



1255 Imperial Avenue, Suite 1000
San Diego, CA 92101-7490
619.231.1466 FAX 619.234.3407

Agenda

JOINT MEETING OF THE AUDIT OVERSIGHT COMMITTEE

for the
Metropolitan Transit System
San Diego Transit Corporation, and
San Diego Trolley, Inc.

October 23, 2008

Executive Conference Room
(Immediately following Executive Committee Meeting)

ACTION RECOMMENDED

- | | | | |
|----|--|---|---------|
| A. | 1. | ROLL CALL | |
| | 2. | APPROVAL OF THE MINUTES OF JUNE 5, 2008 | Approve |
| B. | COMMITTEE DISCUSSION ITEMS | | |
| | 1. | <u>MTS: Draft Fiscal Year 2008 Comprehensive Annual Financial Report</u>
Action would receive the Draft Fiscal Year 2008 Comprehensive Annual Financial Report (CAFR). | Receive |
| C. | COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS | | |
| D. | PUBLIC COMMENTS | | |
| E. | NEXT MEETING DATE: To be determined. | | |
| F. | ADJOURNMENT | | |

Please turn off cell phones and pagers
during the meeting



Metropolitan Transit System (MTS) is a California public agency and is comprised of San Diego Transit Corporation and San Diego Trolley, Inc., nonprofit public benefit corporations, in cooperation with Chula Vista Transit and National City Transit. MTS is the taxicab administrator for eight cities and the owner of the San Diego and Arizona Eastern Railway Company. MTS member agencies include: City of Chula Vista, City of Coronado, City of El Cajon, City of Imperial Beach, City of La Mesa, City of Lemon Grove, City of National City, City of Poway, City of San Diego, City of Santee, and the County of San Diego.

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AUDIT OVERSIGHT COMMITTEE MEETING FOR THE METROPOLITAN TRANSIT SYSTEM (MTS), SAN DIEGO TRANSIT CORPORATION (SDTC), AND SAN DIEGO TROLLEY, INC. (SDTI)

June 5, 2008

MTS
1255 Imperial Avenue, Suite 1000, San Diego

MINUTES

A. ROLL CALL

1. Chairman Ewin called the meeting to order at 10:55 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

2. APPROVAL OF MINUTES

Mr. Mathis moved approval of the minutes of the April 17, 2008, Audit Oversight Committee meeting. Mr. Monroe seconded the motion, and the vote was 5 to 0 in favor.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. MTS: Interim Work – Exit Interview (ADM 110.12)

Chairman Ewin stated that he did not attend the interim exit interview for the audit for fiscal year ending June 30, 2008, and won't attend any exit interviews unless the Committee feels it is within his purview to attend them. Mr. Ken Pun of Caporicci & Larson distributed an Interim Exit Conference outline covering audit procedures, 2008 high profile areas, open items, and current year observations. He also introduced Roma Layosa, senior in charge of the audit at MTS. Mr. Pun reported that they are finished with the second phase of the audit, which is the internal control evaluation and is one of the most important phases of the audit. He briefly reviewed the elements of MTS's systems that are audited and stated that internal controls are properly in place and accounting procedures are being followed. He stated that they also review the internal audit function but it is considered to be a low-risk area. He also reported that there is only one open item - the preparation of confirmations - which will be done after June 30.

Mr. Pun then reviewed Current Year Observations. Mr. Monroe expressed concern that 2 of the 15 assets audited were not tagged. Staff explained that the audit was conducted only on assets added since the last audit. Mr. Cliff Telfer, MTS Chief Financial Officer, reported that the items not tagged were on the capital asset list but had just not been tagged yet. Mr. Pun explained that the auditors use a small sample size to determine if internal controls are in place and added that a random sample can be used because this is a low-risk area. Mr. Monroe felt the sample size was too small to be valid. Mr. Pun explained that random sampling is typically used for government entities because the volume of items is too large to use the more traditional statistical sampling methods and because the impact on the financial statement is insignificant. He added that there are also no internal control

issues. He stated that the assets that were being audited are small-value assets and would comprise \$300,000 on the balance sheet and \$500,000 on the income statement. In response to a question from Mr. Ewin, Mr. Pun explained that the tagging of capital assets is audited to ensure that the asset is in place, that there is documentation of the purchase, and to prevent misappropriation of equipment. He stated that the tagging of these items also helps during the inventory process. Mr. Telfer reported that only 48 assets were added this year, and 15 were audited. Mr. Telfer also reported that all of the new assets appear on the capital asset list although some of them were not yet tagged. Mr. Pun confirmed for Mr. Ewin that the auditors are not aware of any missing assets.

In response to a comment from Mr. Monroe, Mr. Pun reported that only 20 personnel records were audited but that, at the end of the year, they will be auditing 200 employee files for testing purposes. In response to a question from Mr. Monroe about the driver pull notice problem, Mr. Jablonski reported that the CHP just did a 100 percent reaudit of the pull notice program and found no problems.

Mr. Pun reviewed New Pronouncements to be implemented in 2008, 2009, and 2010. In connection with that review, Mr. Marinesi stated that MTS is working with an outside consultant to get an actuarial study that would determine the financial impact of providing postemployment medical coverage for retirees. He stated that this study and the report should be completed by the end of the year. Mr. Telfer stated that a decision will have to be made whether or not to fund this item and indicated that it will have a large dollar value.

Mr. Pun pointed out that GASB 48 will require more disclosure of transactions between MTS and SANDAG and confirmed for Mr. Ewin that confirmations will be sent to SANDAG. Mr. Pun identified the pronouncements that would not apply to MTS. Mr. Pun also reported that there will be many footnotes that will be added to the Comprehensive Annual Financial Report (CAFR) this year as a result of these pronouncements.

Mr. Pun reviewed the year-end schedule and, after a brief discussion, it was decided that the CAFR should be presented to the Executive Committee and the Board of Directors on November 6 and November 13, respectively. Mr. Pun confirmed Mr. Ewin's understanding that, if the audit field work is finished by September 26, the CAFR would need to be approved by the MTS Board by November 15. Mr. Telfer confirmed for Mr. Monroe that management approves the CAFR and the Board accepts the report. In response to a question from Mr. Ewin, Mr. Pun reported that the final exit interview should take place the first week of October. In response to Mr. Ewin's concern that all issues may not be resolved in a timely manner prior to the presentation of this item to the Executive Committee, Mr. Pun stated that if all outstanding items are not resolved, a draft report could be presented listing those exceptions. Mr. Pun confirmed for Mr. Jablonski that the auditors have not found anything in the audit that is material. In response to a question from Mr. Ewin, Mr. Pun reported that Cliff Telfer, MTS Finance Manager Linda Musengo, and Internal Auditor Mark Abbey attended the exit interview.

Action Taken

No action was taken on this item.

2. MTS: Proposed 2008/2009 Internal Audit Plan

(ADM 110.12)

Mr. Mark Abbey, MTS Internal Auditor, presented the proposed 2008/2009 Internal Audit Plan, which was developed with input from Mr. Jablonski, Ms. Lorenzen, and Mr. Telfer, and provided a brief overview of the list of projects. He stated that projects were selected based on risk assessment and previous experience with issues. He advised Mr. Ewin that the only project carried over from the previous year was Payroll. He reported that Mr. Telfer requested that this audit project be carried over to 2009 to allow time for the installation of a new payroll system. Mr. Abbey reported that 360 hours have been set aside for special requests and projects as identified and requested. He also reported that revenue collections are being audited again because of the importance of accurate cash-collection accounting. Mr. Abbey reported that procurement processes will be audited because of the recent consolidation of this function between the three agencies and because there is a new procurement manager in place.

In response to a question from Mr. Ewin, it was reported that the Internal Auditor reports to the General Counsel.

Mr. Jablonski reported that an inventory of the SDTI storeroom had just been completed and discrepancies were minimal.

Action Taken

Mr. Atkins moved to approve the Proposed 2008/2009 Internal Audit Plan (Attachment A of the agenda item) and forward it to the Board. Mr. Monroe seconded the motion, and the vote was 5 to 0 in favor.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

There were no Committee communications.

D. PUBLIC COMMENTS

There were no public comments

E. NEXT MEETING DATE:

The next meeting will be held as called.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 11:42 a.m.

Chairman

**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) 06/05/08

CALL TO ORDER (TIME) 10:55 a.m.

RECESS _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 11:42 a.m.

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
ATKINS <input checked="" type="checkbox"/> (Young) <input type="checkbox"/>		
EMERY <input type="checkbox"/> (Cafagna) <input type="checkbox"/>		<input checked="" type="checkbox"/>
EWIN <input checked="" type="checkbox"/> (Clabby) <input type="checkbox"/>		
MATHIS <input checked="" type="checkbox"/>		
MONROE <input checked="" type="checkbox"/> (McLean) <input type="checkbox"/>		
RINDONE <input type="checkbox"/> (Emery) <input type="checkbox"/>		<input checked="" type="checkbox"/>
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>		

SIGNED BY OFFICE OF THE CLERK OF THE BOARD

Gail Williams

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL:

[Signature]



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Agenda

Item No. B1

JOINT MEETING OF THE AUDIT OVERSIGHT COMMITTEE ADM 110.12 (PC 50101)
for the
Metropolitan Transit System,
San Diego Transit Corporation, and
San Diego Trolley, Inc.

October 23, 2008

SUBJECT:

MTS: DRAFT FISCAL YEAR 2008 COMPREHENSIVE ANNUAL FINANCIAL REPORT

RECOMMENDATION:

That the MTS Audit Oversight Committee receive the Draft Fiscal Year 2008 Comprehensive Annual Financial Report (CAFR).

Budget Impact

None at this time.

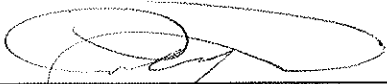
DISCUSSION:

Staff will present a progress report on the Draft Fiscal Year 2008 CAFR. As of October 17, the following items remain open:

1. Statement of Cash Flows. Normally this is not completed until all entries have been recorded.
2. Estimated Liabilities. There is at least one outstanding legal action for which an accrued liability has not yet been recorded subject to consultation with auditors and counsel.
3. Statistical Section. The last section of the CAFR consists largely of unaudited demographic and other nonfinancial data. This is normally completed concurrently with initial review of the CAFR draft.
4. Formatting. A new CAFR preparation tool was used this year, and some formatting must be standardized within the document.



5. Proofreading. The document has not been subjected to a final proofread for typos, misspellings, and other grammatical or syntax errors.



Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Cliff Telfer, 619.557.4532, cliff.telfer@sdmts.com

OCT23-08.B1.AOC.FY 08 CAFR.LMUSENGO.doc

Attachment: A. Comprehensive Annual Financial Report



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SAN DIEGO METROPOLITAN TRANSIT SYSTEM
SAN DIEGO, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008



San Diego Metropolitan Transit System

San Diego, California

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***Comprehensive Annual Financial Report and
Independent Auditors' Report***

For the year ended June 30, 2008

PREPARED BY SAN DIEGO METROPOLITAN TRANSIT SYSTEM
FINANCE DEPARTMENT

Introductory Section (Unaudited):

- Letter of Transmittal
- Listing of Board of Directors and Management
- Executive Level Organization Chart
- Certificate of Achievement for Excellence in Financial Reporting - GFOA

Financial Section:

Independent Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements:

- Statement of Net Assets
- Schedule of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to Basic Financial Statements

Required Supplementary Information (Unaudited):

- Schedule of Funding Progress of Defined Pension Plans

Supplementary Information:

- Combining Schedule of Net Assets
- Combining Schedule of Revenues, Expenses, and Changes in Net Assets
- Schedules of Revenues, Expenses and Changes in Net Assets - Budget and Actual:
 - Combined Operations
 - General Operations:
 - General Fund
 - Taxicab Administration
 - San Diego & Arizona Eastern Railway
 - Contract Services
 - San Diego Transit Corporation
 - San Diego Trolley, Inc.

Statistical Section (Unaudited):

- Financial Trends
 - Changes in Net Assets
- Revenue Capacity
 - Operating Revenue by Source
 - Fare Structure
 - Farebox Recovery Percentages
- Debt Capacity

Ratio of Outstanding Debt by Type
Demographic and Economic Statistics
 Regional Population and Personal Income Statistics
 Full-time and Part-time Employees by Function
 Ten Largest Employers
Operating Information
 Operating Indicators by Function
 Service Performance Data
 Capital Asset Statistics by Function
 Ridership
 Operating Subsidy

INTRODUCTORY SECTION

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Board of Directors and Transit Riders
San Diego Metropolitan Transit System

The comprehensive annual financial report of the San Diego Metropolitan Transit System (MTS) for the fiscal year ended June 30, 2008 is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. Management of MTS is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of MTS are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

State statutes require an annual audit by independent certified public accountants. The firm of Caporicci & Larson, CPAs, has been retained to meet this requirement. The goal of the independent audit was to provide reasonable assurance that the financial statements of MTS for the fiscal year ended June 30, 2008 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that MTS' financial statements for the fiscal year ended June 30, 2008 are fairly presented, in all material respects, in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit also was designed to meet the requirements of a broader, federally mandated "Single Audit" to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements required the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The reports related specifically to the Single Audit are issued under separate cover.

MTS maintains budgetary controls, the objective of which is to ensure compliance with the provisions embodied in the annual appropriated budget approved by the board of directors. Activities of the General Fund, which includes Capital Projects and Debt Service activities, are included in the annual appropriated budget. Comprehensive multi-year financial plans, adopted when major projects are approved for the final design and construction phase, provide project-length budgetary control for Capital Projects. The portion of costs expected to be incurred on each project during the fiscal year is included in the annual operating budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by line item within an individual fund, that is the level of detail presented in the statement of revenues, expenses and changes in net assets. The Chief Executive Officer has the authority to transfer up to \$25,000 between line items. MTS also maintains an encumbrance accounting system as one technique of accomplishing budgetary

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control. Encumbered amounts lapse at year-end. However, encumbrances are evaluated and may be reappropriated as part of the following year's budget.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

REPORTING ENTITY

The San Diego Metropolitan Transit System was created effective January 26, 1976 to provide the policy setting and overall management coordination of the public transportation system in the San Diego metropolitan service area. This service area encompasses approximately 2.19 million people residing in a 570 square mile area of San Diego County, including the cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, Santee, and San Diego and the unincorporated area of the County of San Diego. A number of fixed-route operating entities provide the service and have banded together to form a federation of transit service providers called the Metropolitan Transit System (MTS). The purpose of the MTS is to provide coordinated routes, fares, and transfers among the different operating entities.

MTS' mission statement, adopted by the board of directors, is to enhance the personal mobility of San Diego metropolitan area residents and visitors by:

- Obtaining maximum benefit for every dollar spent.
- Being the community's major public transportation advocate.
- Increasing public transportation usage per capita.
- Taking a customer-oriented approach.
- Offering high-quality public transportation services.
- Responding to the community's socio-economic interests.

Effective January 1, 2003, Senate Bill 1703 (SB 1703) took effect which consolidated the planning, programming, project development, and construction activities of the San Diego Association of Governments (SANDAG), MTS, and North San Diego County Transit District (NCTD) within SANDAG. The legislation called for an initial transfer of the planning and programming functions from MTS to SANDAG by July 1, 2003 and a subsequent transfer of the project development and construction functions by January 30, 2004. Now that the consolidation is complete, MTS' focus has shifted to transit service operations, as SANDAG, in its newly configured role, is responsible for all other facets of transportation planning, programming, and development. MTS has one voting member on the nine-member Transportation Committee within SANDAG. The Transportation Committee assumed the responsibility and decision-making for all transportation-related planning, programming, and development activities. In accordance with the legislation, the planning and programming functions were transferred to SANDAG on July 1, 2003, and the project development and construction activities were transferred to SANDAG on October 13, 2003.

