODUCTORY SECTION

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Debora Fudge, Chair
Sonoma County Mayors' and Councilmembers Association

Judy Arnold, Vice Chair
Marin County Board of Supervisors

Damon Connolly
Marin County Board of Supervisors

Jim Eddie
Golden Gate Bridge, Highway/Transportation District

Dan Hillmer
Marin County Council of Mayors and Councilmembers

Eric Lucan
Transportation Authority of Marin

Jake Mackenzie
Sonoma County Mayors' and Councilmembers Association

Barbara Pahre
Golden Gate Bridge, Highway/Transportation District

Gary Phillips
Transportation Authority of Marin

David Rabbitt
Sonoma County Board of Supervisors

Carol Russell
Sonoma County Mayors' and Councilmembers Association

Shirlee Zane
Sonoma County Board of Supervisors

Farhad Mansourian
General Manager

5401 Old Redwood Highway
Suite 200
Petaluma, CA 94954
Phone: 707-794-3330
Fax: 707-794-3037
www.sonomamarintrain.org

November 28, 2018

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, 2017 through June 30, 2018.

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 Maze and Associates 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 both a rail transit system and an accompanying multi-use pathway. SMART has been carrying passengers for over one year on the first 43 miles of a transit system that will ultimately connect the 70 miles between Cloverdale in Sonoma County to 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.

SMART is primarily funded by a one-quarter percent sales tax approved by voters in the SMART District in 2008. From the start of regular passenger service in August of 2017 through its first year, SMART has carried over 722,000 passengers.

The Phase 1 project that began operating in 2017 runs from the Downtown San Rafael Station to the Airport Boulevard Station accompanied by multiple SMART pathway segments in San Rafael, Novato, Cotati, Rohnert Park and Santa Rosa. SMART is also constructing a 2.1-mile extension from San Rafael to Larkspur to be completed by the end of 2019. A three-mile extension North to Windsor has now been funded and is in the early stages of design-build. Subsequent phases of the project will include additional SMART rail stations in Cloverdale, Healdsburg, and Petaluma; 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 connect to the SMART transit system by local transit connections as well as SMART-contracted connector buses.

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. However, a study by the Metropolitan Transportation Commission found that motorists in 2017 spent the equivalent of 2,690 vehicle hours of congested delay during the morning commute on Highway 101 from Novato to San Rafael. SMART's new riders have already begun to discover the reliable alternative the train can provide in a way that reduces their commute time and increases their productivity.

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 $82,390 compared to California's $59,769 and $45,390 for the United States according to 2017 reports from the U.S. Bureau of Economic Analysis (BEA). The District's residents have shown stable employment rates through June 30, 2018. The seasonally unadjusted unemployment rates in Marin and Sonoma Counties in September of 2018 were 2.9% and 3.4%, respectively. Sales tax revenues continued to grow at a steady rate, but the rate of that growth decreased in the past year. For the year that ended June 30, 2018, SMART sales tax receipts, net of state fees, increased by 3% and equaled $37,135,476.

Last year Sonoma County suffered devastating wildfires, causing an estimated $10 billion in property damage in the North bay, including damaging seven hotels, and burning over 4% of Santa Rosa's housing stock. While SMART's ridership dropped during that time and was slow to return in the days following the disaster, in subsequent months SMART's train ridership, fare revenues and sales tax receipts have steadily grown back.

DISTRICT ACTIVITIES in Fiscal Year 2017-18

SMART Rail Service

The primary activity for the District in Fiscal Year 2017-18 was the start of regular passenger service. Weekday passenger service includes 34 trips a day, starting at 4:19 am and ending at 9:42 pm. Four weekend service trips start at 10:13 am and conclude at 9:57 pm. In its first year, SMART carried 722,961 passengers, 65,468 bicycles and 3,095 passengers in wheelchairs. Passenger support has been positive and growing, and since opening day the on-time performance of SMART trains is 97%.

Capital Improvement Projects
Fiscal Year 2017-18 also reflected significant construction activity related to the important 2.1-mile rail extension from San Rafael to Larkspur. This project, which is funded primarily by Regional Measure 2 (Bridge Tolls), the Federal Transit Administration, as well as the Federal Railroad Administration, is also supported by SMART's own Measure Q. The extension is expected to complete final testing and revenue service by the close of 2019.

Fiscal Year 2017-18 saw continued progress on developing SMART multi-use pathway segments, including an additional 4.6 more miles consisting of pathway from the Marin Civic Center Station to North San Pedro Road, Franklin Avenue to Grant Avenue in Novato, and a section from the Cotati Station to Sonoma Mountain Village in Rohnert Park. Design work on a crucial section in Petaluma from Payran to Southpoint Boulevard was also completed.

Another ongoing project, funded by the State of California, is the expansion of SMART's rail car fleet. Shortly after the close of Fiscal Year 2017-18, SMART received four additional Diesel Multiple Unit rail cars from its current contractor, Sumitomo Corporation of America. The new cars are now subject to testing and configuration before they can be put into service for the current 43-mile segment as well as the Larkspur extension when it opens.

Finally, although no financial activity occurred in FY 2017-18, in the last quarter of the Fiscal Year, SMART successfully competed for State and Regional funds to extend the commuter line North to Windsor, an additional 3 miles north of its current terminus.

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 Fiscal Year 2017-18, SMART increased substantially its rail liability limits to match federal statutes. We continue to budget for self-insured retentions as needed to fully address the financial needs of our risk strategies. SMART has also hired a full-time Safety and Compliance Officer to ensure the District puts best practices in place for the safety of the public and employees.

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.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada 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, 2017. This was the fourth 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 show the magnitude of the public assets that have resulted from the voters' approval of the SMART sales tax measure in 2008. 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 finance staff and we would like to thank them for their hard work and dedication. We would also like to thank Maze and Associates for their contributions. In addition, we would like to express our appreciation for the continued support and commitment of the Board of Directors for their interest and support in planning and conducting the District's financial operations.

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, 2017

Christopher P. Morrill

Executive Director/CEO

Sonoma-Marin Area Rail Transit District
Fiscal Year 17-18 Principal Officials

Debora Fudge, Chair
Sonoma County Mayors and Councilmembers Association

Judy Arnold, Vice Chair
Marin County Board of Supervisors

Damon Connolly
Marin County Board of Supervisors

Barbara Pahre
Golden Gate Bridge, Highway and Transportation District

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Sonoma County Board of Supervisors

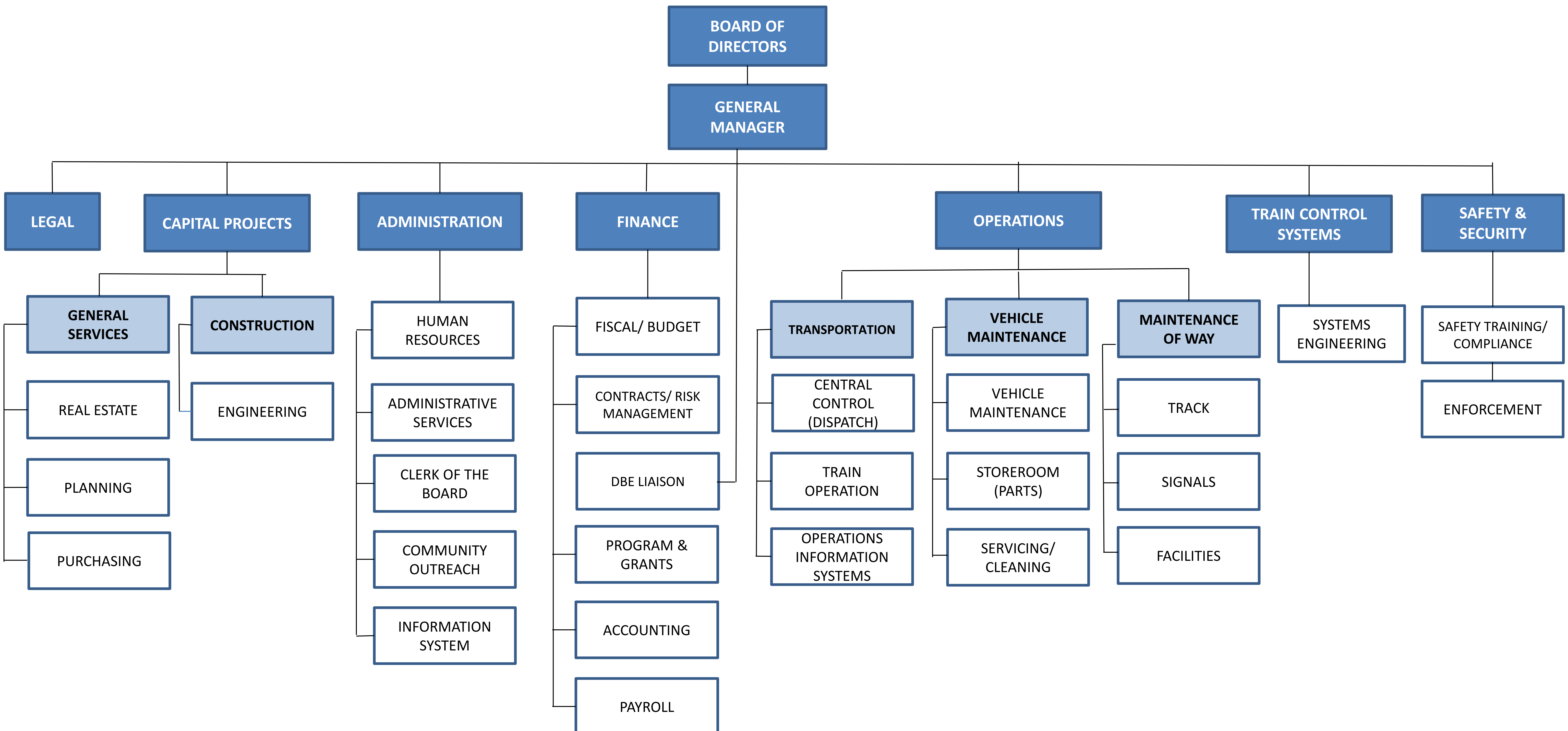
Carol Russell
Sonoma County Mayors and Councilmembers Association

