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 619.231.1466 FAX 619.234.3407

Agenda

MEETING OF THE METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 8, 2012

Executive Conference Room
 9:00 a.m.

ACTION RECOMMENDED

- A. 1. Roll Call
- 2. Approval of the Minutes - June 14, 2012 Approve
- B. COMMITTEE DISCUSSION ITEMS
 - 1. Draft FY 2012 Comprehensive Annual Financial Report (CAFR)
(Linda Musengo) Possible
Action
 Action would receive a draft of the fiscal year (FY) 2012 CAFR for review and discussion.
 - 2. New Government Accounting Standards Board (GASB) and Auditing Standards (Linda Musengo) Receive
 Action would receive a report from Pun & McGeedy regarding upcoming reporting and auditing changes.
 - 3. FY 13 Audit Plan Update (Daniel Madzellan) Receive
 Action would receive a status report on the fiscal year (FY 13) audit plan.
- 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)
1255 Imperial Avenue, Suite 1000
San Diego, CA 92101

June 14, 2012

MINUTES

A. ROLL CALL

1. Chairman Ewin called the meeting to order at 9:25 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

2. APPROVAL OF MINUTES

Mr. Mathis moved for approval of the minutes of the October 20, 2011, Audit Oversight Committee meeting. Mr. Roberts seconded the motion, and the vote was 4 to 0 in favor with Mr. Minto and Mr. Young absent.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. Audit Engagement Letter

Tom Lynch, Controller, explained to the Audit Oversight Committee that the Pun & McGeady engagement letter for the fiscal year 2012 audit had been received. He stated that MTS staff reviewed the engagement letter carefully, and the letter has been signed by the Chief Financial Officer.

Action Taken

Mr. Roberts moved to review the audit engagement letter. Mr. Mathis seconded the motion, and the vote was 5 to 0 in favor with Mr. Young absent.

2. Interim Audit

Mr. Lynch explained that during the month of April, Pun & McGeady conducted an interim audit and tested MTS's internal controls. He explained that the purpose was to understand how MTS's internal controls are designed and implemented in order to prevent and detect material misstatements. He introduced Ken Pun from Pun & McGeady.

Mr. Pun explained that the interim audit revealed concern regarding a catastrophic enterprise data storage infrastructure - potentially causing a loss of data used for National Transit Database (NTD) reporting and causing delays in preparation of year-end schedules and reports if files need to be recreated.

Mr. Lynch explained that management addressed these issues by working to guard against a recurrence of losing critical data. He explained that operational data for the NTD is compiled from a number of sources and thus no major disruptions in the availability of data for the FY 2012 NTD report. He explained further that the loss of shared data was primarily Excel and Word files staff use for creating support schedules that could be recreated and should have no impact on audit time lines.

Mr. Pun introduced his partner Gary Caporicci who gave a summary of the new statements on auditing standards (SASs) and new governmental accounting standards board (GASB) standards that apply to MTS.

Action Taken

Mr. Minto moved to receive a report on: (1) interim audit work conducted by Pun and McGeady (MTS's independent auditor); and (2) related observations coupled with management's responses. Mr. Roberts seconded the motion, and the vote was 5 to 0 with Mr. Young absent.

3. Contract for Audit Services – Status

Mr. Lynch reported that the contract for audit services will end with the delivery of all the compliance reports on or before March 31, 2014. He explained that a new contract needs to be in place no later than March 31, 2014, in order to prepare for FY 2014 interim audit work, which would occur in April 2014. He gave a time line of events for the request for proposals (RFP) and contract-award process and wanted feedback regarding the level of involvement the Audit Oversight Committee would have in the contract process.

Chairman Ewin stated that the Committee would like to receive updates and preview the contract prior to approval by the Board of Directors.

4. Audit Schedule

Linda Musengo, Finance Manager, approved the MTS proposed audit schedule for FY 2012, which is similar to the previous year.

MTS PROPOSED AUDIT SCHEDULE FY 2012

Aug. 27-Sept. 14	Field work begins
September 30	Draft audit report completed
October 11	Progress report presented to Audit Oversight Committee
November 8	Final CAFR presented to Audit Oversight Committee
November 15	Final CAFR presented to Board

Action Taken

Mr. Ovrom moved to review the audit schedule. Mr. Mathis seconded the motion, and the vote was 5 to 0 in favor with Mr. Young absent.

