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Agenda

MEETING OF THE METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

October 20, 2011

Executive Conference Room
9:00 a.m.

ACTION RECOMMENDED

- A. 1. ROLL CALL
- 2. APPROVAL OF MINUTES - August 11, 2011 Approve
- B. COMMITTEE DISCUSSION ITEMS
 - 1. Draft 2011 Comprehensive Annual Financial Report (CAFR)
(Linda Musengo) Receive
Action would receive a draft of the FY 2011 CAFR for review and discussion.
- C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS
- D. PUBLIC COMMENTS
- E. NEXT MEETING DATE: To be determined
- F. ADJOURNMENT

Please SILENCE electronics
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)
1255 Imperial Avenue, Suite 1000
San Diego, CA 92101

August 11, 2011

DRAFT MINUTES

A. ROLL CALL

1. Chairman Ewin called the meeting to order at 9:02 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.
2. APPROVAL OF MINUTES

Mr. Roberts moved for approval of the minutes of the June 2, 2011, Audit Oversight Committee meeting. Mr. Ovrom seconded the motion, and the vote was 6 to 0 in favor.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. Proposed 2011/2012 Internal Audit Plan

Daniel Madzelan, Internal Auditor, gave the Committee a report on the 2011/2012 Internal Audit Plan. He talked about the development of the audit plan and the MTS audit universe, which consists of 115 auditable entities. He also talked about his process in performing a risk assessment and 10 key risk-impact factors based on management surveying. Mr. Madzelan then talked briefly about the categories of risk likelihood and provided an assessment. He discussed his time allocation dedicated to performing internal audits and proposed a schedule of internal audits based on risk impact.

Discussion ensued and the Committee questioned the internal audit process should fraud be found. Mr. Jablonski explained that when fraud is discovered, the Audit Oversight Committee will be briefed in detail and the item will be taken to the Board of Directors.

The Committee expressed its concern over how Mr. Madzelan would articulate to the Board of Directors problems he may incur gathering information during an internal audit. Mr. Madzelan stated that he would notify General Counsel, Karen Landers, should there ever be difficulty. Mr. Jablonski commented that as General Counsel, Ms. Landers has the legal obligation to inform the Board of Directors and that Mr. Madzelan is an employee of the Board and therefore has the authority to go straight to the Board of Directors with any problems or concerns.

Action Taken

Mr. Roberts moved to receive a report on the proposed 2011/2012 Internal Audit Plan. Mr. Young 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

There were no public comments.

E. NEXT MEETING DATE

The next meeting will be held as called.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 9:37 a.m.

Chairman

Attachment: Roll Call Sheet

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**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) August 11, 2011

CALL TO ORDER (TIME) 9:02 AM

RECESS _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 9:37 AM

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWIN (Chair) <input checked="" type="checkbox"/>		
YOUNG <input checked="" type="checkbox"/> (Lightner) <input type="checkbox"/>		
MATHIS <input checked="" type="checkbox"/>		
OVROM <input checked="" type="checkbox"/> (Janney) <input type="checkbox"/>		
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>		
MINTO <input checked="" type="checkbox"/> (Cunningham) <input type="checkbox"/>		
Transportation Committee Rep Slot (Mathis)		

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

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL: Allen G. [Signature]



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Agenda Item No. B1

MEETING OF THE METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

October 20, 2011

SUBJECT:

DRAFT 2011 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)
(LINDA MUSENGO)

RECOMMENDATION:

That the MTS Audit Oversight Committee receive a draft of the FY 2011 CAFR for review and discussion

Budget Impact

None at this time.

DISCUSSION:

The Finance Department presents for review and discussion the first draft of the 2011 CAFR.

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. Formatting, pagination, and final proofreading for spelling or grammatical errors.
4. Attorney Letters - As of this writing, staff has received responses from about half of the attorneys contacted. The requested response date was October 15, 2011.



An update will be provided during staff's presentation. In the event that a material liability is reported in any of the attorney responses, staff will need to consider the requirement to record an additional liability.

5. The Finance Department expects to complete all items before the end of October.

Please note the following significant changes from the prior year:

1. Increase in total liabilities due to timing of normal operating and payroll disbursements.
2. Current-year decrease in total operating expense due to adjustment of noncash depreciation expense in prior year.
3. Significant decrease in subsidy revenue related to decrease in federal funds and TransNet receipts for capital asset acquisitions, which was partially offset by restoration of State Transit Assistance receipts in the current year.

Representatives from Caporicci & Larson will be present to discuss their observations.



Paul G. Jablonski
Chief Executive Officer

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

OCT20-11.B1.CAFR.LMUSENGO

Attachment: A. Draft CAFR (AOC Only Due to Volume)

San Diego Metropolitan Transit System

San Diego, California



**Comprehensive Annual Financial Report
for the Fiscal Years ended
June 30, 2011 and 2010**



San Diego Metropolitan Transit System

San Diego, California

DRAFT

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

For the years ended June 30, 2011 and 2010

PREPARED BY SAN DIEGO METROPOLITAN TRANSIT SYSTEM
FINANCE DEPARTMENT

San Diego Metropolitan Transit System

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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, 2011 and 2010 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, 2011 and 2010 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, 2011 and 2010 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.

MTS MILESTONES

In October 2009, MTS was honored as Outstanding Transit Agency of the Year at the American Public Transportation Association (APTA) annual conference. 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.

During 2011 MTS celebrated two important anniversaries: SDTC marked 125 years of continuous bus service and SDTI recognized 30 years of trolley service.

ECONOMIC CONDITION AND OUTLOOK

San Diego has shown continued but limited recovery from the economic downturn that has affected all parts of nation since 2008, fueled by increased military spending and moderate improvements in tourism and biotech industries. It is expected that future cuts in government spending and employment will slow the recovery during the coming year. San Diego's gross regional product (GRP), the total value of the region's economy, has been forecast to reach \$174 billion in 2010 and \$181 billion in 2011, increasing from the \$169 billion estimated for 2009. It is expected that gains in employment, consumer spending and related sales tax revenues will lag behind other indicators. MTS ridership in 2011 increased by 2.4% largely due to increases in gasoline prices.

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

On a local level, area voters approved a one-half cent transportation sales tax in 1987, called TransNet. One-third of the sales tax proceeds is allocated for transit purposes which is further divided between MTS and North County Transit District (MTS' counterpart in North San Diego County) based on the proportion of the population within the area of each jurisdiction. Prior to FY 2004, 80% of the transit TransNet funds had to be used for expansion of the light rail system. The remaining 20% could be used for operations after funding a reduced price pass program for seniors, disabled, and youth, which is capped at \$5.5 million. As a result of operating budget pressures, the ratio was changed in June 2003 so that up to 40% of the TransNet program can be used for operations (increased from 20%). The 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. The economy has made some improvements over the past year but has yet to recover from the economic downturn. Accordingly, sales tax receipts throughout California have not yet rebounded to pre-crisis levels, which has had a predictable continuing negative effect on the subsidy revenue available to MTS from both TDA and TransNet funds. MTS continues to monitor its costs and initiate additional revenue programs. These activities 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. During 2011 MTS continued its ongoing programs to upgrade its bus fleet and the Blue Line Trolley. In early July 2011 MTS accepted delivery of the first of 57 new trolley cars currently under construction. 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, 2010. This is the fifth 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.

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, 2011

BOARD OF DIRECTORS

Members	Board position (elected position)
Harry Mathis	Chairman, since 1/06
Ron Roberts	Vice Chairman, since 12/89 (Supervisor, County Board of Supervisors)
Steve Castaneda	Board Member, since 1/11 (Councilmember, City of Chula Vista)
Jim Cunningham	Board Member, since 12/09 (Councilmember, City of Poway)
Marti Emerald	Board Member, since 1/10 (Councilmember, City of San Diego)
Mary England	Board Member, since 12/10 (Mayor Pro Tem, City of Lemon Grove)
Ernest Ewin	Board Member, since 3/05 (Councilmember, City of La Mesa)
Todd Gloria	Board Member, since 1/09 (Councilmember, City of San Diego)
Jim Janney	Board Member, since 5/09 (Mayor, City of Imperial Beach)
Sherri Lightner	Board Member, since 1/09 (Councilmember, City of San Diego)
Bob McClellan	Board Member, since 4/08 (Councilmember, City of El Cajon)
John Minto	Board Member, since 1/11 (Councilmember, City of Santee)
Al Ovrom, Jr.	Board Member, since 12/08, (Councilmember, City of Coronado)
Jess Van Deventer	Board Member, since 9/09 (Councilmember, National City)
Tony Young	Board Member, since 1/05 (Councilmember, City of San Diego)

Board Committee Membership

Executive Committee	Accessible Services Advisory Committee	Ad Hoc Airport Regional Policy Committee	Ad Hoc Public Security Committee
Harry Mathis, Chair John Minto Al Ovrom Ron Roberts Tony Young	Thomas Clabby, Chair (Former Board Member)	Harry Mathis	Jim Cunningham Ernie Ewin Todd Gloria Jim Janney Harry Mathis
Audit Oversight Committee	Budget Development Committee	Joint Committee on Regional Transit	Los Angeles-San Diego Rail Corridor Agency
Ernie Ewin, Chair Harry Mathis John Minto Al Ovrom Ron Roberts Tony Young	Jim Cunningham Harry Mathis Bob McClellan Ron Roberts Tony Young	Jim Cunningham Ernie Ewin Harry Mathis	Jerry Rindone (Former Board Member)
SANDAG Board	SANDAG Regional Planning Committee	SANDAG Transportation Committee	Taxicab Committee
Harry Mathis	Al Ovrom	Harry Mathis	Marti Emerald, Chair

MTS MANAGEMENT

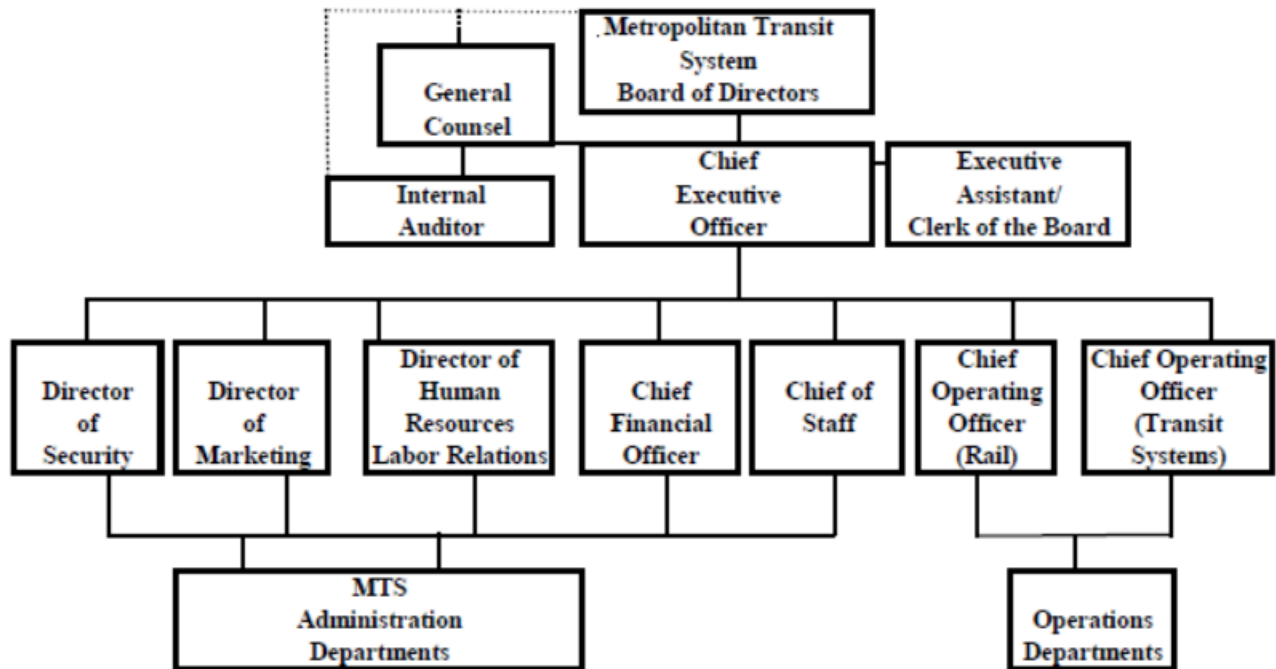
Staff

Position

Paul Jablonski	Chief Executive Officer
Sharon Cooney	Chief of Staff
Karen Landers	General Counsel
Cliff Telfer	Chief Financial Officer
Claire Spielberg	Chief Operating Officer, Transit Systems
E. Wayne Terry	Chief Operating Officer, Rail
Robert Schupp	Director, Marketing and Communications
Jeff Stumbo	Director, Human Resources and Labor Relations
Bill Burke	Director, Security

San Diego Metropolitan Transit System Executive Level Organization Chart

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

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**San Diego Metropolitan
Transit System, California**

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

Management's Discussion and Analysis**June 30, 2011 and 2010**

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, 2011 and 2010. 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 \$1,243 million as of June 30, 2011, \$1,258 million as of June 30, 2010 and \$1,250 million as of June 30, 2009. Of this amount, \$170 million was unrestricted as of June 30, 2011, \$180 million was unrestricted as of June 30, 2010, and \$175 million was unrestricted as of June 30, 2009. Total net assets decreased by \$(15) million in the current year and increased by \$8 million in the prior year. The current year decrease is largely attributable to an decrease in Federal revenue and TransNet funding for capital projects, partially offset by increased State Transit Assistance and Proposition 1B funds.
- For the year ended June 30, 2011, 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 39.66% compared to 39.70% for the year ended June 30, 2010 and 42.71% for the year ended June 30, 2009. The current year decrease is due primarily to an increase in the percentage of total riders who paid a reduced fare.

