SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2017

Petaluma, California

SMART || SONOMA-MARIN AREA RAIL TRANSIT

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Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2017

Sonoma-Marin Area Rail Transit District

Petaluma, California

Report Prepared by the Finance Department

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SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2017

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SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2017

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INTRODUCTORY SECTION

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November 27, 2017

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, 2016 through June 30, 2017.

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

We contracted with Maze and Associates to perform the audit of our financial statements. The purpose of the independent audit is to offer reasonable assurance that the financial statements are free of material misstatement. The independent auditor's report can be found at the beginning of the financial section of this report.

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

PROFILE OF THE ORGANIZATION

SMART is a transit agency created by the State of California to oversee the development, implementation and operation of a passenger rail system in Sonoma and Marin Counties. Since its creation, the District has been working to build both a rail transit system and an accompanying multi-use pathway. As of the date of this report, SMART has begun carrying passengers on the first 43 miles of a transit system that will run along 70 miles of the historic Northwestern Pacific Railroad alignment and will ultimately connect Cloverdale in Sonoma County to Larkspur in Marin County.

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

SMART is primarily funded by a one-quarter percent sales tax approved by voters in the SMART District in 2008. The Phase 1 project that began operating in 2017 runs from the Downtown San Rafael Station to the Airport Boulevard Station accompanied by multiple SMART pathway segments in San Rafael, Novato, Cotati, Rohnert Park and Santa Rosa. SMART also has begun construction of a 2.1-mile extension from San Rafael to Larkspur to be completed by the end of 2019. Subsequent phases of the project will include additional SMART rail stations in Cloverdale, Healdsburg, Windsor, and Petaluma; and further extensions of the pathway. All future phases will be completed as funding becomes available. Passengers north and south of the Phase 1 project connect to the SMART transit system by local transit connections as well as SMART-contracted connector buses. Early ridership and revenue numbers are meeting SMART strategic goals. Public feedback has been overwhelmingly positive for this much-needed alternative to Highway 101, the only other North-South direct connection between Marin and Sonoma.

LOCAL AND REGIONAL ECONOMY

Marin and Sonoma Counties are home to a mix of tourism, recreation, agriculture, and industry. The major population centers of Marin and Sonoma are located along the Highway 101 corridor and the parallel SMART rail line. More than 75% of commuters in the North Bay travel either within or between the two counties to get to work. However, a study by the Metropolitan Transportation Commission found that motorists in 2015 spent the equivalent of 880 hours moving at speeds of 35 miles per hour or less during peak commute hours attempting to travel from Marin to Sonoma. SMART's new riders have already begun to discover the reliable alternative the train can provide in a way that reduces their commute time and increases their productivity.

SMART's finances rely directly on the strength of sales tax revenues and its strong link to employment rates and median incomes. The District is home to a fairly wealthy taxpayer base, with a weighted per capita income base of $76,835 compared to California's $56,374 and $49,246 for the United States according to 2016 reports from the U.S. Bureau of Economic Analysis (BEA). The District's residents have shown stable employment rates through June 30, 2017. The seasonally unadjusted unemployment rates in Marin and Sonoma Counties in September of 2017 were 2.9% and 3.2%, respectively. Sales tax revenues continued to grow at a steady rate, but the rate of that growth decreased in the past year. For the year that ended June 30, 2017, SMART sales tax receipts, net of state fees, increased by 3.7% and equaled $36,061,895.

As the city with the largest population within the District, Santa Rosa plays an important role in both SMART's ridership and sales tax receipts. Multiple simultaneous wildfires in October 2017 caused an estimated $2.8 billion in damages to Sonoma County and over 7,000 structures burned, including 4.25% of Santa Rosa's housing stock. It is likely that this will have short term impacts on the Districts revenues. Some economists have indicated that a sales tax revenue increase would result from efforts to rebuild lost structures, however, there may be many months delay before that impact is seen. In its budgeting for Fiscal Year 2017-18, SMART has anticipated operating reserves of $16 million that would be available if needed in the coming year.

DISTRICT ACTIVITIES in Fiscal Year 2016-17

SMART Rail Service

In Fiscal Year 2016-17, the proportion of expenses related to operations continues to grow. As the fiscal year came to a close, SMART completed final testing of the first 43 miles of rail and began carrying passengers on June 23, 2017. Initial service was provided free of charge and involved limited service while the District awaited federal approval of its modern train control systems. Full scheduled service began in August 2017. Startup activities throughout the year included continued hiring and training of engineers, conductors, dispatchers, and code compliance officers as well as signal and vehicle specialists.

Testing and final implementation of fare collection systems was also substantially completed, as was hiring of temporary staff to instruct passengers on the platforms on how to ride the train. Bike lockers and racks at stations were readied to allow for bikers to fully access the system whether using a bike to reach the train or taking a bike on board. Passengers were also able to access a new rider-oriented website and are able to access a new customer service function that SMART developed in partnership with the Golden Gate Highway and Transportation District. Finally, SMART worked closely with local jurisdictions to make each of its crossings safe and compliant with Quiet Zone improvements at the request of our neighboring local jurisdictions.

Capital Improvement Projects

Although the start of passenger service dominated most headlines during the year, expenses in Fiscal Year 2016-17 also reflected significant investments related to completion of the rail project, including installation of station amenities, completion of park and ride lots, security fencing along the right of way, final configurations of train control and crossing equipment, new fare collection equipment, security and wifi equipment, and signage for passenger wayfinding. SMART also installed the beginnings of a new downtown Novato station, funded by the City of Novato. Fiscal Year 2016-17 saw continued progress on the SMART pathway segments, including a significant portion completed in Rohnert Park. In Santa Rosa, SMART completed pathway between 6th to 8th Streets, Bellevue to Hearn Ave., and College Ave. to Guerneville Rd. Sonoma County completed a critical segment between Hearn Ave. and the Joe Rodota Trail. Several other segments in Marin County were receiving approval to be constructed later in 2017.

In addition, SMART's capital activities related to the Larkspur extension continued. In Fiscal Year 2016-17, SMART completed its procurement of a design-build contractor for the important 2.1-mile extension from San Rafael to Larkspur. This project, which is funded primarily by Regional Measure 2 (Bridge Tolls), the Federal Transit Administration, as well as the Federal Railroad Administration, is also supported by locally controlled Congestion Mitigation funds and SMART's own Measure Q. The extension is expected to complete final testing and revenue service in the first half of 2019.

SMART also is in the process of procuring four additional Diesel Multiple Unit rail cars from its current contractor, Sumitomo Corporation of America. This $11 million purchase is funded entirely by the State of California. Those cars will arrive in late 2018 and be put into service for the current 43-mile segment as well as the Larkspur extension when it opens.

OTHER FINANCIAL INFORMATION

Risk Management

We continue to focus on our comprehensive safety and risk management program. Commuter rail systems must meet specific safety and insurance requirements and can face large exposures in an accident. Prior to carrying passengers, SMART increased substantially its rail liability limits commensurate with the risks faced by the District. We continue to budget for self-insured retentions as needed to fully address the financial needs of our risk strategies. Simultaneously, increased safety and security measures have been implemented, including the hiring of Code Compliance staff to assist with safety along the right of way, and increased training and coordination with local and regional safety organizations.

Cash Management

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

Employees' Retirement System (CalPERS) which follow policies established by its governing board.

Internal Controls

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to SMART for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016. This was the third consecutive year that SMART has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and are submitting it to the GFOA to determine its eligibility for another certificate.

CONCLUSION

The financial statements presented here show the magnitude of the public assets that have resulted from the voters' approval of the SMART sales tax measure in 2008. Measure Q revenues have made possible not only the construction of a world-class transit system, but also the ongoing operation and maintenance of that system in the future. With continued leadership from the Board and ongoing vigilance on maintaining necessary reserves and financial transparency, SMART's current and future operations will remain on solid footing.