5. FY 12 Audit Plan Update and Preliminary FY 13 Audit Plan

Daniel Madzellan, Internal Auditor, provided the Committee with an update on his fiscal year 2012 audit plan, which consisted of 9 internal audits and 3 consulting engagements. He reviewed the approved audit plan, which resulted in a total of 1,224 estimated hours. He talked about the order in which he performed the audits, the total reportable findings, and defined the audit finding ratings. He discussed the fraud/waste/abuse hotline communication summary stating that only one communication received involved an actual reported case of fraud. Mr. Madzellan provided information about his time management compared to time

budgeted and talked about time allocated to management requests. He discussed his preliminary fiscal year 2013 audit plan.

Action Taken

Mr. Minto moved to receive a status report on the FY-12 audit plan as well as a preliminary audit plan for FY 13. Mr. Mathis seconded the motion, and the vote was 5 to 0 in favor with Mr. Young absent.

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 10:15 a.m.


Chairman

Attachment: Roll Call Sheet

**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) June 14, 2012

CALL TO ORDER (TIME) 9:25 AM

RECESS _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 10:15 AM

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWING (Chair) <input checked="" type="checkbox"/>		
YOUNG <input type="checkbox"/> (Gloria) <input type="checkbox"/>		
MATHIS <input checked="" type="checkbox"/>		
OVROM <input checked="" type="checkbox"/> (Bragg) <input type="checkbox"/>		
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>		
MINTO <input checked="" type="checkbox"/> (Cunningham) <input type="checkbox"/>	9:29 AM	

SIGNED BY THE CLERK OF THE BOARD: Valerie Vizekelti

CONFIRMED BY THE GENERAL COUNSEL: Carolyn Anderson



1255 Imperial Avenue, Suite 1000
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Agenda Item No. B1

MEETING OF THE METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 8, 2012

SUBJECT:

DRAFT FY 2012 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)
(LINDA MUSENGO)

RECOMMENDATION:

That the MTS Audit Oversight Committee receive a draft of the fiscal year (FY) 2012 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 2012 CAFR. As of this distribution date, staff expects no material changes to the financial reports with the following exceptions:

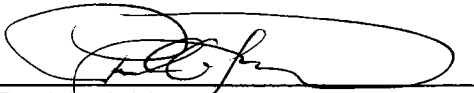
1. Formatting, pagination, and final proofreading for spelling and grammatical errors.
2. Statement of Cash Flows has not been updated for FY 2012. This statement is completed only after all changes to the financial statements have been entered.
3. Note 16 (Subsequent Events) has not been completed.
4. Some statistical schedules—primarily those related to demographic data—have not been completed for FY 2012.

Please note the following significant changes from the prior year:

1. Increase in total assets due to the receipt of Prop1B funds restricted for acquisition of capital assets and contributed capital assets.
2. Significant increase in total net assets due to increased subsidy revenue from all sources.



Representatives from Pun & McGeady will be present to provide comments about the draft financial report.

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

Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Sharon Cooney, 619.557.4513, Sharon.Cooney@sdmts.com

Attachment: A. Draft CAFR (Board Only due to volume)

