

Sonoma-Marin Area Rail Transit District

**Annual Financial Report
For The Fiscal Year Ended
June 30, 2010**



RODNEY A. DOLE
SONOMA COUNTY
AUDITOR-CONTROLLER
TREASURER-TAX COLLECTOR

Sonoma-Marin Area Rail Transit District

Annual Report For the Fiscal Year Ended June 30, 2010

Table of Contents

	<u>Page</u>
Auditor-Controller's Report	
Management's Discussion and Analysis.....	1 - 7
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet	10
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities	12
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	13
Notes to the Basic Financial Statements	14 – 26
Required Supplementary Information.....	27
Roster of Board Members	28

RODNEY A. DOLE
AUDITOR-CONTROLLER
TREASURER-TAX COLLECTOR

**Auditor-Controller
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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, 2010, 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. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2010 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.

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 inquiries of 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

December 22, 2010

**Sonoma-Marín Area Rail Transit District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010**

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, 2010. 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, 2010 by \$128,035,819 (net assets). Of this amount, \$26,788,017 is unrestricted.
- As of the close of the current fiscal year, SMART reported an ending unreserved fund balance of \$26,903,199.
- SMART's net assets increased \$43,137,701 during the fiscal year ended June 30, 2010, primarily the result of improvements made to SMART owned fixed assets by other governmental agencies and receipt of the first full year of sales tax revenues.

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, 2010**

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 \$128,035,819 at the fiscal year ended June 30, 2010.

The largest portion of SMART's net assets (79.1%) reflects its investment in capital assets (e.g., land, tracks and switches, crossties and fencing). 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, 2010**

Net Assets

	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 29,413,833	\$ 9,585,016
Capital assets	<u>101,247,802</u>	<u>81,333,573</u>
Total assets	<u>130,661,635</u>	<u>90,918,589</u>
Long-term liabilities outstanding	115,182	75,957
Other liabilities outstanding	<u>2,510,634</u>	<u>5,944,514</u>
Total liabilities	<u>2,625,816</u>	<u>6,020,471</u>
Net assets:		
Invested in capital assets, net of related debt	101,247,802	81,333,573
Unrestricted	<u>26,788,017</u>	<u>3,564,545</u>
Total net assets	<u>\$ 128,035,819</u>	<u>\$ 84,898,118</u>

SMART's net assets totaled \$128,035,819 at the end of the most recent fiscal year, an increase of \$43,137,701 from the prior fiscal year. Of this amount, \$20,063,535 is related to an increase in Construction in Progress for the following: Cal-Park Hill Tunnel reconstruction in San Rafael by the Marin County Department of Transportation, improvements made to tracks, bridges and signal equipment from Lombard (Napa County) to Windsor by the North Coast Railroad Authority (NCRA), relocation of the tracks in Central San Rafael as part of the Gap Closure Project by the California Department of Transportation (Caltrans) and improvements made to the Golf Course Drive at-grade crossing as part of the Highway 101 Wilfred Ave widening project in Rohnert Park by Caltrans. The remaining balance of the increase was an increase in general revenues, which included the first full year of collection of sales tax revenues generated by a ¼ cent SMART sales tax that was approved in November 2008, with an effective date of April 1, 2010.

**Sonoma-Marin Area Rail Transit District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010**

Changes in Net Assets

	2010	2009
Revenues:		
Program Revenues		
Intergovernmental:		
Transportation Congestion Relief Program (TCRP)	\$ 12,810,517	\$ 4,452,430
Metropolitan Transportation Commission (MTC)	1,871,307	3,382,776
Other governmental agencies	18,456,229	18,017,307
Charges for services	564,502	570,507
Total program revenues	33,702,555	26,423,020
 General Revenues		
Sales/Use taxes	24,059,929	4,976,687
Investment earnings	93,215	65
Miscellaneous revenue	38,445	36,070
Total general revenues	24,191,589	5,012,822
 Expenses:		
Program Expenses		
Public transportation - rail transit development:		
Salaries and employee benefits	1,330,192	790,751
Services and supplies	13,000,858	5,102,761
Depreciation	420,488	410,750
Bad debt	1,725	31,821
Other charges	3,180	2,725
Total program expenses	14,756,443	6,338,808
Increase (decrease) in net assets	43,137,701	25,097,034
Net assets - beginning of the year, as restated	84,898,118	59,801,084
Net assets - end of the year	128,035,819	84,898,118