ACKNOWLEDGEMENTS

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

Erin McGrath	Farhad Mansourian
Chief Financial Officer	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, 2016

Executive Director/CEO

Sonoma-Marin Area Rail Transit District
Fiscal Year 16-17 Principal Officials

Debora Fudge, Chair
Sonoma County Mayors and Councilmembers Association

Kathrin Sears, Vice Chair
Marin County Board of Supervisors

Judy Arnold
Marin County Board of Supervisors

Barbara Pahre
Golden Gate Bridge, Highway and Transportation District

Jim Eddie
Golden Gate Bridge, Highway and Transportation District

Shirlee Zane
Sonoma County Board of Supervisors

Eric Lucan
Transportation Authority of Marin

Jake Mackenzie
Sonoma County Mayors and Councilmembers Association

Dan Hillmer
Marin County Council of Mayors and Councilmembers

Gary Phillips
Transportation Authority of Marin

David Rabbitt
Sonoma County Board of Supervisors

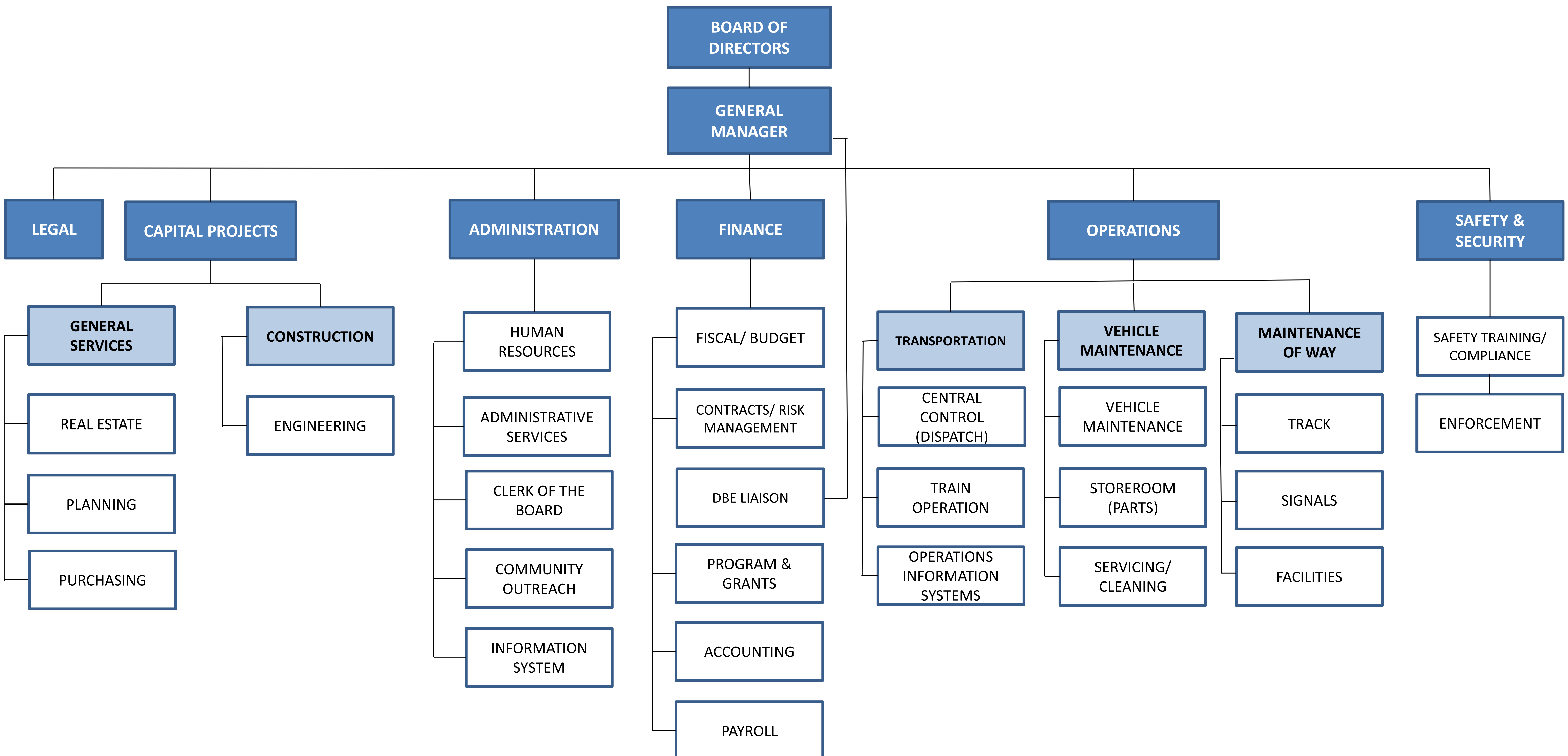
Carol Russell
Sonoma County Mayors and Councilmembers Association

Farhad Mansourian
General Manager

Erin McGrath
Chief Financial Officer

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

Organization Chart



SONOMA~MARIN SMART AREA RAIL TRANSIT

November 2017

SONOMA-MARIN
SMART
AREA RAIL TRANSIT
SMART PASSENGER RAIL & MULTIUSE PATH
Project Length: 70 Miles
SMART Stations
SMART Rail Phase I
SMART Rail Phase 2
SMART Owned Railroad Right-of-Way
Urban Areas
MENDOCINO CO.
SONOMA CO.
Cloverdale
Cloverdale (planned)
Geyserville
101
Healdsburg
Healdsburg (planned)
North - Planned
Windsor (planned)
Windsor
SONOMA CO.
NAPA CO.
Guerneville
Sonoma County Airport
Sonoma County Airport
Russian River
Santa Rosa North
Santa Rosa Downtown
Santa Rosa
Sebastopol
Rohnert Park
Rohnert Park
Cotati
Cotati
Sonoma
Bodega Bay
SONOMA CO.
MARIN CO.
Petaluma North (planned)
Schellville
Petaluma Downtown
Lombard
Petaluma
Phase 1 - In Service
37
POINT REYES
Novato San Marin
Novato Downtown (planned)
Novato
Novato Hamilton
DRAKE'S BAY
Marin Civic Center
San Rafael
San Rafael
Larkspur - 2019
Larkspur (planned)
Larkspur
Mill Valley
Bolinas
Tiburon
PACIFIC OCEAN
Oakland
Sausalito
San Francisco Bound Ferry Connection
San Francisco

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of business-type activities of the Sonoma-Marin Area Rail Transit District (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Maze + Associates

Pleasant Hill, California
November 27, 2017

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, 2017. 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 2017 Financial Highlights

- SMART's financial activity for the year ended June 30, 2017 involves some continued work related to completion of the SMART Phase 1 capital project and growing operational expenses related to the startup of rail service at the end of the fiscal year.
- Assets of SMART exceeded its liabilities at the close of the year ended June 30, 2017 by $409,981,844 (net position). Of this amount, $56,892,973 is unrestricted.
- SMART's net position increased $23,805,529 during the year ended June 30, 2017, due to an increased investment into capital assets, primarily crossings, stations and track improvements under construction.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found on pages 11-28 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 $409,981,844 on June 30, 2017.

The largest portion of SMART's net position (86%) reflects its investment in capital assets (e.g., land, tracks and crossing equipment, bridges and tunnels). SMART uses these capital assets to provide passenger rail services to its customers and a multiuse pathway for the general public; consequently, these assets are not available for future spending.

Statement of Net Position

	2017	2016	2017 - 2016 Change
Current and other assets	$ 96,174,008	$ 111,208,435	$ (15,034,427)
Capital assets	511,739,621	476,586,202	35,153,419
Total assets	607,913,629	587,794,637	20,118,992
Deferred outflows of resources	2,215,332	1,216,475	998,857
Current liabilities	28,948,683	23,174,900	5,773,783
Long-term liabilities	171,000,309	179,251,010	(8,250,701)
Total liabilities	199,948,992	202,425,910	(2,476,918)
Deferred inflows of resources	198,125	408,887	(210,762)
Net position:			
Net investment in capital assets	353,088,871	309,724,259	43,364,612
Unrestricted	56,892,973	76,452,056	(19,559,083)
Total net position	$ 409,981,844	$ 386,176,315	$ 23,805,529

SMART's net position at the end of fiscal year 2017 increased by $23,805,529 from the prior fiscal year. This increase is primarily the result of SMART continuing to invest its revenues and grants into capital assets, primarily crossings, train systems, stations, railcars, and multi-use pathway. Current and other assets at June 30, 2017, decreased by $15,034,427 from $111,208,435 on June 30, 2016 to $96,174,008 on June 30, 2017. The decrease was primarily due to drawdown of cash to pay capital project expenditures. Current liabilities at June 30, 2017, increased by $5,773,783 from $23,174,900 on June 30, 2016 to $ 28,948,683 on June 30, 2017, which was primarly due to increased payables at year-end related to SMART's capital asset activity.

