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San Diego, CA 92101-7490
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Agenda

JOINT MEETING OF THE AUDIT OVERSIGHT COMMITTEE

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

November 5, 2009

Executive Conference Room
9:00 a.m.

ACTION RECOMMENDED

- A. 1. ROLL CALL
- 2. APPROVAL OF THE MINUTES OF OCTOBER 15, 2009 Approve
- B. COMMITTEE DISCUSSION ITEMS
 - 1. MTS: Fiscal Year 2009 Comprehensive Annual Financial Report Receive
(Cliff Telfer)
Action would receive the Fiscal Year 2009 Comprehensive Annual Financial Report (CAFR).
- 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

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Metropolitan Transit System (MTS) is a California public agency comprised of San Diego Transit Corp., San Diego Trolley, Inc., San Diego and Arizona Eastern Railway Company (nonprofit public benefit corporations), and San Diego Vintage Trolley, Inc., a 501(c)(3) nonprofit corporation, in cooperation with Chula Vista Transit. MTS is the taxicab administrator for seven cities. MTS member agencies include the cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, San Diego, Santee, and the County of San Diego.



DRAFT

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

OCTOBER 15, 2009

MTS
1255 Imperial Avenue, Suite 1000, San Diego

MINUTES

A. ROLL CALL

1. Chairman Ewin called the meeting to order at 9:03 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

2. APPROVAL OF MINUTES

Mr. Selby moved for approval of the minutes of the July 9, 2009, Audit Oversight Committee meeting. Mr. Mathis seconded the motion, and the vote was 4 to 0 in favor.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. MTS: Draft Fiscal Year 2009 Comprehensive Annual Financial Report (Cliff Telfer) (ADM 110.12)

Mr. Ewin stated that this committee is on schedule according to the timeline that was created on February 19, 2009. Ms. Musengo, MTS Finance Manager, confirmed the date of November 5, 2009, for the final review.

Ms. Musengo began the review of the draft Comprehensive Annual Financial Report for the fiscal years ended June 30, 2009 and 2008 (CAFR). She pointed out that the items that have not been completed are the statement of cash flows, estimated liabilities, the statistical section with demographic information, formatting and the uncertainty having to do with Medi-Cal revenue.

Ms. Musengo explained that when MTS provides transportation to Medi-Cal recipients to approved medical sites, reimbursement is requested from the State of California, through the County. Last year the State undertook an audit of claims and determined that they did not like the claim form, which has created uncertainty related to the results of the audit. It may be determined that money will have to be returned to the State for years 2006, 2007 and 2008. Meetings are ongoing with the County to resolve the issue.

Ms. Musengo stated that another method of determining adequate claims for 2009 has been created. It is hoped that a good number to record for 2009 in the CAFR will be reached by the end of next week. Mr. Telfer stated that if the issue is not resolved, an estimate will be calculated with a footnote as to how the calculation was reached. In the contingency section of the CAFR a footnote has been added disclosing the uncertainty.

Mr. Ewin asked Ms. Musengo if there is anything that needs to be brought to this committee's attention related to the pension. Ms. Musengo stated that everything in the CAFR has been updated with the most recent actuarial report received in August 2009. She stated that the pension audit will be completed in December.

Mr. Ewin asked Ms. Musengo to give an update on the award that MTS has received, the 2008 Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association (GFOA). She stated that the GFOA reviews CAFRs that are submitted to them and awards of achievement are given for reports that rise to their standards. MTS received this award in FY07 and FY08. Mr. Ewin requested that the minutes reflect acknowledgement of the award and a commendation to staff for the achievement.

In response to Mr. Ewin, Ms. Musengo described the Other Post Employment Benefits (OPEB), relating to retirement health care. She stated that MTS is contributing on a pay as you go method, acceptable under the current scenario, consistent with practice and expectation. She stated that the contributions for the pension are being made at 100% of the required contribution as of the last actuarial report.

Ms. Musengo stated that the section of subsequent events includes the financial agreement for CNG, the loan agreement for Pension Obligation Bonds in anticipation of the refinancing of the bonds, the State Supreme Court ruling that the State illegally diverted funds designated for mass transit and the continuing evaluation of fare and route structures.

Ms. Musengo explained the content of the introductory letter. Mr. Jablonski requested that Bill Burke, Director of Security be added to the management list and Mr. Ewin requested that Fred Mc Lean be recognized as a board member who was in office during the period of the CAFR.

Action Taken

Mr. Selby moved to accept the draft CAFR. Ms. Lightner 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:

Chairman Ewin reported that the next Audit Oversight Committee meeting will be held November 5, 2009.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 9:23 a.m,

Chairman

Attachment: A. Roll Call Sheet

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**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) 10-15-09

CALL TO ORDER (TIME) 9:03 a.m.

RECESS _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 9:23 a.m.

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWING (Chair) <input checked="" type="checkbox"/>		
LIGHTNER <input checked="" type="checkbox"/> (Young) <input type="checkbox"/>		
MATHIS <input checked="" type="checkbox"/>		
Rotated to Chula Vista		
RINDONE (VC) <input type="checkbox"/> (Young) (CPT) <input type="checkbox"/>		
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>	9:11 a.m.	
SELBY <input checked="" type="checkbox"/> (Ryan) <input type="checkbox"/>		

SIGNED BY OFFICE OF THE CLERK OF THE BOARD _____

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL: _____



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Agenda

Item No. B1

JOINT MEETING OF THE AUDIT OVERSIGHT COMMITTEE
for the
Metropolitan Transit System,
San Diego Transit Corporation, and
San Diego Trolley, Inc.

ADM 110.12

November 5, 2009

SUBJECT:

MTS: FISCAL YEAR 2009 COMPREHENSIVE ANNUAL FINANCIAL REPORT
(LINDA MUSENGO)

RECOMMENDATION:

That the MTS Audit Oversight Committee receive the Fiscal Year 2009 Comprehensive Annual Financial Report (CAFR).

Budget Impact

None at this time.

DISCUSSION:

MTS staff and auditors Caporicci & Larson will present the Fiscal Year 2009 CAFR. Minor differences to the draft presented earlier will be discussed.



Paul C. Jablonski
Chief Executive Officer

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

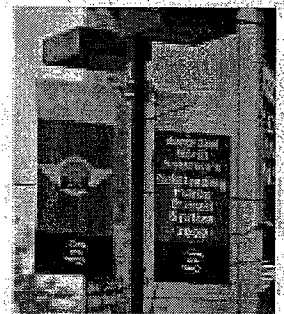
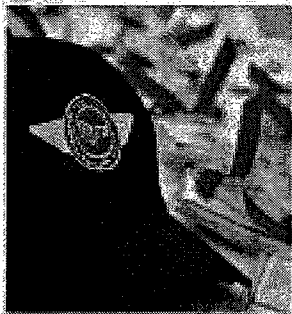
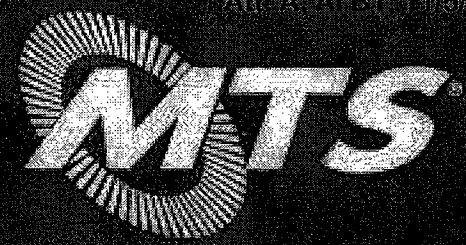
NOV5-09.B1.FY 09 CAFR.LMUSENGO.doc

Attachment: A. Comprehensive Annual Financial Report (**AOC Only Due to Volume**)

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Metropolitan Transit System (MTS) is a California public agency comprised of San Diego Transit Corp., San Diego Trolley, Inc., San Diego and Arizona Eastern Railway Company (nonprofit public benefit corporations), and San Diego Vintage Trolley, Inc., a 501(c)(3) nonprofit corporation, in cooperation with Chula Vista Transit. MTS is the taxicab administrator for seven cities. MTS member agencies include the cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, San Diego, Santee, and the County of San Diego.



**SAN DIEGO METROPOLITAN TRANSIT SYSTEM
SAN DIEGO, CALIFORNIA**



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2009 AND 2008**



San Diego Metropolitan Transit System

San Diego, California

DRAFT

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

For the years ended June 30, 2009 and 2008

PREPARED BY SAN DIEGO METROPOLITAN TRANSIT SYSTEM
FINANCE DEPARTMENT

San Diego Metropolitan Transit System

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San Diego Metropolitan Transit System

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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 years ended June 30, 2009 and 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. The MTS Board of Directors has established an Audit Oversight Committee to provide an additional level of scrutiny to the preparation of the annual financial report. 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 years ended June 30, 2009 and 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 years ended June 30, 2009 and 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.

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 2.25 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 socioeconomic interests.

California law establishes the San Diego Association of Governments (SANDAG) as the planning agency for San Diego County. The responsibility and decision-making for all transportation-related planning, programming and development activities occurs within SANDAG's nine-member Transportation Committee. Approved transportation plans and programs are subsequently executed by SANDAG staff. Within this structure MTS and the North County Transit District (NCTD) focus primarily on operating activities.

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 24 routes with an active fleet of 260 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. MTS has centralized and consolidated Planning, Human Resources, Finance, and Purchasing for MTS and all subsidiaries.

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 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 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.

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.

NATIONAL RECOGNITION

In July 2009, MTS received notification that the agency had been selected as the Outstanding Transit Agency of the Year by the American Public Transportation Association (APTA). This is the highest honor bestowed on transit agencies by the industry association. Competing in the same category with MTS were the largest transit systems in North America, including New York, Los Angeles, Chicago, and Washington, D.C. APTA looked at three-year trends in numerous categories such as rideship, safety, operating revenue and costs, performance, and customer service to determine the winner of the award. MTS was honored at an official award ceremony during the APTA Annual Conference in October.

ECONOMIC CONDITION AND OUTLOOK

San Diego has felt the effects of the current economic downturn as reflected in higher unemployment and a general reduction in economic activity in the area, but to a lesser degree than state and national economies. San Diego's gross regional product (GRP), total value of the region's economy, is estimated at \$170.7 billion for 2009, a slight decrease from \$171.2 billion recorded in 2008. Two major segments of the local economy, travel/tourism and construction/development have shown significant declines. Unemployment has risen significantly, from 4.8% to 10.2%, between 2008 and 2009. The events of the past year have had a negative effect on all economic indicators, but most recent reported trends indicate that the extent of the downturn had begun to ease as Fiscal Year 2009 came to a close. It is expected that the recovery of consumer spending and related sales tax revenues will lag behind other indicators. MTS ridership for FY2009 showed expected sensitivity to variations in gasoline prices and unemployment, with an overall slight increase from the previous year.

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 original TransNet sales tax expired in 2008, and a reauthorization measure was approved by voters in November 2004 extending the TransNet sales tax for 40 additional years.

Long-term financial planning

The long-term goal of MTS is to fund operations solely with recurring revenues. As the economy has contracted, sales tax receipts throughout California have declined, which has had a predictable negative effect on the subsidy revenue available to MTS from both TDA and TransNet funds. MTS has responded to the decline in expected subsidy revenue with a number of judicious actions designed to reduce costs and generate additional revenue. These include service and fare adjustments, reductions in management personnel and benefits, increased advertising and real property revenues, and agency-wide efforts at traditional cost-saving measures.

Major Initiatives

In addition to the challenge of aligning operating costs with recurring revenues, MTS is also challenged with rebuilding the capital program in order to replace aging infrastructure. MTS has completed the first year of a 5-year bus procurement program that will replace 350 vehicles. During 2009, MTS replaced 81 vehicles in its current fleet, and as a result realized a reduction of fuel consumption of almost 50%. MTS also received 12 gasoline hybrid-electric buses for use in the new SuperLoop routes that were opened in June in the northern section of the district. The operating costs of these new routes will be largely underwritten by TransNet funds specifically allocated to this purpose. In addition, a program to upgrade the Blue Line Trolley and replace 60 trolley cars will begin within the next 12 months.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MTS for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. This is the third consecutive year and the fourteenth year overall that MTS has been the recipient of this award. MTS submitted a CAFR that was deemed to be easily readable, well-organized, and compliant with generally accepted accounting principles and applicable legal requirements. MTS strives to accomplish this level of proficiency with the preparation of each year's CAFR.

Acknowledgments

The staff of the finance and administration department are to be commended for their efficient and dedicated service to the production of this report. In addition, we express our appreciation for the assistance and cooperation provided by management and staff in all departments throughout the organization.

