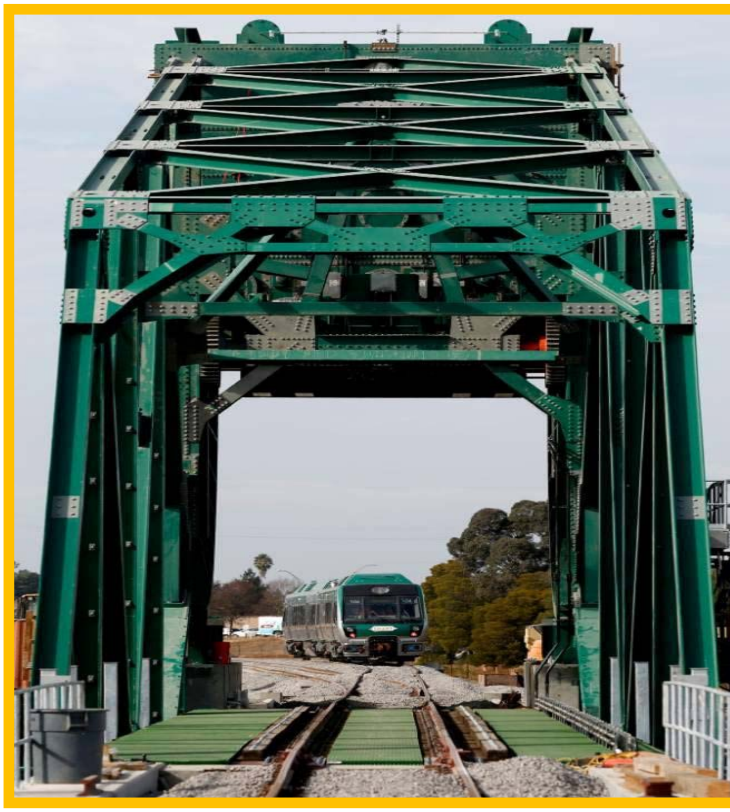

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

SMART
WALK • BIKE • RIDE

For Fiscal Year Ended June 30, 2015

Petaluma, California

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2015

Sonoma-Marin Area Rail Transit District

Petaluma, California

Report Prepared by the Finance Department

Sonoma-Marin Area Rail Transit District
Comprehensive Annual Financial Report
For the year ended June 30, 2015

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INTRODUCTORY SECTION

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

December 4, 2015

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, 2014 through June 30, 2015.

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

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

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

PROFILE OF THE ORGANIZATION

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

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

The SMART Rail and Pathway project is funded by a one-quarter percent sales tax approved by voters in the SMART district in 2008. Following the economic challenges that resulted from the 2008 recession, the SMART Board of Directors (Board) implemented a phasing strategy that will deliver in the first phase an transportation choice to 75% of the users anticipated as part of the original project. This Phase 1 project currently in the final stages will create rail service from the Downtown San Rafael Station to the Airport Boulevard Station in Santa Rosa and multiple SMART pathway segments in San Rafael, Novato, Cotati, Rohnert Park and Santa Rosa. Subsequent phases of the project will include additional SMART rail stations in Coverdale, Healdsburg, Windsor, Petaluma, and in Larkspur; and further extensions of the pathway. All future phases will be completed as funding becomes available. Passengers north and south of the Phase 1 project will connect to the SMART transit system by SMART connector bus and local transit connections. Passenger service along the first phase is currently scheduled to begin in late Calendar Year 2016.

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. SMART's transit alternative will provide a valuable addition to the region when it opens, since 77% of all jobs in the two counties are located within 3 miles of a SMART rail station.

Economic forecasts locally and for the region continue to show steady improvement since the 2008 recession. Job growth, housing prices and important economic indicators continue to show a healthy and growing economy in the SMART district. SMART's finances rely directly on the strength of sales tax revenues and its strong link to employment rates and median incomes. The District is home to a fairly wealthy taxpayer base, with a weighted per capita income base of $66,125 compared to California's $49,985 and $44,765 for the United States according to recent reports from the U.S. Bureau of Economic Analysis (BEA). BEA reports also show that the District's residents have shown consistent employment rate increases this year. The seasonally unadjusted unemployment rates in Marin and Sonoma Counties in May of 2015 were 3.3% and 4.3%, respectively. Resultant sales tax revenues continue to grow at a steady pace. For the year that ended June 30, 2015, SMART sales tax receipts, net of state fees, increased by 4.2% and equaled $33.9 million. Economic forecasts for the region continue to be positive. Sonoma County's economy has maintained healthy growth since the recovery began nearly three years ago. Sonoma has regained all of the jobs lost in the recession and total employment is above its prerecession peak. In Marin County, personal income which is already the highest in the State of California is projected to continue to grow 2.5% per year. Marin has added 2,900 jobs in the last year, with growth taking place in the hospitality, restaurant, retail and professional services.

DISTRICT ACTIVITIES IN FISCAL YEAR 2014-15

Construction of SMART Rail and Pathway Project – Phase 1

Substantial progress had been made on Phase 1 of the SMART passenger rail system. Phase 1 construction, which began in 2012, will continue through the end of calendar year 2015. Final testing of systems and signals will occur in early 2016 and will be followed by simulated passenger service testing for several months in advance of passenger service. We have rebuilt 43 miles of track and 56 grade crossings; installed three required passing sidings and the entire systems ductbank; completed 22 bridge repairs or replacements; and constructed all 12 stations platform footings and walls. One of the most challenging aspects of the project, a new Haystack Bridge over the Petaluma River, is completed and operational. SMART's new Rail Operations and Maintenance Facility in Santa Rosa opened in the Fall of 2015, and houses all functions related to rail operations.

On the SMART pathway, work with Caltrans as the lead agency for completion of the federal environmental permitting process is in the final stages, which is key to funding future segments of the pathway. That cooperation led to the ability to secure federal funding for the nine pathway segments to be constructed in 2016 throughout the District. The District continues to work cooperatively with local jurisdictions to provide funding, right of way and other support for pathway segments, such as Sonoma County's construction of the Hearne Avenue to Joe Radota Trail segment that will be part of SMART's pathway system. This is added to the other four segments either completed or nearly complete, including the Central Marin Ferry Connector Project in Larkspur, which received design support and land from SMART to provide a pathway over Sir Francis Drake Boulevard from the Cal-Park tunnel to the Larkspur Ferry.

Finally, progress on construction of SMART's new, energy efficient rail vehicles for our passenger service reached a major milestone in Fiscal Year 2014-15, with the delivery of the first train cars in the Spring of 2015. The new vehicles, built in Illinois and designed by Sumitomo Corporation of America/Nippon Sharyo, are compliant with Federal Railroad Administration regulations for operations that have shared track with freight vehicles. In the months subsequent to the end of Fiscal Year 2014-15, additional train sets will be arriving until the final seventh set is received toward the end of the calendar year 2015.

Operations Planning and Start Up

Although SMART has managed freight traffic on its right-of-way since 2011, the addition of passenger vehicle testing and service brings a large increase in the need for coordination, preparedness and daily inspection and maintenance. Consistent with the funding programmed in the SMART Strategic Plan approved by the Board of Directors in 2015, in the past year the District has developed and implemented staffing and other operations plans for passenger service. In the Fiscal Year 2015-16 budget approved by the SMART Board, the District developed staffing and expenditure authority for up to 80 staff persons and the services, supplies and equipment needed for rail operations. Operations expenditures now will include train dispatching, operations, maintenance of signals and the entire right of way. With takeover of the rail and pathway infrastructure as it is completed by SMART's contractors in the coming months, the transition from an agency primarily focused on delivering a capital program to a fully functional transit district becomes complete.

Risk Management

As the District completes construction activities in the closing months of 2015 and begins rail vehicle testing, we continue to focus on building a comprehensive safety and risk management program. Commuter rail systems must meet specific safety and insurance requirements and can face large exposures in an accident. With our brokers, Alliant Insurance Services, Inc., in the past year SMART requested and received Board approvals for substantial rail liability policies to cover activities around vehicle testing and startup of passenger services. In addition, as part of our strategic planning efforts, we are beginning to build required financial reserves and self-insured retentions commensurate with the increased risk. This represents a significant increase in both cost and risk management activities for the District. Simultaneously, increased safety and security measures have been implemented in preparation for increased activities and are the daily focus of operations managers.

Internal Control

The District's financial reporting system and business processes have been designed with an emphasis on the importance of strong but reasonable internal financial controls, including the proper recording of revenues and expenditures and maintenance of budgetary control for the allocation of available resources. Existing internal controls are monitored and changes are implemented as needed as the District grows in size and complexity. These controls are designed to provide reasonable, but not absolute, assurance that assets are safeguarded against waste, fraud, and non-authorized use and the District's financial records can be relied upon to produce financial statements free of any material misstatements and in accordance with GAAP. The concept of reasonable assurance recognizes that the cost of maintaining the system of internal controls should not exceed benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgements by management. We believe that the District's internal accounting controls achieve that goal. In the months ahead, we continue to evaluate and strengthen those controls as the District transitions from utilizing the County of Sonoma's services for accounting, payroll and treasury services, to systems managed directly by the SMART district.

