



1255 Imperial Avenue, Suite 1000
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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.

October 21, 2010

Executive Conference Room
9:00 a.m.

ACTION RECOMMENDED

- | | | | |
|----|--|--|---------|
| A. | 1. | ROLL CALL | |
| | 2. | APPROVAL OF THE MINUTES OF JUNE 17, 2010 | Approve |
| B. | COMMITTEE DISCUSSION ITEMS | | |
| | 1. | <u>MTS: Draft Comprehensive Annual Financial Report (CAFR) for 2010 (Linda Musengo)</u>
Action would receive a report on the Draft FY 2010 CAFR for review and discussion. | Receive |
| | 2. | <u>MTS: Auditing Standards Issued During 2010 (Gary Caporicci of Caporicci & Larson)</u>
Action would receive a report from Caporicci & Larson presenting new auditing standards issued during FY 2010. | Receive |
| C. | COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS | | |
| D. | PUBLIC COMMENTS | | |
| E. | NEXT MEETING DATE: To be determined. | | |
| F. | ADJOURNMENT | | |

Please turn off cell phones
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.

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

June 17, 2010

MTS
1255 Imperial Avenue, Suite 1000, San Diego

DRAFT MINUTES

A. ROLL CALL

1. Chairman Ewin called the meeting to order at 9:00 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

2. APPROVAL OF MINUTES

Mr. Rindone moved for approval of the minutes of the March 4, 2010, Audit Oversight Committee meeting. Mr. Selby seconded the motion, and the vote was 4 to 0 in favor.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. MTS: Interim Audit

Mr. Gary Caporicci of Caporicci & Larson (C&L) announced that the company has merged with Stonefield Josephson, Inc. (certified public accountant business advisors), but there will be no differences in service to clients. Mr. Kenneth Pun, C&L, presented an interim exit conference wherein they discussed the finding from the financial audit performed by C&L for the fiscal year ending June 30, 2010. The overall audit risk assessment is deemed "low-risk." Mr. Pun explained that this outcome reflects sufficient internal controls are in place, and controls are in compliance with government code. The only "moderate risk" finding from the C&L audit relates to the Compass Card.

Ms. Roma Layosa of C&L discussed briefly the current-year observations. Audit of travel expenses revealed that a Director was not signing log sheets for purchases made with the Copy Center Coordinator's purchasing card. It was also found that approval authorizations for Board member expense reports were not being followed according to the current policy and procedures. Mr. Cliff Telfer, Chief Financial Officer, stated that the Finance Manager routinely approves purchasing card charges that the Copy Center Coordinator incurs. He also explained that MTS policy #44, MTS TRAVEL EXPENSE POLICY, will be presented to the Board with a proposed change that would allow the Chief Executive Officer (CEO) and General Counsel to sign Board of Directors' expense reports.

Ms. Layosa discussed the audit finding related to capital assets. She explained that 8 out of 30 acquisition additions did not have the proper approvals on the acquisition form. In response, Mr. Tom Lynch, Controller, explained the purpose of the acquisition form and stated that the 8 additions referenced in the audit were related to single projects that would have had no benefit to approval on multiple forms. He further

explained the project included 54 forms that would only add work with no additional control value. In light of the finding, the capital asset financial procedures manual will be amended to note this distinction.

Ms. Layosa then reviewed the audit findings for the Compass Card and noted that the initial batch of Compass Cards received from the San Diego Association of Governments (SANDAG) was not in sequential, pre numbered order thus making it difficult to track and reconcile cards issued. Issues with the ticket vending machines were also discussed, such as the inability to distinguish transactions between new cards issued and cards that are reloaded. The audit also noted the lack of visibility of Compass Card ticket-validating stations on the trolley platforms and the inability of ticket validating machines (TVMs) to take more than one form of payment as well as their inability to complete multiple tasks within a single transaction.

Mr. Selby wanted to know if the C&L audit looked at SANDAG's Compass Card procedures and how it relates to MTS. Mr. Jablonski commented in response to Mr. Selby that operationally, MTS can audit SANDAG on any issues related to the Compass Card. Mr. Jablonski mentioned that the Internal Auditor for MTS did work with SANDAG to look at sequential ordering and, as a result, SANDAG is now issuing Compass Cards numerically. Mr. Jablonski also commented to the validation issue and the limited number of validation machines stating that one major goal for the future is to have the TVM act as a validation machine as well. The TVM will provide a way to track how many new Compass Cards are issued. Mr. Telfer further clarified that a \$2 fee that has been instituted to help with the control value of the Compass Card.

Mr. Ewin acknowledged that the Compass Card is a subject that will require follow up from the audit findings. He wanted to make sure that an internal audit of the Compass Card program properly notates similar findings as the external C&L audit findings as the issues were already identified by the organization. Mr. Jablonski stated that a major concern of the Compass Card program is ensuring that the organization is receiving the monies it should from Compass Card sales. He also noted that every Monday morning, meetings with SANDAG staff are held to work out ongoing Compass Card issues, such as software controls, day pass issues, and inspection issues.

Ms. Layosa reviewed the risk management audit observations and the inconsistency between the three divisions (MTS, SDTC and SDTI) when handling claim processing. Specifically, for SDTC claims, the Claim Adjuster has to input information into the TriStar system and the Ellipse system; SDTI and MTS claim information is only entered into the TriStar system. In response, Mr. Telfer explained that the data will now be entered into the TriStar system only, which will delete the duplication.

Mr. Pun reviewed two new pronouncements to be implemented in 2010. The first is GASB 51 – Accounting and Financial Reporting for Intangible Assets. To learn more about intangible assets, Mr. Pun invited the Committee to attend the Intangible Assets Workshop on Thursday, July 29, 2010, at Mesa College. The second pronouncement is GASB 53 – Accounting and Financial Reporting for Derivative Instruments. Mr. Pun explained that this pronouncement will require disclosures, as MTS has one hedging transaction (the CNG program).

Action Taken

Mr. Selby moved to receive a report on: (1) an interim audit conducted by Caporicci and Larson; (2) the exit conference held on May 24, 2010; and (3) related observations coupled with management's responses. Mr. Mathis seconded the motion, and the vote was 6 to 0 in favor.

2. MTS: Audit Schedule for FY 2010

Ms. Linda Musengo, Finance Manager, reviewed the remaining schedule for the fiscal year 2010 audit with the Committee. The schedule is as follows:

August 23 - September 30, 2010	Field Work
October 7, 2010	Draft Comprehensive Annual Financial Report (CAFR) submitted to Audit Oversight Committee
October 21, 2010	Final CAFR submitted to Audit Oversight Committee
October 28, 2010	Final CAFR submitted to Board of Directors

Ms. Musengo said that she would like to be done with the CAFR before the end of October, but the largest variable in achieving this deadline is receiving capital information from SANDAG.

Action Taken

Mr. Selby moved to receive a report on scheduling for the FY 2010 audit. Mr. Rindone seconded the motion, and the vote was 6 to 0 in favor.

3. MTS: Proposed 2010/2011 Internal Audit Plan

Mr. Mark Abbey, Internal Auditor, proposed a 2010/2011 work plan consisting of 9 internal audit projects and 400 allowable hours for special requests. He mentioned that the work plan has been reviewed by the CEO, CFO, and General Counsel. Mr. Abbey explained that he has selected the projects proposed below based on risk factors, such as the last audit date, liquidity of assets, changes in processes or personnel, and previous findings. He is proposing to review the following areas:

- Risk Management – TPA Disbursements
- SDTI – Storeroom
- SDTC – Training
- California Air Resources Board Follow-up Review
- Compass Card Controls
- Transit Store Controls
- SDTI – Revenue Collection
- SDTC – Revenue Collection
- Absenteeism – Sick Leave Review

Mr. Abbey commented that his proposed hours for the 2010/2011 work plan are contemporaneous to the hours expended for the previous year internal audits. He

also mentioned that he is looking forward to the audits and to sharing his findings with the Committee.

Action Taken

Mr. Roberts moved to receive the proposed 2010/2011 Internal Audit Plan Summary. Mr. Selby seconded the motion, and the vote was 6 to 0 in favor.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

There were no Committee communications.

D. PUBLIC COMMENTS

Clive Richard: Mr. Richard asked for clarification as to the change in authorization on signature policies. In response, Mr. Telfer, explained that the policy is too restrictive, which was not the policy's intent. Mr. Richard also commented about the Compass Card validating machines stating that the location of the validating machines on the trolley platform is inadequate and has been inadequate for members of the blind community. He mentioned that he has missed many green trains due to having to tap the ticket validating machine between trolley transfers. In response, Mr. Ewin told Mr. Richard to refer to management's comments on the issue.

E. NEXT MEETING DATE

The next meeting will be held as called.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 9:48 a.m.

Chairman

Attachment: Roll Call Sheet

**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) June 17, 2010

CALL TO ORDER (TIME) 9:00 AM

TEMPORARY ADJOURNMENT _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 9:48 AM

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWIN (Chair) <input checked="" type="checkbox"/>		
LIGHTNER <input checked="" type="checkbox"/> (Young) <input type="checkbox"/>		
MATHIS <input checked="" type="checkbox"/>	9:01 AM	
RINDONE (VC) <input checked="" type="checkbox"/> (Young) (CPT) <input type="checkbox"/>		
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>	9:01 AM	
SELBY <input checked="" type="checkbox"/> (Ryan) <input type="checkbox"/>		

SIGNED BY OFFICE OF THE CLERK OF THE BOARD: Valerie Vizkeleti

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

October 21, 2010

SUBJECT:

MTS: DRAFT COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR 2010
(LINDA MUSENGO)

RECOMMENDATION:

That the MTS Audit Oversight Committee receive a report on the Draft FY 2010 CAFR (Attachment A) for review and discussion.

Budget Impact

None at this time.

DISCUSSION:

The Finance Department presents for review and discussion the first draft of the 2010 CAFR.

- A. As of this distribution date, staff expects no material changes to the financial reports with the following exceptions:
1. Statement of cash flows – this is the last financial item to be completed in the CAFR because required calculations cannot be done until all adjustments are entered.
 2. Statistical data – the statistical tables that rely on performance data will be completed when relevant data is available.



3. Note disclosure regarding derivative instruments – this item, as required by Governmental Accounting Standards Board (GASB) 53, is a new disclosure in the current year and has required research and analysis of the compressed natural gas hedging contract and the acceptable format for the note itself.
 4. Formatting, pagination, and final proofreading for spelling or grammatical errors.
 5. The Finance Department expects to complete all items before the end of October.
- B. Please note the following significant changes from the prior year:
1. Increase in cash balance largely due to the liquidation of the investment in pension obligation bonds.
 2. Decrease in liabilities due to settlement of contract liabilities, timing of normal operating and payroll disbursements, and significant principal payment on pension obligation bonds.
 3. Increase in operating expense due to adjustment of noncash depreciation expense.
 4. Significant increase in subsidy revenue related to TransNet receipts for capital asset acquisitions.
- C. Representatives from Caporicci & Larson will be present to discuss their observations and comment on a significant deficiency in storeroom procedures related to the receiving and management of contracted spare parts for S70 trolley vehicles.

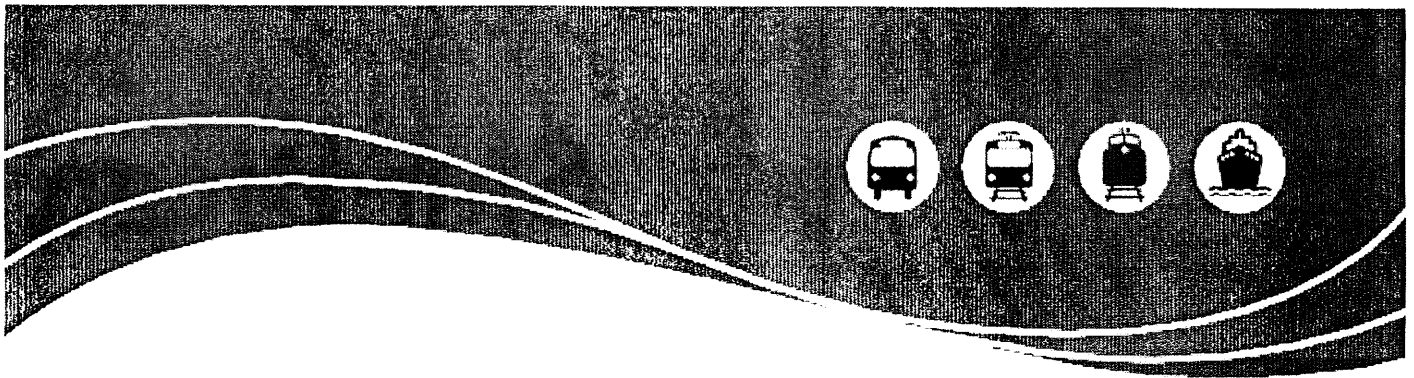


Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Tom Lynch, 619.557.4538, tom.lynch@sdmts.com