November 30, 2009

San Diego Metropolitan Transit System Listing of Board of Directors and Management

BOARD OF DIRECTORS

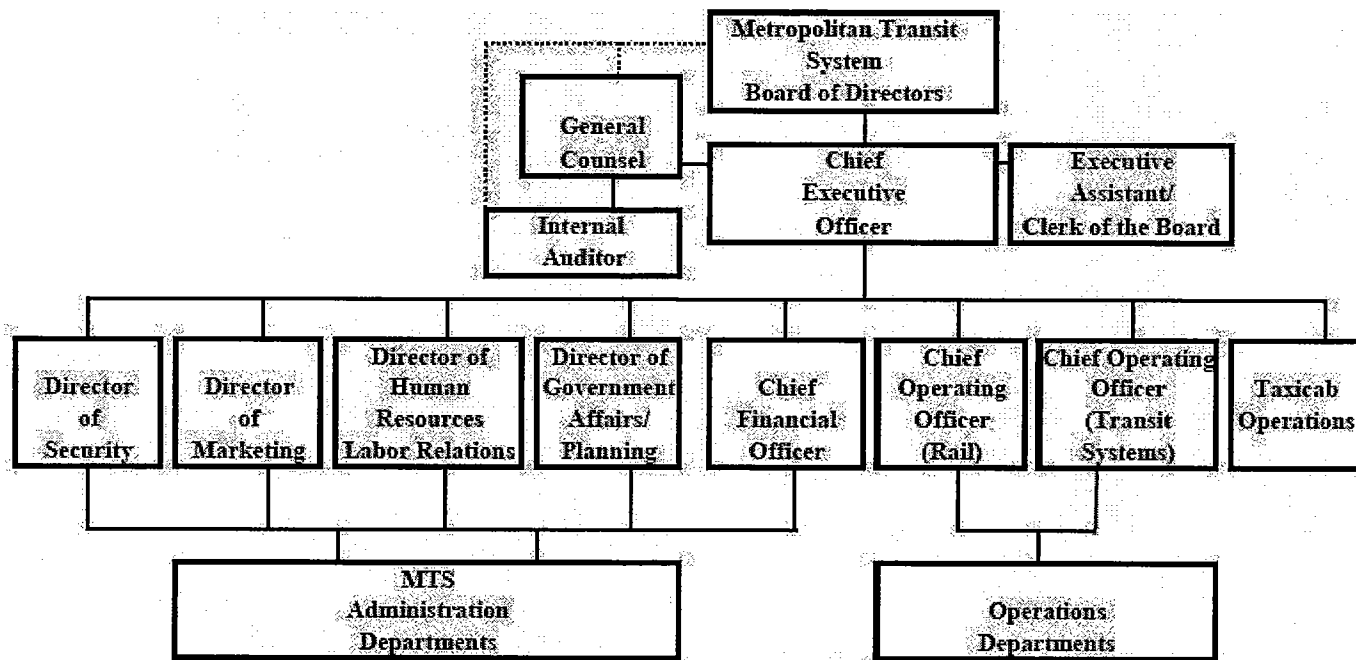
Members	Board position (elected position)
Harry Mathis	Chairman, since 1/06
Jerry Rindone	Vice Chairman, since 7/91 (Deputy Mayor, City of Chula Vista)
Merrilee Boyack	Board Member, since 12/08 (Councilmember, City of Poway)
Ernest Ewin	Board Member, since 3/05 (Councilmember, City of La Mesa)
Kevin Faulconer	Board Member, since 1/06 (Councilmember, City of San Diego)
Todd Gloria	Board Member, since 1/09 (Councilmember, City of San Diego)
Sherri Lightner	Board Member, since 1/09 (Councilmember, City of San Diego)
Bob McClellan	Board Member, since 4/08 (Councilmember, City of El Cajon)
Jim Janney	** Board Member, since 5/09 (Councilmember, City of Imperial Beach)
Al Ovrom	Board Member, since 12/08, (Councilmember, City of Coronado)
Ron Roberts	Board Member, since 12/89 (County Board of Supervisors)
Hal Ryan	Board Member, since 1/04 (Vice Mayor, City of Santee)
Jerry Selby	Board Member, since 1/09 (Councilmember, City of Lemon Grove)
Tony Young	Board Member, since 1/05 (Councilmember, City of San Diego)
Rosalie Zarate	Board Member, since 1/07 (Councilmember, National City)
Fred McLean	** Board Member 1/06 to 5/09 (Councilmember, City of Imperial Beach)

MTS MANAGEMENT

Staff	Position
Paul Jablonski	Chief Executive Officer
Tiffany Lorenzen	General Counsel
Cliff Telfer	Chief Financial Officer
Claire Spielberg	Chief Operating Officer, Transit Systems (SDTC, Contracted Services)
E. Wayne Terry	Chief Operating Officer, Rail (SDTI)
Sharon Cooney	Director, Planning/Government Affairs and Community Relations
Robert Schupp	Director, Marketing and Communications
Jeff Stumbo	Director, Human Resources and Labor Relations
Bill Burke	Director, Security

San Diego Metropolitan Transit System Executive Level Organization Chart

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San Diego Metropolitan Transit System
Certificate of Achievement for Excellence in Financial Reporting - GFOA

**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, 2008

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.



A handwritten signature in black ink, appearing to read "K. L. R.", is written above the title.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Enos", is written above the title.

Executive Director

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the San Diego Metropolitan Transit System
San Diego, California

We have audited the accompanying basic financial statements of the San Diego Metropolitan Transit System (MTS), as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These basic financial statements are the responsibility of MTS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 16 to basic financial statements, subsequent to the financial statements date of June 30, 2009 and the year then ended, the State of California has borrowed, deferred paying certain revenues and significant reduced or eliminated certain assistance programs from local transit agencies. These actions by the state include the deferral of Gas Tax payments and the reduction of State Transit Assistance funds. These amounts are very significant to the local transit agencies and may affect their ongoing operations. Certain lawsuits are in process to stop such State actions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of MTS as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States.

MTS adopted the Statements of Governmental Accounting Standards Board No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, No. 52, *Land and other Real Estate Held as Investments by Endowments*, No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*.

To the Board of Directors
of the San Diego Metropolitan Transit System
San Diego, California

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2009, on our consideration of the MTS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis, Schedule of Funding Progress of Defined Benefit Pension Plans and Schedule of Funding Progress of Other Postemployment Benefits Plans, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on the Required Supplementary Information.

Our audits were conducted for the purpose of forming opinions on the MTS' basic financial statements. The accompanying Supplementary Information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on the Introductory and Statistical Sections.

San Diego, California
October 31, 2009

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2009 and 2008

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 years ended June 30, 2009 and 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 \$1,250 million as of June 30, 2009, \$1,266 million as of June 30, 2008 and \$1,261 million as of June 30, 2007. Of this amount, \$175 million was unrestricted as of June 30, 2009, \$186 million was unrestricted as of June 30, 2008, and \$163 million was unrestricted as of June 30, 2007. Total net assets decreased by \$16 million in the current year and increased by \$5 million in the prior year. The current year decrease is largely attributable to a reduction in state funding in the current year.

For the year ended June 30, 2009, 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 42.71% compared to 38.46% for the year ended June 30, 2008 and 36.8% for the year ended June 30, 2007. A number of factors have contributed to this increase, principally revisions in the fare structure and agency-wide focus on cost savings in every expense category.

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 basic 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 2009, MTS presents comparative statements for FY 2009 and FY 2008.

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 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).

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2009 and 2008

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 \$1,250 million at the close of the most recent fiscal year and \$1,266 million at the end of FY 2008.

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 \$42 million, of which the largest projects under construction include residual costs for the Mission Valley East Trolley project and the San Ysidro Transit Center project, \$14 million; the Bus Rapid Transit project, \$11 million; trolley refurbishing projects, \$3.8 million; and the bus purchase program, \$2 million. Prior year construction-in-progress totaled \$71.1 million, of which the largest projects were the Automated Fare Collection System and the Bus Rapid Transit Project (\$40 million and \$11 million, respectively). The capital assets that are represented by construction-in-progress will be used to provide services to citizens; consequently, these assets are not available for future spending. In FY 2009 MTS transferred completed projects worth \$97 million to SDTC, SDTI, Other Contracted Services and other governments. In FY 2008, MTS transferred completed projects worth \$52.4 million to SDTC, SDTI and Other Contracted Services.

The balance in unrestricted assets decreased by \$11 million during the current year and increased \$22 million in the prior year.

	June 30, 2009	June 30, 2008	Change	June 30, 2007	Change
Current and other assets	\$ 321,192,470	\$ 344,003,642	\$ (22,811,172)	\$ 326,690,827	\$ 17,312,815
Capital assets	1,203,656,117	1,210,312,975	(6,656,858)	1,256,454,253	(46,141,278)
Total assets	1,524,848,587	1,554,316,617	(29,468,030)	1,583,145,080	(28,828,463)
Long-term liabilities outstanding	230,400,972	234,980,747	(4,579,775)	242,450,090	(7,469,343)
Other liabilities	44,298,723	53,759,365	(9,460,642)	79,775,425	(26,016,060)
Total liabilities	274,699,695	288,740,112	(14,040,417)	322,225,515	(33,485,403)
Net assets:					
Invested in capital assets, net of related debt	1,075,104,675	1,079,967,043	(4,862,368)	1,097,675,395	(17,708,352)
Unrestricted	175,044,217	185,609,462	(10,565,245)	163,244,169	22,365,293
Total net assets	\$ 1,250,148,892	\$ 1,265,576,505	\$ (15,427,613)	\$ 1,260,919,565	\$ 4,656,940

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2009 and 2008

Increases in operating revenue are attributable to fare adjustments implemented in the current year. 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 2009 and FY 2008 are attributable to a decrease in State Transit Assistance; a decrease in other state funding related to receipt of Proposition 1B funding in FY 2008 designated for the purchase of additional buses, and a decrease in TDA funding due to declining sales tax revenue, all of which are partially offset by an increase in Federal funding for preventive maintenance in FY 2009.

	June 30, 2009	June 30, 2008	Change	June 30, 2007	Change
Revenues:					
Operating revenues:					
Charges for services	\$ 86,185,653	\$ 77,120,758	\$ 9,064,895	\$ 69,681,290	\$ 7,439,468
Other operating revenue	4,874,700	3,671,549	1,203,151	3,703,042	(31,493)
Nonoperating revenues:					
Federal revenue	68,171,984	47,889,694	20,282,290	48,950,712	(1,061,018)
Transportation Development Act	75,517,474	79,271,656	(3,754,182)	84,941,254	(5,669,598)
State Transit Assistance	9,121,443	14,622,782	(5,501,339)	21,458,830	(6,836,048)
State revenue - other	4,092,420	41,158,739	(37,066,319)	10,929,552	30,229,187
TransNet funds	19,039,223	16,968,565	2,070,658	16,223,926	744,639
Other nonoperating revenue	11,914,503	14,449,815	(2,535,312)	13,917,035	532,780
Total revenues	278,917,400	295,153,558	(16,236,158)	269,805,641	25,347,917
Expenses:					
Operating expenses	284,155,013	297,857,331	(13,702,318)	270,338,715	27,518,616
Nonoperating expenses	11,858,471	11,131,184	727,287	14,585,341	(3,454,157)
Total expenses	296,013,484	308,988,515	(12,975,031)	284,924,056	24,064,459
Increase (decrease) in net assets before capital contributions	(17,096,084)	(13,834,957)	(3,261,127)	(15,118,415)	1,283,458
Capital contributions	1,668,471	18,491,897	(16,823,426)	27,728,531	(9,236,634)
Increase in net assets	(15,427,613)	4,656,940	(20,084,553)	12,610,116	(7,953,176)
Net assets - beginning of year	1,265,576,505	1,260,919,565	4,656,940	1,248,309,449	12,610,116
Net assets - end of year	\$ 1,250,148,892	\$ 1,265,576,505	\$ (15,427,613)	\$ 1,260,919,565	\$ 4,656,940

Capital Asset and Debt Administration

Capital assets. MTS' investment in capital assets net of depreciation as of June 30, 2009 and 2008 amounted to \$1,204 million and \$1,210 million. 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 \$41.6 million in the current year for vehicles delivered to SDTC and Other Contracted Services.
- Construction on the Automated Fare Collection System was completed this year for a total cost of \$47 million.
- Completed capital projects totaling \$15 million were transferred from SANDAG to MTS and its component units during FY 2009.

San Diego Metropolitan Transit System**Management's Discussion and Analysis****June 30, 2009 and 2008****CAPITAL ASSETS**

(Net of depreciation)

	2009	2008	2007
Land	\$ 221,853,921	\$ 221,853,921	\$ 221,858,391
Buildings	684,533,624	720,488,895	703,841,608
Vehicles	205,194,290	172,200,068	203,308,050
Equipment & other	49,710,233	24,659,028	25,226,977
Construction-in-progress	42,364,049	71,111,063	102,219,226
Total	<u>\$ 1,203,656,117</u>	<u>\$ 1,210,312,975</u>	<u>\$ 1,256,454,253</u>

Additional information on MTS' capital assets can be found in Note 5 to Basic financial statements.

Long-term debt. At the end of the current fiscal year, MTS has two capital lease obligations outstanding in the amounts of \$7.1 million and \$117,000. In addition, MTS has two finance obligations outstanding relating to a lease/leaseback transaction entered into in 1995 and Pension Obligation Bonds issued in fiscal year 2005, for a total obligation of \$192.9 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 repurchased 46% of the bonds outstanding due to a degradation of the insurer's credit rating.

Bond Ratings

Moody's Investors service provided an underlying rating for the Pension Obligation Bonds at A1 in 2008. Additional information on MTS' long-term debt can be found in Note 10 to basic 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

San Diego Metropolitan Transit System

Statements of Net Assets - DRAFT

June 30, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 20,658,670	\$ 83,713,551
Investments restricted for debt service payable within one year	1,343,918	1,247,951
Accounts and other receivables	6,943,252	9,137,277
Due from other governments	56,943,694	53,529,439
Materials and supplies inventory	8,635,642	8,114,496
Prepaid expenses and other current assets	2,019,619	1,566,377
Total current assets	96,544,795	157,309,091
Noncurrent assets:		
Cash and certificates of deposit restricted for capital support	8,302,976	5,595,161
Investments in bonds	35,630,000	-
Investments restricted for debt service and capital projects	116,511,426	115,277,738
Unamortized bond issuance cost	1,077,635	1,141,014
Capital assets (net of accumulated depreciation)	1,203,656,117	1,210,312,975
Net pension assets	63,125,638	64,680,638
Total noncurrent assets	1,428,303,792	1,397,007,526
Total assets	1,524,848,587	1,554,316,617

See Accompanying Notes to Basic Financial Statements.