MTS is effectively an umbrella agency. MTS owns the assets of San Diego Trolley, Inc. (SDTI) and San Diego Transit Corporation (SDTC), the area's two largest transit operators. These two transit units were formed under California law as not-for-profit public corporations and function as operating subsidiaries of MTS. SDTI and SDTC are considered component units and are blended component units for financial reporting purposes. SDTI operates three Light Rail Transit (LRT) routes, the Blue Line from the Mission San Diego Station to San Ysidro at the International Border, the Orange Line from the Imperial and 12th Bayside Platform through Centre City and then east to Santee, and the Mission Valley Extension, known as the Green Line. SDTI operates on a total of 54.3 miles of track. SDTC operates 20 routes with an active fleet of 267 buses.

The relationship between MTS and the transit operating subsidiaries, SDTI and SDTC, is formally established through operating agreements and MTS-adopted corporate policies. These agreements and corporate policies specify the roles and responsibilities of each of the organizations and outline the procedures in numerous functional areas including auditing and budgeting, fare setting, marketing and public information, revenue-producing advertising, service contracts, and programming of federal, state and local subsidies. The MTS Board of Directors has the policy-setting responsibility for the operation and development of MTS' transit operating subsidiaries as well as for the planning and approval of capital expenditures by or on behalf of these entities. The day-to-day operating functions, labor matters and maintenance of facilities are managed by the individual transit operators.

Starting in July of 2004 and continuing forward, MTS began to centralize and consolidate many functions within SDTI and SDTC. These include Planning, Human Resources, Finance, and Purchasing. This transition is largely completed as of June 30, 2008.

In addition, MTS owns the San Diego and Arizona Eastern Railway Company (SD&AE), a not-for-profit railroad holding company entrusted with assets which include 108 miles of rail line and over 2,000 acres of property. MTS has a contract with the San Diego and Imperial Valley Railway Co. (SDIV) for the operation of freight rail services over the SD&AE rail line. MTS provides no subsidy to SDIV, but does receive a portion of its gross revenue. SD&AE is considered a component unit and a blended component unit for financial reporting purposes.

In addition to the bus routes operated by SDTC, MTS is financially accountable for the operation of certain other bus routes. MTS contracts with an outside party for the operation of these bus routes. The contracts require full operation and maintenance of the bus services. These contract services are accounted for in the Other Contracted Services Enterprise Fund for financial reporting purposes. Effective July 1, 2002, the responsibility for operating the County Transit System (CTS) was transferred from the County of San Diego to MTS. CTS operating services are combined with the Other Contracted Services Enterprise Fund for financial reporting purposes.

MTS also is financially accountable for the operation of Taxicab Administration services, which includes regulating the issuance of taxi and jitney service permits in the Cities of San Diego, El Cajon, Imperial Beach, Lemon Grove, National City, Poway, and Santee.

The MTS Board of Directors is comprised of 15 members with four appointed from the San Diego City Council, one appointed from the San Diego County Board of Supervisors, one appointed from each city council of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, and Santee, and one member of the public elected by other Board members to serve as Chairman.

ECONOMIC CONDITION AND OUTLOOK

Operations

Historically, the San Diego region has enjoyed strong economic expansion, outpacing both the state and national economies. San Diego's gross regional product (GRP), the estimated total value of the regions' economy was estimated at \$161.1 billion for FY 2006 (most recent estimate available). More recently, San Diego has begun to feel the effects of the downturn in the housing and credit market. MTS-area fixed-route ridership increased during FY 2008 partly attributable to the increase in gasoline prices.

The principal local source of operating subsidy for MTS' transit programs is Transportation Development Act (TDA) funding. One-fourth percent of the local sales tax in each California county is dedicated to transportation purposes.

On a local level, area voters approved a one-half cent transportation sales tax in 1987, called TransNet. One-third of the sales tax proceeds is allocated for transit purposes which is further divided between MTS and North County Transit District (MTS' counterpart in North San Diego County) based on the proportion of the population within the area of each jurisdiction. Prior to FY 2004, 80% of the transit TransNet funds had to be used for expansion of the light rail system. The remaining 20% could be used for operations after funding a reduced price pass program for seniors, disabled, and youth, which is capped at \$5.5 million. As a result of operating budget pressures, the ratio was changed in June 2003 so that up to 40% of the TransNet program can be used for operations (increased from 20%). The current TransNet sales tax expires in 2008. A reauthorization measure was approved by voters in November 2004 extending the TransNet sales tax for 40 additional years. This has removed a major potential funding problem that would have occurred in 2008 and beyond.

Major Initiatives

With the changes brought about by SB 1703, the MTS focus is now clearly on operations rather than development. Specifically, this is providing quality, efficient, and reliable service to customers using resources to maximum effect. Two major challenges are to align operating costs with recurring revenues and rebuild the capital program in order to be able to replace aging infrastructure.

MTS has completed a Comprehensive Operational Analysis (COA), the first in MTS history. The purpose of the COA is to assess its ridership and route structure on a comprehensive basis. This assessment is allowing MTS to better align its operations in all areas. The benefits are at least two fold. First it better matches riders with where they want to go offering opportunities for increased ridership and better service to customers and the larger community. Second, it acts as a priority guide for providing service. In doing so, various service levels can be effectively evaluated to coincide with available recurring revenues. Matching the proper service level to available recurring revenues eliminates structural deficits that have produced challenges for MTS for the last few years. Service changes were implemented beginning in January 2007, and will be monitored and evaluated on an ongoing basis to ensure that the relationship between service levels and ridership remains consistent and reasonable.

FINANCIAL MANAGEMENT

Pension Funds

MTS and SDTI contract with the California Public Employees Retirement System (PERS) to provide retirement plans for their employees. The employees of SDTC participate in the San Diego Transit Corporation Employee Retirement Plan, a single-employer public employee retirement plan.

Debt Administration

Capital Leases – MTS has two capitalized lease obligations with current year debt service of \$526 thousand. One lease obligation is the result of a joint venture arrangement whereby the joint venture issued certificates of participation (COPs) for the construction of the MTS Tower, and MTS services the debt through lease payments. The other is a lease purchase agreement for the acquisition of telecommunications equipment.

On the COP issue, the rating, which was based on the strength of the joint venture and the primary lessor (the County of San Diego), was Aaa by Moody's Investors Service and AAA by Standard & Poor's Corporation.

Finance Obligations – MTS has one finance obligation resulting from a Light Rail Vehicle (LRV) lease/leaseback transaction. Proceeds from this transaction have been placed into investments that mature at values sufficient to cover all remaining obligations as well as amounts necessary to exercise the repurchase option. During the year MTS retired three other finance obligations. Total debt service for FY 08 was \$27.9 million. The three retired finance obligations consisted of two COP's issued for the completion of construction projects and one obligation related to a Light Rail Vehicle sale/leaseback transaction.

Pension Obligation Bonds – MTS issued Taxable Pension Obligation Bonds in 2004 to reduce the unfunded liability in the SDTC retirement plan. Total debt service for FY 2008 was \$1.5 million. This obligation is reported by SDTC.

Cash Management

To facilitate optimum management of MTS' resources, balances in all cash accounts within the organization, including MTS, SDTC and SDTI, are swept nightly to one concentration account. MTS cash in excess of funds required for short term needs form a pool of cash for short-term investment, except for restricted funds, which are generally held by outside custodians on behalf of capital projects and debt service requirements. MTS' funds are invested in accordance with its written policy which is consistent with the California Government Code 53600. MTS is currently evaluating contracts for the services of an outside investment management firm to handle the daily investment activities. Further details of MTS' cash and investments at June 30, 2008 are set forth in Note 2 to the financial statements.

Risk Management

MTS (including Taxicab Administration, SD&AE, and Other Contracted Services), SDTI, and SDTC are protected against the adverse consequences of material or financial loss through a balanced program of risk retention and the purchase of commercial insurance. MTS, SDTI, and SDTC are insured for liability, property, and workers' compensation claims under a combined insurance program. Claims in excess of the various deductibles and self-insured retention amounts which range from \$50,000 to

\$2,000,000 are insured with commercial carriers up to \$75,000,000 for liability and up to \$600,000,000 for property damage.

Acknowledgments

The preparation of this report was accomplished with the cooperation of MTS' management and staff. We express our appreciation to the staff members who contributed to the preparation of this report.

November 30, 2008

San Diego Metropolitan Metropolitan Transit System

Listing of Board of Directors and Management

BOARD OF DIRECTORS

Members

Harry Mathis
Jerry Rindone
Toni Atkins
Thomas E. Clabby
Robert Emery
Ernest Ewin
Kevin Faulconer
Brian Maienschein
Bob McClellan
Fred McLean
Phil Monroe
Ron Roberts
Hal Ryan
Tony Young
Rosalie Zarate

Board position (elected position)

Chairman, since 1/06
Vice Chairman, since 7/91 (Deputy Mayor, City of Chula Vista)
Board Member, since 12/02 (Councilmember, City of San Diego)
Board Member, since 6/96 (Councilmember, City of Lemon Grove)
Chair, Pro Tem, since 7/85 (Councilmember, City of Poway)
Board Member, since 03/05 (Councilmember, City of La Mesa)
Board Member, since 1/06 (Councilmember, City of San Diego)
Board Member, since 12/00 (Councilmember, City of San Diego)
Board Member, since 4/08 (Councilmember, City of El Cajon)
Board Member, since 1/06, (Councilmember, City of Imperial Beach)
Board Member, since 4/02 (Councilmember, City of Coronado)
Board Member, since 12/89 (County Board of Supervisors)
Board Member, since 1/04 (Vice Mayor, City of Santee)
Board Member, since 1/05 (Councilmember, City of San Diego)
Board Member, since 1/07 (Councilmember, National City)

MTS MANAGEMENT

Staff

Paul Jablonski
Tiffany Lorenzen
Cliff Telfer
Claire Spielberg
Peter Tereschuck
Sharon Cooney
Robert Schupp
Jeff Stumbo

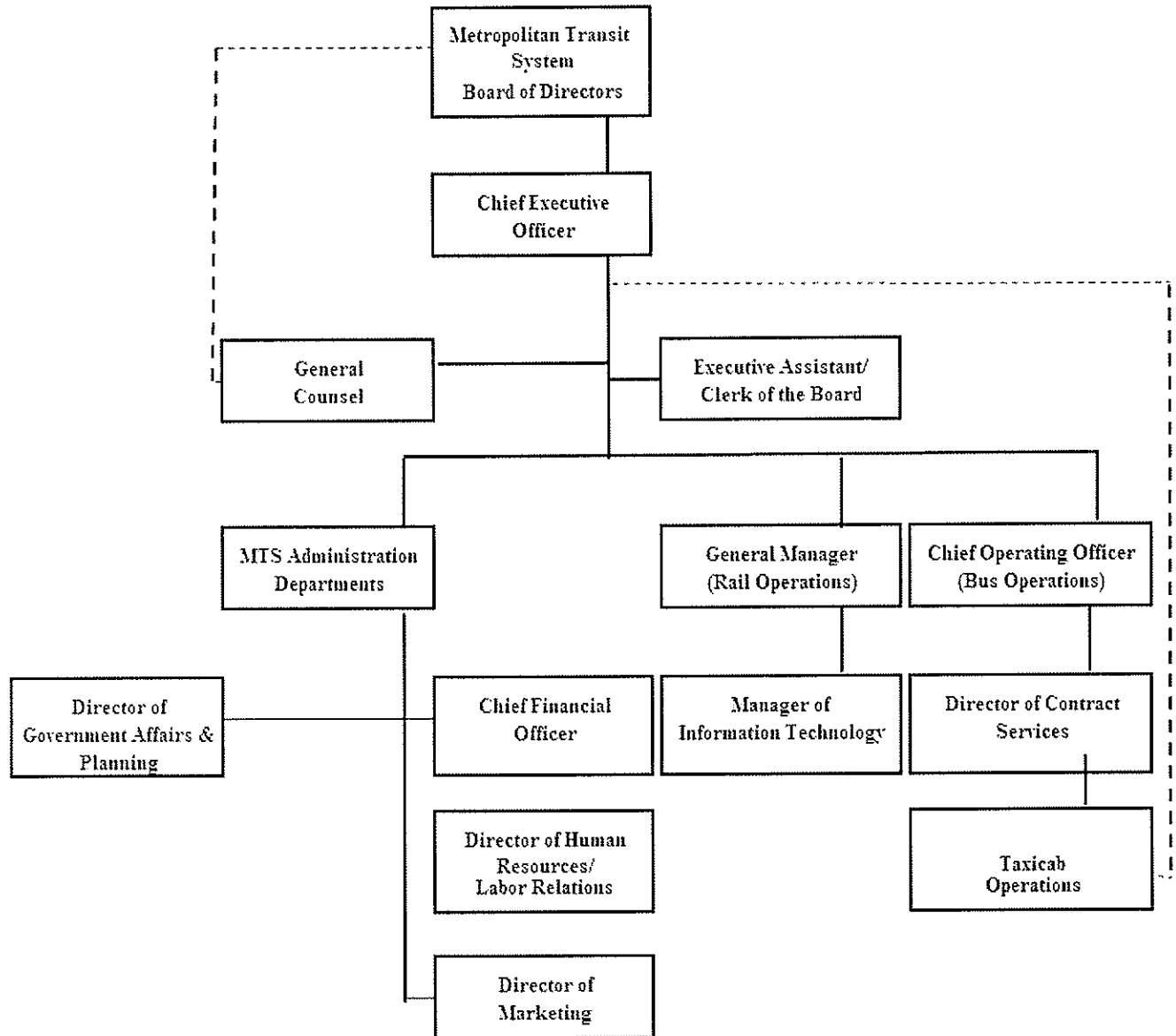
Position

Chief Executive Officer
General Counsel
Chief Financial Officer
Chief Operations Officer, Bus (SDTC)
President-General Manager, Rail (SDTI)
Director, Planning/Government Affairs and Community Relations
Director, Marketing and Communications
Director, Human Resources and Labor Relations

San Diego Metropolitan Transit System

Executive Level Organization Chart

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Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

San Diego Metropolitan
Transit System, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial
Reporting is presented by the Government Finance Officers
Association of the United States and Canada to
government units and public employee retirement
systems whose comprehensive annual financial
reports (CAFRs) achieve the highest
standards in government accounting
and financial reporting.



Charles S. Cox

President

Jeffrey R. Enos

Executive Director

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2008 - DRAFT

The following discussion and analysis of the financial performance of the San Diego Metropolitan Transit System (MTS) is intended to provide an overview of MTS' financial activities for the fiscal year ended June 30, 2008. This information should be used in conjunction with the Letter of Transmittal, which can be found on pages 1 through 6 of this report.

Financial Highlights

- Net assets, as reported in the statement of net assets, totaled \$1,266 million as of June 30, 2008. Of this amount, \$188 million is unrestricted. Total net assets increased by \$5 million.
- For the year ended June 30, 2008, the combined farebox recovery ratio (the measure of the ability to recover operating costs through fare revenue) for San Diego Trolley, Inc., San Diego Transit Corporation, and MTS Contracted Services was 38.8% compared to 37.1% for the previous year. A number of factors have brought about this increase, principally increased fare receipts and lower operating costs at San Diego Trolley, Inc. and Other Contracted Services operations within MTS.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MTS' financial statements. MTS' financial statements comprise two components: 1) financial statements and, 2) notes to financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

Financial statements. The financial statements are designed to provide readers with a broad overview of MTS' finances, in a manner similar to a private-sector business. In fiscal year 2008, MTS presents comparative statements for FY 2008 and FY 2007. This is the second year that MTS has reported all results as business activities, which has made the comparative presentation possible.

The *statement of net assets* presents information on all of MTS' 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 MTS is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the 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., earned but unused vacation leave).

Since MTS' primary function is to provide transportation services to the region's citizens and recover costs through user fees and charges, the financial statements include business-type activities. In addition, the financial statements include not only MTS itself (*known as the primary government*), but

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2008 - DRAFT

also two legally separate transit operators and one legally separate freight railway, for which MTS is financially accountable: San Diego and Arizona Eastern Railway Company (SD&AE).