Farhad Mansourian
General Manager

Erin McGrath
Chief Financial Officer

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

Organization Chart



July 2018


SONOMA-MARIN
SMART
AREA RAIL TRANSIT
SMART PASSENGER RAIL & MULTIUSE PATH
Project Length: 70 Miles
SMART Stations
SMART Rail Phase I
SMART Rail Phase 2
SMART Owned Railroad Right-of-Way
Urban Areas
MENDOCINO CO.
SONOMA CO.
Cloverdale
Cloverdale (planned)
Geyserville
Healdsburg
Healdsburg (planned)
North - Planned
Windsor (planned)
Windsor
Windsor - 2021
SONOMA CO.
NAPA CO.
Sonoma County Airport
Sonoma County Airport
Russian River
Santa Rosa North
Santa Rosa Downtown
Santa Rosa
Sebastopol
Rohnert Park
Rohnert Park
Cotati
Cotati
Sonoma
Bodega Bay
SONOMA CO.
MARIN CO.
Petaluma North (planned)
Schellville
Petaluma Downtown
Lombard
Petaluma
Phase 1 - Aug. 2017
37
POINT REYES
Novato San Marin
Novato Downtown (planned)
Novato
Novato Hamilton
DRAKE'S BAY
Marin Civic Center
San Rafael
San Rafael
Larkspur - 2019
Larkspur (planned)
Larkspur
Mill Valley
Bolinas
Tiburon
PACIFIC OCEAN
Oakland
Sausalito
San Francisco Bound Ferry Connection
San Francisco

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the Sonoma-Marin Area Rail Transit District (District), California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 District'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 District'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.

Accountancy Corporation
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Pleasant Hill, CA 94523

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2018, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which became effective during the year ended June 30, 2018 and required a required the restatement of net position as discussed in Note 1N.

This change in accounting principle does not constitute a modification to our opinion.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts 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 28, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Maze + Associates

Pleasant Hill, California
November 28, 2018

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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, 2018. 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 2018 Financial Highlights

- SMART's financial activity for the year ended June 30, 2018 reflects the shift to Operations activities with the addition of fare, parking and other revenues generated as a result of carrying passengers and a full year of expenses such as fuel, parts and labor for commuter rail operations
- Fare revenue for the first year was $3.3 million out of the $4.03 million in Charges for Services. This exceeded SMART's budgeted amounts and provided a strong base for future financial planning.
- Capital assets increased by $6.5 million due to continued construction activity during the year, however, depreciation also grew to $17.8 million due to the placement of the Phase 1 capital project into service
- Assets of SMART exceeded its liabilities at the close of the year ended June 30, 2018 by $428.2 million (net position). Of this amount, $60.2 million is unrestricted.
- SMART's net position increased $18.2 million during the year ended June 30, 2018, due to continued investment into capital assets related to both rail and pathway 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 business-type or 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 13-30 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 $428,180,734 on June 30, 2018.

The largest portion of SMART's net position (85%) reflects its investment in capital assets (e.g., land, tracks and crossings, pathway, bridges and tunnels). SMART uses 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.

Statement of Net Position

	2018	2017	2018 - 2017 Change
Current and other assets	$ 92,388,275	95,930,281	$ (3,542,005)
Long-term assets	-	243,736	(243,736)
Capital assets	518,274,187	511,739,621	6,534,565
Total assets	610,662,462	607,913,638	2,748,824
Deferred outflows of resources	2,164,639	2,215,332	(50,693)
Current liabilities	22,591,996	28,948,683	(6,356,688)
Long-term liabilities	161,793,710	171,000,309	(9,206,599)
Total liabilities	184,385,706	199,948,993	(15,563,287)
Deferred inflows of resources	260,661	198,125	62,536
Net position:			
Net investment in capital assets	367,957,650	358,113,633	9,844,017
Unrestricted	60,223,084	51,868,220	8,354,864
Total net position	$ 428,180,734	409,981,853	$ 18,198,880

Sonoma-Marin Area Rail Transit District
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2018

SMART's net position at the end of fiscal year 2018 increased by $18,198,886 from the prior fiscal year. This increase is primarily the result of SMART continuing to invest its revenues and grants into capital assets, primarily crossings, train systems, stations, railcars, and multi-use pathway. Current and other assets at June 30, 2018, decreased by $3,542,005. The decrease was primarily due to drawdown of cash to pay capital project expenditures. Current liabilities at June 30, 2018, decreased from $28,948,683 on June 30, 2017 to $22,591,996 on June 30, 2018, which was primarily due to decreased payables at year-end related to SMART's capital asset activity.

Statement of Revenues, Expenses and Changes in Net Position

	2018	2017	2018 - 2017 Change
Operating Revenues:			
Charges for services	$ 4,025,111	588,402	$ 3,436,709
Total operating revenues	4,025,111	588,402	3,436,709
Operating Expenses:			
Public transportation - rail/pathway development:			
Salaries and employee benefits	17,827,943	13,507,443	4,320,500
Capitalized employee costs	(877,829)	(896,569)	18,741
Services and supplies	8,877,465	7,499,086	1,378,379
Depreciation	17,800,126	4,716,779	13,083,347
Loss on impairment of assets	671,378	-	671,378
Other charges	954	113	841
Total operating expenses	44,300,037	24,826,852	19,473,185
Operating loss	(40,274,926)	(24,238,451)	(16,036,475)
Nonoperating Revenues (Less Expenses):			
Sales/Use taxes	37,135,476	36,061,895	1,073,581
State Operating Assistance	3,701,366		
Investment earnings	724,313	366,750	357,563
Other revenues	2,236,508	438,640	1,797,868
Capital expenses passed through to other agencies	(3,778,891)	(62,636)	(3,716,255)
Interest and related fees	(5,819,778)	(1,164,558)	(4,655,220)
Total Nonoperating Revenues (Net):	34,198,994	35,640,092	(1,441,098)
			-
Capital grants and contributions	24,941,459	12,403,891	12,537,567
			-
Change in net position	18,865,527	23,805,533	(4,940,006)
			-
Net position, beginning of year as previously reported *	409,315,207	386,176,316	23,138,891
Restatement due to implementation of GASB 68		-	-
Net position - beginning of the year	409,315,207	386,176,316	23,138,891
Net position - end of the year	$ 428,180,734	409,981,849	$ 18,198,886

* Restatement of FY17 Net Position

Fiscal Year 2018 Revenues

- SMART revenues consist of operating revenues of $4,025,111 and non-operating revenues less expenses of $34,198,994 -- which is comprised of sales tax receipts and state operating assistance. Sales tax, SMART's single largest ongoing source of revenue, continues to grow at 3% over the previous year, although that number may be understated due to the backlog in processing at the State. This growth, however, is consistent with SMART's long-term projections in its strategic planning processes.
- Capital grants and contributions of $24,941,459 are $12,537,567 higher than the year ended June 30, 2017. The Larkspur extension is almost entirely grant-funded as is the four additional train cars being manufactured.