San Diego Metropolitan Transit System
Statements of Net Assets, Continued - DRAFT
June 30, 2009 and 2008

	2009	2008
Liabilities		
Current liabilities:		
Accounts payable	7,670,701	15,502,799
Due to other governments	5,873,172	13,312,768
Unearned revenue	1,943,100	459,585
Accrued expenses	12,544,342	10,044,594
Retentions payable	59,944	132,999
Due within one year:		
Bond premium	25,148	25,148
Compensated absences payable	6,669,442	6,795,489
Accrued damage, injury, and employee claims	5,986,457	4,136,494
Long-term debt	2,182,499	2,101,539
Long-term debt payable from restricted assets	1,343,918	1,247,950
Total current liabilities	44,298,723	53,759,365
Noncurrent liabilities:		
Retentions payable from restricted assets	5,603,327	5,595,161
Long-term debt payable from restricted assets	116,511,426	115,277,738
Bond premium	236,809	261,957
Compensated absences payable, due in more than one year	5,404,973	5,954,108
Accrued damage, injury, and employee claims, due in more than one year	14,519,033	19,142,359
Accrued other post employment benefits	8,046,806	3,910,722
Long-term debt, due in more than one year	80,078,598	84,838,702
Total noncurrent liabilities	230,400,972	234,980,747
Total liabilities	274,699,695	288,740,112
Net Assets		
Invested in capital assets, net of related debt	1,075,104,675	1,079,967,043
Unrestricted	175,044,217	185,609,462
Total net assets	\$ 1,250,148,892	\$ 1,265,576,505

See Accompanying Notes to Basic Financial Statements.

San Diego Metropolitan Transit System

Statements of Revenues, Expenses, and Changes in Net Assets - DRAFT

For the years ended June 30, 2009 and 2008

	2009	2008
Operating revenues:		
Passenger revenue	\$ 85,192,330	\$ 75,938,626
Advertising	924,522	1,118,697
Charter	68,801	63,435
Miscellaneous operating revenues	4,874,700	3,671,549
Total operating revenues	91,060,353	80,792,307
Operating expenses:		
Personnel costs	100,357,799	101,347,479
Outside services	65,139,831	64,940,409
Transit operations funding	3,003,698	3,852,449
Materials and supplies	7,190,088	7,590,216
Energy costs	25,283,357	27,210,670
Risk management	4,074,104	3,898,094
Miscellaneous operating expenses	2,052,156	1,974,588
Amortization of net pension asset	1,555,000	1,500,000
Depreciation	75,498,980	85,543,426
Total operating expenses	284,155,013	297,857,331
Operating income (loss)	(193,094,660)	(217,065,024)
Public support and nonoperating revenues:		
Federal revenue	68,171,984	47,889,694
Transportation Development Act (TDA) funds	75,517,474	79,271,656
State Transit Assistance (STA) funds	9,121,443	14,622,782
State revenue - other	4,092,420	41,158,739
TransNet funds	19,039,223	16,968,565
Other local subsidies	1,036,246	967,638
Investment earnings	10,584,251	13,394,279
Interest expense	(11,153,556)	(10,666,621)
Gain (loss) on disposal of assets	294,006	87,898
Other expenses	(641,536)	(141,711)
Amortization of bond issuance costs	(63,379)	(322,852)
Total public support and nonoperating revenues (expenses)	175,998,576	203,230,067
Income (loss) before contributed capital	(17,096,084)	(13,834,957)
Contributed capital	1,668,471	18,491,897
Change in net assets	(15,427,613)	4,656,940
Net assets, beginning of year	1,265,576,505	1,260,919,565
Net assets, end of year	\$ 1,250,148,892	\$ 1,265,576,505

See Accompanying Notes to Basic Financial Statements.

San Diego Metropolitan Transit System

Statements of Cash Flows - DRAFT

For the years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Receipts from customers and users	\$ 94,845,273	\$ 82,067,626
Payments to suppliers	(119,137,921)	(102,954,859)
Payments to employees	(95,038,104)	(99,483,764)
Payments for damage and injury	(384,116)	(77,646)
Net cash provided (used) by operating activities	(119,714,868)	(120,448,643)
Cash flows from noncapital financing activities:		
Public support funds received	167,249,716	180,121,920
Net cash provided (used) by noncapital financing activities	167,249,716	180,121,920
Cash flows from capital and related financing activities:		
Debt service costs	(7,423,231)	(33,203,899)
Property acquisition	(67,781,859)	(16,039,130)
Property disposal	467,937	7,876
Net cash provided (used) by capital financing activities	(74,737,153)	(49,235,153)
Cash flows from investing activities:		
Interest received on investments	2,485,239	2,859,087
Investments liquidated	-	24,226,833
Investments purchased	(35,630,000)	-
Net cash provided (used) by investing activities	(33,144,761)	27,085,920
Net increase (decrease) in cash and cash equivalents	(60,347,066)	37,524,044
Cash and cash equivalents, beginning of year	89,308,712	51,784,668
Cash and cash equivalents, end of year	\$ 28,961,646	\$ 89,308,712
Cash and Cash Equivalents:		
Cash and cash equivalents	\$ 20,658,670	\$ 83,713,551
Cash and certificates of deposit restricted for capital support	8,302,976	5,595,161
Total cash and cash equivalents	\$ 28,961,646	\$ 89,308,712

See Accompanying Notes to Basic Financial Statements.

San Diego Metropolitan Transit System
Statements of Cash Flows, Continued - DRAFT
For the years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of Operating Income (Loss) To		
Net Cash Provided (Used) By Operating Activities		
Operating income (loss)	\$ (193,094,660)	\$ (217,065,024)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	77,053,980	87,043,426
(Increase) decrease in:		
Accounts and other receivables	5,416,054	(2,538,658)
Materials and supplies inventory	(348,008)	(1,543,633)
Prepaid and other current assets	(468,416)	2,119,745
Increase (decrease) in:		
Accounts payable	(11,844,816)	6,311,892
Accrued expenses	(136,020)	229,370
Unearned revenue	666,116	22,351
Accrued OPEB liability	4,136,084	3,910,722
Compensated absences payable	(675,182)	998,136
Accrued damage, injury and employee claims	(420,000)	(6,970)
Total adjustments	<u>73,379,792</u>	<u>96,546,381</u>
Net cash provided (used) by operating activities	<u>\$ (119,714,868)</u>	<u>\$ (120,518,643)</u>
Noncash investing, capital and financing activities:		
Contribution of capital assets from SANDAG	\$ 14,854,517	\$ 18,674,817
Contributions/adjustments of capital assets from other governments	<u>-</u>	<u>(182,920)</u>
Total contributions of capital assets	<u>\$ 14,854,517</u>	<u>\$ 18,491,897</u>
Increase in fair value of investments	<u>\$ 2,639,274</u>	<u>\$ 3,775,720</u>

See Accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

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San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 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.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

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 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.

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT**

(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.

MTS receives funding primarily from the following revenue sources:

Passenger Revenue

Passenger fares make up approximately 38 percent of MTS' \$224 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. In addition, MTS also receives Section 5311, Section 5311F, and Job Access Reverse Commute (JARC) grants which are used for operations.

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.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

Transportation Development Act (TDA)

TDA provides funding for public transit operators. This state fund is one quarter of a percent of the 8.75 percent sales tax assessed in the region. In April, 2009, the sales tax rate in San Diego was increased from 7.75% to 8.75%. SANDAG is responsible for apportionment of these funds within the San Diego region. Due to the current economic climate, the collection of sales tax has decreased, and as a result the TDA funds available for disbursement have decreased as well.

State Transit Assistance (STA)

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. The California state budget has been severely impacted as a result of the current economic crisis. As a result STA funding has been discontinued for fiscal year 2010 and subsequent years through fiscal year 2012.

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

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 original ordinance expired in 2008, but has been extended to 2048 by subsequent voter approval. 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. In addition, SANDAG provides funds for the operation of certain express bus routes and NCTD provides partial subsidy 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.

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT**

(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.

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 the fiscal year ended are recorded as prepaid items.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

(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 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
Building 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.

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT**

(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

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.

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT****(2) Cash, Cash Equivalents, and Investments**

A summary of cash and investments at June 30, 2009 and 2008:

	2009	2008
Cash and equivalents	\$ 20,658,670	\$ 83,713,551
Cash and certificates of deposit restricted for capital support	8,302,976	5,595,161
Investments restricted for debt service and capital projects - Current	1,343,918	1,247,951
Investments restricted for debt service and capital projects - Noncurrent	116,511,426	115,277,738
Investment in SDTC Pension Obligation Bonds	35,630,000	-
Total cash and investments	<u>#####</u>	<u>#####</u>

Cash, cash equivalents, and investments consisted as follows on June 30, 2009 and 2008:

Investment type	Fair value	
	2009	2008
Cash and equivalents:		
Demand deposits	\$ 12,651,906	\$ 19,929,934
Retention Trust Account	5,603,327	5,595,161
State of California - Local Agency Investment Fund	<u>10,706,413</u>	<u>63,783,617</u>
Total cash and cash equivalents	<u>28,961,646</u>	<u>89,308,712</u>
Investments:		
U.S. Treasuries	32,903,799	30,278,476
SDTC Pension Obligation Bonds	35,630,000	-
Bank Investment Contract	<u>84,951,545</u>	<u>86,247,213</u>
Total investments	<u>153,485,344</u>	<u>116,525,689</u>
Total cash, cash equivalents, and investments	<u>\$ 182,446,990</u>	<u>\$ 205,834,401</u>

At year end the carrying amount of demand deposits was \$12,651,906 and the bank balance was \$13,251,711 compared to \$19,929,934 and \$29,300 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.

All cash accounts in MTS, including SDTC and SDTI, are pooled and swept nightly to a concentration account. Until March of 2009, funds in the concentration account were swept to overnight investment products managed under the terms of the MTS banking services contract. MTS discontinued this investment practice in FY09 due to the significant decrease in interest earnings and the increase in related bank fees. Funds required to be held by fiscal agents under the provisions of bond indentures are not included in the pooled cash account.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

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) 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.

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

As of June 30, 2009, MTS had \$10,706,413 invested in LAIF which had invested 14.71% of the pool investment funds in Structured Notes and Asset-Backed Securities compared to \$63,783,617 and 14.72% at June 30, 2008.

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT**

Investment in SDTC Pension Obligation Bonds

During fiscal year 2009, MTS purchased 92% of the outstanding variable rate pension obligation bonds (POBs) issued by San Diego Transit Corp. for \$35,630,000. This action was necessary because the credit rating of the company insuring the bonds was degraded to a point that required MTS to repurchase the bonds. The current interest rate provided by the bonds is 2.25%. Interest in the amount of \$1,385,457 earned by MTS from the bond investment is included in interest income recorded in the Statement of Revenues, Expenses and Changes in Net Assets. Interest expense in the amount of \$1,632,454 paid by SDTC related to the variable rate bonds is included in interest expense recorded in the Statement of Revenues, Expenses and Changes in Net Assets.

Continuing efforts to either sell the bonds or restructure the debt are underway. The bond obligation is presented in the liabilities section of the Statement of Net Assets. See note 10d for detailed information about the bond issuance.

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. In the current year, MTS does not hold investments in commercial papers or certificates of deposit. Other investment instruments, including deposits in LAIF; US Government taxable bonds; Pension Obligation Bonds issued by SDTC, a component unit of MTS; and a bank investment contract, are not susceptible to ratings.

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.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

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, 2009 and 2008, are shown below:

<u>Maturity</u>	<u>2009</u>	<u>2008</u>
Current to one year	\$ 28,961,646	\$ 89,308,712
Five to ten years	32,903,799	30,278,476
Ten to twenty years	84,951,545	86,247,213
Twenty to thirty years	35,630,000	-
Total	<u>\$ 182,446,990</u>	<u>\$ 205,834,401</u>

(3) Accounts Receivable

(a) *Accounts and other receivables*

As of June 30, 2009 and 2008, accounts and other receivables consisted of the following:

	<u>2009</u>	<u>2008</u>
Pension plan receivable	\$ 2,040,674	\$ 3,863,127
Interest receivable	3,165,353	3,720,355
Miscellaneous trade receivables	1,477,215	1,093,820
Advertising receivable	260,010	459,975
Total accounts and other receivables	<u>\$ 6,943,252</u>	<u>\$ 9,137,277</u>

(b) *Due From Other Governments*

As of June 30, 2009 and 2008, amounts due from other governments consisted of the following:

	<u>2009</u>	<u>2008</u>
FTA grant funds	\$ 38,784,808	\$ 31,358,187
SANDAG - Pass Sales	6,950,879	9,380,022
US Treasury Dept. - CNG tax rebate	3,100,680	2,098,290
STA funds	1,992,148	4,874,261
SANDAG project reimbursements	1,239,297	500,917
City of Chula Vista	1,213,874	2,797,471
Department of Homeland Security	932,460	-
County of San Diego	2,534,623	2,036,508
City of San Diego	109,188	220,418
State of California	-	246,500
North County Transit District	85,737	16,865
State of California	-	246,500
Total due from other governments	<u>\$ 56,943,694</u>	<u>\$ 53,775,939</u>

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

(4) Inventory

At June 30, 2009 and 2008, inventory consists of the following repair and maintenance parts for revenue vehicles:

	2009	2008
San Diego Transit Corp.	\$1,936,983	\$2,061,482
San Diego Trolley, Inc.	6,698,659	6,053,014
	<u>\$8,635,642</u>	<u>\$8,114,496</u>

(5) Capital Assets

MTS converted \$97 million in capital assets from CIP to assets in service compared to \$52.9 million in FY 2008. Capital asset additions totaling \$14.9 million were contributed by SANDAG, including \$3.9 million to MTS General Operations, \$625 thousand to Other Contracted Services, \$9.4 million to SDTC, and \$906 thousand to SDTI. In FY 2008, the contributions from SANDAG and other governments totaled \$18.7 million.