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 2011, MTS presents comparative statements for FY 2011 and FY 2010.

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).

Management's Discussion and Analysis**June 30, 2011 and 2010**

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.

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 \$1,243 million at the close of the most recent fiscal year and \$1,258 million at the end of FY 2010.

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 \$98 million, of which the largest projects under construction include the procurement of 57 light rail vehicles, \$68 million; land acquisitions and expansions, \$19 million; and CNG station improvements totaling \$5 million. Prior year construction-in-progress totaled \$86 million, of which the largest projects under construction included 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. 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 2011 MTS transferred completed projects worth \$39 million to SDTC, SDTI, Other Contracted Services and other governments. In FY 2010 MTS transferred completed projects worth \$43.6 million to SDTC, SDTI, Other Contracted Services and other governments..

The balance in unrestricted assets decreased by \$ (10) million during the current year and increased \$5 million in the prior year.

Management's Discussion and Analysis

June 30, 2011 and 2010

	June 30, 2011	June 30, 2010	Change	June 30, 2009	Change
Current and other assets	288,968,436	300,276,165	(11,307,729)	321,192,470	(20,916,305)
Capital assets	1,198,153,827	1,204,818,407	(6,664,580)	1,203,656,117	1,162,290
Total assets	1,487,122,263	1,505,094,572	(17,972,309)	1,524,848,587	(19,754,015)
Long-term liabilities outstanding	197,238,134	213,421,810	(16,183,676)	230,400,972	(16,979,162)
Other liabilities	46,571,745	33,788,351	12,783,394	44,298,723	(10,510,372)
Total liabilities	243,809,879	247,210,161	(3,400,282)	274,699,695	(27,489,534)
Net assets (deficit):					
Invested in capital assets net of related debt	1,073,561,720	1,078,178,383	(4,616,663)	1,075,104,676	3,073,707
Unrestricted	169,750,666	179,706,028	(9,955,362)	175,044,216	4,661,812
Total net assets	\$ 1,243,312,386	1,257,884,411	(14,572,025)	1,250,148,892	7,735,519

Increases in operating revenue are attributable to the affects of increasing gasoline prices 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 2011 and FY 2010 are attributable to an decrease in TransNet and FTA funding for capital projects, which is partially offset by the restoration of State Transit Assistance (STA) funding in the current year and an increase in Proposition 1B funding.

	June 30, 2011	June 30, 2010	Change	June 30, 2009	Change
Revenues:					
Operating revenues:					
Charges for services	85,514,164	85,078,266	435,898	86,185,653	(1,107,387)
Other operating revenue	<u>4,687,848</u>	4,264,061	<u>423,787</u>	4,874,700	(610,639)
Nonoperating revenues:					
Federal revenue	<u>48,814,276</u>	67,575,804	(18,761,528)	68,171,984	(596,180)
Transportation Development Act	<u>61,509,431</u>	64,977,093	(3,467,662)	75,517,474	(10,540,381)
State Transit Assistance	<u>15,044,930</u>	-	15,044,930	9,121,443	(9,121,443)
State revenue - other	<u>18,520,399</u>	6,230,977	12,289,422	4,092,420	2,138,557
TransNet funds	<u>19,117,834</u>	84,460,840	(65,343,006)	19,039,223	65,421,617
Other nonoperating revenue	<u>16,250,239</u>	10,900,482	5,349,757	11,914,503	(1,014,021)
Total revenues	269,459,121	323,487,523	(54,028,402)	278,917,400	44,570,123
Expenses:					
Operating expenses	302,278,326	313,084,786	(10,806,460)	284,154,997	28,929,789
Nonoperating expenses	8,559,112	13,777,062	(5,217,950)	11,858,487	1,918,575
Total expenses	310,837,438	326,861,848	(16,024,410)	296,013,484	30,848,364
Increase (decrease) in net assets before capital contributions	170,697,997	(3,374,325)	174,072,322	(17,096,084)	13,721,759
Capital contributions	26,806,292	11,109,844	15,696,448	1,668,471	9,441,373
Increase/(decrease) in net assets	(14,572,025)	7,735,519	(22,307,544)	(15,427,613)	23,163,132
Net assets-beginning of year	1,257,884,411	1,250,148,892	7,735,519	1,265,576,505	(15,427,613)
Net assets-end of year	1,243,312,386	1,257,884,411	(14,572,025)	1,250,148,892	7,735,519

Management's Discussion and Analysis

June 30, 2011 and 2010

Capital Asset and Debt Administration

Capital assets. MTS' investment in capital assets net of depreciation as of June 30, 2011 and 2010 amounted to \$1,198 million and \$1,205 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 continued its multi-year program to acquire 57 light rail vehicles for a total cost of \$68 million through the end of FY2011.
- Improvements to bus and trolley stations completed this year amounted to \$54 million
- Completed capital projects totaling \$33 million were transferred from SANDAG and other governments to MTS and its component units during FY 2011.

CAPITAL ASSETS

(Net of depreciation)

	2011	2010	2009
Land	224,793,077	221,853,921	221,853,921
Buildings	654,759,920	648,756,302	684,533,624
Vehicles	179,108,727	203,196,464	205,194,291
Equipment & other	42,137,343	45,174,474	49,710,233
Construction-in-progress	98,005,155	85,837,246	42,364,049
Total	<u>1,198,804,222</u>	<u>1,204,818,407</u>	<u>1,203,656,118</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 one capital lease obligation outstanding in the amount of \$5.3 million. 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 \$165.8 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 2010, MTS retired 14% and refunded 41%, or \$30 million, of the bonds outstanding. Additional information about MTS' long-term debt can be found in Note 10 to the financial statements.

Management's Discussion and Analysis

June 30, 2011 and 2010

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. If you have questions concerning any of the information provided in this report or need additional financial information, visit our website at www.sdmts.com or direct inquiries to the Controller, MTS, 1255 Imperial Avenue, Suite 1000, San Diego, CA 92101.

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

DRAFT

DRAFT
San Diego Metropolitan Transit System
Statements of Net Assets
June 30, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 25,661,196	\$ 44,246,852
Investments restricted for debt service payable within one year	1,558,561	1,447,266
Accounts and other receivables	7,918,271	7,765,988
Due from other governments	74,544,075	57,225,348
Materials and supplies inventory	10,977,710	10,443,264
Prepaid expenses and other current assets	2,166,775	2,076,453
Total current assets	<u>122,826,588</u>	<u>123,205,171</u>
Noncurrent assets:		
Cash and certificates of deposit restricted for capital support	8,079,635	4,805,538
Investments restricted for debt service and capital projects	117,867,198	118,050,149
Contracts receivable	977,171	977,171
Unamortized bond issuance cost	392,206	527,498
Capital assets (net of accumulated depreciation)	1,198,153,827	1,204,818,407
Net pension assets	38,825,638	52,710,638
Total noncurrent assets	<u>1,364,295,675</u>	<u>1,381,889,401</u>
Total assets	<u>\$ 1,487,122,263</u>	<u>1,505,094,572</u>

See Accompanying Notes to Basic Financial Statements

DRAFT
San Diego Metropolitan Transit System
Statements of Net Assets, Continued
June 30, 2011 and 2010

	2011	2010
Liabilities		
Current liabilities:		
Accounts payable	14,874,163	8,784,564
Due to other governments	7,243,634	2,402,740
Unearned revenue	2,476,354	2,394,449
Accrued expenses	8,020,334	7,224,191
Retentions payable	48,287	27,115
Due within one year:		
Bond premium	-	25,148
Compensated absences payable	6,583,610	6,635,173
Accrued damage, injury, and employee claims	3,460,982	2,577,359
Long-term debt	2,305,820	2,270,346
Long-term debt payable from restricted assets	1,558,561	1,447,266
Total current liabilities	46,571,745	33,788,351
Noncurrent liabilities:		
Retentions payable from restricted assets	1,996,640	2,257,200
Long-term debt payable from restricted assets	117,867,198	118,050,149
Due in more than one year:		
Bond Premium	-	211,661
Compensated absences payable	5,823,470	5,703,396
Accrued damage, injury, and employee claims	10,967,018	12,065,641
Accrued other post employment benefits	10,458,280	9,111,500
Long-term debt, due in more than one year	50,125,528	66,022,263
Total noncurrent liabilities	197,238,134	213,421,810
Total liabilities	243,809,879	247,210,161
Net Assets		
Invested in capital assets, net of related debt	1,073,561,720	1,078,178,383
Unrestricted	169,750,666	179,706,028
Total net assets	\$ 1,243,312,386	1,257,884,411

See Accompanying Notes to Basic Financial Statements

DRAFT
San Diego Metropolitan Transit System
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Passenger revenue	\$ 84,764,146	\$ 84,167,608
Advertising	620,774	782,986
Charter	129,244	127,665
Miscellaneous	4,687,848	4,264,061
Total operating revenues	<u>90,202,012</u>	<u>89,342,320</u>
Operating expenses:		
Personnel costs	100,828,659	99,096,444
Outside services	64,037,168	63,573,977
Transit operations funding	4,053,368	3,758,340
Materials and supplies	7,677,528	6,680,355
Energy costs	21,931,847	22,892,291
Risk management	3,923,954	4,858,835
Miscellaneous	4,899,334	3,571,062
Amortization of net pension asset	13,885,000	10,415,000
Depreciation	81,041,468	98,238,482
Total operating expenses	<u>302,278,326</u>	<u>313,084,786</u>
Operating (loss)	<u>(212,076,314)</u>	<u>(223,742,466)</u>
Public support and nonoperating revenues (expenses):		
Federal revenue	48,814,276	67,575,804
Transportation Development Act (TDA) funds	61,509,431	64,977,093
State Transit Assistance (STA) funds	15,044,930	-
State revenue - other	18,520,399	6,230,977
TransNet funds	19,117,834	84,460,840
Other local subsidies	7,842,623	1,261,520
Investment earnings	7,695,139	9,708,051
Interest expense	(8,419,739)	(12,702,198)
Gain (loss) on disposal of assets	712,477	(69,089)
Other expenses	(4,081)	(289,006)
Amortization of bond issuance costs	(135,292)	(785,858)
Total public support and nonoperating revenues (expenses)	<u>170,697,997</u>	<u>220,368,134</u>
Income (loss) before contributed capital	<u>(41,378,317)</u>	<u>(3,374,332)</u>
Contributed capital	26,806,292	11,109,844
Change in net assets	<u>(14,572,025)</u>	<u>7,735,512</u>
Net assets, beginning of year	<u>1,257,884,411</u>	<u>1,250,148,892</u>
Net assets, end of year	<u>\$ 1,243,312,386</u>	<u>\$ 1,257,884,404</u>

See Accompanying Notes to Basic Financial Statements

San Diego Metropolitan Transit System
Statement of Cash Flows
For the Years Ended June 30, 2011 and 2010 - DRAFT

Cash flows from operating activities:		
Receipts from customers and users	91,129,342	91,129,342
Payments to suppliers	(124,472,708)	(124,472,708)
Payments to employees	(98,438,088)	(98,438,088)
Payments for damage and injury	(753,488)	(753,488)
Net cash provided (used) by operating activities	(132,534,942)	(132,534,942)
Cash flows from noncapital financing activities:		
Public support funds received	222,661,836	222,661,836
Net cash provided (used) by noncapital financing activities	222,661,836	222,661,836
Cash flows from capital and related financing activities:		
Debt service costs	(17,758,341)	(17,758,341)
Property acquisition	(88,668,849)	(88,668,849)
Property disposal	281,507	281,507
Net cash provided (used) by capital financing activities	(106,145,683)	(106,145,683)
Cash flows from investing activities:		
Interest received on investments	479,533	479,533
Investments liquidated	35,630,000	35,630,000
Investments purchased	-	-
Net cash provided (used) by investing activities	36,109,533	36,109,533
Net increase (decrease) in cash and cash equivalents	20,090,744	20,090,744
Cash and cash equivalents, beginning of year	109,399,456	89,308,712
Cash and cash equivalents, end of year	33,740,831	109,399,456
Cash and Cash Equivalents		
Cash and cash equivalents	25,661,196	44,246,852
Cash and certificates of deposit restricted for capital support	8,079,635	4,805,538
Total cash and cash equivalents	33,740,831	49,052,390

See Accompanying Notes to Basic Financial Statements

San Diego Metropolitan Transit System
Statement of Cash Flows
For the year ended June 30, 2011 and 2010 - DRAFT