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other information. In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning MTS' progress in funding its obligation to provide pension benefits to its employees.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of MTS, assets exceeded liabilities by \$ 188 million at the close of the most recent fiscal year.

The largest portion of MTS' net assets reflects the investment in capital assets, net of related debt. Most of the investment in capital assets is comprised of trolley system assets, buses, and construction-in-progress totaling \$69.1 million, of which the largest projects currently under construction are the Automated Fare Collection System and the Bus Rapid Transit project (currently \$40 million and \$11 million respectively). The capital assets that are represented by the construction-in-progress will be used to provide services to citizens; consequently, these assets are *not* available for future spending. In FY 2008 MTS transferred completed projects worth \$53 million to SDTC, SDTI and Other Contracted Services. The balance in unrestricted assets has increased by \$ 24 million during the current year.

	2008	2007	Change
Current and other assets	\$ 344,003,642	\$ 326,690,827	\$ 17,312,815
Capital assets	1,208,312,975	1,256,454,253	(48,141,278)
Total assets	1,552,316,617	1,583,145,080	(30,828,463)
Long-term liabilities outstanding	232,980,750	242,450,090	(9,469,340)
Other liabilities	53,759,357	79,775,423	(26,016,066)
Total liabilities	286,740,107	322,225,513	(35,485,406)
Net assets (deficit):			
Invested in capital assets, net of related debt	1,077,967,038	1,097,675,395	(19,708,357)
Unrestricted	187,609,466	163,244,169	24,365,297
Total assets	\$ 1,265,576,504	\$ 1,260,919,564	\$ 4,656,940

San Diego Metropolitan Transit System

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Increases in operating revenue are attributable to fare adjustments implemented in the current year and increased ridership. Capital and operating grants and contributions continue to be a major portion of the revenue used to fund transit operations and capital projects. Variances between FY 2008 and FY 2007 are largely attributable to receipt of Proposition 1B funding designated for the purchase of additional buses.

	2008	2007	Change
Revenues:			
Operating revenues	\$ 80,792,307	\$ 73,384,332	\$ 7,407,975
Nonoperating revenues	203,230,067	181,835,969	21,394,098
Total revenues	<u>294,276,797</u>	<u>269,805,641</u>	<u>24,471,155</u>
Expenses:			
Operating expenses	297,857,331	270,338,715	27,518,616
Nonoperating expenses	11,078,819	14,585,340	(3,506,521)
Total expenses	<u>308,111,754</u>	<u>284,212,999</u>	<u>23,187,699</u>
Increase (decrease) in net assets before capital contributions	(13,834,957)	(15,118,413)	1,283,456
Capital contributions	<u>18,491,897</u>	<u>27,728,531</u>	<u>(9,236,634)</u>
Increase in net assets	4,656,940	12,610,118	(7,953,178)
Net assets - beginning of year	1,260,919,564	1,248,309,449	12,610,115
Net assets - end of year	<u>\$ 1,265,576,504</u>	<u>\$ 1,260,919,567</u>	<u>\$ 4,656,937</u>

Budgetary Highlights

Differences between the original budget and the final amended budget included a \$27,000 decrease in appropriations, summarized as follows:

- \$1,754,000 increase in personnel costs
- \$735,000 increase in outside services
- \$227,000 increase in risk management costs
- \$75,000 increase in general administrative expense
- \$100,000 increase in vehicle costs

Partially offset by:

- \$233,000 decrease in materials and supplies

San Diego Metropolitan Transit System

Management's Discussion and Analysis

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- \$2,631,000 decrease in energy expense

In addition, the final amended budget included the following revenue adjustments:

- \$1,870,000 increase in passenger fares
- \$3,500,000 increase in miscellaneous revenue
- \$27,000 decrease in subsidy revenue

Capital Asset and Debt Administration

Capital assets. MTS' investment in capital assets as of June 30, 2008 amounts to \$1,208 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, equipment, and construction-in-progress. Major capital asset events during the current fiscal year included the following:

- MTS has begun a multi-year bus acquisition program, and has expended \$3.7 million in the current year for vehicles delivered to Other Contracted Services.
- Construction continued on the Automated Fare Collection System with \$2.5 million expended in the current fiscal year, bringing the total construction-in-progress for this project to \$40 million.
- Construction on the San Ysidro Intermodal Transportation Center was completed for a total cost of \$28 million.
- Completed capital projects totaling \$18.7 million were transferred from SANDAG to MTS and its component units during FY 2008.

CAPITAL ASSETS			
(Net of depreciation)			
	2008		2007
Land	\$ 221,853,921	\$	221,858,391
Buildings	720,488,894		703,841,608
Vehicles	172,200,068		203,308,050
Equipment & other	24,659,028		25,226,977
Construction-in-progress	69,111,063		102,219,226
Total	<u>\$ 1,208,312,974</u>		<u>\$ 1,256,454,253</u>

Additional information on MTS' capital assets can be found in Note 3 to the financial statements.

Long-term debt. At the end of the current fiscal year, MTS has two capital lease obligations outstanding in the amounts of \$7.6 million and \$188,000. In addition, MTS has two finance obligations outstanding relating to a lease/leaseback transaction entered into in 1995 and Pension Obligation Bonds

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issued in fiscal year 2005, for a total obligation of \$192.9.1 million. In connection with the lease/leaseback transaction, MTS placed funds on deposit, which, together with the interest earned on the deposits, will be sufficient to cover the amounts due under the finance obligation. The pension obligation bonds were issued in fiscal 2005 for \$77.5 million to make a contribution to the SDTC retirement plan and reduce its unfunded liability. During the current year, MTS retired two certificates of participation issued to fund construction projects and one finance obligation related to the sale/leaseback of light rail vehicles in 1990.

Bond Ratings

Moody's Investor's service provided an intrinsic rating for the Pension Obligation Bonds at Aaa in 2004. Additional information on MTS' long-term debt can be found in Note 6 to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of MTS' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, MTS, 1255 Imperial Avenue, Suite 1000, San Diego, CA 92101.

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

DRAFT

DRAFT
San Diego Metropolitan Transit System
Statement of Net Assets
For the Year Ended June 30, 2008

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 83,713,551	\$ 46,201,913
Investments restricted for debt service payable within one year	1,247,951	4,877,796
Accounts and other receivables	9,137,277	14,970,464
Due from other governments	53,529,439	43,846,179
Internal balances	-	-
Materials and supplies inventory	8,114,496	6,570,863
Prepaid expenses and other current assets	1,566,377	3,694,203
Total current assets	157,309,091	120,161,418
Noncurrent assets:		
Cash and certificates of deposit restricted for capital support	5,595,161	5,582,755
Investments restricted for debt service and capital projects	115,277,738	133,302,151
Unamortized bond issuance cost	1,141,014	1,463,865
Capital assets (net of accumulated depreciation)	1,208,312,975	1,256,454,253
Net pension assets	64,680,638	66,180,638
Total noncurrent assets	1,395,007,526	1,462,983,662
Total assets	\$ 1,552,316,617	1,583,145,080

See Accompanying Notes to Basic Financial Statements

DRAFT
San Diego Metropolitan Transit System
Statement of Net Assets, Continued
For the Year Ended June 30, 2008

	2008	2007
Liabilities		
Current liabilities:		
Accounts payable	15,502,799	10,689,581
Due to other governments	13,312,768	20,164,812
Unearned revenue	459,585	11,384,126
Accrued expenses	10,044,587	9,745,217
Retentions payable	132,999	352,965
Due within one year:		
Bond premium	25,148	57,120
Compensated absences payable	6,795,488	6,975,897
Accrued damage, injury, and employee claims	4,136,494	3,082,778
Long-term debt	2,101,539	12,445,131
Long-term debt payable from restricted assets	1,247,950	4,877,796
Total current liabilities	53,759,357	79,775,423
Noncurrent liabilities:		
Retentions payable from restricted assets	5,595,161	5,582,755
Accrued damage, injury, and employee claims payable from restricted assets	-	1,225,201
Long-term debt payable from restricted assets	115,277,738	112,794,278
Bond Premium	261,957	287,105
Compensated absences payable, due in more than one year	5,954,109	4,775,563
Accrued damage, injury, and employee claims, due in more than one year	17,142,359	14,503,536
Accrued claims from restricted assets	-	-
Accrued other post employment benefits	3,910,722	-
Long-term debt, due in more than one year	84,838,704	103,281,652
Total noncurrent liabilities	232,980,750	242,450,090
Total liabilities	286,740,107	322,225,515
Net Assets		
Invested in capital assets, net of related debt	1,077,967,038	1,097,675,395
Unrestricted	187,609,466	163,244,169
Total net assets	\$ 1,265,576,504	1,260,919,565

See Accompanying Notes to Basic Financial Statements

DRAFT
San Diego Metropolitan Transit System
Schedule of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2008

	2008	2007
Operating revenues:		
Passenger revenue	\$ 75,938,626	\$ 68,634,694
Advertising	1,118,697	1,001,597
Charter	63,435	44,999
Miscellaneous operating revenues	3,671,549	3,703,043
Total operating revenues	<u>80,792,307</u>	<u>73,384,333</u>
Operating expenses:		
Personnel costs	101,347,479	89,750,761
Outside services	64,940,409	62,629,613
Transit operations funding	3,852,449	5,438,052
Materials and supplies	7,590,216	7,266,337
Energy costs	27,210,670	22,767,220
Risk management	3,898,094	5,614,889
Miscellaneous operating expenses	1,974,588	944,296
Amortization of net pension asset	1,500,000	1,455,000
Depreciation	85,543,426	74,472,549
Total operating expenses	<u>297,857,331</u>	<u>270,338,717</u>
Operating income (loss)	<u>(217,065,024)</u>	<u>(196,954,384)</u>
Public support and nonoperating revenues:		
Federal revenue	47,889,694	48,950,712
Transportation Development Act (TDA) funds	79,271,656	84,941,254
State Transit Assistance (STA) funds	14,622,782	21,458,830
State revenue - other	41,158,739	10,929,552
TransNet funds	16,968,565	16,223,926
Other local subsidies	967,638	1,828,068
Investment earnings	13,394,279	13,349,080
Interest expense	(10,666,621)	(14,229,812)
Gain (loss) on disposal of assets	87,898	(1,260,113)
Other expenses	(412,198)	(355,528)
Amortization of bond issuance costs	(52,365)	(52,365)
Total public support and nonoperating revenues (expenses)	<u>203,230,067</u>	<u>181,783,604</u>
Income (loss) before contributed capital	<u>(13,834,957)</u>	<u>(15,170,780)</u>
Contributed capital	18,491,897	27,728,531
Change in net assets	<u>4,656,940</u>	<u>12,610,116</u>
Net assets, beginning of year	<u>1,260,919,564</u>	<u>1,248,309,449</u>
Net assets, end of year	<u>\$ 1,265,576,504</u>	<u>\$ 1,260,919,565</u>

See Accompanying Notes to Basic Financial Statements

San Diego Metropolitan Transit System
Statement of Cash Flows
For the Year Ended June 30, 2008 - DRAFT

Cash flows from operating activities:	
Receipts from customers and users	\$ 0
Payments to suppliers	
Payments to employees	
Payments for damage and injury	
Net cash provided (used) by operating activities	
Cash flows from noncapital financing activities:	
Public support funds received	
Net cash provided (used) by noncapital financing activities	
Cash flows from capital and related financing activities:	
Debt service costs	
Net cash provided (used) by capital financing activities	
Cash flows from investing activities:	
Interest received on investments	
Investments liquidated	
Investments purchased	
Property acquisition	
Property disposal	
Net cash provided (used) by investing activities	
Net increase (decrease) in cash and cash equivalents	
Cash and cash equivalents, beginning of year	
Cash and cash equivalents, end of year	
Operating income (loss)	
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	
(Increase) decrease in:	
Accounts and other receivables	
Materials and supplies inventory	
Prepaid and other current assets	
Increase (decrease) in:	
Accounts payable	
Accrued expenses	
Compensated absences payable	
Accrued damage, injury and employee claims	
Total adjustments	
Net cash provided (used) by operating activities	
Supplemental noncash disclosures:	
During the year SANDAG contributed approximately \$25,000,000 in capital assets.	

See Accompanying Notes to Basic Financial Statements

NOTES TO BASIC FINANCIAL STATEMENTS

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Year Ended June 30, 2008 - DRAFT

(1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the San Diego Metropolitan Transit System (MTS) have been prepared in conformity with generally accepted accounting principles in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting standards. The more significant of MTS' accounting policies are described below.

(a) *Reporting Entity*

MTS (formerly San Diego Metropolitan Transit Development Board) was formed on January 26, 1976 by passage of California Senate Bill 101 to plan, construct, and operate (or let contracts to operate) exclusive public mass transit guideways in the urbanized south coastal area of San Diego County. MTS has certain responsibilities for near-term transportation planning and administration of federal and state transportation funds within the area under its jurisdiction. The Board of Directors of MTS consists of 15 members composed of four appointees from the San Diego City Council, one appointee from each City Council of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, and Santee, and one appointee from the San Diego County Board of Supervisors and a chairman elected by the other 14 members.

On January 1, 2003, California Senate Bill 1703 (SB 1703) became effective. SB 1703 required the consolidation of the planning and programming functions of MTS and the North San Diego County Transit District (NCTD) into the San Diego Association of Governments (SANDAG) in an initial transfer to take place prior to July 1, 2003. SB 1703 also required the consolidation of the project development and construction functions of MTS and NCTD into SANDAG in a subsequent transfer to take place prior to January 30, 2004. The initial transfer occurred on July 1, 2003, and the subsequent transfer occurred on October 13, 2003. With these actions, employees were transferred from MTS and NCTD to SANDAG, and certain planning, development, and construction functions were also transferred. As a result, MTS' activities in the future will be focused on operating public transit systems in the urbanized area identified above. In addition to the consolidation required by SB 1703, MTS dissolved the independent Board of Directors of San Diego Transit Corporation (SDTC) and Board of Directors of San Diego Trolley, Inc. (SDTI). MTS now acts as the Board of Directors for all three agencies, MTS, SDTC, and SDTI. Beginning in FY 2004, SDTC and SDTI are presented as blended component units.

As required by GAAP, these basic financial statements present MTS and its legally separate component units, entities for which MTS is considered to be financially accountable. GASB Statement No. 14, *The Financial Reporting Entity*, discusses the criteria used to determine the reporting status of the primary government's component units. Because MTS appoints a majority of the component units' boards of directors, the boards are substantively the same, and MTS is able to impose its will on the component units, MTS presents blended component units. Blended component units, although legally separate entities, are, in substance, part of MTS' operations.

Included within the reporting entity as blended component units:

San Diego Transit Corporation: On July 1, 1985, MTS purchased the assets used by and acquired sole ownership of San Diego Transit Corporation (SDTC) from the City of San Diego for \$1. SDTC has entered into an operating agreement with MTS to operate a public transportation bus system in

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Year Ended June 30, 2008 - DRAFT

the City of San Diego and certain regional routes within MTS' jurisdictions. The current agreement, which was approved in December, 2006, will expire June 30, 2010. SDTC continues to provide local service to a number of adjoining cities under pre-existing contracts. Purchases or construction of bus capital items are made by MTS with whom title remains, and are contributed to SDTC upon completion of a project or when individually purchased by MTS. SDTC's assets, liabilities, net assets, revenues, and expenses are included in MTS' financial statements as a blended component unit. This agency has the same governing board as MTS and provides services directly to the public.

San Diego Trolley, Inc.: San Diego Trolley, Inc. (SDTI) was organized by MTS in August 1980. SDTI was created to operate and maintain the Light Rail Transit (LRT) system pursuant to an operating agreement with MTS. The current agreement, which was approved in December, 2006, will expire June 30, 2010. Purchases or construction of LRT capital items are made by MTS with whom title remains, and are contributed to SDTI upon completion of a project or when individually purchased by MTS. SDTI's assets, liabilities, net assets, revenues, and expenses are included in MTS' financial statements as a blended component unit. This agency has the same governing board as MTS and provides services directly to the public.