Fiscal Year 2018 Expenses

- SMART had operating expenses of $44,300,047, tied to salaries, benefits, other services and supplies. This also includes $17,800,126 in depreciation expense.
- Salaries and benefits increased significantly over the year ended June 30, 2017, by $4,320,500, due to increase in operating staffing costs.
- Services and supplies increased over the year ended June 30, 2017 by $1,378,379, due to increased services related to passenger service.
- Capital expenses passed through to other agencies increased over the year ended June 30, 2017 by $3,716,255 primarily related to work in San Rafael.
- Interest and related fees increased over the year ended June 30, 2017 by $4,655,220 primarily due to bond interest expense.

Capital Assets and Debt

Capital Assets

SMART's capital assets, as of June 30, 2018 are $518,274,188 (net of accumulated depreciation) which is an increase of $6,534,567 over June 30, 2017. Assets grew in conjunction with continued construction of the rail and pathway. SMART assets include land, construction in progress, infrastructure (tracks/rails, crossings, bridges, fencing, tunnels, road crossings and pathway improvements), buildings and improvements, and equipment.

Capital Assets

	2018	2017	2018- 2017 Change
Land	$ 43,518,988	$ 41,423,299	$ 2,095,689
Intangible Assets (Non-Amortizable)	20,770	18,770	2,000
Infrastructure	428,606,660	75,538,495	353,068,165
Revenue Vehicles	42,833,647	-	42,833,647
Buildings & improvements	24,868,302	4,430,137	20,438,165
Construction in progress	22,306,954	417,553,009	(395,246,055)
Equipment	2,589,905	2,316,714	273,191
Intagible Assets	387,672	-	387,672
Accumulated depreciation	(46,858,710)	(29,540,804)	(17,317,907)
Total capital assets, net of depreciation	$ 518,274,188	$ 511,739,621	$ 6,534,567

Additional information on SMART's capital assets can be found in Note 3 of the notes to the basic financial statements.

Debt

SMART had $167,528,327 in bonds outstanding and unamortized bond premium at June 30, 2018 compared to $175,819,899 on June 30, 2017. Additional information on SMART's long-term debt can be found in Note 4.

Economic and Other Factors

Economy

SMART transit 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 in more detail, the economy of the District grew during the fiscal year and exhibited healthy trends in employment and other key factors. The District anticipates continued economic growth in the long term, depending on the ability of the two Counties to provide housing to replace the stock lost in the 2017 fires in Santa Rosa as well as housing to accommodate anticipated growth in population.

Other Factors

SMART continues to hold multi-year contracts with several independent contractors for the Larkspur extension project, for final Phase 1 construction expenses, for four new passenger train cars, and the new Windsor extension project. Most of these projects are grant-funded in nature and do not rely on sales tax or SMART's other revenue sources. At June 30, 2018, SMART's total outstanding commitments under these and other construction-related contracts were approximately $52.9 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.

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS	
Current Assets	
Cash and cash equivalents (Note 2)	$43,851,722
Restricted cash, cash equivalents, and investments with trustee (Note 2)	23,028,246
Due from other governments	12,603,515
Other receivables	7,681,157
Deposits with others	1,136,813
Inventory	2,785,568
Prepaid expenses	1,301,254
Total current assets	92,388,275
Noncurrent Assets	
Capital assets (Note 3):	
Non-depreciable:	
Land	43,518,988
Construction in progress	22,306,954
Intangible assets	20,770
Depreciable (net of accumulated depreciation):	
Infrastructure	387,064,560
Buildings and improvements	22,284,636
Equipment and vehicles	1,314,291
Revenue vehicles	41,405,858
Intangible assets	358,130
Total capital assets, net	518,274,187
Total noncurrent assets	518,274,187
Total Assets	610,662,462
DEFERRED OUTFLOWS OF RESOURCES	
Pension related (Note 5)	2,164,092
OPEB related (Note 6)	547
Total Deferred Outflows of Resources	2,164,639
LIABILITIES	
Current Liabilities	
Accounts payable and other current liabilities	10,179,664
Unearned revenue	447,162
Interest payable	2,576,950
Compensated absences - due within one year (Note 1H)	1,023,220
Long-term debt - due within one year (Note 4)	8,365,000
Total current liabilities	22,591,996
Noncurrent Liabilities	
Compensated absences (Note 1H)	161,430
Net post-employment benefits liability (Note 6)	1,532,175
Net pension liability (Note 5)	936,778
Long-term debt (Note 4)	159,163,327
Total noncurrent liabilities	161,793,710
Total Liabilities	184,385,706
DEFERRED INFLOWS OF RESOURCES	
Pension related (Note 5)	40,182
OPEB related (Note 6)	220,479
Total Deferred Inflows of Resources	260,661
NET POSITION (Note 1L)	
Net investment in capital assets	367,957,650
Unrestricted	60,223,084
Total Net Position	$428,180,734

See accompanying notes to basic financial statements

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

OPERATING REVENUES	
Charges for services	$4,025,111
Total operating revenues	4,025,111
OPERATING EXPENSES	
Public transportation - rail/pathway development:	
Salaries and employee benefits	17,827,943
Capitalized employee costs	(877,829)
Services and supplies	8,877,465
Depreciation (Note 3)	17,800,126
Other charges	672,332
Total program operating expenses	44,300,037
Operating loss	(40,274,926)
NON-OPERATING REVENUES (EXPENSES)	
Sales/Use taxes	37,135,476
State operating assistance	3,701,366
Investment earnings	724,313
Miscellaneous revenue	2,236,508
Capital expense passed through to other agencies	(3,778,891)
Interest expense	(5,819,778)
Total non-operating revenues, net	34,198,994
Income before capital grants and contributions	(6,075,932)
CAPITAL GRANTS AND CONTRIBUTIONS	
State of California	837,950
Metropolitan Transportation Commission	9,939,309
Sonoma County Transportation Authority- Measure M	356,219
Federal	9,450,100
Other governmental agencies	4,357,881
Total capital grants and contributions	24,941,459
Change in net position	18,865,527
NET POSITION	
Beginning of Year, as restated (Note 1N)	409,315,207
End of Year	$428,180,734

See accompanying notes to basic financial statements

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tenants	$358,887
Receipts from others	3,666,224
Payments to suppliers for goods and services	(18,778,599)
Payments to employees for services	(16,561,279)
Payments to employee retirement system	1,248,930
Net cash provided (used) by operating activities	(30,065,837)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income received	724,313
Net cash provided by investing activities	724,313
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Sales tax received	35,854,277
State operating assistance	3,701,366
Net cash provided by noncapital and financing activities	39,555,643
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(19,143,687)
Labor costs related to capital projects	(877,829)
Capital grants and contributions received restricted for capital purposes	18,399,225
Cash paid on projects on behalf of other governments	(3,778,891)
Cash receipts for third party infrastructure	2,257,144
Principal payments on long-term debt	(6,195,000)
Interest paid on capital debt	(8,009,100)
Net cash provided (used) by capital and related financing activities	(17,348,138)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(7,134,019)
CASH AND INVESTMENTS AT BEGINNING OF YEAR	74,013,987
CASH AND INVESTMENTS AT END OF YEAR	$66,879,968
RECONCILIATION TO STATEMENT OF NET POSITION	
Cash and Cash Equivalents	$43,851,722
Restricted cash, cash equivalents, and investments with trustee	23,028,246
Total cash and cash equivalents	$66,879,968
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating loss	($40,274,926)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	17,800,126
Changes in operating assets and liabilities:	
Prepaid expenses	(504,666)
Accounts payable and other accrued liabilities	(8,724,136)
Compensated absences	388,835
Net post-employment benefits obligation	1,161,001
Net pension liability and related deferred outflow/inflow of resources	87,929
Net cash provided (used) by operating activities	($30,065,837)
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Amortization of premiums	$2,096,572
Inventory	(2,785,568)

See accompanying notes to basic financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

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 each 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. Fund Accounting

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.

C. Basis of Accounting

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. 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.

E. 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.

F. 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.

G. 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.

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.

Employee liabilities as of June 30, 2018 are as follows:

Beginning Balance	$795,815
Additions	1,412,055
Payments	1,023,220
Ending Balance	$1,184,650
Current Portion	$1,023,220

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. 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.

J. 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.

K. Deferred Inflow/Outflow of Resources

Deferred outflows and inflows resources related to pensions are certain changes in total pension and OPEB 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.

L. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fair Value Measurements

Fair value is defined as 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. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

N. Implementation of Governmental Accounting Standards Board (GASB) Pronouncements

Management adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (OPEB), which became effective during the year ended June 30, 2018. In June 2015, GASB issued Statement No. 75 and the intention of this Statement is to improve the usefulness of information for decisions made by the various users of the financial reports of governments whose employees – both active employees and inactive employees – are provided with postemployment benefits other than pensions by requiring recognition of the entire net OPEB liability and a more comprehensive measure of OPEB expense.

The implementation of the Statement required the District to make a prior period adjustment. As a result, the District's beginning net position was restated and reduced by $666,637.

NOTE 2 - CASH AND INVESTMENTS

Cash, cash equivalents, and investments are carried at fair value and are categorized as follows at June 30, 2018:

	Available for Operations	Held by Trustee	Total
Cash equivalent:			
Sonoma County Treasury Pool	$29,972,122	$23,028,246	$53,000,368
Deposits	13,879,600		13,879,600
Total Cash and Investments	$43,851,722	$23,028,246	$66,879,968

A. *Investments Authorized by the District's Investment Policy*

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.

B. *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	A 2/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

NOTE 2 - CASH AND INVESTMENTS (Continued)

C. 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.

D. 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.

E. 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 fair 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).

NOTE 2 - CASH AND INVESTMENTS (Continued)

F. 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, 2018. 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 2018 Sonoma County Comprehensive Annual Financial Report.

G. Fair Value Hierarchy

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 fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The District only invests in the Sonoma County Treasury Pool which is exempt from the fair value hierarchy.

NOTE 3 - 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 acquisition 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.

NOTE 3 - CAPITAL ASSETS (Continued)

Capital assets comprised the following at June 30, 2018:

	Balance June 30, 2017	Additions	Retirements	Transfers	Adjustment	Balance June 30, 2018
Capital assets not being depreciated:						
Land	$41,423,299			$2,095,689		$43,518,988
Intangible assets	18,770			$2,000		20,770
Construction in progress	417,553,009	$27,577,367	($123,245)	(422,700,177)		22,306,954
Total capital assets not being depreciated	458,995,078	27,577,367	(123,245)	(420,602,488)		65,846,712
Capital assets being depreciated:						
Infrastructure	75,538,495		(739,500)	353,807,665		428,606,660
Buildings and improvements	4,430,137			20,438,165		24,868,302
Equipment and vehicles	2,316,715		(8,409)	$281,600		2,589,906
Revenue vehicles				45,687,386	($2,853,739)	42,833,647
Intangible assets				$387,672		387,672
Total capital assets being depreciated	82,285,347		(747,909)	420,602,488	(2,853,739)	499,286,187
Less accumulated depreciation for:						
Infrastructure	(26,699,660)	(15,316,249)	473,809			(41,542,100)
Buildings and improvements	(1,956,351)	(627,315)				(2,583,666)
Equipment	(884,793)	(399,231)	8,409			(1,275,615)
Revenue vehicles		(1,427,789)				(1,427,789)
Intangible assets		(29,542)				(29,542)
Total accumulated depreciation	(29,540,804)	(17,800,126)	482,218			(46,858,712)
Total capital assets being depreciated, net	52,744,543	(17,800,126)	(265,691)	420,602,488	(2,853,739)	452,427,475
Capital assets, net	$511,739,621	$9,777,241	($388,936)		($2,853,739)	$518,274,187

SMART recognized $17.8 million in depreciation expense for assets previously placed in service.

NOTE 4 – 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 2-5% and mature by March 1, 2029.

NOTE 4 – LONG TERM DEBT (Continued)

Long-term debt activity for the year ended June 30, 2018 was as follows:

	Original Issue Amount	Balance June 30, 2017	Retirements	Balance June 30, 2018	Amount due within one year
Bonds Payable:					
Remarketed Series 2011A					
2.00-5.00%, due 3/1/2029	$170,725,000	$160,860,000	$6,195,000	$154,665,000	$8,365,000
Unamortized bond premium	19,371,688	14,959,899	2,096,572	12,863,327	
Total long-term debt, net		$175,819,899	$8,291,572	$167,528,327	$8,365,000

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, 2018 was $37,135,476 whereas debt service on the Measure Q bonds was $14,204,100 for the fiscal year ended June 30, 2018.

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, 2018:

For The Year Ending June 30	Principal	Interest
2019	$8,365,000	$7,730,850
2020	9,435,000	7,312,600
2021	10,565,000	6,840,850
2022	11,745,000	6,315,000
2023	12,990,000	5,727,750
2024 - 2028	85,855,000	17,543,750
2029	15,710,000	785,500
	154,665,000	$52,256,300
Plus: Unamortized Bond Premium	12,863,327	
	$167,528,327	

NOTE 5 – PENSION PLANS

A. General Information about the Pension Plans

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.

In December 2016, SMART approved a contract with CalPERS for the creation of a new Safety 2.7% at 57 Plan. As of June 30, 2018 CalPERS has not provided an actuarial valuation determining this plan's net pension liability.

Plan Descriptions – 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.

Benefits Provided – 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.

NOTE 5 – PENSION PLANS (Continued)

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous			
	Tier I	Tier II	Tier III	PEPRA
Hire date	Prior to September 1, 2011	On or after September 1, 2011	On or after June 2, 2012	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	55	55	60	62
Monthly benefits, as a % of eligible compensation	1.426%-2.418%	1.426%-2.418%	1.092%-2.418%	1.000%-2.500%
Required employee contribution rates	7%*	7%	7%	6.25%
Required employer contribution rates	8.418%	8.418%	7.200%	6.533%

*SMART pays employee share

	Safety
	PEPRA
Hire Date	On or after January 1, 2013
Benefit Formula	2.7@57
Benefit Vesting Schedule	5 years service
Benefits payments	monthly for life
Retirement Age	57
Monthly benefits, as a % of eligible compensation	2.000%-2.7000
Require employee contribution rates	11.500%
Required employer contribution rates	11.990%

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, 2018, the contributions recognized as part of pension expense for the Plans were as follows:

	Miscellaneous
Contributions - employer	$747,878

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Plans	$936,778

NOTE 5 – PENSION PLANS (Continued)

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, 2017, 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, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was actuarially determined at the valuation date.

The District's proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2017 was as follows:

Proportion - June 30, 2016	0.02136%
Proportion - June 30, 2017	0.02376%
Change - Increase (Decrease)	0.00240%

For the year ended June 30, 2018, the District recognized a pension expense of $835,807. At June 30, 2018, 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	$747,878	
Differences between actual and expected experience	1,689	($24,201)
Changes in assumptions	209,590	(15,981)
Net differences between projected and actual earnings on plan investments	47,401	
Change in proportion and differences between actual contributions and proportionate share of contributions	1,157,534	
Total	$2,164,092	($40,182)

At June 30, 2018, the District reported $747,878 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, 2019. 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	Deferred Outflows/(inflows) of Resources
2019	$619,104
2020	475,920
2021	309,150
2022	(28,142)

NOTE 5 – PENSION PLANS (Continued)

Actuarial Assumptions – The total pension liabilities was determined using the following actuarial assumptions:

	All Plans
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table[(1)]	Derived using CalPers Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2015 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.15% for each Plan. 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 current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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.

NOTE 5 – PENSION PLANS (Continued)

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. 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.

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

Asset Class	Policy Target Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share 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 7.15 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 (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate		
	1% Decrease 6.15%	Current 7.15%	1% Increase 8.15%
Proportionate Share of Net Pension Liability	$1,627,647	$936,778	$364,588

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.

NOTE 6 – OTHER POST- EMPLOYMENT HEALTH CARE BENEFITS (OPEB)

A. General Information about the District's Other Post Employment Benefit (OPEB) Plan

By SMART Board of Directors resolution, SMART will provide certain health care benefits for retired employees under third-party insurance plans. The District's Post Employment Benefit Plan is a single-employer defined benefit plan. 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 $128 per month in 2017, and is $133 per month in 2018. As of June 30, 2018, there was one retiree receiving OPEB benefits.