**Sonoma-Marin Area Rail Transit District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010**

Governmental Activities

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

- SMART had program revenues of \$33,702,555 for the fiscal year ended June 30, 2010, consisting of \$12,810,517 from Caltrans as part of the Traffic Congestion Relief Program (TCRP) grant; \$18,456,229 in contributions from other governmental agencies for improvements made to the SMART rail infrastructure, \$1,871,307 from the Metropolitan Transportation Commission (MTC) from Regional Measure 2 (RM2) funds, and \$564,502 from property leases and application fees. This represents an increase of \$7,279,535 in program revenue compared to the fiscal year ended June 30, 2009.
- SMART had general revenues of \$24,191,589 for the fiscal year ended June 30, 2010, consisting of \$24,059,929 from sales/use taxes, \$93,215 in interest earnings, and \$38,445 in miscellaneous revenue.
- SMART had program expenses of \$14,756,443 for the fiscal year ended June 30, 2010, consisting of \$13,000,858 for services and supplies, which is primarily for consulting and other services related to the commuter rail project, \$1,330,192 for salaries and benefits, \$420,488 for depreciation, \$1,725 of bad debt expense and \$3,180 for other charges. This represents an increase of \$8,417,635 in program expenses compared to the fiscal year ended June 30, 2009.

Governmental Funds

The focus of SMART's governmental funds 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, 2010, SMART had an ending fund balance of \$26,903,199, an increase of \$23,262,697 from the fiscal year ended June 30, 2009.

General Fund Budgetary Highlights

- The budget for sales tax revenue was decreased from \$26,330,000 to \$24,401,000 based on revised sales tax estimates received from the California State Board of Equalization showing that sales tax revenues were recovering slower than expected for the last quarter of 2009 and first quarter of 2010.
- The budget for intergovernmental revenue was decreased from \$45,357,937 to \$36,065,585 based on decreased reimbursable costs for the Cal-Park Tunnel project and a re-budget of Measure M, Prop 116 and federal earmark funds to the next fiscal year.

**Sonoma-Marín Area Rail Transit District
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2010**

- The budget for services and supplies was increased based on revised costs associated with the Civil/Track Pathway design, vehicle and systems design, station engineering and design and major bridge design contracts.
- The budget for capital projects was decreased based on delay in construction of Phase B of the Cal-Park Tunnel project, a decision to use more TCRP funds and less sales tax funds, with a related decrease in the operating transfer of sales tax to the capital projects fund and a re-budget of the purchase of land to the next fiscal year.

Economic Factors

Although SMART’s revenues increased during the year, the State of California Board of Equalization has indicated that sales tax revenues for the next fiscal year should remain flat or increase very slightly. SMART is currently under-going a value engineering analysis that will further refine the costs associated with construction of the commuter rail project and has released a Request for Proposal (RFP) for rail cars with the goal of having car builder under contract in early 2011. It is anticipated that SMART will issue revenue bonds in anticipation of signing a contract for the purchase of rail cars.

Capital Assets

SMART’s investment in capital assets, as of June 30, 2010, amounts to \$101,247,802 (net of accumulated depreciation). This investment in capital assets includes land, rail infrastructure (tracks/rails, crossties, switches, bridges, fencing, tunnels and road crossings), buildings and improvements, and machinery and equipment. During the fiscal year ended June 30, 2010, SMART reclassified \$3,155,669 and \$1,002,387 in associated accumulated depreciation from buildings and improvements to infrastructure assets.

