

Sonoma-Marín Area Rail Transit District

**Annual Financial Report
For The Fiscal Year Ended
June 30, 2011**



DAVID E. SUNDSTROM, CPA
SONOMA COUNTY
AUDITOR-CONTROLLER
TREASURER-TAX COLLECTOR

Sonoma-Marin Area Rail Transit District

Annual Report For the Fiscal Year Ended June 30, 2011

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DAVID E. SUNDSTROM, CPA
AUDITOR-CONTROLLER
TREASURER -TAX COLLECTOR

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Board of Directors
Sonoma-Marin Area Rail Transit District

Auditor-Controller's Report

We have audited the accompanying basic financial statements of the Sonoma-Marin Area Rail Transit District (SMART), as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of SMART's management. Our responsibility is to express an opinion on the 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 of material misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SMART's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note IV.C of the Notes to the Basic Financial Statements, the Auditor-Controller is mandated by various statutes within the California Government Code to perform certain accounting, auditing and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. However, we believe adequate safeguards and divisions of responsibility exist.

In our opinion, except for the effects, if any, of the impairment to auditor independence, the basic financial statements referred to above present fairly, in all material respects, the financial position of SMART as of June 30, 2011 and the respective changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2012 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires to management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sonoma County Auditor-Controller

Sonoma County Auditor-Controller

February 2, 2012

**Sonoma-Marín Area Rail Transit District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011**

As management of the Sonoma-Marín Area Rail Transit District (SMART), we offer readers of SMART's financial statements this narrative overview and analysis of the financial activities of SMART for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with SMART's financial statements and the accompanying notes to the basic financial statements.

Financial Highlights

- The assets of SMART exceeded their liabilities at the close of the fiscal year ended June 30, 2011 by \$165,455,538 (net assets). Of this amount, \$46,507,406 is unrestricted.
- As of the close of the current fiscal year, SMART reported an ending unassigned fund balance of \$46,501,946.
- SMART's net assets increased \$37,419,719 during the fiscal year ended June 30, 2011, which is the result of a decrease in program expenses funded by Measure Q sales tax revenues combined with an increase in capital asset funding from grant proceeds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to SMART's basic financial statements. SMART's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide financial statements

The government-wide 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 assets presents information on all of SMART's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of SMART is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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).

**Sonoma-Marin Area Rail Transit District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011**

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. SMART, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. SMART's funds are governmental funds.

Governmental funds are used to account for essentially the same functions reported in governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

SMART uses governmental funds to account for its activities. SMART adopts an annual appropriated budget for its funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 14-26 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of SMART, assets exceeded liabilities by \$165,455,538 at the fiscal year ended June 30, 2011.

The largest portion of SMART's net assets (71.9%) reflects its investment in capital assets (e.g., land, tracks and switches, 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.

**Sonoma-Marin Area Rail Transit District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011**

Net Assets

	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 49,490,619	\$ 29,413,833
Capital assets	<u>118,948,132</u>	<u>101,247,802</u>
Total assets	<u>168,438,751</u>	<u>130,661,635</u>
Long-term liabilities outstanding	98,996	115,182
Other liabilities outstanding	<u>2,884,217</u>	<u>2,510,634</u>
Total liabilities	<u>2,983,213</u>	<u>2,625,816</u>
Net assets:		
Invested in capital assets, net of related debt	118,948,132	101,247,802
Unrestricted	<u>46,507,406</u>	<u>26,788,017</u>
Total net assets	<u>\$ 165,455,538</u>	<u>\$ 128,035,819</u>

SMART's net assets totaled \$165,455,538 at the end of the most recent fiscal year, an increase of \$37,419,719 from the prior fiscal year. The increase is the result of a decrease in program expenses funded by Measure Q sales tax revenues combined with an increase in capital asset funding from grant proceeds. Program revenues consist of intergovernmental revenues (funds received from other governments primarily in the form of grants or matching funds to finance capital expenditures) and fees SMART charges for use of the railroad right of way. General revenues consist of sales taxes, interest earnings and miscellaneous revenues. Program Expenses consist of salaries and benefits, services and supplies and other expenses related to the commuter rail and pathway project.