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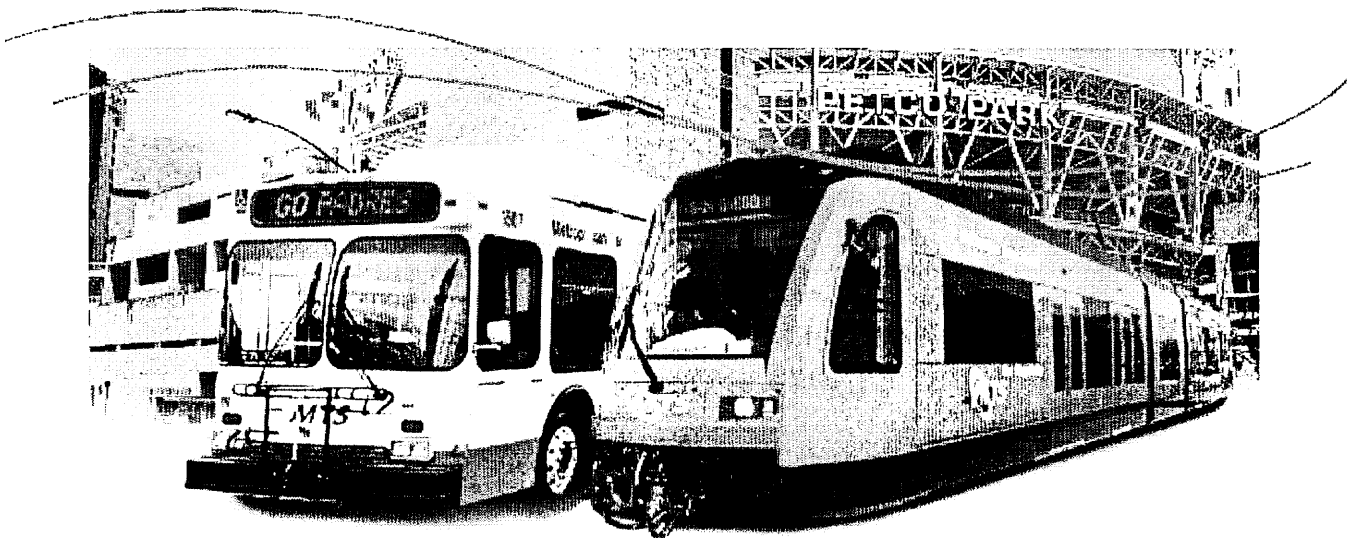
Attachment: A. Draft CAFR dated 10/12/10 **(AOC Only Due to Volume)**



SAN DIEGO METROPOLITAN TRANSIT SYSTEM
SAN DIEGO, CALIFORNIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2010 AND 2009



San Diego Metropolitan Transit System

San Diego, California

DRAFT

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

For the years ended June 30, 2010 and 2009

PREPARED BY SAN DIEGO METROPOLITAN TRANSIT SYSTEM
FINANCE DEPARTMENT

San Diego Metropolitan Transit System

Table of Contents

Page

Introductory Section (Unaudited):

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

Financial Section:

Independent Auditors' Report

Management's Discussion and Analysis

(Required Supplementary Information) (Unaudited)

Basic Financial Statements:

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

Required Supplementary Information (Unaudited):

- Schedule of Funding Progress of Defined Pension Plans
- Schedule of Funding Progress of Other Postemployment Benefits Plans

Supplementary Information:

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

San Diego Metropolitan Transit System

Table of Contents

Statistical Section (Unaudited):

Financial Trends:

- Net Assets by Component

- Changes in Net Assets

Revenue Capacity:

- Operating Revenue by Source

- Fare Structure

- Farebox Recovery Percentages

Debt Capacity:

- Ratio of Outstanding Debt by Type

Demographic and Economic Statistics:

- Regional Population and Personal Income Statistics

- Full-time and Part-time Employees by Function

- Ten Largest Employers

Operating Information:

- Operating Indicators by Function

- Service Performance Data

- Capital Asset Statistics by Function

- Ridership

- Operating Subsidy

INTRODUCTORY SECTION

DRAFT

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, 2010 and 2009 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, Inc. (A Subsidiary of Marcum LLP), Certified Public Accountants, 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, 2010 and 2009 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, 2010 and 2009 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 2.3 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 25 routes with an active fleet of 236 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 ridership, 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 shown some limited signs of recovery from the economic downturn that has affected all parts of nation since 2008. The tourism industry has outpaced projections and the construction industry has shown a slight increase in activity in 2010. San Diego's gross regional product (GRP), the total value of the region's economy, has been estimated to reach \$174 billion in 2009 and \$182 billion in 2010, increasing from the \$168 billion recorded in 2008. It is expected that gains in employment, consumer

spending and related sales tax revenues will lag behind other indicators. MTS ridership in 2010 showed continued sensitivity to high unemployment which resulted in a decrease in total riders from 2009

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. The 5-year bus procurement program will continue in 2011. During 2010 MTS began its program to upgrade the Blue Line Trolley and replace 57 trolley cars. Finally, plans to extend trolley service up the I-5 corridor from Old Town to La Jolla are proceeding and funding sources are being identified. It is expected that the 4-year project will begin by the end of 2013.

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, 2009. This is the fourth consecutive year and the fifteenth 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.

San Diego Metropolitan Transit System

Listing of Board of Directors and Management

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, 2010

San Diego Metropolitan Transit System

Listing of Board of Directors and Management

BOARD OF DIRECTORS

Members

Harry Mathis
Jerry Rindone
Jim Cunningham
Marti Emerald
Ernest Ewin
Todd Gloria
Jim Janney
Sherri Lightner
Bob McClellan
Al Ovrom, Jr.
Ron Roberts
Hal Ryan
Jerry Selby
Jess Van Deventer
Tony Young

Board position (elected position)

Chairman, since 1/06
Vice Chairman, since 7/91 (Representative, City of Chula Vista)
Board Member, since 12/09 (Councilmember, City of Poway)
Board Member, since 1/10 (Councilmember, City of San Diego)
Board Member, since 3/05 (Councilmember, City of La Mesa)
Board Member, since 1/09 (Councilmember, City of San Diego)
Board Member, since 5/09 (Mayor, City of Imperial Beach)
Board Member, since 1/09 (Councilmember, City of San Diego)
Board Member, since 4/08 (Councilmember, City of El Cajon)
Board Member, since 12/08, (Councilmember, City of Coronado)
Board Member, since 12/89 (Supervisor, County Board of Supervisors)
Board Member, since 1/04 (Councilmember, City of Santee)
Board Member, since 1/09 (Councilmember, City of Lemon Grove)
Board Member, since 9/09 (Councilmember, National City)
Board Member, since 1/05 (Councilmember, City of San Diego)

MTS MANAGEMENT

Staff

Paul Jablonski
Tiffany Lorenzen
Cliff Telfer
Claire Spielberg
E. Wayne Terry
Sharon Cooney
Robert Schupp
Jeff Stumbo
Bill Burke

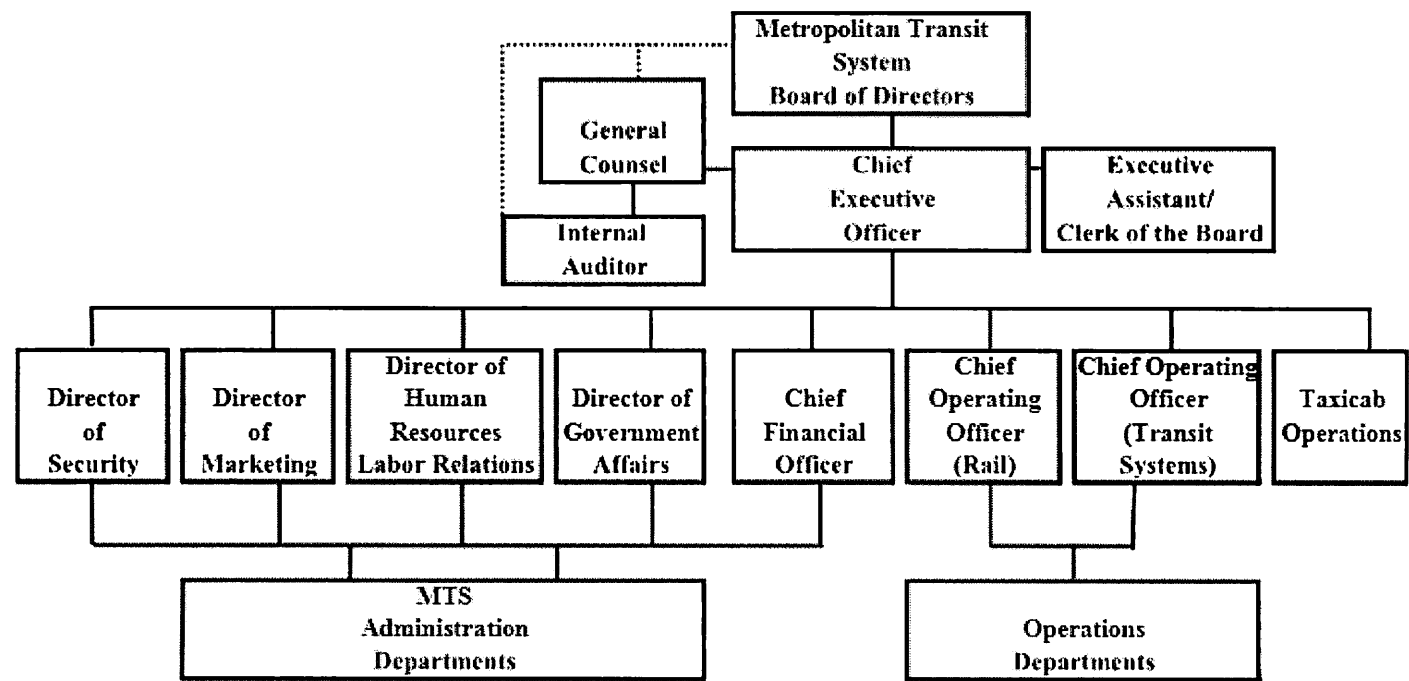
Position

Chief Executive Officer
General Counsel
Chief Financial Officer
Chief Operating Officer, Transit Systems
Chief Operating Officer, Rail
Director, Government Affairs
Director, Marketing and Communications
Director, Human Resources and Labor Relations
Director, Security

San Diego Metropolitan Transit System

Executive Level Organization Chart

DRAFT



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, 2009

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.



President

Executive Director

FINANCIAL SECTION

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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, 2010 and 2009, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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.

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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October XX, 2010, 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.

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

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 XX, 2010

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2010 and 2009

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, 2010 and 2009. 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 \$1,258 million as of June 30, 2010, \$1,250 million as of June 30, 2009 and \$1,266 million as of June 30, 2008. Of this amount, \$180 million was unrestricted as of June 30, 2010, \$175 million was unrestricted as of June 30, 2009, and \$186 million was unrestricted as of June 30, 2008. Total net assets increased by \$8 million in the current year and decreased by \$16 million in the prior year. The current year increase is largely attributable to an increase in TransNet funding for capital projects in the current year.

For the year ended June 30, 2010, 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 39.70% compared to 42.71% for the year ended June 30, 2009 and 38.46% for the year ended June 30, 2008. A number of factors have contributed to this decrease, principally \$8.8 million in current year amortization of the net pension asset.

Overview of the Financial Statements

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

Financial statements. The financial statements are designed to provide readers with a broad overview of MTS' finances, in a manner similar to a private-sector business. In fiscal year 2010, MTS presents comparative statements for FY 2010 and FY 2009.

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).

The *statement of cash flows* presents information showing the sources and uses of cash related to operating activities, noncapital financing activities, capital and related financing activities and investing activities. In addition, the statement provides information about significant non-cash investing, capital and financing activities.

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2010 and 2009

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).

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 and other post-employment 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 \$ 1,258 million at the close of the most recent fiscal year and \$1,250 million at the end of FY 2009.

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 \$86 million, of which the largest projects under construction include the procurement of 57 light rail vehicles, \$49 million; residual costs for the Mission Valley East Trolley project, \$10 million; the Bus Rapid Transit Project, \$11 million; and land acquisitions and expansions totaling \$11 million. Prior year construction-in-progress totaled \$42 million, of which the largest projects were 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. 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 2010 MTS transferred completed projects worth \$43.6 million to SDTC, SDTI, and Other Contracted Services. In FY 2009 MTS transferred completed projects worth \$97 million to SDTC, SDTI, Other Contracted Services and other governments.

The balance in unrestricted assets increased by \$5 million during the current year and decreased \$11 million in the prior year.

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2010 and 2009

	June 30, 2010	June 30, 2009	Change	June 30, 2008	Change
Current and other assets	\$ 300,276,165	\$ 321,192,470	\$ (20,916,305)	\$ 344,003,642	\$ (22,811,172)
Capital assets	1,204,818,407	1,203,656,117	1,162,290	1,210,312,975	(6,656,858)
Total assets	1,505,094,572	1,524,848,587	(19,754,015)	1,554,316,617	(29,468,030)
Long-term liabilities outstanding	213,421,810	230,400,972	(16,979,162)	234,980,747	(4,579,775)
Other liabilities	33,788,351	44,298,723	(10,510,372)	53,759,365	(9,460,642)
Total liabilities	247,210,161	274,699,695	(27,489,534)	288,740,112	(14,040,417)
Net assets:					
Invested in capital assets, net of related debt	1,078,178,383	1,075,104,676	3,073,707	1,079,967,043	(4,862,367)
Unrestricted	179,706,028	175,044,216	4,661,812	185,609,462	(10,565,246)
Total net assets	\$ 1,257,884,411	\$ 1,250,148,892	\$ 7,735,519	\$ 1,265,576,505	\$ (15,427,613)

Decreases in operating revenue are attributable to the affects of the continuing high unemployment on ridership. Capital and operating grants and contributions continue to be a major portion of the revenue used to fund transit operations and capital projects. Variances between FY 2010 and FY 2009 are attributable to an increase in TransNet funding for capital projects, which is partially offset by the elimination of State Transit Assistance (STA) in the current year and a decrease in TDA funding due to decreased sales tax revenue.

