


SONOMA-MARIN AREA RAIL TRANSIT DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2014

Petaluma, California

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2014

Sonoma-Marin Area Rail Transit District

Petaluma, California

Report Prepared by the Finance Department

Sonoma-Marin Area Rail Transit District
Comprehensive Annual Financial Report
For the year ended June 30, 2014

Table of Contents

	Page
INTRODUCTORY SECTION (Unaudited)	
Letter of Transmittal	i
GFOA Certificate of Achievement	vi
Board of Directors	vii
Organization Chart	viii
Service Area Map	ix
FINANCIAL SECTION	
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	3
Basic Financial Statements	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to the Basic Financial Statements	13
Required Supplementary Information (Unaudited)	
Schedule of Funding Progress:	
Other Post-Employment Healthcare Benefits	33
STATISTICAL SECTION (Unaudited)	
Index	33
Summary of Net Position by Component	34
Summary of Change in Net Position	35
Summary of Expenditure/Expense by Function	36
Summary of General Revenue by Source	37
Summary of Revenue Base and Revenue Rate	38
Summary of Overlapping Governments and Sales Tax Rates	39
Summary of Principal Revenue Payers	40
Summary of Debt Service Coverage – Pledged Sales Tax Revenue	41
Summary of Comparisons of Total Debt and Debt Service Coverage	42
Summary of Demographic and Economic Statistics	43
Major Employers	44
Commute Information	45
Operating Information - Employees	46

INTRODUCTORY SECTION

SONOMA~MARIN SMART AREA RAIL TRANSIT

Farhad Mansourian
General Manager

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

December 3, 2014

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Sonoma-Marin Area Rail Transit District (SMART) for the Fiscal Year July 1, 2013 through June 30, 2014.

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 for the accuracy, completeness, and fairness of the data and clarity of the presentation, including all disclosures, rests with the management of SMART. To the best of our knowledge, this report is complete and accurate in all material respects, and is reported in a manner that fairly presents SMART's financial position.

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

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

PROFILE OF THE ORGANIZATION

SMART is a transit agency created by the State of California in 2003 to oversee the development, implementation and operation of a passenger rail system in Sonoma and Marin Counties. Since its creation, the District has been working to build a rail transit system and an accompanying multi-use pathway. When completed, the SMART Rail and Pathway project will run along 70 miles of the historic Northwestern Pacific Railroad alignment and will connect 14 stations between Cloverdale in Sonoma County and Larkspur in Marin County.

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

The SMART Rail and Pathway project is funded by a one-quarter percent sales tax approved by voters in the SMART district in 2008. Following the economic challenges that resulted from the 2008 recession, the SMART Board of Directors (Board) implemented a phasing strategy that will deliver alternative transportation to 75% of the users it was designed to serve utilizing available funding. This Phase 1 project will build the rail system from the Downtown San Rafael Station to the Airport Boulevard Station in Santa Rosa and multiple SMART pathway segments in San Rafael, Novato, Cotati and Santa Rosa. Subsequent phases of the project will include SMART rail stations in Coverdale, Healdsburg, Windsor, a second station in Petaluma, and in Larkspur, to be completed as funding becomes available. Passengers from those areas will connect to the SMART transit system by SMART connector bus and local transit connections. Passenger service along the first phase is currently scheduled to begin in late 2016.

LOCAL AND REGIONAL ECONOMY

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

Economic forecasts locally and for the region continue to show steady improvement since the 2008 recession. Job growth, housing prices and important economic leading indicators continue to show a healthy and growing economy in the SMART district. SMART's finances rely directly on the strength of our sales tax and its strong link to employment rates and median incomes. The District is home to a fairly wealthy taxpayer base, with a weighted per capital income base of $66,365 compared to California's $48,434 and $44,765 for the United States. The District's residents have also had consistent employment rate increases this year. The seasonally unadjusted unemployment rates in Marin and Sonoma Counties in June of 2014 were 4.0% and 5.8%, respectively, both below California's June 2014 rate of 7.3%. Further evidence of financial strength can be seen in taxable sales growth. For the quarter that ended June 30, 2014, California sales tax receipts increased by 4% over the same quarter from the previous year, with Northern California reporting a 5.9% increase compared to 2.6% for Southern California. The District's sales tax growth has been strong. For the year that ended June 30, 2014, SMART sales tax receipts increased by 6.7%. Total sales tax receipts, net of fees, for the year were $32.5 million. SMART's sales tax revenue base continues to be diverse with no one group of taxpayers or sales category dominating the revenue base.

DISTRICT ACTIVITIES IN FISCAL YEAR 2013-14

Construction of SMART Rail and Pathway Project – Phase 1

Substantial progress had been made on Phase 1 of the SMART passenger rail system. Phase 1 construction, which is in full implementation now, will continue through the end of calendar year 2014 and beyond through the summer of 2015. We have rebuilt 36.5 miles of track and 36 grade crossings; installed signal upgrades at 39 grade crossings, completed 22 bridge repairs or replacements; installed 9 stations platform footings or walls; and built three new passing sidings. Train control systems ductbanks have been installed from Airport Boulevard in Santa Rosa to Hamilton in Novato as well as in parts of San Rafael. Complex utility installations are complete at the new Operations and Maintenance Facility in Santa Rosa as are the foundations for the building structure. The new Haystack Bridge is also under construction with nearly all foundation work complete.

On the SMART pathway, considerable progress has been made working with Caltrans to complete the federal environmental permitting process, which is key to funding future segments. Completion of that process, including final approvals, is expected before March of 2015. In Fiscal Year 2013-14, SMART worked with its newest contractor Shimmick Construction of Oakland, CA, to design and prepare for construction of seven new pathway segments in San Rafael, Novato and Santa Rosa to be delivered in the Spring and Summer of 2015. The District continues to work cooperatively with local jurisdictions to support construction of pathway segments on SMART land leveraging funding provided by others. For example, in the past year the City of Santa Rosa constructed a new pathway from 8th Street to College Avenue on the SMART right-of-way. Funding was a collaboration between our two jurisdictions. Similarly, working cooperatively with the Transportation Authority of Marin, the Central Marin Ferry Connector Project received design support and land from SMART to begin construction of a pathway over Sir Francis Drake Boulevard from the Cal-Park tunnel to the Larkspur Ferry. Both the Santa Rosa and Larkspur segments will be maintained by SMART in the future.

Progress on construction of SMART's new, energy efficient rail vehicles for our passenger service was significant in Fiscal Year 2013-14. The passenger car shells are first constructed in Japan by our contractor Sumitomo Corporation of America/Nippon-Sharyo and then shipped to Illinois, where complete vehicle assembly will take place with other components, including American-made "Tier IV emissions- compliant" diesel engines, brakes, seats and windows. The first pilot rail car set arrived in Illinois during the Spring of 2014 and will be shipped to SMART in spring of 2015. This will begin the important year-long testing phase in advance of future passenger service.

Operations Planning and Start Up

As Phase 1 of the capital project nears completion in the next 12 months, SMART will move into a testing period followed by full operations for the initial operating segment. The testing and activation phase will begin in spring 2015, with full service projected to start in late 2016. Although SMART currently manages freight traffic on its right-of-way, the addition of passenger trains carries a large increase in coordination, expertise and responsibilities. SMART has prepared preliminary operating plans that will build up staffing and resources over the next two years, until the Operations Division is at full strength. In Fiscal Year 2013-14 and as part of the budget for Fiscal Year 2014-15, the Board considered and approved the staffing needed for that department and will continue to consider necessary funding for those positions in the next budget cycle.

Risk Management

As the District moves from over two years of construction into activities surrounding vehicle testing in 2015 and eventually to revenue service in late 2016, we continue to focus on building a comprehensive risk management program. Commuter rail systems must meet specific safety and insurance requirements and can face large exposures in an accident. With our brokers, Alliant Insurance Services, Inc., SMART will soon procure a rail liability policy for the testing and startup of passenger services as well as to build required financial reserves and retentions commensurate with the increased risk. This will represent a significant increase in both cost and risk management activities for the District. In addition to hosting visits earlier in the year with underwriters experienced in rail exposures, staff will be working with SMART's experienced brokers to present the most-cost efficient policies to the Board for consideration in the coming months.