A summary of changes in capital assets is as follows:

	Balance, July 1, 2008	Additions	Deletions	Reclassifications and Transfers	Balance, June 30, 2009
Capital assets, not depreciated					
Land and right-of-way	\$ 221,853,921	\$ -	\$ -	\$ -	\$ 221,853,921
Construction-in-progress	71,111,063	68,690,683	(97,437,697)	-	42,364,049
Total capital assets, not depreciated	<u>292,964,984</u>	<u>68,690,683</u>	<u>(97,437,697)</u>	<u>-</u>	<u>264,217,970</u>
Capital assets, depreciated:					
Buildings and structures	1,169,112,605	11,627,069	(15,441)	34,802	1,180,759,035
Buses and Vehicles	389,246,063	56,078,733	(23,985,245)	(24,436)	421,315,115
Equipment and other	46,481,670	31,343,405	(353,533)	(10,366)	77,461,176
Capital lease property	12,437,839	-	-	-	12,437,839
Total capital assets, depreciated	<u>1,617,278,177</u>	<u>99,049,207</u>	<u>(24,354,219)</u>	<u>-</u>	<u>1,691,973,165</u>
Less accumulated depreciation for:					
Buildings and structures	(453,347,050)	(47,322,191)	6,207	(161)	(500,663,195)
Buses and vehicles	(215,928,638)	(22,758,956)	22,542,333	24,436	(216,120,825)
Equipment and other	(23,124,548)	(4,970,787)	345,608	(1,216)	(27,750,943)
Capital lease property	(7,529,950)	(447,046)	-	(23,059)	(8,000,055)
Total accumulated depreciation	<u>(699,930,186)</u>	<u>(75,498,980)</u>	<u>22,894,148</u>	<u>-</u>	<u>(752,535,018)</u>
Total capital assets, depreciated, net	<u>917,347,991</u>	<u>23,550,227</u>	<u>(1,460,071)</u>	<u>-</u>	<u>939,438,147</u>
Total capital assets	<u>\$ 1,210,312,975</u>	<u>\$ 92,240,910</u>	<u>\$ (98,897,768)</u>	<u>\$ -</u>	<u>\$ 1,203,656,117</u>

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT**

Depreciation expense for capital assets for the years ended June 30, 2009 and 2008 was comprised of the following:

	2009	2008
General operations	\$ 1,082,167	\$ 2,114,203
Other contracted services	6,931,670	13,718,776
San Diego Transit Corporation	11,739,095	14,495,763
San Diego Trolley, Inc.	55,746,048	55,214,684
Total	<u>\$ 75,498,980</u>	<u>\$ 85,543,426</u>

(6) Construction Commitments

Construction-in-progress was comprised of the following at June 30, 2009 and 2008:

	2009		2008	
	Expended	Contractually Committed	Expended	Contractually Committed
MTS Managed Projects:				
Mission Valley East	\$ 11,468,494	\$ 7,088,155	\$ -	\$ -
SYITC	3,025,594	279,976	-	-
LRV Body Rehab	2,132,084	31,923	1,624,913	26,005
MCS 40-ft CNG Buses	2,034,684	13,923,543	-	-
Rehab traction motors	1,679,132	564,379	1,194,957	1,048,497
SDTC Site Hardening & Security	752,392	147,927	-	-
Security Cameras	545,486	173,537	-	-
IAD/KMD vac	450,730	30,608	420,716	46,798
Blue Line TTE	116,958	-	468,075	7,232
Mills Building Procurement	111,839	142,844	648,900	264,500
LRV Tires	96,296	29,552	1,032,818	123,260
SDTC yard fence/security	63,228	-	634,771	188,413
Other projects	2,419,633	1,951,804	6,695,233	12,841,152
Total MTS managed projects	<u>24,896,550</u>	<u>24,364,248</u>	<u>12,720,383</u>	<u>14,545,857</u>
SANDAG Managed Projects:				
I-15 Bus Rapid Transit	11,315,478	-	11,315,478	56,487
IAD Land Expansion	3,465,985	-	3,465,985	-
Nobel Dr Coaster Station Impr	1,078,709	-	1,078,709	-
Gaslamp Station Impr	537,775	-	537,775	-
Fiber Optic Communications	-	-	474,829	15,000
Automated Fare Collection	-	-	40,449,135	24,017,455
Other projects	1,069,552	52,706	1,068,769	178,038
Total SANDAG managed projects	<u>17,467,499</u>	<u>52,706</u>	<u>58,390,680</u>	<u>24,266,980</u>
Total construction-in-progress	<u>\$ 42,364,049</u>	<u>\$ 24,416,954</u>	<u>\$ 71,111,063</u>	<u>\$ 38,812,837</u>

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT****(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 FY 2005 contribution and \$69,050,638 was funded for prior year unfunded accrued actuarial liability.

As of June 30, 2009, the Net Pension Asset amounted to \$63,125,638, and current year amortization was \$1,555,000 compared to \$64,680,638 and \$1,500,000 in FY08.

(8) Due To Other Governments

At June 30, 2009 and 2008, amounts due to other governments consisted of the following:

	2009	2008
SANDAG - STA funds for construction projects in process	\$ 2,256,240	\$ 7,506,241
SANDAG - Day Pass Sales	1,214,872	4,132,302
County of San Diego - MediCal	1,120,909	-
State Board of Equalization	493,902	-
City of San Diego - Shared Revenue	254,161	57,283
SANDAG - CIP Reimbursement	132,328	152,470
City of Lemon Grove - TDA Funds	121,170	121,170
SANDAG - Subsidy Revenue	117,054	1,252,519
City of El Cajon - TDA Funds	90,883	90,783
North County Transit District	26,357	-
SANDAG - RTMS Site Lease	24,696	-
City of Coronado - TDA Funds	20,600	-
Total due to other governments	<u>\$ 5,873,172</u>	<u>\$ 13,312,768</u>

(9) Unearned Revenue

At June 30, 2009 and 2008 unearned revenue consisted of the following:

	2009	2008
Advertising revenue received in advance	\$ 813,600	\$ -
County funds for 4S Ranch	666,803	-
Lease payments received in advance	426,017	414,717
Land management deposits	21,632	44,868
Fare media payments received in advance	15,048	-
	<u>\$ 1,943,100</u>	<u>\$ 459,585</u>

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

(10) Long-Term Debt

a) Summary

The following is a summary of changes in long-term obligations for the year ended June 30, 2009:

	Balance at July 1, 2008	Additions and net increase	Reductions and net decrease	Balance at June 30, 2009	Amount due within one year	Amount due in more than one year
MTS:						
Capital lease obligations	\$ 7,805,335	\$ -	\$ (546,537)	\$ 7,258,798	\$ 567,499	\$ 6,691,299
Finance obligation	122,540,595	-	(1,247,951)	121,292,644	1,343,918	119,948,726
Deferred amounts for issuance premium	287,105	-	(25,148)	261,957	25,148	236,809
Compensated absences payable	766,122	552,739	(556,128)	762,733	358,485	404,248
Accrued damage, injury, and employee claims	9,173,853	3,608,176	(5,939,539)	6,842,490	3,872,176	2,970,314
Accrued other post employment benefits	893,104	957,740	(66,781)	1,784,063	-	1,784,063
Total MTS	141,466,114	5,118,655	(8,382,084)	138,202,685	6,167,226	132,035,459
San Diego Transit Corporation:						
Pension Obligation Bonds	73,120,000	-	(1,555,000)	71,565,000	1,615,000	69,950,000
Compensated absences payable	9,239,138	3,144,026	(3,811,797)	8,571,367	3,811,798	4,759,569
Accrued damage, injury, and employee claims	10,377,000	1,025,384	(1,507,384)	9,895,000	1,527,027	8,367,973
Accrued other post employment benefits	926,926	1,567,511	(499,378)	1,995,059	-	1,995,059
Total SDTC	93,663,064	5,736,921	(7,373,559)	92,026,426	6,953,825	85,072,601
San Diego Trolley, Inc.:						
Compensated absences payable	2,744,336	3,163,887	(3,167,909)	2,740,314	2,499,159	241,155
Accrued damage, injury, and employee claims	3,728,000	583,169	(543,169)	3,768,000	587,254	3,180,746
Accrued other post employment benefits	2,090,692	2,235,031	(58,039)	4,267,684	-	4,267,684
Total SDTI	8,563,028	5,982,087	(3,769,117)	10,775,998	3,086,413	7,689,585
Total	\$ 243,692,206	\$ 16,837,663	\$ (19,524,760)	\$ 241,005,109	\$ 16,207,464	\$ 224,797,645
Reconciliation to Statement of Net Assets:						
Due within one year:						
Bond premium					\$ 25,148	
Compensated absences payable					6,669,442	
Accrued damage, injury, and employee claims					5,986,457	
Long-term debt					2,182,499	
Long-term debt payable from restricted assets					1,343,918	
					<u>\$ 16,207,464</u>	
Noncurrent liabilities:						
Long-term debt payable from restricted assets						\$ 116,511,426
Bond premium						236,809
Compensated absences payable						5,404,973
Accrued damage, injury and employee claims						14,519,033
Accrued other post employment benefits						8,046,806
Long-term debt						80,078,598
						<u>\$ 224,797,645</u>

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT****(b) 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.

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:

	2009	2008
Building – MTS Tower	\$ 12,091,981	\$ 12,091,981
Toshiba telecommunications equipment	345,858	345,858
Less accumulated depreciation	(8,000,054)	(7,529,950)
Total	<u>\$ 4,437,785</u>	<u>\$ 4,907,889</u>

The following is a summary of future minimum payments under capital leases as of June 30, 2009:

	Tower lease payments	Toshiba equipment lease payments	Total lease payments
Year ending June 30:			
2010	\$ 843,072	\$ 76,820	\$ 919,892
2011	864,123	44,812	908,935
2012	833,027	-	833,027
2013	851,210	-	851,210
2014	839,372	-	839,372
2015-2019	4,221,643	-	4,221,643
2020	844,376	-	844,376
Total minimum lease payments	9,296,823	121,632	9,418,455
Less amount representing interest	(2,155,496)	(4,161)	(2,159,657)
Present value of minimum lease payments	<u>\$ 7,141,327</u>	<u>\$ 117,471</u>	<u>\$ 7,258,798</u>

At June 30, 2009, the future minimum payments were \$7,258,798.

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT****(c) Finance Obligations**

The following is a summary of changes in finance obligations for the year ended June 30, 2009:

	Balance at July 1, 2008	Additions and net increases	Reductions and net decreases	Balance at June 30, 2009	Amount due within one year	Amount due in more than one year
1995 LRV Lease/Leaseback	\$ 122,540,595	\$ -	\$ (1,247,951)	\$ 121,292,644	\$ 1,343,918	\$ 119,948,726
Pension Obligation Bonds	73,120,000	-	(1,555,000)	71,565,000	1,615,000	69,950,000
Total Finance Obligations	<u>\$ 195,660,595</u>	<u>\$ -</u>	<u>\$ (2,802,951)</u>	<u>\$ 192,857,644</u>	<u>\$ 2,958,918</u>	<u>\$ 189,898,726</u>

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, 2009, the remaining future obligations total \$121,292,644.

	Principal	Interest	Total
Year ending June 30:			
2010	\$ 1,343,917	\$ 6,240,797	\$ 7,584,714
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	1,807,484	5,759,506	7,566,990
2015-2019	57,412,147	25,866,428	83,278,575
2020-2024	43,105,910	14,211,017	57,316,927
2025-2026	12,938,945	604,846	13,543,791
	<u>\$121,292,644</u>	<u>\$ 70,727,552</u>	<u>\$192,020,196</u>

For the above lease transaction, MTS is obligated to insure and maintain the equipment. The lease agreement 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, as well as the 1990 sale/leaseback that was retired in 2008, MTS has also agreed to indemnify the lessors for any taxes imposed by United States taxing authorities.

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT*****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, 2009, the outstanding balance of the Pension Obligation Bonds is \$71,565,000

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
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	1,915,000	2,925,130	4,840,130
2015-2019	11,055,000	13,142,460	24,197,460
2020-2024	14,210,000	10,007,216	24,217,216
2025-2029	18,100,000	6,260,413	24,360,413
2030-2034	19,400,000	1,903,548	21,303,548
	<u>\$ 71,565,000</u>	<u>\$ 46,815,755</u>	<u>\$118,380,755</u>

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

(11) Risk Management

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
MTS:				
2006 – 2007	\$ 27,140,503	\$ (4,766,193)	\$ (3,562,795)	\$ 18,811,515
2007 – 2008	18,811,515	6,739,625	(2,272,287)	23,278,853
2008 – 2009	23,278,853	5,242,373	(8,015,736)	20,505,490

Following is summary of accrued damage injury, and employee claims for fiscal years 2009 and 2008:

Accrued damage, injury and employee claims	2009	2008
Current portion	\$ 5,986,457	\$ 4,136,494
Non-current portion	14,519,033	19,142,359
Total	<u>\$ 20,505,490</u>	<u>\$ 23,278,853</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 \$20,505,490 at June 30, 2009 and \$23,278,853 at June 30, 2008.

The Board has 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 Years Ended June 30, 2009 and 2008 - DRAFT**

(12) Contingencies

MTS, SDTC, and SDTI have been named in certain legal actions pending at June 30, 2009. 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 \$3,000,000.