Capital Assets		
	<u>2010</u>	<u>2009</u>
Land	\$ 32,869,374	\$ 32,869,374
Infrastructure	3,155,669	-
Buildings & improvements	4,292,272	7,447,941
Construction in Progress	62,261,420	42,197,885
Equipment	306,556	35,374
Accumulated depreciation	<u>(1,637,489)</u>	<u>(1,217,001)</u>
Total capital assets, net		
of accumulated depreciation	<u>101,247,802</u>	<u>81,333,573</u>

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

**Sonoma-Marin Area Rail Transit District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010**

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, Chief Financial Officer, 750 Lindero Street, Suite 200, San Rafael, CA 94901

**Sonoma-Marín Area Rail Transit District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010**

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Sonoma-Marín Area Rail Transit District
Statement of Net Assets
June 30, 2010

Assets

Current assets:

Cash and investments	\$ 17,232,623
Due from other governments	8,564,439
Other receivables (net of allowance for uncollectibles)	3,425,128
Notes receivable	127,770
Interest receivable	4,860
Prepaid expenses	<u>59,013</u>
Total current assets	29,413,833

Capital assets:

Non-depreciable	
Land	32,869,374
Construction in progress	62,261,420
Depreciable (net of accumulated depreciation)	
Infrastructure	1,957,146
Building and improvements	3,863,044
Machinery and equipment	<u>296,818</u>
Subtotal capital assets	<u>101,247,802</u>
Total assets	<u>130,661,635</u>

Liabilities

Current liabilities:

Accounts payable	2,507,610
Deferred revenue	<u>3,024</u>
Total current liabilities	2,510,634

Non-current liabilities:

Compensated absences	<u>115,182</u>
Total liabilities	<u>2,625,816</u>

Net Assets

Invested in capital assets, net of related debt	101,247,802
Unrestricted	<u>26,788,017</u>
Total net assets	<u>\$ 128,035,819</u>

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, 2010

Program Expenses

Public transportation - rail transit development	
Salaries and employee benefits	\$ 1,330,192
Services and supplies	13,000,858
Depreciation	420,488
Bad Debt	1,725
Other Charges	3,180
	<hr/>
Total program expenses	14,756,443

Program Revenues

Intergovernmental	
Transportation Congestion Relief Program (TCRP)	12,810,517
Metropolitan Transportation Commission (MTC)	1,871,307
Other governmental agencies	18,456,229
Charges for services	564,502
	<hr/>
Total program revenues	33,702,555
	<hr/>
Net program revenues	18,946,112

General Revenues

Sales/Use taxes	24,059,929
Investment earnings	93,215
Miscellaneous revenue	38,445
	<hr/>
Total general revenues	24,191,589

Change in net assets	43,137,701
Net assets, beginning of year	84,898,118
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Net assets, end of year	\$ 128,035,819

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

Sonoma-Marín Area Rail Transit District
Balance Sheet
Governmental Fund
June 30, 2010

Assets

Cash and investments	\$ 17,232,623
Due from other governments	8,564,439
Other receivables (net of allowance for uncollectibles)	3,425,128
Notes receivable	127,770
Interest receivable	4,860
Other current assets	59,013
Total assets	29,413,833

Liabilities and Fund Balance

Liabilities:

Accounts payable	2,507,610
Deferred revenue	3,024
Total liabilities	2,510,634

Fund balance:

Unreserved	26,903,199
Total liabilities and fund balance	\$ 29,413,833

Reconciliation of Balance Sheet to Statement of Net Assets

Fund balances - total governmental funds	\$ 26,903,199
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	101,247,802
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(115,182)
Net assets of governmental activities (page 8)	\$ 128,035,819

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
For the Fiscal Year Ended June 30, 2010**

Revenues

Sales/Use taxes	\$ 24,059,929
Intergovernmental revenues	
Transportation Congestion Relief Program (TCRP)	12,810,517
Metropolitan Transportation Commission (MTC)	1,871,307
Other governmental agencies	18,456,229
Charges for services	564,502
Investment earnings	93,215
Other revenue	38,445
	<hr/>
Total revenues	57,894,144
	<hr/>

Expenditures

Current:	
Salaries and benefits	1,290,967
Services and supplies	13,000,858
Capital outlay	20,334,717
Other Charges	3,180
Bad debts	1,725
	<hr/>
Total expenditures	34,631,447
	<hr/>

Net change in fund balances	23,262,697
Fund balance, beginning of year	3,640,502
	<hr/>
Fund balance, end of year	\$ 26,903,199
	<hr/> <hr/>