	June 30, 2010	June 30, 2009	Change	June 30, 2008	Change
Revenues:					
Operating revenues:					
Charges for services	\$ 85,078,266	\$ 86,185,653	\$ (1,107,387)	\$ 77,120,758	\$ 9,064,895
Other operating revenue	4,264,061	4,874,700	(610,639)	3,671,549	1,203,151
Nonoperating revenues:					
Federal revenue	67,575,804	68,171,984	(596,180)	47,889,694	20,282,290
Transportation Development Act	64,977,093	75,517,474	(10,540,381)	79,271,656	(3,754,182)
State Transit Assistance	-	9,121,443	(9,121,443)	14,622,782	(5,501,339)
State revenue - other	6,230,977	4,092,420	2,138,557	41,158,739	(37,066,319)
TransNet funds	84,460,840	19,039,223	65,421,617	16,968,565	2,070,658
Other nonoperating revenue	10,900,482	11,914,503	(1,014,021)	14,449,815	(2,535,312)
Total revenues	323,487,523	278,917,400	44,570,123	295,153,558	(16,236,158)
Expenses:					
Operating expenses	313,084,786	284,154,997	28,929,789	297,857,331	(13,702,334)
Nonoperating expenses	13,777,062	11,858,487	1,918,575	11,131,184	727,303
Total expenses	326,861,848	296,013,484	30,848,364	308,988,515	(12,975,031)
Increase (decrease) in net assets before capital contributions	(3,374,325)	(17,096,084)	13,721,759	(13,834,957)	(3,261,127)
Capital contributions	11,109,844	1,668,471	9,441,373	18,491,897	(16,823,426)
Increase in net assets	7,735,519	(15,427,613)	23,163,132	4,656,940	(20,084,553)
Net assets - beginning of year	1,250,148,892	1,265,576,505	(15,427,613)	1,260,919,565	4,656,940
Net assets - end of year	\$ 1,257,884,411	\$ 1,250,148,892	\$ 7,735,519	\$ 1,265,576,505	\$ (15,427,613)

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2010 and 2009

Capital Asset and Debt Administration

Capital assets. MTS' investment in capital assets net of depreciation as of June 30, 2010 and 2009 amounted to \$1,205 million and \$1,204 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 program to acquire 57 light rail vehicles for a total cost of \$49 million in the current year.
- 73 new buses were added to the fleet at Contract Services for a total cost of \$31 million, while 92 buses were retired.
- Completed capital projects totaling \$11.1 million were transferred from SANDAG and other governments to MTS and its component units during FY 2010.

CAPITAL ASSETS

(Net of depreciation)

	2010	2009	2008
Land	\$ 221,853,921	\$ 221,853,921	\$ 221,853,921
Buildings	648,756,302	684,533,624	720,488,895
Vehicles	203,196,464	205,194,290	172,200,068
Equipment & other	45,174,474	49,710,233	24,659,028
Construction-in-progress	85,837,246	42,364,049	71,111,063
Total	<u>\$ 1,204,818,407</u>	<u>\$ 1,203,656,117</u>	<u>\$ 1,210,312,975</u>

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

Long-term debt. At the end of the current fiscal year, MTS has two capital lease obligations outstanding in the amounts of \$6.6 million and \$44,000. 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 and fiscal year 2010, for a total obligation of \$181.1 million. In connection with the lease/leaseback transaction, MTS placed funds on deposit, which, together with the interest earned on the deposits, will be sufficient to cover the amounts due under the finance obligation. The pension obligation bonds were issued in fiscal 2005 for \$77.5 million to make a contribution to the SDTC retirement plan and reduce its unfunded liability. During the current year, MTS retired 14% and refunded 41% of the bonds outstanding.

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2010 and 2009

Bond Ratings

Standard & Poor's Ratings Services provided an underlying rating for the Pension Obligation Bonds at A in 2009. Additional information on MTS' long-term debt can be found in Note 6 to the financial statements.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

San Diego Metropolitan Transit System

Statements of Net Assets

June 30, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 44,246,852	\$ 20,658,670
Investments restricted for debt service payable within one year	1,447,266	1,343,918
Accounts and other receivables	7,765,988	6,943,252
Due from other governments	57,225,348	56,943,694
Materials and supplies inventory	10,443,264	8,635,642
Prepaid expenses and other current assets	2,076,453	2,019,619
Total current assets	123,205,171	96,544,795
Noncurrent assets:		
Cash and certificates of deposit restricted for capital support	4,805,538	8,302,976
Investments in bonds	-	35,630,000
Investments restricted for debt service and capital projects	118,050,149	116,511,426
Contracts receivable	977,171	-
Unamortized bond issuance cost	527,498	1,077,635
Capital assets (net of accumulated depreciation)	1,204,818,407	1,203,656,117
Net pension assets	52,710,638	63,125,638
Total noncurrent assets	1,381,889,401	1,428,303,792
Total assets	1,505,094,572	1,524,848,587

See Accompanying Notes to Basic Financial Statements

San Diego Metropolitan Transit System

Statements of Net Assets, Continued

June 30, 2010 and 2009

	2010	2009
Liabilities		
Current liabilities:		
Accounts payable	8,784,564	7,670,701
Due to other governments	2,402,740	5,873,172
Unearned revenue	2,394,449	1,943,100
Accrued expenses	7,224,191	12,544,342
Retentions payable	27,115	59,944
Due within one year:		
Bond premium	25,148	25,148
Compensated absences payable	6,635,173	6,669,442
Accrued damage, injury, and employee claims	2,577,359	5,986,457
Long-term debt	2,270,346	2,182,499
Long-term debt payable from restricted assets	1,447,266	1,343,918
Total current liabilities	33,788,351	44,298,723
Noncurrent liabilities:		
Retentions payable from restricted assets	2,257,200	5,603,327
Long-term debt payable from restricted assets	118,050,149	116,511,426
Bond premium	211,661	236,809
Compensated absences payable, due in more than one year	5,703,396	5,404,973
Accrued damage, injury, and employee claims, due in more than one year	12,065,641	14,519,033
Accrued other post employment benefits	9,111,500	8,046,806
Long-term debt, due in more than one year	66,022,263	80,078,598
Total noncurrent liabilities	213,421,810	230,400,972
Total liabilities	247,210,161	274,699,695
Net Assets		
Invested in capital assets, net of related debt	1,078,178,383	1,075,104,676
Unrestricted	179,706,028	175,044,216
Total net assets	\$ 1,257,884,411	\$ 1,250,148,892

See Accompanying Notes to Basic Financial Statements

San Diego Metropolitan Transit System
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2010 and 2009

	2010	2009
Operating revenues:		
Passenger revenue	\$ 84,167,615	\$ 85,192,330
Advertising	782,986	924,522
Charter	127,665	68,801
Miscellaneous operating revenues	4,264,061	4,874,700
Total operating revenues	89,342,327	91,060,353
Operating expenses:		
Personnel costs	99,096,444	100,357,799
Outside services	63,573,977	65,139,831
Transit operations funding	3,758,340	3,003,698
Materials and supplies	6,680,355	7,190,088
Energy costs	22,892,291	25,283,357
Risk management	4,858,835	4,074,104
Miscellaneous operating expenses	3,571,062	2,052,140
Amortization of net pension asset	10,415,000	1,555,000
Depreciation	98,238,482	75,498,980
Total operating expenses	313,084,786	284,154,997
Operating income (loss)	(223,742,459)	(193,094,644)
Public support and nonoperating revenues:		
Federal revenue	67,575,804	68,171,984
Transportation Development Act (TDA) funds	64,977,093	75,517,474
State Transit Assistance (STA) funds	-	9,121,443
State revenue - other	6,230,977	4,092,420
TransNet funds	84,460,840	19,039,223
Other local subsidies	1,261,520	1,036,246
Investment earnings	9,708,051	10,584,251
Interest expense	(12,702,198)	(11,153,556)
Gain (loss) on disposal of assets	(69,089)	294,006
Other expenses	(289,006)	(641,552)
Amortization of bond issuance costs	(785,858)	(63,379)
Total public support and nonoperating revenues (expenses)	220,368,134	175,998,560
Income (loss) before contributed capital	(3,374,325)	(17,096,084)
Contributed capital	11,109,844	1,668,471
Change in net assets	7,735,519	(15,427,613)
Net assets, beginning of year	1,250,148,892	1,265,576,505
Net assets, end of year	\$ 1,257,884,411	\$ 1,250,148,892

See Accompanying Notes to Basic Financial Statements

San Diego Metropolitan Transit System

Statements of Cash Flows

For the Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Receipts from customers and users	\$ 94,845,273	\$ 94,845,273
Payments to suppliers	(119,137,921)	(119,137,921)
Payments to employees	(95,038,104)	(95,038,104)
Payments for damage and injury	(384,116)	(384,116)
Net cash provided (used) by operating activities	(119,714,868)	(119,714,868)
Cash flows from noncapital financing activities:		
Public support funds received	200,000,000	167,249,716
Net cash provided (used) by noncapital financing activities	200,000,000	167,249,716
Cash flows from capital and related financing activities:		
Debt service costs	(15,423,231)	(7,423,231)
Property acquisition	(67,781,859)	(67,781,859)
Property disposal	467,937	467,937
Net cash provided (used) by capital financing activities	(82,737,153)	(74,737,153)
Cash flows from investing activities:		
Interest received on investments	2,485,239	2,485,239
Investments liquidated	35,630,000	-
Investments purchased	-	(35,630,000)
Net cash provided (used) by investing activities	38,115,239	(33,144,761)
Net increase (decrease) in cash and cash equivalents	35,663,218	(60,347,066)
Cash and cash equivalents, beginning of year	28,961,646	89,308,712
Cash and cash equivalents, end of year	\$ 64,624,864	\$ 28,961,646
Cash and Cash Equivalents:		
Cash and cash equivalents	\$ 44,246,852	\$ 20,658,670
Cash and certificates of deposit restricted for capital support	4,805,538	8,302,976
Total cash and cash equivalents	\$ 49,052,390	\$ 28,961,646

See Accompanying Notes to Basic Financial Statements.

San Diego Metropolitan Transit System

Statements of Cash Flows

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of Operating Income (Loss) To		
Net Cash Provided (Used) By Operating Activities		
Operating income (loss)	\$ (223,742,466)	\$ (193,094,660)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	108,653,482	77,053,980
(Increase) decrease in:		
Accounts and other receivables	5,416,053	5,416,054
Materials and supplies inventory	(348,008)	(348,008)
Prepaid and other current assets	(468,416)	(468,416)
Increase (decrease) in:		
Accounts payable	(11,844,816)	(11,844,816)
Accrued expenses	(136,020)	(136,020)
Unearned revenue	666,116	666,116
Accrued OPEB liability	4,136,084	4,136,084
Compensated absences payable	264,154	(675,182)
Accrued damage, injury and employee claims	(420,000)	(420,000)
Total adjustments	<u>105,918,629</u>	<u>73,379,792</u>
Net cash provided (used) by operating activities	<u>\$ (117,823,837)</u>	<u>\$ (119,714,868)</u>
Noncash investing, capital and financing activities:		
Contribution of capital assets from SANDAG	\$ 8,889,863	\$ 14,854,517
Contribution of capital assets to other governments	-	(13,186,046)
Contributions/adjustments of capital assets from other governments	<u>2,219,986</u>	<u>-</u>
Total contributions of capital assets	<u>\$ 11,109,849</u>	<u>\$ 1,668,471</u>
 Increase in fair value of investments	 <u>\$ -</u>	 <u>\$ 2,639,274</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, 2010 and 2009 - DRAFT

NOTES TO BASIC FINANCIAL STATEMENTS

Table of Contents

Note 1.	Summary of Significant Accounting Policies
	a. Reporting Entity.....
	b. Financial Statements.....
	c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
	d. Use of Restricted/Unrestricted Net Assets.....
	e. Cash, Cash Equivalents, and Investments.....
	f. Materials and Supplies Inventory
	g. Prepaid Items and Other Assets
	h. Capital Assets
	i. Construction-in-Progress
	j. Net Pension Asset.....
	k. Compensated Absences
	l. Long-Term Obligations
	m. Refunding of Debt
	n. Use of Estimates
Note 2.	Cash, Cash Equivalents, and Investments.....
Note 3.	Accounts Receivable
	a. Accounts and other receivables
	b. Due from other governments
Note 4.	Inventory
Note 5.	Capital Assets
Note 6.	Net Pension Asset.....
Note 7.	Due to other governments
Note 8.	Unearned revenue.....
Note 9.	Long-Term Debt
	a. Summary
	b. Capital Leases.....
	c. Finance Obligations
	1995 LRV Lease/Leaseback
	Pension Obligation Bonds
Note 10.	Risk Management
Note 11.	Contingencies
Note 12.	Post-Employment Health Care Benefits.....
Note 13.	Employee Retirement Systems
	a. MTS and SDTI.....
	b. SDTC
Note 14.	Other Required Individual Fund Disclosures.....
Note 15.	Subsequent Events

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - 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 accounting principles generally accepted in the United States of America (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 FY2004, 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, 2010 and 2009 - 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.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

(b) Financial Statements

The Financial Statements (i.e., the statement of net assets, the statement of revenues, expenses and changes in net assets, and statement of cash flows) report information on all of the activities of the primary government and its component units. Interfund activity has been eliminated from these statements. The statement of revenues, expenses, and changes in net assets demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

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

The Financial Statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as all eligibility requirements have been met.