Internal Control

The District's financial reporting system and business processes have been designed with an emphasis on the importance of strong 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. These controls are designed to provide reasonable 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 in accordance with generally accepted accounting principles. We believe that the District's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Development of Measure Q Strategic Plan

Measure Q's sales tax approval by voters required the SMART Board to prepare a Strategic Plan to guide implementation of the capital project and preparation for operations, and to update the Strategic Plan at least every five years starting in 2009. It also required the Strategic Plan to be reviewed by a Citizens Oversight Committee appointed by the Board. In early 2014, SMART began the process of preparing a new Strategic Plan as required. The 2014 draft plan provides revised estimates of revenues and expenditures for SMART's capital and operating costs and presents SMART's long-term financial plan for building and operating the SMART project through the expiration of the Measure Q tax in 2029. The plan also outlines expected operating and other reserves in addition to more detailed variance analysis surrounding sales tax receipts.

The Strategic Plan demonstrates SMART's ongoing ability to build and operate the train and pathway in the years to come. Measure Q sales tax revenues provide the backbone for the construction, operation, and maintenance of the SMART project and will continue to do so in the future, thanks to the voters of the District. With continued leadership from the Board and ongoing vigilance on maintaining necessary reserves and financial transparency, SMART's current and future operations are on solid footing.

ACKNOWLEDGEMENTS

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

We are pleased to provide this report to the Board and the people of Sonoma and Marin Counties who voted overwhelmingly to provide funding for the SMART project. We look forward to bringing this report each year as we progress toward operations in the years to come.

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, 2013

Executive Director/CEO

Sonoma-Marin Area Rail Transit District
Fiscal Year 13-14 Principal Officials

Judy Arnold, Chair
Marin County Board of Supervisors

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

Jim Eddie
Golden Gate Bridge, Highway and Transportation District

Debora Fudge
Sonoma County Mayors and Councilmembers Association

Madeline Kellner
Transportation Authority of Marin

Jake Mackenzie
Sonoma County Mayors and Councilmembers Association

Stephanie Moulton-Peters
Marin Council of Mayors and Councilmembers

Gary Phillips
Transportation Authority of Marin

David Rabbit
Sonoma County Board of Supervisors

Carol Russell
Sonoma County Mayors and Councilmembers Association

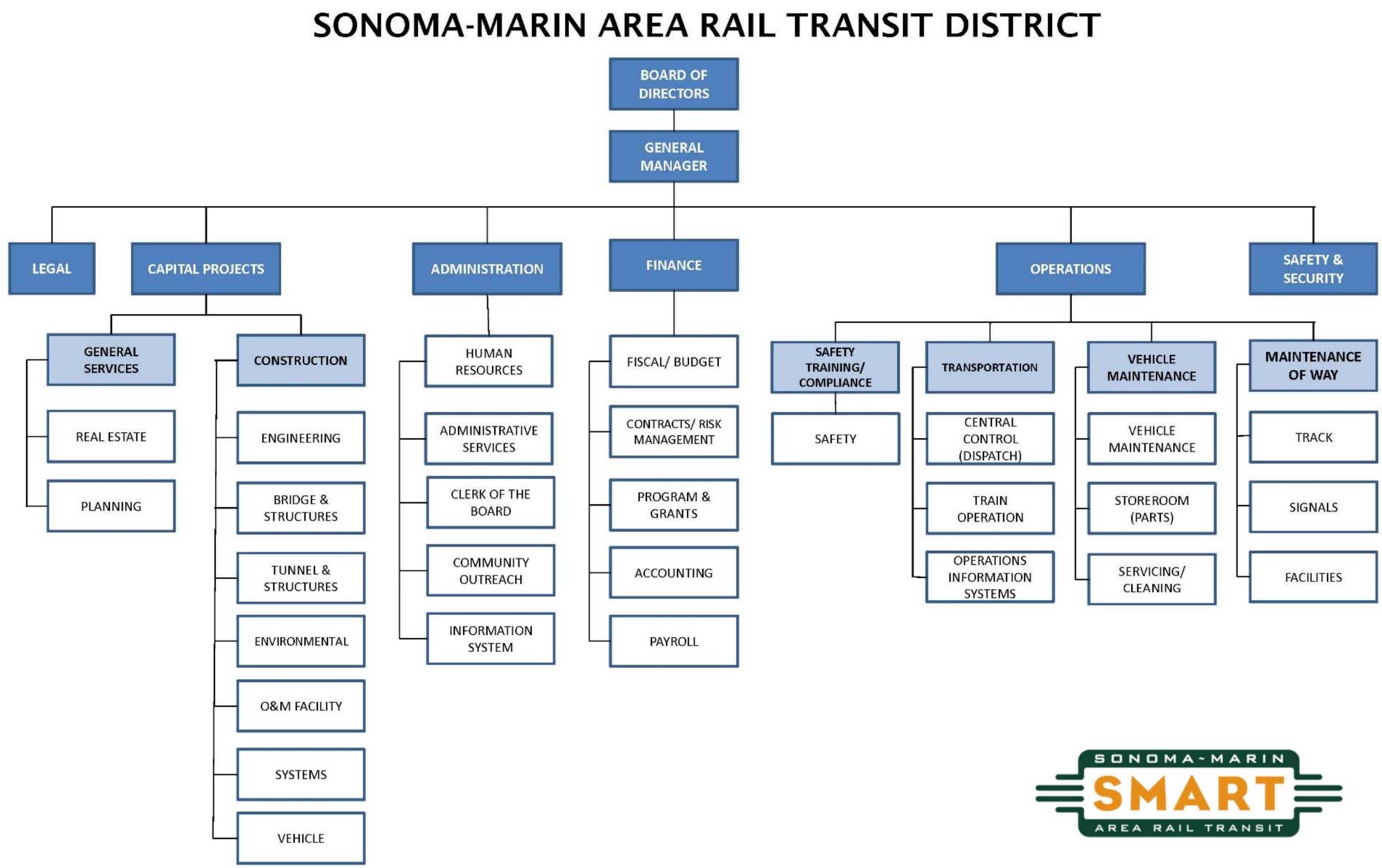
Kathrin Sears
Marin County Board of Supervisors

Shirlee Zane
Sonoma County Board of Supervisors

Farhad Mansourian
General Manager

Erin McGrath
Chief Financial Officer

Sonoma-Marin Area Rail Transit District
Organization Chart



Sonoma-Marin Area Rail Transit District
Service Map

This page intentionally left blank

FINANCIAL SECTION

MGO Certified Public Accountants.

Walnut Creek
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596
925.274.0190

Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Sonoma-Marin Area Rail Transit District (SMART), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise SMART's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SMART as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2014 on our consideration of SMART's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SMART's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 3, 2014

Sonoma-Marin Area Rail Transit District
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2014

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, 2014. 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 2014 Financial Highlights

- The vast majority of financial activity for the year ending June 30, 2014 involves the SMART capital project. These activities are driving the assets and liabilities depicted in the financial statements.
- Assets of SMART exceeded its liabilities at the close of the year ended June 30, 2014 by $317,893,323 (net position). Of this amount, $113,504,011 is unrestricted.
- SMART's net position increased $66,549,721 during the year ended June 30, 2014, 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. This year SMART has converted its financial reporting to conform with enterprise fund reporting. This type of fund statement 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. It differs from SMART's previous reporting practice in that it provides a Statement of Cash Flows similar to what would be provided for business-type activities and measures fees against costs to determine operating loss or surplus.

Basic Financial Statements

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

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

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

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found on pages 13-29 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 $317,893,323 at June 30, 2014.

The largest portion of SMART's net position (64.3%) reflects its investment in capital assets (e.g., land, tracks and crossing equipment, bridges and tunnels). SMART will use these capital assets to provide passenger rail services to its customers; consequently, these assets are not available for future spending.

Net Position

	June 30, 2014	June 30, 2013	2014-2013 Change
Current and other assets	$ 255,941,651	$ 240,833,779	$ 15,107,872
Capital assets	278,051,807	216,755,511	61,296,296
Total assets	533,993,458	457,589,290	76,404,168
Current liabilities	23,250,371	11,138,732	12,111,639
Long-term liabilities	192,849,764	195,106,956	(2,257,192)
Total liabilities	216,100,135	206,245,688	9,854,447
Net investment in capital assets	204,389,312	173,996,072	30,393,240
Unrestricted	113,504,011	77,347,530	36,156,481
Total net position	$ 317,893,323	$ 251,343,602	$ 66,549,721

SMART's net position at the end of fiscal year 2014 increased by $66,549,721 from the prior fiscal year. This increase is primarily the result of SMART continuing to invest its revenues, restricted bond funds, and grants into capital assets, primarily crossings, train systems stations and track improvements. Current and other assets at June 30, 2014, increased by $15,107,872, from $240,833,779 on June 30, 2013 to $255,941,651 on June 30, 2014. The increase was primarily due to outstanding grant reimbursement requests as SMART continues to incur reimburseable capital expenditures related to the capital asset activity. Current liabilities at June 30, 2014, increased by $12,111,639, from $11,138,732 on June 30, 2013 to $23,250,371 on June 30, 2014, which was primarly due to SMART's capital asset activity.