San Diego and Arizona Eastern Railway Company: MTS purchased the San Diego and Arizona Eastern Railway Company (SD&AE) in 1979. SDTI operates on a portion of the line and private operators provide freight service on a portion of the line. Purchases of capital items are made by MTS with whom title remains, and are contributed to SD&AE when purchased by MTS. SD&AE's assets, liabilities, net assets, revenues, and expenses are included in MTS' financial statements as a blended component unit. This agency has a separate governing board, which is appointed by MTS. Separate financial reports are not available.

(b) *Financial Statements*

The Financial Statements (i.e., the statement of net assets, the statement of revenues, expenses and changes in net assets, and statement of cash flows) report information on all of the activities of the primary government and its component units. Interfund activity has been eliminated from these statements.

The statement of revenues, expenses, and changes in net assets demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

(c) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The 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 when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as all eligibility requirements have been met.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by MTS.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Year Ended June 30, 2008 - DRAFT

MTS receives funding primarily from the following revenue sources:

Passenger Revenue

Passenger fares make up approximately 31 percent of the system's \$239 million operating budget.

Other Operating Revenues

MTS receives a variety of operating revenues that are not received directly from passenger fares. The sources of these revenues are advertising, interest income, rental and land management income, income related to Taxicab administration, income from the SD&AE, and other miscellaneous income.

Non Operating Revenues

MTS receives subsidies that are derived from federal, state and local tax revenues. MTS does not levy or collect any tax funds, but receives allocated portions of tax funds through federal, state and local granting agencies.

Federal Transit Administration (FTA)

FTA revenues are funded by a federal gas tax and revenues of the federal general fund. MTS receives Section 5307 and Section 5309 grants which are earmarked for capital assistance and preventive maintenance, and Congestion Management and Air Quality (CMAQ) funds intended to subsidize the first three years' operations of trolley line extensions, which expire in the current year.

Transit Security Grant Program (TSGP)

The Transit Security Grant Program (TSGP) is administered by the Department of Homeland Security (DHS). The program provides funds to owners and operators of transit systems to protect critical surface transportation infrastructure and the traveling public from acts of terrorism, major disasters, and other emergencies.

Compressed Natural Gas Rebate

Refunds on nontaxable uses of fuel are issued by the IRS.

Transportation Development Act (TDA)

TDA provides funding for public transit operators. This state fund is one quarter of a percent of the 7.75 percent sales tax assessed in the region. SANDAG is responsible for apportionment of these funds within the San Diego region.

State Transit Assistance (STA)

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Year Ended June 30, 2008 - DRAFT

STA funding comes from the Public Transportation Act (PTA) which derives its revenue from the state sales tax on gasoline. These funds are designated as discretionary or formula. The former is appropriated by the legislature. The latter is a formula based upon population and fares generated.

Proposition 1B Revenue (Prop 1B)

The California Public Transportation Modernization, Improvement and Service Enhancement Act of 2006, approved by the voters as Proposition 1B (Prop 1B), in November 2006 authorizes the issuance of \$19.9 billion in general obligation bonds for the purpose of improving highway safety, traffic reduction, air quality, and port security.

Other State Revenue

CalTrans provides mitigation related funding for the Sorrento Valley area.

MediCal provides further funding support specifically tied to several ADA Paratransit routes to aid patients in their transportation to medical appointments.

TransNet

TransNet funds are derived from the Proposition A one-half cent local transportation sales tax which was approved by area voters in November 1987. The ordinance, which was scheduled to expire in 2008, has been extended to 2048. The ordinance allocated one-third of the sales tax proceeds for transit purposes, which are further divided between MTS and North County Transit District (NCTD) based on the proportion of the population with the area of each jurisdiction. TransNet funds are also apportioned by SANDAG.

Other Local Subsidies

The City of San Diego provides Maintenance of Effort funds to aid ADA efforts.

The Air Pollution Control District (APCD) provides support for the Sorrento Valley Coaster Connection.

(d) Use of Restricted/Unrestricted Net Assets

When both restricted and unrestricted resources are available for use, it is MTS' policy to use restricted resources first, then unrestricted resources as they are needed.

(e) Cash, Cash Equivalents, and Investments

Investments of pooled cash consist primarily of bankers' acceptances, certificates of deposit, pooled investment funds, liquidity funds, governmental bonds, and commercial paper. Investments are stated at fair value which is based on quoted market price. Money market investments and participating interest earning investment contracts that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Year Ended June 30, 2008 - DRAFT

For purposes of the statement of cash flows, all highly liquid temporary investments purchased with a maturity of three months or less are considered cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value.

MTS participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and assets-backed securities are subject to market risk and to change in interest rates. The reported value of the pool is the same as the fair value of the pool shares.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), certain disclosure requirements, if applicable for deposit and investment risk, are specified for the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentration of Credit Risk
- Foreign Currency Risk

(f) *Materials and Supplies Inventory*

Inventories are valued at the weighted average unit cost.

(g) *Prepaid Items and Other Assets*

Payments made to vendors for services that will benefit periods beyond June 30, 2008 are recorded as prepaid items.

(h) *Capital Assets*

Capital assets include land and right-of-way, buildings and infrastructure assets, vehicles, and equipment. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements are recorded as assets. Legal title of all SDTC property and equipment was transferred from the City of San Diego to MTS effective with MTS' purchase of SDTC on July 1, 1985. SDTC has recorded these assets at net book value in order to reflect SDTC's custodial accountability for the assets. Legal title of all County Transit System (CTS) property and equipment was transferred from the County of San Diego to MTS

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Year Ended June 30, 2008 - DRAFT

effective with MTS' acquisition of CTS on July 1, 2002. MTS has recorded these assets at net book value.

Under the operating agreements between MTS and SDTC and SDTI, SDTC and SDTI are required to pay a license fee to MTS for the use of certain capital assets. Due to SDTC's and SDTI's continued shortage of operating funds sufficient to cover recurring expenditures, the payment of these fees is considered remote, and therefore, these amounts were not recorded in the accompanying basic financial statements. Buildings, vehicles, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and structures	20 to 30
Vehicles and buses	5 to 30
Equipment and other capital assets	3 to 10
Capital leases	3 to 40

(i) Construction-in-Progress

Costs incurred for construction associated with the bus and LRT systems are capitalized as construction-in-progress until such time as they are complete and operational. Upon completion, they are contributed to SDTC and SDTI to reflect their custodial accountability for the assets. Depreciation commences at the time of contribution. Assets acquired through capital leases are capitalized.

(j) Net Pension Asset

A pension asset is created when an employer pays into a retirement plan amounts in excess of its annual required contribution (ARC). The ARC is an actuarially calculated amount that is sufficient to fund future costs and extinguish any existing unfunded actuarial accrued liability (UAAL). In October 2004, MTS made a payment of \$76,282,336 to SDTC Retirement Plan from the proceeds of the issuance of pension obligation bonds, of which \$69,050,638 was to reduce SDTC's UAAL as calculated at that time. The prepaid Net Pension Asset will be amortized over the life of the bonds on a straight line basis.

(k) Compensated Absences

It is MTS' policy to permit employees to accumulate earned but unused personal leave time, which includes both vacation and sick pay benefits. All personal leave time is accrued when incurred.

(l) Long-Term Obligations

Long-term obligations are reported as liabilities. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the straight-line method. Long-term debt is reported net of the applicable bond premium or discount. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

(m) Refunding of Debt

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Gains or losses occurring from advance refunding of debt of the governmental funds have been deferred and are being amortized into expense using the straight-line method over the original remaining life of the old debt or the life of the new debt, whichever is less.

(n) Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain 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 reported period. Actual results could differ from these estimates.

(2) Cash, Cash Equivalents, and Investments

A summary of cash and investments at June 30, 2008 and June 30, 2007:

	2008	2,007
Cash and equivalents	\$ 83,713,551	\$46,201,913
Cash and certificates of deposit restricted for capital support	5,595,161	5,582,755
Investments restricted for debt service and capital projects	116,525,689	138,179,947
Total cash and investments	<u>\$ 205,834,401</u>	<u>\$ 189,964,615</u>

Cash, cash equivalents, and investments consisted as follows on June 30, 2008 and June 30, 2007:

Investment type	Fair value 2008	Fair value 2007
Cash and equivalents:		
Demand deposits	\$ 19,929,679	\$ 16,272,307
Retention Trust Account	5,595,161	5,582,755
State of California - Local Agency Investment Fund	63,783,617	29,929,606
Total cash and cash equivalents	<u>\$ 89,308,457</u>	<u>\$ 51,784,668</u>
Investments:		
Money Market	256	11,182,873
U.S. Treasuries	30,278,476	26,502,756
U.S. Agencies	-	13,043,959
Bank Investment Contract	86,247,213	87,450,359
Total investments	<u>\$ 116,525,689</u>	<u>\$ 138,179,947</u>
Total cash, cash equivalents, and investments	<u>\$ 205,834,401</u>	<u>\$ 189,964,615</u>

The Demand Deposits and LAIF have both increased due to \$27 million in Prop 1B funding MTS received designated for the purchase of buses expected to be completed in October 2008. In addition, to prepare for anticipated reduced future subsidy funding, MTS has achieved significant efficiencies in operational costs, resulting in a positive budget variance close to \$8 million.

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Investments restricted for debt service and the Money Market investments have declined due to liquidation of investments to retire long-term obligations in the current year (see Note 10)..

At year end the carrying amount of demand deposits was \$19,929,934 and the bank balance was \$29,300 compared to \$16,272,307 and \$3,030,586 in the previous year, of which the total amount was collateralized or insured with securities held by the pledging financial institutions in MTS' name as discussed below. The variance between bank balance and carrying amount is attributable to the overnight investment described below.

All cash accounts in MTS, including SDTC and SDTI, are pooled and swept nightly to a concentration account. The money is in turn swept to overnight investment products managed under the terms of the MTS banking services contract. In FY 07, only funds in excess of \$3 million were swept, however this minimum was eliminated in FY 08 accounting for the \$3 million decrease in the bank balance at the end of the year. Funds required to be held by fiscal agents under the provisions of bond indentures are not included in the pooled cash account.

Investments

Under the provisions of MTS' investment policy and in accordance with California Government Code, MTS is authorized to invest or deposit in the following:

- Securities of the U.S. Government, its agencies and instrumentalities
- Obligations of the State of California or any local agency within the state rated A or higher by Standard and Poor's Corporation or Moody's Investor Services, Inc.
- Repurchase agreements
- Bankers' acceptances
- Commercial paper rated A or higher by Standard and Poor's Corporation or Moody's Investor Services, Inc.
- Medium-term corporate notes rated A or higher by Standard and Poor's Corporation or Moody's Investor Services, Inc.
- Negotiable certificates of deposit
- Local Agency Investment Fund (LAIF) established by the State Treasurer
- San Diego County Pooled Money Fund
- Passbook savings or money market demand deposits with an FDIC, SIPC, or SAIF insured financial institution

Local Agency Investment Funds

MTS' investments with Local Agency Investment Fund (LAIF) at June 30, 2008, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

- Structured Notes - debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
- Asset-Backed Securities - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

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LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

As of June 30, 2008, MTS had \$63,783,617 invested in LAIF which had invested 11.12% of the pool investment funds in Structured Notes and Asset-Backed Securities compared to \$29,929,606 and 3.466% at June 30, 2007.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, MTS' investment policy limits investments to a maximum of five years unless otherwise approved by the Board. The investment instruments with maturities beyond five years are held for scheduled repayment of long-term debt. Maturities are scheduled to permit MTS to meet all projected obligations.

Credit Risk

MTS' investment policy limits investments in commercial paper and negotiable certificates of deposit to instruments rated A or better by Standard and Poor's or Moody's Investor Services, Inc. MTS' investments are rated by the nationally recognized statistical organizations as follows:

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	<u>Moody's</u>	<u>Standard and Poor's</u>
Investment Pool		
State of California Local Agency Investment Fund	Not rated	Not rated
Money Market Account		
Bank of New York	Not rated	Not rated
US Government Securities		
U.S. Treasury Bonds	AAA	AAA
Investment Contract		
Rabobank Investment Contract	Not Rated	Not Rated

Concentration of Credit Risk

The investment policy limits the amount of the percentage of the portfolio that can be invested by the type of investment for certain types of investments. MTS is in compliance with investment type percentages of the total portfolio of the investment policy.

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 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 broker or dealer to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The California Government Code requires California banks and savings and loan associations to secure the MTS' cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in MTS' name.

The market value of pledged securities must equal at least 110% of the MTS' cash deposits. California law also allows institutions to secure MTS deposits by pledging first trust deed mortgage notes having a value of 150% of the MTS' total cash deposits. MTS may waive collateral requirements for cash deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation. MTS, however, has not waived the collateralization requirements.

Summary of Investments to Maturity

Investments held by MTS grouped by maturity date at June 30, 2008 and June 30, 2007, are shown below:

<u>Maturity</u>	<u>2008</u>	<u>2007</u>
Current to one year	\$ 89,308,713	\$ 62,967,541
One to two years	-	13,043,959
Five to ten years	30,278,476	26,502,756
Ten to twenty years	86,247,213	87,450,359
Total	<u>\$ 205,834,402</u>	<u>\$ 189,964,615</u>

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As previously noted in Note 2, the increase in current year investments is due to the cash receipt of \$27 million in Prop 1B funding, as well as significant changes to our operations providing an \$8 million positive budget variance. The decrease in one to two year investments was also previously discussed in this note and pertains to the Money Market Investments and US Agency Investments that were liquidated to retire long-term debt (see Note 10).

(3) Accounts Receivable

(a) Accounts and other receivables

As of June 30, 2008 and June 30, 2007, accounts and other receivables consisted of the following:

	<u>2008</u>	<u>2007</u>
Pension plan receivable	\$ 3,863,127	\$ 2,652,092
Interest receivable	3,720,355	3,702,664
Miscellaneous trade receivables	1,093,821	408,079
Advertising receivable	459,975	472,535
Total accounts and other receivables	<u>\$ 9,137,277</u>	<u>\$ 7,235,370</u>

At June 30, 2008 SDTC's pension plan receivable included four months of payments to pensioners compared to three months in the previous year.

(b) Due from other governments

As of June 30, 2008 and June 30, 2007, amounts due from other governments consisted of the following:

	<u>2008</u>	<u>2007</u>
FTA grant funds	\$ 31,358,187	\$ 30,862,509
SANDAG - Pass Sales	9,380,020	7,735,094
STA funds	4,874,261	7,417,404
City of Chula Vista	2,797,471	671,353
US Treasury Dept. - CNG tax rebate	2,098,290	870,965
County of San Diego	2,036,508	2,373,233
State of California	246,500	468,568
SANDAG	500,917	410,596
City of San Diego	220,418	292,862
North County Transit District	16,865	16,374
TDA Funds	-	386,580
National City	-	75,735
Total due from other governments	<u>\$ 53,529,439</u>	<u>\$ 51,581,273</u>

The drop in the STA receivable is due to a decrease in revenue for the year. Pass Sales due from SANDAG is significantly higher due to increased ridership and a change in the fare structure. This year's CNG rebate consists of three quarters compared to two quarters in FY 07. The increase in the receivable due from the City of Chula Vista resulted from a change in administration of the contract between MTS and Chula Vista

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(4) Inventory

At June 30, 2008 and June 30, 2007, inventory consists of the following repair and maintenance parts for revenue vehicles:

	2008	2007
San Diego Transit Corp.	\$ 2,061,482	\$ 1,988,928
San Diego Trolley, Inc.	6,053,014	4,581,935
	<u>\$ 8,114,496</u>	<u>\$ 6,570,863</u>

The increase in SDTI inventory is mainly due to a reclassification of some parts that were originally capitalized or recorded to direct expense.

(5) Capital Assets

MTS converted \$52.9 million in capital assets from CIP to assets in service compared to \$32.7 million in FY 2007. Capital asset additions totaling \$18.7 million were contributed by SANDAG, including \$9 million to Other Contracted Services, \$2.3 million to SDTC, and \$7.3 million to SDTI. In FY 2007, the contributions from SANDAG totaled \$25 million.