Sonoma-Marin Area Rail Transit District
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

Statement of Revenues, Expenses and Changes in Net Position

	2017	2016	2017 - 2016 Change
Operating Revenues:			
Charges for services	$ 588,402	$ 529,191	$ 59,211
Total operating revenues	588,402	529,191	59,211
Operating Expenses:			
Public transportation - rail/pathway development:			
Salaries and employee benefits	13,507,443	8,582,645	4,924,798
Capitalized employee costs	(896,569)	(845,752)	(50,817)
Services and supplies	7,498,986	5,998,630	1,500,356
Depreciation	4,716,779	4,610,295	106,484
Other charges	212	7,541	(7,329)
Total operating expenses	24,826,851	18,353,359	6,473,493
Operating loss	(24,238,449)	(17,824,168)	(6,414,282)
Nonoperating Revenues (Less Expenses):			
Sales/Use taxes	36,061,895	34,776,012	1,285,883
Investment earnings	366,748	585,178	(218,430)
Other revenues	438,639	2,264,334	(1,825,695)
Capital expenses passed through to other agencies	(62,636)	(295,894)	233,258
Interest and related fees	(1,164,558)	(805,558)	(359,000)
Total Nonoperating Revenues (Net):	35,640,088	36,524,072	(883,984)
Capital grants and contributions	12,403,890	23,766,059	(11,362,169)
Change in net position	23,805,529	42,465,963	(18,660,434)
Net position - beginning of the year	386,176,315	343,710,352	42,465,963
Net position - end of the year	$ 409,981,844	$ 386,176,316	$ 23,805,529

Fiscal Year 2017 Revenues

- SMART revenues consist of operating revenues of $588,402 and non-operating revenues less expenses of $35,640,088 -- the majority of which is sales tax receipts. Sales tax, SMART's single largest ongoing source of revenue, continues to grow at 3.7% over the previous year. This is consistent with SMART's long term projections in its strategic planning processes.
- Capital grants and contributions of $12,403,890 are $11,362,169 lower than the year ended June 30, 2016. The is the result of the completion of a number of grant-funded activities related to the Phase 1 construction project.

Fiscal Year 2017 Expenses

- SMART had operating expenses of $24,826,851, tied to salaries, benefits, other services and supplies and depreciation.
- Salaries and benefits increased significantly over the year ended June 30, 2016, by $4,924,798, due to the hiring of more operating staff.
- Services and supplies increased over the year ended June 30, 2016 by $1,500,356, primarily due to increased services related to operations start up activities.
- Capital expenses passed through to other agencies decreased over the year ended June 30, 2016 by $233,258 since SMART performed less work on behalf of other jurisdictions.
- Interest and related fees decreased over the year ended June 30, 2016 by $359,000 primarily due to bond interest expense net of capitalized amounts.

Capital Assets and Debt

Capital Assets

SMART's capital assets, as of June 30, 2017 are $511,739,621 (net of accumulated depreciation) which is an increase of $35,153,420 over June 30, 2016. This increased investment in capital assets includes land, construction in progress, infrastructure (tracks/rails, crossings, bridges, fencing, tunnels, road crossings and pathway improvements), buildings and improvements, and equipment. SMART also accepted a $1,116,726 donated asset, the Hearn to Joe Rodota Trail built by Sonoma County, as part of fiscal year 2017.

Capital Assets

	2017	2016	2017 - 2016 Change
Land	$ 41,423,299	$ 40,981,773	$ 441,526
Intangible Assets (Non-Amortizable)	18,770	18,770	-
Infrastructure	75,538,495	90,643,875	(15,105,380)
Buildings & improvements	4,430,137	4,430,137	-
Construction in progress	417,553,009	364,083,697	53,469,312
Equipment	2,316,715	1,251,975	1,064,740
Accumulated depreciation	(29,540,804)	(24,824,025)	(4,716,779)
Total capital assets, net of depreciation	$ 511,739,621	$ 476,586,201	$ 35,153,420

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

Debt

SMART had $175,819,899 in bonds outstanding and unamortized bond premium at June 30, 2017 compared to $183,318,018 on June 30, 2016. Additional information on SMART's long-term debt can be found in Note 4.

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 in more detail, the economy of the District grew during the fiscal year and exhibited healthy trends in employment and other key factors. While the District anticipates continued economic growth in the long term, we are monitoring the impacts of the wildfires in Santa Rosa that occurred in October of 2017 subsequent to the close of this year. There are likely to be some impacts in Fiscal Year 2017-18 sales tax as result.

Other Factors

SMART continues to hold multi-year contracts with several independent contractors for for final Phase 1 construction expenses. All but one of those contracts is anticipated to conclude in Fiscal Year 2017-18. SMART's contract related to the manufacturing of diesel multiple unit rail vehicles was amended in Fiscal Year 2016-17 to exercise additional car options valued at $11 million to be delivered in late 2018 with a warranty period through 2020. At June 30, 2017, SMART's total outstanding commitments under these and other construction-related contracts were approximately $43.2 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.

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS	
Current Assets	
Cash and cash equivalents (Note 2)	$52,194,529
Restricted cash, cash equivalents, and investments with trustee (Note 2)	21,819,458
Due from other governments	6,061,281
Other receivables	6,399,958
Deposits with others	8,658,458
Prepaid expenses	796,588
Total current assets	95,930,272
Noncurrent Assets	
Capital assets (Note 3):	
Non-depreciable:	
Land	41,423,299
Construction in progress	417,553,009
Intangible assets	18,770
Depreciable (net of accumulated depreciation):	
Infrastructure	48,838,835
Buildings and improvements	2,473,786
Equipment	1,431,922
Total capital assets, net	511,739,621
Other receivables - long term	243,736
Total noncurrent assets	511,983,357
Total Assets	607,913,629
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions (Note 5)	2,215,332
LIABILITIES	
Current Liabilities	
Accounts payable and other current liabilities	18,903,800
Unearned revenue	426,526
Interest payable	2,669,700
Compensated absences - due within one year	753,657
Long-term debt - due within one year (Note 4)	6,195,000
Total current liabilities	28,948,683
Noncurrent Liabilities	
Compensated absences	42,158
Net post-employment benefits obligation	591,106
Net pension liability (Note 5)	742,146
Long-term debt (Note 4)	169,624,899
Total noncurrent liabilities	171,000,309
Total Liabilities	199,948,992
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions (Note 5)	198,125
NET POSITION	
Net investment in capital assets	353,088,871
Unrestricted	56,892,973
Total Net Position	$409,981,844

See accompanying notes to basic financial statements

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

OPERATING REVENUES	
Charges for services	$588,402
Total operating revenues	588,402
OPERATING EXPENSES	
Public transportation - rail/pathway development:	
Salaries and employee benefits	13,507,443
Capitalized employee costs	(896,569)
Services and supplies	7,498,986
Depreciation (Note 3)	4,716,779
Other Charges	212
Total program operating expenses	24,826,851
Operating loss	(24,238,449)
NON-OPERATING REVENUES (EXPENSES)	
Sales/Use taxes	36,061,895
Investment earnings	366,748
Miscellaneous revenue	438,639
Capital expense passed through to other agencies	(62,636)
Interest expense	(1,164,558)
Total non-operating revenues	35,640,088
Income before capital grants and contributions	11,401,639
CAPITAL GRANTS AND CONTRIBUTIONS	
State of California	458,549
Metropolitan Transportation Commission	5,007,846
Sonoma County Transportation Authority- Measure M	33,440
Federal Highway Administration	1,637,804
Federal Transit Administration	1,112,627
Other governmental agencies	3,036,898
Donated asset	1,116,726
Total capital grants and contributions	12,403,890
Change in net position	23,805,529
NET POSITION	
Beginning of Year	386,176,315
End of Year	$409,981,844

See accompanying notes to basic financial statements

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tenants	$434,800
Receipts from others	153,602
Payments to suppliers for goods and services	(3,553,955)
Payments to employees for services	(12,507,243)
Payments to employee retirement system	(899,913)
Net cash provided (used) by operating activities	(16,372,709)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income received	366,748
Net cash provided by investing activities	366,748
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Sales tax received	35,657,544
Net cash provided by noncapital and financing activities	35,657,544
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(33,029,953)
Labor costs related to capital projects	(896,569)
Capital grants and contributions received restricted for capital purposes	10,220,804
Cash paid on projects on behalf of other governments	(62,636)
Cash receipts for third party infrastructure	439,839
Principal payments on long-term debt	(5,325,000)
Interest paid on capital debt	(8,275,350)
Net cash provided (used) by capital and related financing activities	(36,928,865)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(17,277,282)
CASH AND INVESTMENTS AT BEGINNING OF YEAR	91,291,269
CASH AND INVESTMENTS AT END OF YEAR	$74,013,987
RECONCILIATION TO STATEMENT OF NET POSITION	
Cash and Cash Equivalents	$52,194,529
Restricted cash, cash equivalents, and investments with trustee	21,819,458
Total cash and cash equivalents	$74,013,987
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating loss	($24,238,449)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	4,716,779
Changes in operating assets and liabilities:	
Prepaid expenses	(375,718)
Accounts payable and other accrued liabilities	4,320,961
Compensated absences	103,631
Net post-employment benefits obligation	152,712
Net pension liability and related deferred outflow/inflow of resources	(1,052,625)
Net cash provided (used) by operating activities	($16,372,709)
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Amortization of premiums	$2,173,119
Capitalized interest	4,848,923
Change in accounts payable related to acquisition of capital assets	(374,453)
Donated asset	1,116,726

See accompanying notes to basic financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

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

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

B. Fund Accounting

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

C. Basis of Accounting

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash Equivalents

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

E. Investments

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

F. Restricted Cash and Investments with Trustee

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

G. Receivables

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

H. Compensated Absences

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

Employee liabilities as of June 30, 2017 are as follows:

Beginning Balance	$692,184
Additions	857,288
Payments	753,657
Ending Balance	$795,815
Current Portion	$753,657

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Risk Management

SMART is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which SMART carries commercial insurance, including, but not limited to, comprehensive railroad liability and other relevant liability policies, automobile, employment and workers compensation policies. In addition, SMART has policies and procedures that ensure appropriate insurance coverage and risk procedures for third-party service providers doing work on behalf of the agency. SMART did not settle any claims that exceeded SMART's insurance coverage during the past three years, nor did it reduce its insurance coverage from the prior year.