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. During the current year, the State of California audited MediCal claims for FY 2006, 2007 and 2008, and disallowed the method that had been used for identifying eligible claims. MTS has proposed an alternate method which is deemed allowable for the current year, but is awaiting approval to apply the new claims process for prior years. MTS has recorded an estimated liability of \$1.1 million to reserve for prior year funds that may be refundable to the State. The analysis of MediCal activity is on going, and the final results of the audit are not determinable at this time.

SDTC has pledged future farebox revenues pursuant to the provisions of the Pension Obligation Bonds issued by SDTC in FY 2004.

During 1990 and 1995, MTS entered into sale/leaseback and lease/leaseback arrangements related to the acquisition of 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 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.

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT****(13) Post-Employment Health Care Benefits**

Pursuant to new reporting requirements established in Statement 45 issued by Government Accounting Standards Board (GASB) effective in fiscal year 2008, MTS provides information below about its Other Post-Employment Benefits (OPEB), which consist primarily of health care benefits.

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 by each union. Total MTS payments for the year ended June 30, 2009 were \$66,781 for 11 retirees currently receiving post-employment health care benefits. Total SDTI payments for the year ended June 30, 2009 were \$58,039 for 23 retirees currently receiving benefits. Total SDTC payments for the year ended June 30, 2009 were \$195,578 for 47 management retirees currently receiving benefits. In the current year 140 union retirees received benefit payments of estimated at \$303,800. Because the three plans are funded as expenses are incurred, there are no accumulated plan assets and no separate benefit plan reports are available at this time.

As of June 30, 2009, the net liability consists of the following:

Net OPEB Obligation (NOO)

	MTS	SDTI	SDTC	Total
NOO at June 30, 2008	\$ 893,104	\$2,090,692	\$ 926,926	\$ 3,910,722
Benefit payments paid	(66,781)	(58,039)	(499,378)	(624,198)
Estimated contributions	-	-	-	-
Annual OPEB cost	917,550	2,140,950	1,525,800	4,584,300
Accrued interest	40,190	94,081	41,711	175,982
NOO at June 30, 2009	<u>\$1,784,063</u>	<u>\$4,267,684</u>	<u>\$1,995,059</u>	<u>\$8,046,806</u>

Data for SDTI and MTS, which is not presented separately in the actuarial study described below, has been allocated to each entity based on participation rates within each entity.

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 (most current available)	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	<u>1,519</u>

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT*****Funding Policy***

The contribution requirements of plan members and MTS are established by management and may be amended. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2009 MTS contributed \$624,198 to the plan. Plan members in MTS, SDTI and SDTC management plans receiving benefits contributed \$227,641 or approximately 41 percent of the total premiums. Information about the amounts contributed by SDTC union members is not currently available.

Annual OPEB Cost and Net OPEB Obligation

MTS' annual OPEB cost (expense) 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 show 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
Adjustment to annual required contribution	<u>2,024,200</u>
Annual OPEB cost (expense)	4,584,300
Contributions made	(624,198)
Interest on net OPEB obligation	<u>175,982</u>
Increase in net OPEB obligation	4,136,084
Net OPEB obligation - beginning of year	<u>3,910,722</u>
Net OPEB obligation - end of year	<u><u>\$ 8,046,806</u></u>

MTS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 and 2009 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
6/30/2009	4,760,282	13.11%	8,046,806

Information for the year ending June 30, 2007 is not available because GASB Statement 45 was first implemented in 2008.

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT*****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 UAAL 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 most recent funding progress schedules available for MTS, SDTI and SDTC are presented below:

MTS (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
06/30/07	\$ -	\$ 8,292	\$ (8,292)	0.0%	\$ 9,573	86.6%

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
06/30/07	\$ -	\$ 15,399	\$ (15,399)	0.0%	\$ 17,749	86.8%

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
06/30/07	\$ -	\$ 26,473	\$ (26,473)	0.0%	\$ 35,935	73.7%

Actuarial review and analysis of OPEB liability and funding status is required every two years, or annually if there are significant changes in the plan. Because there have been no plan changes since the initial actuarial study was performed the next schedule actuarial study will be completed during the coming year. As a result, funding progress schedules are available for only one year.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

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 which varies depending on the plan and type of health care service involved. Beginning in plan year 2009/2010, medical/drug trends generally grade down from between 7% and 10% to an ultimate of 5% by 2018/2019, while dental/vision/expense trends are generally a flat 5% per year. The actuarial value of assets was determined using techniques 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

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.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

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 2009, 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.

The most recent funding progress schedule available for SDTI is presented below (Amounts in thousands of dollars):

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	\$ 54,017	\$ 59,846	\$ (5,829)	90.3%	\$ 21,679	26.9%

Because MTS is a member of the CalPERS risk pool for groups under 100, individual funding progress is not available.

Annual Pension Cost

For fiscal year 2009, MTS' and SDTI's annual required employer contributions were \$1,699,397 and \$2,341,361, respectively. The required contribution for fiscal year 2009 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 loss. The average remaining amortization period at June 30, 2007, the most recent valuation date, was 17 years for MTS and 25 years for SDTI.

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT****Trend information for MTS (in 000s):**

	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:			
2007	\$ 1,546	\$ 1,546	100%
2008	1,792	1,792	100%
2009	1,699	1,699	100%

Trend information for SDTI (in 000s):

	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:			
2007	\$ 2,231	\$ 2,231	100%
2008	2,350	2,350	100%
2009	2,341	2,341	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.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

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 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 July 1, 2008, the most recent valuation date, was 30 years.

The most recent schedule of funding progress for SDTC is presented below:

Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
7/1/2008	\$ 164,760	\$ 195,624	\$ (30,864)	84.2%	\$ 33,251	92.8%

Annual Pension Cost

For fiscal year ended June 30, 2009, the annual pension cost of \$5,275,088 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):

Fiscal year ended June 30:	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
2007	\$ 4,576	\$ 4,576	100%
2008	4,656	4,656	100%
2009	5,275	5,275	100%

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT**

(15) Other Required Individual Fund Disclosures

SDTC and SDTI had unrestricted net deficits of \$(31,328,687) and \$(9,582,915) respectively, at June 30, 2009 compared to \$(33,232,452) and \$(8,121,366) at June 30, 2008. 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

The national, state and local economies continue to suffer the effects of the financial credit crisis, which has spread to all sectors of the global economy. In spite of marginal improvements in some economic indicators, sales tax receipts in California, which form the base for Transit Development Act funding, continue to decline. In addition, increases in local unemployment have continued to have an adverse affect on ridership. Management has responded to these uncertainties with several projects designed to minimize fluctuations in cash balances over the next several years.

1. In July 2009 MTS entered into a financial agreement to stabilize CNG fuel prices for the next year.
2. MTS has entered into a loan agreement to fund the retirement of the Pension Obligation Bonds, which will terminate the interest swap agreement and all associated costs, and restore a large portion of the cash reserves that had been used to purchase the POBs.
3. In October, the State Supreme Court upheld a lower court ruling that the State of California illegally diverted funds designated for mass transportation purposes to the general fund. Given the uncertainties in the California economy and the State budget, the likelihood that the State will restore any funds to MTS in the coming year is not determinable at this time.
4. MTS will continue to evaluate fare and route structures to obtain the greatest possible benefit in an uncertain economic climate.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

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San Diego Metropolitan Transit System**Schedule of Funding Progress of Defined Benefit Pension Plan - DRAFT****For the Year Ended June 30, 2009****DEFINED BENEFIT 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
06/30/05	\$ 41,415	\$ 48,698	\$ (7,283)	85.04%	\$ 19,917	36.57%
06/30/06	47,412	53,490	(6,078)	88.64%	21,024	28.91%
06/30/07	54,017	59,846	(5,829)	90.26%	21,679	26.89%

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
01/01/06	\$ 153,083	\$ 168,877	\$ (15,794)	90.65%	\$ 34,959	45.18%
07/01/07	160,697	186,612	(25,915)	86.11%	33,027	78.47%
07/01/08	164,760	195,624	(30,864)	84.22%	33,251	92.82%

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.

San Diego Metropolitan Transit System**Schedule of Funding Progress of Other Postemployment Benefits Plan - DRAFT****For the Year Ended June 30, 2009****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)

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%

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
06/30/07	\$ -	\$ 26,473	\$ (26,473)	0.0%	\$ 35,935	73.7%

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
06/30/07	\$ -	\$ 15,399	\$ (15,399)	0.0%	\$ 17,749	86.8%

Actuarial review and analysis of OPEB liability and funding status is performed every two years, or annually if there are significant changes in the plan. Because there have been no plan changes since the initial actuarial study was performed the next scheduled actuarial study for MTS plans will be completed during the coming year. As a result, funding progress is available for only one year.

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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San Diego Metropolitan Transit System**Supplementary Information****Year Ended June 30, 2009**

Description of Funds:

The General Operations 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. Expenses 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.

San Diego Metropolitan Transit System

Supplementary Information

Year Ended June 30, 2009

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
June 30, 2009

	Assets				
	General Operations	Contracted Services	SDTC	SDTI	Total
Current assets:					
Cash and cash equivalents	\$ 21,949,837	\$ -	\$ (748,373)	\$ (542,794)	\$ 20,658,670
Investments restricted for debt service payable within one year	1,343,918	-	-	-	1,343,918
Accounts and other receivables	3,680,776	5,949	2,139,167	1,117,360	6,943,252
Due from other governments	50,181,261	2,148,288	2,330,549	2,283,596	56,943,694
Internal balances	6,231,947	3,672,598	(4,549,246)	(5,355,299)	-
Materials and supplies inventory	-	-	1,936,983	6,698,659	8,635,642
Prepaid expenses and other current assets	2,008,524	11,095	-	-	2,019,619
Total current assets	85,396,263	5,837,930	1,109,080	4,201,522	96,544,795
Noncurrent assets:					
Cash and certificates of deposit restricted for capital support	8,302,976	-	-	-	8,302,976
Investments in bonds	35,630,000	-	-	-	35,630,000
Investments restricted for debt service and capital projects	116,511,426	-	-	-	116,511,426
Unamortized bond issuance cost	114,725	-	962,910	-	1,077,635
Capital assets (net of accumulated depreciation)	97,687,370	51,660,141	116,277,280	938,031,326	1,203,656,117
Net pension asset	-	-	63,125,638	-	63,125,638
Total noncurrent assets	258,246,497	51,660,141	180,365,828	938,031,326	1,428,303,792
Total assets	343,642,760	57,498,071	181,474,908	942,232,848	1,524,848,587

San Diego Metropolitan Transit System

Combining Schedule of Revenues, Expenses and Change in Net Assets

For the Year Ended June 30, 2009

	General Operations	Contracted Services	SDTC	SDTI	Total
Liabilities					
Current liabilities:					
Accounts payable	1,859,818	4,701,796	1,015,994	93,093	7,670,701
Due to other governments	5,843,995	4,481	24,696	-	5,873,172
Unearned revenue	1,231,370	689,721	22,009	-	1,943,100
Accrued expenses	6,191,806	-	3,437,190	2,915,346	12,544,342
Retentions payable	59,944	-	-	-	59,944
Due within one year:					
Bond premium	25,148	-	-	-	25,148
Compensated absences payable	358,485	-	3,811,798	2,499,159	6,669,442
Accrued damage, injury, and employee claims	3,872,176	-	1,527,027	587,254	5,986,457
Long-term debt, due within one year	567,499	-	1,615,000	-	2,182,499
Long-term debt payable from restricted assets	1,343,918	-	-	-	1,343,918
Total current liabilities	21,354,159	5,395,998	11,453,714	6,094,852	44,298,723
Noncurrent liabilities:					
Retentions payable from restricted assets	5,603,327	-	-	-	5,603,327
Long-term debt payable from restricted assets	116,511,426	-	-	-	116,511,426
Bond Premium	236,809	-	-	-	236,809
Compensated absences payable, due in more than one year	404,249	-	4,759,569	241,155	5,404,973
Accrued damage, injury, and employee claims, due in more than one year	2,970,314	-	8,367,973	3,180,746	14,519,033
Accrued other post employment benefits	1,784,063	-	1,995,059	4,267,684	8,046,806
Long-term debt, due in more than one year	10,128,598	-	69,950,000	-	80,078,598
Total noncurrent liabilities	137,638,786	-	85,072,601	7,689,585	230,400,972
Total liabilities	158,992,945	5,395,998	96,526,315	13,784,437	274,699,695
Net Assets					
Invested in capital assets, net of related debt	(30,864,071)	51,660,141	116,277,280	938,031,326	1,075,104,676
Unrestricted	215,513,886	441,932	(31,328,687)	(9,582,915)	175,044,216
Total net assets	\$ 184,649,815	\$ 52,102,073	\$ 84,948,593	\$ 928,448,411	\$ 1,250,148,892