A summary of changes in capital assets is as follows:

	Balance, July 1, 2007	Additions	Deletions	Reclassifications and Transfers	Balance, June 30, 2008
Capital assets, not depreciated					
Land and right-of-way	\$ 221,858,391	\$ 17,856,064	\$ (17,860,534)	-	\$ 221,853,921
Construction-in-progress	102,219,226	19,834,956	(52,943,119)	-	69,111,063
Total capital assets, not depreciated	324,077,617	37,691,020	(70,803,653)	-	290,964,984
Capital assets, depreciated:					
Buildings and structures	1,107,414,896	64,018,983	(2,321,278)		1,169,112,601
Buses and Vehicles	387,842,589	4,114,596	(2,735,558)	24,436	389,246,063
Equipment and other	43,543,348	4,492,902	(1,530,144)	321,422	46,827,528
Capital lease property	12,437,839	-	-	(345,858)	12,091,981
Total capital assets, depreciated	1,551,238,672	72,626,481	(6,586,980)	-	1,617,278,173
Less accumulated depreciation for:					
Buildings and structures	(408,928,223)	(46,472,536)	2,053,710		(453,347,049)
Buses and vehicles	(184,534,539)	(32,715,217)	1,345,555	(24,436)	(215,928,637)
Equipment and other	(18,316,371)	(6,029,802)	1,197,189	24,436	(23,124,547)
Capital lease property	(7,082,904)	(447,046)	-		(7,529,950)
Total accumulated depreciation	(618,862,036)	(85,664,601)	4,596,454	-	(699,930,183)
Total capital assets, depreciated, net	932,376,636	(13,038,120)	(1,990,526)	-	917,347,990
Total capital assets	\$ 1,256,454,253	\$ 24,652,900	\$ (72,794,179)	\$ -	\$ 1,208,312,974

Depreciation expense for capital assets for the year ended June 30, 2008 is comprised of the following:

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	<u>2008</u>	<u>2007</u>
General operations	\$ 2,114,203	\$ 1,902,698
Other contracted services	13,718,776	5,349,729
San Diego Transit Corporation	14,495,763	9,526,805
San Diego Trolley, Inc.	55,214,684	57,693,317
Total	<u>\$ 85,543,426</u>	<u>\$ 74,472,549</u>

The large increase in depreciation for contract services and SDTC results from decreasing the life of buses in order to conform with FTA guidelines.

(6) Construction Commitments

Construction-in-progress is comprised of the following at June 30, 2008:

	<u>Expended through June 30, 2008</u>	<u>Contractually Committed</u>
LRV Body Rehab	1,624,913	26,005
Rehab traction motors	1,194,957	1,048,497
LRV Tires	1,032,818	123,260
Mills Building Procurement	648,900	264,500
SDTC yard fence/security	634,771	188,413
Blue Line TTE	468,075	7,232
IAD/KMD vacuum replace	420,716	46,798
Other projects	4,695,232	12,841,152
Total MTS managed projects	<u>10,720,382</u>	<u>14,545,858</u>
Automated Fare Collection	40,449,135	24,017,455
I-15 Bus Rapid Transit	11,315,478	56,487
IAD Land Expansion	3,465,985	-
Nobel Dr Coaster Station Impr	1,078,709	-
Gaslamp Station Impr	537,775	-
Fiber Optic Communications	474,829	15,000
Other projects	1,068,769	178,038
Total SANDAG managed projects	<u>58,390,681</u>	<u>24,266,980</u>
Total construction-in-progress	<u>\$ 69,111,063</u>	<u>\$ 38,812,838</u>

(7) Net Pension Asset

In August 2004, MTS issued the 2004 Taxable Pension Obligation Bonds to fund 85% of the SDTC's unfunded accrued actuarial liability (UAAL) and the normal cost reimbursement for the fiscal year 2008. As a result, the Pension Obligation Bonds of \$77,490,000 were sold and \$76,282,336 was deposited into the pension plan in October 2004. Of this amount \$7,231,698 was funded for the current year contribution and \$69,050,638 was funded for prior year unfunded accrued actuarial liability.

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As of June 30, 2008, the Net Pension Asset amounted to \$64,680,638, and current year amortization was \$1,500,000 compared to \$66,180,638 and \$1,455,000 in FY07.

(8) Due to other governments

At June 30, 2008, amounts due to other governments consist of the following:

	<u>2008</u>	<u>2007</u>
SANDAG - STA funds for construction projects in process	\$ 7,506,240	\$ 10,523,040
SANDAG - Day Pass Sales	4,132,302	-
SANDAG - Subsidy Revenue	1,252,519	-
SANDAG - CIP Reimbursement	152,470	-
City of Lemon Grove - TDA Funds	121,170	-
City of El Cajon - TDA Funds	90,783	-
City of San Diego - Shared Revenue	57,283	-
SANDAG - in repayment of advance construction projects	-	8,554,772
SANDAG - TransNet funds	-	\$ 1,087,000
Total due to other governments	<u>\$ 15,502,799</u>	<u>\$ 20,164,812</u>

(9) Unearned revenue

At June 30, 2008 and June 30, 2007 unearned revenue consists of the following:

	<u>2008</u>	<u>2007</u>
Lease payments received in advance	\$ 414,717	\$ 94,159
Land management deposits	44,868	123,078
STIP funds for retirement of project bonds	-	11,166,889
	<u>\$ 459,585</u>	<u>\$ 11,384,126</u>

The STIP funds were used in December 2007 to retire a long-term liability.

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(10) Long-Term Debt

a) Summary

The following is a summary of changes in long-term obligations for the year ended June 30, 2008:

	Balance at July 1, 2007	Additions and net increases	Reductions and net decreases	Balance at June 30, 2008	Amounts due within one year	Amounts due in more than one year
MTS:						
Capital lease obligations	\$ 8,331,038	\$ -	\$ (525,703)	\$ 7,805,335	\$ 546,539	\$ 7,258,796
Finance obligation	150,447,820	-	(27,907,225)	122,540,595	1,247,951	121,292,644
Deferred amounts for issuance premium	344,225	-	(57,120)	287,105	25,148	261,957
Compensated absences payable	732,228	259,765	(225,871)	766,122	360,077	406,045
Accrued damage, injury, and employee claims	3,967,515	1,341,267	1,865,071	7,173,853	1,603,539	5,570,314
Total MTS	163,822,826	1,601,032	(26,850,848)	138,573,010	3,783,254	134,789,756
San Diego Transit Corporation:						
Pension Obligation Bonds	74,620,000	-	(1,500,000)	73,120,000	1,555,000	71,565,000
Compensated absences payable	8,454,915	4,305,120	(3,520,897)	9,239,138	3,885,122	5,354,016
Accrued damage, injury, and employee claims	10,869,000	1,661,959	(2,153,959)	10,377,000	1,588,488	8,788,512
Total SDTC	93,943,915	5,967,079	(7,174,856)	92,736,138	7,028,610	85,707,528
San Diego Trolley, Inc.:						
Compensated absences payable	2,564,318	3,055,799	(2,875,781)	2,744,336	2,550,289	194,047
Accrued damage, injury, and employee claims	3,975,000	759,679	(1,006,679)	3,728,000	944,467	2,783,533
Total SDTI	6,539,318	3,815,479	(3,882,461)	6,472,336	3,494,756	2,977,580
Total	\$264,306,059	\$ 11,383,589	\$ (37,908,165)	\$ 237,781,484	\$ 14,306,620	\$ 223,474,864
Reconciliation to Statement of Net Assets:						
Due within one year					25,148	
Bond premium					6,795,489	
Compensated absences payable					4,136,494	
Accrued damage, injury, and employee claims					2,101,539	
Long-term debt					1,247,950	
Long-term debt payable from restricted assets					\$ 14,306,619	
Noncurrent liabilities:						115,277,738
Long-term debt payable from restricted assets						261,957
Bond premium						5,954,108
Compensated absences payable						17,142,359
Accrued damage, injury and employee claims						84,838,704
Long-term debt						\$ 223,474,866

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During FY 2008 MTS retired the 1990 LRV sale/leaseback obligation and bonds related to the 2002 Regional Transportation Management System project and the Automated Fare Collection project.

(b) Pension Obligation Bonds

In October 2004, MTS issued \$77,490,000 of Taxable Pension Obligation Bonds (POBs) for the benefit of SDTC. The purpose of the bonds was to make contributions to the San Diego Transit Corporation Retirement Plan and reduce its unfunded liability. This is in essence a hedge versus the assumed investment rate of 8% used by the actuary to determine the Actuarial Accrued Liability. The proceeds less fees were invested into the retirement plan. The bonds consist of the following:

Series A Bonds of \$38,690,000 are fixed rate bonds that mature in annual installments between 2006 and 2014 and bear an interest rate from 2.58% to 5.15% increasing progressively over the maturities. Interest is due and payable semi-annually on June 1 and December 1. Principal is due and payable on December 1.

Series B Bonds of \$38,800,000 are variable rate bonds that mature in annual installments between 2024 to 2034. Interest is adjusted on a weekly basis indexed to London Interbank Borrowing Rate (Libor) and payable on a monthly basis. In August 2005, MTS entered into a seven year agreement with UBS investment bank to fix the interest at 4.424%. Under this agreement SDTC pays the variable Libor rate and UBS pays or bills for the difference from the fixed 4.424% rate.

At June 30, 2008, the outstanding balance of the Pension Obligation Bonds is \$73,120,000.

Year ending June 30:	Principal	Interest	Total
2009	1,555,000	3,313,432	4,868,432
2010	1,615,000	3,254,351	4,869,351
2011	1,685,000	3,188,891	4,873,891
2012	1,755,000	3,117,132	4,872,132
2013	1,830,000	3,016,614	4,846,614
2014-2018	10,540,000	13,657,671	24,197,671
2019-2023	13,495,000	10,711,627	24,206,627
2024-2028	17,245,000	7,035,877	24,280,877
2029-2033	21,800,000	2,798,824	24,598,824
2034	1,600,000	34,768	1,634,768
	<u>\$ 73,120,000</u>	<u>\$ 50,129,187</u>	<u>\$ 123,249,187</u>

(c) Capital Leases

The County of San Diego (the County) has a master lease agreement with the MTS Joint Powers Agency (Agency) for the lease of the MTS Tower building. MTS entered into a sublease agreement with the County for a portion (27.61%) of the MTS Tower building. The sublease is classified as a capital lease because 27.61% of the title transfers to MTS at the end of the County's master lease. The master lease terminates on November 1, 2086; however, the County has the option to terminate the agreement on November 1, 2041 and each tenth anniversary thereafter.

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In February 2006, MTS entered into a lease agreement with Toshiba America Information Systems for the acquisition of telecommunications equipment. The lease is classified as a capital lease because title to the equipment will transfer to MTS when the lease terminates in January 2011.

The assets acquired through capital leases are as follows:

	<u>2008</u>	<u>2007</u>
Building – MTS Tower	\$ 12,091,981	\$ 12,091,981
Toshiba telecommunications equipment	345,858	345,858
Less accumulated depreciation	(7,529,950)	(7,082,904)
Total	<u>\$ 4,907,889</u>	<u>\$ 5,354,935</u>

The following is a summary of future minimum payments under capital leases as of June 30, 2008:

	Tower lease payments	Toshiba equipment lease payments	Total lease payments
Year ending June 30:			
2009	\$ 847,004	\$ 76,820	\$ 923,824
2010	843,070	76,820	919,890
2011	864,123	44,812	908,934
2012	833,027	-	833,027
2013	851,210	-	851,210
2014-2018	4,214,150	-	4,214,150
2019-2020	1,691,241	-	1,691,241
Total minimum lease payments	10,143,826	198,451	10,342,277
Less amount representing interest	(2,526,228)	(10,715)	(2,536,942)
Present value of minimum lease payments	<u>\$ 7,617,599</u>	<u>\$ 187,737</u>	<u>\$ 7,805,335</u>

At June 30, 2008, the future minimum payments were \$7,805,335.

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(d) Finance Obligations

The following is a summary of changes in finance obligations for the year ended June 30, 2008:

	Balance at July 1, 2007	Additions and net increases	Reductions and net decreases	Balance at June 30, 2008	Amounts due within one year	Amounts due in more than one year
1995 LRV Lease/Leaseback	\$ 123,699,432	-	\$ (1,158,836)	\$ 122,540,596	\$ 1,247,951	\$ 121,292,645
Pension Obligation Bonds	74,620,000	-	(1,500,000)	73,120,000	1,555,000	71,565,000
1990 LRV Sale/Leaseback	3,823,388	-	(3,823,388)	-	-	-
2002 San Diego Regional Transit Management System Project	3,770,000	-	(3,770,000)	-	-	-
2003 Regional Fare Collection Project	19,155,000	-	(19,155,000)	-	-	-
Total Finance Obligations	\$ 225,067,820	\$ -	\$ (29,407,225)	\$ 195,660,596	\$ 2,802,951	\$ 192,857,645

1995 LRV Lease/Leaseback – In fiscal year 1996, MTS entered into a master lease to lease 52 light rail vehicles to an investor and then simultaneously entered into a sublease agreement to lease them back. MTS received prepayments of the master lease from the investor of approximately \$102.7 million, of which it used approximately \$90.7 million to place two investments which will be used to make the interest and principal payments on the finance obligation. MTS placed \$78.8 million in a fixed rate deposit and invested \$11.9 million in government zero-coupon bonds. The interest earned on the deposit, together with the principal amount of the deposit and the maturities of the zero-coupon bonds are sufficient to cover the amounts due under the finance obligation. As of June 30, 2008, the remaining future obligations total \$122,540,596.

	Principal	Interest	Total
Year ending June 30:			
2009	1,247,951	6,340,434	7,588,385
2010	1,343,918	6,240,797	7,584,715
2011	1,447,266	6,133,498	7,580,764
2012	1,558,561	6,017,948	7,576,509
2013	1,678,414	5,893,512	7,571,926
2014-2018	54,230,400	27,123,183	81,353,583
2019-2023	37,342,982	17,303,046	54,646,028
2024-2026	23,691,103	2,015,568	25,706,672
	\$ 122,540,596	\$ 7,067,985	\$ 199,608,582

For the above lease transactions, MTS is obligated to insure and maintain the equipment. The lease agreements also provide for MTS' right to continued use and control of the equipment. The LRVs acquired under the various finance obligations have been transferred to and are recorded by SDTI.

For the 1995 LRV lease/leaseback and the 1990 sale/leaseback that was retired in 1990 MTS has also agreed to indemnify the lessors for any taxes imposed by United States taxing authorities.

(11) Risk Management

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

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MTS (including SDTI, SDTC, and Other Contracted Services) are self-insured for liability claims under a combined insurance program to a maximum of \$2,000,000 per occurrence. Amounts in excess of the self-insurance retention limits for public liability are covered by excess insurance by MTS through commercial insurance carriers up to \$75,000,000. MTS, SDTI, and SDTC purchase all-risk (excluding earthquake) insurance coverage for property damage up to \$600,000,000 per occurrence with deductibles ranging from \$25,000 to \$100,000, depending on the peril involved. In addition, MTS, SDTC, and SDTI are self-insured for costs arising from employee workers' compensation act benefit claims including employer's liability to a retained limit of \$1,000,000 per occurrence. Amounts in excess of \$1,000,000 are insured up to \$2,000,000 per occurrence. SDTC and MTS are self-insured for unemployment claims. SDTC and SDTI have policies for crime coverage through commercial insurance.

Claims expenditures and liabilities in connection with these self-insurance programs are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported based upon past experience, modified for current trends and information. Claim payments up to \$2,000,000 per incident were recorded as general and administrative expenses in the statements of revenues, expenses, and changes in net assets. Claim payments did not exceed insurance coverage in any of the past three years.