J. Use of Estimates

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

K. Deferred Inflow/Outflow of Resources

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

L. Net Position

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

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

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

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

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

NOTE 2 - CASH AND INVESTMENTS

Cash, cash equivalents, and investments are carried at fair value and are categorized as follows at June 30, 2017:

	Available for Operations	Held by Trustee	Total
Cash equivalent:			
Sonoma County Treasury Pool	$38,609,961	$21,819,458	$60,429,419
Deposits	13,584,568		13,584,568
Total Cash and Investments	$52,194,529	$21,819,458	$74,013,987

NOTE 2 - CASH AND INVESTMENTS (Continued)

A. Investments Authorized by the District's Investment Policy

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

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

B. Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Certificates of Deposit	360 days	A-1/ P-1	None	None
Bankers Acceptances	360 days	A-1/ P-1	None	None
Commercial Paper	270 days	A-1	None	None
Money Market Mutual Funds	N/A	AAAm	None	None
Repurchase Agreements	N/A	N/A	None	None
Reverse Repurchase Agreements	N/A	N/A	None	None
Municipal Obligations	N/A	N/A	None	None
General Obligations of States	N/A	A 2/A	None	None
Local Agency Investment Fund (LAIF)	N/A	N/A	None	None
Shares in a common law trust	N/A	N/A	None	None
County Pooled Investment	N/A	N/A	None	None

C. Interest Rate Risk

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

NOTE 2 - CASH AND INVESTMENTS (Continued)

D. Credit Risk

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

E. Custodial Credit Risk

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

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

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

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

F. Concentration of Credit Risk

SMART's Investment Policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. SMART was invested in the Treasury Pool and the Bank of Marin at June 30, 2017. 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 2017 Sonoma County Comprehensive Annual Financial Report.

NOTE 2 - CASH AND INVESTMENTS (Continued)

G. Fair Value Hierarchy

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

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

NOTE 3 - CAPITAL ASSETS

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

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

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

NOTE 3 - CAPITAL ASSETS (Continued)

Capital assets comprised the following at June 30, 2017:

	Balance June 30, 2016	Additions	Transfers/ Adjustment	Balance June 30, 2017
Capital assets not being depreciated:				
Land	$40,981,773	$441,526		$41,423,299
Intagible assets	18,770			18,770
Construction in progress	364,083,697	37,247,206	$16,222,106	417,553,009
Total capital assets not being depreciated	405,084,240	37,688,732	16,222,106	458,995,078
Capital assets being depreciated:				
Infrastructure	90,643,875	1,116,726	(16,222,106)	75,538,495
Buildings and improvements	4,430,137			4,430,137
Equipment	1,251,975	1,064,740		2,316,715
Total capital assets being depreciated	96,325,987	2,181,466	(16,222,106)	82,285,347
Less accumulated depreciation for:				
Infrastructure	(22,547,820)	(4,151,840)		(26,699,660)
Buildings and improvements	(1,720,751)	(235,600)		(1,956,351)
Equipment	(555,454)	(329,339)		(884,793)
Total accumulated depreciation	(24,824,025)	(4,716,779)		(29,540,804)
Total capital assets being depreciated, net	71,501,962	(2,535,313)	(16,222,106)	52,744,543
Capital assets, net	$476,586,202	$35,153,419		$511,739,621

SMART recognized $4.7 million in depreciation expense for assets previously placed in service, and $4.8 million of capitalized interest in connection with SMART's construction projects during fiscal year ended June 30, 2017.

NOTE 4 – LONG TERM DEBT

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

Long-term debt activity for the year ended June 30, 2017 was as follows:

	Original Issue Amount	Balance June 30, 2016	Retirements	Balance June 30, 2017	Amount due within one year
Bonds Payable:					
Remarketed Series 2011A					
2.00-5.00%, due 3/1/2029	$170,725,000	$166,185,000	$5,325,000	$160,860,000	$6,195,000
Unamortized bond premium	19,371,688	17,133,018	2,173,119	14,959,899	
Total long-term debt, net		$183,318,018	$7,498,119	$175,819,899	$6,195,000

The total projected Measure Q Sales Tax revenue, as reported in the 2014 Measure Q Strategic Plan, is expected to approximate $756.6 million over the 20 year life of the tax, which is sufficient to repay the estimated debt service, including interest. The Measure Q Sales Tax revenue recognized during the fiscal year ended June 30, 2017 was $36,061,895 whereas debt service on the Measure Q bonds was $13,600,350 for the fiscal year ended June 30, 2017.

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, 2017:

For The Year Ending June 30	Principal	Interest
2018	$6,195,000	$8,009,100
2019	8,365,000	7,730,850
2020	9,435,000	7,312,600
2021	10,565,000	6,840,850
2022	11,745,000	6,315,000
2023 - 2027	78,650,000	21,476,250
2028 - 2029	35,905,000	2,580,750
	160,860,000	$60,265,400
Plus: Unamortized Bond Premium	14,959,899	
	$175,819,899	

NOTE 5 – PENSION PLANS

A. *General Information about the Pension Plans*

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

In December 2016, SMART approved a contract with CalPERS for the creation of a new Safety 2.7% at 57 Plan. As of June 30, 2017 CalPERS has not provided an actuarial valuation determining this plan's net pension liability.

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

Benefits Provided – Through CalPERS, SMART provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees, and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. The death benefit provided by SMART is the 1959 Survivor Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

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

	Miscellaneous			
	Tier I	**Tier II**	**Tier III**	**PEPRA**
Hire date	Prior to September 1, 2011	On or after September 1, 2011	On or after June 2, 2012	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	55	55	60	62
Monthly benefits, as a % of eligible compensation	1.426%-2.418%	1.426%-2.418%	1.092%-2.418%	1.000%-2.500%
Required employee contribution rates	7%*	7%	7%	6.25%
Required employer contribution rates	8.377%	8.377%	7.159%	6.555%

*SMART pays employee share

NOTE 5 – PENSION PLANS (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 Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plans were as follows:

	Miscellaneous
Contributions - employer	$699,783

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Plans	$742,146

The District's net pension liability is measured as the proportionate share of the net pension liability of the cost-sharing plan. The net pension liability of each of the Plan is measured as of June 30, 2016, and the total pension liability for each of the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was actuarially determined at the valuation date.

The District's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 was as follows:

Proportion - June 30, 2015	0.02133%
Proportion - June 30, 2016	0.02136%
Change - Increase (Decrease)	-0.00003%

NOTE 5 – PENSION PLANS (Continued)

For the year ended June 30, 2017, the District recognized a pension benefit of $1,052,625. At June 30, 2017, 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	$699,783	
Differences between actual and expected experience	16,081	($3,685)
Changes in assumptions		(152,146)
Net differences between projected and actual earnings on plan investments	791,870	
Changes in employer's proportion	401,362	
Change in proportion and differences between actual contributions and proportionate share of contributions	306,236	(42,294)
Total	$2,215,332	($198,125)

At June 30, 2017, the District reported $699,783 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Deferred Outflows/(inflows) of Resources
2018	$370,741
2019	326,824
2020	414,756
2021	205,103

NOTE 5 – PENSION PLANS (Continued)

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

	All Plans
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table(1)	Derived using CalPers Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

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

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

NOTE 5 – PENSION PLANS (Continued)

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

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

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

Asset Class	Policy Target Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	100%		

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

NOTE 5 – PENSION PLANS (Continued)

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

	Discount Rate		
	1% Decrease 6.65%	Current 7.65%	1% Increase 8.65%
Proportionate Share of Net Pension Liability	$1,234,870	$742,146	$334,934

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

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

A. Summary

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 $125 per month in 2016, and is $128 per month in 2017. As of June 30, 2017, there was one retiree receiving OPEB benefits.

B. 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, 2017, is 25 years.

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

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.