CONCLUSION

The financial statements presented here illustrate the dramatic growth in public assets that have resulted from the voters' approval of the SMART sales tax measure. Measure Q revenues provide the backbone for the construction, operation, and maintenance of the SMART project and will continue to do so in the future, as outlined in our 2014 Strategic Plan. With continued leadership from the Board and ongoing vigilance on maintaining necessary reserves and financial transparency, SMART's current and future operations will remain on solid footing.

ACKNOWLEDGEMENTS

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

Erin McGrath

Chief Financial Officer

Farhad Mansourian

General Manager

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Sonoma-Marin Area Rail Transit District, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2014

Jeffrey R. Emer

Executive Director/CEO

Sonoma-Marin Area Rail Transit District
Fiscal Year 14-15 Principal Officials

Judy Arnold, Chair
Marin County Board of Supervisors

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

Jim Eddie
Golden Gate Bridge, Highway and Transportation District

Debora Fudge
Sonoma County Mayors and Councilmembers Association

Madeline Kellner
Transportation Authority of Marin

Jake Mackenzie
Sonoma County Mayors and Councilmembers Association

Stephanie Moulton-Peters
Marin Council of Mayors and Councilmembers

Gary Phillips
Transportation Authority of Marin

David Rabbitt
Sonoma County Board of Supervisors

Carol Russell
Sonoma County Mayors and Councilmembers Association

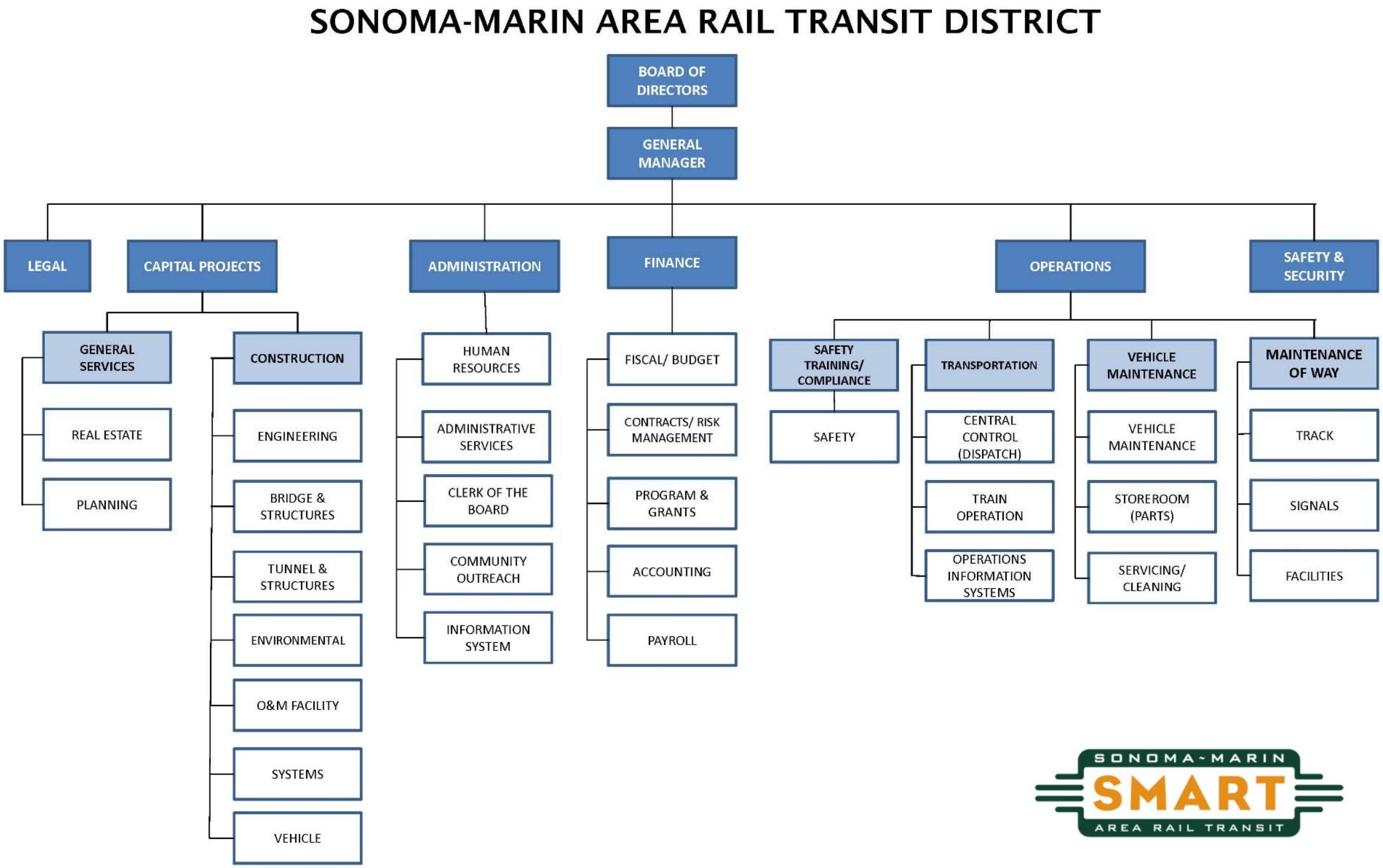
Kathrin Sears
Marin County Board of Supervisors

Shirlee Zane
Sonoma County Board of Supervisors

Farhad Mansourian
General Manager

Erin McGrath
Chief Financial Officer

Sonoma-Marin Area Rail Transit District
Organization Chart



Sonoma-Marin Area Rail Transit District
Service Area Map

FINANCIAL SECTION

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Sonoma-Marin Area Rail Transit District (SMART), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise SMART's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SMART as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596

Emphasis of Matter

As discussed in Note I.M to the financial statements, effective July 1, 2014, SMART adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SMART's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2015 on our consideration of SMART's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SMART's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 4, 2015

Sonoma-Marin Area Rail Transit District
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2015

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, 2015. 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 2015 Financial Highlights

- The vast majority of financial activity for the year ending June 30, 2015 involves the SMART capital project. These activities are driving the assets and liabilities depicted in the financial statements.
- Assets of SMART exceeded its liabilities at the close of the year ended June 30, 2015 by $343,710,352 (net position). Of this amount, $115,465,740 is unrestricted.
- SMART's net position increased $26,260,349 during the year ended June 30, 2015, due to an increased investment into capital assets, primarily crossings, stations and track improvements under construction.
- This year, SMART has implemented required changes to accounting and reporting for pensions. As discussed further in the New Accounting Pronouncements section of the Notes (page 16), SMART's net position was adjusted as of July 1, 2014 by $443,320 to record beginning deferred pension contributions and net pension liabilities, as required by the Governmental Accounting Standards Board (GASB) Statement Nos. 68 and 71. Due to the limited available information, Fiscal Year 2013-14 amounts have not been restated for GASB Statements Nos. 68 and 71.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Notes to the Basic Financial Statements

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

Analysis of the Financial Statements

The financial statements provide both short-term and long-term information about the District's overall financial condition. This analysis addresses the financial statements of the District as a whole. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. SMART's net position was $343,710,352 at June 30, 2015.

The largest portion of SMART's net position (66.4%) reflects its investment in capital assets (e.g., land, tracks and crossing equipment, bridges and tunnels). SMART will use these capital assets to provide passenger rail services to its customers; consequently, these assets are not available for future spending.

Net Position

	2015	2014	2015 - 2014 Change
Current and other assets	$ 154,393,051	$ 255,941,651	$ (101,548,600)
Capital assets	399,307,788	278,051,807	121,255,981
Total assets	553,700,839	533,993,458	19,707,381
Deferred outflows of resources	536,559	-	536,559
Current liabilities	23,553,993	23,250,371	303,622
Long-term liabilities	186,707,244	192,849,764	(6,142,520)
Total liabilities	210,261,237	216,100,135	(5,838,898)
Deferred inflows of resources	265,809	-	265,809
Net position:			
Net investment in capital assets	228,244,612	204,389,312	23,855,300
Unrestricted	115,465,740	113,504,011	1,961,729
Total net position	$ 343,710,352	$ 317,893,323	$ 25,817,029

SMART's net position at the end of fiscal year 2015 increased by $26,260,349 from the prior fiscal year. This increase is primarily the result of SMART continuing to invest its revenues, restricted bond funds, and grants into capital assets, primarily crossings, train systems stations and track improvements. Current and other assets at June 30, 2015, decreased by $101,548,600, from $255,941,651 on June 30, 2014 to $154,393,051 on June 30, 2015. The decrease was primarily due to drawdown of bond funds to pay project expenditures. Current liabilities at June 30, 2015, increased by $303,622, from $23,250,371 on June 30, 2014 to $23,553,993 on June 30, 2015, which was primarly due to SMART's capital asset activity.