**Reconciliation of Operating Income (Loss) to
Net Cash Provided (Used) by Operating Activities**

Operating income (loss)	7	(223,742,466)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	94,926,468	108,653,482
(Increase) decrease in:		
Accounts and other receivables	385,322	385,322
Materials and supplies inventory	(1,807,622)	(1,807,622)
Prepaid and other current assets	(56,834)	(56,834)
Increase (decrease) in:		
Accounts payable	(10,981,249)	(10,981,249)
Accrued expenses	(7,481,779)	(7,481,779)
Unearned revenue	451,349	451,349
Accrued OPEB liability	1,064,694	1,064,694
Compensated absences payable	264,154	264,154
Accrued damage, injury and employee claims	716,000	716,000
Total adjustments	77,480,503	91,207,517
Net cash provided (used) by operating activities	77,480,510	(132,534,949)

Noncash investing, capital, and financing activities:

	2011	2010
Contributions of capital assets from SANDAG	8,889,863	8,889,863
Contributions/adjustments of capital assets from other governments	2,219,986	2,219,986
Total contributions of capital assets	11,109,849	11,109,849
Increase in fair value of investments	3,058,937	3,058,937

See Accompanying Notes to Basic Financial Statements

NOTES TO BASIC FINANCIAL STATEMENTS

Notes to Basic Financial Statements

For the Years Ended June 30, 2011 and 2010 - DRAFT

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Notes to Basic Financial Statements**For the Years Ended June 30, 2011 and 2010 - DRAFT**

(1) Summary of Significant Accounting Policies

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

(a) *Reporting Entity*

MTS (formerly San Diego Metropolitan Transit Development Board) was formed on January 26, 1976 by passage of California Senate Bill 101 to plan, construct, and operate (or let contracts to operate) exclusive public mass transit guideways in the urbanized south coastal area of San Diego County. MTS has certain responsibilities for near-term transportation planning and administration of federal and state transportation funds within the area under its jurisdiction. The Board of Directors of MTS consists of 15 members composed of four appointees from the San Diego City Council; one appointee each from the cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, and Santee; 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 certain 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 since the consolidation have been focused on operating public transit systems in the urbanized area identified above. In addition to the consolidation required by SB 1703, MTS dissolved the independent Board of Directors of San Diego Transit Corporation (SDTC) and Board of Directors of San Diego Trolley, Inc. (SDTI). MTS now acts as the Board of Directors for all three agencies, MTS, SDTC, and SDTI. Beginning in FY 2004, SDTC and SDTI are presented as blended component units.

These basic financial statements present MTS and its legally separate component units, entities for which MTS is considered to be financially accountable. Because MTS appoints a majority of the component units' boards of directors, the boards are substantively the same, and MTS is able to impose its will on the component units, MTS presents blended component units. Blended component units, although legally separate entities, are, in substance, part of MTS' operations.

Notes to Basic Financial Statements

For the Years Ended June 30, 2011 and 2010 - DRAFT

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, was renewed on June 23, 2011, as an open-ended agreement terminable upon six months' notice by either party. 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, was renewed on June 23, 2011, as an open-ended agreement terminable upon six months' notice by either party. Purchases or construction of LRT capital items are made by MTS with whom title remains, and are contributed to SDTI upon completion of a project or when individually purchased by MTS. SDTI's assets, liabilities, net assets, revenues, and expenses are included in MTS' financial statements as a blended component unit. This agency has the same governing board as MTS and provides services directly to the public.

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

(b) Financial Statements

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

Notes to Basic Financial Statements**For the Years Ended June 30, 2011 and 2010 - DRAFT**

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.

MTS has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all GASB pronouncement as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

MTS receives funding primarily from the following revenue sources:

Passenger Revenue

Passenger fares comprised approximately 37 percent and 36 percent of MTS' \$231 million operating budget for FY 2011 and 2010, respectively.

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.

Notes to Basic Financial Statements**For the Years Ended June 30, 2011 and 2010 - DRAFT**

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 the prior year MTS received funds from the American Recovery and Reinvestment Act of 2009 (ARRA); residual receipts from this program are expected in FY 2012. MTS has not received notification that this program will be available in future years.

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 was extended retroactively through December 2011, 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 continuing economic downturn, the collection of sales tax has decreased from last FY 2010, 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 included in the California state budget for fiscal year 2012, subject to budget adjustments that may occur in response to continuing fiscal uncertainties.

Notes to Basic Financial Statements**For the Years Ended June 30, 2011 and 2010 - DRAFT**

Proposition 1B Revenue (Prop 1B)

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

Other State Revenue

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

TransNet

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

Other Local Subsidies

The City of San Diego provides Maintenance of Effort funds to aid ADA efforts. In addition, SANDAG provides funds for the operation of certain express bus routes and NCTD provides partial subsidy for the Sorrento Valley Coaster Connection.

(d) *Use of Restricted/Unrestricted Net Assets*

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

(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.

Notes to Basic Financial Statements**For the Years Ended June 30, 2011 and 2010 - DRAFT**

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

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 2010 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.

Certain disclosure requirements, if applicable for deposit and investment risk, are specified for the following areas:

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

(f) *Materials and Supplies Inventory*

Inventories are valued at the weighted average unit cost.

(g) *Prepaid Items and Other Assets*

Payments made to vendors for services that will benefit periods beyond the fiscal year ended are recorded as prepaid items.

(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 asset 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,

Notes to Basic Financial Statements

For the Years Ended June 30, 2011 and 2010 - DRAFT

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

(j) Net Pension Asset

A pension asset was created when MTS paid into the SDTC retirement plan an amount 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

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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 current or 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.

(o) Implementation of New GASB Pronouncements

In fiscal year 2011, MTS adopted the following Governmental Accounting Standards Board Statements:

- **GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions***
- **GASB Statement No. 59, *Investment Instruments Omnibus***

GASB Statement No. 54 establishes criteria for classifying fund balances into specifically defined classifications to provide a clear hierarchy of fund balance classifications and improved reporting. Because this statement is applicable to governmental funds only, it will not be applied to MTS financial statements.

GASB Statement No. 59 updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. Because this statement does not

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apply to local government investment pools, it is not applicable to MTS activity in the current year.

(2) Cash, Cash Equivalents, and Investments

A summary of cash, cash equivalents, and investments at June 30, 2011 and 2010:

	2011	2010
Cash and equivalents	\$ 25,661,196	\$ 44,246,852
Cash and certificates of deposit		
restricted for capital support	8,079,635	4,805,538
Investments restricted for debt service and capital projects - Current	1,558,561	1,447,266
Investments restricted for debt service and capital projects - Noncurrent	117,867,198	118,050,149
Total cash and investments	<u>\$ 153,166,590</u>	<u>\$ 168,549,805</u>

Cash, cash equivalents, and investments consisted as follows on June 30, 2011 and 2010:

Investment type	Fair value 2011	Fair value 2010
Cash and equivalents:		
Demand Deposits	\$ 11,548,693	\$ 17,689,497
Retention Trust Account	1,996,640	2,257,200
San Diego County Investment Pool	10,671,869	18,515,759
State of California - Local Agency Investment Fund	<u>9,523,629</u>	<u>10,589,934</u>
Total cash and cash equivalents	<u>33,740,831</u>	<u>49,052,390</u>
Investments:		
U.S. Treasuries	37,372,123	35,941,175
Bank Investment Contract	<u>82,053,636</u>	<u>83,556,240</u>
Total investments	<u>119,425,759</u>	<u>119,497,415</u>
Total cash, cash equivalents, and investments	<u>\$ 153,166,590</u>	<u>\$ 168,549,805</u>

At year end the carrying amount of demand deposits was \$11,548,693 and the bank balance was \$13,276,931 compared to \$17,689,498 and \$18,230,525 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.

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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.

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 8.1% of the Investment Pool as of June 30, 2011.

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 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

Notes to Basic Financial Statements**For the Years Ended June 30, 2011 and 2010 - DRAFT**

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, 2011 MTS had \$10,671,869 invested in the San Diego County Investment Pool, compared to \$18,515,759 at June 30, 2010.

Local Agency Investment Funds

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

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

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

As of June 30, 2011, MTS had \$9,523,629 invested in LAIF, which had invested 5.01% of the pool investment funds in Structured Notes and Asset-Backed Securities compared to \$10,589,934 and 5.42% at June 30, 2010.

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 MTS investment in pension obligation bonds was liquidated when the variable rate bonds were refunded. Interest in the amount of \$0 and \$364,000 earned by MTS from the bond investment was included in interest income recorded in the Statement of Revenues, Expenses and Changes in Net Assets for FY2011 and FY 2010. Interest expense in the amount of \$0 and \$351,000 paid by SDTC related to the variable rate bonds was included in interest expense recorded in the Statement of Revenues, Expenses and Changes in Net Assets for FY2011 and FY 2010.

Interest Rate Risk

Notes to Basic Financial Statements

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

Credit Risk

MTS' investment policy limits investments in commercial paper and negotiable certificates of deposit to instruments rated A or better by Standard and Poor's or Moody's Investor Services, Inc. In the current year, MTS does not hold investments in commercial papers or certificates of deposit. Other investment instruments, including deposits in LAIF; San Diego County Investment Pool; US 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 \$250,000 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, 2011 and 2010, are shown below:

Maturity	2011	2010
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Notes to Basic Financial Statements

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Current to one year	\$ 33,740,831	\$ 49,052,391
One to Five	37,372,123	19,648,875
Five to ten years	-	16,292,299
Ten to twenty years	82,053,636	83,556,240
Total	<u>\$ 153,166,590</u>	<u>\$ 168,549,805</u>

(3) Accounts Receivable**(a) Accounts and other receivables**

As of June 30, 2011 and 2010, the net realizable accounts and other receivables consisted of the following:

	2011	2010
Pension plan receivable	\$ 3,404,093	\$ 3,425,086
Interest receivable	3,034,670	3,126,008
Miscellaneous trade receivables	1,122,283	885,694
Advertising receivable	357,225	329,200
Total accounts and other receivables	<u>\$ 7,918,271</u>	<u>\$ 7,765,988</u>

(b) Due from other governments

As of June 30, 2011 and 2010, amounts due from other governments consisted of the following:

	2011	2010
FTA Grant Funds	\$ 61,758,562	\$ 36,794,127
SANDAG - Pass Sales	4,561,279	5,256,681
U.S. Treasury Department	2,408,901	11,018
SANDAG - project/route Reimbursements	2,123,653	661,609
County of San Diego - MediCal	1,463,661	3,356,441
SANDAG - TransNet	613,827	10,100,000
Department of Homeland Security	593,129	11,871
North County Transit District	384,436	121,016
City of Chula Vista	285,663	833,163
State of California	230,658	-
City of San Diego	69,500	79,422
County of San Diego	50,806	-
Total due from other governments	<u>\$ 74,544,075</u>	<u>\$ 57,225,348</u>

(4) Inventory

Notes to Basic Financial Statements

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At June 30, 2011 and 2010, inventory consists of the following repair and maintenance parts for revenue vehicles:

	2011	2010
San Diego Transit Corp.	\$ 2,148,917	2,069,707
San Diego Trolley, Inc.	8,828,793	8,373,557
Total Inventory	<u>\$ 10,977,710</u>	<u>\$ 10,443,264</u>

(5) Capital Assets

MTS converted \$39 million in capital assets from CIP to assets in service compared to \$45 million in FY 2010. Capital asset additions totaling \$33.0 million were contributed by SANDAG and other governments, including \$44 thousand to MTS General Operations, \$134 thousand to Other Contracted Services, \$30.3 million to SDTC, and \$2.6 million to SDTI. In FY 2010, the contributions from SANDAG and other governments totaled \$11.1 million. In addition, MTS sold trolley cars with a net book value of \$1.5 million to the City of Mendoza, Argentina.

A summary of changes in capital assets is as follows:

	Balance, July 1, 2010	Additions	Deletions	Balance, June 30, 2011
Capital assets, not depreciated				
Land and right-of-way	221,853,921	3,073,330	(134,174)	224,793,077
Construction-in-progress	85,837,247	50,986,876	(39,469,364)	97,354,759
Total capital assets, not depreciated	<u>307,691,168</u>	<u>54,060,206</u>	<u>(39,603,538)</u>	<u>322,147,836</u>
Capital assets, depreciated:				
Buildings and structures	1,189,723,913	54,273,407		1,243,997,320
Buses and Vehicles	431,463,317	2,679,941	(8,061,325)	426,081,933
Equipment and other	78,846,167	4,425,839	-	83,272,006
Capital lease property	12,437,839	-	-	12,437,839
Total capital assets, depreciated	<u>1,712,471,236</u>	<u>61,379,187</u>	<u>(8,061,325)</u>	<u>1,765,789,098</u>
Less accumulated depreciation for:				
Buildings and structures	(544,935,292)	(47,891,913)		(592,827,205)
Buses and vehicles	(228,266,853)	(25,308,711)	6,602,359	(246,973,205)
Equipment and other	(33,694,751)	(7,439,912)		(41,134,663)
Capital lease property	(8,447,101)	(400,932)	-	(8,848,033)
Total accumulated depreciation	<u>(815,343,997)</u>	<u>(81,041,468)</u>	<u>6,602,359</u>	<u>(889,783,106)</u>
Total capital assets, depreciated, net	<u>897,127,239</u>	<u>(19,662,281)</u>	<u>(1,458,966)</u>	<u>876,005,992</u>
Total capital assets	<u>1,204,818,407</u>	<u>34,397,925</u>	<u>(41,062,504)</u>	<u>1,198,153,828</u>

Depreciation expense for capital assets for the years ended June 30, 2011 and 2010 was comprised of the following:

	2011	2010
General operations	\$ 1,252,350	\$ 1,264,931
Other contracted services	10,489,238	10,304,987
San Diego Transit Corporation	13,670,867	13,803,216

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San Diego Trolley, Inc.	55,629,013	72,865,348
Total	<u>\$ 81,041,468</u>	<u>\$ 98,238,482</u>

(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, 2011, the Net Pension Asset amounted to \$38,825,638, and current year amortization was \$13,885,000 compared to \$52,710,638 and \$10,415,000 in FY10. The current year amortization was higher due to the additional \$12.2 million principal payment made in FY11 (see note 10e).