San Diego Metropolitan Transit System

Combining Schedule of Revenues, Expenses and Change in Net Assets

For the Year Ended June 30, 2009

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
Operating revenues:						
Passenger revenue	\$ -	\$ 23,857,156	\$ 27,881,541	\$ 33,453,633	\$ -	\$ 85,192,330
Advertising	924,522	-	-	-	-	924,522
Charter	-	-	68,801	-	-	68,801
Miscellaneous operating revenues	3,725,984	64,201	72,487	1,012,028	-	4,874,700
Total operating revenues	4,650,506	23,921,357	28,022,829	34,465,661	-	91,060,353
Operating expenses:						
Personnel costs	11,608,883	557,072	54,479,820	33,712,024	-	100,357,799
Outside services	3,924,835	49,886,008	2,077,073	9,251,915	-	65,139,831
Transit operations funding	83,538,355	-	-	-	(80,534,657)	3,003,698
Materials and supplies	5,006	897	4,423,565	2,760,620	-	7,190,088
Energy costs	67,004	8,254,126	8,143,399	8,818,828	-	25,283,357
Risk management	426,562	-	1,502,049	2,145,493	-	4,074,104
Miscellaneous operating expenses	(8,076,238)	940,920	5,162,593	4,024,881	-	2,052,156
Amortization of net pension asset	-	-	1,555,000	-	-	1,555,000
Depreciation	1,082,167	6,931,670	11,739,095	55,746,048	-	75,498,980
Total operating expenses	92,576,574	66,570,693	89,082,594	116,459,809	(80,534,657)	284,155,013
Operating income (loss)	(87,926,068)	(42,649,336)	(61,059,765)	(81,994,148)	80,534,657	(193,094,660)

San Diego Metropolitan Transit System

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

For the Year Ended June 30, 2009

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
Public support and nonoperating revenues:						
Federal revenue	68,171,984	4,681,101	17,177,124	16,615,904	(38,474,129)	68,171,984
Transportation Development Act (TDA) funds	75,517,474	28,188,452	17,197,220	717,855	(46,103,527)	75,517,474
State Transit Assistance (STA) funds	9,121,443	-	7,298,614	68,685	(7,367,299)	9,121,443
State revenue - other	4,092,420	1,392,420	-	-	(1,392,420)	4,092,420
TransNet funds	19,039,223	697,445	14,138,130	7,043,125	(21,878,700)	19,039,223
Other local subsidies	1,036,246	758,246	278,000	-	(1,036,246)	1,036,246
Investment earnings	10,584,467	-	(216)	-	-	10,584,251
Interest expense	(6,851,447)	-	(4,302,109)	-	-	(11,153,556)
Gain (loss) on disposal of assets	179,074	-	130,080	(15,148)	-	294,006
Other expenses	8	1	(641,544)	(1)	-	(641,536)
Amortization of bond issuance costs	(11,014)	-	(52,365)	-	-	(63,379)
Total public support and nonoperating revenues	180,879,878	35,717,665	51,222,934	24,430,420	(116,252,321)	175,998,576
Income (loss) before contributed capital	92,953,810	(6,931,671)	(9,836,831)	(57,563,728)	(35,717,664)	(17,096,084)
Transfers	(35,717,664)	-	-	-	35,717,664	-
Contributions	(90,533,415)	18,257,408	56,395,730	17,548,748	-	1,668,471
Change in net assets	(33,297,269)	11,325,737	46,558,899	(40,014,980)	-	(15,427,613)
Net assets, beginning of year	217,947,084	40,776,336	38,389,694	968,463,391	-	1,265,576,505
Net assets, end of year	\$ 184,649,815	\$ 52,102,073	\$ 84,948,593	\$ 928,448,411	\$ -	\$ 1,250,148,892

San Diego Metropolitan Transit System
Combining Schedule of Cash Flows
For the Year Ended June 30, 2009

	General Operations	Other Contracted Services	SDTC	SDTI	Total
Cash flows from operating activities:					
Received from customers and users	\$ 5,129,240	\$ 25,551,292	\$ 28,057,439	\$ 36,107,302	\$ 94,845,273
Payments to suppliers	(3,724,242)	(60,739,191)	(25,266,622)	(29,407,866)	(119,137,921)
Payments to employees	(10,542,240)	(557,072)	(52,433,737)	(31,505,055)	(95,038,104)
Payments for damage and injury	-	-	(416,201)	32,085	(384,116)
Net cash provided (used) by operating activities	(9,137,242)	(35,744,971)	(50,059,121)	(24,773,534)	(119,714,868)
Cash flows from noncapital financing activities:					
Public support funds received	50,949,681	35,744,971	56,089,093	24,465,971	167,249,716
Net cash provided (used) by noncapital financing activities	50,949,681	35,744,971	56,089,093	24,465,971	167,249,716
Cash flows from capital and related financing activities:					
Debt service costs	(924,570)	-	(6,498,661)	-	(7,423,231)
Property acquisition	(67,484,367)	-	-	(297,492)	(67,781,859)
Property disposal	336,354	-	131,583	-	467,937
Net cash provided (used) by capital and related financing activities	(68,072,583)	-	(6,367,078)	(297,492)	(74,737,153)
Cash flows from investing activities:					
Interest received from investments	2,485,455	-	(216)	-	2,485,239
Investments liquidated	-	-	-	-	-
Investments purchased	(35,630,000)	-	-	-	(35,630,000)
Net cash provided (used) by investing activities	(33,144,545)	-	(216)	-	(33,144,761)
Net increase (decrease) in cash and cash equivalents	(59,404,689)	-	(337,322)	(605,055)	(60,347,066)
Cash and cash equivalents, beginning of year	89,657,502	-	(411,051)	62,261	89,308,712
Cash and cash equivalents, end of year	\$ 30,252,813	\$ -	\$ (748,373)	\$ (542,794)	\$ 28,961,646
Cash and Cash Equivalents:					
Cash and Cash Equivalents	\$ 21,949,837	\$ -	\$ (748,373)	\$ (542,794)	\$ 20,658,670
Cash and Certificates of Deposit Restricted for Capital Support	8,302,976	-	-	-	8,302,976
Total Cash and Cash Equivalents	\$ 30,252,813	\$ -	\$ (748,373)	\$ (542,794)	\$ 28,961,646

San Diego Metropolitan Transit System
Combining Schedule of Cash Flows, Continued
For the Year Ended June 30, 2009

	General Operations	Other Contracted Services	SDTC	SDTI	Total
	\$ (7,391,411)	\$ (42,649,336)	\$ (61,059,765)	\$ (81,994,148)	\$ (193,094,660)
Operating income (loss):					
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation and amortization	1,082,167	6,931,670	13,294,095	55,746,048	77,053,980
(Increase) decrease in:					
Accounts and other receivables	(679,889)	4,468,234	86,068	1,541,641	5,416,054
Materials and supplies inventory	-	-	124,499	(472,507)	(348,008)
Prepaid and other current assets	(460,485)	(344)	-	(7,587)	(468,416)
Increase (decrease) in:					
Accounts payable	(2,624,786)	(5,161,653)	(2,351,923)	(1,706,454)	(11,844,816)
Accrued expenses	27,591	-	(70,115)	(93,496)	(136,020)
Unearned revenue	-	666,458	(342)	-	666,116
Accrued OPEB liability	890,959	-	1,068,133	2,176,992	4,136,084
Compensated absences payable	(3,388)	-	(667,771)	(4,023)	(675,182)
Accrued damage, injury and employee claims	22,000	-	(482,000)	40,000	(420,000)
Total adjustments	(1,745,831)	6,904,365	11,000,644	57,220,614	73,379,792
Net cash provided (used) by operating activities	\$ (9,137,242)	\$ (35,744,971)	\$ (50,059,121)	\$ (24,773,534)	\$ (119,714,868)

Supplemental noncash disclosures:

During the year other governments contributed \$14,854,517 in capital assets
During the year the fair value of investments increased by \$2,639,274

San Diego Metropolitan Transit System

Combined Operations

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

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actual per Statement of Revenues, Expenditures, and Changes in Net Assets Amounts	Budget Basis Adjustments	Actual on a Budget Basis	Variance with Final Budget
Operating revenues:						
Passenger revenue	\$ 76,975,010	\$ 83,404,939	\$ 85,192,330	\$ -	\$ 85,192,330	\$ 1,787,391
Advertising	3,210,000	2,411,280	924,522	-	924,522	(1,486,758)
Charter	28,000	28,000	68,801	-	68,801	40,801
Miscellaneous operating revenues	3,197,656	3,510,338	4,874,700	(459,308)	4,415,392	905,054
Total operating revenues	83,410,666	89,354,557	91,060,353	(459,308)	90,601,045	1,246,488
Operating expenses:						
Personnel costs	101,167,099	97,910,753	100,357,799	(1,854,863)	98,502,936	(592,183)
Outside services	66,393,039	64,524,916	65,139,831	(534,522)	64,605,309	(80,393)
Transit operations funding	5,320,296	3,945,653	3,003,698	-	3,003,698	941,955
Materials and supplies	7,499,851	7,440,609	7,190,088	(56,148)	7,133,940	306,669
Energy costs	29,030,807	27,161,141	25,283,357	-	25,283,357	1,877,784
Risk management	3,593,790	3,955,796	4,074,104	388,000	4,462,104	(506,308)
Miscellaneous operating expenses	1,956,636	2,536,054	2,052,156	-	2,052,156	483,898
Amortization of net pension asset	-	-	1,555,000	(1,555,000)	-	-
Depreciation	-	-	75,498,980	(75,498,980)	-	-
Total operating expenses	214,961,518	207,474,922	284,155,013	(79,111,513)	205,043,500	2,431,422
Operating income (loss)	(131,550,852)	(118,120,365)	(193,094,660)	78,652,205	(114,442,455)	3,677,910

**San Diego Metropolitan Transit System
Combined Operations**

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

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual per Statement of Revenues, Expenditures, and Changes in Net Assets		Actual Amounts		Variance with Final Budget
	Original	Final	Amounts	Budget Basis Adjustments	Actual on a Budget Basis		
Public support and nonoperating revenues:							
Federal revenue	25,102,497	34,935,546	68,171,984	(29,589,268)	38,582,716	3,647,170	
Transportation Development Act	70,668,908	56,773,548	75,517,474	(24,077,392)	51,440,082	(5,333,466)	
State Transit Assistance	12,992,663	7,618,343	9,121,443	(1,613,183)	7,508,260	(110,083)	
State revenue - other	2,000,000	2,000,000	4,092,420	(2,700,000)	1,392,420	(607,580)	
TransNet funds	21,479,466	20,229,452	19,039,223	1,805,030	20,844,253	614,801	
Other local subsidies	928,918	976,727	1,036,246	-	1,036,246	59,519	
Investment earnings	2,285,258	1,805,000	10,584,251	(8,763,019)	1,821,232	16,232	
Other non-operating income	7,588,385	7,588,385	-	7,588,385	7,588,385	-	
Interest expense	-	-	(11,153,556)	11,042,390	(111,166)	(111,166)	
Gain (loss) on disposal of assets	-	56,235	294,006	(237,771)	56,235	-	
Other expenses	(11,989,438)	(12,173,358)	(641,536)	(12,862,035)	(13,503,571)	(1,330,213)	
Amortization of bond issuance costs	-	-	(63,379)	63,379	-	-	
Total public support and nonoperating revenues	131,056,657	119,809,878	175,998,576	(59,343,484)	116,655,092	(3,154,786)	
Income (loss) before contributed capital	(494,195)	1,689,513	(17,096,084)	19,308,721	2,212,637	523,124	
Transfers	-	-	-	22,236	22,236	22,236	
Reserve revenue	160,126	60,243	-	60,243	60,243	-	
Contribution of capital assets	-	-	1,668,471	(1,668,471)	-	-	
Change in net assets	\$ (334,069)	\$ 1,749,756	(15,427,613)	\$ 17,722,729	\$ 2,295,116	\$ 545,360	
Net assets, beginning of year			1,265,576,505				
Net assets, end of year			<u>\$ 1,250,148,892</u>				

San Diego Metropolitan Transit System

General Operations Fund

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

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts		Variance with Final Budget
	Original	Final	Actual Amounts	Actual on a Budget Basis	
Operating revenues:					
Advertising	\$ 3,210,000	\$ 2,411,280	\$ 924,522	\$ 924,522	\$ (1,486,758)
Miscellaneous operating revenues	1,718,556	1,907,937	2,692,886	2,692,886	784,949
Total operating revenues	4,928,556	4,319,217	3,617,408	3,617,408	(701,809)
Operating expenses:					
Personnel costs	11,009,861	9,546,863	10,992,250	(890,959)	(554,428)
Outside services	3,338,863	3,071,274	3,801,842	(534,522)	(196,046)
Transit operations funding	5,320,296	3,945,653	83,538,355	(80,534,657)	941,955
Materials and supplies	5,000	5,000	6,380	-	(1,380)
Energy costs	44,160	56,650	59,365	-	(2,715)
Risk management	388,003	387,375	391,207	-	(3,832)
Miscellaneous operating expenses	(8,428,906)	(7,743,545)	(8,230,045)	-	486,500
Depreciation	-	-	1,044,790	(1,044,790)	-
Total operating expenses	11,677,277	9,269,270	91,604,144	(83,004,928)	670,054
Operating income (loss)	(6,748,721)	(4,950,053)	(87,986,736)	83,004,928	(31,755)