Changes in Net Position

	2015	2014	2015 - 2014 Change
Operating Revenues:			
Charges for services	$ 640,249	$ 840,586	$ (200,337)
Total operating revenues	640,249	840,586	(200,337)
Operating Expenses:			
Public transportation - rail/pathway development:			
Salaries and employee benefits	4,881,763	4,032,583	849,180
Capitalized employee costs	(578,405)	(991,556)	413,151
Services and supplies	5,275,106	4,466,562	808,544
Depreciation	4,575,530	4,473,500	102,030
Loss on impairment of assets	-	433,295	(433,295)
Other charges	380,000	215,922	164,078
Total operating expenses	14,533,994	12,630,306	1,903,688
Operating loss	(13,893,745)	(11,789,720)	(2,104,025)
Nonoperating Revenues (Less Expenses):			
Sales/Use taxes	33,845,426	32,473,329	1,372,097
Investment earnings	1,384,557	1,182,159	202,398
Other revenues	49,351	65,638	(16,287)
Interest and related fees	(2,761,502)	(4,420,558)	1,659,056
Total Nonoperating Revenues (Net):	32,517,832	29,300,568	3,217,264
Capital grants and contributions	7,636,262	49,038,873	(41,402,611)
Change in net position	26,260,349	66,549,721	(40,289,372)
Net position, beginning of year as previously reported	317,893,323	251,343,602	66,549,721
Restatement due to implementation of GASB 68	(443,320)		(443,320)
Net position - beginning of the year	317,450,003		66,106,401
Net position - end of the year	$ 343,710,352	$ 317,893,323	$ 25,817,029

Fiscal Year 2015 Revenues

- SMART revenues consist of operating revenues of $640,249 and net non-operating revenues less expenses of $32,517,832 -- the majority of which is sales tax receipts. Sales tax, SMART's single largest ongoing source of revenue, continues to recover and grow from the recession, increasing 4.2% over the previous year.
- Net capital grants and contributions of $7,636,262 are $41,402,611 lower than the year ended June 30, 2014. The decrease is primarily the result the conclusion of capital expenditures funded by grants.

Fiscal Year 2015 Expenses

- SMART had operating expenses of $14,533,994, tied to salaries, benefits, other services and supplies and depreciation.
- Salaries and benefits increased slightly over the year ended June 30, 2014, by $849,180, primarily due to the hiring of more operating staff.
- Services and supplies increased over the year ended June 30, 2014 by $808,544, primarily due to increased liability insurance and professional services related to operations planning.
- Non-operating expenses of $2,761,502 are primarily due to interest expense net of capitalized amounts.

Capital Assets and Debt

Capital Assets

SMART's capital assets, as of June 30, 2015 are $399,307,788 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, infrastructure (tracks/rails, crossings, bridges, fencing, tunnels, road crossings and pathway improvements), buildings and improvements, and equipment.

Capital Assets

	2015	2014	2015 - 2014 Change
Land	$ 40,790,104	$ 38,486,526	$ 2,303,578
Infrastructure	74,421,769	74,421,769	-
Buildings & improvements	4,292,272	4,292,272	-
Construction in progress	299,344,307	175,894,137	123,450,170
Equipment	673,066	595,303	77,763
Accumulated depreciation	(20,213,730)	(15,638,200)	(4,575,530)
Total capital assets, net	$ 399,307,788	$ 278,051,807	$ 121,255,981

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

Debt

SMART had $190,096,688 in bonds outstanding at June 30, 2015 compared to $192,365,524 on June 30, 2014. Additional information on SMART's long-term debt can be found in Note II.E.

Economic and Other Factors

Economy

The completion of SMART's capital projects and ongoing operations rely directly on the strength of its designated Measure Q sales and use tax receipts. The strength of this revenue source is dependent on the economic health of the two counties of the SMART district, particularly employment rates and job growth. As discussed in the Introductory Section, the economy of the District continues to grow and exhibit healthy trends in employment and other key factors. As a result, sales tax revenue continues to grow steadily and the District anticipates continued economic stability in the coming year.

Other Factors

SMART has entered into multi-year contracts with several independent contractors for significant amounts for construction of the SMART capital program. Those contracts include one for manufacturing of diesel multiple unit rail vehicles, one for construction of tracks and improvements between Santa Rosa and San Rafael and for all train control systems, and one for railroad crossing improvements up and down the 70-mile SMART corridor. At June 30, 2015, SMART's total outstanding commitments under these and other construction-related contracts were approximately $72.2 million.

Request for Additional Information

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

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Sonoma-Marin Area Rail Transit District

Statement of Net Position

June 30, 2015

Assets	
Current assets:	
Cash and cash equivalents	$ 115,988,992
Restricted cash, cash equivalents and investments with trustee	23,404,959
Due from other governments	1,699,473
Other receivables	5,481,129
Deposits with others	7,745,604
Prepaid expenses	72,894
Total current assets	154,393,051
Capital assets:	
Non-depreciable:	
Land	40,790,104
Construction in progress	299,344,307
Depreciable (net of accumulated depreciation):	
Infrastructure	56,125,543
Buildings and improvements	2,789,977
Equipment	257,857
Total capital assets, net	399,307,788
Total assets	553,700,839
Deferred outflows of resources	
Deferred outflows of resources related to pensions	536,559
Liabilities	
Current liabilities:	
Accounts payable and other current liabilities	14,214,722
Unearned revenue	1,725,326
Interest payable	2,818,983
Compensated absences - due within one year	254,962
Long-term debt - due within one year	4,540,000
Total current liabilities	23,553,993
Non-current liabilities:	
Compensated absences	223,709
Net post-employment benefits obligation	293,317
Net pension liability	633,530
Long-term debt	185,556,688
Total non-current liabilities	186,707,244
Total liabilities	210,261,237
Deferred inflows of resources	
Deferred inflows of resources related to pensions	265,809
Net Position	
Net investment in capital assets	228,244,612
Unrestricted	115,465,740
Total net position	$ 343,710,352

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

Sonoma-Marin Area Rail Transit District
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year ended June 30, 2015

Operating Revenues	
Charges for services	$ 640,249
Operating Expenses	
Public transportation - rail/pathway development:	
Salaries and employee benefits	4,881,763
Capitalized employee costs	(578,405)
Services and supplies	5,275,106
Depreciation	4,575,530
Other Charges	380,000
Total operating expenses	14,533,994
Operating loss	(13,893,745)
Nonoperating Revenues (Expenses)	
Sales/Use taxes	33,845,426
Investment earnings	1,384,557
Miscellaneous revenue	49,351
Interest expense	(2,761,502)
Total nonoperating revenues (expenses)	32,517,832
Income before capital grants and contributions	18,624,087
Capital grants and contributions	
State of California	3,381
Metropolitan Transportation Commission	7,119,973
Sonoma County Transportation Authority - Measure M	35,358
Federal Highway Administration	476,476
Federal Transit Administration	24,119
Other governmental agencies	1,534,698
Capital expense passed through to other agencies	(1,557,743)
Total capital grants and contributions	7,636,262
Change in net position	26,260,349
Net position, beginning of year, as previously reported	317,893,323
Restatement due to implementation of GASB 68	(443,320)
Net position, beginning of year, as restated	317,450,003
Net position, end of year	$ 343,710,352

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

Sonoma-Marin Area Rail Transit District

Statement of Cash Flows

For the Year Ended June 30, 2015

Cash Flows from Operating Activities	
Receipts from tenants	$ 583,778
Receipts from others	105,822
Payments to suppliers for goods and services	(6,148,029)
Payments to employees for services	(3,758,104)
Payments to employee retirement system	(347,672)
Net cash used in operating activities	(9,564,205)
Cash Flows from Noncapital Financing Activities	
Sales tax received	33,654,165
Net cash provided by noncapital financing activities	33,654,165
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	(130,457,072)
Labor costs related to capital projects	(578,405)
Capital grants and contributions received restricted for capital purposes	36,185,924
Cash paid on projects on behalf of other governments	(1,557,743)
Cash receipts for third party infrastructure	425,326
Interest paid on capital debt	(8,276,950)
Net cash used in capital and related financing activities	(104,258,920)
Cash Flows from Investing Activities	
Investment income received	1,384,557
Proceeds from maturity of restricted investments	16,687,349
Net cash provided by investing activities	18,071,906
Net change in cash and cash equivalents	(62,097,054)
Cash and Cash Equivalents	
Beginning of year	199,490,694
End of year	$ 137,393,640
Reconciliation to Statement of Net Position	
Cash and cash equivalents	$ 115,988,992
Restricted cash, cash equivalents, and investments with trustee	23,404,959
Less investments not meeting the definition of cash equivalents	(2,000,311)
Total cash and cash equivalents	$ 137,393,640

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

Sonoma-Marin Area Rail Transit District

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2015

Reconciliation of Operating Loss to		
Net Cash used in Operating Activities		
Operating loss	$	(13,893,745)
Adjustments to reconcile operating loss to		
net cash used in operating activities:		
Depreciation		4,575,530
Miscellaneous revenue		49,351
Changes in operating assets and liabilities:		
Prepaid expenses		42,670
Accounts payable and other accrued liabilties		(202,715)
Unearned rent abatement		(332,878)
Compensated absences		141,273
Net post-employment benefits obligation		136,849
Net pension liability and related defferred outflow/inflow of resources		(80,540)
Net cash used in operating activities	$	(9,564,205)

Noncash Capital and Related Financing Activities		
Amortization of premiums	$	2,268,836
Capitalized interest		3,246,612
Change in accounts payable related to acquisition of capital assets		4,371,447

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

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

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

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

C. Cash Equivalents

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

I. Summary of Significant Accounting Policies (Continued)

D. Investments

Investments are stated at fair value in the statement of net position and the corresponding changes in fair value of investments are recognized in the year in which the change occurs. Fair value is defined as the amount that SMART could reasonably expect to receive for an investment in a current sale between a willing buyer and seller, and is generally measured by quoted market prices. Fair value of investments is determined annually. Realized gains or losses and interest earned on pooled investments are allocated quarterly to the appropriate fund based on their respective average daily balance for that quarter.