**Sonoma-Marin Area Rail Transit District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011**

Changes in Net Assets

	2011	2010
Revenues:		
Program Revenues		
Capital grants and contributions		
Transportation Congestion Relief Program (TCRP)	\$ 9,787,099	\$ 12,810,517
Metropolitan Transportation Commission (MTC)	6,046,018	1,871,307
Federal Transit Administration	1,960,000	-
Other governmental agencies	3,621,344	18,456,229
Charges for services	635,670	564,502
Total program revenues	22,050,131	33,702,555
General Revenues		
Sales taxes	26,826,843	24,059,929
Investment earnings	192,500	93,215
Sale of contract option	758,825	-
Miscellaneous revenue	46,400	38,445
Total general revenues	27,824,568	24,191,589
Expenses:		
Program Expenses		
Public transportation - rail/pathway development:		
Salaries and employee benefits	1,831,476	1,330,192
Services and supplies	10,097,972	13,000,858
Depreciation	472,061	420,488
Other charges	53,471	3,180
Bad debt	-	1,725
Total program expenses	12,454,980	14,756,443
Increase (decrease) in net assets	37,419,719	43,137,701
Net assets - beginning of the year	128,035,819	84,898,118
Net assets - end of the year	165,455,538	128,035,819

**Sonoma-Marin Area Rail Transit District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011**

Governmental Activities

Governmental activities are the sole source of revenue for the SMART District.

- SMART had program revenues of \$22,050,131 for the fiscal year ended June 30, 2011, consisting of \$9,787,099 from Caltrans, which was the remaining balance of funding in SMART's Transportation Congestion Relief Program (TCRP) grant allocation, \$3,621,344 in contributions from other governmental agencies for improvements made to the SMART infrastructure, \$6,046,018 from the Metropolitan Transportation Commission (MTC) from Regional Measure 2 (RM2) bridge toll funds, \$1,960,000 in Federal Transit Administration (FTA) funds, and \$635,670 from property leases and application fees. This represents a decrease of \$11,652,424 in program revenue compared to the fiscal year ended June 30, 2010. The decrease is primarily the result of a decrease in contributions from other governments netted against increased revenues from MTC and the FTA.
- SMART had general revenues of \$27,824,568 for the fiscal year ended June 30, 2011, consisting of \$26,826,843 from Measure Q sales taxes, \$192,500 in interest earnings, \$758,825 from Metrolinx, in Toronto, Canada, for the purchase of an option to use SMART's Diesel Multiple Unit (DMU) design specifications to purchase rail cars from Sumitomo Corporation of America, and \$46,400 in miscellaneous revenue.
- SMART had program expenses of \$12,454,980 for the fiscal year ended June 30, 2011, consisting of \$10,097,972 for services and supplies, which is primarily for consulting and other services related to the commuter rail and pathway project, \$1,831,476 for salaries and benefits, \$472,061 for depreciation, and \$53,471 for other charges. This represents a decrease of \$2,301,463 in program expenses compared to the fiscal year ended June 30, 2010. The decrease was primarily the result of a decrease in service and supplies and an increase in capital expenditures.

Governmental Funds

The focus of SMART's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing SMART's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

As of June 30, 2011, SMART had an ending fund balance of \$46,606,402, an increase of \$19,703,203 from the fiscal year ended June 30, 2010.

**Sonoma-Marin Area Rail Transit District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011**

Capital Assets

SMART's investment in capital assets, as of June 30, 2011, amounts to \$118,948,132 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure (tracks/rails, crossties, switches, bridges, fencing, tunnels, road crossings and pathway improvements), buildings and improvements, and machinery and equipment.

	Capital Assets	
	<u>2011</u>	<u>2010</u>
Land	\$ 33,019,825	\$ 32,869,374
Infrastructure	74,421,769	3,155,669
Buildings & improvements	4,292,272	4,292,272
Construction in Progress	9,010,662	62,261,420
Equipment	313,154	306,556
Accumulated depreciation	<u>(2,109,550)</u>	<u>(1,637,489)</u>
Total capital assets, net		
of accumulated depreciation	<u>118,948,132</u>	<u>101,247,802</u>

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

General Fund Budgetary Highlights

- The budget for intergovernmental revenue was decreased from \$73,864,621 to \$22,495,000 based on a shift of Federal Highway Administration (FHWA) project funds, Measure M funds and Prop 116 funds to the next fiscal year along with a decrease in MTC RM2 project funds.
- The budget for other financing sources was reduced by \$184,000,000 based on the board's decision to not issue sales tax revenue bonds until the next fiscal year.
- The budget for services and supplies was decreased to \$24,125,218 based on reduced project expenses for consulting and program management services associated with the decision to implementation of the project in phases.
- The budget for capital projects was decreased to \$20,903,532 based on the re-budget of FHWA, Prop 116 and Measure M project funds to the next fiscal year and a delay in issuing sales tax revenue bonds.