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

MTS receives funding primarily from the following revenue sources:

Passenger Revenue

Passenger fares make up approximately 36 percent of MTS' \$231 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. Finally in current year MTS received funds from the American Recovery and Reinvestment Act of 2009 (ARRA). MTS has not received notification that funds from this program will be available in future years.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

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. Authorization to continue the refund program has expired and is awaiting congressional action to continue in future years.

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. 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. STA funds were not available in fiscal year 2010, but the State of California released STA funds in fiscal year 2011 in accordance with a State Supreme Court ruling. STA funds are anticipated in future years.

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.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

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.

(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.

During the current year MTS began its participation in the San Diego County Investment Pool, which is a local government investment pool managed by the County Treasurer's Office on behalf of the Investment Pool participants.

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

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

(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.

(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 25
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.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

Depreciation commences at the time of contribution. Assets acquired through capital leases are capitalized.

(j) *Net Pension Asset*

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

(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, 2010 and 2009 - DRAFT

(2) Cash, Cash Equivalents, and Investments

A summary of cash and investments at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Cash and equivalents	\$ 44,246,852	\$ 20,658,670
Cash and certificates of deposit restricted for capital support	4,805,538	8,302,976
Investments restricted for debt service and capital projects - Current	1,447,266	1,343,918
Investments restricted for debt service and capital projects - Noncurrent	118,050,149	116,511,426
Investment in SDTC Pension Obligation Bonds	-	35,630,000
Total cash and investments	<u>\$ 168,549,805</u>	<u>\$ 182,446,990</u>

Cash, cash equivalents, and investments consisted as follows on June 30, 2010 and 2009:

<u>Investment type</u>	<u>Fair value</u>	
	<u>2010</u>	<u>2009</u>
Cash and equivalents:		
Demand deposits	\$ 17,689,497	\$ 12,651,906
Retention Trust Account	2,257,200	5,603,327
San Diego Country Investment Pool	18,515,759	-
State of California - Local Agency Investment Fund	<u>10,589,934</u>	<u>10,706,413</u>
Total cash and cash equivalents	<u>49,052,390</u>	<u>28,961,646</u>
Investments:		
U.S. Treasuries	35,941,175	32,903,799
SDTC Pension Obligation Bonds	-	35,630,000
Bank Investment Contract	<u>83,556,240</u>	<u>84,951,545</u>
Total investments	<u>119,497,415</u>	<u>153,485,344</u>
Total cash, cash equivalents, and investments	<u>\$ 168,549,805</u>	<u>\$ 182,446,990</u>

At year end the carrying amount of demand deposits was \$17,689,497 and the bank balance was \$18,230,525 compared to \$12,651,906 and \$13,251,711 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. 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, 2010 and 2009 - 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

San Diego County Investment Pool

The San Diego County Investment Pool is a local government investment pool managed by the County Treasurer's Office on behalf of Investment Pool participants. Depositors in the Investment Pool include both mandatory participants, those agencies required by law to deposit their funds with the County Treasurer's Office, and voluntary participants, agencies that place their funds in the Investment Pool as an investment option. Voluntary participants, including cities, fire districts, and various special districts accounted for approximately 5.4% of the Investment Pool as of June 30, 2010.

Pursuant to Section 27130-27137 of the California Government Code, the County Board of Supervisors has established the Treasurer's Oversight Committee ("TOC") that monitors and reviews the Investment Policy. The TOC and consists of members appointed from the districts or offices that they represent, and up to five members of the public having expertise in, or an academic background in public finance.

To mitigate credit risk, the Investment Pool's Investment Policy, which is more restrictive than the Government Code, places a minimum standard on the ratings of investments held in the Investment Pool. Investments in securities other than those guaranteed by the U.S. Treasury or Government Sponsored Enterprises must have a credit rating of no less than "A" for long-term or A1 for short-term. Non-rated securities include sweep accounts, collateralized certificates of deposit and repurchase agreements. Sweep accounts and collateralized certificates of deposit must be FDIC insured and collateralized with securities held by a named agent of the depository. Repurchase agreements are collateralized by securities, authorized by the California Government Code Section 53601, having fair market value of 102% or greater than the amount of the repurchase agreement. The investment pool does not hold any investments in structured notes or asset-backed securities.

As of June 30, 2010, MTS had \$18,515,759 invested in the San Diego County Investment Pool.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

State of California - Local Agency Investment Funds

MTS' investments with the State of California - 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, 2010, MTS had \$10,589,934 invested in LAIF which had invested 5.42% of the pool investment funds in Structured Notes and Asset-Backed Securities compared to \$10,706,413 and 14.71% at June 30, 2009.

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.

During fiscal year 2010 the variable rate bonds were refunded and the MTS investment in the pension obligation bonds was liquidated. Interest in the amount of \$364,000 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 \$351,000 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. Interest income of \$1,385,457 and interest expense of \$1,632,454 were recorded in fiscal year 2009.

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.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

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; San Diego County Investment Pool; U.S. Government taxable bonds; 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.

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, 2010 and 2009, are shown below:

<u>Maturity</u>	<u>2010</u>	<u>2009</u>
Current to one year	\$ 49,052,391	\$ 28,961,646
One to five years	19,648,875	-
Five to ten years	16,292,299	32,903,799
Ten to twenty years	83,556,240	84,951,545
Twenty to thirty years	-	35,630,000
Total	<u>\$ 168,549,805</u>	<u>\$ 182,446,990</u>

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

(3) Accounts Receivable

(a) *Accounts and other receivables*

As of June 30, 2010 and 2009, accounts and other receivables consisted of the following:

	2010	2009
Pension plan receivable	\$ 3,425,086	\$ 2,040,674
Interest receivable	3,126,008	3,165,353
Miscellaneous trade receivables	885,694	1,477,215
Advertising receivable	329,200	260,010
Total accounts and other receivables	<u>\$ 7,765,988</u>	<u>\$ 6,943,252</u>

(b) *Due from other governments*

As of June 30, 2010 and 2009, amounts due from other governments consisted of the following:

	2010	2009
FTA grant funds	\$ 36,794,127	\$ 38,784,808
<i>TransNet</i> - Due from SANDAG	10,100,000	-
SANDAG - Pass Sales	5,256,681	6,950,879
County of San Diego - MediCal	3,356,441	2,534,623
US Treasury Dept. - CNG tax rebate	11,018	3,100,680
City of Chula Vista	833,163	1,213,874
SANDAG project reimbursements	661,609	1,239,297
North County Transit District	121,016	85,737
City of San Diego	79,422	109,188
Department of Homeland Security	11,871	932,460
STA funds	-	1,992,148
Total due from other governments	<u>\$ 57,225,348</u>	<u>\$ 56,943,694</u>

(4) Inventory

At June 30, 2010 and 2009, inventory consists of the following repair and maintenance parts for revenue vehicles:

	2010	2009
San Diego Transit Corp.	\$ 2,069,707	\$ 1,936,983
San Diego Trolley, Inc.	8,373,557	6,698,659
	<u>\$10,443,264</u>	<u>\$ 8,635,642</u>

Increases in the inventory at San Diego Trolley are attributable to purchase of parts for vehicles that are no longer under warranty.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

(5) Capital Assets

MTS converted \$45 million in capital assets from CIP to assets in service in FY 2010 compared to \$97 million in FY 2009. Capital asset additions totaling \$11.1 million were contributed by SANDAG and other governments, including \$28 thousand to MTS General Operations, \$4.6 million to Other Contracted Services, \$148 thousand to SDTC, and \$6.4 million to SDTI. In FY 2009, the contributions from SANDAG and other governments totaled \$14.9 million.

A summary of changes in capital assets is as follows:

	Balance, July 1, 2009	Additions	Deletions	Reclassifications and Transfers	Balance, June 30, 2010
Capital assets, not depreciated					
Land and right-of-way	\$ 221,853,921	\$ -	\$ -	\$ -	\$ 221,853,921
Construction-in-progress	42,364,049	88,809,749	(45,336,551)	-	85,837,247
Total capital assets, not depreciated	264,217,970	88,809,749	(45,336,551)	-	307,691,168
Capital assets, depreciated:					
Buildings and structures	1,180,759,035	11,853,491	(2,888,613)	-	1,189,723,913
Buses and Vehicles	421,315,115	42,942,484	(32,947,068)	152,786	431,463,317
Equipment and other	77,461,176	2,846,534	(1,308,757)	(152,786)	78,846,167
Capital lease property	12,437,839	-	-	-	12,437,839
Total capital assets, depreciated	1,691,973,165	57,642,509	(37,144,438)	-	1,712,471,236
Less accumulated depreciation for:					
Buildings and structures	(500,663,195)	(47,081,217)	2,809,120	-	(544,935,292)
Buses and vehicles	(216,120,825)	(43,539,919)	31,394,425	(534)	(228,266,853)
Equipment and other	(27,750,943)	(7,170,300)	1,225,958	534	(33,694,751)
Capital lease property	(8,000,055)	(447,046)	-	-	(8,447,101)
Total accumulated depreciation	(752,535,018)	(98,238,482)	35,429,503	-	(815,343,997)
Total capital assets, depreciated, net	939,438,147	(40,595,973)	(1,714,935)	-	897,127,239
Total capital assets	\$ 1,203,656,117	\$ 48,213,776	\$ (47,051,486)	\$ -	\$ 1,204,818,407

Depreciation expense for capital assets for the years ended June 30, 2010 and 2009 was comprised of the following:

	2010	2009
General operations	\$ 1,264,931	\$ 1,082,167
Other contracted services	10,304,987	6,931,670
San Diego Transit Corporation	13,803,216	11,739,095
San Diego Trolley, Inc.	72,865,348	55,746,048
Total	<u>\$ 98,238,482</u>	<u>\$ 75,498,980</u>

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

(6) 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 2005. 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, 2010, the Net Pension Asset amounted to \$52,710,638, and current year amortization was \$10,415,000 compared to \$63,125,638 and \$1,555,000 in FY09. The current year amortization was higher due to the additional \$8.8 million principal payment made in FY10 (see note 10e).

(7) Due to other governments

At June 30, 2010 and 2009, amounts due to other governments consisted of the following:

	2010	2009
County of San Diego - MediCal	\$ 1,120,910	\$ 1,120,909
SANDAG - Pass Sales	500,508	1,214,872
SANDAG - STA funds for construction projects in process	450,040	2,256,240
City of Lemon Grove - TDA Funds	121,170	121,170
City of San Diego - Shared Revenue	94,704	254,161
SANDAG - CIP Reimbursement	75,123	132,328
City of Coronado - TDA Funds	20,600	20,600
FTA	17,077	-
North County Transit District	2,608	26,357
State Board of Equalization	-	493,902
SANDAG - Subsidy Revenue	-	117,054
City of El Cajon - TDA Funds	-	90,883
SANDAG - RTMS Site Lease	-	24,696
Total due to other governments	<u>\$ 2,402,740</u>	<u>\$ 5,873,172</u>

(8) Unearned revenue

At June 30, 2010 and 2009 unearned revenue consisted of the following:

	2010	2009
Fare media payments received in advance	\$ 1,074,483	\$ 15,048
Advertising revenue received in advance	610,200	813,600
County funds for 4S Ranch	476,977	666,803
Lease payments received in advance	221,389	426,017
Local grant funds - Balboa Park	11,400	-
Land management deposits	-	21,632
	<u>\$ 2,394,449</u>	<u>\$ 1,943,100</u>

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

(9) Long-Term Debt

(a) Summary

The following is a summary of changes in long-term obligations for the year ended June 30, 2010:

	Balance at July 1, 2009	Additions and net increase	Reductions and net decrease	Balance at June 30, 2010	Amount due within one year	Amount due in more than one year
MTS:						
Capital lease obligations	\$ 7,258,798	\$ -	\$ (567,499)	\$ 6,691,299	\$ 585,346	\$ 6,105,953
Finance obligation	121,292,644	-	(1,343,918)	119,948,726	1,447,266	118,501,460
Deferred amounts for issuance premium	261,957	-	(25,148)	236,809	25,148	211,661
Compensated absences payable	762,733	857,091	(807,671)	812,153	381,712	430,441
Accrued damage, injury, and employee claims	6,842,490	64,000	(6,578,490)	328,000	328,000	-
Accrued other post employment benefits	1,784,063	518,437	(128,700)	2,173,800	-	2,173,800
Total MTS	138,202,685	1,439,528	(9,451,426)	130,190,787	2,767,472	127,423,315
San Diego Transit Corporation:						
Pension Obligation Bonds	71,565,000	30,000,000	(40,415,000)	61,150,000	1,685,000	59,465,000
Compensated absences payable	8,571,367	3,955,843	(3,748,945)	8,778,265	3,748,944	5,029,321
Accrued damage, injury, and employee claims	9,895,000	2,113,635	(1,719,635)	10,289,000	1,719,634	8,569,366
Accrued other post employment benefits	1,995,059	1,389,941	(1,173,200)	2,211,800	-	2,211,800
Total SDTC	92,026,426	37,459,419	(47,056,780)	82,429,065	7,153,578	75,275,487
San Diego Trolley, Inc.:						
Compensated absences payable	2,740,314	2,802,534	(2,794,698)	2,748,150	2,504,517	243,633
Accrued damage, injury, and employee claims	3,768,000	787,725	(529,725)	4,026,000	529,725	3,496,275
Accrued other post employment benefits	4,267,684	711,016	(252,800)	4,725,900	-	4,725,900
Total SDTI	10,775,998	4,301,275	(3,577,223)	11,500,050	3,034,242	8,465,808
Total	\$ 241,005,109	\$ 43,200,222	\$ (60,085,429)	\$ 224,119,902	\$ 12,955,292	\$ 211,164,610
Reconciliation to Statement of Net Assets:						
Due within one year:						
Bond premium					\$ 25,148	
Compensated absences payable					6,635,173	
Accrued damage, injury, and employee claims					2,577,359	
Long-term debt					2,270,346	
Long-term debt payable from restricted assets					1,447,266	
					<u>\$ 12,955,292</u>	
Noncurrent liabilities:						
Long-term debt payable from restricted assets						\$ 118,050,149
Bond premium						211,661
Compensated absences payable						5,703,395
Accrued damage, injury and employee claims						12,065,641
Accrued other post employment benefits						9,111,500
Long-term debt						66,022,264
						<u>\$ 211,164,610</u>

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - 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:

	2010	2009
Building – MTS Tower	\$ 12,091,981	\$ 12,091,981
Toshiba telecommunications equipment	345,858	345,858
Less accumulated depreciation	(8,447,100)	(8,000,054)
Total	<u>\$ 3,990,739</u>	<u>\$ 4,437,785</u>

The following is a summary of future minimum payments under capital leases as of June 30, 2010:

	Tower lease payments	Toshiba equipment lease payments	Total lease payments
Year ending June 30:			
2011	\$ 864,123	\$ 44,812	\$ 908,935
2012	833,028	-	833,028
2013	851,210	-	851,210
2014	839,372	-	839,372
2015	852,061	-	852,061
2016-2020	4,213,959	-	4,213,959
Total minimum lease payments	8,453,753	44,812	8,498,565
Less amount representing interest	(1,806,644)	(622)	(1,807,266)
Present value of minimum lease payments	<u>\$ 6,647,109</u>	<u>\$ 44,190</u>	<u>\$ 6,691,299</u>

At June 30, 2010, the future minimum payments were \$6,691,299.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

(c) Finance Obligations

The following is a summary of changes in finance obligations for the year ended June 30, 2010:

	Balance at July 1, 2009	Additions and net increases	Reductions and net decreases	Balance at June 30, 2010	Amount due within one year	Amount due in more than one year
1995 LRV Lease/Leaseback	\$ 121,292,644	\$ -	\$ (1,343,918)	\$ 119,948,726	\$ 1,447,266	\$ 118,501,460
Pension Obligation Bonds	71,565,000	30,000,000	(40,415,000)	61,150,000	1,685,000	59,465,000
Total Finance Obligations	<u>\$ 192,857,644</u>	<u>\$ 30,000,000</u>	<u>\$ (41,758,918)</u>	<u>\$ 181,098,726</u>	<u>\$ 3,132,266</u>	<u>\$ 177,966,460</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, 2010, the remaining future obligations total \$119,948,727.

Year ending June 30:	Principal	Interest	Total
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	21,361,390	5,689,623	27,051,013
2016-2020	41,758,165	24,268,424	66,026,589
2021-2025	48,977,502	10,671,664	59,649,166
2026	1,359,944	52,580	1,412,524
	<u>\$ 119,948,726</u>	<u>\$ 64,486,755</u>	<u>\$ 184,435,481</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, 2010 and 2009 - 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 each year on December 1.

Series B Bonds of \$38,800,000 were variable rate bonds that matured in annual installments between 2024 and 2034. Interest was adjusted on a weekly basis indexed to London Interbank Borrowing Rate (LIBOR) and payable on a monthly basis. In 2005 MTS entered into an agreement with UBS to fix the interest at 4.424%. In December 2009 MTS retired \$8,800,000 of the series B Bonds, terminated the interest agreement with UBS and refunded the \$30,000,000 remaining variable interest rate bonds. The Taxable Pension Obligation Refunding bonds 2009 Series A are variable rate bonds that mature December 23, 2015. Interest is adjusted on a weekly basis indexed to LIBOR and payable on a monthly basis.

At June 30, 2010, the outstanding balance of the Pension Obligation Bonds is \$61,150,000

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2011	\$ 1,685,000	\$ 2,672,379	\$ 4,357,379
2012	1,755,000	2,600,620	4,355,620
2013	1,830,000	2,522,800	4,352,800
2014	1,915,000	2,438,882	4,353,882
2015	2,005,000	2,349,100	4,354,100
2016-2020	41,605,000	5,361,194	46,966,194
2021-2024	10,355,000	1,005,151	11,360,151
	<u>\$ 61,150,000</u>	<u>\$ 18,950,126</u>	<u>\$ 80,100,126</u>

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

(10) 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:				
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
2009 -- 2010	20,505,490	2,965,360	(8,827,850)	14,643,000

Following is summary of accrued damage injury, and employee claims for fiscal years 2010 and 2009:

Accrued damage, injury and employee claims	2010	2009
Current portion	\$ 2,577,359	\$ 5,986,457
Non-current portion	12,065,641	14,519,033
Total	<u>\$ 14,643,000</u>	<u>\$ 20,505,490</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 \$14,643,000 at June 30, 2010 and \$20,505,490 at June 30, 2009.

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, 2010 and 2009 - DRAFT

(11) Contingencies

Pending legal actions. MTS, SDTC, and SDTI have been named in certain legal actions pending at June 30, 2010. 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.

Audit of Grant Funds. 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 FY 2009, 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 proposed an alternate method which has been deemed allowable for 2009 and 2010 claims. MTS will apply the new 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.

Pledged Revenue. SDTC has pledged future revenues pursuant to the provisions of the Pension Obligation Bonds issued by SDTC in FY 2004 and FY2010.

Contingent Tax Liability Related to Leaseback Agreements. 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.

Contingent Tax Liability Related to Component Unit. 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.

CNG Rebate Program. During FY 2010 authorization for the Compressed Natural Gas rebate program expired. Due to the uncertainty of congressional authorizations in future years MTS has not recorded revenue for these rebates in the current year.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

(12) 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: In the current year MTS made significant changes to its health care plans for both active and retired employees. Prior to January 1, 2010 MTS participated in three different plans for three distinct groups of employees within its reporting entities: MTS and SDTI retirees participated in a plan provided by CalPers; SDTC management retirees participated in a self-funded plan provided by SDTC; and SDTC provided payments to operator and maintenance employee unions for provision of post-employment benefits as determined by each union. As of January 1, 2010 all employees at MTS and all management employees at SDTI and SDTC participated in HMO and PPO plans offered by Kaiser and Anthem. There were no changes to plans provided for SDTC and SDTI employee unions. Total MTS payments for the year ended June 30, 2010 were \$54,300 for 11 retirees currently receiving post-employment health care benefits. Total SDTI payments for the year ended June 30, 2010 were \$74,900 for 20 retirees currently receiving benefits. Total SDTC payments for the year ended June 30, 2010 were \$717,900 for 47 management retirees currently receiving benefits. In the current year 155 union retirees received benefit payments of estimated at \$372,000. 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, 2010, the net liability consists of the following:

Net OPEB Obligation (NOO)

	<u>MTS</u>	<u>SDTI</u>	<u>SDTC</u>	<u>Total</u>
NOO at June 30, 2009	\$1,784,063	\$4,267,684	\$1,995,059	\$ 8,046,806
Benefit payments paid outside of a trust	(54,300)	(74,900)	(1,090,000)	(1,219,200)
Estimated contributions to a trust	-	-	-	-
Annual required contribution	438,137	519,016	1,300,141	2,257,294
Accrued interest	80,300	192,000	89,800	362,100
Amortization of June 30, 2009 NOO	<u>(74,400)</u>	<u>(177,900)</u>	<u>(83,200)</u>	<u>(335,500)</u>
NOO at June 30, 2010	<u>\$2,173,800</u>	<u>\$4,725,900</u>	<u>\$2,211,800</u>	<u>\$9,111,500</u>

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.

<u>Participants as of June 30, 2009 (most current available)</u>	<u>Total</u>
Current retirees and surviving spouses	233
Other participants fully eligible for benefits	290
Other participants not yet fully eligible for benefits	1,021
Total	<u>1,544</u>

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - 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 2010 MTS contributed \$1,219,200 to the plan. Plan members in MTS, SDTI and SDTC management plans receiving benefits contributed \$835,600 or approximately 68 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
Normal Cost	\$ 937,900
Amortization of Unfunded AAL	1,319,400
Annual Required Contribution	2,257,300
Interest on beginning of year NOO	362,100
Amortization on beginning of year NOO	(335,506)
Annual OPEB Cost	2,283,894
Contributions or Benefit Payments	(1,142,800)
Implicit subsidy payments	(76,400)
Increase in net OPEB obligation	1,064,694
Net OPEB obligation - beginning of year	8,046,806
Net OPEB obligation - end of year	\$ 9,111,500

MTS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008, 2009 and 2010 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
6/30/2010	2,283,900	53.38%	9,111,500

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

Funded Status and Funding Progress. As of June 30, 2009, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$31,643,500 and the actuarial value of assets was \$0 compared to \$50,162,800 and \$0 as of June 30, 2007. The covered payroll (annual payroll of active employees covered by the plan) as of June 30, 2009 was \$72,531,100 and the ratio of UAAL to covered payroll was 44% percent compared to \$63,257,100 and 79% as of June 30, 2007. The significant decrease in the accrued liability is largely attributable to the in health plans and withdrawal from the CalPers system.

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
06/30/09	\$ -	\$ 2,701	\$ (2,701)	0.0%	\$ 8,281	32.62%

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
06/30/09	\$ -	\$ 7,565	\$ (7,565)	0.0%	\$ 26,788	28.24%

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
06/30/09	\$ -	\$ 21,378	\$ (21,378)	0.0%	\$ 37,463	57.06%

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. The current year plan changes have been considered in the actuarial study that was completed this year.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - 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, 2009, 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, 2009, was 30 years.

(13) 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, 2010 and 2009 - 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 2010, 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:

Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
06/30/08	\$ 59,712	\$ 65,261	\$ (5,549)	91.5%	\$ 22,479	24.7%

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 2010, MTS' and SDTI's annual required employer contributions were \$1,850,537 and \$2,101,831, respectively. The required contribution for fiscal year 2010 was determined as part of the June 30, 2007, 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, 2008, the most recent valuation date, was 17 years for MTS and 24 years for SDTI.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

Trend information for MTS (in 000s):

	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:			
2008	\$ 1,792	\$ 1,792	100%
2009	1,699	1,699	100%
2010	1,851	1,851	100%

Trend information for SDTI (in 000s):

	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:			
2008	\$ 2,350	\$ 2,350	100%
2009	2,341	2,341	100%
2010	2,102	2,102	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, 2010 and 2009 - 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
7/1/2009	\$ 144,196	\$ 202,089	\$ (57,893)	71.4%	\$ 33.894	170.81%

Annual Pension Cost

For fiscal year ended June 30, 2010, the annual pension cost of \$5,670,118 for the pension plan was equal to SDTC's required and actual contributions. The required contribution was determined as part of the July 1, 2008 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
2008	\$ 4,656	\$ 4,656	100%
2009	5,275	5,275	100%
2010	5,670	5,670	100%

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2010 and 2009 - DRAFT

(14) Other Required Individual Fund Disclosures

SDTC and SDTI had unrestricted net deficits of \$(26,691,517) and \$(3,260,643) respectively, at June 30, 2010 compared to \$(31,328,693) and \$(9,582,917) at June 30, 2009. 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.