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

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

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

C. Funding Progress and Funded Status

The District has recorded the OPEB liability, representing the ARC as of June 30, 2017:

Annual required contribution (ARC)	$167,289
Interest on Net OPEB obligation	17,536
Adjustment to the ARC	(28,063)
Implicit Subsidy	(4,050)
Annual OPEB cost	152,712
Contribution made	-
Total contributions	-
Increase in Net OPEB Obligation	152,712
Net OPEB Obligation at June 30, 2016	438,394
Net OPEB Obligation at June 30, 2017	$591,106

The actuarial accrued liability (AAL) representing the present value of future benefits as of June 30, 2017, included in the actuarial study dated July 1, 2015, amounted to $595,156. As SMART has not made a policy decision as to how to fund the program, the funded ratio as of June 30, 2017 was 0%.

The ARC and actual contributions for the fiscal year ended June 30, 2017, is set forth below:

Fiscal Year	Annual OPEB Cost (AOC)	Actual Contribution	Percentage of AOC Contributed	Net OPEB (Obligation) Asset
6/30/2015	$136,849	$ -	0%	($293,317)
6/30/2016	145,077	-	0%	(438,394)
6/30/2017	152,712	-	0%	(591,106)

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

	Actuarial					
Valuation Date	Value of Assets	Accrued Liability	Overfunded (Underfunded) Accrued Liability	Funded Ratio	Covered Payroll	Overfunded (Underfunded) Actuarial Liability as Percentage of Accrued Covered Payroll
6/30/2015	$0	$657,015	($657,015)	0%	$6,017,592	-11%

NOTE 7 - COMMITMENTS

A. *Lease Commitments*

SMART's future noncancellable lease payments are:

Year Ending June 30	Minimum Lease Payment
2018	$681,198
2019	130,762
2020	20,000
2021	20,000
2022	16,667
Total	$868,627

B. *Purchase Commitments*

At June 30, 2017, SMART had outstanding purchase and contract commitments for the rail and pathway project of approximately $43.2 million.

REQUIRED SUPPLEMENTARY INFORMATION

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Cost Sharing Multiple-Employer Defined Pension Plan
As of fiscal year ending June 30, 2017
Last 10 Years*

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

	2015	**2016**	**2017**
Measurement Period	6/30/2014	6/30/2015	6/30/2016
Plan's proportion of the Net Pension Liability (Asset)	0.01018%	0.02133%	0.02136%
Plan's proportion share of the Net Pension Liability (Asset)	$633,530	$585,152	$742,146
Plan's Covered Employee Payroll	3,073,231	3,572,374	6,017,592
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	20.61%	16.38%	12.33%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	81.15%	78.40%	79.72%

Notes to Schedule:

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

Changes in assumptions. There were no changes of assumptions in 2017.

* - Fiscal year 2015 was the first year of implementation

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Cost Sharing Multiple-Employer Defined Pension Plan
As of fiscal year ending June 30, 2017
Last 10 Years*
SCHEDULE OF CONTRIBUTIONS

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

Notes to Schedule:
The actuarial methods and assumptions used to determine the fiscal year 2016-17 contribution rates are as follows:

Valuation Date	6/30/2014
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll, closed
Asset Valuation Method	15 year smooth market
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.65% net of pension plan investment and administrative expenses, includes inflation
Retirement Age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period of 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

* Fiscal year 2015 was the first year of implementation

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

Other Post-Employment Benefit Plan

As of fiscal year ended June 30, 2017

SCHEDULE OF FUNDING PROGRESS

	Actuarial					Overfunded (Underfunded) Accrued Actuarial Liability as
Valuation Date	Value of Assets	Accrued Liability	Overfunded (Underfunded) Accrued Liability	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
7/1/2012		$164,159	($164,159)	0%	$1,927,000	-9%
7/1/2015		657,015	(657,015)	0%	6,017,592	-11%

STATISTICAL SECTION

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STATISTICAL SECTION

This part of the District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends

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

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

Revenue Capacity

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

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

Debt Capacity

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

- Table 8- Debt Service Coverage – Pledged Sales Tax Revenue
- Table 9- Ratios of Outstanding Debt

Demographic and Economic Information

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

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

Operating Information

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

- Table 13- Employees – Full-Time Equivalent

Sources

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

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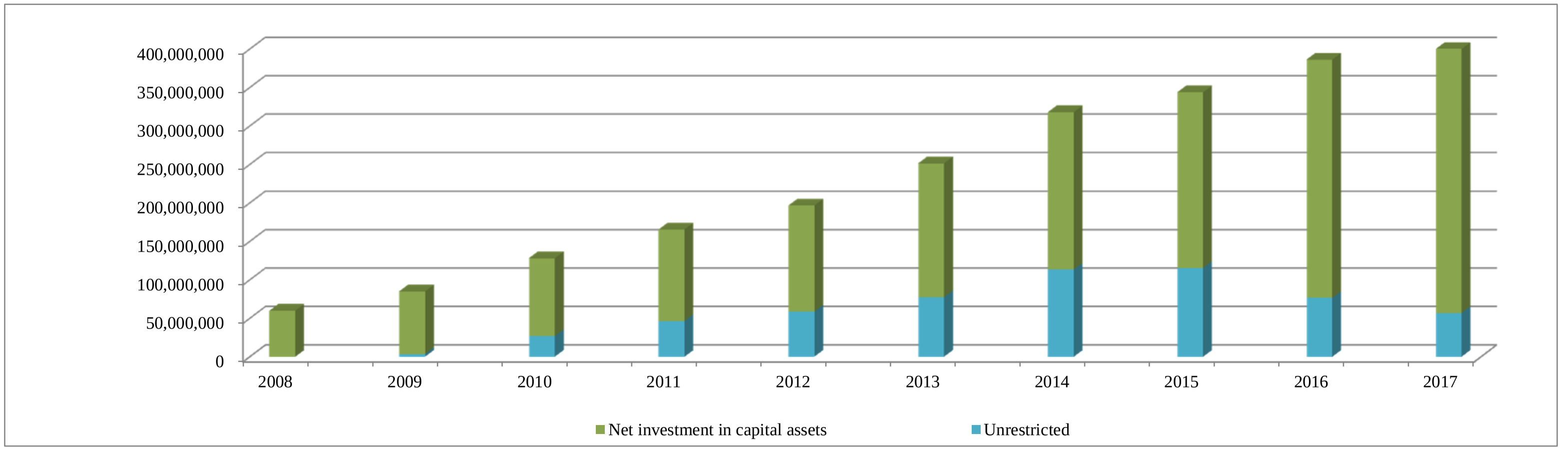
Table 1
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
NET POSITION BY COMPONENT
Last Ten Fiscal Years



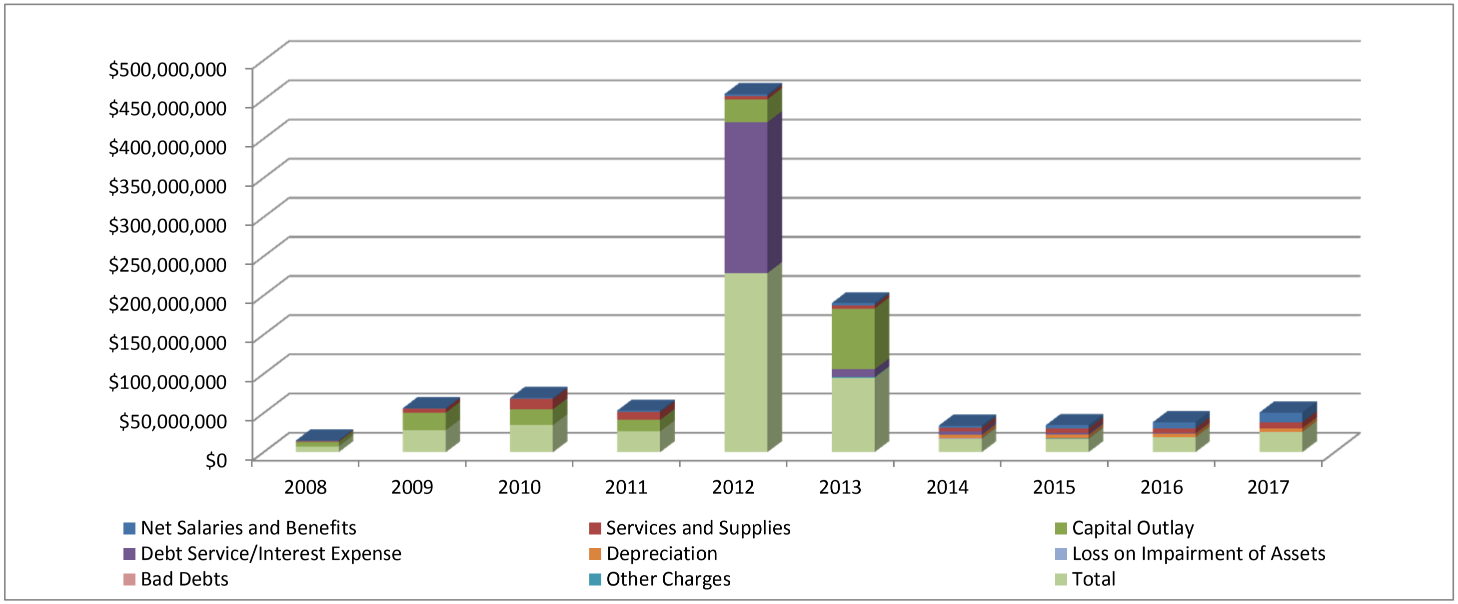
	Fiscal Year Ended June 30									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Net investment in capital assets	$59,670,832	$81,333,573	$101,247,802	$118,948,132	$137,997,431	$173,996,072	$204,389,312	$228,244,612	$309,724,259	$353,088,871
Unrestricted	130,252	3,564,545	26,788,017	46,507,406	58,533,319	77,347,530	113,506,183	115,465,740	76,452,056	56,892,973
Total net position	$59,801,084	$84,898,118	$128,035,819	$165,455,538	$196,530,750	$251,343,602	$317,895,495	$343,710,352	$386,176,315	$409,981,844