**Sonoma-Marín Area Rail Transit District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011**

Economic Factors

Like all public agencies, the economy has played a major role in the trajectory of the SMART project. The recession starting in 2008 affected SMART's revenues dramatically and thus its ability to deliver the full rail and pathway project as authorized by Measure Q in 2008. After several months of review of both costs and revenues, the SMART Board has authorized moving forward to build the SMART project in a phased manner as revenues become available. This ensures that the project will still reach a majority of the people it was intended to serve while living within the revenues available to the Agency. The Board-approved Initial Operating Segment will bring the project to both counties by extending rail service from Santa Rosa to downtown San Rafael, and building the adjacent multiuse pathway. The majority of the funding for the project will continue to come from the Measure Q sales tax, including a bond against that revenue stream. The Measure Q revenues are showing a strong rebound following the 2008-09 downturn. For the fiscal year ended June 30, 2011 SMART's sales tax revenues increased by 11.5% compared with the prior fiscal year. In an August 2011 study commissioned by SMART, consulting firm Beacon Economics reviewed the underlying economic assumptions for the Sonoma-Marín sales tax base. In that report, Beacon predicted that taxable sales in the two counties would grow from \$10.6 billion in 2010-11 to nearly \$20 billion per year in 2029. This translates to sales tax receipts for SMART growing from \$24 million in FY 09-10 to \$57.6 million in FY 28-29. If taxable sales increase as predicted, SMART would see growth rates of 4.6% to 6.0% annually. Beacon also forecast inflation to be approximately 3% per year in the coming years.

Within this climate, the Sonoma County Transportation Authority completed a successful sale of its sales tax revenue bonds in January 2011 totaling \$25.2M of which \$6.3 million is allocated to the Measure M passenger rail program. This, combined with the strong sales tax rebound and a successful bond sale by SMART (which was completed in December 2011), provide the funding base upon which the project and the agency will meet its obligation to provide transportation alternatives to Marin and Sonoma Counties.

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-Marín Area Rail Transit, Chief Financial Officer, 750 Lindero Street, Suite 200, San Rafael, CA 94901

Sonoma-Marin Area Rail Transit District
Statement of Net Assets
June 30, 2011

Assets

Current assets:

Cash and investments	\$ 39,557,626
Due from other governments	5,238,167
Other receivables	4,353,909
Deposits with others	100,000
Prepaid expenses	104,456
Notes receivable	127,770
Interest receivable	8,691
	49,490,619

Capital assets:

Non-depreciable	
Land	33,019,825
Construction in progress	9,010,662
Depreciable (net of accumulated depreciation)	
Infrastructure	73,027,110
Building and improvements	3,648,430
Machinery and equipment	242,105
	118,948,132
Subtotal capital assets	118,948,132
Total assets	168,438,751

Liabilities

Current liabilities:

Accounts payable	2,882,403
Deferred revenue	1,814
	2,884,217

Non-current liabilities:

Compensated absences	98,996
Total liabilities	2,983,213

Net Assets

Invested in capital assets, net of related debt	118,948,132
Unrestricted	46,507,406
Total net assets	\$ 165,455,538

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

Sonoma-Marin Area Rail Transit District
Statement of Activities
For the Fiscal Year Ended June 30, 2011

Program Expenses

Public transportation - rail/pathway development:	
Salaries and employee benefits	\$ 1,831,476
Services and supplies	10,097,972
Depreciation	472,061
Other Charges	53,471
	<hr/>
Total program expenses	12,454,980

Program Revenues

Capital grants and contributions	
Transportation Congestion Relief Program (TCRP)	9,787,099
Metropolitan Transportation Commission (MTC)	6,046,018
Other governmental agencies	3,621,344
Federal Transit Administration (FTA)	1,960,000
Charges for services	635,670
	<hr/>
Total program revenues	22,050,131
	<hr/>
Net program revenues	9,595,151