Changes in Net Position

	2014	2013	2014 - 2013 Change
Operating Revenues:			
Charges for services	$ 840,586	$ 597,880	$ 242,706
Total operating revenues	840,586	597,880	242,706
Operating Expenses:			
Public transportation - rail/pathway development:			
Salaries and employee benefits	4,032,583	3,607,825	424,758
Capitalized employee costs	(991,556)	(924,197)	(67,359)
Services and supplies	4,466,562	4,772,700	(306,138)
Depreciation	4,473,500	4,527,575	(54,075)
Other charges	215,922	700,783	(484,861)
Total operating expenses	12,197,011	12,684,686	(487,675)
Operating loss	(11,356,425)	(12,086,806)	730,381
Nonoperating Revenues (Expenses):			
Sales/Use taxes	32,473,329	30,435,753	2,037,576
Investment earnings	1,182,159	1,495,066	(312,907)
Other revenues	65,638	62,178	3,460
Loss on impairment of assets	(433,295)	-	(433,295)
Interest expense	(4,420,558)	(5,328,770)	908,212
Total Nonoperating Revenues:	28,867,273	26,664,227	2,203,046
Capital Grants and Contributions	49,038,873	41,118,568	7,920,305
Change in net position	66,549,721	55,695,989	10,853,732
Net position - beginning of the year	251,343,602	195,647,613	55,695,989
Net position - end of the year	$ 317,893,323	$ 251,343,602	$ 66,549,721

Fiscal Year 2014 Revenues

- SMART revenues consist of operating revenues of $840,586 and non-operating revenues of $33,721,126 -- the majority of which is sales tax receipts. Sales tax, SMART's single largest ongoing source of revenue, continues to recover and grow from the recession, increasing 6.7% over the previous year.
- Capital grants and contributions of $49,038,873 are $7,920,305 higher than the year ended June 30, 2013. The increase is primarily the result of increased construction activity, and drawdown of reimbursable grants related to the construction activities. The largest funding source is from regional bridge toll revenues through the Metropolitan Transportation Commission as well as funding from the Sonoma County Transportation Authority's Measure M program.

Fiscal Year 2014 Expenses

- SMART had operating expenses of $12,197,011, tied to salaries, benefits and other services and supplies. Included this year, as a result of a conversion to enterprise fund accounting, is $4,473,500 in depreciation expense.
- Salaries and benefits increased slightly over the year ended June 30, 2013, by $424,758, primarily due to the hiring of more operating staff.
- Non-operating expenses of $4,853,853 are primarily debt service payments (see discussion below) and adjustments for writing off previously capitalized projects.

Capital Assets and Debt

Capital Assets

SMART's investment in capital assets, as of June 30, 2014 is $278,051,807 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, infrastructure (tracks/rails, crossings, bridges, fencing, tunnels, road crossings and pathway improvements), buildings and improvements, and equipment.

Capital Assets

	2014	2013	2014 - 2013 Change
Land	$ 38,486,526	$ 35,834,260	$ 2,652,266
Infrastructure	74,421,769	74,421,769	-
Buildings & improvements	4,292,272	4,292,272	-
Construction in progress	175,894,137	112,941,396	62,952,741
Equipment	595,303	430,514	164,789
Accumulated depreciation	(15,638,200)	(11,164,700)	(4,473,500)
Total capital assets, net	$ 278,051,807	$ 216,755,511	$ 61,296,296

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

Debt

SMART had $192 million in bonds outstanding at June 30, 2014 compared to $195 million on June 30, 2013. Additional information on SMART's long-term debt can be found in Note II-E.

Economic and Other Factors

Economy

SMART's capital project and ongoing operations rely directly on the strength of 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. Fortunately Marin and Sonoma have seen steady consistent employment increases. The seasonally unadjusted unemployment rates in Marin and Sonoma Counties in June of 2014 were 4.0% and 5.8%, respectively. Resultant sales tax growth has been strong. For the year that ended June 30, 2014, SMART sales tax receipts increased by 6.7%. For the fiscal year 2014 as a whole, SMART's total sales tax receipts, net of fees, was $32.5 million. Economic forecasts for the region are generally positive, with Sonoma County's increases in tourism, the wine industry, and life-sciences related technology leading the growth of the region.

Other Factors

SMART has entered into multi-year contracts with several independent contractors for significant amounts for construction of the SMART capital program. Those contracts include one for manufacturing of diesel multiple unit rail vehicles, one for construction of tracks and improvements between Santa Rosa and San Rafael and for all train control systems, and one for railroad crossing improvements up and down the 70-mile SMART corridor. At June 30, 2014, SMART's total outstanding commitments under these and other construction-related contracts were approximately $145.6 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.

This page intentionally left blank

Sonoma-Marin Area Rail Transit District
Statement of Net Position
June 30, 2014

Assets		
Current assets:		
Cash and cash equivalents	$	80,809,193
Restricted cash, cash equivalents and investments with trustee		136,790,756
Due from other governments		28,691,392
Other receivables		5,289,868
Deposits with others		4,244,878
Prepaid expenses		115,564
Total current assets		255,941,651
Capital assets:		
Non-depreciable:		
Land		38,486,526
Construction in progress		175,894,137
Depreciable (net of accumulated depreciation):		
Infrastructure		60,377,137
Buildings and improvements		3,004,590
Equipment		289,417
Total capital assets, net		278,051,807
Total assets		533,993,458
Liabilities		
Current liabilities:		
Accounts payable and other current liabilities		18,788,884
Unearned revenue		1,300,000
Interest payable		2,818,983
Compensated absences		292,277
Unearned rent abatement		50,227
Total current liabilities		23,250,371
Non-current liabilities:		
Compensated absences		45,121
Net post-employment benefits obligation		156,468
Unearned rent abatement		282,651
Long-term debt		192,365,524
Total non-current liabilities		192,849,764
Total liabilities		216,100,135
Net Position		
Net investment in capital assets		204,389,312
Unrestricted		113,504,011
Total net position	$	317,893,323

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

Sonoma-Marin Area Rail Transit District

Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year ended June 30, 2014

Operating Revenues	
Charges for services	$ 840,586
Operating Expenses	
Public transportation - rail/pathway development:	
Salaries and employee benefits	4,032,583
Capitalized employee costs	(991,556)
Services and supplies	4,466,562
Depreciation	4,473,500
Other Charges	215,922
Total operating expenses	12,197,011
Operating loss	(11,356,425)
Nonoperating Revenues (Expenses)	
Sales/Use taxes	32,473,329
Investment earnings	1,182,159
Miscellaneous revenue	65,638
Loss on impairment of assets	(433,295)
Interest expense	(4,420,558)
Total nonoperating revenues (expenses)	28,867,273
Income before capital grants and contributions	17,510,848
Capital grants and contributions:	
State of California	4,295,318
Metropolitan Transportation Commission	35,500,504
Sonoma County Transportation Authority - Measure M	5,136,487
Federal Highway Administration	2,365,308
Federal Transit Administration	197,273
Other governmental agencies	1,543,983
Total capital grants and contributions	49,038,873
Change in net position	66,549,721
Net position, beginning of year	251,343,602
Net position, end of year	$ 317,893,323

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

Sonoma-Marin Area Rail Transit District
Statement of Cash Flows
For the Year Ended June 30, 2014

Cash Flows from Operating Activities		
Receipts from tenants	$	555,800
Receipts from others		555,606
Payments to suppliers for goods and services		(4,733,162)
Payments to employees for services		(2,895,762)
Net cash used in operating activities		(6,517,518)
Cash Flows from Noncapital Financing Activities		
Sales tax received		32,224,490
Miscellaneous revenue		65,638
Net cash provided by noncapital financing activities		32,290,128
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets		(51,470,596)
Labor costs related to capital projects		(991,556)
Capital grants and contributions received restricted for capital purposes		31,106,777
Cash receipts for third party infrastructure		1,300,000
Interest paid on capital debt		(8,456,950)
Net cash used in capital and related financing activities		(28,512,325)
Cash Flows from Investing Activities		
Investment income received		1,182,159
Proceeds from maturity of restricted investments		23,395,204
Net cash provided by investing activities		24,577,363
Net change in cash and cash equivalents		21,837,648
Cash and Cash Equivalents		
Beginning of year		177,653,046
End of year	$	199,490,694
Reconciliation to Statement of Net Position		
Cash and cash equivalents	$	80,809,193
Restricted cash, cash equivalents, and investments with trustee		136,790,756
Less investments not meeting the definition of cash equivalents		(18,109,255)
Total cash and cash equivalents	$	199,490,694