San Diego Metropolitan Transit System

General Operations Fund

Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts		Variance with Final Budget
	Original	Final	Actual Amounts	Budget Basis Adjustments	
Public support and nonoperating revenues:					
Federal revenue	114,705	114,705	68,171,984	(68,063,397)	108,587 (6,118)
Transportation Development Act (TDA) funds	5,320,296	3,945,653	75,517,474	(70,180,920)	5,336,554 1,390,901
State Transit Assistance (STA) funds	-	-	9,121,443	(8,980,482)	140,961 140,961
State revenue - other	-	-	4,092,420	(4,092,420)	- -
TransNet funds	-	-	19,039,223	(20,073,670)	(1,034,447) (1,034,447)
Other local subsidies	-	-	1,036,246	(1,036,246)	- -
Investment earnings	2,285,258	1,805,000	10,584,467	(8,763,019)	1,821,448 16,448
Other non-operating income	7,588,385	7,588,385	-	7,588,385	7,588,385 -
Interest expense	-	-	(6,851,447)	6,740,281	(111,166) (111,166)
Gain (loss) on disposal of assets	-	56,235	179,074	(122,839)	56,235 -
Other expenses	(8,559,926)	(8,559,926)	-	(8,559,926)	(8,559,926) -
Amortization of bond issuance costs	-	-	(11,014)	11,014	- -
Total public support and nonoperating revenues	6,748,718	4,950,052	180,879,870	(175,533,239)	5,346,631 396,579
Income (loss) before contributed capital	(3)	(1)	92,893,134	(92,528,311)	364,823 364,824
Transfers	-	-	(35,717,664)	35,717,664	- -
Contribution of capital assets	-	-	(90,533,415)	90,533,415	- -
Change in net assets	(3)	(1)	(33,357,945)	\$ 33,722,768	\$ 364,823 \$ 364,824
Net assets, beginning of year			198,975,671		
Net assets, end of year			\$ 165,617,726		

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 Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts		Variance with Final Budget
	Original	Final	Actual Amounts	Actual on a Budget Basis	
Operating revenues:					
Miscellaneous operating revenues	\$ 754,400	\$ 754,400	\$ 862,751	\$ 862,751	\$ 108,351
Total operating revenues	754,400	754,400	862,751	862,751	108,351
Operating expenses:					
Personnel costs	572,624	522,624	534,819	534,819	(12,195)
Outside services	126,245	100,961	78,312	78,312	22,649
Materials and supplies	5,000	8,500	(1,374)	(1,374)	9,874
Energy costs	15,350	12,996	7,539	7,539	5,457
Miscellaneous operating expenses	153,091	148,645	139,880	139,880	8,765
Depreciation	-	-	17,878	(17,878)	-
Total operating expenses	872,310	793,726	777,054	759,176	34,550
Operating income (loss)	(117,910)	(39,326)	85,697	17,878	142,901
Reserve revenue	117,909	39,326	-	39,326	-
Change in net assets	\$ (1)	\$ -	\$ 85,697	\$ 57,204	\$ 142,901
Net assets, beginning of year			526,610		
Net assets, end of year			\$ 612,307		

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 Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts		Variance with Final Budget
	Original	Final	Actual Amounts	Budget Basis Adjustments	
Operating revenues:					
Miscellaneous operating revenues	\$ 102,700	\$ 154,000	\$ 170,347	\$ -	\$ 16,347
Total operating revenues	102,700	154,000	170,347	-	16,347
Operating expenses:					
Personnel costs	73,477	73,477	81,814	-	(8,337)
Outside services	35,000	55,000	44,681	-	10,319
Energy costs	-	-	100	-	(100)
Risk management	34,440	34,440	35,355	-	(915)
Miscellaneous operating expenses	2,000	12,000	13,927	-	(1,927)
Depreciation	-	-	19,499	(19,499)	-
Total operating expenses	144,917	174,917	195,376	(19,499)	(960)
Operating income (loss)	(42,217)	(20,917)	(25,029)	19,499	15,387
Reserve revenue	42,217	20,917	-	20,917	-
Change in net assets	\$ -	\$ -	(25,029)	\$ 40,416	\$ 15,387
Net assets, beginning of year			18,444,803		
Net assets, end of year			\$ 18,419,774		

San Diego Metropolitan Transit System

Contracted Services

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

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actual on a Budget Basis	
Operating revenues:						
Passenger revenue	\$ 20,708,700	\$ 23,556,960	\$ 23,857,156	\$ -	\$ 23,857,156	\$ 300,196
Miscellaneous operating revenues	-	-	64,201	-	64,201	64,201
Total operating revenues	20,708,700	23,556,960	23,921,357	-	23,921,357	364,397
Operating expenses:						
Personnel costs	540,263	604,735	557,072	-	557,072	47,663
Outside services	51,793,412	50,905,131	49,886,008	-	49,886,008	1,019,123
Materials and supplies	-	32,884	897	-	897	31,987
Energy costs	10,729,030	9,775,451	8,254,126	-	8,254,126	1,521,325
Miscellaneous operating expenses	981,513	929,456	940,920	-	940,920	(11,464)
Depreciation	-	-	6,931,670	(6,931,670)	-	-
Total operating expenses	64,044,218	62,247,657	66,570,693	(6,931,670)	59,639,023	2,608,634
Operating income (loss)	(43,335,518)	(38,690,697)	(42,649,336)	6,931,670	(35,717,666)	2,973,031

San Diego Metropolitan Transit System
Contracted Services

Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actual on a Budget Basis	
Public support and nonoperating revenues:						
Federal revenue	\$ 1,252,018	\$ 1,085,067	\$ 4,681,101	\$ -	\$ 4,681,101	\$ 3,596,034
Transportation Development Act (TDA) funds	38,735,439	34,242,061	28,188,452	-	28,188,452	(6,053,609)
State revenue - other	2,000,000	2,000,000	1,392,420	-	1,392,420	(607,580)
TransNet funds	697,144	664,844	697,445	-	697,445	32,601
Other local subsidies	650,918	698,727	758,246	-	758,246	59,519
Total public support and nonoperating revenues	43,335,519	38,690,699	35,717,664	-	35,717,664	(2,973,035)
Income (loss) before contributed capital	1	2	(6,931,672)	6,931,670	(2)	(4)
Contribution of capital assets	-	-	18,257,408	(18,257,408)	-	-
Change in net assets	1	2	11,325,736	\$ (11,325,738)	(2)	(4)
Net assets, beginning of year			40,776,336			
Net assets, end of year			\$ 52,102,072			

**San Diego Metropolitan Transit System
San Diego Transit Corporation**

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

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts		Variance with Final Budget
	Original	Final	Actual Amounts	Budget Basis Adjustments	
Operating revenues:					
Passenger revenue	\$ 24,555,295	\$ 26,587,229	\$ 27,881,541	\$ -	\$ 1,294,312
Charter	28,000	28,000	68,801	-	40,801
Miscellaneous operating revenues	10,000	10,001	72,487	-	62,486
Total operating revenues	24,593,295	26,625,230	28,022,829	-	1,397,599
Operating expenses:					
Personnel costs	57,533,351	55,794,918	54,479,820	1,242,638	72,460
Outside services	2,045,138	1,944,481	2,077,073	-	(132,592)
Materials and supplies	4,552,121	4,405,121	4,423,565	(6,851)	(11,593)
Energy costs	9,231,694	8,652,711	8,143,399	-	509,312
Risk management	1,442,098	1,744,255	1,502,049	394,000	(151,794)
Miscellaneous operating expenses	5,119,607	5,178,726	5,162,593	-	16,133
Amortization of net pension asset	-	-	1,555,000	(1,555,000)	-
Depreciation	-	-	11,739,095	(11,739,095)	-
Total operating expenses	79,924,009	77,720,212	89,082,594	(11,664,308)	301,926
Operating income (loss)	(55,330,714)	(51,094,982)	(61,059,765)	11,664,308	1,699,525

San Diego Metropolitan Transit System

San Diego Transit Corporation

Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts		Variance with Final Budget
	Original	Final	Actual Amounts	Budget Basis Adjustments	
Public support and nonoperating revenues:					
Federal revenue	15,535,774	17,119,830	17,177,124	-	57,294
Transportation Development Act (TDA) funds	14,837,401	17,877,387	17,197,220	-	(680,167)
State Transit Assistance (STA) funds	12,992,663	7,618,343	7,298,614	-	(319,729)
TransNet funds	14,782,322	13,564,608	14,138,130	-	573,522
Other local subsidies	278,000	278,000	278,000	-	-
Investment earnings	-	-	(216)	-	(216)
Interest expense	-	-	(4,302,109)	4,302,109	-
Gain (loss) on disposal of assets	-	-	130,080	(130,080)	-
Other expenses	(3,429,512)	(3,613,432)	(641,552)	(4,302,109)	(1,330,229)
Amortization of bond issuance costs	-	-	(52,365)	52,365	-
Total public support and nonoperating revenues	54,996,648	52,844,736	51,222,926	(77,715)	(1,699,525)
Income (loss) before contributed capital	(334,066)	1,749,754	(9,836,839)	11,586,593	-
Contribution of capital assets	-	-	56,395,730	(56,395,730)	-
Change in net assets	<u>\$ (334,066)</u>	<u>\$ 1,749,754</u>	<u>46,558,891</u>	<u>\$ (44,809,137)</u>	<u>\$ -</u>
Net assets, beginning of year			38,389,694		
Net assets, end of year			<u>\$ 84,948,585</u>		

San Diego Metropolitan Transit System

San Diego Trolley Incorporated

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

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts		Variance with Final Budget
	Original	Final	Actual Amounts	Budget Basis Adjustments	
Operating revenues:					
Passenger revenue	31,711,015	33,260,750	33,453,633	-	192,883
Miscellaneous operating revenues	612,000	684,000	1,012,028	(459,308)	(131,280)
Total operating revenues	32,323,015	33,944,750	34,465,661	(459,308)	61,603
Operating expenses:					
Personnel costs	31,437,523	31,368,136	33,712,024	(2,206,542)	(137,346)
Outside services	9,054,381	8,448,069	9,251,915	-	(803,846)
Materials and supplies	2,937,730	2,989,104	2,760,620	(49,297)	277,781
Energy costs	9,010,573	8,663,333	8,818,828	-	(155,495)
Risk management	1,729,249	1,789,726	2,145,493	(6,000)	(349,767)
Miscellaneous operating expenses	4,129,331	4,010,772	4,024,881	-	(14,109)
Depreciation	-	-	55,746,048	(55,746,048)	-
Total operating expenses	58,298,787	57,269,140	116,459,809	(58,007,887)	(1,182,782)
Operating income (loss)	(25,975,772)	(23,324,390)	(81,994,148)	57,548,579	(1,121,179)

	Budgeted Amounts		Actual Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actual on a Budget Basis	
Public support and nonoperating revenues:						
Federal revenue	8,200,000	16,615,944	16,615,904	-	16,615,904	(40)
Transportation Development Act (TDA) funds	11,775,772	708,447	717,855	-	717,855	9,408
State Transit Assistance (STA) funds	-	-	68,685	-	68,685	68,685
TransNet funds	6,000,000	6,000,000	7,043,125	-	7,043,125	1,043,125
Gain (loss) on disposal of assets	-	-	(15,148)	15,148	-	-
Total public support and nonoperating revenues	25,975,772	23,324,391	24,430,421	15,148	24,445,569	1,121,178
Income (loss) before contributed capital	-	1	(57,563,727)	57,563,727	-	(1)
Contribution of capital assets	-	-	17,548,748	(17,548,748)	-	-
Change in net assets	\$ -	\$ -	(40,014,979)	\$ 40,014,979	\$ -	\$ (1)
Net assets, beginning of year			968,463,391			
Net assets, end of year			\$ 928,448,412			

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
Net Assets by Component

Last Five Fiscal Years - DRAFT

	2009	2008	2007	2006	2005
Governmental activities					
Invested in capital assets, net of related debt	-	-	-	111,959,506	420,667,651
Unrestricted	-	-	-	35,868,448	185,115,587
Total governmental activities net assets	-	-	-	147,827,954	605,783,238
Business-type activities					
Invested in capital assets, net of related debt	1,075,104,675	1,079,967,043	1,097,675,395	1,134,242,639	695,486,022
Unrestricted	175,044,202	185,609,462	163,244,170	(33,761,144)	(35,563,034)
Total business-type activities net assets	1,250,148,877	1,265,576,505	1,260,919,565	1,100,481,495	659,922,988
Primary government					
Invested in capital asset, net of related debt	1,075,104,675	1,079,967,043	1,097,675,395	1,246,202,145	1,116,153,673
Unrestricted	175,044,202	185,609,462	163,244,170	2,107,304	149,552,553
Total primary government	1,250,148,877	1,265,576,505	1,260,919,565	1,248,309,449	1,265,706,226

Source: Audited financial statements

Note: In 2007 MTS changed the presentation of its financial statements. MTS determined that all of its activities were truly business-type activities and presented all funds as Enterprise funds in 2007 and all subsequent years.