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

	Fiscal Year Ended June 30									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Operating Revenues:										
Charges for Services	$559,127	$570,507	$564,502	$635,670	$650,877	$597,880	$840,586	$640,249	$529,191	$588,402
Total Operating Revenues	559,127	570,507	564,502	635,670	650,877	597,880	840,586	640,249	529,191	588,402
Operating Expenses:										
Public transportation - rail/pathway development:										
Net salaries and employee benefits	643,402	790,751	1,330,192	1,831,476	2,597,001	2,683,628	3,041,027	4,303,358	7,736,893	12,610,874
Services and supplies	1,117,859	5,102,761	13,000,858	10,097,972	4,179,668	4,772,700	4,466,562	5,275,106	5,998,630	7,498,986
Depreciation	196,136	410,750	420,488	472,061	4,527,575	4,527,575	4,473,500	4,575,530	4,610,295	4,716,779
Bad Debt	63,731	31,821	1,725							
Loss on impairment of assets							433,295			
Other charges		2,725	3,180	53,471	76,671	700,783	215,922	380,000	7,541	212
Total Operating Expenses	2,021,128	6,338,808	14,756,443	12,454,980	11,380,915	12,684,686	12,630,306	14,533,994	18,353,359	24,826,851
Operating loss	(1,462,001)	(5,768,301)	(14,191,941)	(11,819,310)	(10,730,038)	(12,086,806)	(11,789,720)	(13,893,745)	(17,824,168)	(24,238,449)
Nonoperating Revenues (Expenses):										
Sales/Use taxes		4,976,687	24,059,929	26,826,843	28,303,501	30,435,753	32,473,329	33,845,426	34,776,012	36,061,895
Investment earnings	19,845	65	93,215	192,500	437,618	1,495,066	1,182,159	1,384,557	585,178	366,748
Sale of contract option				758,825						
Capital expense passed through to other agencies								(1,557,743)	(295,894)	(62,636)
Miscellaneous revenue	2,871	36,070	38,445	46,400	26,236	62,178	65,638	49,351	2,264,334	438,639
Interest expense					(1,117,492)	(5,328,770)	(4,420,558)	(2,761,502)	(805,558)	(1,164,558)
Total Nonoperating Revenues	22,716	5,012,822	24,191,589	27,824,568	27,649,863	26,664,227	29,300,568	30,960,089	36,524,072	35,640,088
Income before capital contributions	(1,439,285)	(755,479)	9,999,648	16,005,258	16,919,825	14,577,421	17,510,848	17,066,344	18,699,904	11,401,639
Capital grants and contributions:										
State of California	1,650,878	4,452,430	12,810,517	9,787,099	8,148,143	24,130,596	4,295,318	3,381	284,094	458,549
Metropolitan Transportation Commission	932,071	3,382,776	1,871,307	6,046,018		4,541,421	35,500,504	7,119,973	2,683,108	5,007,846
Sonoma County Transportation Authority	75,972				4,594,099	5,758,121	5,136,487	35,358	47,780	33,440
Federal Highway Administration					1,203,349	5,815,731	2,365,308	476,476	2,392,222	1,637,804
Federal Transit Administration				1,960,000		206,107	197,273	24,119	1,387,373	1,112,627
Other governmental agencies	4,400,394	18,017,307	18,456,229	3,621,344	209,796	666,592	1,543,983	1,534,698	749,376	3,036,898
Donated asset									16,222,106	1,116,726
Total Capital Contributions	7,059,315	25,852,513	33,138,053	21,414,461	14,155,387	41,118,568	49,038,873	9,194,005	23,766,059	12,403,890
Change in net position	$5,620,030	$25,097,034	$43,137,701	$37,419,719	$31,075,212	$55,695,989	$66,549,721	$26,260,349	$42,465,963	$23,805,529

Source: SMART's basic financial statements.

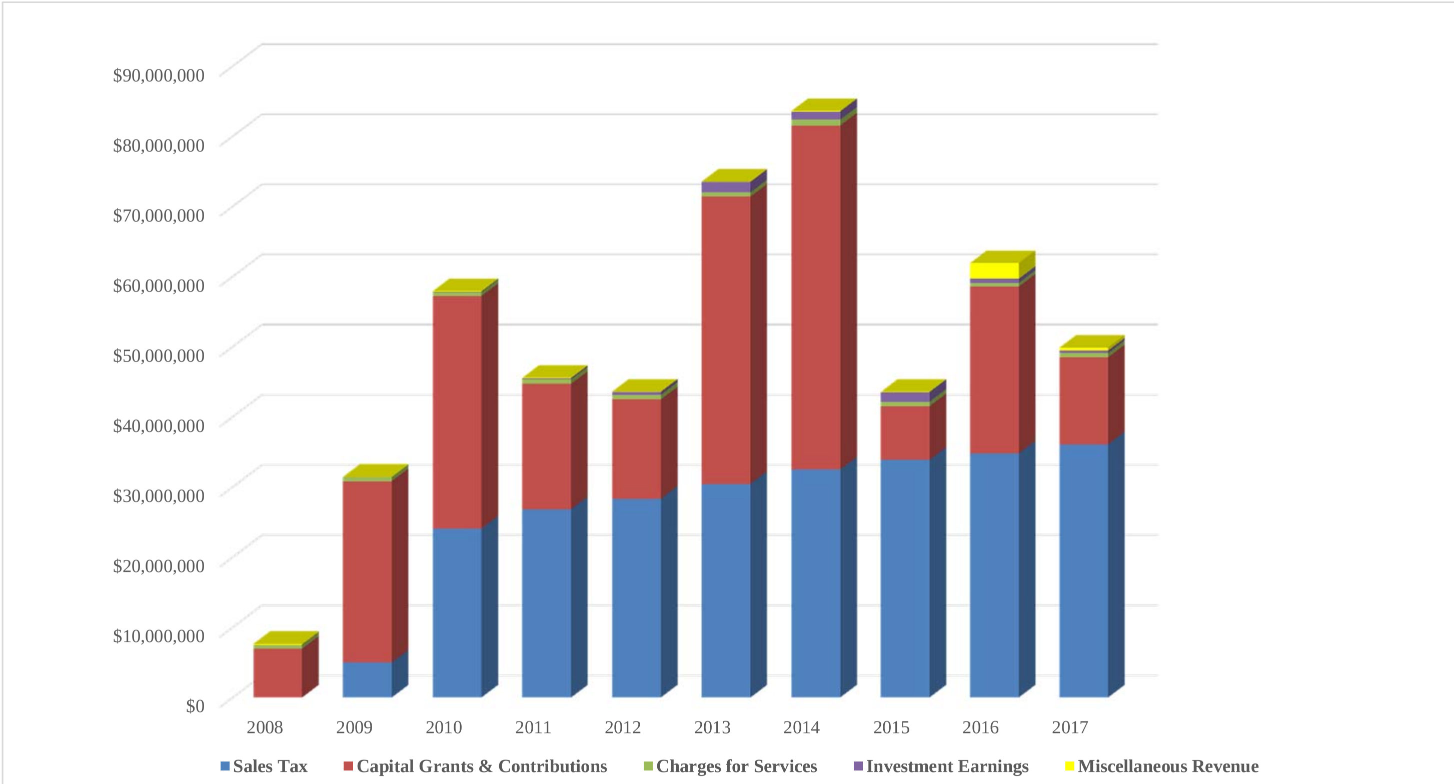
Table 3
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
SUMMARY OF EXPENDITURES/EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS



Fiscal Year Ended June 30	Net Salaries and Benefits	Services and Supplies	Capital Outlay	Debt Service/Interest Expense	Other Charges	Depreciation	Loss on Impairment of Assets	Bad Debts	Total
2008	$631,805	$1,117,859	$5,639,264					$63,731	$7,452,659
2009	776,514	5,102,761	22,261,261		$2,725			31,821	28,175,082
2010	1,290,967	13,000,858	20,334,717		3,180			1,725	34,631,447
2011	1,847,662	10,097,972	14,614,169		53,471				26,613,274
2012	2,462,175	4,179,668	29,232,652	$192,575,357	76,671				228,526,523
2013	2,558,849	4,406,463	77,629,877	9,866,442	700,783				95,162,414
2014	3,041,027	4,466,562		4,420,558	215,922	$4,473,500	$433,295		17,050,864
2015	4,303,358	5,275,106		2,761,502	380,000	4,575,530			17,295,496
2016	7,736,893	5,998,630		805,558	7,541	4,610,295			19,158,917
2017	12,610,874	7,498,986		1,164,558	212	4,716,779			25,991,409

Source: Sonoma-Marin Area Rail Transit District Audit Reports

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



Fiscal Year	Sales Tax	Capital Grants & Contributions	Charges for Services	Investment Earnings	Miscellaneous Revenue	Total
2008		$6,951,193	$559,127	$19,845	$110,993	$7,641,158
2009	$4,976,687	25,852,513	570,507	65	36,070	31,435,842
2010	24,059,929	33,138,053	564,502	93,215	38,445	57,894,144
2011	26,826,843	17,856,239	635,670	192,500	46,400	45,557,652
2012	28,303,501	14,155,387	650,877	437,618	26,236	43,573,619
2013	30,435,753	40,952,030	597,880	1,495,066	62,178	73,542,907
2014	32,473,329	49,038,873	840,586	1,182,159	65,638	83,600,585
2015	33,845,426	7,636,262	640,249	1,384,557	49,351	43,555,845
2016	34,776,012	23,766,059	529,191	585,178	2,264,334	61,920,774
2017	36,061,895	12,403,890	588,402	366,748	438,639	49,859,574

Source: Sonoma-Marin Area Rail Transit District Audit Reports

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

Fiscal Year	SMART Sales Tax Rate	Total Sales Tax Revenue	Marin County Total Taxable Sales (In Thousands)	Sonoma County Total Taxable Sales (In Thousands)	SMART District Total Taxable Sales (In Thousands)
2009*	0.25%	$4,976,687	$3,812,948	$6,682,219	$10,495,167
2010	0.25%	24,059,929	3,751,474	6,321,094	10,072,568
2011	0.25%	26,826,843	3,928,074	6,701,426	10,629,500
2012	0.25%	28,303,501	4,185,542	7,152,875	11,338,417
2013	0.25%	30,435,753	4,500,247	7,711,052	12,211,299
2014	0.25%	32,473,329	4,769,878	8,264,339	13,034,217
2015	0.25%	33,845,426	4,957,364	8,626,295	13,583,659
2016**	0.25%	34,776,012	5,091,014	8,843,184	13,934,198
2017***	0.25%	36,061,895	N/A	N/A	14,424,758

*Sales Tax effective April 1, 2009 therefor no data exists prior to 2010
**Latest available breakdown
***Estimate for Fiscal Year 2015 - 2017 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
Last Six Fiscal Years*

Marin County					
Fiscal Year	State(a)	City	County(b)	SMART(d)	Total
2012	7.25%	0 to 0.50%	0.50%	0.25%	8% to 9%
2013	7.50%	0 to 0.50%	0.50%	0.25%	8% to 9%
2014	7.50%	0 to 0.50%	0.75%	0.25%	8.5% to 9%
2015	7.50%	0 to 0.50%	0.75%	0.25%	8.5% to 9%
2016	7.50%	0 to 0.50%	0.75%	0.25%	8.5% to 9%
2017	7.25%	0 to 0.75%	0.75%	0.25%	8.25% to 9%

Sonoma County					
Fiscal Year	State(a)	City	County(c)	SMART(d)	Total
2012	7.25%	0 to 0.50%	0.50%	0.25%	8.25% to 8.5%
2013	7.50%	0 to 0.50%	0.50%	0.25%	8.25% to 8.5%
2014	7.50%	0 to 0.75%	0.50%	0.25%	8.25% to 9%
2015	7.50%	0 to 0.75%	0.50%	0.25%	8.25% to 9%
2016	7.50%	0 to 0.75%	0.50%	0.25%	8.25% to 9%
2017	7.25%	0 to 1.00%	0.625%	0.25%	8.125% to 9.125%

*Data prior to FY2012 is unavailable

(a) Statewide sales and use tax rate increased 0.25% on January 1, 2013, and decrease by 0.25% on January 1, 2017
(b) Marin Parks/Open Space/Farmland Preservation Transactions and Use Tax (0.25%, effective 04-01-13) and Transportation Authority of Marin County (0.50%, effective 04-01-05)
(c) Sonoma County Open Space Authority (0.25%, 04-01-91 to 03-31-11), Sonoma County Transportation Authority (0.25%, 04-01-05), Sonoma County Agricultural Preservation & Open Space District Transactions and Use Tax (0.25%, 04-01-11), Sonoma County Library Maintenance, Restoration, Enhancement Act (0.125%, 4-1-17)
(d) SMART sales tax effective April 1, 2009

Source: California State Board of Equalization

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

	Fiscal Year 2017**		Fiscal Year 2011*	
Principal Revenue Payers: Sales Tax Generators	**Percentage**	**Taxible Sales (thousands)**	**Percentage**	**Taxible Sales (thousands)**
Motor Vehicle and Parts Dealers	16.26%	$2,380,732	11.22%	$1,130,269
Food Services and Drinking Places	14.29%	2,091,900	9.84%	991,488
Miscellaneous Store Retailers	12.41%	1,817,779	4.16%	419,104
Bldg. Matrl. And Garden Equip. and Supplies	11.76%	1,722,432	7.16%	720,865
General Merchandise Stores	7.91%	1,158,550	9.17%	923,240
All Other Outlets	7.58%	1,109,730	27.06%	2,725,918
Food and Beverage Stores	6.18%	905,445	6.83%	688,180
Gasoline Stations	6.13%	897,458	8.59%	865,041
Nonstore Retailers	4.75%	696,197	0.77%	77,799
Clothing and Clothing Accessories Stores	4.02%	588,793	5.10%	513,810
Furniture and Home Furnishings Stores	3.92%	574,334	2.13%	214,785
Health and Personal Care Stores	2.29%	335,836	2.38%	239,383
Sporting Goods, Hobby, Book, and Music Stores	1.50%	219,804	2.84%	285,859
Electronics and Appliance Stores	0.98%	143,336	2.75%	276,825
Totals	100%	$14,642,328	100%	$10,072,566

*First full year of SMART sales tax collection, Based on CA Board of Equalization (BOE) Taxable Sales Data
**Based on Fiscal Year 2017 Analysis by MuniServices, Categorizations May Differ from BOE

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
6/30/2017	$36,061,895	$35,819,292	$8,275,350	$5,325,000	$13,600,350	2.63x
6/30/2018		36,893,871	8,009,100	6,195,000	14,204,100	2.60x
6/30/2019		38,000,687	7,730,850	8,365,000	16,095,850	2.36x
6/30/2020		39,140,708	7,312,600	9,435,000	16,747,600	2.34x
6/30/2021		40,314,929	6,840,850	10,565,000	17,405,850	2.32x
6/30/2022		41,524,377	6,315,000	11,745,000	18,060,000	2.30x
6/30/2023		42,770,108	5,727,750	12,990,000	18,717,750	2.29x
6/30/2024		44,053,212	5,078,250	14,290,000	19,368,250	2.27x
6/30/2025		45,374,808	4,363,750	15,660,000	20,023,750	2.27x
6/30/2026		46,736,052	3,580,750	17,100,000	20,680,750	2.26x
6/30/2027		48,138,134	2,725,750	18,610,000	21,335,750	2.26x
6/30/2028		49,582,278	1,795,250	20,195,000	21,990,250	2.25x
6/30/2029		51,069,746	785,500	15,710,000	16,495,500	3.10x
					Maximum Annual Debt Service Coverage:	**2.25x**

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

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

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

Year	Total Outstanding Debt	Personal Income	Population	Ratio of Debt to Personal Income	Total Debt Per Capita
2014*	$192,365,524	$52,401,105,000	759,684	0.37%	$253
2015	190,096,688	56,512,049,000	762,528	0.34%	249
2016	183,318,018	58,680,231,000	763,721	0.31%	240
2017	175,819,899	59,267,033,310	771,358	0.30%	228

TOTAL DEBT SERVICE TO NON-CAPITAL EXPENSES

Year	Total Debt Service	Non-Capital Expenditures	Ratio Debt Service to Non-Capital Expenditures
2014*	$8,456,950	$17,050,864	50%
2015	8,456,950	17,295,496	49%
2016	12,996,950	19,158,917	68%
2017	13,600,350	25,991,409	52%