(7) Due to other governments

At June 30, 2011 and 2010, amounts due to other governments consisted of the following:

	2011	2010
SANDAG - STA funds for construction projects in process	\$ 4,305,040	\$ 450,040
SANDAG - CIP Reimbursement	1,958,650	75,123
SANDAG - Pass Sales	424,912	500,508
City of El Cajon - TDA Funds	140,336	-
FTA	-	17,077
City of Lemon Grove - TDA Funds	121,170	121,170
City of San Diego - Shared Revenue	109,047	94,704
SANDAG - Compass Card Program	94,906	-
City of La Mesa - TDA Funds	51,500	-
City of Coronado - TDA Funds	20,600	20,600
North County Transit District	17,473	2,608
County of San Diego - MediCal	-	1,120,910
Total due to other governments	<u>\$ 7,243,634</u>	<u>\$ 2,402,740</u>

(8) Unearned revenue

At June 30, 2011 and 2010 unearned revenue consisted of the following:

	2011	2010
Fare media payments received in advance	\$ 1,015,042	\$ 1,074,483
Lease payments received in advance	608,681	221,389
Advertising revenue received in advance	406,800	610,200

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County funds - 4S Ranch development	347,083	476,977
City of San Diego funds - Aldine Drive development	91,018	-
Local Grant Funds - Balboa Park development	7,730	11,400
	<u>\$ 2,476,354</u>	<u>\$ 2,394,449</u>

(9) Commodity Swap

On March 29, 2010, MTS entered into a commodity swap agreement with Deutsche Bank AG in an effort to better manage costs and remove market volatility related to the acquisition of natural gas for fueling its bus fleet. Under the terms of the agreement, MTS purchased natural gas at market prices from British Petroleum and Deutsche Bank guaranteed that the total price paid by MTS would be equal to \$5.07 MMBTU as fixed in the contract.

Type	Objective	Notional Quantity	Effective Date	Matures	Terms
Fuel contract	Hedge natural gas market price changes	730,000 MMBTU	7/1/2010	6/30/2011	Pay fixed price \$5.07 per MMBTU

During the period of the agreement MTS paid \$3,021,580 to British Petroleum for natural gas purchases and paid an additional \$746,060 to Deutsche Bank under the terms of the pricing guarantee.

Amount Paid at June 30, 2011		Fair Value at June 30, 2011		Notional Quantity
Instrument	Amount (000s)	Classification	Amount (000s)	
Commodity forward	3,768	Derivative instrument	3,022	730,000 MMBTUs

While the commodity swap did not provide a reduction in the total cost of natural gas, it did shield MTS from seasonal price variances. MTS entered into a new contract with Deutsche Bank effective July 1, 2011.

(10) Long-Term Debt**a) Summary**

The following is a summary of changes in long-term obligations for the year ended June 30, 2011:

	Balance at July 1, 2010	Additions and net increases	Reductions and net decreases	Balance at June 30, 2011	Amounts due within one year	Amounts due in more than one year
MTS:						
Capital lease obligations	6,691,299	5,317,686	(6,691,299)	5,317,686	550,820	4,766,866
Finance obligation	119,948,726	-	(1,447,265)	118,501,461	1,558,561	116,942,900
Deferred gain on refunding	-	788,266	(15,306)	772,960	-	772,960

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Deferred amounts for issuance premium	236,809	-	(236,809)	-	-	-
Compensated absences payable	812,153	850,839	(784,548)	878,444	412,869	465,575
Accrued damage, injury, and employee claims	328,000	95,039	(52,039)	371,000	371,000	-
Accrued other post employment benefits	2,173,800	442,840	(64,903)	2,551,737	-	2,551,737
Total MTS	130,190,787	7,494,670	(9,292,169)	128,393,288	2,893,250	125,500,038
San Diego Transit Corporation:						
Pension Obligation Bonds	61,150,000		(13,885,000)	47,265,000	1,755,000	45,510,000
Compensated absences payable	8,778,265	3,570,036	(3,603,044)	8,745,257	3,603,044	5,142,213
Accrued damage, injury, and employee claims	10,289,000	2,465,388	(2,466,388)	10,288,000	2,466,388	7,821,612
Accrued other post employment benefits	2,211,800	1,304,840	(756,794)	2,759,846	-	2,759,846
Total SDTC	82,429,065	7,340,264	(20,711,226)	69,058,103	7,824,432	61,233,671
San Diego Trolley, Inc.:						
Compensated absences payable	2,748,150	2,708,708	(2,673,479)	2,783,379	2,567,697	215,682
Accrued damage, injury, and employee claims	4,026,000	248,536	(505,536)	3,769,000	623,594	3,145,406
Accrued other post employment benefits	4,725,900	529,220	(108,423)	5,146,697	-	5,146,697
Total SDTI	11,500,050	3,486,464	(3,287,438)	11,699,076	3,191,291	8,507,785
Total	224,119,902	18,321,398	(33,290,833)	209,150,467	13,908,973	195,241,494
Reconciliation to Statement of Net Assets:						
Due within one year						
Bond premium					0	
Compensated absences payable					6,583,610	
Accrued damage, injury, and employee claims					3,460,982	
Long-term debt					2,305,820	
Long-term debt payable from restricted assets					1,558,561	
					13,908,973	
Noncurrent liabilities:						
Long-term debt payable from restricted assets						117,867,198
Bond premium						0
Compensated absences payable						5,823,470
Accrued damage, injury and employee claims						10,967,018
Accrued other post employment benefits						10,458,280
Long-term debt						50,125,528
						195,241,494

(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

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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 May, 2011, San Diego County refunded the underlying debt obligation in order to secure a more favorable interest rate, which will result in a \$1.3 million reduction in future principal and interest payments under the terms of the lease agreement. A \$772,960 net economic gain from the refunding, which is the difference between the present value of the minimum payments on the refunded debt and the present value of the minimum payment payments on the refunding debt, has been deferred. The deferred gain will be amortized as a component of interest expense over the life of the refunding debt, which is the same life as the refunded debt.

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

The assets acquired through capital leases are as follows:

	2011	2010
Building – MTS Tower	12,091,981	12,091,981
Toshiba telecommunications equipment		345,858
Less accumulated depreciation	(8,502,174)	(8,447,100)
Total	3,589,807	3,990,739

The following is a summary of future minimum payments under capital leases as of June 30, 2011:

	Tower Lease Payments
Year ending June 30:	
2012	730,885
2013	749,612
2014	736,704
2015	750,550
2016	731,665
2017-2020	2,599,357
Total minimum lease payments	6,298,773
Less amount representing interest	(981,087)
Present value of minimum lease payments	5,317,686

At June 30, 2011, the future minimum payments were \$5,317,686

(c) Finance Obligations

The following is a summary of changes in finance obligations for the year ended June 30, 2011:

Balance at July 1, 2010	Additions	Reductions	Balance at June 30, 2011	Amounts due within one year	Amounts due in more than one year
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1995 LRV Lease/Leaseback	\$ 119,948,726	-	\$ (1,447,265)	\$ 118,501,461	\$ 1,558,561	\$ 116,942,900
Pension Obligation Bonds	61,150,000		(13,885,000)	47,265,000	1,755,000	45,510,000
Total Finance Obligations	<u>\$ 181,098,726</u>	<u>-</u>	<u>\$ (15,332,265)</u>	<u>\$ 165,766,461</u>	<u>\$ 3,313,561</u>	<u>\$ 162,452,900</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, 2011, the remaining future obligations total \$118,501,461.

	Principal	Interest	Total
Year ending June 30:			
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	21,495,358	5,560,115	27,055,473
2017-2021	28,117,251	22,278,934	50,396,185
2022-2026	42,483,003	7,153,620	49,636,623
	<u>\$ 118,501,461</u>	<u>\$ 58,353,258</u>	<u>\$ 176,854,719</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.

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:

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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.

The Taxable Pension Obligation Refunding Bonds 2009 Series A of \$30,000,000 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. The refunding bonds were issued in 2009 to retire the Series B Bonds of \$38,800,000 issued in 2004, which were variable rate bonds that matured in annual installments between 2024 and 2034.

At June 30, 2011, the outstanding balance of the Pension Obligation Bonds is \$47,265,000

Year ending June 30:	Principal	Interest	Total
2012	\$ 1,755,000	\$ 2,112,620	\$ 3,867,620
2013	1,830,000	2,034,800	3,864,800
2014	1,915,000	1,950,882	3,865,882
2015	2,005,000	1,861,100	3,866,100
2016	19,900,000	1,408,065	21,308,065
2017-2021	12,195,000	3,573,144	15,768,144
2022-2024	7,665,000	541,136	8,206,136
	<u>\$ 47,265,000</u>	<u>\$ 13,481,747</u>	<u>\$ 60,746,747</u>

(11) Risk Management

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

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

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	Beginning of fiscal year	Current year claims and changes in estimates	Claims payments	End of fiscal year liability
MTS:				
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
2010-2011	14,643,000	2,808,963	(3,023,963)	14,428,000

Following is summary of accrued damage injury, and employee claims for fiscal years 2011 and 2010:

	2011	2010
Accrued damage, injury and employee claims		
Current portion	\$ 3,460,982	\$ 2,577,359
Non-current portion	10,967,018	12,065,641
Total	\$ 14,428,000	\$ 14,643,000

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 \$14,428,000 at June 30, 2011 and \$14,643,000 at June 30, 2010.

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

(12) 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 and all prior and subsequent years. As a result of the audit and revised claim procedure

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MTS has refunded \$1.48 million in MediCal receipts to the state against an estimated reserve of \$1.1 million that was recorded in FY 2010.

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, because the federal and state statutes provide exemption from income tax for not for profit corporations, and because the fiscal tax year 2007 is now closed management does not anticipate future examinations of these returns or any future tax liability.

CNG Rebate Program. During FY 2011 Congress reauthorized the Compressed Natural Gas rebate program retroactively from December 2009 through December 2011. It is not known if the program will be extended for future years. In connection with an audit of the CNG rebate program for the tax quarter ending June 30, 2008, the Internal Revenue Service has issued a preliminary ruling disallowing MTS CNG rebates totaling \$729,598 plus \$93,252 interest through August 18, 2011. MTS has secured legal counsel to vigorously defend its position that the rebates were correctly granted to MTS. The appeal process is ongoing. The legal dispute centers around the fact that a former MTS contractor also claimed the rebate during the applicable time periods. This resulted in a duplicate rebate being granted for the same CNG transaction. In the event MTS' appeal is unsuccessful, there is a potential that the IRS will seek to disallow additional rebates granted during the 2008 and 2009 tax years. The potential exposure to loss during this time period is approximately \$8 million. The likelihood and amount of possible loss are not estimable at this time.

(13) Post-Employment Health Care Benefits

Pursuant to reporting requirements established in Statement 45 of the Governmental 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.

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Plan Description: During FY 2010 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. As of January 1, 2011 the same change was effective for SDTI union retirees. During FY 2011 there have been no changes to the plan provided to SDTC employees' unions. Total MTS payments for the year ended June 30, 2011 were \$64,903 for 11 retirees currently receiving post-employment health care benefits. Total SDTI payments for the year ended June 30, 2011 were \$108,423 for 27 retirees currently receiving benefits. Total SDTC payments for the year ended June 30, 2011 were \$447,173 for 41 management retirees plus \$372,100 for 155 union retirees currently receiving benefits. 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.

The Plan's **Net OPEB Obligation (NOO)** is the cumulative excess of prior Annual Required Contribution (ARC) over benefit payments and contributions, with annual adjustments for interest and amortization. The reconciliation of NOO over fiscal year 2011 is as follows:

Net OPEB Obligation (NOO)

	MTS	SDTI	SDTC	Total
NOO at June 30, 2010	\$ 2,173,800	\$ 4,725,900	\$ 2,211,800	\$ 9,111,500
Benefit payments paid outside of a trust	(64,903)	(108,423)	(756,794)	(930,120)
Estimated contributions to a trust	-	-	-	-
Annual Required Contribution	438,140	519,020	1,300,140	2,257,300
Accrued interest on June 30, 2010 NOO	97,800	212,700	99,500	410,000
Amortization of June 30, 2010 NOO	(93,100)	(202,500)	(94,800)	(390,400)
NOO at June 30, 2011	\$ 2,551,737	\$ 5,146,697	\$ 2,759,846	\$ 10,458,280

Eligibility. Employees are eligible after attaining age/service years of 50/10 for MTS and SDTI management, 50/15 for SDTI union, 53/10 for SDTC management, and 55/5 for SDTC unions.

<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>

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

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financing requirements. For fiscal year 2011 MTS contributions to the plan were \$930,120 (or 47.9% of total gross health costs), while retirees contributed \$1,011,571 (or 52.10% of total gross health costs). .