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

**Sonoma-Marin Area Rail Transit District
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balance of Governmental Fund
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2010**

**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)	\$	23,262,697
<p>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.</p>		
Capital outlay		20,334,717
Current year depreciation		(420,488)
<p>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.</p>		
		(39,225)
		43,137,701
Change in net assets of governmental activities (page 9)	\$	43,137,701

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 - Governmental Fund
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		Positive (Negative)
Revenues				
Sales/Use taxes	\$ 26,330,000	\$ 24,401,000	\$ 24,059,929	\$ (341,071)
Intergovernmental revenue	45,357,937	36,065,585	33,138,053	(2,927,532)
Charges for services	566,560	546,955	564,502	17,547
Investment earnings	11,500	106,687	93,215	(13,472)
Miscellaneous revenue	-	325	38,445	38,120
Total revenues	<u>72,265,997</u>	<u>61,120,552</u>	<u>57,894,144</u>	<u>(3,226,408)</u>
Expenditures				
Current:				
Salaries and employee benefits	1,438,097	1,302,476	1,290,967	11,509
Services and supplies	12,792,632	18,210,528	13,000,858	5,209,670
Other charges	1,500	3,180	3,180	-
Capital outlay	57,038,961	26,742,328	20,334,717	6,407,611
Bad debt	-	-	1,725	(1,725)
Reimbursements	(1,079,071)	(1,010,754)	-	(1,010,754)
Appropriations for contingencies	150,000	-	-	-
Total expenditures	<u>70,342,119</u>	<u>45,247,758</u>	<u>34,631,447</u>	<u>10,616,311</u>
Excess of revenues over expenditures	1,923,878	15,872,794	23,262,697	7,389,903
Other financing sources				
Operating Transfer	20,000,000	-	-	-
Net change in fund balances	<u>21,923,878</u>	<u>15,872,794</u>	<u>23,262,697</u>	<u>7,389,903</u>
Fund balance - beginning of year	<u>3,640,502</u>	<u>3,640,502</u>	<u>3,640,502</u>	<u>-</u>
Fund balance - end of year	<u>\$ 25,564,380</u>	<u>\$ 19,513,296</u>	<u>\$ 26,903,199</u>	<u>\$ 7,389,903</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, 2010

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 Sonoma and Marín Counties. 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 funds. 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, 2010

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-Marin Area Rail Transit District
Notes to the Basic Financial Statements
June 30, 2010

Sonoma Treasurer has not provided nor obtained any legally binding guarantees to support the value of pool shares.

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. Rail infrastructure and equipment are depreciated using the straight-line method over their estimated useful lives of 10 to 20 years. Computer equipment and software, which on the financial statement are included under Machinery and equipment, are 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.

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

Sonoma-Marin Area Rail Transit District
Notes to the Basic Financial Statements
June 30, 2010

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 Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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 funds. 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*.

Sonoma-Marin Area Rail Transit District
Notes to the Basic Financial Statements
June 30, 2010

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, 2009, SMART implemented the following new GASB Statements:

GASB Statement No. 51

Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets*, issued in June 2007. This statement establishes accounting and financial requirements for intangible assets to reduce inconsistencies in the accounting and financial reporting of such assets among state and local governments. This statement also provides authoritative guidance that specifically addresses the nature of the intangible assets including internally generated intangible assets. GASB Statement No. 51 is effective for financial statements for fiscal years beginning after June 15, 2009.

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.

Sonoma-Marin Area Rail Transit District
Notes to the Basic Financial Statements
June 30, 2010

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.

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

Sonoma-Marin Area Rail Transit District
Notes to the Basic Financial Statements
June 30, 2010

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, 2010, approximately 65 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
June 30, 2010

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 2010 Sonoma County CAFR.

B. Due from Other Governments

Due from Other Governments represents the amounts of outstanding claims submitted to Caltrans and MTC for reimbursements of eligible costs expended for the Commuter Rail Project.

C. Other Receivables

Other receivables are comprised primarily of sales and use tax revenues due from the California State Board of Equalization.