Employees Covered by Benefit Terms – Membership in the plan consisted of the following at the measurement date of June 30, 2017:

Active employees	106
Inactive employees or beneficiaries currently receiving benefit payments	1
Inactive employees entitled to but not yet receiving benefit payments	0
Total	107

NOTE 6 – OTHER POST- EMPLOYMENT HEALTH CARE BENEFITS (OPEB) (Continued)

B. Total OPEB Liability

Actuarial Methods and Assumptions – The District's total OPEB liability was measured as of June 30, 2017 and the total OPEB liability was determined by an actuarial valuation dated July 1, 2017 that was rolled forward using standard update procedures to determine the $1,532,175 total OPEB liability as of June 30, 2017, based on the following actuarial methods and assumptions:

	Actuarial Assumptions
Valuation Date	July 01, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age actuarial cost method
Actuarial Assumptions:	
Discount Rate	2.92% at June 30 2016, and 3.56% at June 30 2017. Since the benefits are not funded, the discount rate is equal to the 20-year bond rate.
20 Year Bond Rate	SMART has chosen to use the "Fidelity General Obligation AA" as its 20-year bond rate. That Index was 2.92% at June 30 2016, and 3.56% at June 30
Premium Increases	Medical Premiums and PEMHCA minimum are assumed to increase as follows: 2020-2023 to 4%, 2024-2027 to 4.5%, 2028 and later to 5.0%.
Payroll Growth	Total payroll is assumed to increase 3.0% per year in the future.
Mortality Rate	Rates are taken from 2014 CalPERS OPEB Assumption Model.
Retirement	Rates are taken from 2014 CalPERS OPEB Assumption Model for miscellaneous public employees with 2% at age 55, 2% at 60, or 2% at 62 retirement formula, depending on which the employee has now.
Coverage Elections	80% of future eligible retired employees are assumed to participate in this program. Employees with no current medical coverage are assumed to elect Kaiser employee-only coverage upon retirement.
Turnover (withdrawal)	Likelihood of termination within the next year is taken from the 2014 CalPERS OPEB Assumptions Model, rates for Public Miscellaneous employees.
Inflation	Long-term inflation is assumed to be 2.75% per year.
Age-Specific Medical Claims	The estimated per person medical claims (true cost of coverage) during the 2017-18 fiscal year are as follows: Ages 40, 45, 50, 55, 60, 64 amount per age respectfully are $7,581; $9,168; $11,326; $13,968; $16,281; $17,468.

C. Changes in Total OPEB Liability

The changes in the total OPEB liability follows:

	Total OPEB Liability
Balance at June 30, 2016	$1,261,549
Changes Recognized for the Measurement Period:	
Service cost	478,730
Interest on the total OPEB liability	36,782
Differences between expected and actual experience	0
Changes of assumptions	(241,085)
Benefit payments	(3,801)
Net changes	270,626
Balance at June 30, 2017 (Measurement Date)	$1,532,175

NOTE 6 – OTHER POST- EMPLOYMENT HEALTH CARE BENEFITS (OPEB) (Continued)

D. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower 2.56% or 1-percentage-point higher 4.56% than the current discount rate:

Total OPEB Liability/(Asset)		
Discount Rate -1%	Discount Rate	Discount Rate +1%
2.56%	3.56%	4.56%
$1,929,727	$1,532,175	$1,232,576

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower 3% to 4% or 1-percentage-point higher 5% to 6% than the current healthcare cost trend rates:

Total OPEB Liability/(Asset)		
1% Decrease	Healthcare Cost Trend Rates	1% Increase
3% to 4%	4% to 5%	5% to 6%
$1,228,849	$1,532,175	$1,932,235

E. OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $494,906. At June 30, 2018, the District reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	$547	
Differences between actual and expected experience		
Net difference between projected and actual earnings on OPEB plan investments		
Changes of assumptions		$220,479
Total	$547	$220,479

NOTE 6 – OTHER POST- EMPLOYMENT HEALTH CARE BENEFITS (OPEB) (Continued)

The $547 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as part of OPEB expense as follows:

Year Ended June 30	Annual Amortization
2019	($20,606)
2020	(20,606)
2021	(20,606)
2022	(20,606)
2023	(20,606)
Thereafter	(117,449)

NOTE 7 - COMMITMENTS

A. Lease Commitments

SMART's future noncancellable lease payments are:

Year Ending June 30	Minimum Lease Payment
2019	$472,402
2020	438,508
2021	448,966
2022	456,363
2023	73,582
Total	$1,889,821

B. Purchase Commitments

At June 30, 2018, SMART had outstanding purchase and contract commitments for the rail and pathway project of $52,943,936.

REQUIRED SUPPLEMENTARY INFORMATION

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Cost Sharing Multiple-Employer Defined Pension Plan
As of fiscal year ending June 30, 2018
Last 10 Years*
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

	2015	2016	2017	2018
Measurement Period	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Plan's proportion of the Net Pension Liability (Asset)	0.01018%	0.02136%	0.02136%	0.02376%
Plan's proportion share of the Net Pension Liability (Asset)	$633,530	$585,152	$742,146	$936,778
Covered Payroll	3,073,231	3,572,374	6,017,592	9,930,773
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	20.61%	16.38%	12.33%	9.43%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	79.82%	78.40%	74.06%	73.31%

Notes to Schedule:

Changes in benefit terms. There were no changes to benefit terms that applied to all members of the Public Agency Pool.

Changes in assumptions. In 2017, the accounting discount rate reduced from 7.65% to 7.15%.

* - Fiscal year 2015 was the first year of implementation

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Cost Sharing Multiple-Employer Defined Pension Plan
As of fiscal year ending June 30, 2018
Last 10 Years*
SCHEDULE OF CONTRIBUTIONS

Fiscal Year	2015	2016	2017	2018
Actuarially determined contribution	$347,672	$409,897	$699,783	$747,878
Contributions in relation to the actuarially determined contributions	(347,672)	(477,840)	(699,783)	(747,878)
Contribution deficiency (excess)	-	($67,943)	-	-
Covered payroll	$3,572,374	$6,017,592	$9,930,773	$11,175,297
Contributions as a percentage of covered payroll	9.73%	7.94%	7.05%	6.69%

Notes to Schedule:
The actuarial methods and assumptions used to determine the fiscal year 2017-18 contribution rates are as follows:

Valuation Date	6/30/2015
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% compounded annually
Payroll Growth	3% compounded annually
Projected Salary Increase	Varies by Entry Age and Service
Discount Rate	7.5% compounded annually (net of expenses)
Retirement Age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period 1997 to 20011.
Mortality	The probabilities of mortality are derived from CalPERS' Membership Data for all Funds based on CalPERS' specific data from 2014 CalPERS Experience Study. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB published by the Society of Actuaries.

* Fiscal year 2015 was the first year of implementation

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

Last 10 fiscal years*

Measurement Date	6/30/17
Total OPEB Liability	
Service Cost	$478,730
Interest	36,782
Changes of benefit terms	
Differences between expected and actual experience	
Changes of assumptions	(241,085)
Benefit payments	(3,801)
Net change in total OPEB liability	270,626
Total OPEB liability - beginning	1,261,549
Total OPEB liability - ending	$1,532,175
Covered-employee payroll	$9,930,773
Total OPEB liability as a percentage of covered-employee payroll	-15.43%

* Fiscal year 2018 was the first year of implementation.

STATISTICAL SECTION

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STATISTICAL SECTION

This part of the District's 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 District's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends
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- Non-Capital Expenditures by Category

Revenue Capacity
These schedules contain information to help the reader assess the District's most 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
- Table 6- Overlapping Governments and Sales Tax Rates
- Table 7- Principal Revenue Payers

Debt Capacity
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
- Table 9- Ratios of Outstanding Debt

Demographic and Economic Information
These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