(15) 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, have not yet rebounded. 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.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

San Diego Metropolitan Transit System

Schedule of Funding Progress of Defined Benefits Pension Plan

For the Year Ended June 30, 2010

DEFINED PENSION PLAN SCHEDULE OF FUNDING PROGRESS

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

MTS

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

SDTI (in 000s)

Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
06/30/06	\$ 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%
06/30/08	59,712	65,261	(5,549)	91.50%	22,479	24.69%

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
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%
07/01/09	144,196	202,089	(57,893)	71.35%	33,894	170.81%

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

POSTEMPLOYMENT HEALTHCARE PLAN SCHEDULE OF FUNDING PROGRESS

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

MTS (in 000s)

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%
06/30/09	-	2,701	(2,701)	0.0%	8,281	32.6%

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%
06/30/09	-	21,378	(21,378)	0.0%	37,463	57.1%

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%
06/30/09	-	7,565	(7,565)	0.0%	26,788	28.2%

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. The plan changes discussed earlier were enacted in the current year, so no interim actuarial study was required. The significant changes in MTS and SDTI funding progress result from withdrawal from the CalPers health plan.

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.

San Diego Metropolitan Transit System

Supplementary Information

For the Year Ended June 30, 2010

Description of Funds:

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

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

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

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

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

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

San Diego Metropolitan Transit System

Combining Schedule of Net Assets

For the Years Ended June 30, 2010

	General Operations	Contracted Services	SDTC	SDTI	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 45,446,336	\$ -	\$ (176,225)	\$ (1,023,259)	\$ 44,246,852
Investments restricted for debt service payable within one year	1,447,266	-	-	-	1,447,266
Accounts and other receivables	4,186,099	22,314	3,425,086	132,489	7,765,988
Due from other governments	52,046,061	1,683,854	1,799,498	1,695,935	57,225,348
Internal balances	(4,047,680)	4,047,680	-	-	-
Materials and supplies inventory	-	-	2,069,707	8,373,557	10,443,264
Prepaid expenses and other current assets	1,988,594	11,095	18,457	58,307	2,076,453
Total current assets	101,066,676	5,764,943	7,136,523	9,237,029	123,205,171
Noncurrent assets:					
Cash and certificates of deposit restricted for capital support	4,805,538	-	-	-	4,805,538
Investments restricted for debt service and capital projects	118,050,149	-	-	-	118,050,149
Contracts Receivable	-	-	-	977,171	977,171
Unamortized bond issuance cost	103,711	-	423,787	-	527,498
Capital assets (net of accumulated depreciation)	141,309,953	79,646,205	102,170,679	881,691,570	1,204,818,407
Net pension assets	-	-	52,710,638	-	52,710,638
Total noncurrent assets	264,269,351	79,646,205	155,305,104	882,668,741	1,381,889,401
Total assets	365,336,027	85,411,148	162,441,627	891,905,770	1,505,094,572

San Diego Metropolitan Transit System
Combining Schedule of Net Assets, Continued
For the Years Ended June 30, 2010

	General Operations	Contracted Services	SDTC	SDTI	Total
Liabilities					
Current liabilities:					
Accounts payable	1,915,651	4,972,731	1,724,297	171,885	8,784,564
Due to other governments	2,402,740	-	-	-	2,402,740
Unearned revenue	1,319,965	256,457	359,791	458,236	2,394,449
Accrued expenses	3,430,216	-	2,449,305	1,344,670	7,224,191
Retentions payable	27,115	-	-	-	27,115
Due within one year:					
Bond premium	25,148	-	-	-	25,148
Compensated absences payable	381,712	-	3,748,944	2,504,517	6,635,173
Accrued damage, injury, and employee claims	328,000	-	1,719,634	529,725	2,577,359
Long-term debt, due within one year	585,346	-	1,685,000	-	2,270,346
Long-term debt payable from restricted assets	1,447,266	-	-	-	1,447,266
Total current liabilities	11,863,159	5,229,188	11,686,971	5,009,033	33,788,351
Noncurrent liabilities:					
Retentions payable from restricted assets	2,257,200	-	-	-	2,257,200
Long-term debt payable from restricted assets	118,050,149	-	-	-	118,050,149
Bond Premium	211,661	-	-	-	211,661
Compensated absences payable, due in more than one year	430,441	-	5,029,322	243,633	5,703,396
Accrued damage, injury, and employee claims, due in more than one year	-	-	8,569,366	3,496,275	12,065,641
Accrued other post employment benefits	2,173,800	-	2,211,800	4,725,900	9,111,500
Long-term debt, due in more than one year	6,557,263	-	59,465,000	-	66,022,263
Total noncurrent liabilities	129,680,514	-	75,275,488	8,465,808	213,421,810
Total liabilities	141,543,673	5,229,188	86,962,459	13,474,841	247,210,161
Net Assets					
Invested in capital assets, net of related debt	14,669,929	79,646,205	102,170,679	881,691,570	1,078,178,383
Unrestricted	209,122,425	535,755	(26,691,517)	(3,260,643)	179,706,020
Total net assets	\$ 223,792,354	\$ 80,181,960	\$ 75,479,162	\$ 878,430,927	\$ 1,257,884,403

San Diego Metropolitan Transit System

Combining Schedule of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2010

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
Operating revenues:						
Passenger revenue	\$ -	\$ 24,409,802	\$ 26,708,013	\$ 33,049,793	\$ -	\$ 84,167,608
Advertising	782,986	-	-	-	-	782,986
Charter	-	-	127,665	-	-	127,665
Miscellaneous operating revenues	3,700,768	47,318	54,235	461,740	-	4,264,061
Total operating revenues	4,483,754	24,457,120	26,889,913	33,511,533	-	89,342,320
Operating expenses:						
Personnel costs	13,758,459	432,289	54,722,168	30,183,528	-	99,096,444
Outside services	9,083,664	48,948,509	1,999,507	3,542,297	-	63,573,977
Transit operations funding	86,816,518	-	-	-	(83,058,178)	3,758,340
Materials and supplies	20,905	-	4,069,428	2,590,022	-	6,680,355
Energy costs	186,788	7,642,309	6,227,372	8,835,822	-	22,892,291
Risk management	640,691	-	1,834,154	2,383,990	-	4,858,835
Miscellaneous operating expenses	(18,870,056)	1,014,183	7,591,412	13,835,523	-	3,571,062
Amortization of net pension asset	-	-	10,415,000	-	-	10,415,000
Depreciation	1,264,931	10,304,987	13,803,216	72,865,348	-	98,238,482
Total operating expenses	92,901,900	68,342,277	100,662,257	134,236,530	(83,058,178)	313,084,786
Operating income (loss)	(88,418,146)	(43,885,157)	(73,772,344)	(100,724,997)	83,058,178	(223,742,466)

San Diego Metropolitan Transit System

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

For the Years Ended June 30, 2010

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
Public support and nonoperating revenues:						
Federal revenue	67,575,804	10,420,482	18,266,664	16,448,841	(45,135,987)	67,575,804
Transportation Development Act (TDA) funds	64,977,093	20,713,969	16,249,396	5,637,460	(42,600,825)	64,977,093
State revenue - other	6,230,977	810,174	-	-	(810,174)	6,230,977
TransNet funds	84,460,840	652,023	21,177,817	5,000,000	(26,829,840)	84,460,840
Other local subsidies	1,261,520	983,520	278,000	-	(1,261,520)	1,261,520
Investment earnings	9,708,091	-	(40)	-	-	9,708,051
Interest expense	(6,576,864)	-	(6,125,334)	-	-	(12,702,198)
Gain (loss) on disposal of assets	81,728	-	(150,691)	(126)	-	(69,089)
Other expenses	-	-	(289,006)	-	-	(289,006)
Amortization of bond issuance costs	(11,014)	-	(774,844)	-	-	(785,858)
Total public support and nonoperating revenues	227,708,175	33,580,168	48,631,962	27,086,175	(116,638,346)	220,368,134
Income (loss) before contributed capital	139,290,029	(10,304,989)	(25,140,382)	(73,638,822)	(33,580,168)	(3,374,332)
Transfers	(40,859,947)	-	7,279,780	-	33,580,167	-
Contributions	(59,287,543)	38,384,876	8,391,172	23,621,338	1	11,109,844
Change in net assets	39,142,539	28,079,887	(9,469,430)	(50,017,484)	-	7,735,512
Net assets, beginning of year	184,649,815	52,102,073	84,948,593	928,448,411	-	1,250,148,892
Net assets, end of year	\$ 223,792,354	\$ 80,181,960	\$ 75,479,163	\$ 878,430,927	\$ -	\$ 1,257,884,404

San Diego Metropolitan Transit System

Combining Statement of Cash Flows

For the Year Ended June 30, 2010

	MTS	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)	(52,433,736)	(31,505,055)	(95,038,103)
Payments for damage and injury	0	0	(416,201)	32,085	(384,116)
Net cash provided (used) by operating activities	(9,137,242)	(35,744,971)	(50,059,120)	(24,773,534)	(119,714,867)
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)	0	(6,498,661)		(7,423,231)
Property acquisition	(67,484,367)	0		(297,492)	(67,781,859)
Property disposal	336,354	0	131,583	0	467,937
Net cash provided (used) by capital and related financing activities	(68,072,583)	0	(6,367,078)	(297,492)	(74,737,153)
Cash flows from investing activities:					
Interest received from investments	2,485,455	0	(216)	0	2,485,239
Investments liquidated	35,630,000	0	0	0	35,630,000
Investments purchased	0	0	0	0	0
Net cash provided (used) by investing activities	38,115,455	0	(216)	0	38,115,239
Net increase (decrease) in cash and cash equivalents	11,855,311	0	(337,321)	(605,055)	10,912,935
Cash and cash equivalents, beginning of year	30,252,813	0	(748,373)	(542,794)	28,961,646
Cash and cash equivalents, end of year	\$ 50,251,874	0	\$ (176,225)	\$ (1,023,259)	\$ 49,052,390

San Diego Metropolitan Transit System

Combining Statement of Cash Flows

For the Year Ended June 30, 2010

	MTS	Other Contracted Services	SDTC	SDTI	Total
Operating income (loss):	\$ (7,883,489)	\$ (43,885,157)	\$ (73,772,344)	\$(100,724,997)	(226,265,987)
Adjustments to reconcile operating income (loss) to net cash provided (used)					
by operating activities					
Depreciation and amortization	1,264,931	10,304,987	24,218,216	72,865,348	108,653,482
(Increase) decrease in:					
Accounts and other receivables	(9,774,304)	4,468,234	86,067	1,541,641	(3,678,362)
Materials and supplies inventory	-	-	124,499	(472,507)	(348,008)
Prepaid and other current assets	19,930	(344)	0	(7,587)	11,999
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		<u>1,068,133</u>	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	(10,177,067)	10,277,682	21,924,764	74,339,914	96,365,293
Net cash provided (used) by operating activities	(18,060,556)	(33,607,475)	(51,847,580)	(26,385,083)	(129,900,694)

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 fiscal year ended June 30, 2010

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenditures, and Changes in Net Assets Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	Variance with Final Budget Positive (Negative)
Operating revenues:						
Passenger revenue	\$ 89,925,096	\$ 82,289,634	\$ 84,167,608	\$ -	\$ 84,167,608	\$ 1,877,974
Advertising	2,008,232	729,744	782,986	-	782,986	53,242
Charter	29,400	30,000	127,665	-	127,665	97,665
Miscellaneous operating revenues	3,521,748	4,658,387	4,264,061	-	4,264,061	(394,326)
Total operating revenues	95,484,476	87,707,765	89,342,320	-	89,342,320	1,634,555
Operating expenses:						
Personnel costs	100,602,003	106,810,733	99,096,444	8,614,149	107,710,593	(899,860)
Outside services	65,580,808	63,606,802	63,573,977	(6,738)	63,567,239	39,563
Transit operations funding	4,084,979	3,595,590	3,758,340	-	3,758,340	(162,750)
Materials and supplies	6,977,193	6,975,412	6,680,355	(37,273)	6,643,082	332,330
Energy costs	25,469,663	24,167,288	22,892,291	-	22,892,291	1,274,997
Risk management	4,017,811	4,226,170	4,858,835	(244,000)	4,614,835	(388,665)
Miscellaneous operating expenses	2,488,118	2,531,234	3,571,062	(1,164,823)	2,406,239	124,995
Amortization of net pension asset	-	-	10,415,000	(10,415,000)	-	-
Depreciation	-	-	98,238,482	(98,238,482)	-	-
Total operating expenses	209,220,575	211,913,229	313,084,786	(101,492,167)	211,592,619	320,610
Operating income (loss)	(113,736,099)	(124,205,464)	(223,742,466)	101,492,167	(122,250,299)	1,955,165

San Diego Metropolitan Transit System

Combined Operations

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

For the fiscal year ended June 30, 2010

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actuals per Statement of Revenues, Expenditures, and Changes in Net Assets Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Public support and nonoperating revenues:						
Federal revenue	38,224,175	47,653,668	67,575,804	(23,208,067)	44,367,737	(3,285,931)
Transportation Development Act	51,299,413	53,246,444	64,977,093	(10,813,691)	54,163,402	916,958
State revenue - other	1,000,000	1,000,000	6,230,977	(5,420,803)	810,174	(189,826)
TransNet funds	22,768,984	18,551,047	84,460,840	(65,531,000)	18,929,840	378,793
Other local subsidies	1,633,578	1,236,490	1,261,520	-	1,261,520	25,030
Investment earnings	9,048,715	8,051,715	9,708,051	(1,683,531)	8,024,520	(27,195)
Interest expense	(12,050,697)	(14,985,657)	(12,702,198)	(1,911,417)	(14,613,615)	372,042
Gain (loss) on disposal of assets	-	-	(69,089)	69,089	-	-
Other expenses	(80,000)	(332,112)	(289,006)	-	(289,006)	43,106
Amortization of bond issuance costs	-	-	(785,858)	785,858	-	-
Total public support and nonoperating revenues	111,844,168	114,421,595	220,368,134	(107,713,562)	112,654,572	(1,767,023)
Income (loss) before contributed capital	(1,891,931)	(9,783,869)	(3,374,332)	(6,221,395)	(9,595,727)	188,142
Reserve revenue	1,891,928	9,783,867	-	9,783,867	9,783,867	-
Contribution of capital assets	-	-	11,109,844	(11,109,844)	-	-
Change in net assets	\$ (3)	\$ (2)	7,735,512	\$ (7,547,372)	\$ 188,140	\$ 188,142
Net assets, beginning of year			1,250,148,892			
Net assets, end of year			1,257,884,404			