Annual OPEB Cost and Net OPEB Obligation. MTS' annual OPEB cost (expense) is calculated based on the sponsoring employer's Annual Required Contribution (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 Accrued Liabilities (UAAL) as a level percentage of projected payroll on a closed basis over a period not to exceed thirty years. The following table show the components of MTS' ARC and Annual OPEB Cost for the year, the amount actually contributed to the plans, and the changes in MTS' Net OPEB Obligation to the Plan:

	All Groups
Normal Cost	\$ 937,900
Amortization of Unfunded AAL	1,319,400
Annual Required Contribution	2,257,300
Interest on beginning of year NOO	410,000
Amortization of beginning of year NOO	(390,400)
Annual OPEB cost	2,276,900
Contributions or Benefit Payments	<u>(685,320)</u>
Implicit subsidy payments	(244,800)
Increase in net OPEB obligation	1,346,780
Net OPEB obligation - beginning of year	<u>9,111,500</u>
Net OPEB obligation - end of year	<u>\$ 10,458,280</u>

MTS' Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan and the Net OPEB Obligation for fiscal years 2009, 2010 and 2011 were as follows:

Fiscal year ended	Annual OPEB Cost	% of Annual OPEB cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 4,760,282	13.11%	\$ 8,046,806
June 30, 2010	2,283,894	53.38%	9,111,500
June 30, 2011	2,276,900	40.85%	10,458,280

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 (AAL) for benefits was \$31,643,500 and the actuarial value of assets was \$0 compared to \$60,162,800 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 Unfunded AAL to covered payroll was 44% percent compared to \$63,257,100 and 79% as of June 30, 2007. The significant decrease in the Unfunded AAL is largely attributable to the health plans changes including withdrawal from the CalPERS health system.

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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 AAL	Unfunded AAL	Funded status	Annual covered payroll	UAAL as a % of payroll
6/30/2009	\$ -	\$ 2,701	\$ 2,701	0%	\$ 8,281	32.62%

SDTI (in 000s)

Valuation date	Actuarial value of assets	Entry Age Normal AAL	Unfunded AAL	Funded status	Annual covered payroll	UAAL as a % of payroll
6/30/2009	\$ -	\$ 7,565	\$ 7,565	0%	\$ 26,788	28.24%

SDTC (in 000s)

Valuation date	Actuarial value of assets	Entry Age Normal AAL	Unfunded AAL	Funded status	Annual covered payroll	UAAL as a % of payroll
6/30/2009	\$ -	\$ 21,378	\$ 21,378	0%	\$ 37,463	57.16%

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 June 2009 study, which was completed during FY10, considered the plan changes that are described above. The next study, which we will based on activity through June 2011, will be completed during the coming year.

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 consistent with the long-term perspective of the calculations.

In the June 30, 2009, actuarial valuation the Entry Age Normal actuarial cost method was used. The actuary assumed 4.5% investment rate of return (net of administrative expenses) which is the expected long-term investment returns on the employer's own investments and an annual healthcare cost trend rate which varies depending on the plan and type of health care service involved. Beginning in fiscal year

Notes to Basic Financial Statements**For the Years Ended June 30, 2011 and 2010 - DRAFT**

2009/2010, medical/drug trends generally grade down from 9% and 8% to an ultimate of 5% by 2024/2025, while dental/vision/expense trends are generally a flat 5% per year. The UAAL is being amortized as a level percentage of projected payroll over a rolling 30 years.

(14) Employee Retirement Systems***(a) MTS and SDTI*****Plan Description and Provisions**

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

Funding Policy

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

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 2011, 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.

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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
6/30/2009	\$ 65,117	\$ 74,005	\$ 8,889	88%	\$ 23,501	37.80%

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 2011, MTS' and SDTI's annual required employer contributions were \$1,850,282 and \$2,105,351, respectively. The required contribution for fiscal year 2011 was determined as part of the June 30, 2008, 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, 2009, the most recent valuation date, was 17 years for MTS and 24 years for SDTI.

Trend information for MTS (in 000s):

	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:			
2009	\$ 1,699	\$ 1,699	100%
2010	1,851	1,851	100%
2011	1,850	1,850	100%

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Trend information for SDTI(in 000s):

	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:			
2009	\$ 2,341	\$ 2,341	100%
2010	2,102	2,102	100%
2011	2,105	2,105	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 will be members of a defined contribution 401K plan.

During the current year SDTC enacted significant changes to the SDTC defined benefit plan that became effective in April 2011. Under the new terms of the plan all employees in the IBEW bargaining unit hired after ratification will participate in a defined contribution 401(a) plan with a 3% employer contribution and an additional 2% matching. In addition workers who remain in the defined benefit plan will begin contributing toward their pension plan at the rate of 1% at ratification, 2% in April 2012 and 3% in April 2013. The actuarial study completed in July 2011 considered these changes

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

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allowed to contribute to the Plan. The valuation method used to calculate the contribution for the Plan is the Entry Age Normal Actuarial Cost Method which is a projected benefit cost method.

According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of eligibility until retirement. The significant actuarial assumptions used to compute the actuarially determined contribution requirements included (a) 7.50% investment rate of return, (b) projected salary increase of 3.5% to 14% depending on age, service, and type of employment; (c) 3% 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, 2010, the most recent valuation date, was 30 years.

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

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Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
7/1/2010	\$ 152,895	\$ 226,821	\$ 73,925	67%	\$ 31,889	232%

Annual Pension Cost

For fiscal year ended June 30, 2011, the annual pension cost of \$7,753,347 for the pension plan was equal to SDTC's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the entry age normal cost method. Following is the most recent data available.

	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:			
2009	\$ 5,275	\$ 5,275	100%
2010	5,670	5,670	100%
2011	7,753	7,753	100%

(15) Other Required Individual Fund Disclosures

SDTC had unrestricted net deficits of \$(27,222,904) at June 30, 2011 compared to \$(26,691,517) at June 30, 2010. SDTI had unrestricted net deficits of \$(3,260,643) as of June 30, 2010. The deficits are primarily a result of the timing difference between recognition of expenses on an accrual basis and when those expenses are funded by subsidy transfers. MTS expects that these deficits will be funded with future subsidies.

(16) Subsequent Events

Management, having evaluated subsequent events, has determined that no events or transactions occurring through November 30, 2011, the date the consolidated financial statements were issued, required adjustment to, or disclosure in the consolidated financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

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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
6/30/2007	\$ 54,017	\$ 59,846	\$ 5,829	90.30%	\$ 21,679	26.69%
6/30/2008	59,712	65,261	5,549	91.50%	22,479	24.70%
6/30/2009	65,117	74,005	8,889	88.00%	23,501	37.80%

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
7/1/2008	\$ 164,790	\$ 195,624	\$ 30,864	84.22%	\$ 33,251	92.82%
7/1/2009	144,196	202,089	57,893	71.00%	33,894	171.00%
7/1/2010	152,896	226,821	73,925	67.4%	31,889	232%

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.

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POSTEMPLOYMENT HEALTHCARE PLAN SCHEDULE OF FUNDING PROGRESS

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

MTS (in 000s)

Actuarial Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
6/30/2007	\$ -	\$ 8,292	\$ 8,292	0%	\$ 9,573	86.62%
6/30/2009	-	2,701	2,701	0%	8,281	32.62%

SDTC (in 000s)

Actuarial Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
6/30/2007	\$ -	\$ 26,473	\$ 26,473	0%	\$ 35,935	73.67%
6/30/2009	-	21,378	21,378	0%	37,463	57.16%

SDTI (in 000s)

Actuarial Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	AAL as a % of payroll
6/30/2007	\$ -	\$ 15,399	\$ 15,399	0%	\$ 17,749	86.80%
6/30/2009	-	7,565	7,565	0%	26,788	28.24%

Funding progress is presented for the two years that actuarial studies have been prepared since the effective date of GASB Statement 45. 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 next scheduled actuarial review and analysis of OPEB liability and funding status will be performed in FY 2012 based on the year ending June 30, 2011.

Notes to Basic Financial Statements

For the Years Ended June 30, 2011 and 2010 - DRAFT

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
Combining Schedule of Net Assets
For the Years Ended June 30, 2011

Att. A, AI B1, 10/20/11

	<u>General Operations</u>	<u>Contracted Services</u>	<u>SDTC</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 25,983,341	\$ -	\$ (13,550)
Investments restricted for debt service payable within one year	1,558,561	-	-
Accounts and other receivables	4,249,631	19,222	3,517,554
Due from other governments	69,569,756	1,633,792	1,731,814
Internal balances	(9,180,350)	4,808,233	398,568
Materials and supplies inventory	-	-	2,148,917
Prepaid expenses and other current assets	<u>1,886,559</u>	<u>145,137</u>	<u>15,079</u>
Total current assets	<u>94,067,498</u>	<u>6,606,384</u>	<u>7,798,382</u>
Noncurrent assets:			
Cash and certificates of deposit restricted for capital support	8,079,635	-	-
Investments restricted for debt service and capital projects	117,867,198	-	-
Contracts Receivable	-	-	-
Unamortized bond issuance cost	-	-	392,206
Capital assets (net of accumulated depreciation)	154,906,141	71,346,123	131,979,010
Net pension assets	<u>-</u>	<u>-</u>	<u>38,825,638</u>
Total noncurrent assets	<u>280,852,974</u>	<u>71,346,123</u>	<u>171,196,854</u>
Total assets	<u>374,920,472</u>	<u>77,952,507</u>	<u>178,995,236</u>

SDTI	Total
\$ (308,595)	\$ 25,661,196
-	1,558,561
131,864	7,918,271
1,608,713	74,544,075
3,973,549	-
8,828,793	10,977,710
120,000	2,166,775
<u>14,354,324</u>	<u>122,826,588</u>
-	8,079,635
-	117,867,198
977,171	977,171
-	392,206
839,922,553	1,198,153,827
-	38,825,638
<u>840,899,724</u>	<u>1,364,295,675</u>
<u>855,254,048</u>	<u>1,487,122,263</u>

San Diego Metropolitan Transit System
Combining Schedule of Net Assets, Continued
For the Years Ended June 30, 2011

	<u>General Operations</u>	<u>Contracted Services</u>	<u>SDTC</u>
Liabilities			
Current liabilities:			
Accounts payable	6,414,082	5,797,402	2,480,320
Due to other governments	7,243,634	-	-
Unearned revenue	1,370,294	273,227	239,797
Accrued expenses	3,344,117	-	2,460,909
Retentions payable	48,287	-	-
Due within one year:			
Compensated absences payable	412,869	-	3,603,044
Accrued damage, injury, and employee claims	371,000	-	2,466,388
Long-term debt, due within one year	550,820	-	1,755,000
Long-term debt payable from restricted assets	1,558,561	-	-
Total current liabilities	<u>21,313,664</u>	<u>6,070,629</u>	<u>13,005,458</u>
Noncurrent liabilities:			
Retentions payable from restricted assets	1,996,640	-	-
Long-term debt payable from restricted assets	117,867,198	-	-
Due in more than one year:			
Compensated absences payable, due in more than one year	465,575	-	5,142,213
Accrued damage, injury, and employee claims, due in more than one year	-	-	7,821,612
Accrued other post employment benefits	2,551,737	-	2,759,846
Long-term debt, due in more than one year	4,615,528	-	45,510,000
Total noncurrent liabilities	<u>127,496,678</u>	<u>-</u>	<u>61,233,671</u>
Total liabilities	<u>148,810,342</u>	<u>6,070,629</u>	<u>74,239,129</u>
Net Assets			
Invested in capital assets, net of related debt	30,314,034	71,346,123	131,979,010
Unrestricted	195,796,094	535,753	(27,222,904)
Total net assets	<u>\$ 226,110,128</u>	<u>\$ 71,881,876</u>	<u>\$ 104,756,106</u>

<u>SDTI</u>	<u>Total</u>
182,359	14,874,163
-	7,243,634
593,036	2,476,354
2,215,308	8,020,334
-	48,287
2,567,697	6,583,610
623,594	3,460,982
-	2,305,820
-	1,558,561
<u>6,181,994</u>	<u>46,571,745</u>
-	1,996,640
-	117,867,198
215,682	5,823,470
3,145,406	10,967,018
5,146,697	10,458,280
-	50,125,528
<u>8,507,785</u>	<u>197,238,134</u>
<u>14,689,779</u>	<u>243,809,879</u>
839,922,553	1,073,561,720
<u>641,723</u>	<u>169,750,666</u>
<u>\$ 840,564,276</u>	<u>\$ 1,243,312,386</u>

San Diego Metropolitan Transit System

Combining Schedule of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2011

	General Operations	Contracted Services	SDTC	SDTI
Operating revenues:				
Passenger revenue	\$ -	\$ 24,036,025	\$ 26,055,593	\$ 34,672,528
Advertising	620,774	-	-	-
Charter	-	-	129,244	-
Miscellaneous operating revenues	4,137,942	-	22,336	527,570
Total operating revenues	4,758,716	24,036,025	26,207,173	35,200,098
Operating expenses:				
Personnel costs	14,930,966	413,419	55,870,442	29,613,832
Outside services	8,910,906	49,797,656	1,977,649	3,350,957
Transit operations funding	100,738,556	-	-	-
Materials and supplies	17,337	-	4,408,793	3,251,398
Energy costs	203,506	7,718,720	5,630,468	8,379,153
Risk management	612,372	7,650	1,915,022	1,388,910
Miscellaneous operating expenses	(19,982,030)	1,598,229	8,451,547	14,831,588
Amortization of net pension asset	-	-	13,885,000	-
Depreciation	1,252,350	10,489,238	13,670,867	55,629,013
Total operating expenses	106,683,963	70,024,912	105,809,788	116,444,851
Operating income (loss)	(101,925,247)	(45,988,887)	(79,602,615)	(81,244,753)