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

Sonoma-Marin Area Rail Transit District

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2014

Reconciliation of Operating Loss to		
Net Cash used in Operating Activities		
Operating loss	$	(11,356,425)
Adjustments to reconcile operating loss to		
net cash used in operating activities:		
Depreciation		4,473,500
Changes in operating assets and liabilities:		
Prepaid expenses		84,216
Accounts payable and other accrued liabilties		(91,534)
Other receivables		270,819
Unearned rent abatement		(33,359)
Compensated absences		74,420
Net post-employment benefits obligation		60,845
Net cash used in operating activities	$	(6,517,518)

Noncash Capital and Related Financing Activities		
Amortization of premiums	$	2,268,836
Capitalized interest		1,767,556
Change in accounts payable related to acquisition of capital assets		10,635,384
Contributed capital assets		1,337,999
Carrying value of impaired assets		433,295

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

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

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

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

C. Cash Equivalents

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

I. Summary of Significant Accounting Policies (Continued)

D. Investments

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

E. Restricted Cash and Investments with Trustee

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

F. Receivables

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

G. Capital Assets

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

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

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

I. Summary of Significant Accounting Policies (Continued)

H. Compensated Absences

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

I. 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.

J. Accounting System Maintained by County of Sonoma

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

K. Use of Estimates

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

I. Summary of Significant Accounting Policies (Continued)

L. New Accounting Pronouncements

During the year, SMART implemented the following accounting standards:

Governmental Accounting Standards Board (GASB) Statement No. 66, *Technical Corrections – 2012 – an amendment to GASB Statements No. 10 and No. 62,* to resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This Statement amends Statement No. 10, Codification of Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. This statement did not have a significant impact to the District's financial statements.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement also requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities and requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This statement did not have a significant impact to the District's financial statements.

I. Summary of Significant Accounting Policies (Continued)

L. New Accounting Pronouncements (Continued)

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

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, to improve the guidance for accounting and reporting on the pensions that governments provide to their employees.

Key changes include:

- Separating how the accounting and financial reporting is determined from how pensions are funded.
- Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.
- Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) the interest rate on a tax-exempt 20-year AA/Aa or higher rated municipal bond index to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
- Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six actuarial cost methods.
- Recording of a liability in the financial statements of employers for defined-benefit plans.
- Requiring more extensive note disclosures and required supplementary information.
- The statements relate to accounting and financial reporting and do not apply to how governments approach the funding of their pension plans. At present, there generally is a close connection between the ways many governments fund pensions and how they account for and report information about them in audited financial reports. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement is intended to improve accounting and financial reporting for state and local governments' combinations and disposals of government operations. This statement provides guidance determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations; using carrying values (generally, the amounts recognized in the pre-combination financial statements of the combining governments or operations) to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operations; measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based upon their acquisition values in a government acquisition; and reporting the disposal of government operations that have been transferred or sold. Application of this statement is effective for SMART's fiscal year ending June 30, 2015.

I. Summary of Significant Accounting Policies (Continued)

L. New Accounting Pronouncements (Continued)

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, which resolves transition issues in GASB Statement No. 68. This statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68. This statement requires that when a state or local government is transitioning to the new pension standards, that it recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions. The provisions in GASB Statement No. 71 are effective for fiscal years beginning after June 15, 2014.

II. Detailed Notes

A. Cash and Investments

Carrying Amount at Fair Value

Cash, cash equivalents, and investments are carried at fair value and are categorized as follows at June 30, 2014:

	Available for Operations	Held by Trustee	Total
Investment:			
California Asset Management Program	$ -	$ 18,109,255	$ 18,109,255
Cash equivalent:			
Sonoma County Treasury Pool	80,809,193	118,681,501	199,490,694
Total	$ 80,809,193	$ 136,790,756	$ 217,599,949

Investment in the Sonoma County Treasurer's Investment Pool

As authorized by Government Code Section 53630 et seq. and Public Utilities Code Section 105125, SMART's cash is pooled with the Sonoma County Treasurer, who acts as a disbursing agent for SMART. The fair value of SMART's investment in this pool is reported in the accompanying financial statements at amounts based upon SMART's pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee has oversight for all monies deposited into the Treasury Pool. The Treasury Pool had a total portfolio value of approximately $1.8 billion at June 30, 2014. At June 30, 2014, these investments have an average maturity of 791 days.

II. Detailed Notes (Continued)

A. Cash and Investments (Continued)

Investment Guidelines

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

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

Investments Authorized by Debt Agreements

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

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

II. Detailed Notes (Continued)

A. Cash and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations. California Asset Management Program (CAMP) limits its exposure to market value fluctuations due to changes in interest rates by (1) requiring that its portfolio maintain a dollar-weighted average maturity of not greater than ninety days; (2) requiring that any investment securities have remaining maturities of 397 days or less at the time of purchase; (3) limiting the remaining maturity of any bankers acceptances to 180 days or less; and (4) limiting the remaining maturity of any commercial paper to 270 days or less.

As of June 30, 2014, SMART had the following investments and maturities:

	Weighted- Average Maturities		
Investment Type	Less than One Year	One to Five Years	Total
California Asset Management Program	$ 18,109,255		$ 18,109,255
Total investments	$ 18,109,255	$ -	
Sonoma County Treasury Pool			199,490,694
Total cash and investments			$ 217,599,949

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2014 for each investment type as provided by Standard and Poor's investment rating system:

Investment Type	AAA	Not rated	Total
California Asset Management Program	$ 18,109,255	$ -	$ 18,109,255
Total investments	$ 18,109,255	$ -	
Sonoma County Treasury Pool			199,490,694
Total cash and investments			$ 217,599,949

II. Detailed Notes (Continued)

A. Cash and Investments (Continued)

Custodial Credit Risk

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

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

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

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

Concentration of Credit Risk

SMART's Investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. SMART was invested in two funds at the end of the year, the Treasury Pool and CAMP. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total Treasury Pool, refer to the 2014 Sonoma County Comprehensive Annual Financial Report.

California Asset Management Program

SMART is a voluntary participant in CAMP, a Joint Powers Authority that falls under California Government Code 53601(p), which is directed by a Board of Trustees that is made up of experienced local government finance directors and treasurers. As of June 30, 2014, CAMP had a balance of $1.76 billion with an average maturity of 41 days. The value of the pool shares in CAMP that may be withdrawn is determined on an amortized cost basis, which is the same as the fair value of the County's portion in the pool. As of June 30, 2014, SMART's investment in CAMP was $18.1 million.

II. Detailed Notes (Continued)

B. Due from Other Governments

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

C. Other Receivables

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

D. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	July 1, 2013	Additions	Retirements	June 30, 2014
Capital assets not being depreciated:				
Land	$ 35,834,260	$ 2,652,266	$ -	$ 38,486,526
Construction in Progress	112,941,396	63,386,036	(433,295)	175,894,137
Total capital assets not being depreciated	148,775,656	66,038,302	(433,295)	214,380,663
Capital assets being depreciated:				
Infrastructure	74,421,769	-	-	74,421,769
Buildings and improvements	4,292,272	-	-	4,292,272
Equipment	430,514	164,789	-	595,303
Total capital assets being depreciated	79,144,555	164,789	-	79,309,344
Less accumulated depreciation for:				
Infrastructure	(9,895,319)	(4,149,313)	-	(14,044,632)
Buildings and improvements	(1,073,070)	(214,612)	-	(1,287,682)
Equipment	(196,311)	(109,575)	-	(305,886)
Total accumulated depreciation	(11,164,700)	(4,473,500)	-	(15,638,200)
Total capital assets being depreciated, net	67,979,855	(4,308,711)	-	63,671,144
Capital assets, net	$ 216,755,511	$ 61,729,591	$ (433,295)	$ 278,051,807

Capital assets increased due to significant design and construction activity during fiscal year ended June 30, 2014. This includes track replacement, crossings upgrades, rail car construction and pathway engineering.

SMART recognized $4.5 million in depreciation expense for assets previously placed in service, and $1.8 million of capitalized interest in connection with SMART's construction projects during fiscal year ended June 30, 2014.