D. Notes Receivable

SMART holds a promissory note receivable from Santa Rosa Canners, LLC for the sale of right, title and interest in intangible and personal property. The note is payable upon the completion of specific contractual provisions.

Sonoma-Marin Area Rail Transit District
Notes to the Basic Financial Statements
June 30, 2010

F. Notes Payable

During the fiscal year ended June 30, 2010 SMART paid off a \$500K note payable to the County of Sonoma Treasury.

G. Long-Term Debt

Long-term liability activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 75,957	\$ 39,225	\$ -	\$ 115,182	\$ -
Total long-term liabilities	\$ 75,957	\$ 39,225	\$ -	\$ 115,182	\$ -

H. Miscellaneous Revenue

Miscellaneous revenue consisted mainly of reimbursements to SMART for consultant services from Codding Enterprises for the Santa Rosa North Station site and from the Transportation Authority of Marin (TAM) for the Central Marin Ferry project in Larkspur.

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 November 6, 2010, due to a projected budget shortfall the SMART Board moved to construct the rail system in phases beginning with the section between Santa Rosa and San Rafael.

On December 15, 2010 the SMART Board acted to approve the purchase of railcars from Sumitomo Corp. of America (SCOA), for \$56.85 million.

As of December 15, 2010 the SMART Board deferred taking action on a resolution to issue Measure Q Sales Tax Revenue Bonds. During their December 15, 2010 meeting, the Board approved an agreement for financial consultant services with Public Financial Management, Inc. to assist in issuing revenue bonds.

Sonoma-Marin Area Rail Transit District
Notes to the Basic Financial Statements
June 30, 2010

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 the California Public Employees' Retirement System (PERS). DBPP members include all permanent employees of a participating employer (including SMART) who have been appointed to a permanent position of at least half-time. 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.

Sonoma-Marin Area Rail Transit District
Notes to the Basic Financial Statements
June 30, 2010

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 (employees) are responsible for contributing 7% of their annual covered salary to the fund. SMART's Board-approved policy is to pay this amount on behalf of its employees. This percentage is determined by state law. Employers, including SMART, are required to contribute at an actuarially determined rate. The rate for FY 2009-10 is 11.759% 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, 2010, 2009, and 2008 were \$179,609, \$103,452 and \$85,967 respectively.

The three-year trend information for the Fund of the actuarially required employer and employee contribution is as follows:

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed (%)</u>	<u>Net Pension Obligation</u>
Miscellaneous Plan:			
June 30, 2008	\$ 85,967	100%	\$ -
June 30, 2009	\$ 103,452	100%	\$ -
June 30, 2010	\$ 179,609	100%	\$ -

Funded Status and Funding Progress of the Plan

As of June 30, 2009, based on CalPERS' most recent actuarial report, the Miscellaneous Plan is 64.9% funded. The actuarial accrued liability for the risk pool for benefits was \$3,104,798,222 and the actuarial value of the asset was \$2,014,366,226, resulting in an unfunded liability of \$1,090,431,996. The covered payroll (annual payroll of active employees covered by the plan) was \$742,981,488 and the ratio of the unfunded liability to the covered payroll was 146.8%.

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, 2010

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, 2009	June 30, 2008	June 30, 2007
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	16 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	3.25% to 10.75% 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-Marin Area Rail Transit District
Required Supplementary Information
June 30, 2010**

**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, 2007	\$ 2,611,746,790	\$ 2,391,434,447	\$ 220,312,343	91.6%	\$ 665,522,859	33.1%
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%

**Sonoma-Marin Area Rail Transit District
Roster of Board Members**

As of the fiscal year ended June 30, 2010, the Sonoma/Marin Area Rail Transit District Board of Directors consisted of:

Debora Fudge, Chair	Windsor
Barbara Pahre, Vice-Chair	Bridge District
Judy Arnold	Marin County
Al Boro	San Rafael
Valerie Brown	Sonoma County
James Eddie	Bridge District
Madeline Kellner	Novato
Joan Lundstrom	Larkspur
Charles McGlashan	Marin County
Jake Mackenzie	Rohnert Park
Carol Russell	Cloverdale
Shirlee Zane	Sonoma County