*Fiscal Year 2013 is the first full year SMART had outstanding debt service payments on Series 2011A bonds
2017 Income and Population Data based on assumption of 1% increase over 2016

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

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

Marin County

Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate
2007	255,592	$22,428,914	$91,083	3.7%
2008	257,968	22,862,328	92,039	4.7%
2009	259,772	20,188,247	80,476	7.7%
2010	252,731	20,748,885	82,021	8.0%
2011	254,359	22,741,276	89,009	7.4%
2012	254,882	23,918,732	93,407	6.3%
2013	258,365	25,093,401	97,124	5.0%
2014	260,516	27,176,774	104,319	4.3%
2015	261,054	29,227,230	111,959	3.6%
2016	260,651	30,222,883	115,952	3.4%

Sonoma County

Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate
2007	480,656	$22,056,522	$47,194	4.3%
2008	485,478	21,868,731	46,225	5.7%
2009	490,231	20,653,880	43,076	9.6%
2010	484,084	21,080,297	43,482	10.5%
2011	486,778	22,356,767	45,805	9.8%
2012	489,283	23,548,182	47,879	8.6%
2013	495,025	24,905,827	50,312	6.7%
2014	499,168	25,224,331	50,533	5.6%
2015	501,474	27,284,819	54,409	4.5%
2016	503,070	28,457,348	56,567	4.1%

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

Table 11
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
PRINCIPAL EMPLOYERS (Unaudited)
Current Year*

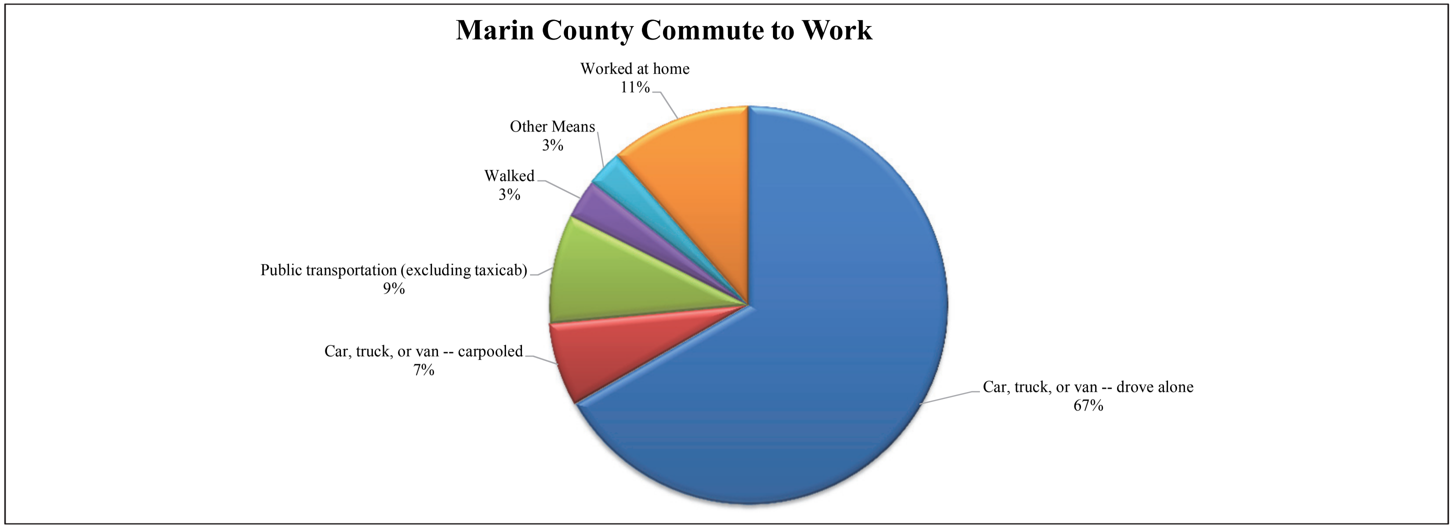
Marin County 2017		
Employer	Number of Employees	Percent of Total Employment**
County of Marin	2,107	1.50%
Kaiser Permanente San Rafael Medical Center	2,061	1.47%
BioMarin Pharmaceutical	1,934	1.38%
Marin General Hospital	1,757	1.25%
San Quentin State Prison	1,392	0.99%
Novato Unified School District	837	0.60%
Autodesk	719	0.51%
Glassdoor	500	0.36%
Dominican University of California	456	0.33%
Wells Fargo	310	0.22%

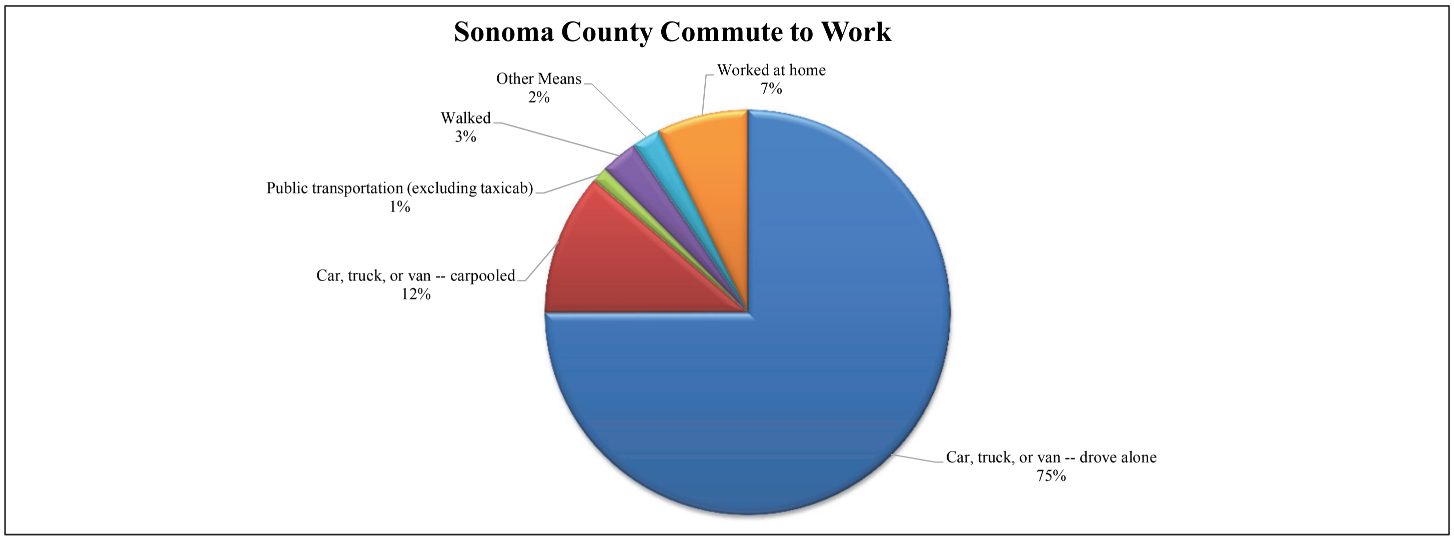
Sonoma County 2017		
Employer	Number of Employees	Percent of Total Employment**
County of Sonoma	3,896	1.50%
Kaiser Permanente Santa Rosa Medical Center	3,508	1.35%
Santa Rosa Junior College	3,057	1.18%
St. Joseph Health, Sonoma County	2,500	0.96%
Santa Rosa School District	1,686	0.65%
Keysight Technologies	1,300	0.50%
City of Santa Rosa	1,277	0.49%
Jackson Family Wines	1,152	0.44%
Sutter Santa Rosa Regional Hospital	1,050	0.40%
Amy's Kitchen, Inc.	988	0.38%

*The "9 Years Ago" data is unavailable.

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 2017 No. of Employed

Table 12
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
TRANSIT DEMAND INDICATORS (Unaudited)
Current Fiscal Year





Source: US Census Bureau (2016 American Community Survey 1-Year Estimates)

Table 13
SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
EMPLOYEES - FULL-TIME EQUIVALENT (Unaudited)

	Fiscal Year Ended June 30				
Division	**2013***	**2014**	**2015**	**2016**	**2017**
General Manager	1.00	1.00	1.00	1.00	1.00
Legal	0.00	0.80	1.00	1.34	2.80
Capital Projects	11.80	13.80	13.90	13.23	8.10
Administration	5.60	8.00	8.40	9.00	13.27
Finance	5.80	5.80	5.80	6.13	6.20
Operations	1.00	1.30	4.70	36.94	79.40
Safety & Security	0.00	0.00	0.80	1.00	2.00
Total	**25.20**	**30.70**	**35.60**	**68.64**	**112.77**

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Sonoma-Marin Area Rail Transit District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 27, 2017.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

We have also issued a separate Memorandum on Internal Control dated November 27, 2017 which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

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

Maze + Associates

Pleasant Hill, California
November 27, 2017