II. Detailed Notes (Continued)

E. Long-Term Debt

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

Long-term debt activity for the year ended June 30, 2014 was as follows:

	July 1, 2013	Additions	Retirements	June 30, 2014	Due Within One Year
Bonds payable:					
Remarketed Series 2011A	$ 170,725,000	$ -	$ -	$ 170,725,000	$ -
Unamortized bond premium	23,909,360	-	(2,268,836)	21,640,524	-
Total long-term debt, net	$ 194,634,360	$ -	$ (2,268,836)	$ 192,365,524	$ -

The total projected Measure Q Sales Tax revenue, as reported in the 2009 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, 2014 was $32,473,329 whereas debt service on the Measure Q bonds was $8,456,950 for the fiscal year ended June 30, 2014.

Annual Future Payments

The following table presents the District's aggregate annual amount of principal and interest payments required to amortize the outstanding debt as of June 30, 2014:

Year ending June 30:	Principal	Interest
2015	-	8,456,950
2016	4,540,000	8,456,950
2017	5,325,000	8,275,350
2018	6,195,000	8,009,100
2019	8,365,000	7,730,850
2020-2024	59,025,000	31,274,450
2025-2029	87,275,000	13,251,000
	$ 170,725,000	$ 85,454,650

II. Detailed Notes (Continued)

F. Other Long-Term Liabilities

Other long-term liability activity for the year ended June 30, 2014 related to employees and rent abatement was as follows:

	July 1, 2013	Additions	Reductions	June 30, 2014	Due Within One Year
Compensated absences	$ 262,978	$ 366,697	$ 292,277	$ 337,398	$ 292,277
Other post-employment benefit liability	95,623	60,845	-	156,468	-
Unearned rent abatement	366,237	-	33,359	332,878	50,227
Total long-term liabilities	$ 724,838	$ 427,542	$ 325,636	$ 826,744	$ 342,504

The District leases its office space under an operating lease agreement. In 2012 the District executed a 6-year workspace lease for its new office located at 5401 Old Redwood Highway, with two options to extend the lease for additional periods of five years each. The term of the lease commenced on September 1, 2012 and expires on August 31, 2018. Under the lease agreement, the landlord granted the District a rent abatement totaling $191,161 for the period September 1, 2012 through December 31, 2012. With addition of scheduled rent increase less current year amortization, the combined unearned rent abatement was $332,878 at June 30, 2014. During the year ended June 30, 2014, total office lease expenditures for the District's Petaluma office was $545,279.

The District's future noncancellable lease payments are:

Year Ending June 30,	Minimum Lease Payment
2015	$ 604,408
2016	624,086
2017	641,516
2018	661,194
2019	110,761
Total	$ 2,641,966

G. Unearned Revenues

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

III. Other Information

A. Risk Management

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

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

B. Purchase Commitments

At June 30, 2014, SMART had outstanding purchase and contract commitments for the rail and pathway project of approximately $145.6 million.

C. Employee Retirement Plan

SMART has contracts with the California Public Employees' Retirement System (CalPERS) for purposes of providing a defined pension benefit plan for its employees, defined by CalPERS as the "Miscellaneous Plan." SMART currently has different pension tiers, depending on an employee's hire date. For all employees hired before June 1, 2012, SMART is part of CalPERS cost-sharing multiple-employer plan known as the "Miscellaneous 2.0% at 55 Risk Pool" whereby the benefit obligations are pooled. There are two tiers of employees within this pool. For employees hired on June 1, 2012, and through December 31, 2012 SMART is part of the "Miscellaneous 2% at 60 Risk Pool". As of January 2013, all new employees were subject to California's Public Employees' Pension Reform Act of 2013 (PEPRA), which mandates a "Miscellaneous 2% at 62 Plan." For each pool, an actuarial valuation is performed covering all participants, all employers contribute at the same rate, and all plan assets are available to pay plan benefits pertaining to the employees and retirees of any employer.

<u>Plan Description</u>

Each plan, regardless of the tier, is a cost-sharing multiple-employer Defined Benefit Pension Plan (DBPP or Plan) administered by CalPERS. DBPP members include all employees of a participating employer (including SMART) who have been appointed to a position of at least halftime. Each plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit levels are based on an employee's years of service, age and compensation. Benefit provisions and all other requirements are established by State statute and by Resolution of the Board.

Copies of CalPERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, California 95814 or at www.calpers.ca.gov.

III. Other Information (Continued)

C. Employee Retirement Plan (Continued)

Funding Policy

The Plan's funding policy provides for periodic District contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by contractual agreements. The individual entry age normal cost method is used to determine the normal cost. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire (entry age) to the assumed retirement age.

Plan members may be required to contribute a percentage of their annual covered salary to the plan fund. This percentage is determined by state law and SMART policy. The District's pension tiers and contribution rates through June 30, 2014 are as follows:

SMART PENSION TIERS AND CONTRIBUTION RATES

	Date of Hire	Employee Paid	SMART paid
Tier 1	Before 9/1/11	0.00%	19.63%
Tier 2	9/1/11 -6/1/12	7.00%	12.63%
Tier 3	6/2/12-12/31/12	7.52%	7.52%
Tier 4	1/1/13 and after	6.25%	6.25%

Actuarial Assumptions and Methods

For each plan, CalPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, SMART's total normal benefit cost for each employee from the date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount SMART must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. SMART uses the actuarially determined percentages of payroll to calculate and pay contributions to CalPERS. This results in no net pension obligations or unpaid contributions.

CalPERS uses the market related value method of valuing the Miscellaneous Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.00%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling fifteen-year period.

Annual Pension Costs, representing the payment of all contributions required by CalPERS, for the last three fiscal years were as follows:

Miscellaneous Plan

Year Ended	Cost (APC)	APC Contributed	Obligation
June 30, 2012	$ 336,431	100%	$ -
June 30, 2013	384,749	100%	-
June 30, 2014	380,898	100%	-

III. Other Information (Continued)

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

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

Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a July 1, 2012 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, 2014 is 28 years.

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

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

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

III. Other Information (Continued)

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

Funding Policy and Actuarial Assumptions (Continued)

The actuarial assumptions used included a discount rate and investment return of 4.00%, an normal cost increase of 4.00% after 2012, and an annual health cost trend rate increase of 3.00% for 2014-2016. The demographic assumptions regarding turnover and retirement are based on statistics from 2010 CalPERS OPEB Assumptions Model.

Funding Progress and Funded Status

The District has recorded the OPEB liability, representing the ARC as of June 30, 2014;

ARC	$ 62,759
Interest on prior year net OPEB obligation	3,825
Adjustment to the ARC	(5,739)
Annual OPEB cost	60,845
Contribution made	-
Increase in net OPEB obligation	60,845
Net OPEB oblitationg- beginning of year	95,623
Net OPEB obligation- end of year	$ 156,468

The actuarial accrued liability (AAL) representing the present value of future benefits as of June 30, 2014, included in the actuarial study dated July 1, 2012, amounted to $164,159. As SMART has not made a policy decision as to how to fund the program, the funded ratio as of June 30, 2014 was 0%.

The ARC and actual contributions for the fiscal year ended June 30, 2014, is set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Costs Contibuted	Net OPEB (Obligation)
2012	$ 38,876	$ -	-%	$ (38,876)
2013	56,747	-	-%	(56,747)
2014	60,845	-	-%	(60,845)

III. Other Information (Continued)

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

Funding Progress and Funded Status (Continued)

The schedule of funding progress presents the actuarial value of plan assets compared to the actuarial accrued liability for benefits as of July 1, 2012 which is the initial valuation of SMART's other post-employment benefits.

Actuarial accured liability (AAL)	$	164,159
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	$	164,159
Funded ratio (actuarial value of plan assets/ AAL)		-%
Covered payroll (active plan members)	$	2,743,481
UAAL as a percentage of covered payroll		6.0%

This page intentionally left blank

Sonoma-Marin Area Rail Transit District
Required Supplementary Information (Unaudited)
For the year ended June 30, 2014

Schedule of Funding Progress
Other Post-Employment Healthcare Benefits

The Schedule of Funding Progress presented below provides a consolidated snapshot of the SMART's ability to meet current and future liabilities with the plan assets. The most recent actuarial valuation was performed as of July 1, 2012, which is the initial valuation of SMART's other post-employment benefits.