E. Restricted Cash and Investments with Trustee

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

F. Receivables

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

G. Capital Assets

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

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

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

I. Summary of Significant Accounting Policies (Continued)

H. Compensated Absences

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

I. Deferred Outflows and Inflows of Resources

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

J. Net Position

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

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

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

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

K. Accounting System Maintained by County of Sonoma

SMART uses the County of Sonoma's Financial Accounting System and the County's budgetary recording and accounting control policies to record and control transactions affecting SMART's fund. SMART, however, is an independent governmental agency and is not a component unit of the County of Sonoma, as defined by U.S. generally accepted accounting principles.

L. Use of Estimates

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

I. Summary of Significant Accounting Policies (Continued)

M. New Accounting Pronouncements

During the year, SMART implemented the following accounting standards:

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB Statement No. 68), addresses the accounting and financial reporting requirements for pensions. The provisions of GASB Statement No. 68 separate accounting and financial reporting from how pensions are funded and require changes in the notes to the financial statements and required supplementary information. Significant changes include an actuarial calculation of the total pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and pension expense and related deferred outflows/inflows of resources disclosures (see Note III C). When SMART implemented this statement in fiscal year 2015, SMART also implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (GASB Statement No. 71), which resolves transition issues in GASB Statement No. 68. As of July 1, 2014, SMART restated the beginning net position in the amount of $443,320 to record the beginning deferred pension contributions and net pension liability.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, is intended to improve accounting and financial reporting for state and local governments' combinations and disposals of government operations. This statement provides guidance determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations; using carrying values (generally, the amounts recognized in the pre-combination financial statements of the combining governments or operations) to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operations; measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based upon their acquisition values in a government acquisition; and reporting the disposal of government operations that have been transferred or sold. This statement did not have an impact on SMART's financial statements.

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

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which is intended to improve accounting and financial reporting for state and local governments' investments by enhancing the comparability of financial statements among governments by requiring measurements of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The statement also requires that donated capital assets, works of art and similar assets and capital assets received in service concession agreements be reported at acquisition value rather than fair value. This statement also requires that donated capital assets, works of art and similar assets, and capital assets received in service concession agreements be reported at acquisition value rather than fair value. The requirements of this statement are effective for SMART's fiscal year ending June 30, 2016.

I. Summary of Significant Accounting Policies (Continued)

M. New Accounting Pronouncements (Continued)

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statements 68 and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB Statement No. 73), which establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, as well as for the assets accumulated for the purposes of providing those pensions. GASB Statement No. 73 amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes. GASB Statement No. 73 addresses the recognition of the total pension liability of such plans and the disclosures necessary for the plans that did not meet the definition of GASB Statement No. 68. GASB Statement No. 73 is effective for SMART’s fiscal year ending June 30, 2016.

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

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

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles (GAAP) for State and Local Governments* (GASB Statement No. 76), which clarifies the hierarchy of GAAP and reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the scope of authoritative GAAP. GASB Statement No. 76 is effective for SMART’s fiscal year ending June 30, 2016.

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

II. Detailed Notes

A. Cash and Investments

Carrying Amount at Fair Value

Cash, cash equivalents, and investments are carried at fair value and are categorized as follows at June 30, 2015:

	Available for Operations	Held by Trustee	Total
Investment:			
California Asset Management Program	$ -	$ 2,000,311	$ 2,000,311
Cash equivalent:			
Sonoma County Treasury Pool	113,774,607	21,404,518	135,179,125
Deposits	2,214,385	130	2,214,515
Total	$ 115,988,992	$ 23,404,959	$ 139,393,951

Investment in the Sonoma County Treasurer's Investment Pool

As authorized by Government Code Section 53630 et seq. and Public Utilities Code Section 105125, SMART's cash is pooled with the Sonoma County Treasurer, who acts as a disbursing agent for SMART. The fair value of SMART's investment in this pool is reported in the accompanying financial statements at amounts based upon SMART's pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee has oversight for all monies deposited into the Treasury Pool. The Treasury Pool had a total portfolio value of approximately $1.8 billion at June 30, 2015. At June 30, 2015, these investments have an average maturity of 600 days.

Investment Guidelines

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

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

II. Detailed Notes (Continued)

A. Cash and Investments (Continued)

Investments Authorized by Debt Agreements

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will 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 to interest rate risk 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 cash flow and liquidity needed for operations. California Asset Management Program (CAMP) limits its exposure to market value fluctuations due to changes in interest rates by (1) requiring that its portfolio maintain a dollar-weighted average maturity of not greater than ninety days; (2) requiring that any investment securities have remaining maturities of 397 days or less at the time of purchase; (3) limiting the remaining maturity of any bankers acceptances to 180 days or less; and (4) limiting the remaining maturity of any commercial paper to 270 days or less.

II. Detailed Notes (Continued)

A. Cash and Investments (Continued)

As of June 30, 2015, SMART had the following investments and maturities:

Investment Type	Weighted- Average Maturities: Less than One Year	Weighted- Average Maturities: One to Five Years	Total
California Asset Management Program	$ 2,000,311		$ 2,000,311
Total investments	$ 2,000,311	$ -	
Sonoma County Treasury Pool			135,179,125
Deposits			2,214,515
Total cash and investments			$ 139,393,951

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2015 for each investment type as provided by Standard and Poor's investment rating system:

Investment Type	AAA	Not rated	Total
California Asset Management Program	$ 2,000,311	$ -	$ 2,000,311
Total investments	$ 2,000,311	$ -	
Sonoma County Treasury Pool			135,179,125
Deposits			2,214,515
Total cash and investments			$ 139,393,951

Custodial Credit Risk

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

- The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

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

II. Detailed Notes (Continued)

A. Cash and Investments (Continued)

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).

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 two funds at the end of the year, the Treasury Pool and CAMP. 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 2015 Sonoma County Comprehensive Annual Financial Report.

California Asset Management Program

SMART is a voluntary participant in CAMP, a Joint Powers Authority that falls under California Government Code 53601(p), which is directed by a Board of Trustees that is made up of experienced local government finance directors and treasurers. As of June 30, 2015, CAMP had a balance of $1.59 billion. The value of the pool shares in CAMP that may be withdrawn is determined on an amortized cost basis, which is different from the fair value of SMART's portion in the pool. As of June 30, 2015, SMART's investment in CAMP was $2.0 million.

B. Due from Other Governments

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

C. Other Receivables

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

II. Detailed Notes (Continued)

D. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	July 1, 2014	Additions	Retirements	June 30, 2015
Capital assets not being depreciated:				
Land	$ 38,486,526	$ 2,303,578	$ -	$ 40,790,104
Construction in Progress	175,894,137	123,450,170	-	299,344,307
Total capital assets not being depreciated	214,380,663	125,753,748	-	340,134,411
Capital assets being depreciated:				
Infrastructure	74,421,769	-	-	74,421,769
Buildings and improvements	4,292,272	-	-	4,292,272
Equipment	595,303	77,763	-	673,066
Total capital assets being depreciated	79,309,344	77,763	-	79,387,107
Less accumulated depreciation for:				
Infrastructure	(14,044,632)	(4,251,594)	-	(18,296,226)
Buildings and improvements	(1,287,682)	(214,613)	-	(1,502,295)
Equipment	(305,886)	(109,323)	-	(415,209)
Total accumulated depreciation	(15,638,200)	(4,575,530)	-	(20,213,730)
Total capital assets being depreciated, net	63,671,144	(4,497,767)	-	59,173,377
Capital assets, net	$ 278,051,807	$ 121,255,981	$ -	$ 399,307,788

Capital assets increased due to significant design and construction activity during fiscal year ended June 30, 2015. This includes track replacement, crossings upgrades, rail car construction and pathway engineering.

SMART recognized $4.6 million in depreciation expense for assets previously placed in service, and $3.4 million of capitalized interest in connection with SMART's construction projects during fiscal year ended June 30, 2015.

E. Long-Term Debt

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

Long-term debt activity for the year ended June 30, 2015 was as follows:

	July 1, 2014	Additions	Retirements	June 30, 2015	Due Within One Year
Bonds payable:					
Remarketed Series 2011A	$ 170,725,000	$ -	$ -	$ 170,725,000	$ 4,540,000
Unamortized bond premium	21,640,524	-	(2,268,836)	19,371,688	-
Total long-term debt, net	$ 192,365,524	$ -	$ (2,268,836)	$ 190,096,688	$ 4,540,000

II. Detailed Notes (Continued)

E. Long-Term Debt (Continued)

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, 2015 was $33,845,426 whereas debt service on the Measure Q bonds was $8,456,950 for the fiscal year ended June 30, 2015.