- Table 10- Demographic and Economic Statistics
- Table 11- Principal Employers

Operating Information
These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

- Table 12- Operating Information
- Table 13- Employees – Full-Time Equivalent

Sources
Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

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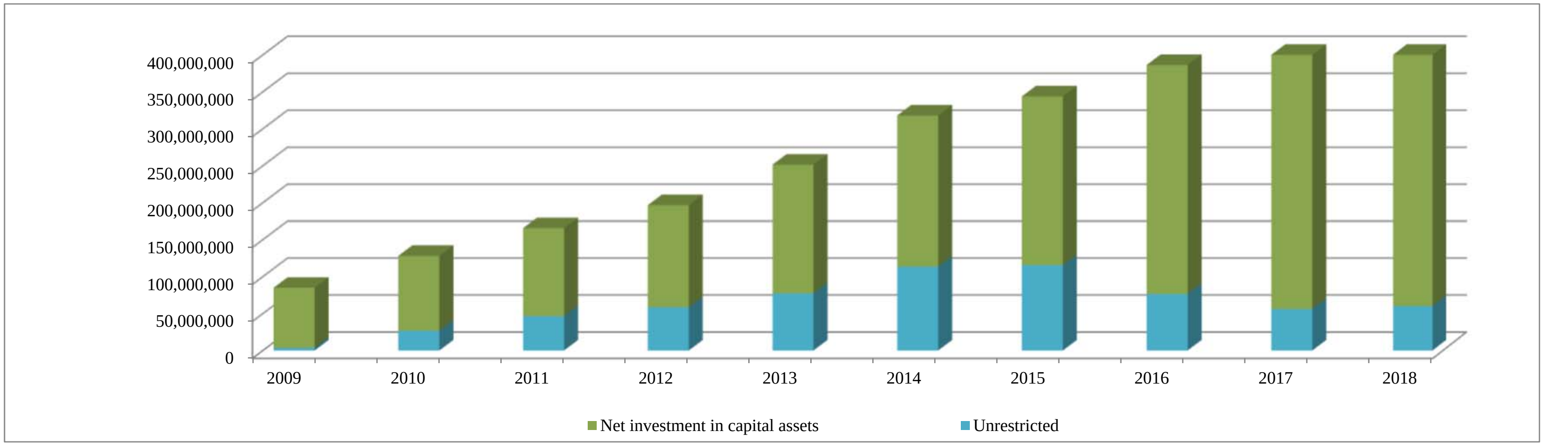
Table 1
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NET POSITION BY COMPONENT
Last Ten Fiscal Years



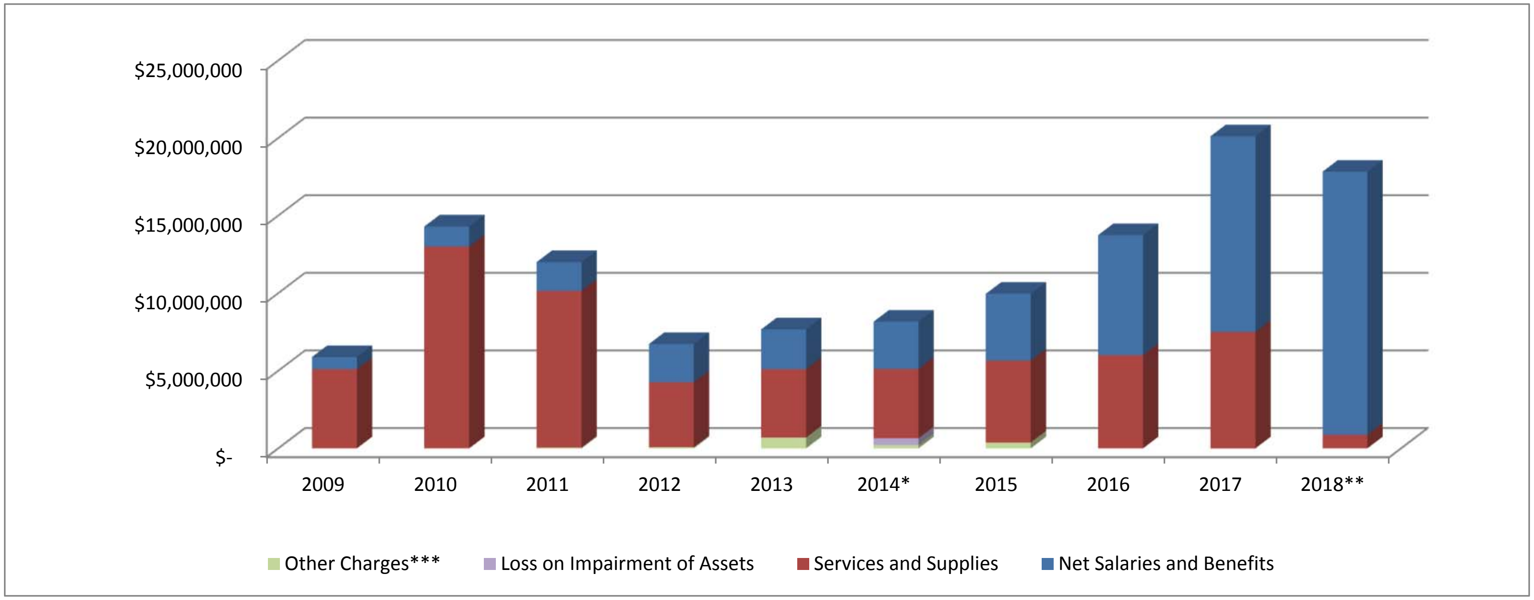
	Fiscal Year Ended June 30									
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Net investment in capital assets	$81,333,573	$101,247,802	$118,948,132	$137,997,431	$173,996,072	$204,389,312	$228,244,612	$309,724,259	$353,088,871	$367,957,650
Unrestricted	3,564,545	26,788,017	46,507,406	58,533,319	77,347,530	113,506,183	115,465,740	76,452,056	56,226,336	60,223,084
Total net position	$84,898,118	$128,035,819	$165,455,538	$196,530,750	$251,343,602	$317,895,495	$343,710,352	$386,176,315	$409,315,207	$428,180,734

Table 2
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
CHANGES IN NET POSITION
Last Ten Fiscal Years

	Fiscal Year Ended June 30									
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Operating Revenues:										
Charges for Services	$570,507	$564,502	$635,670	$650,877	$597,880	$840,586	$640,249	$529,191	$588,402	$4,025,111
Total Operating Revenues	570,507	564,502	635,670	650,877	597,880	840,586	640,249	529,191	588,402	4,025,111
Operating Expenses:										
Public transportation - rail/pathway development:										
Net salaries and employee benefits	790,751	1,330,192	1,831,476	2,597,001	2,683,628	3,041,027	4,303,358	7,736,893	12,610,874	16,950,114
Services and supplies	5,102,761	13,000,858	10,097,972	4,179,668	4,772,700	4,466,562	5,275,106	5,998,630	7,498,986	8,877,465
Depreciation	410,750	420,488	472,061	4,527,575	4,527,575	4,473,500	4,575,530	4,610,295	4,716,779	17,800,126
Bad Debt	31,821	1,725								
Loss on impairment of assets						433,295				671,378
Other charges	2,725	3,180	53,471	76,671	700,783	215,922	380,000	7,541	212	954
Total Operating Expenses	6,338,808	14,756,443	12,454,980	11,380,915	12,684,686	12,630,306	14,533,994	18,353,359	24,826,851	44,300,037
Operating loss	(5,768,301)	(14,191,941)	(11,819,310)	(10,730,038)	(12,086,806)	(11,789,720)	(13,893,745)	(17,824,168)	(24,238,449)	(40,274,926)
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	36,061,895	37,135,476
State operating assistance										3,701,366
Investment earnings	65	93,215	192,500	437,618	1,495,066	1,182,159	1,384,557	585,178	366,748	724,313
Sale of contract option			758,825							
Capital expense passed through to other agencies							(1,557,743)	(295,894)	(62,636)	(3,778,891)
Miscellaneous revenue	36,070	38,445	46,400	26,236	62,178	65,638	49,351	2,264,334	438,639	2,236,508
Interest expense				(1,117,492)	(5,328,770)	(4,420,558)	(2,761,502)	(805,558)	(1,164,558)	(5,819,778)
Total Nonoperating Revenues	5,012,822	24,191,589	27,824,568	27,649,863	26,664,227	29,300,568	30,960,089	36,524,072	35,640,088	34,198,994
Income before capital contributions	(755,479)	9,999,648	16,005,258	16,919,825	14,577,421	17,510,848	17,066,344	18,699,904	11,401,639	(6,075,932)
Capital grants and contributions:										
State of California	4,452,430	12,810,517	9,787,099	8,148,143	24,130,596	4,295,318	3,381	284,094	458,549	837,950
Metropolitan Transportation Commission	3,382,776	1,871,307	6,046,018		4,541,421	35,500,504	7,119,973	2,683,108	5,007,846	9,939,309
Sonoma County Transportation Authority				4,594,099	5,758,121	5,136,487	35,358	47,780	33,440	356,219
Federal Grants			1,960,000	1,203,349	6,021,838	2,562,581	500,595	3,779,595	2,750,431	9,450,100
Other governmental agencies	18,017,307	18,456,229	3,621,344	209,796	666,592	1,543,983	1,534,698	749,376	3,036,898	4,357,881
Donated asset								16,222,106	1,116,726	0
Total Capital Contributions	25,852,513	33,138,053	21,414,461	14,155,387	41,118,568	49,038,873	9,194,005	23,766,059	12,403,890	24,941,459
Change in net position	$25,097,034	$43,137,701	$37,419,719	$31,075,212	$55,695,989	$66,549,721	$26,260,349	$42,465,963	$23,805,529	$18,865,527

Source: SMART's basic financial statements.