Actuarial Valuation Date	Actuarial Value of Assets (A)	AAL (B)	Unfunded (Overfunded) AAL (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) AAL as Percentage of Covered Payroll [(B-A)/C]
7/1/2012	$ -	$ 164,159	$ 164,159	0.0%	$ 2,743,481	6.0%

This page intentionally left blank

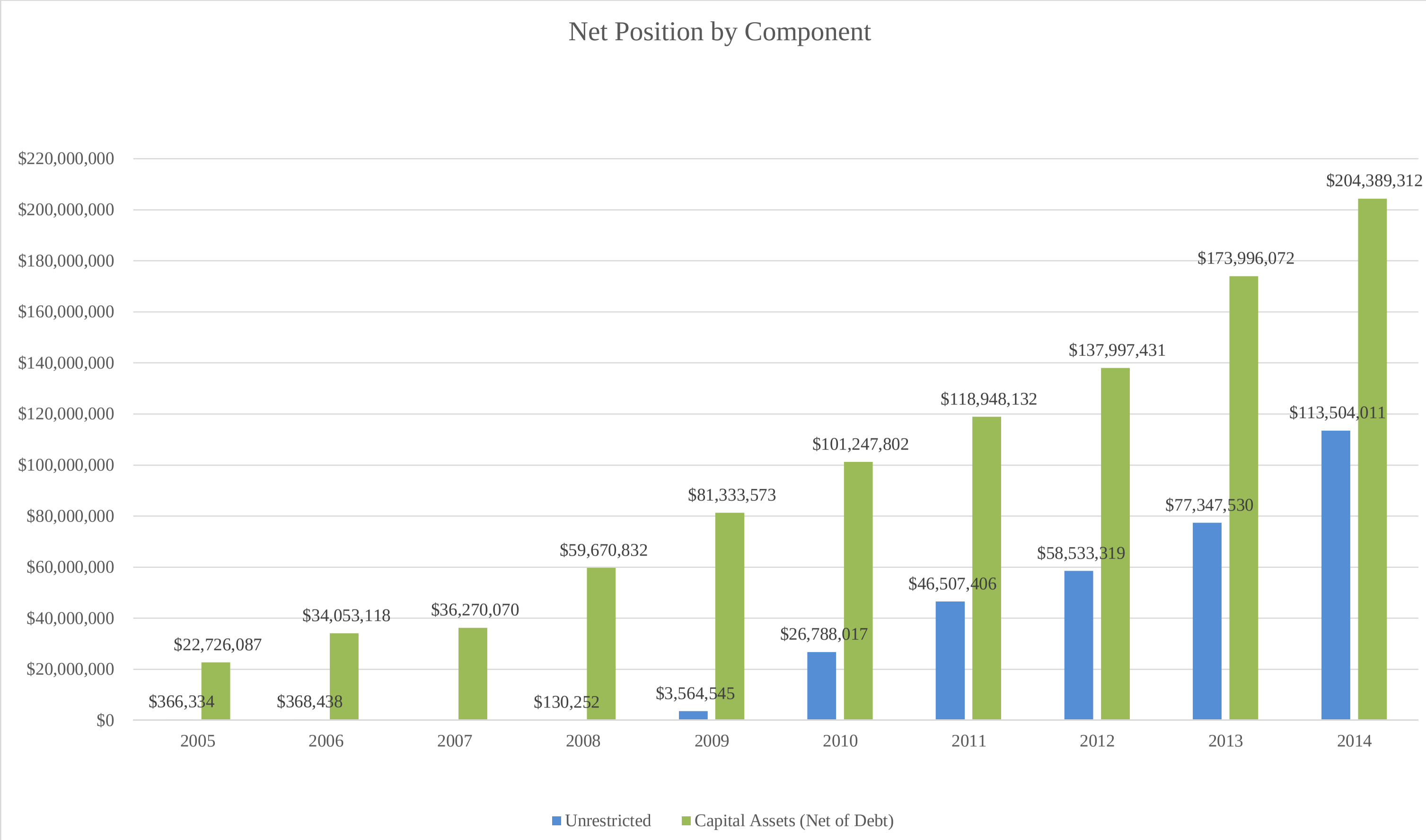
STATISTICAL SECTION

STATISTICAL SECTION

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

	Page
Index	33
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.	34
Revenue Capacity These schedules contain information to help the reader assess the District's significant revenue source, capital grants and contributions. Also included in this section is current information on the District's ongoing significant source of revenues, the sales tax.	37
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.	41
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment in which the District's financial activities take place.	43

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



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
Invested in capital assets, net of related debt	$ 22,726,087	$ 34,053,118	$ 36,270,070	$ 59,670,832	$ 81,333,573	$ 101,247,802	$ 118,948,132	$ 137,997,431	$ 173,996,072	$ 204,389,312	
Restricted	-	-	-	-	-	-	-	-	-	-	
Unrestricted	$ 366,334	$ 368,438	$ (46,650)	$ 130,252	$ 3,564,545	$ 26,788,017	$ 46,507,406	$ 58,533,319	$ 77,347,530	$ 113,504,011	
Total net position	**$ 23,092,421**	**$ 34,421,556**	**$ 36,223,420**	**$ 59,801,084**	**$ 84,898,118**	**$ 128,035,819**	**$ 165,455,538**	**$ 196,530,750**	**$251,343,602**	**$317,893,323**	**(1)**

(1) - In FY2014, the District converted to enterprise fund reporting.

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
CHANGES IN NET POSITION (Unaudited)

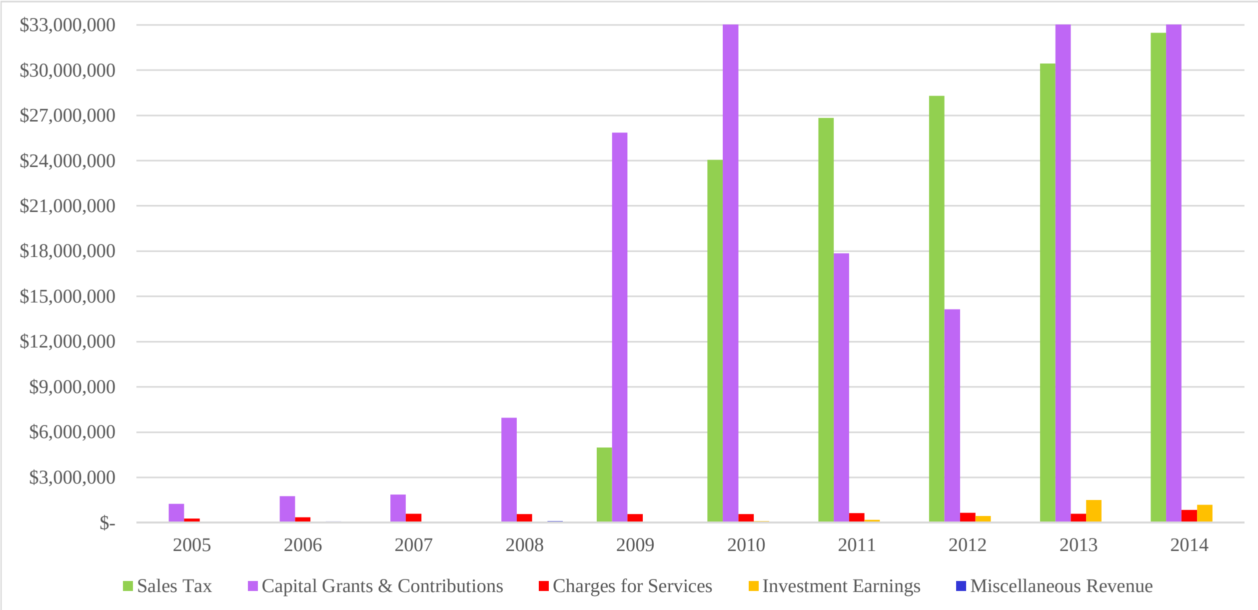
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Operating Revenues										
Charges for services	$ 274,800	$ 347,602	$ 600,167	$ 559,127	$ 570,507	$ 564,502	$ 635,670	$ 650,877	$ 597,880	$ 840,586
Total operating revenues	274,800	347,602	600,167	559,127	570,507	564,502	635,670	650,877	597,880	840,586
Operating Expenses										
Public transportation - rail/pathway development:										
Net salaries and employee benefits	283,003	459,818	460,197	643,402	790,751	1,330,192	1,831,476	2,597,001	2,683,628	3,041,027
Services and supplies	1,221,333	1,701,894	1,392,791	1,117,859	5,102,761	13,000,858	10,097,972	4,179,668	4,772,700	4,466,562
Depreciation	99,737	101,074	99,737	196,136	410,750	420,488	472,061	4,527,575	4,527,575	4,473,500
Bad Debt	-	-	160,229	63,731	31,821	1,725	-	-	-	-
Other Charges	-	-	45,000	-	2,725	3,180	53,471	76,671	700,783	215,922
Total operating expenses	1,604,073	2,262,786	2,157,954	2,021,128	6,338,808	14,756,443	12,454,980	11,380,915	12,684,686	12,197,011
Operating loss	(1,329,273)	(1,915,184)	(1,557,787)	(1,462,001)	(5,768,301)	(14,191,941)	(11,819,310)	(10,730,038)	(12,086,806)	(11,356,425)
Nonoperating Revenues (Expenses)										
Sales/Use taxes	-	-	-	-	4,976,687	24,059,929	26,826,843	28,303,501	30,435,753	32,473,329
Investment earnings	-	5,617	10,805	19,845	65	93,215	192,500	437,618	1,495,066	1,182,159
Sale of contract option	-	-	-	-	-	-	758,825	-	-	-
Insurance reimbursement	-	54,719	-	-	-	-	-	-	-	-
Miscellaneous revenue	-	19,669	16,000	2,871	36,070	38,445	46,400	26,236	62,178	65,638
Loss on impairment of assets	-	-	(25,406)	-	-	-	-	-	-	(433,295)
Interest expense	-	-	-	-	-	-	-	(1,117,492)	(5,328,770)	(4,420,558)
Total nonoperating revenues (expenses)	-	80,005	1,399	22,716	5,012,822	24,191,589	27,824,568	27,649,863	26,664,227	28,867,273
Income before capital contributions	(1,329,273)	(1,835,179)	(1,556,388)	(1,439,285)	(755,479)	9,999,648	16,005,258	16,919,825	14,577,421	17,510,848
Capital grants and contributions:										
State of California	1,246,968	1,172,382	1,021,388	1,650,878	4,452,430	12,810,517	9,787,099	8,148,143	24,130,596	4,295,318
Metropolitan Transportation Commission	-	-	751,606	932,071	3,382,776	1,871,307	6,046,018	-	4,541,421	35,500,504
Sonoma County Transportation Authority - Measure M	-	588,439	91,637	75,972	-	-	-	4,594,099	5,758,121	5,136,487
Federal Highway Administration	-	-	-	-	-	-	-	1,203,349	5,815,731	2,365,308
Federal Transit Administration	-	-	-	-	-	-	1,960,000	-	206,107	197,273
Other governmental agencies		-	550,088	4,400,394	18,017,307	18,456,229	3,621,344	209,796	666,592	1,543,983
Total program revenues	1,246,968	1,760,821	2,414,719	7,059,315	25,852,513	33,138,053	21,414,461	14,155,387	41,118,568	49,038,873
Special Items										
Transfer of net assets from NWPRA	-	11,403,492	-	-	-	-	-	-	-	-
	-	11,403,492	-	-	-	-	-	-	-	-
Change in net position	(82,305)	11,329,134	858,331	5,620,030	25,097,034	43,137,701	37,419,719	31,075,212	55,695,989	66,549,721