	Beginning of fiscal year	Current year claims and changes in estimates	Claims payments	End of fiscal year liability
MTS:				
2005 - 2006	\$ 23,271,150	\$ 6,692,772	\$ (2,823,419)	\$ 27,140,503
2006 - 2007	27,140,503	(4,766,193)	(3,562,795)	18,811,515
2007 - 2008	18,811,515	4,739,625	(2,272,287)	21,278,853

Following is summary of accrued damage injury, and employee claims for fiscal years 2008 and 2007:

Accrued damage, injury and employee claims	<u>2008</u>	<u>2007</u>
Current portion	\$ 4,136,494	\$ 3,082,778
Non-current portion	17,142,359	15,728,737
Total	<u>\$ 21,278,853</u>	<u>\$ 18,811,515</u>

MTS has established a policy to consolidate the minimum balances required in the liability claims reserve accounts of SDTC and SDTI to be held by MTS. The policy also established eligible uses for the MTS reserve account, which included the reimbursement to SDTC and SDTI of awards/settlements of individual liability claims for personal injury and/or property damage in excess of \$300,000, but within the self-insurance retention at SDTC and SDTI. In connection with these self-insurance programs, liabilities for SDTC, SDTI and MTS were \$21,278,853 at June 30, 2008.

At June 30, 2007, The Board designated \$2,000,000 for the purposes of funding the future claims liabilities of MTS, SDTI, and SDTC.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Year Ended June 30, 2008 - DRAFT

(12) Contingencies

MTS, SDTC, and SDTI have been named in certain legal actions pending at June 30, 2008. While the outcome of these lawsuits is not presently determinable, in the opinion of management of MTS, SDTC, and SDTI, based in part on the advice of counsel, the resolution of these matters is not expected to have a material adverse effect on the financial position or results of operations of MTS, SDTC, or SDTI or is adequately covered by insurance. In addition, MTS has been named in a number of claims related to various construction projects. While the outcome of these claims is not presently determinable, MTS has recorded an estimated liability to reserve for a potential loss of \$X,000,000.

Grant funds received by MTS are subject to audit and adjustment by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under the terms of the grant. The management of MTS believes that such disallowances, if any, will not be significant.

Federal arbitrage regulations require analysis of tax-exempt bonds, which was completed this year for the two bonds that were retired in FY08 completed for in FY08. No further analysis is required.

During 1990 and 1995, MTS entered into sale/leaseback and lease/leaseback arrangements related to the acquisition of 52 trolley cars. These agreements provided tax benefits for the purchaser/lessor. Certain terms of the agreements call for repayment to the purchaser/lessor if the tax consequences of the agreement are lost or changed due to changes in the Internal Revenue Code. Subsequent changes in the Internal Revenue Code may cause an amount to be repaid to the purchaser/lessor, which is essentially the portion of the proceeds relating to the tax benefits lost by the purchaser/lessor. No repayment has been requested to date, and the amount of any future request is not estimable at this time.

MTS learned in FY 2007 that the freight operator who has managed SD&AE operations in the past filed federal and state corporate tax returns through calendar year 2005, which were not required for this not for profit corporation. Under the direction of tax consultants, MTS directed that the freight operator prepare final a final return for calendar year 2007. Because SD&AE has never reported taxable income, and because the federal and state statutes provide exemption from income tax for not for profit corporations management does not anticipate any future tax liability in the event the Internal Revenue selects these or previous returns for examination.

(13) Post-Employment Health Care Benefits

Pursuant to new reporting requirements established in Statement 45 issued by Government Accounting Standards Board (GASB) effective this year, MTS provides information below about its post-employment benefits other than pension payments (OPEB).

Plan Description: MTS participates in three different plans for three distinct groups of employees within its reporting entities: MTS and SDTI retirees participate in a plan provided by CalPers; SDTC management retirees participate in a self-funded plan provided by SDTC; and SDTC provides payments to operator and maintenance employee unions for provision of post-employment benefits as determined each union. Total MTS payments for the year ended June 30, 2008 were \$24,446 for 9 retirees currently receiving post-employment health care benefits. Total SDTI payments for the year ended June 30, 2008 were \$50,258 for 21 retirees currently receiving benefits. Total SDTC payments for the year ended June 30, 2008 were \$295,074 for 48 management retirees currently receiving benefits. In the current year 140 union retirees received benefit payments of \$303,800.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Year Ended June 30, 2008 - DRAFT

Data for SDTI and MTS, which is not presented separately in the actuarial study, have been allocated to each entity based on participation rates within each entity. As of June 30, 2008, the net liability consists of the following:

Net OPEB Obligation (NOO)

	MTS	SDTI	SDTC	Total
Net NOO at June 30, 2007	\$ -	\$ -	\$ -	\$ -
Benefit payments paid outside of a trust	(24,446)	(50,258)	(598,874)	(673,578)
Estimated contributions to a trust	-	-	-	-
Annual OPEB cost	917,550	2,140,950	1,525,800	4,584,300
Net NOO at June 30, 2008	\$ 893,104	\$ 2,090,692	\$ 926,926	\$ 3,910,722

Eligibility. All employees are eligible after the fifth year of service and attaining age 50 for MTS and Trolley, 53 for SDTC management employees and 55 for SDTC union employees.

Participants as of June 30, 2008

	Total
Current retirees and surviving spouses	218
Other participants fully eligible for benefits	291
Other participants not yet fully eligible for benefits	1,010
Total	1,519

Funding policy. The contribution requirements of plan members and MTS are established by _____ and may be amended. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2008 MTS contributed \$673,578 to the plan. Plan members in MTS, SDTI and SDTC management plans receiving benefits contributed _____ or approximately ____ percent of the total premiums.

Annual OPEB Cost and Net OPEB Obligation. MTS' annual other Postemployment Benefit (OPEB) cost (expenses) is calculated based on the Annual Required contribution of the Employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years. The following table shows the components of MTS' annual OPEB cost for the year, the amount actually contributed to the plans, and the changes in MTS' net OPEB Obligation to the Plan:

	Total
Annual required contribution	\$ 2,560,100
Interest on net OPEB obligation	-
Adjustment to annual required contribution	2,024,200
Annual OPEB cost (expense)	4,584,300
Contributions made	(673,578)
Increase in net OPEB obligation	3,910,722
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ 3,910,722

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Year Ended June 30, 2008 - DRAFT

MTS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 and the two preceding years were as follows:

Fiscal year ended	Annual OPEB Cost	% of Annual OPEB cost Contributed	Net OPEB Obligation
6/30/2008	\$ 4,584,600	14.69%	\$ 3,910,722

Information for the prior two years was not available because this was the first year of implementing GASB Statement 45.

Funded Status and Funding Progress. As of June 30, 2007, the most recent actuarial valuation date, the plan was not funded in its initial year of implementation. The actuarial accrued liability for benefits was \$60,162,800, and the actuarial value of assets was \$0. The covered payroll (annual payroll of active employees covered by the plan) as of June 30, 2007, was \$63,257,100, and the ratio of UALL to covered payroll was 79 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the June 30, 2007, actuarial valuation the entry age actuarial cost method was used. The actuary assumed 4.5% investment rate of return (net of administrative expenses) which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of ___% initially, reduced by decrements to an ultimate rate of 5% after ten years. Both rates included a ___% inflation assumption. The actuarial value of assets was determined using technique that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2007, was 30 years.

(14) Employee Retirement Systems

(a) MTS and SDTI

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Year Ended June 30, 2008 - DRAFT

Plan Description and Provisions

MTS' and SDTI's defined benefit pension plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plans are part of the Public Agency portion of the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. MTS and SDTI select optional benefit provisions from the benefit menu by contract with PERS and adopt those benefits through local ordinance. Copies of the PERS annual financial report may be obtained from the PERS Executive Office – 400 P Street, Sacramento, CA 95814.

Funding Policy

All employees working the equivalent of 1,000 hours per year are eligible to participate as members of PERS. MTS and SDTI employees are eligible to retire at age 50 with at least five years of service. Annual retirement benefits are determined based on age at retirement, the length of membership service, and the amount of earnings based on the highest 12 consecutive months average. PERS also provides death and disability benefits. PERS issues a separate comprehensive annual financial report.

The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS. MTS and SDTI employees are required to make contributions equal to 7% of gross pay for employees who are not covered by Social Security and 7% of gross pay after the first \$133.33 per month for employees who pay Social Security tax. MTS and SDTI are required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. In 2007, MTS paid the entire employee contribution for all employees, and SDTI paid the entire employee contribution for management and supervisory employees who were hired before June 30, 1988. For management and supervisory employees hired after June 30, 1988, SDTI paid half the employee contribution until their third anniversary, after which SDTI pays their full contribution. Prior to January 1, 1992, SDTI paid half the employee contribution for non-managerial employees. As of January 1, 1992, the non-managerial employees pay the entire contribution.

Annual Pension Cost

For fiscal year 2008, MTS' and SDTI's annual required employer contributions were \$1,654,059 and \$2,371,612, respectively. The required contribution for fiscal year 2008 was determined as part of the June 30, 2006, actuarial valuation using the Entry Age Actuarial Cost Method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases from 3.25% to 14.45% depending on age, service, and type of employment; (c) 3.25% payroll growth adjustment; (d) 3.0% inflation adjustment; and (e) a merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.0% and an annual production growth of 0.25%. The actuarial value of the assets of both plans was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a fifteen-year period depending on the size of investment gains and/or losses. MTS' and SDTI's initial unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis depending on the plan's date of entry. Subsequent gains and losses are amortized over variable periods depending on the events precipitating the gain or

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Year Ended June 30, 2008 - DRAFT

loss. The average remaining amortization period at June 30, 2006, the most recent valuation date, was 17 years for MTS and 26 years for SDTI.

Trend information for MTS (in 000s):

		Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:				
2006	\$	1,267	\$ 1,267	100%
2007		1,546	1,546	100%
2008		1,654	1,654	100%

Trend information for SDTI (in 000s):

		Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:				
2006	\$	2,314	\$ 2,314	100%
2007		2,231	2,231	100%
2008		2,372	2,372	100%

(b) SDTC

Plan Description

The SDTC defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All of SDTC's full-time employees and certain part-time noncontract employees who have completed one year of service in which they have worked at least 1,000 hours of service, and certain part-time contract employees participate in the San Diego Transit Corporation Employee Retirement Plan (the Plan), a single-employer public employee retirement plan. SDTC issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The financial report may be obtained by writing to San Diego Transit Corporation, 1255 Imperial Avenue, Suite 1000, San Diego, CA 92101

Funding Status and Progress

SDTC makes annual contributions equal to an actuarially computed amount that includes normal cost and an amount for the amortization of unfunded accrued liabilities. Participants of the Plan are not allowed to contribute to the Plan. The valuation method used to calculate the contribution for the Plan is the Entry Age Normal Actuarial Cost Method which is a projected benefit cost method.

According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of eligibility until retirement. The significant actuarial assumptions used to compute the actuarially determined contribution requirements included (a) 8.00% investment

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For the Year Ended June 30, 2008 - DRAFT

rate of return, (b) projected salary increase of 4% to 11% depending on age, service, and type of employment; (c) 3.5% inflation adjustment; and (d) cost of living adjustments up to 2% annually for certain Non-Contract members only. The actuarial value of the assets of the plan was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a five-year period depending on the size of investment gains and/or losses. SDTC's initial unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. Subsequent gains and losses are amortized over variable periods depending on the events precipitating the gain or loss. The average remaining amortization period at January 1, 2006, the most recent valuation date, was 30 years.

Annual Pension Cost

For fiscal year ended June 30, 2007, the annual pension cost of \$4,415,845 for the pension plan was equal to SDTC's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the entry age normal cost method. Following is the most recent data available.

Trend information for SDTC (in 000s):

		Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:				
	2006	\$ 3,826	\$ 3,826	100%
	2007	4,416	4,416	100%
	2008	4,656	4,656	100%

(15) Other Required Individual Fund Disclosures

SDTC and SDTI had unrestricted net deficits of \$(33,232,453) and \$(8,121,369) respectively, at June 30, 2008 compared to \$(23,419,342) and \$(6,876,265) at June 30, 2007. The deficits are primarily a result of the timing difference between recognition of expenses on an accrual basis and when those expenses are funded by subsidy transfers. MTS expects that these deficits will be funded with future subsidies.

(16) Subsequent Events

In August 2008 MTS repurchased \$34,469,531.97 of its Pension Obligation Bonds. Due to the deepening crisis in the credit Market, UBS, which had insured our bonds, lost its AAA rating. This has negatively affected the marketability MTS' bonds and caused a dramatic increase in interest payments. Management has determined that the cost of repurchasing the bonds would be less than the increased interest costs. MTS will hold the bonds until the credit market revocers sufficiently to allow a successful effort to remarket the bonds. In the interim, \$34 million will not be available to fund operations or capital acquisitions.

The financial crisis has created significant uncertainty about the level of funding MTS might expect to receive from state sales tax.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

DRAFT**DEFINED PENSION PLAN SCHEDULE OF FUNDING PROGRESS**

The following Schedule of Funding Progress shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. (Amounts in thousands of dollars).

MTS

Beginning with the 6/30/2003 valuation, CalPERS established a risk pool for cities and other government entities that have less than 100 active members. Actuarial valuation was performed with other participants within the same risk pool. Therefore, standalone information of the Schedule of the Funding Progress for MTS is not available. It is expected that enrollment of active members will exceed 100 within the next few years.

SDTI (in 000s)

Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
06/30/04	\$ 35,905	\$ 41,695	\$ (5,790)	86.1%	\$ 17,749	32.6%
06/30/05	41,415	48,698	(7,283)	85.0%	19,917	36.6%
06/30/06	47,412	53,490	(6,078)	88.6%	21,024	28.9%

SDTC (in 000s)

Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
01/01/05	\$ 152,877	\$ 162,879	\$ (10,002)	93.9%	\$ 34,859	28.7%
01/01/06	153,083	168,877	(15,794)	90.6%	34,959	45.2%
07/01/07	160,697	186,612	(25,915)	86.1%	33,027	78.5%

In the valuation as of July 1, 1999, the entire Actuarial Accrued Liability had been funded. A new Unfunded Actuarial Accrued Liability was created as of April 1, 2000, primarily as a result of improvements in Plan benefits. Therefore, beginning with the April 1, 2000 actuarial valuation, all sources of the Unfunded Actuarial Accrued Liability are combined and amortized as a level dollar payment over a rolling 30-year period.

POSTEMPLOYMENT HEALTHCARE PLAN SCHEDULE OF FUNDING PROGRESS

The following Schedule of Funding Progress shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. (Amounts in thousands of dollars).

MTS (in 000s)

Actuarial Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
06/30/07	\$ -	\$ 8,292	\$ (8,292)	0.0%	\$ 9,573	86.6%

DRAFT

SDTC (in
000s)

Actuarial Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
06/30/07	\$ -	\$ 26,473	\$ (26,473)	0.0%	\$ 35,935	73.7%

SDTI (in 000s)

Actuarial Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
06/30/07	\$ -	\$ 15,399	\$ (15,399)	0.0%	\$ 17,749	86.8%

Information for the prior two years is not available because this is the first year of implementation for GASB 45.

SUPPLEMENTARY INFORMATION

Combining Schedule of Net Assets

Combining Schedule of Revenues, Expenses, and Changes in Net Assets

Combining Statement of Cash Flows

Schedule of Revenues, Expenses, and Changes in Net Assets — Budget and Actual:

Combined Operations

General Fund

Taxicab Administration

San Diego & Arizona Eastern Railway

Contract Services

San Diego Transit Corporation

San Diego Trolley, Inc.

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Description of Funds:

The General Fund is MTS' primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from FTA and local TDA funds. Expenditures are primarily expended for functions of the general government, transit planning, transit support activities including marketing, as well as acquisition of capital assets and debt service transactions. Activities related to SD&AE and the Taxicab administration are included within the General Fund. Principal operating revenues for SD&AE are lease income and right of way entry permit fees. Operating revenues for the Taxicab administration are charges for the issuance of taxi and jitney service permits.