General Revenues

Sales taxes	26,826,843
Investment earnings	192,500
Sale of contract option	758,825
Miscellaneous revenue	46,400
	<hr/>
Total general revenues	27,824,568

Change in net assets	37,419,719
Net assets, beginning of year	128,035,819
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Net assets, end of year	\$ 165,455,538

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

Sonoma-Marin Area Rail Transit District
Balance Sheet
General Fund
June 30, 2011

Assets

Cash and investments	\$ 39,557,626
Due from other governments	5,238,167
Other receivables	4,353,909
Deposits with others	100,000
Prepaid expenses	104,456
Notes receivable	127,770
Interest receivable	8,691
	8,691
Total assets	49,490,619

Liabilities and Fund Balance

Liabilities	
Accounts payable	2,882,403
Deferred revenue	1,814
	1,814
Total liabilities	2,884,217
Fund balance	
Nonspendable:	
Prepaid items	104,456
Spendable:	
Unassigned	46,501,946
	46,501,946
Total fund balance	46,606,402
Total liabilities and fund balance	\$ 49,490,619

Reconciliation of Governmental Funds

Balance Sheet to Statement of Net Assets

Fund balances - total governmental funds	\$ 46,606,402
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	118,948,132
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(98,996)
	(98,996)
Net assets of governmental activities (page 8)	\$ 165,455,538

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

**Sonoma-Marín Area Rail Transit District
Statement of Revenues, Expenditures and
Changes in Fund Balance
General Fund
For the Fiscal Year Ended June 30, 2011**

Revenues

Sales taxes	\$ 26,826,843
Intergovernmental revenues	
Transportation Congestion Relief Program (TCRP)	9,787,099
Metropolitan Transportation Commission (MTC)	6,046,018
Federal Transit Administration (FTA)	1,960,000
Other governmental agencies	63,122
Charges for services	635,670
Investment earnings	192,500
Other revenue	46,400
	<hr/>
Total revenues	45,557,652
	<hr/>

Expenditures

Current:	
Salaries and benefits	1,847,662
Services and supplies	10,097,972
Capital outlay	14,614,169
Other Charges	53,471
	<hr/>
Total expenditures	26,613,274
	<hr/>
Excess of revenues over expenditures	18,944,378

Other financing sources

Sale of contract option	758,825
	<hr/>
Net change in fund balances	19,703,203
Fund balance, beginning of year	26,903,199
	<hr/>
Fund balance, end of year	\$ 46,606,402
	<hr/> <hr/>

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

**Sonoma-Marín Area Rail Transit District
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balance of the General Fund
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2011**

**Amounts reported for governmental activities in the
 statement of activities (page 9) are different because:**

Net change in fund balances - total governmental funds (page 11)	\$	19,703,203
Governmental funds report capital outlays as expenditures. In the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay		14,614,169
Current year depreciation		(472,061)
Capital assets acquired by contribution or donation are not recorded as expenditures in the governmental fund financial statements.		
		3,558,222
Change in compensated absences reported in the statement of activities does not require the use of current financial resources and, therefore is not reported as expenditures in governmental funds.		
		16,186
		16,186
Change in net assets of governmental activities (page 9)	\$	37,419,719

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

**Sonoma-Marin Area Rail Transit District
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Sales/Use taxes	\$ 25,500,000	\$ 25,562,000	\$ 26,826,843	\$ 1,264,843
Intergovernmental revenue	73,864,621	22,495,000	17,856,239	(4,638,761)
Charges for services	564,462	567,560	635,670	68,110
Investment earnings	100,000	142,700	192,500	49,800
Miscellaneous revenue	-	46,271	46,400	129
Total revenues	<u>100,029,083</u>	<u>48,813,531</u>	<u>45,557,652</u>	<u>(3,255,879)</u>
Expenditures				
Current:				
Salaries and employee benefits	2,046,929	2,066,957	1,847,662	219,295
Services and supplies	37,887,997	24,125,218	10,097,972	14,027,246
Capital outlay	61,530,104	20,903,532	14,614,169	6,289,363
Other charges	-	52,000	53,471	(1,471)
Interest expense	10,000	-	-	-
Reimbursements	(3,137,840)	(3,137,840)	-	(3,137,840)
Appropriations for contingencies	200,000	-	-	-
Total expenditures	<u>98,537,190</u>	<u>44,009,867</u>	<u>26,613,274</u>	<u>17,396,593</u>
Excess of revenues over expenditures	1,491,893	4,803,664	18,944,378	14,140,714
Other financing sources				
Long term debt proceeds	184,000,000	-	-	-
Sale of contract option	-	-	758,825	758,825
Net change in fund balances	<u>185,491,893</u>	<u>4,803,664</u>	<u>19,703,203</u>	<u>14,899,539</u>
Fund balance - beginning of year	<u>26,903,199</u>	<u>26,903,199</u>	<u>26,903,199</u>	<u>-</u>
Fund balance - end of year	<u>\$ 212,395,092</u>	<u>\$ 31,706,863</u>	<u>\$ 46,606,402</u>	<u>\$ 14,899,539</u>