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

Fiscal Year Ended June 30	Net Salaries and Benefits	Services and Supplies	Capital Outlay	Debt Service/ Interest Expense	Other Charges	Depreciation	Loss on impairment of assets	Bad Debts	Total
2005	$ 269,011	$ 1,217,401	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,486,412
2006	439,588	1,701,894	24,613	-	-	-	-	-	2,166,095
2007	449,290	1,392,791	1,292,174	-	45,000	-	-	160,229	3,339,484
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

* In FY14, the District converted to enterprise fund reporting. Certain expenses were not previously disclosed as governmental fund expenditures but are expenses in enterprise reporting.

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
General Revenue By Source (Unaudited)



Fiscal Year Ended June 30	Sales Tax	Capital Grants & Contributions	Charges for Services	Investment Earnings	Miscellaneous Revenue	Total
2005	$ -	$ 1,246,968	$ 274,800	$ -	$ -	$ 1,521,768
2006	-	1,760,821	346,302	-	81,305	2,188,428
2007	-	1,864,631	600,167	10,805	16,000	2,491,603
2008	-	6,951,193	559,127	19,845	110,993	7,641,158
2009	4,976,687	25,852,513	570,507	65	36,070	31,435,842
2010	24,059,929	33,138,053	564,502	93,215	38,445	57,894,144
2011	26,826,843	17,856,239	635,670	192,500	46,400	45,557,652
2012	28,303,501	14,155,387	650,877	437,618	26,236	43,573,619
2013	30,435,753	40,952,030	597,880	1,495,066	62,178	73,542,907
2014	32,473,329	49,038,873	840,586	1,182,159	65,638	83,600,585

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

Fiscal Year	SMART Sales Tax Rate	Total Sales Tax Revenue	Marin County Total Taxable Sales (In Thousands)	Sonoma County Total Taxable Sales (In Thousands)	SMART District Total Taxable Sales (In Thousands)
2014	0.25%	$32,473,329	N/A	N/A	$12,989,332
2013	0.25%	$30,435,753	$4,500,247	$7,711,052	$12,211,299
2012	0.25%	$28,303,501	$4,185,542	$7,152,875	$11,338,417
2011	0.25%	$26,826,843	$3,928,074	$6,701,426	$10,629,500
2010	0.25%	$24,059,929	$3,751,474	$6,321,094	$10,072,568
2009	0.25%	$4,976,687*	$3,812,948	$6,682,219	$10,495,167

*Sales Tax effective April 1, 2009
**Estimate for Fiscal Year 2014 is based on sales tax revenue received
Source: California State Board of Equalization

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Overlapping Governments (Unaudited)

Marin County

Fiscal Year	State	City	County[2]	SMART[4]	Total
2014	7.50%	0 to 0.50%	0.75%	0.25%	8.5% to 9%
2013	7.50%[1]	0 to 0.50%	0.75%	0.25%	8.5% to 9%
2012	7.25%	0 to 0.50%	0.50%	0.25%	8% to 8.5%
2011	7.25%	0 to 0.50%	0.50%	0.25%	8% to 8.5%
2010	7.25%	0 to 0.50%	0.50%	0.25%	8% to 8.5%

Sonoma County

Fiscal Year	State	City	County[3]	SMART[4]	Total
2014	7.50%	0 to 0.75%	0.50%	0.25%	8.25% to 9%
2013	7.50%[1]	0 to 0.75%	0.50%	0.25%	8.25% to 9%
2012	7.25%	0 to 0.50%	0.50%	0.25%	8.25% to 8.5%
2011	7.25%	0 to 0.50%	0.50%	0.25%	8.25% to 8.5%
2010	7.25%	0 to 0.50%	0.50%	0.25%	8.25% to 8.5%

Source: California State Board of Equalization

1. Statewide sales and use tax rate increased 0.25% on January 1, 2013

2. Marin Parks/Open Space/Farmland Preservation Transactions and Use Tax (0.25%, effective 04-01-13) and Transportation Authority of Marin County (0.50%, effective 04-01-05)

3. Sonoma County Open Space Authority (0.25%, 04-01-91 to 03-31-11), Sonoma County Transportation Authority (0.25%, 04-01-05), Sonoma County Agricultural Preservation & Open Space District Transactions and Use Tax (0.25%, 04-01-11)

4. SMART sales tax effective April 1, 2009

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

	FY 2013**			FY 2010*		
Principal Revenue Payers	**Rank**	**Percentage Taxable Sales**	**Amount**	**Rank**	**Percentage Taxable Sales**	**Amount**
All Other Outlets	1	27.0%	$3,299,078	1	27.1%	$2,725,918
Motor Vehicle and Parts Dealers	2	12.3%	$1,507,169	2	11.2%	$1,130,269
Gasoline Stations	3	9.9%	$1,208,785	5	8.6%	$865,041
Food Services and Drinking Places	4	9.4%	$1,143,074	3	9.8%	$991,488
General Merchandise Stores	5	8.2%	$1,002,897	4	9.2%	$923,240
Bldg. Matrl. and Garden Equip. and Supplies	6	7.2%	$883,781	6	7.2%	$720,865
Food and Beverage Stores	7	6.5%	$792,043	7	6.8%	$688,180
Clothing and Clothing Accessories Stores	8	5.2%	$635,861	8	5.1%	$513,810
Miscellaneous Store Retailers	9	3.8%	$459,305	9	4.2%	$419,104
Sporting Goods, Hobby, Book, and Music Stores	10	2.5%	$307,428	10	2.8%	$285,859
Electronics and Appliance Stores	11	2.4%	$287,984	11	2.7%	$276,825
Health and Personal Care Stores	12	2.2%	$268,817	12	2.4%	$239,383
Furniture and Home Furnishings Stores	13	2.0%	$247,775	13	2.1%	$214,785
Nonstore Retailers	14	1.4%	$167,301	14	0.8%	$77,799
Total All Outlets		100.0%	$12,211,299		100.0%	$10,072,568