San Diego Metropolitan Transit System

General Fund

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

For the fiscal year ended June 30, 2010

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	Variance with Final Budget Positive (Negative)
Operating revenues:						
Advertising	\$ 2,008,232	\$ 729,744	\$ 782,986	\$ -	\$ 782,986	\$ 53,242
Miscellaneous operating revenues	2,076,348	3,064,115	2,675,108	-	2,675,108	(389,007)
Total operating revenues	4,084,580	3,793,859	3,458,094	-	3,458,094	(335,765)
Operating expenses:						
Personnel costs	13,217,836	12,616,168	13,092,764	(439,156)	12,653,608	(37,440)
Outside services	9,173,252	9,210,163	8,872,587	(6,738)	8,865,849	344,314
Transit operations funding	4,084,979	3,595,590	86,816,518	(83,058,178)	3,758,340	(162,750)
Materials and supplies	30,750	17,250	15,409	-	15,409	1,841
Energy costs	137,888	136,778	177,507	-	177,507	(40,729)
Risk management	399,600	379,275	606,963	(64,000)	542,963	(163,688)
Miscellaneous operating expenses	(18,313,873)	(19,001,902)	(19,054,849)	-	(19,054,849)	52,947
Depreciation	-	-	1,240,566	(1,240,566)	-	-
Total operating expenses	8,730,432	6,953,322	91,767,465	(84,808,638)	6,958,827	(5,505)
Operating income (loss)	(4,645,852)	(3,159,463)	(88,309,371)	84,808,638	(3,500,733)	(341,270)

San Diego Metropolitan Transit System

General Fund

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

For the fiscal year ended June 30, 2010

	Budgeted Amounts		Actual Amounts		Variance with	
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	Final Budget Positive (Negative)
Public support and nonoperating revenues:						
Federal revenue	17,500	17,500	67,575,804	(67,412,946)	162,858	145,358
Transportation Development Act (TDA) funds	4,084,979	3,595,590	64,977,093	(58,035,155)	6,941,938	3,346,348
State revenue - other	-	-	6,230,977	(6,230,977)	-	-
TransNet funds	-	-	84,460,840	(84,460,840)	-	-
Other local subsidies	-	-	1,261,520	(1,261,520)	-	-
Investment earnings	9,048,715	8,051,715	9,708,091	(1,683,571)	8,024,520	(27,195)
Interest expense	(8,505,342)	(8,505,342)	(6,576,864)	(1,911,417)	(8,488,281)	17,061
Gain (loss) on disposal of assets	-	-	81,728	(81,728)	-	-
Amortization of bond issuance costs	-	-	(11,014)	11,014	-	-
Total public support and nonoperating revenues	4,645,852	3,159,463	227,708,175	(221,067,140)	6,641,035	3,481,572
Income (loss) before contributed capital	-	-	139,398,804	(136,258,502)	3,140,302	3,140,302
Transfers	-	-	(40,859,947)	40,859,947	-	-
Contribution of capital assets	-	-	(59,287,543)	59,287,543	-	-
Change in net assets	\$ -	\$ -	39,251,314	\$ (36,111,012)	\$ 3,140,302	\$ 3,140,302
Net assets, beginning of year			165,617,734			
Net assets, end of year			\$ 204,869,048			

San Diego Metropolitan Transit System

Taxicab Administration

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

For the fiscal year ended June 30, 2010

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Miscellaneous operating revenues	\$ 750,000	\$ 840,396	\$ 830,400	\$ -	\$ 830,400	\$ (9,996)
Total operating revenues	750,000	840,396	830,400	-	830,400	(9,996)
Operating expenses:						
Personnel costs	580,313	544,556	578,404	-	578,404	(33,848)
Outside services	95,250	264,225	150,335	-	150,335	113,890
Materials and supplies	5,500	5,500	5,496	-	5,496	4
Energy costs	14,700	9,600	9,249	-	9,249	351
Miscellaneous operating expenses	176,421	175,794	183,207	-	183,207	(7,413)
Depreciation	-	-	7,285	(7,285)	-	-
Total operating expenses	872,184	999,675	933,976	(7,285)	926,691	72,984
Operating income (loss)	(122,184)	(159,279)	(103,576)	7,285	(96,291)	62,988
Reserve revenue	122,184	159,279	-	159,279	159,279	-
Change in net assets	\$ -	\$ -	(103,576)	\$ 166,564	\$ 62,988	\$ 62,988
Net assets, beginning of year			612,307			
Net assets, end of year			\$ 508,731			

San Diego Metropolitan Transit System

San Diego Arizona and Eastern Railway

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

For the fiscal year ended June 30, 2010

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Miscellaneous operating revenues	\$ 115,000	\$ 157,000	\$ 195,260	\$ -	\$ 195,260	\$ 38,260
Total operating revenues	115,000	157,000	195,260	-	195,260	38,260
Operating expenses:						
Personnel costs	73,990	87,307	87,291	-	87,291	16
Outside services	35,000	52,500	60,742	-	60,742	(8,242)
Energy costs	-	-	32	-	32	(32)
Risk management	24,000	33,810	33,728	-	33,728	82
Miscellaneous operating expenses	2,000	2,000	1,586	-	1,586	414
Depreciation	-	-	17,080	(17,080)	-	-
Total operating expenses	134,990	175,617	200,459	(17,080)	183,379	(7,762)
Operating income (loss)	(19,990)	(18,617)	(5,199)	17,080	11,881	30,498
Reserve revenue	19,990	18,617	-	18,617	18,617	-
Change in net assets	\$ -	\$ -	(5,199)	\$ 35,697	\$ 30,498	\$ 30,498
Net assets, beginning of year			18,419,774			
Net assets, end of year			\$ 18,414,575			

San Diego Metropolitan Transit System

Contract Services

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

For the fiscal year ended June 30, 2010

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	Variance with Final Budget Positive (Negative)
Operating revenues:						
Passenger revenue	\$ 25,865,937	\$ 23,841,847	\$ 24,409,802	\$ -	\$ 24,409,802	\$ 567,955
Miscellaneous operating revenues	-	-	47,318	-	47,318	47,318
Total operating revenues	25,865,937	23,841,847	24,457,120	-	24,457,120	615,273
Operating expenses:						
Personnel costs	663,021	485,921	432,289	-	432,289	53,632
Outside services	51,364,140	48,884,559	48,948,509	-	48,948,509	(63,950)
Materials and supplies	30,000	15,090	-	-	-	15,090
Energy costs	9,222,797	8,299,727	7,642,309	-	7,642,309	657,418
Miscellaneous operating expenses	1,086,643	1,022,768	1,014,183	-	1,014,183	8,585
Depreciation	-	-	10,304,987	(10,304,987)	-	-
Total operating expenses	62,366,601	58,708,065	68,342,277	(10,304,987)	58,037,290	670,775
Operating income (loss)	(36,500,664)	(34,866,218)	(43,885,157)	10,304,987	(33,580,170)	1,286,048

San Diego Metropolitan Transit System

Contract Services

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

For the fiscal year ended June 30, 2010

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Public support and nonoperating revenues:						
Federal revenue	4,443,721	10,731,377	10,420,482	-	10,420,482	(310,895)
Transportation Development Act (TDA) funds	29,389,336	21,611,385	20,713,969	-	20,713,969	(897,416)
State revenue - other	1,000,000	1,000,000	810,174	-	810,174	(189,826)
TransNet funds	676,943	564,966	652,023	-	652,023	87,057
Other local subsidies	990,664	958,490	983,520	-	983,520	25,030
Total public support and nonoperating revenues	36,500,664	34,866,218	33,580,168	-	33,580,168	(1,286,050)
Income (loss) before contributed capital	-	-	(10,304,989)	10,304,987	(2)	(2)
Contribution of capital assets	-	-	38,384,876	(38,384,876)	-	-
Change in net assets	\$ -	\$ -	28,079,887	\$ (28,079,889)	\$ (2)	\$ (2)
Net assets, beginning of year			52,102,073			
Net assets, end of year			\$ 80,181,960			

San Diego Metropolitan Transit System

San Diego Transit Corporation

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

For the fiscal year ended June 30, 2010

	Budgeted Amounts		Actual Amounts		Variance with	
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	Final Budget Positive (Negative)
Operating revenues:						
Passenger revenue	\$ 27,229,225	\$ 26,659,515	\$ 26,708,013	\$ -	\$ 26,708,013	\$ 48,498
Charter	29,400	30,000	127,665	-	127,665	97,665
Miscellaneous operating revenues	60,000	60,000	54,235	-	54,235	(5,765)
Total operating revenues	27,318,625	26,749,515	26,889,913	-	26,889,913	140,398
Operating expenses:						
Personnel costs	56,107,893	63,551,781	54,722,168	9,662,356	64,384,524	(832,743)
Outside services	1,603,486	1,788,126	1,999,507	-	1,999,507	(211,381)
Materials and supplies	3,988,953	4,222,966	4,069,428	12,024	4,081,452	141,514
Energy costs	7,241,547	6,825,765	6,227,372	-	6,227,372	598,393
Risk management	1,633,901	1,614,276	1,834,154	(65,000)	1,769,154	(154,878)
Miscellaneous operating expenses	7,085,864	7,614,529	7,591,412	-	7,591,412	23,117
Amortization of net pension asset	-	-	10,415,000	(10,415,000)	-	-
Depreciation	-	-	13,803,216	(13,803,216)	-	-
Total operating expenses	77,661,644	85,617,443	100,662,257	(14,608,836)	86,053,421	(435,978)
Operating income (loss)	(50,343,019)	(58,867,928)	(73,772,344)	14,608,836	(59,163,508)	(295,580)

San Diego Metropolitan Transit System

San Diego Transit Corporation

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

For the fiscal year ended June 30, 2010

	Budgeted Amounts		Actual Amounts		Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	
Public support and nonoperating revenues:					
Federal revenue	16,962,954	21,738,291	18,266,664	-	(3,471,627)
Transportation Development Act (TDA) funds	17,520,709	21,072,012	16,249,396	7,900,000	3,077,384
TransNet funds	17,092,041	12,986,081	21,177,817	(7,900,000)	291,736
Other local subsidies	642,914	278,000	278,000	-	-
Investment earnings	-	-	(40)	40	-
Interest expense	(3,545,355)	(6,480,315)	(6,125,334)	-	354,981
Gain (loss) on disposal of assets	-	-	(150,691)	150,691	-
Other expenses	(80,000)	(332,112)	(289,006)	-	43,106
Amortization of bond issuance costs	-	-	(774,844)	774,844	-
Total public support and nonoperating revenues	48,593,263	49,261,957	48,631,962	925,575	295,580
Income (loss) before contributed capital	(1,749,756)	(9,605,971)	(25,140,382)	15,534,411	-
Transfers	-	-	7,279,780	(7,279,780)	-
Reserve revenue	1,749,754	9,605,971	-	9,605,971	-
Contribution of capital assets	-	-	8,391,172	(8,391,172)	-
Change in net assets	\$ (2)	\$ -	(9,469,430)	\$ 9,469,430	\$ -
Net assets, beginning of year			84,948,593		
Net assets, end of year			\$ 75,479,163		

San Diego Metropolitan Transit System

San Diego Trolley Incorporated

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

For the fiscal year ended June 30, 2010

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	Variance with Final Budget Positive (Negative)
Operating revenues:						
Passenger revenue	\$ 36,829,934	\$ 31,788,272	\$ 33,049,793	\$ -	\$ 33,049,793	\$ 1,261,521
Miscellaneous operating revenues	520,400	536,876	461,740	-	461,740	(75,136)
Total operating revenues	37,350,334	32,325,148	33,511,533	-	33,511,533	1,186,385
Operating expenses:						
Personnel costs	29,958,950	29,525,000	30,183,528	(609,051)	29,574,477	(49,477)
Outside services	3,309,680	3,407,229	3,542,297	-	3,542,297	(135,068)
Materials and supplies	2,921,990	2,714,606	2,590,022	(49,297)	2,540,725	173,881
Energy costs	8,852,731	8,895,418	8,835,822	-	8,835,822	59,596
Risk management	1,960,310	2,198,809	2,383,990	(115,000)	2,268,990	(70,181)
Miscellaneous operating expenses	12,451,063	12,718,045	13,835,523	(1,164,823)	12,670,700	47,345
Depreciation	-	-	72,865,348	(72,865,348)	-	-
Total operating expenses	59,454,724	59,459,107	134,236,530	(74,803,519)	59,433,011	26,096
Operating income (loss)	(22,104,390)	(27,133,959)	(100,724,997)	74,803,519	(25,921,478)	1,212,481