Eliminations	Total
\$ -	\$ 84,764,146
-	620,774
-	129,244
-	4,687,848
-	90,202,012
-	100,828,659
-	64,037,168
(96,685,188)	4,053,368
-	7,677,528
-	21,931,847
-	3,923,954
-	4,899,334
-	13,885,000
-	81,041,468
(96,685,188)	302,278,326
96,685,188	(212,076,314)

San Diego Metropolitan Transit System**Combining Schedule of Revenues, Expenses and Changes in Net Assets, Continued****For the Years Ended June 30, 2011**

	General Operations	Contracted Services	SDTC	SDTI
Public support and nonoperating revenues:				
Federal revenue	48,814,276	4,641,054	19,894,239	14,912,278
Transportation Development Act (TDA) funds	61,509,430	27,860,105	16,696,983	5,496,617
State Transit Assistance (STA) funds	15,044,930	-	12,737,970	-
State revenue - other	18,520,399	996,868	-	-
TransNet funds	24,617,834	691,549	14,746,643	5,000,000
Other local subsidies	7,842,623	1,310,071	3,560,458	-
Investment earnings	7,695,139	-	-	-
Interest expense	(6,204,663)	-	(2,215,076)	-
Gain (loss) on disposal of assets	4,749	-	14,800	692,928
Other expenses	-	-	(4,081)	-
Amortization of bond issuance costs	(103,711)	-	(31,581)	-
Total public support and nonoperating revenues	<u>177,741,006</u>	<u>35,499,647</u>	<u>65,400,355</u>	<u>26,101,823</u>
Income (loss) before contributed capital	75,815,759	(10,489,240)	(14,202,260)	(55,142,930)
Transfers	(37,359,646)	-	-	-
Contributions	<u>(36,138,339)</u>	<u>2,189,156</u>	<u>43,479,198</u>	<u>17,276,277</u>
Change in net assets	2,317,774	(8,300,084)	29,276,938	(37,866,653)
Net assets, beginning of year	<u>223,792,354</u>	<u>80,181,960</u>	<u>75,479,168</u>	<u>878,430,929</u>
Net assets, end of year	<u>\$ 226,110,128</u>	<u>\$ 71,881,876</u>	<u>\$ 104,756,106</u>	<u>\$ 840,564,276</u>

<u>Eliminations</u>	<u>Total</u>
(39,447,571)	48,814,276
(50,053,704)	61,509,431
(12,737,970)	15,044,930
(996,868)	18,520,399
(25,938,192)	19,117,834
(4,870,529)	7,842,623
-	7,695,139
-	(8,419,739)
-	712,477
-	(4,081)
-	(135,292)
<u>(134,044,834)</u>	<u>170,697,997</u>
(37,359,646)	(41,378,317)
37,359,646	-
<u>-</u>	<u>26,806,292</u>
-	(14,572,025)
<u>-</u>	<u>1,257,884,411</u>
<u>\$ -</u>	<u>\$ 1,243,312,386</u>

San Diego Metropolitan Transit System

Combining Statement of Cash Flows

For the Year Ended June 30, 2011

	MTS	Other Contracted Services	SDTC	SDTI	Total
Cash flows from operating activities:					
Received from customers and users	4,067,026	24,447,559	27,607,395	35,007,361	91,129,341
Payments to suppliers	(3,076,311)	(57,689,263)	(26,075,478)	(37,631,656)	(124,472,708)
Payments to employees	(13,224,644)	(432,289)	(55,206,679)	(29,574,476)	(98,438,088)
Payments for damage and injury	(1,091)	-	(483,517)	(268,880)	(753,488)
Net cash provided (used) by operating activities	(12,235,020)	(33,673,993)	(54,158,279)	(32,467,651)	(132,534,943)
Cash flows from noncapital financing activities:					
Public support funds received	106,003,088	33,580,168	55,971,877	27,106,703	222,661,836
Net cash provided (used) by noncapital financing activities	106,003,088	33,580,168	55,971,877	27,106,703	222,661,836
Cash flows from capital and related financing activities:					
Debt service costs	(929,001)	-	(16,829,340)		(17,758,341)
Property acquisition	(88,245,633)	-		(423,216)	(88,668,849)
Property disposal	93,827	93,825	54,684	39,171	281,507
Net cash provided (used) by capital and related financing activities	(89,080,807)	93,825	(16,774,656)	(384,045)	(106,145,683)
Cash flows from investing activities:					
Interest received from investments	479,533	-	-	-	479,533
Investments liquidated	35,630,000	-	-	-	35,630,000
Intercompany equity transfers	(20,797,734)	-	15,533,206	5,264,528	-
Net cash provided (used) by investing activities	15,311,799	-	15,533,206	5,264,528	36,109,533
Net increase (decrease) in cash and cash equivalents	19,999,060	-	572,148	(480,465)	20,090,743
Cash and cash equivalents, beginning of year	50,251,874	-	(176,225)	(1,023,259)	49,052,390
Cash and cash equivalents, end of year	\$ 34,062,976	-	\$ (13,550)	\$ (308,595)	\$ 33,740,831

Combining Statement of Cash Flows

For the Year Ended June 30, 2011

	MTS	Other Contracted Services	SDTC	SDTI	Total
Operating income (loss):	\$ (18,867,069)	\$ (45,988,887)	\$ (79,602,615)	\$ (81,244,753)	(225,703,324)
Adjustments to reconcile operating income (loss) to net cash provided (used)					
by operating activities					
Depreciation and amortization	1,252,350	10,489,238	27,555,867	55,629,013	94,926,468
(Increase) decrease in:					
Accounts and other receivables	(505,323)	72,987	(754,868)	1,572,532	385,328
Materials and supplies inventory	-	-	(132,724)	(1,674,898)	(1,807,622)
Prepaid and other current assets	102,035	-	3,378	(58,307)	47,106
Increase (decrease) in:					
Accounts payable	(3,323,123)	266,454	(3,865,639)	(4,058,941)	(10,981,249)
Accrued expenses	(4,923,218)		(987,885)	(1,570,676)	(7,481,779)
Unearned revenue	88,595	(433,264)	337,782	458,236	451,349
Accrued OPEB liability	389,737		<u>216,741</u>	458,216	1,064,694
Compensated absences payable	49,419		206,899	7,836	264,154
Accrued damage, injury and employee claims	64,000		394,000	258,000	716,000
Total adjustments	(6,805,528)	10,395,415	22,973,551	51,021,011	77,584,449
Net cash provided (used) by operating activities	(25,672,597)	(35,593,472)	(56,629,064)	(30,223,742)	(148,118,875)

Supplemental noncash disclosures:

During the year other governments contributed **\$11,109,849** in capital assetsDuring the year the fair value of investments increased by **\$3,025,937**

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, 2011

	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	\$ 85,488,627	\$ 83,954,414	\$ 84,764,146	\$ -	\$ 84,764,146	\$ 809,732
Advertising	1,359,800	1,293,800	620,774	-	620,774	(673,026)
Charter	30,000	-	129,244	-	129,244	129,244
Miscellaneous operating revenues	3,969,247	3,933,617	4,687,848	(75,000)	4,612,848	679,231
Total operating revenues	90,847,674	89,181,831	90,202,012	(75,000)	90,127,012	945,181
Operating expenses:						
Personnel costs	103,935,787	114,027,415	100,828,659	12,422,586	113,251,245	776,170
Outside services	63,171,511	64,774,802	64,037,168	-	64,037,168	737,634
Transit operations funding	3,636,745	3,732,329	4,053,368	-	4,053,368	(321,039)
Materials and supplies	6,996,741	7,001,791	7,677,528	48,722	7,726,250	(724,459)
Energy costs	20,424,798	21,100,200	21,931,847	-	21,931,847	(831,647)
Risk management	4,132,419	4,052,922	3,923,954	205,000	4,128,954	(76,032)
Miscellaneous operating expenses	2,603,526	3,093,119	4,899,334	(1,844,144)	3,055,190	37,929
Amortization of net pension asset	-	-	13,885,000	(13,885,000)	-	-
Depreciation	-	-	81,041,468	(81,041,468)	-	-
Total operating expenses	204,901,527	217,782,578	302,278,326	(84,094,304)	218,184,022	(401,444)
Operating income (loss)	(114,053,853)	(128,600,747)	(212,076,314)	84,019,304	(128,057,010)	543,737

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, 2011

	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)
Public support and nonoperating revenues:						
Federal revenue	38,624,305	38,487,618	48,814,276	(10,700,269)	38,114,007	(373,611)
Transportation Development Act	53,551,401	53,551,399	61,509,431	(7,904,480)	53,604,951	53,552
State Transit Assistance	-	12,737,970	15,044,930	(2,306,960)	12,737,970	-
State revenue - other	1,600,000	1,600,000	18,520,399	(17,492,214)	1,028,185	(571,815)
TransNet funds	19,014,315	20,060,688	19,117,834	1,320,593	20,438,427	377,739
Other local subsidies	4,452,306	5,105,161	7,842,623	(2,963,673)	4,878,950	(226,211)
Investment earnings	7,880,764	7,805,764	7,695,139	18,200	7,713,339	(92,425)
Interest expense	(11,161,455)	(10,826,688)	(8,419,739)	(2,225,231)	(10,644,970)	181,718
Gain (loss) on disposal of assets	-	-	712,477	(712,477)	-	-
Other expenses	-	-	(4,081)	-	(4,081)	(4,081)
Amortization of bond issuance costs	-	-	(135,292)	135,292	-	-
Total public support and nonoperating revenues	113,961,636	128,521,912	170,697,997	(42,831,219)	127,866,778	(655,134)
Income (loss) before contributed capital	(92,217)	(78,835)	(41,378,317)	41,188,085	(190,232)	(111,397)
Reserve revenue	92,217	78,835	-	14,169	14,169	(64,666)
Contribution of capital assets	-	-	26,806,292	(26,806,292)	-	-
Change in net assets	\$ -	\$ -	(14,572,025)	\$ 14,395,962	\$ (176,063)	\$ (176,063)
Net assets, beginning of year			1,257,884,411			
Net assets, end of year			1,243,312,386			

San Diego Metropolitan Transit System

General Operations

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

For the fiscal year ended June 30, 2011

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Advertising	\$ 1,359,800	\$ 1,293,800	\$ 620,774	\$ -	\$ 620,774	\$ (673,026)
Miscellaneous operating revenues	2,209,285	2,264,917	3,108,833	(75,000)	3,033,833	768,916
Total operating revenues	3,569,085	3,558,717	3,729,607	(75,000)	3,654,607	95,890
Operating expenses:						
Personnel costs	12,990,032	13,647,820	14,292,430	(444,228)	13,848,202	(200,382)
Outside services	9,249,745	8,834,498	8,731,640	-	8,731,640	102,858
Transit operations funding	3,636,745	3,732,329	100,738,556	(96,685,189)	4,053,367	(321,038)
Materials and supplies	18,250	20,050	16,437	-	16,437	3,613
Energy costs	146,687	168,594	196,354	-	196,354	(27,760)
Risk management	322,917	495,311	582,081	(43,000)	539,081	(43,770)
Miscellaneous operating expenses	(19,749,358)	(20,159,801)	(20,169,163)	-	(20,169,163)	9,362
Depreciation	-	-	1,229,721	(1,229,721)	-	-
Total operating expenses	6,615,018	6,738,801	105,618,056	(98,402,138)	7,215,918	(477,117)
Operating income (loss)	(3,045,933)	(3,180,084)	(101,888,449)	98,327,138	(3,561,311)	(381,227)

San Diego Metropolitan Transit System

General Operations

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

For the fiscal year ended June 30, 2011

	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	17,500	87,500	48,814,276	(48,672,525)	141,751	54,251
Transportation Development Act (TDA) funds	3,636,745	3,732,329	61,509,430	(57,589,356)	3,920,074	187,745
State Transit Assistance (STA) funds	-	-	15,044,930	(15,044,930)	-	-
State revenue - other	-	-	18,520,399	(18,489,082)	31,317	31,317
TransNet funds	-	-	24,617,834	(24,617,599)	235	235
Other local subsidies	-	-	7,842,623	(7,834,202)	8,421	8,421
Investment earnings	7,880,764	7,805,764	7,695,139	18,200	7,713,339	(92,425)
Interest expense	(8,489,076)	(8,445,509)	(6,204,663)	(2,225,231)	(8,429,894)	15,615
Gain (loss) on disposal of assets	-	-	4,749	(4,749)	-	-
Amortization of bond issuance costs	-	-	(103,711)	103,711	-	-
Total public support and nonoperating revenues	<u>3,045,933</u>	<u>3,180,084</u>	<u>177,741,006</u>	<u>(174,355,763)</u>	<u>3,385,243</u>	<u>205,159</u>
Income (loss) before contributed capital	-	-	75,852,557	(76,028,625)	(176,068)	(176,068)
Transfers	-	-	(37,359,646)	37,359,646	-	-
Contribution of capital assets	-	-	(36,138,339)	36,138,339	-	-
Change in net assets	<u>\$ -</u>	<u>\$ -</u>	<u>2,354,572</u>	<u>\$ (2,530,640)</u>	<u>\$ (176,068)</u>	<u>\$ (176,068)</u>
Net assets, beginning of year			<u>204,869,048</u>			
Net assets, end of year			<u>\$ 207,223,620</u>			