Annual Future Payments

The following table presents the District's aggregate annual amount of principal and interest payments required to amortize the outstanding debt as of June 30, 2015:

Year ending June 30:	Principal	Interest
2016	$ 4,540,000	$ 8,456,950
2017	5,325,000	8,275,350
2018	6,195,000	8,009,100
2019	8,365,000	7,730,850
2020	9,435,000	7,312,600
2021-2025	65,250,000	28,325,600
2026-2029	71,615,000	8,887,250
	$ 170,725,000	$ 76,997,700

F. Other Long-Term Liabilities

Other long-term liability activity for the year ended June 30, 2015 related to employees was as follows:

	July 1, 2014	Additions	Reductions	June 30, 2015	Due Within One Year
Compensated absences	$ 337,398	$ 396,235	$ (254,962)	$ 478,671	$ 254,962

SMART's future noncancellable lease payments are:

Year Ending June 30,	Minimum Lease Payment
2016	$ 624,086
2017	641,516
2018	661,194
2019	110,761
Total	$ 2,037,558

II. Detailed Notes (Continued)

G. Unearned Revenues

During the fiscal year ended June 30, 2014, SMART entered into two separate agreements with two telecommunication companies for the relocation of fiber optic infrastructure. SMART received $1,300,000 during the fiscal year ended June 30, 2014 but had not transferred title or issued the bill of sale as of June 30, 2015.

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

III. Other Information

A. Risk Management

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

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

B. Purchase Commitments

At June 30, 2015, SMART had outstanding purchase and contract commitments for the rail and pathway project of approximately $72.2 million.

III. Other Information (Continued)

C. Employee Retirement Plan

SMART has contracts with the California Public Employees' Retirement System (CalPERS) for purposes of providing a defined pension benefit plan for its employees, defined by CalPERS as the "Miscellaneous Plan." SMART currently has different pension tiers, depending on an employee's hire date. For all employees hire 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.

Plan Description - All full-time and certain other qualifying employees of the District are eligible to participate in CalPERS, a cost-sharing multiple-employer 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 specific by the Public Employees' Retirement Law.

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

SMART PENSION TIERS AND CONTRIBUTION RATES

	Date of Hire	Employee Paid	SMART paid
Tier 1	Before 9/1/11	0.00%	19.76%
Tier 2	9/1/11 -6/1/12	7.00%	12.76%
Tier 3	6/2/12-12/31/12	7.50%	7.50%
Tier 4	1/1/13 and after	6.25%	6.25%

III. Other Information (Continued)

C. Employee Retirement Plan (Continued)

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 Plans 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, 2015, the employer contributions to the Plans was $302,716.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – As of June 30, 2015, the District's reported a total net pension liability of $633,530 for its proportionate shares of the net pension liability. The District's net pension liability is measured as the proportionate share of the net pension liability of the cost-sharing plans. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each of the Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 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 Plans were $633,530 as of June 30, 2014, a decrease of $112,506 from $746,036 as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of $267,132. At June 30, 2015, 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	$ 347,672	$ -
Adjustment due to differences in proportions	-	148,029
Differences between the employer's contributions and the employer's proportionate share of contributions	188,887	-
Net differences between projected and actual earnings on pension plan investments	-	117,780
Total	$ 536,559	$ 265,809

III. Other Information (Continued)

C. Employee Retirement Plan (Continued)

At June 30, 2015, the District reported $347,672 as deferred outflows of resources related to contributions paid subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred (Inflows) of Resources
2016	$ 67,460	$ (62,511)
2017	67,460	(62,511)
2018	53,967	(62,511)
2019	-	(54,720)
2020	-	(23,556)
Total	$ 188,887	$ (265,809)

Actuarial Assumptions - The total pension liabilities in the June 30, 2013 actuarial valuations, which were rolled forward to June 30, 2014, for all three plans were determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	Varies by Entry Age and Service
Projected Salary Increase	3.30% to 14.20% depending on Age, Service, and Type of Employment
Investment Rate of Return	7.5% net of pension plan investment and administrative expenses, includes inflation
Mortality	Derived using CalPERS' Membership Data for all Funds

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period from 1997 to 2011. Further details of the experience study can be found on the CalPERS website.

III. Other Information (Continued)

C. Employee Retirement Plan (Continued)

Discount Rate **–** The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report named “GASB Crossover Testing Report” that can be obtained from the CalPERS website under the GASB Statement No. 68 section.

According to GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. The difference in calculation between a 7.5 percent rate and a 7.65 percent rate was not material to the District’s financial statements.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statement Nos. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as it changes its methodology.

The long-term expected rate of return on pension plan investments of 7.50% was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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

III. Other Information (Continued)

C. Employee Retirement Plan (Continued)

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

Asset Class	New Strategic Allocation	Real Return Year 1-10 (a)	Real Return Year 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability of the Plans as of the measurement date, calculated using the discount rate of 7.50 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 (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

Proportionate Share of Net Pension Liability	Decrease Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Decrease Rate + 1% (8.50%)
Miscellaneous Plan	$ 900,592	$ 608,576	$ 366,231
Miscellaneous 2nd Tier	44,406	24,924	8,755
PEPRA Miscellaneous	53	30	11
Total	$ 945,051	$ 633,530	$ 374,997

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

III. Other Information (Continued)

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

By SMART Board of Directors resolution, SMART will provide certain health care benefits for retired employees under third-party insurance plans. Employees become eligible to retire and receive healthcare benefits upon reaching retirement age with at least 5 years of service or being converted to disability, retiring directly from the District, and continue participating in Public Employees' Medical and Hospital Care Act (PEMHCA) after retirement. The PEMHCA minimum benefit was $119 per month in 2014 and will be $122 per month in 2015. As of June 30, 2015, there were no retirees receiving OPEB benefits and no participants were eligible to receive benefits.

Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a July 1, 2015 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by SMART and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between SMART and plan members to that point. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least triennially as results are compared to past expectations and new estimates are made about the future. SMART's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a fixed 30 year amortization period. The remaining amortization period at June 30, 2015 is 27 years.

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

III. Other Information (Continued)

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

Funding Policy and Actuarial Assumptions (Continued)

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

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

Funding Progress and Funded Status

The District has recorded the OPEB liability, representing the ARC as of June 30, 2015;

ARC	$ 140,172
Interest on prior year net OPEB obligation	6,259
Adjustment to the ARC	(9,582)
Annual OPEB cost	136,849
Contribution made	-
Increase in net OPEB obligation	136,849
Net OPEB oblitationg- beginning of year	156,468
Net OPEB obligation- end of year	$ 293,317

The actuarial accrued liability (AAL) representing the present value of future benefits as of June 30, 2015, included in the actuarial study dated July 1, 2015, amounted to $528,057. As SMART has not made a policy decision as to how to fund the program, the funded ratio as of June 30, 2015 was 0%.

III. Other Information (Continued)

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

Funding Progress and Funded Status (Continued)

The ARC and actual contributions for the fiscal year ended June 30, 2015, is set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Costs Contibuted	Net OPEB (Obligation)
2013	$ 56,747	$ -	-%	$ (95,623)
2014	60,845	-	-%	(156,468)
2015	136,849	-	-%	(293,317)

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

Actuarial accured liability (AAL)	$ 528,057
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 528,057
Funded ratio (actuarial value of plan assets/ AAL)	-%
Covered payroll (active plan members)	$ 3,572,374
UAAL as a percentage of covered payroll	14.8%

E. Subsequent Events

Subsequent to the close of Fiscal Year 2015, the District completed work on the relocation of the fiber optic infrastructure for two telecommunication companies. It is anticipated that the final execution of the bill of sales will lead to the recognition of this revenue in the first half of Fiscal Year 2016. (See Note II.G.)

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Sonoma-Marin Area Rail Transit District
Required Supplementary Information (Unaudited)
For the year ended June 30, 2015

Schedule of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2015

	Misc	Misc - 2nd Tier	PEPRA Misc
Proportion of net pension liability	0.00978%	0.00040%	0.0000%
Proportionate share of the net pension liability	$ 608,576	$ 24,924	$ 30
Covered-employee payroll	$ 1,611,560	$ 1,055,377	$ 905,437
Proportionate share of the net pension liability as a percentage of covered-employee payroll	37.76%	2.36%	0.00%
Plan fiduciary net position as a percentage of total pension liability	80.43%	80.43%	80.43%

Notes to Schedule:

Change in benefit terms - The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.
Changes in assumptions - There were no change in benefits.

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

Sonoma-Marin Area Rail Transit District

Required Supplementary Information (Unaudited)

For the year ended June 30, 2015

Schedule of Contributions – Pension Plan

For the Year Ended June 30, 2015

	Misc	Misc - 2nd Tier	PEPRA Misc
Contractually required contribution (actuarially determined)	$ 206,406	$ 84,989	$ 56,278
Contractually in relation to the actuarially determined contributions	(206,406)	(84,989)	(56,278)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	1,611,560	1,055,377	905,437
Contributions as a percentage of covered-employee payroll	12.81%	8.05%	6.22%

Notes to Schedule:

Valuation date: 6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent Level percent of payroll, closed
Remaining Amortization Period	19 years as of the valuation date
Asset Valuation Method	15 year smooth market
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.30% to 14.20% depending on Age, Service, and Type of Employment
Investment Rate of Return	7.5% net of pension plan investment and administrative expenses, includes inflation
Mortality	Derived using CalPERS' Membership Data for all Funds

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

Schedule of Funding Progress
Other Post-Employment Healthcare Benefits

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	AAL (B)	Unfunded (Overfunded) AAL (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) AAL as Percentage of Covered Payroll [(B-A)/C]
7/1/2012	$ -	$ 164,159	$ 164,159	0.0%	$ 1,927,000	8.5%
7/1/2015	-	528,057	528,057	0.0%	3,572,374	14.8%

STATISTICAL SECTION

STATISTICAL SECTION INDEX

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

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Financial Trends 38

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

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

Revenue Capacity 41

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

- Table 4 – General Revenue by Source
- Table 5 – Revenue Base and Revenue Rate
- Table 6 – Overlapping Governments and Sales Tax Rates
- Table 7 – Principal Revenue Payers