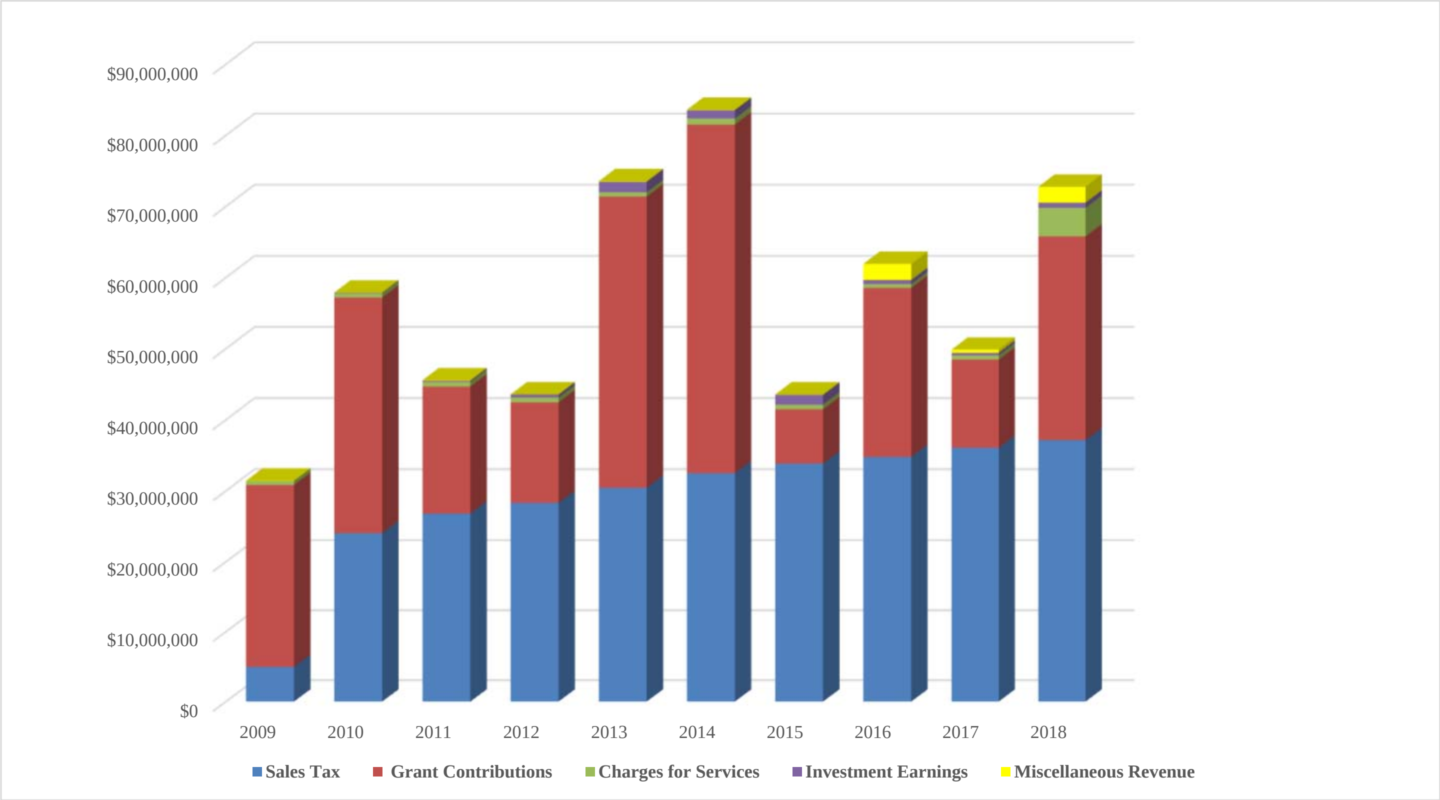
Table 3
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NON-CAPITAL EXPENSE BY CATEGORY
Last Ten Fiscal Years



Fiscal Year Ended June 30	Net Salaries and Benefits	Services and Supplies	Other Charges***	Loss on Impairment of Assets	Debt Service (Cash Basis) Expense	Total
2009	$ 776,514	$ 5,102,761	$ 2,725	$ -	$ -	$ 5,882,000
2010	1,290,967	13,000,858	3,180	-	0	14,295,005
2011	1,847,662	10,097,972	53,471	-	0	11,999,105
2012	2,462,175	4,179,668	76,671	-	$192,575,357	6,718,514
2013	2,558,849	4,406,463	700,783	-		7,666,095
2014*	3,041,027	4,466,562	215,922	433,295	8,456,950	8,156,806
2015	4,303,358	5,275,106	380,000	-	8,456,950	9,958,464
2016	7,736,893	5,998,630	7,541	-	12,996,950	13,743,064
2017	12,610,874	7,498,986	212	-	13,600,350	20,110,072
2018**	$ 16,950,114	$ 877,465	$ 954	-	$ 14,204,100	$ 17,828,533

Source: Sonoma-Marin Area Rail Transit District Audit Reports
*2014 is the first year that the District presented financial reports in an enterprise format
**2018 is the first year of Operations; Other Charges Net of Non-cash adjustments
*** Other charges adjusted for non-cash transactions beginning 2018

Table 4
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
GENERAL REVENUE BY SOURCE
Last Ten Fiscal Years



Fiscal Year	Sales Tax	Grant Contributions	Charges for Services	Investment Earnings	Miscellaneous Revenue	Total
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
2017	36,061,895	12,403,890	588,402	366,748	438,639	49,859,574
2018	$ 37,135,476	$ 28,642,825	$ 4,025,111	$ 724,313	$ 2,236,508	$ 72,764,233

Source: Sonoma-Marin Area Rail Transit District Audit Reports

Table 5
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
REVENUE BASE AND REVENUE RATE
Last Ten Fiscal Years

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)
2009	0.25%	$ 4,976,687	$ 3,812,948	$ 6,682,219	$ 10,495,167
2010	0.25%	24,059,929	3,751,474	6,321,094	10,072,568
2011	0.25%	26,826,843	3,928,074	6,701,426	10,629,500
2012	0.25%	28,303,501	4,185,542	7,152,875	11,338,417
2013	0.25%	30,435,753	4,500,247	7,711,052	12,211,299
2014	0.25%	32,473,329	4,769,878	8,264,339	13,034,217
2015	0.25%	33,845,426	4,957,364	8,626,295	13,583,659
2016*	0.25%	34,776,012	5,091,014	8,843,184	13,934,198
2017**	0.25%	36,061,895	5,004,443	9,154,084	14,158,526
2018**	0.25%	37,135,476	5,343,038	9,444,873	14,787,910

*Latest available breakdown
**Estimates for Fiscal Years 2017 - 2018 are 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
Last Seven Fiscal Years*

Marin County

Fiscal Year	State(a)	City	County(b)	SMART(d)	Total
2012	7.25%	0 to 0.50%	0.50%	0.25%	8% to 9%
2013	7.50%	0 to 0.50%	0.50%	0.25%	8% to 9%
2014	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%
2016	7.50%	0 to 0.50%	0.75%	0.25%	8.5% to 9%
2017	7.25%	0 to 0.75%	0.75%	0.25%	8.25% to 9%
2018	7.25%	0 to 0.75%	0.75%	0.25%	8.25% to 9%

Sonoma County

Fiscal Year	State(a)	City	County(c)	SMART(d)	Total
2012	7.25%	0 to 0.50%	0.50%	0.25%	8.25% to 8.5%
2013	7.50%	0 to 0.50%	0.50%	0.25%	8.25% to 8.5%
2014	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%
2016	7.50%	0 to 0.75%	0.50%	0.25%	8.25% to 9%
2017	7.25%	0 to 1.00%	0.625%	0.25%	8.125% to 9.125%
2018	7.25%	0 to 1.00%	0.625%	0.25%	8.125% to 9.125%

*Data prior to FY2012 is unavailable

(a) Statewide sales and use tax rate increased 0.25% on January 1, 2013, and decrease by 0.25% on January 1, 2017
(b) 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)
(c) 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), Sonoma County Library Maintenance, Restoration, Enhancement Act (0.125%, 4-1-17)
(d) SMART sales tax effective April 1, 2009

Source: California State Board of Equalization

Table 7
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
PRINCIPAL REVENUE PAYERS