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, 2011

	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	\$ 819,900	\$ 819,900	\$ 849,975	\$ -	\$ 849,975	\$ 30,075
Total operating revenues	819,900	819,900	849,975	-	849,975	30,075
Operating expenses:						
Personnel costs	568,713	553,863	554,387	-	554,387	(524)
Outside services	152,700	152,700	154,577	-	154,577	(1,877)
Materials and supplies	2,500	2,500	900	-	900	1,600
Energy costs	10,600	10,600	7,152	-	7,152	3,448
Miscellaneous operating expenses	185,250	185,811	186,566	-	186,566	(755)
Depreciation	-	-	5,549	(5,549)	-	-
Total operating expenses	919,763	905,474	909,131	(5,549)	903,582	1,892
Operating income (loss)	(99,863)	(85,574)	(59,156)	5,549	(53,607)	31,967
Reserve revenue	99,863	85,575	-	53,607	53,607	(31,968)
Change in net assets	\$ -	\$ 1	(59,156)	\$ 59,156	\$ -	\$ (1)
Net assets, beginning of year			508,731			
Net assets, end of year			\$ 449,575			

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, 2011**

	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	\$ 155,106	\$ 160,000	\$ 179,134	\$ -	\$ 179,134	\$ 19,134
Total operating revenues	155,106	160,000	179,134	-	179,134	19,134
Operating expenses:						
Personnel costs	77,160	87,160	84,149	-	84,149	3,011
Outside services	35,000	30,000	24,689	-	24,689	5,311
Risk management	33,300	34,100	30,291	-	30,291	3,809
Miscellaneous operating expenses	2,000	2,000	567	-	567	1,433
Depreciation	-	-	17,080	(17,080)	-	-
Total operating expenses	147,460	153,260	156,776	(17,080)	139,696	13,564
Operating income (loss)	7,646	6,740	22,358	17,080	39,438	32,698
Reserve revenue	(7,646)	(6,740)	-	(39,438)	(39,438)	(32,698)
Change in net assets	\$ -	\$ -	22,358	\$ (22,358)	\$ -	\$ -
Net assets, beginning of year			18,414,575			
Net assets, end of year			\$ 18,436,933			

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, 2011

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Passenger revenue	\$ 24,703,594	\$ 23,045,547	\$ 24,036,025	\$ -	\$ 24,036,025	\$ 990,478
Total operating revenues	24,703,594	23,045,547	24,036,025	-	24,036,025	990,478
Operating expenses:						
Personnel costs	501,104	519,763	413,419	-	413,419	106,344
Outside services	48,563,714	50,269,624	49,797,656	-	49,797,656	471,968
Materials and supplies	15,090	-	-	-	-	-
Energy costs	6,765,416	7,111,756	7,718,720	-	7,718,720	(606,964)
Risk management	-	-	7,650	-	7,650	(7,650)
Miscellaneous operating expenses	1,434,284	1,662,086	1,598,229	-	1,598,229	63,857
Depreciation	-	-	10,489,238	(10,489,238)	-	-
Total operating expenses	57,279,608	59,563,229	70,024,912	(10,489,238)	59,535,674	27,555
Operating income (loss)	(32,576,014)	(36,517,682)	(45,988,887)	10,489,238	(35,499,649)	1,018,033

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, 2011

	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	5,024,197	4,817,510	4,641,054	-	4,641,054	(176,456)
Transportation Development Act (TDA) funds	24,370,863	28,096,825	27,860,105	-	27,860,105	(236,720)
State revenue - other	1,600,000	1,600,000	996,868	-	996,868	(603,132)
TransNet funds	576,464	613,000	691,549	-	691,549	78,549
Other local subsidies	1,004,490	1,390,347	1,310,071	-	1,310,071	(80,276)
Total public support and nonoperating revenues	32,576,014	36,517,682	35,499,647	-	35,499,647	(1,018,035)
Income (loss) before contributed capital	-	-	(10,489,240)	10,489,238	(2)	(2)
Contribution of capital assets	-	-	2,189,156	(2,189,156)	-	-
Change in net assets	\$ -	\$ -	(8,300,084)	\$ 8,300,082	\$ (2)	\$ (2)
Net assets, beginning of year			80,181,960			
Net assets, end of year			\$ 71,881,876			

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, 2011**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Passenger revenue	\$ 27,208,351	\$ 25,851,504	\$ 26,055,593	\$ -	\$ 26,055,593	\$ 204,089
Charter	30,000	-	129,244	-	129,244	129,244
Miscellaneous operating revenues	60,000	60,000	22,336	-	22,336	(37,664)
Total operating revenues	27,298,351	25,911,504	26,207,173	-	26,207,173	295,669
Operating expenses:						
Personnel costs	59,628,869	69,297,251	55,870,442	13,234,963	69,105,405	191,846
Outside services	1,867,760	1,889,164	1,977,649	-	1,977,649	(88,485)
Materials and supplies	4,140,874	4,031,033	4,408,793	(575)	4,408,218	(377,185)
Energy costs	5,348,285	5,524,187	5,630,468	-	5,630,468	(106,281)
Risk management	1,716,285	1,669,552	1,915,022	136,000	2,051,022	(381,470)
Miscellaneous operating expenses	7,828,774	8,458,822	8,451,547	-	8,451,547	7,275
Amortization of net pension asset	-	-	13,885,000	(13,885,000)	-	-
Depreciation	-	-	13,670,867	(13,670,867)	-	-
Total operating expenses	80,530,847	90,870,009	105,809,788	(14,185,479)	91,624,309	(754,300)
Operating income (loss)	(53,232,496)	(64,958,505)	(79,602,615)	14,185,479	(65,417,136)	(458,631)

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, 2011

	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	16,782,608	16,782,608	19,894,239	-	19,894,239	3,111,631
Transportation Development Act (TDA) funds	22,236,601	19,656,604	16,696,983	-	16,696,983	(2,959,621)
State Transit Assistance (STA) funds	-	12,737,970	12,737,970	-	12,737,970	-
TransNet funds	13,437,851	14,447,688	14,746,643	-	14,746,643	298,955
Other local subsidies	3,447,816	3,714,814	3,560,458	-	3,560,458	(154,356)
Interest expense	(2,672,379)	(2,381,179)	(2,215,076)	-	(2,215,076)	166,103
Gain (loss) on disposal of assets	-	-	14,800	(14,800)	-	-
Other expenses	-	-	(4,081)	-	(4,081)	(4,081)
Amortization of bond issuance costs	-	-	(31,581)	31,581	-	-
Total public support and nonoperating revenues	53,232,497	64,958,505	65,400,355	16,781	65,417,136	458,631
Income (loss) before contributed capital	1	-	(14,202,260)	14,202,260	-	-
Contribution of capital assets	-	-	43,479,198	(43,479,198)	-	-
Change in net assets	\$ 1	\$ -	29,276,938	\$ (29,276,938)	\$ -	\$ -
Net assets, beginning of year			75,479,168			
Net assets, end of year			\$ 104,756,106			

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, 2011**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Passenger revenue	\$ 33,576,682	\$ 35,057,363	\$ 34,672,528	\$ -	\$ 34,672,528	\$ (384,835)
Miscellaneous operating revenues	724,956	628,800	527,570	-	527,570	(101,230)
Total operating revenues	34,301,638	35,686,163	35,200,098	-	35,200,098	(486,065)
Operating expenses:						
Personnel costs	30,169,909	29,921,558	29,613,832	(368,149)	29,245,683	675,875
Outside services	3,302,592	3,598,816	3,350,957	-	3,350,957	247,859
Materials and supplies	2,820,027	2,948,208	3,251,398	49,297	3,300,695	(352,487)
Energy costs	8,153,810	8,285,063	8,379,153	-	8,379,153	(94,090)
Risk management	2,059,917	1,853,959	1,388,910	112,000	1,500,910	353,049
Miscellaneous operating expenses	12,902,576	12,944,201	14,831,588	(1,844,144)	12,987,444	(43,243)
Depreciation	-	-	55,629,013	(55,629,013)	-	-
Total operating expenses	59,408,831	59,551,805	116,444,851	(57,680,009)	58,764,842	786,963
Operating income (loss)	(25,107,193)	(23,865,642)	(81,244,753)	57,680,009	(23,564,744)	300,898

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, 2011**

	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	16,800,000	16,800,000	14,912,278	(1,475,315)	13,436,963	(3,363,037)
Transportation Development Act (TDA) funds	3,307,192	2,065,641	5,496,617	(368,829)	5,127,788	3,062,147
TransNet funds	5,000,000	5,000,000	5,000,000	-	5,000,000	-
Gain (loss) on disposal of assets	-	-	692,928	(692,928)	-	-
Total public support and nonoperating revenues	25,107,192	23,865,641	26,101,823	(2,537,072)	23,564,751	(300,890)
Income (loss) before contributed capital	(1)	(1)	(55,142,930)	55,142,937	7	8
Contribution of capital assets	-	-	17,276,277	(17,276,277)	-	-
Change in net assets	<u>\$ (1)</u>	<u>\$ (1)</u>	(37,866,653)	<u>\$ 37,866,660</u>	<u>\$ 7</u>	<u>\$ 8</u>
Net assets, beginning of year			878,430,929			
Net assets, end of year			<u>\$ 840,564,276</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 Seven Fiscal Years - DRAFT

	2011	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	<u>1,073,561,720</u>	1,078,178,383	1,075,104,676	1,079,967,043	1,097,675,395	1,134,242,639	695,486,022
Unrestricted	<u>169,750,666</u>	179,706,020	175,044,216	185,609,462	163,244,170	(33,761,144)	(35,563,034)
Total Business-type activities net assets	<u>1,243,312,386</u>	<u>1,257,884,403</u>	<u>1,250,148,892</u>	<u>1,265,576,505</u>	<u>1,260,919,565</u>	<u>1,100,481,495</u>	<u>659,922,988</u>
Primary government							
Invested in capital assets, net of related debt	<u>1,073,561,720</u>	<u>1,078,178,383</u>	<u>1,075,104,676</u>	<u>1,079,967,043</u>	<u>1,097,675,395</u>	<u>1,246,202,145</u>	<u>1,116,153,673</u>
Unrestricted	<u>169,750,666</u>	<u>179,706,020</u>	<u>175,044,216</u>	<u>185,609,462</u>	<u>163,244,170</u>	<u>2,107,304</u>	<u>149,552,553</u>
Total primary government net assets	<u>1,243,312,386</u>	<u>1,257,884,403</u>	<u>1,250,148,892</u>	<u>1,265,576,505</u>	<u>1,260,919,565</u>	<u>1,248,309,449</u>	<u>1,265,706,226</u>

Source: Audited financial statements

In 2007 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.

In FY2006 MTS elected to present statistical data prospectively from 2005 forward, and will present one additional year of activity to a maximum of ten years as of 2014.

San Diego Metropolitan Transit System
Changes in Net Assets
Last Seven Fiscal Years

	2011	2010	2009	2008	2007	2006	2005
Operating revenues							
Passenger Revenue	84,764,146	84,167,615	85,192,330	75,938,626	68,634,694	67,579,729	63,802,747
Advertising	620,774	782,986	924,522	1,118,697	1,001,597	838,663	1,339,470
Charter	129,244	127,665	68,801	63,435	44,999	30,940	895,092
Miscellaneous operating revenue	4,687,848	4,264,061	4,874,700	3,671,549	3,703,043	1,734,582	18,240
Total operating revenue	90,202,012	89,342,327	91,060,353	80,792,307	73,384,333	70,183,914	66,055,549
Operating expenses:							
Personnel costs	100,828,659	99,096,444	100,357,799	101,347,479	89,750,761	89,075,021	91,485,718
Outside services	64,037,168	63,573,977	65,139,831	64,940,409	62,629,613	57,709,213	70,259,897
Transportation operations funding	4,053,368	3,758,340	3,003,698	3,852,449	5,438,052	6,758,525	6,244,510
Materials and supplies	7,677,528	6,680,355	7,190,088	7,590,216	7,266,337	8,157,794	8,756,096
Energy costs	21,931,847	22,892,281	25,283,357	27,210,670	22,767,220	24,304,787	14,140,307
Risk management	3,923,954	4,858,835	4,074,104	3,898,094	5,614,889	5,078,068	5,212,337
Miscellaneous operating expenses	4,899,334	3,571,062	2,052,140	1,974,588	944,296	2,335,990	2,563,968
Amortization of net pension asset	13,885,000	10,415,000	1,555,000	1,500,000	1,455,000	1,415,000	
Depreciation	81,041,468	98,238,482	75,498,980	85,543,426	74,472,549	66,798,819	49,138,639
Total operating expenses	302,278,326	313,084,776	284,154,997	297,857,331	270,338,717	261,633,217	247,801,472
Operating income (loss)	(223,742,449)	(223,742,449)	(193,094,644)	(217,065,024)	(196,954,384)	(191,449,303)	(181,745,923)
Public support and nonoperating revenue:							
Grants and contributions	170,849,493	224,506,234	176,978,790	200,879,074	184,332,341	155,746,015	209,482,693
Investment earnings	7,695,139	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	(8,419,739)	(12,702,198)	(11,153,556)	(10,666,621)	(14,229,812)	(11,499,050)	(10,312,657)
Gain(loss) on disposal of assets	712,477	712,477	294,006	87,898	(1,260,113)	(1,800,414)	291,047
Other expenses	(4,081)	(289,006)	(641,552)	(141,711)	(355,528)	(187,452)	(184,767)
Amortization of bond issuance cost	(135,292)	(785,858)	(63,379)	(322,852)	-	-	-
Total public support and nonoperating revenue	221,149,700	221,149,700	175,998,560	203,230,067	181,835,968	151,039,509	213,810,364
Income (loss) before contributed capital	(2,592,749)	(2,592,749)	(17,096,084)	(13,834,957)	(15,118,416)	(40,409,794)	32,064,441

Capital contribution	26,806,292	11,109,844	1,668,471	18,491,897	27,728,531	23,013,017	30,007,339
Changes in net assets:	8,517,095	8,517,095	(15,427,613)	4,656,940	12,610,115	(17,396,777)	62,071,780

Source: Audited financial statements

In 2007 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.