Debt Capacity 45

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

- Table 8 – Debt Service Coverage – Pledged Sales Tax Revenue
- Table 9 – Comparisons of Total Debt and Debt Service Coverage

Demographic and Economic Information 47

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

- Table 10 – Demographic and Economic Statistics
- Table 11 – Major Employers
- Table 12 – Transit Demand Indicators

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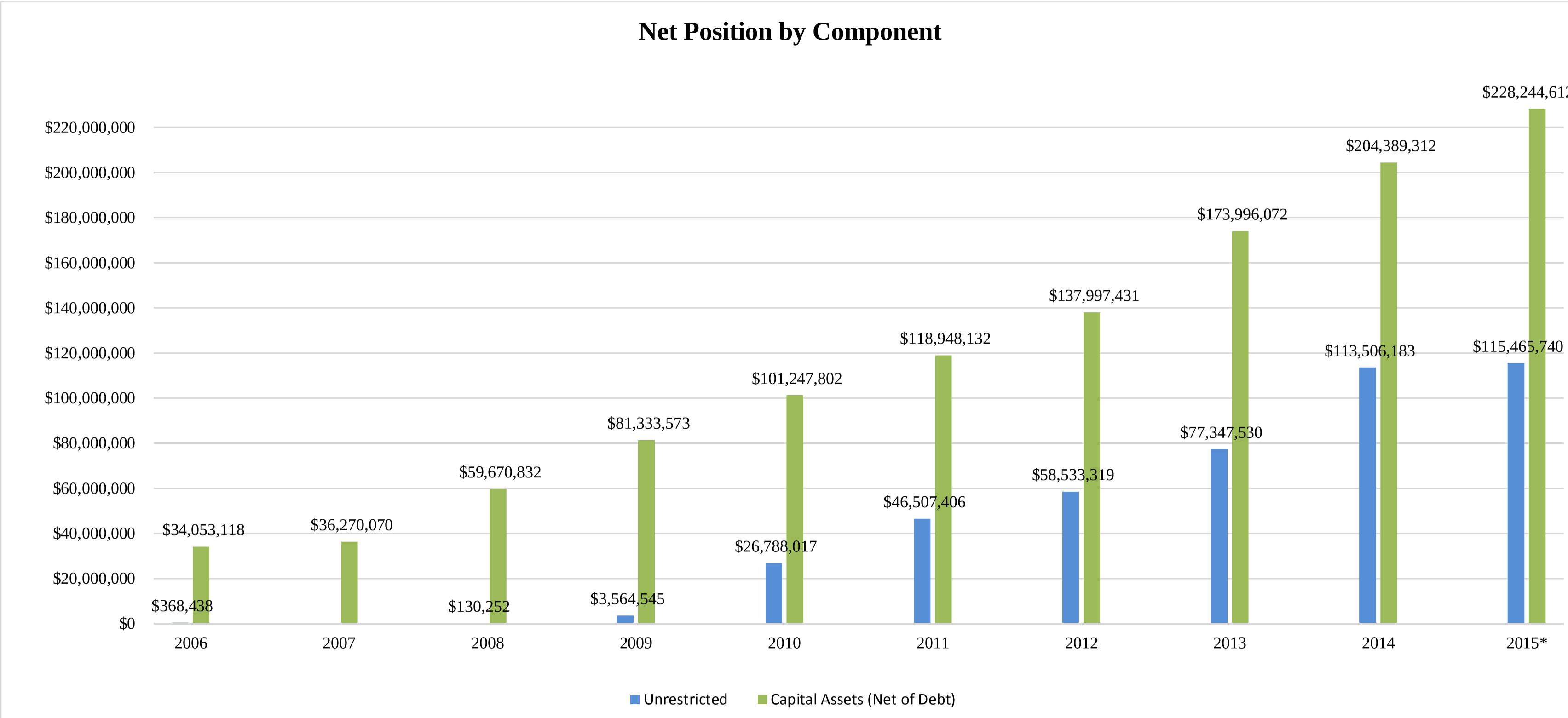
- Table 13 – Employees

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



	Fiscal Year Ended June 30:									
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015***
Net investment in capital assets	$ 34,053,118	$ 36,270,070	$ 59,670,832	$ 81,333,573	$ 101,247,802	$ 118,948,132	$ 137,997,431	$ 173,996,072	$ 204,389,312	$ 228,244,612
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	$ 368,438	$ (46,650)	$ 130,252	$ 3,564,545	$ 26,788,017	$ 46,507,406	$ 58,533,319	$ 77,347,530	$ 113,506,183	$ 115,465,740
Total net positon	**$ 34,421,556**	**$ 36,223,420**	**$ 59,801,084**	**$ 84,898,118**	**$ 128,035,819**	**$ 165,455,538**	**$ 196,530,750**	**$ 251,343,602**	**$ 317,895,495**	**$ 343,710,352**

* SMART adopted the provisions of GASB Statement No. 68 as of July 1, 2014 and prior years were not restated due to availability of information.

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

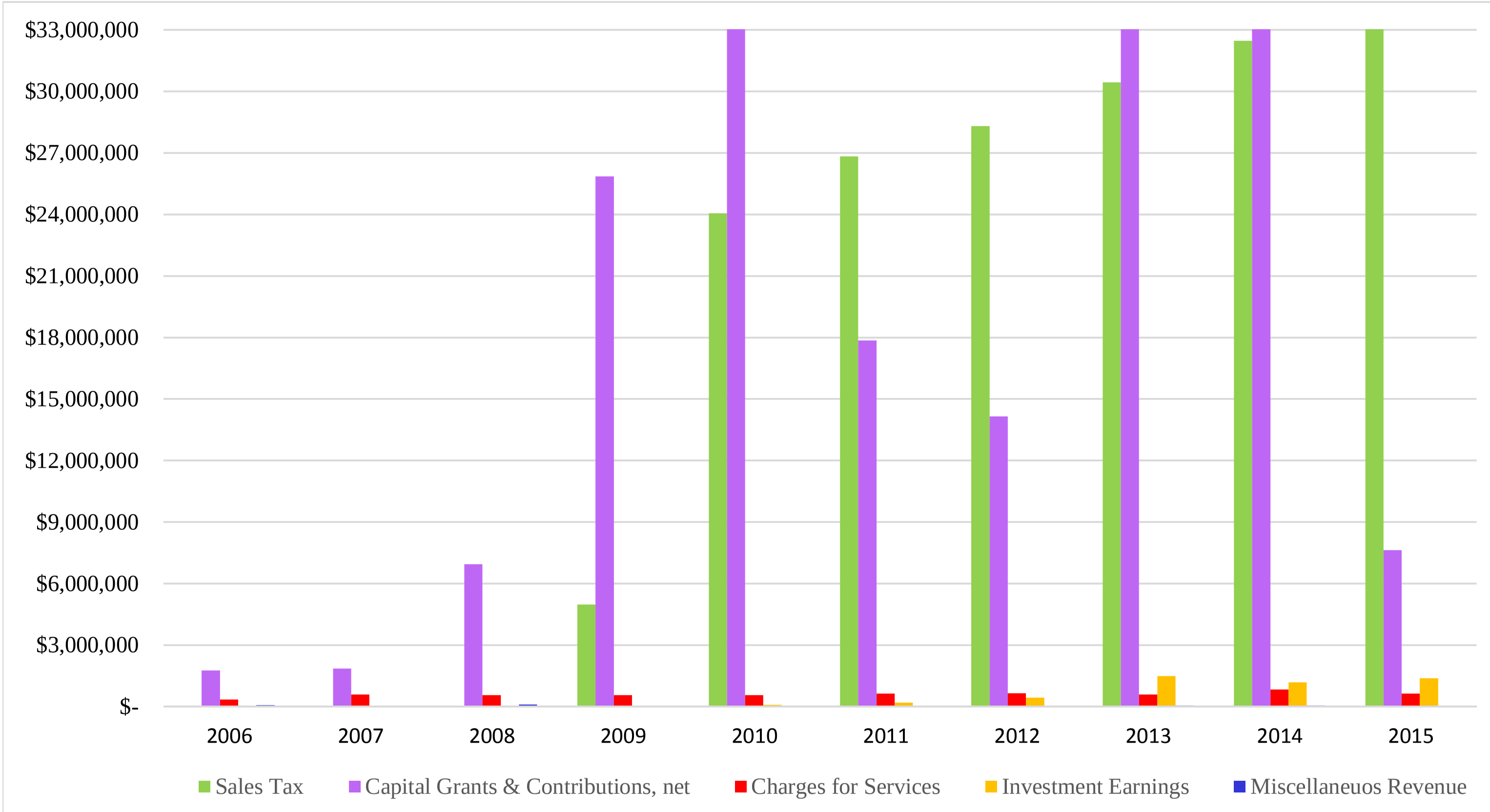
	Fiscal Year Ended June 30									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*
Operating Revenues										
Charges for services	$ 347,602	$ 600,167	$ 559,127	$ 570,507	$ 564,502	$ 635,670	$ 650,877	$ 597,880	$ 840,586	$ 640,249
Total operating revenues	347,602	600,167	559,127	570,507	564,502	635,670	650,877	597,880	840,586	640,249
Operating Expenses										
Public transportation - rail/pathway development:										
Net salaries and employee benefits	459,818	460,197	643,402	790,751	1,330,192	1,831,476	2,597,001	2,683,628	3,041,027	4,303,358
Services and supplies	1,701,894	1,392,791	1,117,859	5,102,761	13,000,858	10,097,972	4,179,668	4,772,700	4,466,562	5,275,106
Depreciation	101,074	99,737	196,136	410,750	420,488	472,061	4,527,575	4,527,575	4,473,500	4,575,530
Bad Debt	-	160,229	63,731	31,821	1,725	-	-	-	-	-
Loss on abandoned assets	-	25,406	-	-	-	-	-	-	433,295	-
Other Charges	-	45,000	-	2,725	3,180	53,471	76,671	700,783	215,992	380,000
Total operating expenses	2,262,786	2,183,360	2,021,128	6,338,808	14,756,443	12,454,980	11,380,915	12,684,686	12,630,376	14,533,994
Operating loss	(1,915,184)	(1,583,193)	(1,462,001)	(5,768,301)	(14,191,941)	(11,819,310)	(10,730,038)	(12,086,806)	(11,789,790)	(13,893,745)
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
Investment earnings	5,617	10,805	19,845	65	93,215	192,500	437,618	1,495,066	1,182,159	1,384,557
Sale of contract option	-	-	-	-	-	758,825	-	-	-	-
Insurance reimbursement	54,719	-	-	-	-	-	-	-	-	-
Miscellaneous revenue	19,669	16,000	2,871	36,070	38,445	46,400	26,236	62,178	65,638	49,351
Interest expense	-	-	-	-	-	-	(1,117,492)	(5,328,770)	(4,420,558)	(2,761,502)
Total nonoperating revenues (expenses)	80,005	26,805	22,716	5,012,822	24,191,589	27,824,568	27,649,863	26,664,227	29,300,568	32,517,832
Income before capital contributions	(1,835,179)	(1,556,388)	(1,439,285)	(755,479)	9,999,648	16,005,258	16,919,825	14,577,421	17,510,778	18,624,087
Capital grants and contributions:										
State of California	1,172,382	1,021,388	1,650,878	4,452,430	12,810,517	9,787,099	8,148,143	24,130,596	4,295,318	3,381
Metropolitan Transportation Commission	-	751,606	932,071	3,382,776	1,871,307	6,046,018	-	4,541,421	35,500,504	7,119,973
Sonoma County Transportation Authority - Measure M	588,439	91,637	75,972	-	-	-	4,594,099	5,758,121	5,136,487	35,358
Federal Highway Administration	-	-	-	-	-	-	1,203,349	5,815,731	2,365,308	476,476
Federal Transit Administration	-	-	-	-	-	1,960,000	-	206,107	197,273	24,119
Other governmental agencies	-	550,088	4,400,394	18,017,307	18,456,229	3,621,344	209,796	666,592	1,543,983	1,534,698
Capital expense pass through to other agencies	-	-	-	-	-	-	-	-	-	(1,557,743)
Total program revenues	1,760,821	2,414,719	7,059,315	25,852,513	33,138,053	21,414,461	14,155,387	41,118,568	49,038,873	7,636,262
Special Items										
Transfer of net assets from NWPRA	11,403,492	-	-	-	-	-	-	-	-	-
Change in net position	$ 11,329,134	$ 858,331	$ 5,620,030	$ 25,097,034	$ 43,137,701	$ 37,419,719	$ 31,075,212	$ 55,695,989	$ 66,549,651	$ 26,260,349