The Other Contracted Services Fund is an enterprise fund used to account for the operation of certain bus routes that have been competitively bid and are operated by MTS through contracts with outside parties. Revenues are primarily derived from passenger fare revenue and federal, state, and local operating grants. Expenses are primarily payments to contracted bus operators for the operation of certain bus routes. Effective July 1, 2002, the responsibility for operating the County Transit System (CTS) was transferred from the County of San Diego to MTS.

SDTI and SDTC are not-for-profit corporations that provide bus and LRT services. These agencies share governing boards with MTS and are, therefore, presented as blended component units in the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds are accounted for on the flow of “economic resources” measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include enterprise funds, which are used to account for those operations that are financed and operated in a manner similar to private business or where MTS has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of SDTI, SDTC and Other Contracted Services Enterprise Fund are charges to customers for public transportation services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgetary Information:

Annual appropriated budgets are adopted for all fund types. All annual appropriations lapse at year-end. Budgets are prepared on the modified accrual basis of accounting consistent with GAAP. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances lapse at year-end and may be re-appropriated in the following year.

San Diego Metropolitan Transit System
Combining Schedule of Net Assets
For the Year Ended June 30, 2008

	General Operations	Contracted Services	SDTC	SDTI	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 84,062,341	\$ -	\$ (411,051)	\$ 62,261	\$ 83,713,551
Investments restricted for debt service payable within one year	1,247,951	-	-	-	1,247,951
Accounts and other receivables	4,321,844	191,062	4,448,613	175,758	9,137,277
Due from other governments	44,079,918	2,653,960	3,005,136	3,790,425	53,529,439
Internal balances	4,910,990	7,450,047	(7,447,212)	(4,913,825)	-
Materials and supplies inventory	-	-	2,061,482	6,053,014	8,114,496
Prepaid expenses and other current assets	1,548,039	10,751	-	7,587	1,566,377
Total current assets	140,171,083	10,305,820	1,656,968	5,175,220	157,309,091
Noncurrent assets:					
Cash and certificates of deposit restricted for capital support	5,595,161	-	-	-	5,595,161
Investments restricted for debt service and capital projects	115,277,738	-	-	-	115,277,738
Unamortized bond issuance cost	125,739	-	1,015,275	-	1,141,014
Capital assets (net of accumulated depreciation)	119,744,363	40,361,709	71,622,146	976,584,757	1,208,312,975
Net pension assets	-	-	64,680,638	-	64,680,638
Total noncurrent assets	240,743,001	40,361,709	137,318,059	976,584,757	1,395,007,526
Total assets	380,914,084	50,667,529	138,975,027	981,759,977	1,552,316,617

San Diego Metropolitan Transit System
Combining Schedule of Net Assets, Continued
For the Year Ended June 30, 2008

	General Operations	Contracted Services	SDTC	SDTI	Total
Liabilities					
Current liabilities:					
Accounts payable	3,493,470	9,104,674	2,241,288	663,367	15,502,799
Due to other governments	10,336,839	763,256	1,151,325	1,061,348	13,312,768
Unearned revenue	413,971	23,263	22,351	-	459,585
Accrued expenses	3,528,440	-	3,507,305	3,008,842	10,044,587
Retentions payable	132,999	-	-	-	132,999
Due within one year:					
Bond premium	25,148	-	-	-	25,148
Compensated absences payable	360,077	-	3,885,121	2,550,290	6,795,488
Accrued damage, injury, and employee claims	1,603,539	-	1,588,488	944,467	4,136,494
Long-term debt, due within one year	546,539	-	1,555,000	-	2,101,539
Long-term debt payable from restricted assets	1,247,950	-	-	-	1,247,950
Total current liabilities	21,688,972	9,891,193	13,950,878	8,228,314	53,759,357
Noncurrent liabilities:					
Retentions payable from restricted assets	5,595,161	-	-	-	5,595,161
Long-term debt payable from restricted assets	115,277,738	-	-	-	115,277,738
Bond Premium	261,957	-	-	-	261,957
Compensated absences payable, due in more than one year	406,045	-	5,354,017	194,047	5,954,109
Accrued damage, injury, and employee claims, due in more than one year	5,570,314	-	8,788,512	2,783,533	17,142,359
Accrued other post employment benefits	893,104	-	926,926	2,090,692	3,910,722
Long-term debt, due in more than one year	13,273,704	-	71,565,000	-	84,838,704
Total noncurrent liabilities	141,278,023	-	86,634,455	5,068,272	232,980,750
Total liabilities	162,966,995	9,891,193	100,585,333	13,296,586	286,740,107
Net Assets					
Invested in capital assets, net of related debt	(10,601,574)	40,361,709	71,622,146	976,584,757	1,077,967,038
Unrestricted	228,548,663	414,625	(33,232,453)	(8,121,369)	187,609,466
Total net assets	\$ 217,947,089	\$ 40,776,334	\$ 38,389,693	\$ 968,463,388	\$ 1,265,576,504

San Diego Metropolitan Transit System
Combining Schedule of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2008

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
Operating revenues:						
Passenger revenue	\$ -	\$ 21,138,278	\$ 23,680,179	\$ 31,120,169	\$ -	\$ 75,938,626
Advertising	75,225	-	1,011,482	31,990	-	1,118,697
Charter	-	-	63,435	-	-	63,435
Miscellaneous operating revenues	2,953,117	67,024	79,172	572,236	-	3,671,549
Total operating revenues	3,028,342	21,205,302	24,834,268	31,724,395	-	80,792,307
Operating expenses:						
Personnel costs	12,661,994	536,363	54,528,583	33,620,539	-	101,347,479
Outside services	3,028,322	50,259,723	2,549,590	9,102,774	-	64,940,409
Transit operations funding	75,784,252	-	-	-	(71,931,803)	3,852,449
Materials and supplies	17,848	-	4,783,939	2,788,429	-	7,590,216
Energy costs	64,640	9,613,508	8,933,558	8,598,964	-	27,210,670
Risk management	528,787	-	2,091,676	1,277,631	-	3,898,094
Miscellaneous operating expenses	(4,542,236)	1,041,140	2,824,101	2,651,583	-	1,974,588
Amortization of net pension asset	-	-	1,500,000	-	-	1,500,000
Depreciation	2,114,203	13,718,776	14,495,763	55,214,684	-	85,543,426
Total operating expenses	89,657,810	75,169,510	91,707,210	113,254,604	(71,931,803)	297,857,331
Operating income (loss)	(86,629,468)	(53,964,208)	(66,872,942)	(81,530,209)	71,931,803	(217,065,024)

San Diego Metropolitan Transit System

Combining Schedule of Revenues, Expenses and Changes in Net Assets, Continued

For the Year Ended June 30, 2008

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
Public support and nonoperating revenues:						
Federal revenue	49,159,388	920,611	13,933,568	13,880,506	(30,004,379)	47,889,694
Transportation Development Act (TDA) funds	79,271,656	35,440,903	12,394,835	4,437,594	(52,273,332)	79,271,656
State Transit Assistance (STA) funds	14,622,782	-	9,467,667	41,140	(9,508,807)	14,622,782
State revenue - other	41,158,739	2,579,281	-	-	(2,579,281)	41,158,739
TransNet funds	16,968,565	594,963	10,228,800	6,000,000	(16,823,763)	16,968,565
Other local subsidies	967,638	689,918	278,000	-	(967,918)	967,638
Investment earnings	13,394,017	-	262	-	-	13,394,279
Interest expense	(7,113,754)	-	(3,552,867)	-	-	(10,666,621)
Gain (loss) on disposal of assets	306,365	8,242	(286,066)	59,357	-	87,898
Other expenses	(270,487)	-	(141,711)	-	-	(412,198)
Amortization of bond issuance costs	-	-	(52,365)	-	-	(52,365)
Total public support and nonoperating revenues	208,464,909	40,233,918	42,270,123	24,418,597	(112,157,480)	203,230,067
Income (loss) before contributed capital	121,835,441	(13,730,290)	(24,602,819)	(57,111,612)	(40,225,677)	(13,834,957)
Transfers	(40,225,677)	-	-	-	40,225,677	-
Contributions	(34,332,485)	18,900,960	4,607,531	29,315,891	-	18,491,897
Change in net assets	47,277,279	5,170,670	(19,995,288)	(27,795,721)	-	4,656,940
Net assets, beginning of year	170,669,811	35,605,664	58,384,981	996,259,108	-	1,260,919,564
Net assets, end of year	\$ 217,947,090	\$ 40,776,334	\$ 38,389,693	\$ 968,463,387	\$ -	\$ 1,265,576,504

San Diego Metropolitan Transit System

Combined Operations

Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual

For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts				
	Original	Final	Actuals per Statement of Revenues, Expenditures, and Changes in Net Assets Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	Variance with Final Budget Positive (Negative)	
Operating revenues:							
Passenger revenue	\$ 70,725,290	\$ 72,557,430	\$ 75,938,626	\$ -	\$ 75,938,626	\$ 3,381,196	
Advertising	955,000	1,466,000	1,118,697	-	1,118,697	(347,303)	
Charter	30,000	30,000	63,435	-	63,435	33,435	
Miscellaneous operating revenues	2,902,179	3,180,215	3,671,549	-	3,671,549	491,334	
Total operating revenues	74,612,469	77,233,645	80,792,307	-	80,792,307	3,558,662	
Operating expenses:							
Personnel costs	100,746,647	98,998,482	101,347,479	(2,558,858)	98,788,621	209,861	
Outside services	66,644,736	66,212,052	64,940,409	-	64,940,409	1,271,643	
Transit operations funding	6,119,017	4,692,943	3,852,449	-	3,852,449	840,494	
Materials and supplies	7,342,792	7,635,383	7,590,216	(49,573)	7,540,643	94,740	
Energy costs	23,881,279	26,892,034	27,210,670	-	27,210,670	(318,636)	
Risk management	4,608,942	4,382,412	3,898,094	(3,728)	3,894,366	488,046	
Miscellaneous operating expenses	1,928,295	1,738,574	1,974,588	-	1,974,588	(236,014)	
Amortization of net pension asset	-	-	1,500,000	(1,500,000)	-	-	
Depreciation	-	-	85,543,426	(85,543,426)	-	-	
Total operating expenses	211,271,708	210,551,880	297,857,331	(89,655,585)	208,201,746	2,350,134	
Operating income (loss)	(136,659,239)	(133,318,235)	(217,065,024)	89,655,585	(127,409,439)	5,908,796	

San Diego Metropolitan Transit System

Combined Operations

Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued

For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts		Variance with Final Budget Positive (Negative)
	Original	Final	Actuals per Statement of Revenues, Expenditures, and Changes in Net Assets Amounts	Actuals on a Budget Basis	
Public support and nonoperating revenues:					
Federal revenue	35,828,178	35,918,251	47,889,694	36,961,928	1,043,677
Transportation Development Act	71,170,587	68,073,706	79,271,656	72,776,100	4,702,394
State Transit Assistance	9,393,706	9,428,706	14,622,782	9,856,413	427,707
State revenue - other	3,562,842	3,467,035	41,158,739	13,746,170	10,279,135
TransNet funds	18,544,299	16,794,800	16,968,565	16,968,565	173,765
Other local subsidies	1,367,918	967,918	967,638	967,918	-
Investment earnings	-	2,088,750	13,394,279	2,602,710	513,960
Other non-operating income	15,789,339	11,576,442	-	11,415,180	(161,262)
Interest expense	-	-	(10,666,621)	10,666,621	-
Gain (loss) on disposal of assets	-	-	87,898	(87,898)	-
Other expenses	(25,116,648)	(25,116,648)	(412,198)	(38,898,013)	(14,193,563)
Amortization of bond issuance costs	-	-	(52,365)	52,365	-
Total public support and nonoperating revenues	130,540,221	123,198,960	203,230,067	125,984,773	2,785,813
Income (loss) before contributed capital	(6,119,018)	(10,119,275)	(13,834,957)	(1,424,666)	8,694,609
Contribution of capital assets	-	-	18,491,897	(18,491,897)	-
Change in net assets	\$ (6,119,018)	\$ (10,119,275)	4,656,940	\$ (1,424,666)	\$ 8,694,609
Net assets, beginning of year			1,260,919,564		
Net assets, end of year			1,265,576,504		

San Diego Metropolitan Transit System

General Fund

Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual

For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts		
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis
Operating revenues:					Variance with Final Budget Positive (Negative)
Advertising	\$ 30,000	\$ 9,000	\$ 75,225	\$ -	\$ 75,225
Miscellaneous operating revenues	1,581,679	1,738,715	1,895,499	-	1,895,499
Total operating revenues	1,611,679	1,747,715	1,970,724	-	1,970,724
Operating expenses:					
Personnel costs	11,638,582	10,651,382	12,080,886	(926,998)	11,153,888
Outside services	3,207,620	3,129,498	2,878,604	-	2,878,604
Transit operations funding	6,119,017	4,692,943	75,784,252	(71,931,803)	3,852,449
Materials and supplies	49,500	34,500	15,544	-	15,544
Energy costs	47,200	49,850	55,886	-	55,886
Risk management	443,796	460,721	488,811	(9,728)	479,083
Miscellaneous operating expenses	(8,082,069)	(4,796,536)	(4,646,749)	-	(4,646,749)
Depreciation	-	-	2,044,807	(2,114,203)	(69,396)
Total operating expenses	13,423,646	14,222,358	88,702,041	(74,982,732)	13,719,309
Operating income (loss)	(11,811,967)	(12,474,643)	(86,731,317)	74,982,732	(11,748,585)
					726,058

San Diego Metropolitan Transit System

General Fund

Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued

For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts		Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Actuals on a Budget Basis	
Public support and nonoperating revenues:					
Federal revenue	6,338,220	6,435,425	49,159,388	(40,932,145)	8,227,243
Transportation Development Act (TDA) funds	8,180,180	8,047,975	79,271,656	(62,659,011)	16,612,645
State Transit Assistance (STA) funds	-	35,000	14,622,782	(14,275,176)	347,606
State revenue - other	1,369,984	1,369,984	41,158,739	(29,991,850)	11,166,889
TransNet funds	-	-	16,968,565	(16,823,763)	144,802
Other local subsidies	-	-	967,638	(967,638)	-
Investment earnings	-	2,088,750	13,394,017	(10,791,569)	2,602,448
Other non-operating income	11,415,186	11,415,186	-	11,415,180	11,415,180
Interest expense	-	-	(7,113,754)	7,113,754	-
Gain (loss) on disposal of assets	-	-	17,672	(306,365)	(288,693)
Other expenses	(21,610,620)	(21,610,620)	(270,487)	(35,345,146)	(14,005,013)
Total public support and nonoperating revenues	5,692,950	7,781,700	208,176,216	(193,563,729)	14,612,487
Income (loss) before contributed capital	(6,119,017)	(4,692,943)	121,444,899	(118,580,997)	2,863,902
Transfers	-	-	(40,225,677)	-	(40,225,677)
Contribution of capital assets	-	-	(52,188,549)	(17,856,064)	(70,044,613)
Change in net assets	\$ (6,119,017)	\$ (4,692,943)	29,030,673	\$ (136,437,061)	\$ (102,713,445)
Net assets, beginning of year			169,969,954		
Net assets, end of year			\$ 199,000,627		