	Fiscal Year 2018**		Fiscal Year 2011*	
Principal Revenue Payers: Sales Tax Generators	**Percentage**	**Total Receipts**	**Percentage**	**Total Receipts**
General Retail	28.3%	$10,943,946	30.5%	$7,978,547
Auto and Other Transportation	21.7%	8,393,092	21.4%	5,597,576
Food & Beverage Products	19.4%	7,504,091	19.0%	4,972,020
Business to Business	15.5%	6,003,192	15.9%	4,156,846
Construction Related	12.5%	4,837,145	10.7%	2,796,876
Miscellaneous	2.6%	1,012,369	2.5%	654,932
Totals	100%	$38,693,835	100%	$26,156,797

*First full year of SMART sales tax collection
**Based on Analysis by MuniServices, Categorizations and Totals May Differ from BOE/Audited Data

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 Bond Interest**	Series 2011A Bonds Principal	Series 2011A Bonds Debt Service Total	Annual Debt Service Coverage Ratio
6/30/2018	$ 37,135,476	$ 37,135,476	$ 8,009,100	$ 6,195,000	$ 14,204,100	2.61
6/30/2019		38,249,540	7,730,850	8,365,000	16,095,850	2.38
6/30/2020		39,397,026	7,312,600	9,435,000	16,747,600	2.35
6/30/2021		40,578,937	6,840,850	10,565,000	17,405,850	2.33
6/30/2022		41,796,305	6,315,000	11,745,000	18,060,000	2.31
6/30/2023		43,050,195	5,727,750	12,990,000	18,717,750	2.30
6/30/2024		44,341,700	5,078,250	14,290,000	19,368,250	2.29
6/30/2025		45,671,951	4,363,750	15,660,000	20,023,750	2.28
6/30/2026		47,042,110	3,580,750	17,100,000	20,680,750	2.27
6/30/2027		48,453,373	2,725,750	18,610,000	21,335,750	2.27
6/30/2028		49,906,974	1,795,250	20,195,000	21,990,250	2.27
6/30/2029		$ 51,404,184	$ 785,500	$ 15,710,000	$ 16,495,500	3.12

Maximum Annual Debt Service Coverage: **2.32x**

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

Table 9
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
RATIOS OF OUTSTANDING DEBT (Unaudited)

TOTAL DEBT TO INCOME RATIO
SMART District: Sonoma and Marin Counties Combined

Year	Total Outstanding Debt	Personal Income	Population	Ratio of Debt to Personal Income	Total Debt Per Capita
2014*	$ 192,365,524	$ 52,401,105,000	759,684	0.37%	$ 253
2015	190,096,688	56,512,049,000	762,528	0.34%	249
2016	183,318,018	58,680,231,000	763,721	0.31%	240
2017	175,819,899	63,211,402,000	767,218	0.28%	229
2018**	$ 167,528,327	$ 63,843,516,020	774,890	0.26%	$ 216

TOTAL DEBT SERVICE TO NON-CAPITAL EXPENSES

Year	Total Debt Service	Non-Capital Expenditures Including Debt Service	Ratio Debt Service to Non-Capital Expenditures
2014*	$8,456,950	$16,613,756	51%
2015	8,456,950	$18,415,414	46%
2016	12,996,950	$26,740,014	49%
2017	13,600,350	$33,710,422	40%
2018**	14,204,100	$32,032,633	44%

*Fiscal Year 2013 is the first full year SMART had outstanding debt service payments on Series 2011A bonds
*2018 Income and Population Data based on assumption of 1% increase over 2017

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Series 2011A Bond; Table 3

Table 10
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
DEMOGRAPHIC AND ECONOMIC STATISTICS (Unaudited)
Last Ten Fiscal Years

Marin County

Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate
2008	257,968	22,862,328	92,039	4.7%
2009	259,772	20,188,247	80,476	7.7%
2010	252,731	20,748,885	82,021	8.0%
2011	254,359	22,741,276	89,009	7.4%
2012	254,882	23,918,732	93,407	6.3%
2013	258,365	25,093,401	97,124	5.0%
2014	260,516	27,176,774	104,319	4.3%
2015	261,054	29,227,230	114,455	3.6%
2016	260,651	30,222,883	117,552	3.4%
2017*	263,886	32,867,529	124,552	2.9%

Sonoma County

Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate
2008	485,478	21,868,731	46,225	5.7%
2009	490,231	20,653,880	43,076	9.6%
2010	484,084	21,080,297	43,482	10.5%
2011	486,778	22,356,767	45,805	9.8%
2012	489,283	23,548,182	47,879	8.6%
2013	495,025	24,905,827	50,312	6.7%
2014	499,168	25,224,331	50,533	5.6%
2015	501,474	27,284,819	55,445	4.5%
2016	503,070	28,457,348	57,264	4.1%
2017*	503,332	30,343,873	60,286	3.4%

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)
Current Year*

Marin County 2018		
Employer	Number of Employees	Percent of Total Employment**
Kaiser Permanente San Rafael Medical Center	2,092	1.50%
County of Marin	1,934	1.39%
BioMarin Pharmaceutical***	1,934	1.39%
Marin General Hospital	1,602	1.15%
San Quentin State Prison	1,425	1.02%
Glassdoor	750	0.54%
Novato Unified School District	740	0.53%
Autodesk***	719	0.52%
Dominican University of California	319	0.23%
Novato Community Hospital	315	0.23%

Sonoma County 2018		
Employer	Number of Employees	Percent of Total Employment**
County of Sonoma	4,834	1.87%
Santa Rosa Junior College	3,625	1.40%
Kaiser Permanente	3,508	1.36%
St. Joseph Health, Sonoma County	2,500	0.97%
Graton Resort and Casino	2,000	0.77%
Santa Rosa School District	1,691	0.65%
Keysight Technologies	1,275	0.49%
City of Santa Rosa	1,267	0.49%
Safeway, Inc	1,200	0.46%
Jackson Family Wines	1,152	0.45%

*The "9 Years Ago" data unavailable, SMART records began 2013
Data Reflects August 2018 Employed

Sources:
North Bay Business Journal
County of Marin
San Quentin State Prison
Novato Unified School District
BioMarin Pharmaceutical
County of Sonoma
Graton Resort & Casino
City of Santa Rosa
Santa Rosa School District

**Calculated using California Employment Development Department
***Utilized 2017 data, 2018 not available

Table 12
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Operating Information (Unaudited)

Start of Operations	August 2016
Form of Governance	Board of Directors with General Manager
Service Area	Sonoma and Marin Counties, California
Miles of Commuter Rail in Operation	43
Rail Stations in Service	10
Park and Ride Lots	4
Rail Revenue Service Miles	771,692
Revenue Vehicle Hours	46,285
Number of Rail Vehicles in Service	14

FARE INFORMATION

Daily Fares	1 Zone	2 Zones	3 Zones	4 Zones	5 Zones	Daily Maximum
Adult Fare	$3.50	$5.50	$7.50	$9.50	$11.50	$23.00
Seniors, Youth, and Disabled	$1.75	$2.75	$3.75	$4.75	$5.75	$11.50

Passes

31-Day Pass	Adult	Discount
	$200	$100

Eco Pass (By Group)	Monthly
Up to 50	$213
51-250	$193
251-500	$174
Over 500	$155
Colleges / Veterans	$138

RIDERSHIP AND FARE REVENUE

Fiscal Year	Ridership	Fare Revenue
2017-18*	636,029	$ 3,315,274

*FY 2017-18 is First Year of Operating Data

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

	Fiscal Year Ended June 30					
Division	**2013***	**2014**	**2015**	**2016**	**2017**	**2018**
General Manager	1.0	1.0	1.0	1.0	1.0	1.0
Legal	0.0	0.8	1.0	1.3	2.8	3.0
Capital Projects	11.8	13.8	13.9	13.2	8.1	6.0
Administration	5.6	8.0	8.4	9.0	13.3	15.0
Finance	5.8	5.8	5.8	6.1	6.2	7.0
Operations	1.0	1.3	4.7	36.9	79.4	86.0
Safety & Security	0.0	0.0	0.8	1.0	2.0	3.0
Total	**25.2**	**30.7**	**35.6**	**68.6**	**112.8**	**121.0**

* FY 2013 was the first year SMART prepared Statistical Charts, no data available for prior years

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Sonoma-Marin Area Rail Transit District (District), California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated November 28, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

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

We have also issued a separate Memorandum on Internal Control dated November 28, 2018 which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

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

Maze + Associates

Pleasant Hill, California
November 28, 2018