* SMART adopted the provisions of GASB Statement No. 68 as of July 1, 2014 and prior years were not restated due to availability of information.

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

Fiscal Year Ended June 30	Net Salaries and Benefits	Services and Supplies	Capital Outlay	Debt Service/Interest Expense	Other Charges	Depreciation	Loss on Impairment of Assets	Bad Debt	Total
2006	$ 439,588	$ 1,701,894	$ 24,613	$ -	$ -	$ -	$ -	$ -	$ 2,166,095
2007	449,290	1,392,791	1,292,174	-	45,000	-	25,406	160,229	3,364,890
2008	631,805	1,117,859	5,639,264	-	-	-	-	63,731	7,452,659
2009	776,514	5,102,761	22,261,261	-	2,725	-	-	31,821	28,175,082
2010	1,290,967	13,000,858	20,334,717	-	3,180	-	-	1,725	34,631,447
2011	1,847,662	10,097,972	14,614,169	-	53,471	-	-	-	26,613,274
2012	2,462,175	4,179,668	29,232,652	192,575,357	76,671	-	-	-	228,526,523
2013	2,558,849	4,406,463	77,629,877	9,866,442	700,783	-	-	-	95,162,414
2014	3,041,027	4,466,562	-	4,420,558	215,922	4,473,500	433,295	-	17,050,864
2015	4,303,358	5,275,106	-	2,761,502	380,000	4,575,530	-	-	17,295,496

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



Fiscal Year Ended June 30	Sales Tax	Capital Grants & Contributions, net	Charges for Services	Investment Earnings	Miscellaneuos Revenue	Total
2006	$ -	$ 1,760,821	$ 346,302	$ -	$ 81,305	$ 2,188,428
2007	-	1,864,631	600,167	10,805	16,000	2,491,603
2008	-	6,951,193	559,127	19,845	110,993	7,641,158
2009	4,976,687	25,852,513	570,507	65	36,070	31,435,842
2010	24,059,929	33,138,053	564,502	93,215	38,445	57,894,144
2011	26,826,843	17,856,239	635,670	192,500	46,400	45,557,652
2012	28,303,501	14,155,387	650,877	437,618	26,236	43,573,619
2013	30,435,753	40,952,030	597,880	1,495,066	62,178	73,542,907
2014	32,473,329	49,038,873	840,586	1,182,159	65,638	83,600,585
2015	33,845,426	7,636,262	640,249	1,384,557	49,351	43,555,845

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

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

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

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

Marin County

Fiscal Year	State	City	County[2]	SMART[4]	Total
2015	7.50%[1]	0 to 0.50%	0.75%	0.25%	8.5% to 9%
2014	7.50%	0 to 0.50%	0.75%	0.25%	8.5% to 9%
2013	7.50%	0 to 0.50%	0.75%	0.25%	8.5% to 9%
2012	7.25%	0 to 0.50%	0.50%	0.25%	8% to 8.5%
2011	7.25%	0 to 0.50%	0.50%	0.25%	8% to 8.5%

Sonoma County

Fiscal Year	State	City	County[3]	SMART[4]	Total
2015	7.50%[1]	0 to 0.75%	0.50%	0.25%	8.25% to 9%
2014	7.50%	0 to 0.75%	0.50%	0.25%	8.25% to 9%
2013	7.50%	0 to 0.75%	0.50%	0.25%	8.25% to 9%
2012	7.25%	0 to 0.50%	0.50%	0.25%	8.25% to 8.5%
2011	7.25%	0 to 0.50%	0.50%	0.25%	8.25% to 8.5%

Source: California State Board of Equalization

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

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

	FY 2014**			FY 2010*		
Principal Revenue Payers	**Rank**	**Percentage Taxable Sales**	**Amount**	**Rank**	**Percentage Taxable Sales**	**Amount**
All Other Outlets	1	27.47%	$ 3,580,799	1	27.06%	$ 2,725,918
Motor Vehicle and Parts Dealers	2	13.03%	1,698,026	2	11.22%	1,130,269
Food Services and Drinking Places	3	10.14%	1,321,473	5	9.84%	991,488
Gasoline Stations	4	8.85%	1,153,255	3	8.59%	865,041
General Merchandise Stores	5	7.71%	1,004,938	4	9.17%	923,240
Bldg. Matrl. and Garden Equip. and Supplies	6	7.28%	949,381	6	7.16%	720,865
Food and Beverage Stores	7	6.27%	816,837	7	6.83%	688,180
Clothing and Clothing Accessories Stores	8	5.20%	678,152	8	5.10%	513,810
Miscellaneous Store Retailers	9	3.80%	495,630	9	4.16%	419,104
Sporting Goods, Hobby, Book, and Music Stores	10	2.35%	306,801	10	2.84%	285,859
Electronics and Appliance Stores	11	2.17%	282,586	11	2.75%	276,825
Health and Personal Care Stores	12	2.13%	277,724	12	2.38%	239,383
Furniture and Home Furnishings Stores	13	1.97%	256,279	13	2.13%	214,785
Nonstore Retailers	14	1.63%	212,335	14	0.77%	77,799
Total All Outlets		100.0%	$ 13,034,217		100.0%	$ 10,072,567