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

Sonoma-Marín Area Rail Transit District
Notes to the Basic Financial Statements
June 30, 2011

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Sonoma-Marín Area Rail Transit District (SMART) was formed in January 2003 by provisions of the Sonoma-Marín Area Rail Transit District Act as successor to the Sonoma-Marín Area Rail Transit Commission and the Northwestern Pacific Railroad Authority (NWPRÁ) in the California Counties of Sonoma and Marín. Its purpose 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 Marín that shall operate in concert with existing freight service that operates upon the same rail line and serves the Counties of Humboldt, Marín, Mendocino, Napa and Sonoma.

SMART is governed by a 12-member Board consisting of county supervisors from the counties of Marín and Sonoma, City Council members from each county and representatives from the Golden Gate Bridge, Highway, and Transportation District.

B. Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of SMART. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities (if any), which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include 1) charges paid by the recipients of goods or services offered by a program and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented instead as general revenues.

Fund Financial Statements

The fund financial statements provide information about SMART's fund. The emphasis of the fund financial statements is on major governmental funds, which are reported as separate columns in the fund financial statements.

Sonoma-Marin Area Rail Transit District
Notes to the Basic Financial Statements
June 30, 2011

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Taxes (other than property taxes), interest and charges for services are accrued when receipt occurs within 365 days of the end of the accounting period so as to be both measurable and available. Licenses, permits, fines, forfeitures, and other revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims judgments are recorded only when payment is due. Acquisitions of general capital assets by purchase are reported as expenditures in governmental funds. General capital assets acquired by contribution or donation are not recorded as expenditures in the governmental fund financial statements.

Amounts recorded as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues.

D. Investments

Investments are stated at fair value in the statement of net assets and balance sheet and the corresponding changes in fair value of investments are recognized in the year in which the change occurred. SMART follows the practice of pooling cash and investments of all funds with the County of Sonoma Treasurer.

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. The value of participants' pool shares is based on amortized cost, which is different than fair value. The County of Sonoma Treasurer has not provided nor obtained any legally binding guarantees to support the value of pool shares.

Sonoma-Marin Area Rail Transit District
Notes to the Basic Financial Statements
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E. Accounts Receivable

Accounts receivable consists 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.

F. Capital Assets

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

Capital assets that were recorded in buildings and improvements in the prior fiscal year were transferred to the new asset category of rail infrastructure. Rail infrastructure and Buildings and Improvements are being depreciated using the straight-line method over their estimated useful lives of 20 to 100 years. Machinery and equipment is depreciated using the straight-line method over an estimated useful life of 10 to 20 years. Computer equipment, which on the financial statements is included under machinery and 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.

G. Non-current Governmental Assets/Liabilities

Non-current governmental assets and liabilities, such as capital assets and long-term liabilities, are reported as governmental activities in the government-wide statement of net assets.

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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 government-wide financial statements is accrued when earned. Twenty-five percent of sick leave is payable on termination and is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Net Assets

Net assets are classified into three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by outstanding debt related to financing the acquisition of capital assets.
- Restricted net assets (if any) – This component of net assets consists of net assets with limits on their use that are imposed by outside parties.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definitions of “restricted” or “invested in capital assets, net of related debt”.