San Diego Metropolitan Transit System

Taxicab Administration

Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual

For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts				Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis		
Operating revenues:							
Miscellaneous operating revenues	\$ 685,000	\$ 685,000	\$ 734,553	\$ -	\$ 734,553	\$ 49,553	
Total operating revenues	685,000	685,000	734,553	-	734,553	49,553	
Operating expenses:							
Personnel costs	541,310	534,810	506,158	-	506,158	28,652	
Outside services	99,314	59,814	63,442	-	63,442	(3,628)	
Materials and supplies	5,000	12,700	2,304	-	2,304	10,396	
Energy costs	14,775	14,775	8,736	-	8,736	6,039	
Miscellaneous operating expenses	155,820	85,841	103,800	-	103,800	(17,959)	
Depreciation	-	-	49,900	(49,900)	-	-	
Total operating expenses	816,219	707,940	734,340	(49,900)	684,440	23,500	
Operating income (loss)	(131,219)	(22,940)	213	49,900	50,113	73,053	
Public support and nonoperating revenues:							
Other non-operating income	131,219	55,758	-	-	-	(55,758)	
Total public support and nonoperating revenues	131,219	55,758	-	-	-	(55,758)	
Change in net assets	\$ -	\$ 32,818	213	\$ 49,900	\$ 50,113	\$ 17,295	
Net assets, beginning of year			501,447				
Net assets, end of year			\$ 501,660				

San Diego Metropolitan Transit System

San Diego Arizona and Eastern Railway

Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual

For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts		Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	
Operating revenues:					
Miscellaneous operating revenues	\$ 100,000	\$ 100,000	\$ 323,065	\$ -	\$ 223,065
Total operating revenues	100,000	100,000	323,065	-	223,065
Operating expenses:					
Personnel costs	102,193	102,193	74,950	-	27,243
Outside services	51,100	51,100	86,276	-	(35,176)
Energy costs	-	-	18	-	18
Risk management	43,605	43,605	39,976	-	3,629
Miscellaneous operating expenses	8,600	8,600	713	-	7,887
Depreciation	-	-	19,496	(19,496)	-
Total operating expenses	205,498	205,498	221,429	(19,496)	3,565
Operating income (loss)	(105,498)	(105,498)	101,636	19,496	226,630
Public support and nonoperating revenues:					
Other non-operating income	105,498	105,498	-	-	(105,498)
Gain (loss) on disposal of assets	-	-	288,693	(288,693)	-
Total public support and nonoperating revenues	105,498	105,498	288,693	(288,693)	(105,498)
Contribution of capital assets	-	-	17,856,064	(17,856,064)	-
Change in net assets	\$ -	\$ -	18,246,393	\$ (18,125,261)	\$ 121,132
Net assets, beginning of year			198,410		
Net assets, end of year			\$ 18,444,803		

San Diego Metropolitan Transit System

Contract Services

Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued

For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts		Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Actuals on a Budget Basis	
Public support and nonoperating revenues:					
Federal revenue	835,663	874,509	920,611	920,611	46,102
Transportation Development Act (TDA) funds	38,957,694	37,327,942	35,440,903	35,440,903	(1,887,039)
State revenue - other	2,192,858	2,097,051	2,579,281	2,579,281	482,230
TransNet funds	644,299	566,000	594,963	594,963	28,963
Other local subsidies	1,089,918	689,918	689,918	689,918	-
Gain (loss) on disposal of assets	-	-	8,242	(8,242)	-
Total public support and nonoperating revenues	43,720,432	41,555,420	40,233,918	40,225,676	(1,329,744)
Income (loss) before contributed capital	(1)	(1)	(13,730,290)	(19,756)	(19,755)
Contribution of capital assets	-	-	18,900,960	(18,900,960)	-
Change in net assets	(1)	(1)	5,170,670	\$ (5,190,426)	\$ (19,755)
Net assets, beginning of year			35,605,664		
Net assets, end of year			\$ 40,776,334		

San Diego Metropolitan Transit System

San Diego Transit Corporation

Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual

For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Passenger revenue	\$ 22,644,928	\$ 23,514,897	\$ 23,680,179	\$ -	\$ 23,680,179	\$ 165,282
Advertising	925,000	925,000	1,011,482	-	1,011,482	86,482
Charter	30,000	30,000	63,435	-	63,435	33,435
Miscellaneous operating revenues	10,000	10,000	79,172	-	79,172	69,172
Total operating revenues	23,609,928	24,479,897	24,834,268	-	24,834,268	354,371
Operating expenses:						
Personnel costs	57,097,657	56,406,651	54,528,583	764,851	55,293,434	1,113,217
Outside services	2,209,260	2,705,069	2,549,590	-	2,549,590	155,479
Materials and supplies	4,323,856	4,546,254	4,783,939	-	4,783,939	(237,685)
Energy costs	5,725,239	8,563,073	8,933,558	-	8,933,558	(370,485)
Risk management	1,956,235	1,606,235	2,091,676	(484,000)	1,607,676	(1,441)
Miscellaneous operating expenses	4,702,098	2,763,988	2,824,101	-	2,824,101	(60,113)
Amortization of net pension asset	-	-	1,500,000	(1,500,000)	-	-
Depreciation	-	-	14,495,763	(14,495,763)	-	-
Total operating expenses	76,014,345	76,591,270	91,707,210	(15,714,912)	75,992,298	598,972
Operating income (loss)	(52,404,417)	(52,111,373)	(66,872,942)	15,714,912	(51,158,030)	953,343

San Diego Metropolitan Transit System

San Diego Transit Corporation

Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued

For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts		Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Actuals on a Budget Basis	
Public support and nonoperating revenues:					
Federal revenue	15,305,003	15,259,025	13,933,568	-	(1,325,457)
Transportation Development Act (TDA) funds	14,896,301	14,998,721	12,394,835	-	(2,603,886)
State Transit Assistance (STA) funds	9,393,706	9,393,706	9,467,667	-	73,961
TransNet funds	11,900,000	10,228,800	10,228,800	-	-
Other local subsidies	278,000	278,000	278,000	-	-
Investment earnings	-	-	262	-	262
Other non-operating income	4,137,436	-	-	-	-
Interest expense	-	-	(3,552,867)	3,552,867	-
Gain (loss) on disposal of assets	-	-	(286,066)	286,066	-
Other expenses	(3,506,028)	(3,506,028)	(141,711)	(3,552,867)	(188,550)
Amortization of bond issuance costs	-	-	(52,365)	52,365	-
Total public support and nonoperating revenues	52,404,418	46,652,224	42,270,123	338,431	(4,043,670)
Income (loss) before contributed capital	1	(5,459,149)	(24,602,819)	16,053,343	(3,090,327)
Contribution of capital assets	-	-	4,607,531	(4,607,531)	-
Change in net assets	\$ 1	\$ (5,459,149)	(19,995,288)	\$ 11,445,812	\$ (3,090,327)
Net assets, beginning of year			58,384,981		
Net assets, end of year			\$ 38,389,693		

San Diego Metropolitan Transit System

San Diego Trolley Incorporated

Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual

For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Passenger revenue	\$ 28,616,012	\$ 28,976,993	\$ 31,120,169	\$ -	\$ 31,120,169	\$ 2,143,176
Advertising	-	157,000	31,990	-	31,990	(125,010)
Miscellaneous operating revenues	525,500	646,500	572,236	-	572,236	(74,264)
Total operating revenues	29,141,512	29,780,493	31,724,395	-	31,724,395	1,943,902
Operating expenses:						
Personnel costs	30,724,870	30,780,408	33,620,539	(2,396,711)	31,223,828	(443,420)
Outside services	8,547,436	8,652,412	9,102,774	-	9,102,774	(450,362)
Materials and supplies	2,964,436	3,041,929	2,788,429	(49,573)	2,738,856	303,073
Energy costs	9,319,070	9,433,546	8,598,964	-	8,598,964	834,582
Risk management	2,165,306	2,271,851	1,277,631	490,000	1,767,631	504,220
Miscellaneous operating expenses	3,906,099	2,648,707	2,651,583	-	2,651,583	(2,876)
Depreciation	-	-	55,214,684	(55,214,684)	-	-
Total operating expenses	57,627,217	56,828,853	113,254,604	(57,170,968)	56,083,636	745,217
Operating income (loss)	(28,485,705)	(27,048,360)	(81,530,209)	57,170,968	(24,359,241)	2,689,119

San Diego Metropolitan Transit System

San Diego Trolley Incorporated

Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued

For the fiscal year ended June 30, 2008

	Budgeted Amounts		Actual Amounts		
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis
					Variance with Final Budget Positive (Negative)
Public support and nonoperating revenues:					
Federal revenue	13,349,292	13,349,292	13,880,506	-	13,880,506
Transportation Development Act (TDA) funds	9,136,412	7,699,068	4,437,594	-	4,437,594
State Transit Assistance (STA) funds	-	-	41,140	-	41,140
TransNet funds	6,000,000	6,000,000	6,000,000	-	6,000,000
Gain (loss) on disposal of assets	-	-	59,357	(59,357)	-
Total public support and nonoperating revenues	28,485,704	27,048,360	24,418,597	(59,357)	24,359,240
Income (loss) before contributed capital	(1)	-	(57,111,612)	57,111,611	(1)
Contribution of capital assets	-	-	29,315,891	(29,315,891)	-
Change in net assets	(1)	-	(27,795,721)	\$ 27,795,720	\$ (1)
Net assets, beginning of year			996,259,108		
Net assets, end of year			\$ 968,463,387		

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Statistical Section

(Unaudited)

Included in this section of the Metropolitan Transit System comprehensive annual financial report is detailed information to assist in analysis and understanding of the information presented in the financial statements, notes and required supplementary information.

Contents

Financial trends

This schedule contains trend information to help the reader understand how MTS's financial position has changed over time.

Revenue Capacity

These schedules contain detailed information about the fare structures and revenue generated from transit operations provided by MTS.

Debt Capacity

This schedule presents information to help the reader assess the affordability of MTS's current levels of outstanding debt and MTS's ability to issue debt in the future.

Demographic and Economic Information

These schedules provide service and infrastructure data to help the reader understand how the information in MTS's financial report relates to the services MTS provides.

Operating Information

These schedules provide service and infrastructure data to help the reader understand how the information in MTS's financial report relates to the services MTS provides.

FINANCIAL TRENDS

San Diego Metropolitan Transit System

Changes in Net Assets

Last Four Fiscal Years - DRAFT

	(accrual basis of accounting)			
	Fiscal Year			
	2008	2007	2006	2005
Operating revenues:				
Passenger revenue	\$ 75,938,626	\$ 68,634,694	67,579,729	63,802,747
Advertising	1,118,697	1,001,597	838,663	1,339,470
Charter	63,435	44,999	30,940	895,092
Miscellaneous operating revenue	3,671,549	3,703,043	1,734,582	18,240
Total operating revenue	80,792,307	73,384,332	70,183,914	66,052,549
Operating expenses:				
Personnel costs	\$ 101,347,479	\$ 89,750,761	\$ 89,075,021	\$ 91,485,718
Outside services	64,940,409	62,629,613	57,709,213	70,259,897
Transportation operations funding	3,852,449	5,438,052	6,758,525	6,244,510
Materials and supplies	7,590,216	7,266,337	8,157,794	8,756,096
Energy costs	27,210,670	22,767,220	24,304,787	14,140,307
Risk management	3,898,094	5,416,889	5,078,068	5,212,337
Miscellaneous operating expenses	1,974,588	944,296	2,335,990	2,563,968
Amortization of net pension asset	1,500,000	1,455,000	1,415,000	-
Depreciation	85,543,426	74,472,549	66,798,819	49,138,639
Total operating expenses	297,857,331	270,338,715	261,633,217	247,801,472
Operating income (loss)	(217,065,024)	(196,954,385)	(191,449,303)	(181,745,923)
Public support and nonoperating revenue:				
Grants and contributions	200,879,074	184,332,341	155,746,015	209,482,693
Investment earnings	13,394,279	13,349,080	7,095,384	11,706,567
Indirect cost recovery	-	-	1,685,026	2,827,481
Interest expense	(10,666,621)	(14,229,812)	(11,499,050)	(10,312,657)
Gain(loss) on disposal of assets	87,898	(1,260,113)	(1,800,414)	291,047
Other expenses	(412,198)	(355,528)	(187,452)	(184,767)
Total public support and nonoperating revenue	203,230,067	181,835,968	151,039,509	213,810,364
Income (loss) before contributed capital	(16,185,950)	(15,118,417)	(40,409,794)	32,064,441
Capital contribution	18,491,897	27,728,531	23,013,017	30,007,339
Changes in net assets:	\$ 4,709,305	\$ 12,610,114	\$ (17,396,777)	\$ 62,071,780

REVENUE CAPACITY

San Diego Metropolitan Transit System

Operating Revenue by Source

Last Four Fiscal Years - DRAFT

Fiscal Year Ended	Passenger Fares	Federal Operating Funds	State Operating Funds	Local Operating Funds	Interest	Other
San Diego Transit Corporation						
2005	21,383	14,200	25,862	7,278	68	850
2006	22,264	15,000	23,415	13,105	129	1,532
2007	22,298	15,000	29,360	9,901	63	1,153
2008	23,680	13,934	21,863	10,507	-	1,154
San Diego Trolley, Inc.						
2005	25,855	10,651	498	9,522	-	539
2006	27,934	12,788	7,415	6,000	-	742
2007	27,402	15,325	6,279	6,000	-	652
2008	31,120	13,881	4,479	6,000	-	604
General Services						
2005	-	-	-	-	312	863
2006	-	-	-	-	678	979
2007	-	-	-	-	646	1,680
2008	-	-	-	-	2,602	1,895
MTS - Contract Services						
2005	16,564	711	367	33,651	-	-
2006	17,382	-	137	455	-	(344)
2007	18,935	200	36,300	1,778	-	66
2008	21,138	921	38,020	1,285	-	67

Source: Audited Financial Statements

Bus Cash Fares

- Local
- Urban
- Express
- Premium express
- Rural bus
- Senior/disabled
- Airport shuttle
- Shuttles

Trolley Cash Fares

- Downtown
- 1 station
- 2 stations
- 3 stations
- 4-10 stations
- 11-19 stations
- 20+ stations
- Senior/disabled

Bus and Trolley Monthly Passes

- Regional monthly pass
- Premium monthly pass
- Senior/disabled bus and trolley
- Youth bus and trolley

SOURCE:

Codified Ordinance No. 4, an ordinance establishing a Metropolitan Transit System fare pricing schedule, last amended November, 2007. Additional changes to the fare structure were effective as of July 1, 2008.

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Fiscal Year Ended	San Diego Transit Corporation	San Diego Trolley, Inc.	MTS Contract Service
2005	27.34	54.25	31.97
2006	30.40	50.78	31.96
2007	31.08	48.97	33.05
2008	30.15	55.62	34.40

SOURCE: Audited financial statements; calculated as passenger revenue divided by operating expenses.

DEBT CAPACITY

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Year ended June 30	Capital Lease- Tower	Capital Lease - Equipment	1990 LRV Sale/Leaseback	1995 LRV Lease/Leaseback	Certificates of Participation 2002	Certificates of Participation 2003	Pension Obligation Bonds	Total	Percenta ge of Personal Income	Debt per Capita
2005	\$ 8,910,118	-	\$ 15,878,727	\$ 125,774,762	\$ 10,985,000	\$ 32,850,000	\$ 77,490,000	\$ 271,918,607	0.54%	126
2006	8,516,304	319,719	13,174,798	124,775,518	7,430,000	26,065,000	76,075,000	256,356,339	0.52%	117
2007	8,075,925	255,113	3,823,388	123,699,432	3,770,000	19,155,000	74,620,000	233,398,858	0.47%	105
2008	7,617,599	187,737	-	122,540,596	-	-	73,120,000	203,465,931		

Details regarding MTS' outstanding debt can be found in the notes to the financial statements.
MTS retired three financial obligations in FY 2008

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	MTS Service Area Population	MTS Service Area Personal Income (thousands)	Per Capital Personal Income	San Diego County Average Unemployment Rate
	(1)	(2)		(3)
2005	2,154,170	\$ 50,408,033	\$ 23,400	4.7%
2006	2,188,817	49,149,338	22,455	4.1%
2007	2,224,021	47,922,072	21,547	4.8%
2008				

(1) SOURCE:

(2) SOURCE:

(3) SOURCE:

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Full-time and Part-time Employees at June 30

Function	2008	2007	2006	2005
MTS		121	90	73
San Diego Transit Corporation		866	880	927
San Diego Trolley, Inc.		527	539	528
Total		1,514	1,509	1,528