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

SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
Debt Service Coverage -- Pledged Sales Tax Revenue (Unaudited)

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
6/30/2014	$32,473,329		$8,456,950		$8,456,950	3.84x
6/30/2015		$33,447,529	8,456,950		$8,456,950	3.96x
6/30/2016		$34,450,955	8,456,950	4,540,000	$12,996,950	2.65x
6/30/2017		$35,484,483	8,275,350	5,325,000	$13,600,350	2.61x
6/30/2018		$36,549,018	8,009,100	6,195,000	$14,204,100	2.57x
6/30/2019		$37,645,488	7,730,850	8,365,000	$16,095,850	2.34x
6/30/2020		$38,774,853	7,312,600	9,435,000	$16,747,600	2.32x
6/30/2021		$39,938,099	6,840,850	10,565,000	$17,405,850	2.29x
6/30/2022		$41,136,242	6,315,000	11,745,000	$18,060,000	2.28x
6/30/2023		$42,370,329	5,727,750	12,990,000	$18,717,750	2.26x
6/30/2024		$43,641,439	5,078,250	14,290,000	$19,368,250	2.25x
6/30/2025		$44,950,682	4,363,750	15,660,000	$20,023,750	2.24x
6/30/2026		$46,299,202	3,580,750	17,100,000	$20,680,750	2.24x
6/30/2027		$47,688,178	2,725,750	18,610,000	$21,335,750	2.24x
6/30/2028		$49,118,824	1,795,250	20,195,000	$21,990,250	2.23x
6/30/2029		$50,592,388	785,500	15,710,000	$16,495,500	3.07x
				Maximum Annual Debt Service Coverage:		**2.23x**

*Sales tax revenue growth projected 3% starting in Fiscal Year 2015
** Debt service based on cash basis

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

TOTAL DEBT TO INCOME RATIO

		Marin County		Sonoma County	
Year	Total Outstanding Debt	Personal Income	Ratio of Debt to Income	Personal Income	Ratio of Debt to Income
2014	$192,365,524	$25,846,203,030	0.74%	$25,653,001,810	0.75%
2013	$194,634,360	$25,093,401,000	0.78%	$24,905,827,000	0.78%

TOTAL DEBT SERVICE TO NON-CAPITAL EXPENSES

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

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

*Personal Income data only available through 2013 at the time of publication. Data for 2014 assumes a 3% increase over previous year.

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

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

Marin County

Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate
2013*	255,887	$25,093,401	$97,124	5.0%
2012	254,882	$23,918,732	$93,407	6.3%
2011	254,359	$22,741,276	$89,009	7.4%
2010	252,731	$20,748,885	$82,021	8.0%
2009	259,772	$20,188,247	$80,476	7.7%
2008	257,968	$22,862,328	$92,039	4.7%
2007	255,592	$22,428,914	$91,083	3.7%
2006	253,561	$21,801,503	$89,139	3.5%
2005	252,348	$20,100,642	$82,310	3.9%
2004	250,900	$18,634,770	$76,444	4.4%

Sonoma County

Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate
2013*	492,337	$24,905,827	$50,312	6.7%
2012	489,283	$23,548,182	$47,879	8.6%
2011	486,778	$22,356,767	$45,805	9.8%
2010	484,084	$21,080,297	$43,482	10.5%
2009	490,231	$20,653,880	$43,076	9.6%
2008	485,478	$21,868,731	$46,225	5.7%
2007	480,656	$22,056,522	$47,194	4.3%
2006	477,395	$21,253,619	$45,688	4.0%
2005	476,405	$19,744,321	$42,375	4.5%
2004	474,953	$18,830,872	$40,340	5.0%

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

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

Marin County 2014

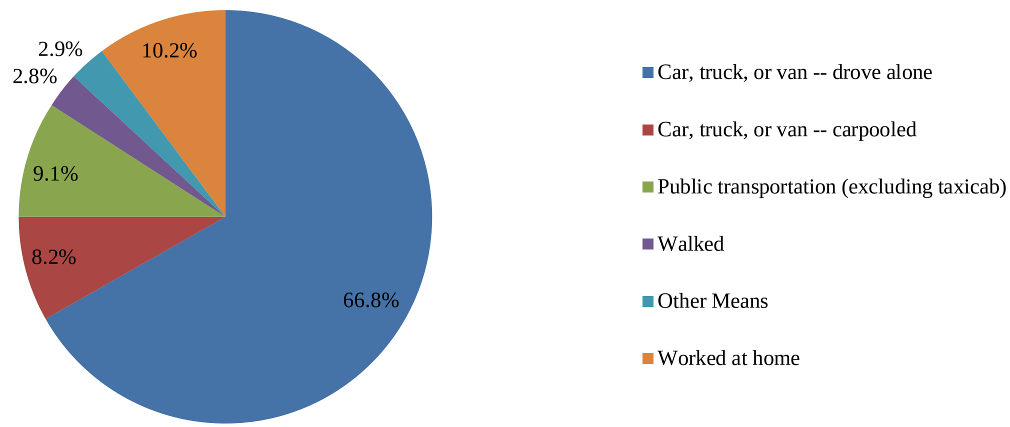
Employer	Number of Employees	Percent of Total Employment*
County of Marin	2,767	2.02%
San Quentin State Prison	1,832	1.34%
Kaiser Permanente San Rafael Medical Center	1,575	1.15%
Marin General Hospital	1,378	1.01%
Novato Unified School District	1,200	0.88%
BioMarin Pharmaceutical	850	0.62%
Autodesk	763	0.56%
Fireman's Fund Insurance	721	0.53%
Dominican University of California	422	0.31%
Bradley Real Estate	418	0.31%

Sonoma County 2014

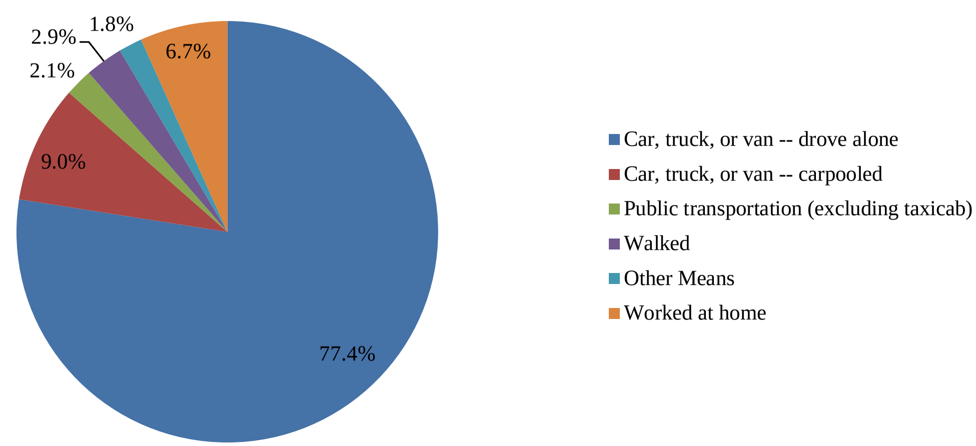
Employer	Number of Employees	Percent of Total Employment*
County of Sonoma	4,130	1.66%
Santa Rosa Junior College	2,801	1.13%
Kaiser Permanente	2,555	1.03%
Graton Resort & Casino	2,000	0.81%
Sutter Medical Center of Santa Rosa	1,797	0.72%
St. Joseph Health, Sonoma County	1,740	0.70%
Sonoma State University	1,657	0.67%
Santa Rosa School District	1,526	0.61%
City of Santa Rosa	1,187	0.48%
**Keysight Technologies	1,200	0.48%

Sources:
North Bay Business Journal
County of Marin
San Quentin State Prison
Novato Unified School District
County of Sonoma
*Calculated using California Employment Development Department June 2014 No. of Employed
**Keysight Technologies fromerly Agilent Technologies

Marin County Commute to Work



Sonoma County Commute to Work



Source: US Census Bureau, latest available

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

Division	2014
General Manager	1
Legal	0.75
Capital Projects	13.78
Administration	8.01
Finance	5.8
Operations	1.34
Safety & Security	0
Total	30.68

*SMART's first employees were hired in 2005