In FY2006 MTS elected to present statistical data prospectively from 2005 forward, and will present one additional year of activity to a maximum of ten years as of 2014.

REVENUE CAPACITY

San Diego Metropolitan Transit System

Operating Revenue by Source (in 000s)

Last Seven 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	26,708	18,267	16,249	21,456	-	31
2011	<u>26,056</u>	<u>19,894</u>	<u>29,435</u>	<u>18,307</u>		<u>166</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	-	<u>997</u>
2010	33,050	16,449	5,637	5,000	-	462
2011	<u>34,673</u>	<u>14,912</u>	<u>5,497</u>	<u>5,000</u>		<u>1,220</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	24,410	10,420	21,524	1,636	-	47
2011	<u>24,036</u>	<u>4,641</u>	<u>28,857</u>	<u>2,002</u>	-	<u>0</u>
Source:	Audited Financial Statements					

In FY2006 MTS elected to present statistical data prospectively from 2005 forward, and will present one additional year of activity to a maximum of ten years as of 2014.

San Diego Metropolitan Transit System

Fare Structure

Bus Cash Fares	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
One-way fare, local routes	\$ 2.25	\$2.25	\$2.25	\$2.00	\$ 1.75
Senior/disabled, local routes	1.10	1.10	1.10	-	-
Urban	-	-	-	2.25	2.25
Express	2.50	2.50	2.50	2.50	2.50-4.00
Senior/disabled Express	1.25	1.25	1.25	-	-
Premium	5.00	5.00	5.00	5.00	-
Senior/disabled Premium	2.50	2.50	2.50	-	-
Rural bus	5.00-10.00	5.00-10.00	5.00-10.00	5.00-10.00	-
Senior/disabled Rural bus	2.50-5.00	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	2.50	-	-
Senior/disabled one-way fare all stations	1.25	1.25	1.25	1.00	1.00
Downtown	1.25	1.25	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	5.00	-	-	-
Region plus day pass	14.00	14.00	-	-	-
Bus and Trolley Monthly Passes					
Regional monthly pass	72.00	72.00	68.00	64.00	-
Senior/disabled Regional	18.00	18.00	17.00	16.00	15.00
Youth Regional	36.00	36.00	34.00	32.00	29.00
Half-month/14-Day	43.00	43.00	41.00	-	-
Premium monthly pass	100.00	100.00	90.00	-	-
Senior/disabled Premium	25.00	25.00	23.00	-	-
Youth Premium	50.00	50.00	45.00	-	-
Half-month/14-Day	60.00	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.

In FY2006 MTS elected to present statistical data prospectively from 2005 forward, and will present one additional year of activity to a maximum of ten years as of 2014. In addition, there were no changes to the fare structure for several years prior to 2008.

San Diego Metropolitan Transit System

Farebox Recovery Percentages

Last Seven 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
2011			

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

In FY2006 MTS elected to present statistical data prospectively from 2005 forward, and will present one additional year of activity to a maximum of ten years as of 2014.

DEBT CAPACITY

San Diego Metropolitan Transit System

Ratio of Outstanding Debt by Type

Last Seven 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
2011	5,317,686	-	-	118,501,460	-	-	47,265,000	171,084,146		

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

MTS made a \$12.2 million principal payment on the variable rate Pension Obligation Bonds in FY2011

MTS retired the capital equipment lease and refunded the Tower capital lease in FY2011

In FY2006 MTS elected to present statistical data prospectively from 2005 forward, and will present one additional year of activity to a maximum of ten years as of 2014.

DEMOGRAPHIC AND ECONOMIC STATISTICS

San Diego Metropolitan Transit System
Regional Population and Personal Income Statistics
Last Seven 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%
2011				10.40%

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

(2) SOURCE: FY 2010 data 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 from the U.S. Department of Commerce website

(3) SOURCE: California Employment Development Department, June 2011

In FY2006 MTS elected to present statistical data prospectively from 2005 forward, and will present one additional year of activity to a maximum of ten years as of 2014.

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

Full-time and Part-time Employees at June 30

	<u>MTS</u>	<u>San Diego Transit</u>	<u>San Diego Trolley</u>	<u>Total</u>
2005	73	927	528	1,528
2006	90	880	539	1,509
2007	121	866	527	1,514
2008	117	844	533	1,494
2009	114	824	530	1,468
2010	110	782	528	1,420
2011				-

Source: MTS payroll records

In FY2006 MTS elected to present statistical data prospectively from 2005 forward, and will present one additional year of activity to a maximum of ten years as of 2014.

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	1.50%
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.

MTS presents only current employment data for the county of San Diego

OPERATING INFORMATION

San Diego Metropolitan Transit System

Operating Indicators by Function

Last Seven Fiscal Years - DRAFT

	2011	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	26,055,593	26,708,013	27,881,541	23,680,179	22,297,629	22,263,739	21,383,099
San Diego Trolley	34,672,528	33,049,793	33,453,633	31,120,169	27,401,733	27,933,766	25,855,241
MTS-Contract Services	24,036,025	24,409,802	23,857,156	21,138,278	18,935,332	17,382,224	16,564,407
Total Passengers:							
San Diego Transit		26,920,502	29,762,278	28,094,257	26,075,859	24,889,685	24,426,571
San Diego Trolley		30,468,981	36,928,284	37,620,944	35,114,385	33,829,833	29,334,362
MTS-Contract Services		21,974,169	21,819,699	21,460,283	21,142,942	18,907,112	18,448,621
Revenue Miles:							
San Diego Transit		8,618,051	9,221,197	9,522,460	9,622,029	9,958,013	10,087,350
San Diego Trolley		7,848,443	7,894,528	8,002,889	7,940,011	8,180,189	7,060,498
MTS-Contract Services		11,449,530	12,178,979	12,501,267	12,453,692	12,241,939	12,701,361
Subsidy / Total Passenger							
San Diego Transit		\$2.46	\$1.79	\$2.01	\$1.95	\$2.05	\$2.41
San Diego Trolley		0.91	0.68	0.66	0.81	0.8	0.74
MTS-Contract Services		1.53	1.64	1.88	1.81	1.96	1.91

Source: NTD Report, and audited financial statements

In FY2006 MTS elected to present statistical data prospectively from 2005 forward, and will present one additional year of activity to a maximum of ten years as of 2014.

San Diego Metropolitan Transit System

Service Performance Data

Last Seven Fiscal Years - DRAFT

Service Provided	2011	2010	2009	2008	2007	2006	2005
San Diego Transit							
Vehicle Revenue Miles		8,618,051	9,221,197	9,522,460	9,622,029	9,958,013	10,089,671
Vehicle Revenue Hours		788,140	843,438	870,432	853,044	840,408	829,742
Passengers		26,920,502	29,762,278	28,094,257	26,075,859	24,889,685	24,425,116
Passenger Miles		98,162,772	107,408,405	100,255,833	98,202,798	93,579,662	93,745,993
Number of Vehicles	236	238	247	267	267	274	280
San Diego Trolley							
Vehicle Revenue Miles		7,848,443	7,894,528	8,002,889	7,940,011	8,180,189	7,060,498
Vehicle Revenue Hours		430,886	409,519	439,377	432,440	468,829	368,184
Passenger Car Hours		437,565	416,147	445,277	438,555	480,396	379,050
Passengers		30,468,981	36,928,284	37,620,944	35,114,385	33,829,833	29,334,362
Passenger Miles		186,509,312	220,638,983	206,923,846	207,726,689	208,875,499	187,987,995
Number of Vehicles	128	134	133	134	134	134	123
MTS-Contract Services							
Vehicle Revenue Miles		11,449,530	12,178,979	12,501,267	12,453,692	12,241,939	12,701,361
Vehicle Revenue Hours		945,717	985,709	1,018,879	995,636	927,652	946,314
Passengers		21,974,169	21,819,699	21,460,283	21,142,942	18,907,112	18,448,621
Passenger Miles		79,236,564	80,104,104	77,173,278	78,303,615	73,343,433	69,957,802
Number of Vehicles	407	369	388	358	348	337	357
Total							
Passengers	-	79,363,652	88,510,261	87,175,484	82,333,186	77,626,630	72,208,099
Passenger Miles	-	363,908,648	408,151,492	384,352,957	384,233,102	375,798,594	351,691,790

Source: NTD Report and MTS internal capital asset system

In FY2006 MTS elected to present statistical data prospectively from 2005 forward, and will present one additional year of activity to a maximum of ten years as of 2014.

San Diego Metropolitan Transit System
Capital Assets Statistics by Function

Last Seven Fiscal Years - DRAFT

	Fiscal Year						
	2011	2010	2009	2008	2007	2006	2005
General Operations							
Buildings and structures	1	1	1	1	1	1	1
Nonrevenue vehicles	5	5	7	7	10	10	12
San Diego Transit							
Land (parcels)	2	2	2	2	2	2	2
Buildings and structures	2	2	2	2	2	2	2
Buses	236	238	247	267	267	274	280
Nonrevenue vehicles	22	32	39	53	47	45	49
San Diego Trolley							
Trolley stations	54	54	54	54	54	54	50
Track miles	54	54	54	54	54	54	49
Light rail vehicles (total inventory)	128	134	133	134	134	134	123
Nonrevenue vehicles	43	51	68	72	69	58	78
MTS - Contracted Services							
Land (parcel)	1	1	1	1	1	1	1
Buildings and structures	3	3	3	3	1	1	1
Buses	407	369	388	358	348	337	357
Nonrevenue vehicles	10	7	7	9	4	2	2
Taxicab Administration							
Buildings and structures	1	1	1	1	1	1	1
Nonrevenue vehicles	3	3	3	3	2	1	1

Source: MTS internal capital asset system

In FY2006 MTS elected to present statistical data prospectively from 2005 forward, and will present one additional year of activity to a maximum of ten years as of 2014.

San Diego Metropolitan Transit System Ridership

Last Seven Fiscal Years - DRAFT

	2011	2010	2009	2008	2007	2006	2005
Ridership (in 000's)							
San Diego Transit		26,921	29,762	28,094	26,076	24,890	24,427
% Change		-9.55%	5.94%	7.74%	4.77%	1.90%	
San Diego Trolley		30,469	36,928	37,621	35,114	33,830	29,334
% Change		-17.49%	-1.84%	7.14%	3.80%	15.32%	
MTS - Contract Services		21,974	21,820	21,460	21,142	18,907	18,449
% Change		0.71%	1.67%	1.50%	11.82%	2.49%	

Source: NTD Report

In FY2006 MTS elected to present statistical data prospectively from 2005 forward, and will present one additional year of activity to a maximum of ten years as of 2014.

San Diego Metropolitan Transit System
Operating Subsidy

Last Seven Fiscal Years - DRAFT

	2011	2010	2009	2008	2007	2006	2005
Average Fare per Rider							
San Diego Transit		0.99	.94	0.85	0.86	0.90	0.88
San Diego Trolley		1.08	.91	0.83	0.78	0.83	0.88
MTS - Contract Services		1.11	1.09	0.98	0.90	0.92	0.90
Operating Expense per Rider							
San Diego Transit		3.46	2.55	2.69	2.62	2.74	3.20
San Diego Trolley		2.00	1.64	1.54	1.59	1.63	1.62
MTS - Contract Services		2.64	2.73	2.86	2.71	2.88	2.81
Subsidy per Rider							
San Diego Transit		2.46	1.79	2.01	1.95	2.05	2.41
San Diego Trolley		0.91	.68	0.66	0.81	0.80	0.74
MTS - Contract Services		1.53	1.64	1.88	1.81	1.96	1.91

Source: NTD report and Audited financial statements

In FY2006 MTS elected to present statistical data prospectively from 2005 forward, and will present one additional year of activity to a maximum of ten years as of 2014.