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

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

Fiscal Year Ending	Sales Tax Revenue Actual	Sales Tax Revenue Projected*	Series 2011A Bonds Interest**	Series 2011A Bonds Principal	Series 2011A Bonds Debt Service Total	Annual Debt Service Coverage Ratio
6/30/2015	$ 33,845,426	$ -	$ 8,456,950	$ -	$ 8,456,950	4.00x
6/30/2016		35,030,016	8,456,950	4,540,000	12,996,950	2.70x
6/30/2017		36,256,066	8,275,350	5,325,000	13,600,350	2.67x
6/30/2018		37,525,029	8,009,100	6,195,000	14,204,100	2.64x
6/30/2019		38,838,405	7,730,850	8,365,000	16,095,850	2.41x
6/30/2020		40,197,749	7,312,600	9,435,000	16,747,600	2.40x
6/30/2021		41,604,670	6,840,850	10,565,000	17,405,850	2.39x
6/30/2022		43,060,834	6,315,000	11,745,000	18,060,000	2.38x
6/30/2023		44,567,963	5,727,750	12,990,000	18,717,750	2.38x
6/30/2024		46,127,842	5,078,250	14,290,000	19,368,250	2.38x
6/30/2025		47,742,316	4,363,750	15,660,000	20,023,750	2.38x
6/30/2026		49,413,297	3,580,750	17,100,000	20,680,750	2.39x
6/30/2027		51,142,762	2,725,750	18,610,000	21,335,750	2.40x
6/30/2028		52,932,759	1,795,250	20,195,000	21,990,250	2.41x
6/30/2029		54,785,406	785,500	15,710,000	16,495,500	3.32x
					Maximum Annual Debt Service Coverage:	**2.38x**

*Sales tax revenue growth projected 5% in FY2015 and 3.5% each year thereafter.
**Debt service based on cash basis

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

TOTAL DEBT TO INCOME RATIO

		Marin County		Sonoma County	
Year	Total Outstanding Debt	Personal Income	Ratio of Debt to Income	Personal Income	Ratio of Debt to Income
2015	$ 190,096,688	$ 26,488,256,620	0.72%	$ 25,344,910,270	0.75%
2014	192,365,524	25,716,754,000	0.75%	24,606,709,000	0.78%
2013	194,634,360	25,093,401,000	0.78%	24,905,827,000	0.78%

TOTAL DEBT SERVICE TO NON-CAPITAL EXPENSES

Year	Total Debt Service	Non-Capital Expenditures	Ratio Debt Service to Non-Capital Expenditures
2015	$ 8,456,950	$ 18,853,239	45%
2014	8,456,950	17,050,864	50%
2013	9,866,442	17,532,537	56%

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

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

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

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

Marin County

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

Sonoma County

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

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

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

Marin County 2015

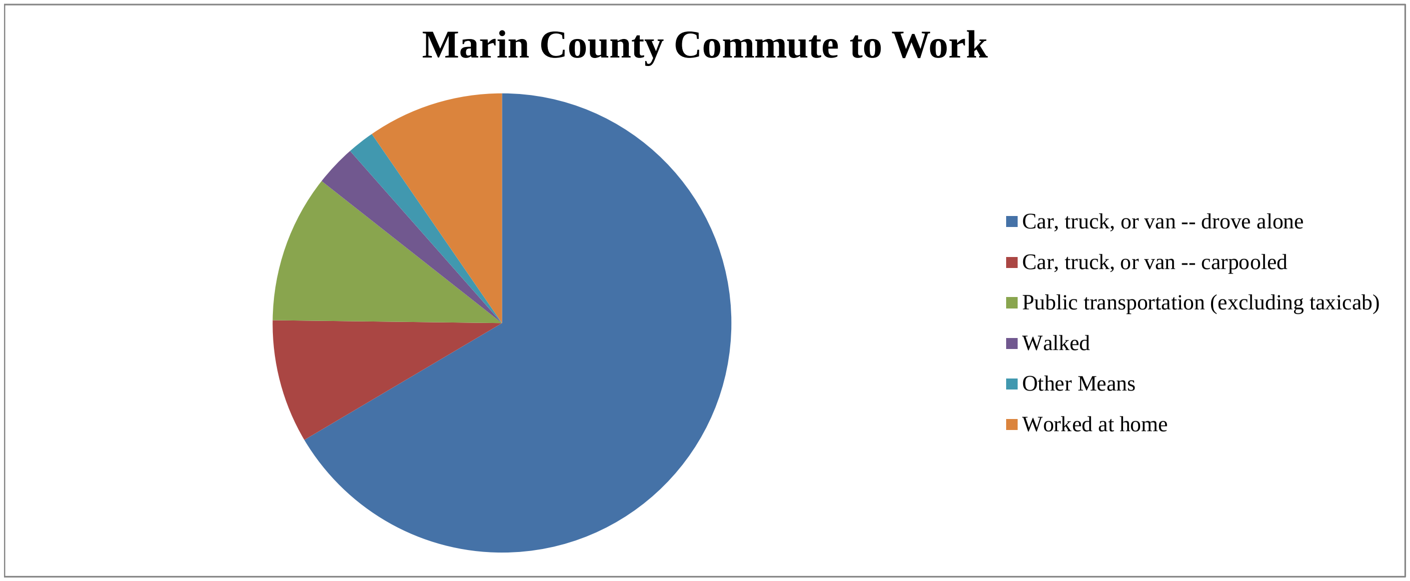
Employer	Number of Employees	Percent of Total Employment*
County of Marin	2100	1.53%
San Quentin State Prison	1800	1.31%
Marin General Hospital	1102	0.80%
Kaiser Permanente San Rafael Medical Center	2050	1.49%
Autodesk	748	0.54%
Novato Unified School District	900	0.65%
BioMarin Pharmaceutical	850	0.62%
Fireman's Fund Insurance	721	0.52%
Bradley Real Estate	437	0.32%
Mc Kession Technology	500	0.36%

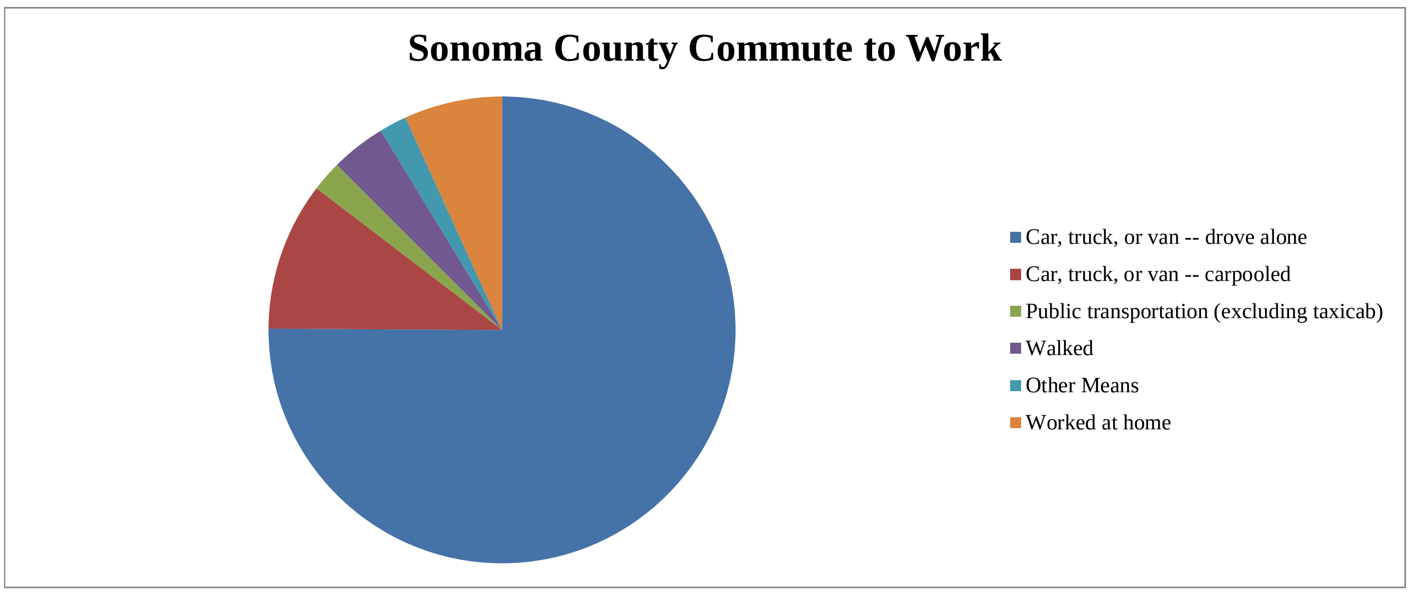
Sonoma County 2015

Employer	Number of Employees	Percent of Total Employment*
County of Sonoma	4862	1.95%
Kaiser Permanente Santa Rosa Medical Center	2450	0.99%
Santa Rosa Junior College	2801	1.13%
Graton Resort & Casino	2000	0.80%
Sutter Medical Center of Santa Rosa	1797	0.72%
St. Joseph Health, Sonoma County	1578	0.63%
Santa Rosa School District	1600	0.64%
City of Santa Rosa	1700	0.68%
Keysight Technologies	1300	0.52%
Sonoma State University	1447	0.58%

Sources:
North Bay Business Journal
County of Marin
San Quentin State Prison
Novato Unified School District
County of Sonoma
City of Santa Rosa
* Calculated using California Employment Development Department
June 2015 No. of Employed

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





Source: US Census Bureau (2014 American Community Survey 1-Year Estimates)

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

	Fiscal Year Ended June 30		
Division	**2015**	**2014**	**2013**
General Manager	1.0	1.0	1.0
Legal	1.0	0.8	0.0
Capital Projects	13.9	13.8	11.8
Administration	8.4	8.0	5.6
Finance	5.8	5.8	5.8
Operations	4.7	1.3	1.0
Safety & Security	0.8	0.0	0.0
Total	**35.6**	**30.7**	**25.2**

* FY 2013 was the most recent data collected, and also the first year SMART prepared a CAFR