San Diego Metropolitan Transit System
Changes in Net Assets
Last Five Fiscal Years - DRAFT

	(accrual basis of accounting)				
	2009	2008	2007	2006	2005
Operating revenues					
Passenger Revenue	85,192,330	75,938,626	68,634,694	67,579,729	63,802,747
Advertising	924,522	1,118,697	1,001,597	838,663	1,339,470
Charter	68,801	63,435	44,999	30,940	895,092
Miscellaneous operating revenue	4,874,700	3,671,549	3,703,043	1,734,582	18,240
Total operating revenue	91,060,353	80,792,307	73,384,333	70,183,914	66,055,549
Operating expenses:					
Personnel costs	100,357,799	101,347,479	89,750,761	89,075,021	91,485,718
Outside services	65,139,831	64,940,409	62,629,613	57,709,213	70,259,897
Transportation operations funding	3,003,698	3,852,449	5,438,052	6,758,525	6,244,510
Materials and supplies	7,190,088	7,590,216	7,266,337	8,157,794	8,756,096
Energy costs	25,283,357	27,210,670	22,767,220	24,304,787	14,140,307
Risk management	4,074,104	3,898,094	5,416,889	5,078,068	5,212,337
Miscellaneous operating expenses	2,052,156	1,974,588	944,296	2,335,990	2,563,968
Amortization of net pension asset	1,555,000	1,500,000	1,455,000	1,415,000	
Depreciation	75,498,980	85,543,426	74,472,549	66,798,819	49,138,639
Total operating expenses	284,155,013	297,857,331	270,140,717	261,633,217	247,801,472
Operating income (loss)	(193,094,660)	(217,065,024)	(196,756,384)	(191,449,303)	(181,745,923)
Public support and nonoperating revenue:					
Grants and contributions	176,978,790	200,879,074	184,332,341	155,746,015	209,482,693
Investment earnings	10,584,251	13,394,279	13,349,080	7,095,384	11,706,567
Indirect cost recovery		-	-	1,685,026	2,827,481
Interest expense	(11,153,556)	(10,666,621)	(14,229,812)	(11,499,050)	(10,312,657)
Gain(loss) on disposal of assets	294,006	87,898	(1,260,113)	(1,800,414)	291,047
Other expenses	(641,552)	(141,711)	(355,528)	(187,452)	(184,767)
Amortization of bond issuance cost	(63,379)	(322,852)			
Total public support and nonoperating revenue	175,998,560	203,230,067	181,835,968	151,039,509	213,810,364
Income (loss) before contributed capital	(17,096,100)	(13,834,957)	(14,920,416)	(40,409,794)	32,064,441
Capital contribution	1,668,471	18,491,897	27,728,531	23,013,017	30,007,339
Changes in net assets:	(15,427,629)	4,656,940	12,808,115	(17,396,777)	62,071,780

Source: Audited financial statements

Note: In 2007 MTS changed the presentation of its financial statements. MTS determined that all of its activities were truly business-type activities and presented all funds as Enterprise funds in 2007 and all subsequent years.

REVENUE CAPACITY

San Diego Metropolitan Transit System

Operating Revenue by Source (in 000s)

Last Five Fiscal Years - DRAFT

Fiscal Year Ended	Passenger Fares	Federal Operating Funds	State Operating Funds	Local Operating Funds	Interest	Other
San Diego Transit						
2005	21,383	14,200	25,862	7,278	68	800
2006	22,264	15,000	23,415	13,383	129	(526)
2007	22,298	15,000	29,360	9,901	63	1,115
2008	23,680	13,934	21,863	10,507	-	868
2009	27,882	17,177	24,496	14,416	-	271
San Diego Trolley						
2005	25,855	10,651	1,741	8,279	-	880
2006	27,934	12,788	7,415	6,000	-	695
2007	27,402	15,325	6,279	6,000	-	469
2008	31,120	13,881	4,479	6,000	-	664
2009	33,454	16,616	787	7,043	-	997
MTS - Contract Services						
2005	16,564	711	31,703	2,136	-	-
2006	17,382	-	137	455	-	(345)
2007	18,935	200	36,300	1,778	-	(974)
2008	21,138	921	38,020	1,285	-	75
2009	23,857	4,681	29,581	1,456	-	64
Source:	Audited Financial Statements					

San Diego Metropolitan Transit System

Fare Structure

Bus Cash Fares	<u>2009</u>	<u>2008</u>	<u>2007</u>
One-way fare, local routes	\$2.25	\$2.00	\$1.75
Senior/disabled, local routes	1.10	-	-
Urban	-	2.25	2.25
Express	2.50	2.50	2.50-4.00
Senior/disabled Express	1.25	-	-
Premium	5.00	5.00	-
Senior/disabled Premium	2.50	-	-
Rural bus	5.00-10.00	5.00-10.00	-
Senior/disabled Rural bus	2.50- 5.00	-	-
Sorrento Valley Coaster Connection	1.00	-	-
Senior/disabled Coaster Connection	0.50	-	-
Shuttles	-	1.00	1.00
Senior Disabled	-	1.00	1.00
Trolley Cash Fares			
One-way fare, all stations	2.50	-	-
Senior/disabled one-way fare all stations	1.25	1.00	1.00
Downtown	1.25	1.25	1.25
Senior/disabled Downtown	0.60	-	-
1 station-20+ stations	-	1.50-3.00	1.50-3.00
Bus and Trolley Monthly Passes			
Regional monthly pass	68.00	64.00	-
Senior/disabled Regional	17.00	16.00	14.50
Youth Regional	34.00	32.00	29.00
Half-month/14-Day	41.00	-	-
Premium monthly pass	90.00	-	-
Senior/disabled Premium	22.50	-	-
Youth Premium	45.00	-	-
Half-month/14-Day	54.00	-	-
Local/Urban Bus/Express/Trolley	-	-	58.00
Express Bus (multi-zones)	-	-	64.00-84.00

SOURCE: Codified Ordinance No. 4, establishing fare pricing schedule, amended November 2008. Additional changes to the fare structure were effective July 1, 2009.

San Diego Metropolitan Transit System

Farebox Recovery Percentages

Last Five Fiscal Years - DRAFT

<u>Fiscal Year Ended</u>	<u>San Diego Transit</u>	<u>San Diego Trolley</u>	<u>MTS-Contract Services</u>
2005	26.67	54.25	31.97
2006	30.38	50.78	31.96
2007	30.44	48.97	33.05
2008	29.59	55.62	34.40
2009	34.31	57.15	40.00

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

DEBT CAPACITY

San Diego Metropolitan Transit System

Ratio of Outstanding Debt by Type

Last Five Fiscal Years - DRAFT

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	Percentage of Personal Income	Debt per Capita
2005	8,940,118	-	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	0.38%	91
2009	7,141,326	117,471	-	121,292,644	-	-	71,565,000	200,116,441	0.41%	89

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

San Diego Metropolitan Transit System

Regional Population and Personal Income Statistics

Last Five Fiscal Years - DRAFT

DRAFT

	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	4.70%
2006	2,188,817	49,149,338	22,455	4.10%
2007	2,197,243	50,827,435	23,132	4.80%
2008	2,227,386	53,006,520	23,798	4.80%
2009	2,250,246	49,293,508	21,906	10.2%

(1) SOURCE: San Diego Association of Governments, January 2009 Estimate

(2) SOURCE: FY 2008 data is not currently available

Estimate based on the statewide decrease of personal income of .0191% between June 30, 2008 and March 31, 2009
 Percentage was obtained through the U.S. Department of Commerce website

(3) SOURCE: California Employment Development Department, June 2009

San Diego Metropolitan Transit System
 Full-Time and Part-Time Employees by Function
 Last Five Fiscal Years - DRAFT

Full-time and Part-time Employees at June 30

<u>Function</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
MTS	114	117	121	90	73
San Diego Transit	824	844	866	880	927
San Diego Trolley	<u>530</u>	<u>533</u>	<u>527</u>	<u>539</u>	<u>528</u>
Total	<u>1,468</u>	<u>1,494</u>	<u>1,514</u>	<u>1,509</u>	<u>1,528</u>

Source: MTS payroll records

San Diego Metropolitan Transit System

Ten Largest Employers in San Diego County

<u>Company Name</u>	<u>Number of Employees (1)</u>	<u>Percent of 1,414,600 million County Total (2)</u>
United States Government	43,500	3.08%
United States Navy	42,000	2.97%
State of California	40,900	2.89%
University of California San Diego	26,000	1.84%
County of San Diego	20,500	1.45%
City of San Diego	19,500	1.38%
San Diego Unified School District	15,881	1.12%
Sharp Health Care	14,390	1.02%
Scripps Health	12,700	0.90%
Scripps Mercy Hospital	11,000	0.78%

Source:

(1) San Diego Source, The Daily Transcript

(2) Employment Development Department, State of California

Note: County of San Diego employment information is presented. Employer information is not currently available for the area served by the Metropolitan Transit System within San Diego County.

OPERATING INFORMATION

San Diego Metropolitan Transit System

Operating Indicators by Function

Last Five Fiscal Years - DRAFT

	2009	2008	2007	2006	2005
Operating Cost:					
San Diego Transit	81,271,392	80,031,464	73,256,992	73,284,403	80,187,053
San Diego Trolley	58,536,769	55,949,228	55,951,561	55,014,599	47,661,707
MTS-Contract Services	59,639,023	61,450,734	57,286,732	54,387,095	51,815,445
Farebox Revenue:					
San Diego Transit	27,881,541	23,680,179	22,297,629	22,263,739	21,383,099
San Diego Trolley	33,453,633	31,120,169	27,401,733	27,933,766	25,855,241
MTS-Contract Services	23,857,156	21,138,278	18,935,332	17,382,224	16,564,407
Total Passengers:					
San Diego Transit	29,762,278	28,094,257	26,075,859	24,889,685	24,426,571
San Diego Trolley	36,928,284	37,620,944	35,114,385	33,829,833	29,334,362
MTS-Contract Services	21,819,699	21,460,283	21,142,942	18,907,112	18,448,621
Revenue Miles:					
San Diego Transit	9,221,197	9,522,460	9,622,029	9,958,013	10,087,350
San Diego Trolley	7,894,528	8,002,889	7,940,011	8,180,189	7,060,498
MTS-Contract Services	12,178,979	12,501,267	12,453,692	12,241,939	12,701,361
Subsidy / Total Passenger					
San Diego Transit	\$1.79	\$2.01	\$1.95	\$2.05	\$2.41
San Diego Trolley	0.68	0.66	0.81	0.8	0.74
MTS-Contract Services	1.64	1.88	1.81	1.96	1.91

Source: NTD Report, and audited financial statements

San Diego Metropolitan Transit System

Service Performance Data

Last Five Fiscal Years - DRAFT

Service Provided	2009	2008	2007	2006	2005
San Diego Transit					
Vehicle Revenue Miles	9,221,197	9,522,460	9,622,029	9,958,013	10,089,671
Vehicle Revenue Hours	843,438	870,432	853,044	840,408	829,742
Passengers	29,762,278	28,094,257	26,075,859	24,889,685	24,425,116
Passenger Miles	107,408,405	100,255,833	98,202,798	93,579,662	93,745,993
Number of Vehicles	247	267	267	274	280
San Diego Trolley					
Vehicle Revenue Miles	7,894,528	8,002,889	7,940,011	8,180,189	7,060,498
Vehicle Revenue Hours	409,519	439,377	432,440	468,829	368,184
Passenger Car Hours	416,147	445,277	438,555	480,396	379,050
Passengers	36,928,284	37,620,944	35,114,385	33,829,833	29,334,362
Passenger Miles	220,638,983	206,923,846	207,726,689	208,875,499	187,987,995
Number of Vehicles	133	134	134	134	123
MTS-Contract Services					
Vehicle Revenue Miles	12,178,979	12,501,267	12,453,692	12,241,939	12,701,361
Vehicle Revenue Hours	985,709	1,018,879	995,636	927,652	946,314
Passengers	21,819,699	21,460,283	21,142,942	18,907,112	18,448,621
Passenger Miles	80,104,104	77,173,278	78,303,615	73,343,433	69,957,802
Number of Vehicles	388	358	348	337	357
Total					
Passengers	88,510,261	87,175,484	82,333,186	77,626,630	72,208,099
Passenger Miles	408,151,492	384,352,957	384,233,102	375,798,594	351,691,790

Source: NTD Report and MTS internal capital asset system

San Diego Metropolitan Transit System

Capital Assets Statistics by Function

Last Five Fiscal Years - DRAFT

	Fiscal Year				
	2009	2008	2007	2006	2005
General Operations					
Buildings and structures	1	1	1	1	1
Nonrevenue vehicles	7	7	10	10	12
San Diego Transit					
Land (parcels)	2	2	2	2	2
Buildings and structures	2	2	2	2	2
Buses	247	267	267	274	280
Nonrevenue vehicles	39	53	47	45	49
San Diego Trolley					
Trolley stations	54	54	54	54	50
Track miles	54	54	54	54	49
Light rail vehicles (total inventory)	133	134	134	134	123
Nonrevenue vehicles	68	72	69	58	78
MTS - Contracted Services					
Land (parcel)	1	1	1	1	1
Buildings and structures	3	3	1	1	1
Buses	388	358	348	337	357
Nonrevenue vehicles	7	9	4	2	2
Taxicab Administration					
Buildings and structures	1	1	1	1	1
Nonrevenue vehicles	3	3	2	1	1

Source: NTD and MTS internal capital asset system

San Diego Metropolitan Transit System

Ridership

Last Five Fiscal Years - DRAFT

	2009	2008	2007	2006	2005
Ridership (in 000's)					
San Diego Transit	29,762	28,094	26,076	24,890	24,427
% Change	5.94%	7.74%	4.77%	1.90%	
San Diego Trolley	36,928	37,621	35,114	33,830	29,334
% Change	-1.84%	7.14%	3.80%	15.32%	
MTS - Contract Services	21,820	21,460	21,142	18,907	18,449
% Change	1.67%	1.50%	11.82%	2.49%	

Source: NTD Report

San Diego Metropolitan Transit System

Operating Subsidy

Last Five Fiscal Years - DRAFT

	2009	2008	2007	2006	2005
Average Fare per Rider					
San Diego Transit	.94	0.85	0.86	0.90	0.88
San Diego Trolley	.91	0.83	0.78	0.83	0.88
MTS - Contract Services	1.09	0.98	0.90	0.92	0.90
Operating Expense per Rider					
San Diego Transit	2.55	2.69	2.62	2.74	3.20
San Diego Trolley	1.64	1.54	1.59	1.63	1.62
MTS - Contract Services	2.73	2.86	2.71	2.88	2.81
Subsidy per Rider					
San Diego Transit	1.61	1.85	1.76	1.85	2.33
San Diego Trolley	.74	0.72	0.81	0.80	0.74
MTS - Contract Services	1.64	1.88	1.81	1.96	1.91

Source: NTD report and Audited financial statements