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

J. Fund Balance

In the fund financial statements, governmental funds report fund balance using the classifications listed in *GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions*. Initial distinction is made in reporting fund balance information identifying amounts that are considered nonspendable, such as fund balance associated with capital assets. Spendable fund balance for the governmental fund consists of the following classifications:

Restricted Fund Balance – the portion of fund balance that can only be spent for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed Fund Balance – the portion of fund balance whose use is subject to formal action of the government's highest level decision making authority. These commitments remain binding unless changed or removed by formal action of the Board as the formal authority that imposed the constraint. The underlying action

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that imposed, modified, or removed the limitation would need to occur no later than the close of the reporting period.

Assigned – the portion of fund balance that is intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned – the residual amount of all general fund spendable resources not contained in the other classifications.

K. Accounting System Maintained by Other Government

SMART uses the County of Sonoma’s Financial Accounting and Management Information System (FAMIS) 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 NCGA Statement No. 3, *Defining the Reporting Entity*.

L. Use of Estimates

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

M. Implementation of Governmental Accounting Standards Board (GASB) Statements

Effective July 1, 2010, SMART implemented the following new GASB Statements:

Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions: This Statement establishes new accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies the definitions for governmental fund types. SMART has adopted the new fund balance classifications to comply with the provisions of this Statement.

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II. Stewardship, Compliance and Accountability

A. Budgetary Information

Budgetary revenue estimates represent original estimates modified for any authorized adjustments. Budgetary expenditure amounts represent original appropriations adjusted by budget transfers and authorized appropriation adjustments made during the year. All budgets are adopted on a non-GAAP basis. SMART's budgetary information was modified during the year by resolution of the Board of Directors.

III. Detailed Notes

A. Cash and Investments

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 regulatory oversight for all monies deposited into the Treasury Pool.

Investment Guidelines

SMART's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the 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 Treasury Pool 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, 95403-2871.

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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.

As of June 30, 2011, approximately 57.5 percent of the securities in the Treasury Pool had maturities of one year or less. Of the remainder, only 6 percent had a maturity of more than five years.

Disclosures Relating to Credit Risk

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Treasury Pool's investment

policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

- The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under stated 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.

Sonoma-Marin Area Rail Transit District
Notes to the Basic Financial Statements
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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

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. 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 County investments, refer to the 2011 Sonoma County Comprehensive Annual Financial Report.

B. Due from Other Governments

Due from Other Governments represents the amounts of outstanding claims submitted to Caltrans, the City of Petaluma (acting as a pass-through agency for FTA funds), and MTC 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. Notes Receivable

SMART holds a promissory note receivable from the Santa Rosa Cannery, LLC per the provisions of the Railroad Square development agreement. Per the agreement, Santa Rosa Cannery is purchasing a loading dock attached to the Cannery Building and an easement over SMART's property for access to that loading dock. The note, along with accrued interest, is payable upon the completion of specific contractual provisions.

Sonoma-Marin Area Rail Transit District
Notes to the Basic Financial Statements
June 30, 2011

F. Long-Term Liabilities

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 115,182	\$ -	\$ (16,186)	\$ 98,996	\$ -
Total long-term liabilities	<u>\$ 115,182</u>	<u>\$ -</u>	<u>\$ (16,186)</u>	<u>\$ 98,996</u>	<u>\$ -</u>

G. Miscellaneous Revenue

Miscellaneous revenue consisted mainly of an option payment from New Railroad Square LLC as required by the provisions of the Railroad Square agreement and reimbursement to SMART for consultant services from Coddling Enterprises for the relocation of the Santa Rosa North Station site.

IV. 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.

B. Subsequent Events

On December 20, 2011, SMART successfully closed the sale of \$190 million in sales tax revenue bonds. Future bond interest and principal payments are pledged using Measure Q sales tax revenues.

Sonoma-Marin Area Rail Transit District
Notes to the Basic Financial Statements
June 30, 2011

C. Auditor Independence

As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. Specifically, "Auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant or material to the subject matter of the audit." Although the office of the Auditor-Controller is statutorily obligated to maintain accounts of departments, districts or funds that are contained within the County Treasury, we believe that adequate safeguards and divisions of responsibility exist. Therefore, we believe that subject to this qualification and disclosure, the reader can rely on the auditor's opinion contained in this report.

D. Employee Retirement Plan

SMART has a contract 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 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. For the pool, a single actuarial valuation is performed covering all participants, all employers contribute at the same rate, and all plan assets are available to pay plan benefits pertaining to the employees and retirees of any employer.