San Diego Metropolitan Transit System

San Diego Trolley Incorporated

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

For the fiscal year ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Budget Basis Adjustments</u>	<u>Actuals on a Budget Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
Public support and nonoperating revenues:						
Federal revenue	16,800,000	15,166,500	16,448,841	(931,108)	15,517,733	351,233
Transportation Development Act (TDA) funds	304,389	6,967,457	5,637,460	(233,715)	5,403,745	(1,563,712)
TransNet funds	5,000,000	5,000,000	5,000,000	-	5,000,000	-
Gain (loss) on disposal of assets	-	-	(126)	126	-	-
Total public support and nonoperating revenues	<u>22,104,389</u>	<u>27,133,957</u>	<u>27,086,175</u>	<u>(1,164,697)</u>	<u>25,921,478</u>	<u>(1,212,479)</u>
Income (loss) before contributed capital	(1)	(2)	(73,638,822)	73,638,822	-	2
Contribution of capital assets	<u>-</u>	<u>-</u>	<u>23,621,338</u>	<u>(23,621,338)</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$ (1)</u>	<u>\$ (2)</u>	<u>(50,017,484)</u>	<u>\$ 50,017,484</u>	<u>\$ -</u>	<u>\$ 2</u>
Net assets, beginning of year			<u>928,448,411</u>			
Net assets, end of year			<u>\$ 878,430,927</u>			

DRAFT

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 Six Fiscal Years - DRAFT

	2010	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	1,078,178,383	1,075,104,676	1,079,967,043	1,097,675,395	1,134,242,639	695,486,022
Unrestricted	179,706,020	175,044,216	185,609,462	163,244,170	(33,761,144)	(35,563,034)
Total Business-type activities net assets	1,257,884,403	1,250,148,892	1,265,576,505	1,260,919,565	1,100,481,495	659,922,988
Primary government						
Invested in capital assets, net of related debt	1,078,178,383	1,075,104,676	1,079,967,043	1,097,675,395	1,246,202,145	1,116,153,673
Unrestricted	179,706,020	175,044,216	185,609,462	163,244,170	2,107,304	149,552,553
Total primary government net assets	1,257,884,403	1,250,148,892	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 Six Fiscal Years - DRAFT

(accrual basis of accounting)

	2010	2009	2008	2007	2006	2005
Operating revenues						
Passenger Revenue	84,167,608	85,192,330	75,938,626	68,634,694	67,579,729	63,802,747
Advertising	782,986	924,522	1,118,697	1,001,597	838,663	1,339,470
Charter	127,665	68,801	63,435	44,999	30,940	895,092
Miscellaneous operating revenue	4,264,061	4,874,700	3,671,549	3,703,043	1,734,582	18,240
Total operating revenue	89,342,320	91,060,353	80,792,307	73,384,333	70,183,914	66,055,549
Operating expenses:						
Personnel costs	99,096,444	100,357,799	101,347,479	89,750,761	89,075,021	91,485,718
Outside services	63,573,977	65,139,831	64,940,409	62,629,613	57,709,213	70,259,897
Transportation operation funding	3,758,340	3,003,698	3,852,449	5,438,052	6,758,525	6,244,510
Materials and supplies	6,680,355	7,190,088	7,590,216	7,266,337	8,157,794	8,756,096
Energy costs	22,892,291	25,283,357	27,210,670	22,767,220	24,304,787	14,140,307
Risk management	4,858,835	4,074,104	3,898,094	5,614,889	5,078,068	5,212,337
Miscellaneous operating expenses	3,571,062	2,052,140	1,974,588	944,296	2,335,990	2,563,968
Amortization of net pension asset	10,415,000	1,555,000	1,500,000	1,455,000	1,415,000	
Depreciation	98,238,482	75,498,980	85,543,426	74,472,549	66,798,819	49,138,639
Total operating expenses	313,084,786	284,154,997	297,857,331	270,338,717	261,633,217	247,801,472
Operating income (loss)	(223,742,466)	(193,094,644)	(217,065,024)	(196,954,384)	(191,449,303)	(181,745,923)
Public support and nonoperating revenue:						
Grants and contributions	224,506,234	176,978,790	200,879,074	184,332,341	155,746,015	209,482,693
Investment earnings	9,708,051	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	(12,702,198)	(11,153,556)	(10,666,621)	(14,229,812)	(11,499,050)	(10,312,657)
Gain(loss) on disposal of assets	(69,089)	294,006	87,898	(1,260,113)	(1,800,414)	291,047
Other expenses	(289,006)	(641,552)	(141,711)	(355,528)	(187,452)	(184,767)
Amortization of bond issuance cost	(785,858)	(63,379)	(322,852)	0	0	0
Total public support and nonoperating revenue	220,368,134	175,998,560	203,230,067	181,835,968	151,039,509	213,810,364
Income (loss) before contributed capital	(3,374,332)	(17,096,084)	(13,834,957)	(15,118,416)	(40,409,794)	32,064,441
Capital contribution	11,109,844	1,668,471	18,491,897	27,728,531	23,013,017	30,007,339
Changes in net assets:	7,735,512	(15,427,613)	4,656,940	12,610,115	(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 Six 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
2010	<u>26,708</u>	<u>18,267</u>	<u>16,249</u>	<u>21,456</u>	-	<u>31</u>
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
2010	<u>33,050</u>	<u>16,449</u>	<u>5,637</u>	<u>5,000</u>	-	<u>462</u>
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
2010	<u>24,410</u>	<u>10,420</u>	<u>21,524</u>	<u>1,636</u>	-	<u>47</u>

Source: Audited Financial Statements

San Diego Metropolitan Transit System

Fare Structure

Bus Cash Fares	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
One-way fare, local routes	\$2.25	\$2.25	\$2.00	\$1.75
Senior/disabled, local routes	1.10	1.10	-	-
Urban	-	-	2.25	2.25
Express	2.50	2.50	2.50	2.50-4.00
Senior/disabled Express	1.25	1.25	-	-
Premium	5.00	5.00	5.00	-
Senior/disabled Premium	2.50	2.50	-	-
Rural bus	5.00-10.00	5.00-10.00	5.00-10.00	-
Senior/disabled Rural bus	2.50- 5.00	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	2.50	-	-
Senior/disabled one-way fare all stations	1.25	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 Day Passes				
Regional day pass	5.00	-	-	-
Region plus day pass	14.00	-	-	-
Bus and Trolley Monthly Passes				
Regional monthly pass	72.00	68.00	64.00	-
Senior/disabled Regional	18.00	17.00	16.00	14.50
Youth Regional	36.00	34.00	32.00	29.00
Half-month/14-Day	43.00	41.00	-	-
Premium monthly pass	100.00	90.00	-	-
Senior/disabled Premium	25.00	22.50	-	-
Youth Premium	50.00	45.00	-	-
Half-month/14-Day	60.00	54.00	-	-
Local/Urban Bus/Express/Trolley	-	-	-	58.00
Express Bus (multi-zones)	-	-	-	64.00-84.00

SOURCE: SANDAG Comprehensive Fare Ordinance, amendments effective July 1, 2009.

San Diego Metropolitan Transit System

Farebox Recovery Percentages

Last Six 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
2010	28.70	54.26	42.06

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 Six 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	203,465,932	0.38%	91
2009	7,141,326	117,471	-	121,292,644	-	-	71,565,000	200,116,441	0.41%	89
2010	6,647,108	44,190	-	119,948,726	-	-	61,150,000	187,790,024	0.38%	82

Details regarding MTS' outstanding debt can be found in the notes to the financial statements.

MTS retired three financial obligations in FY 2008

MTS made a \$8.8 million principal payment on the variable rate Pension Obligation Bonds and refunded the remaining \$30 million balance in FY 2010

San Diego Metropolitan Transit System
Regional Population and Personal Income Statistics
Last Six 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	10.20%
2010	2,287,701	49,248,685	21,528	10.50%

(1) SOURCE: San Diego Association of Governments, January 2010 Estimate

(2) SOURCE: FY 20010data is not currently available

Estimate based on the statewide decrease of personal income of .0191% between June 30, 2009 and Jun 30, 2010
Percentage was obtained through the U.S. Department of Commerce website

(3) SOURCE: California Employment Development Department, June 2010

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

<u>Full-time and Part-time Employees at June 30</u>						
<u>Function</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
MTS	110	114	117	121	90	73
San Diego Transit	782	824	844	866	880	927
San Diego Trolley	<u>528</u>	<u>530</u>	<u>533</u>	<u>527</u>	<u>539</u>	<u>528</u>
Total	1,420	<u>1,468</u>	1,494	<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

Company Name	Number of Employees (1)	Percent of 1,407,800 million County Total (2)
Federal Government	38,900	3.08%
State of California	38,700	2.97%
University of California, San Diego	26,654	2.89%
San Diego Unified School District	21,073	
County of San Diego	16,803	1.45%
Sharp Healthcare	13,175	1.38%
City of San Diego	12,384	1.12%
Scripps Health	10,617	1.02%
Kaiser Permanente	7,121	0.90%
U.S. Postal Service	6,464	0.78%

Source:

(1) San Diego Regional Chamber of Commerce

(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 Six Fiscal Years - DRAFT

	2010	2009	2008	2007	2006	2005
Operating Cost:						
San Diego Transit	93,056,640	81,271,392	80,031,464	73,256,992	73,284,403	80,187,053
San Diego Trolley	60,912,966	58,536,769	55,949,228	55,951,561	55,014,599	47,661,707
MTS-Contract Services	58,037,290	59,639,023	61,450,734	57,286,732	54,387,095	51,815,445
Farebox Revenue:						
San Diego Transit	26,708,013	27,881,541	23,680,179	22,297,629	22,263,739	21,383,099
San Diego Trolley	33,049,793	33,453,633	31,120,169	27,401,733	27,933,766	25,855,241
MTS-Contract Services	24,409,802	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 Six Fiscal Years - DRAFT

Service Provided	2010	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	93,745,992
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	7,060,491
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	187,987,992
Number of Vehicles		133	134	134	134	122
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	0	21,819,699	21,460,283	21,142,942	18,907,112	18,448,621
Passenger Miles	0	80,104,104	77,173,278	78,303,615	73,343,433	69,957,802
Number of Vehicles		388	358	348	337	352
Total						
Passengers	0	88,510,261	87,175,484	82,333,186	77,626,630	72,208,099
Passenger Miles	0	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 Six Fiscal Years - DRAFT

	Fiscal Year					
	2010	2009	2008	2007	2006	2005
General Operations						
Buildings and structures	1	1	1	1	1	1
Nonrevenue vehicles	5	7	7	10	10	12
San Diego Transit						
Land (parcels)	2	2	2	2	2	2
Buildings and structures	2	2	2	2	2	2
Buses	238	247	267	267	274	280
Nonrevenue vehicles	32	39	53	47	45	49
San Diego Trolley						
Trolley stations	54	54	54	54	54	50
Track miles	54	54	54	54	54	49
Light rail vehicles (total inventory)	134	133	134	134	134	123
Nonrevenue vehicles	51	68	72	69	58	78
MTS - Contracted Services						
Land (parcel)	1	1	1	1	1	1
Buildings and structures	3	3	3	1	1	1
Buses	369	388	358	348	337	357
Nonrevenue vehicles	7	7	9	4	2	2
Taxicab Administration						
Buildings and structures	1	1	1	1	1	1
Nonrevenue vehicles	3	3	3	2	1	1

Source: NTD and MTS internal capital asset system

San Diego Metropolitan Transit System

Ridership

Last Six Fiscal Years - DRAFT

	2010	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 Six Fiscal Years - DRAFT

	2010	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



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Agenda

Item No. B2

JOINT MEETING OF THE AUDIT OVERSIGHT COMMITTEE for the

ADM 110.12

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

October 21, 2010

SUBJECT:

MTS: AUDITING STANDARDS ISSUED DURING 2010 (GARY CAPORICCI OF
CAPORICCI & LARSON)

RECOMMENDATION:

That the MTS Audit Oversight Committee receive a report from Caporicci & Larson
presenting new auditing standards issued during FY 2010.

Budget Impact

None at this time.

DISCUSSION:

Gary Caporicci of Caporicci & Larson will present a brief overview of Statements on
Auditing Standards No. 115 – No. 120 issued by the American Institute of Certified
Public Accountants (AICPA) Auditing Standards Board during the past year.

- SAS No. 115 (which replaces SAS No. 112) - Communicating Internal Control-
Related Matters Identified in an Audit
- SAS No. 116 - Interim Financial Information
- SAS No. 117 - Compliance Audits
- SAS No. 118 - Other Information in Documents Containing Audited Financial
Statement
- SAS No. 119 - Supplementary Information in Relation to the Financial
Statements as a Whole
- SAS No. 120 - Required Supplementary Information

A handwritten signature in black ink, appearing to read 'Paul C. Jablonski', is written over a horizontal line.

Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Tom Lynch, 619.557.4538, tom.lynch@sdmts.com

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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.