Plan Description

SMART participates in the cost-sharing multiple-employer Defined Benefit Pension Plan (DBPP) administered by CalPERS. DBPP members include all permanent employees of a participating employer (including SMART) who have been appointed to a permanent position of at least halftime. The Plan, known as the "Miscellaneous 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, CA 95814.

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.

Sonoma-Marin Area Rail Transit District
Notes to the Basic Financial Statements
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Plan members are required to contribute 7% of their annual covered salary to the fund. SMART's Board-approved policy is to pay this amount on behalf of current employees. This percentage is determined by state law. Employers, including SMART, are required to contribute at an actuarially determined rate. The rate for fiscal year 2010-11 is 13.23% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by CalPERS. Contributions to the DBPP for the fiscal years ended June 30, 2011, 2010, and 2009 were \$258,619, \$179,609, and \$103,452 respectively.

The three-year trend information for the Fund of the actuarially required employer contribution is as follows (dollar amounts in thousands):

Miscellaneous Plan

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2009	\$ 103,452	100%	\$ -
June 30, 2010	\$ 179,609	100%	\$ -
June 30, 2011	\$ 258,619	100%	\$ -

Funded Status and Funding Progress of the Plan

As of the fiscal year ended June 30, 2010, based on CalPERS most recent actuarial report, the Miscellaneous Plan is 70.1 % funded. The actuarial accrued liability for benefits was \$3,309,064,934 and the actuarial value of the asset was \$2,946,408,106 resulting in an unfunded liability of \$362,656,828. The covered payroll (annual payroll of active employees covered by the plan) was \$748,401,352 and the ratio of the unfunded liability to the covered payroll was 48.5%.

The Schedule of Funding Progress, presented as RSI, following the Notes to Financial Statements, presents three-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

Sonoma-Marin Area Rail Transit District
Notes to the Basic Financial Statements
June 30, 2011

Actuarial Assumptions and Methods

CalPERS uses the rate stabilization methodologies in its actuarial valuations which have been shown to be very effective in mitigating rate volatility. A summary of principal assumptions and methods used by CalPERS to determine the District's annual required contributions to the Plan is shown below:

Valuation date	June 30, 2010	June 30, 2009	June 30, 2008
Actuarial cost method	Entry age normal cost	Entry age normal cost	Entry age normal cost
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Average remaining period	18 years as of the valuation date	18 years as of the valuation date	16 years as of the valuation date
Asset valuation method	15 year smoothed market	15 year smoothed market	15 year smoothed market
Investment rate of return	7.75%(net of administrative expenses)	7.75%(net of administrative expenses)	7.75%(net of administrative expenses)
Projected salary increases	3.55% to 14.45% depending on age, service and type of employment	3.55% to 14.45% depending on age, service and type of employment	3.25% to 10.75% depending on age, service and type of employment
Inflation	3.00%	3.00%	3.00%
Payroll growth	3.25%	3.25%	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

**Sonoma-Marín Area Rail Transit District
Required Supplementary Information
June 30, 2011**

**Employees' Retirement Benefits
Schedules of Funding Progress**

Miscellaneous 2% at 55:

Valuation Date	Accrued Liabilities (AL)	Actuarial Value of Assets (AVA)	Unfunded Liability (UL)	Funded Ratio (AVA/AL)	Annual Covered Payroll	UL as a % of Payroll
June 30, 2008	\$ 2,780,280,768	\$ 2,547,323,278	\$ 232,957,490	91.6%	\$ 688,606,681	33.8%
June 30, 2009	\$ 3,104,798,222	\$ 2,758,511,101	\$ 346,287,121	88.9%	\$ 742,981,488	46.6%
June 30, 2010	\$ 3,309,064,934	\$ 2,946,408,106	\$ 362,656,828	89.0%	\$ 748,401,352	48.5%

Roster of Board of Directors

As of the fiscal year ended June 30, 2011, the Sonoma/Marin Area Rail Transit District Board of Directors consisted of:

Valerie Brown, Chair	Sonoma County
Judy Arnold, Vice-Chair	Marin County
Al Boro	San Rafael
James Eddie	Bridge District
Debora Fudge	Windsor
Carole Dillon-Knutson	Novato
Jake Mackenzie	Rohnert Park
Barbara Pahre	Bridge District
Carol Russell	Cloverdale
Shirlee Zane	Sonoma County