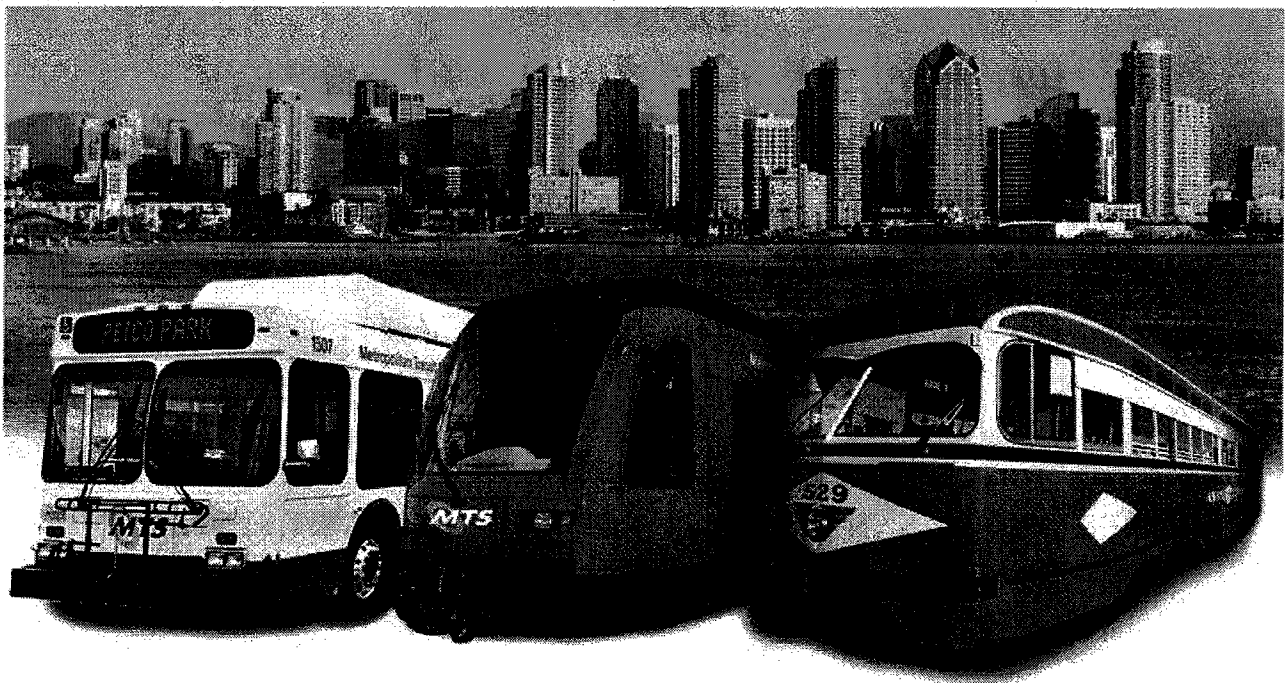
San Diego Metropolitan Transit System

San Diego, California

Att. A, AI B1, 11/8/12



Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2012 and 2011



San Diego Metropolitan Transit System

San Diego, California

DRAFT

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

For the years ended June 30, 2012 and 2011

PREPARED BY SAN DIEGO METROPOLITAN TRANSIT SYSTEM
FINANCE DEPARTMENT

San Diego Metropolitan Transit System

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San Diego Metropolitan Transit System

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INTRODUCTORY SECTION

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, 2012 and 2011 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 (U.S. 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 Pun & McGeady 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, 2012 and 2011 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, 2012 and 2011 are fairly presented, in all material respects, in conformity with U.S. 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.

U.S. GAAP requires 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 Gillespie Field, and the Green Line from Old Town to Santee. During FY2013 MTS will make significant changes to the configuration of each operating line to achieve greater efficiency and meet the transit need of a greater number of people. SDTI operates on a total of 54.3 miles of track. SDTC operates 25 routes with an active fleet of 267 buses.

The relationship between MTS and the transit operating subsidiaries, SDTI and SDTC, is formally established through operating agreements and MTS-adopted corporate policies. These agreements and corporate policies specify the roles and responsibilities of each of the organizations and outline the procedures in numerous functional areas including auditing and budgeting, fare setting, marketing and public information, revenue-producing advertising, service contracts, and programming of federal, state and local subsidies. The MTS Board of Directors has the policy-setting responsibility for the operation and development of MTS' transit operating subsidiaries as well as for the planning and approval of capital expenditures by or on behalf of these entities. The day-to-day operating functions, labor matters and maintenance of facilities are managed by the individual transit operators. MTS has centralized and consolidated Security, 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 67 bus routes with an active fleet of 471 buses. 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.

ECONOMIC CONDITION AND OUTLOOK

The San Diego region has shown continued recovery from the economic downturn that has affected all parts of the nation since 2008, fueled by increased military spending and moderate improvements in tourism, biotech industries and housing construction. During 2012 MTS was able to restore service to some routes that were previously discontinued in response to the economic downturn, and further additions are planned for FY2013. San Diego's gross regional product (GRP), the total value of the region's economy, has been forecast to reach \$177.5 billion in 2011 and \$184.5 billion in 2012, increasing from the \$171.6 billion earned in 2010. Unemployment has declined in San Diego County and compares favorably to the unemployment rate in California, but remains above the national average. Sales tax receipts have grown in the current year as have sales tax related revenues. MTS ridership in FY2012 increased by 4.4% largely due to improvements in the local economy.

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 continued to make small improvements over the past 4 years but has yet to recover fully from the economic downturn. Sales tax receipts throughout California have begun to increase resulting in increased subsidy revenue available to MTS

from both TDA and *TransNet* funds. MTS continues to monitor its costs and initiate additional revenue programs, and has initiated cautious restoration of some service reduced in prior years. In response to significant pressure from growing pension and benefits liabilities, MTS has announced planned reductions in certain employee benefits programs.

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 2012, MTS continued its ongoing programs to upgrade its bus fleet and continue renovation of the Blue Line Trolley. During FY2012 MTS accepted delivery of the first of 65 new trolley cars currently under construction. MTS is continuing the implementation of the I-15 Bus Rapid Transit system and has begun the procurement of new articulated buses for this service.

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, 2011. This is the sixth consecutive year and the sixteenth 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, 2012

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)
David Alvarez	Board Member, since 1/12 (Councilmember, City of San Diego)
Lori Bragg	Board Member, since 1/12 (Councilmember, Imperial Beach)
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)
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)
Mona Rios	Board Member, since 1/12 (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

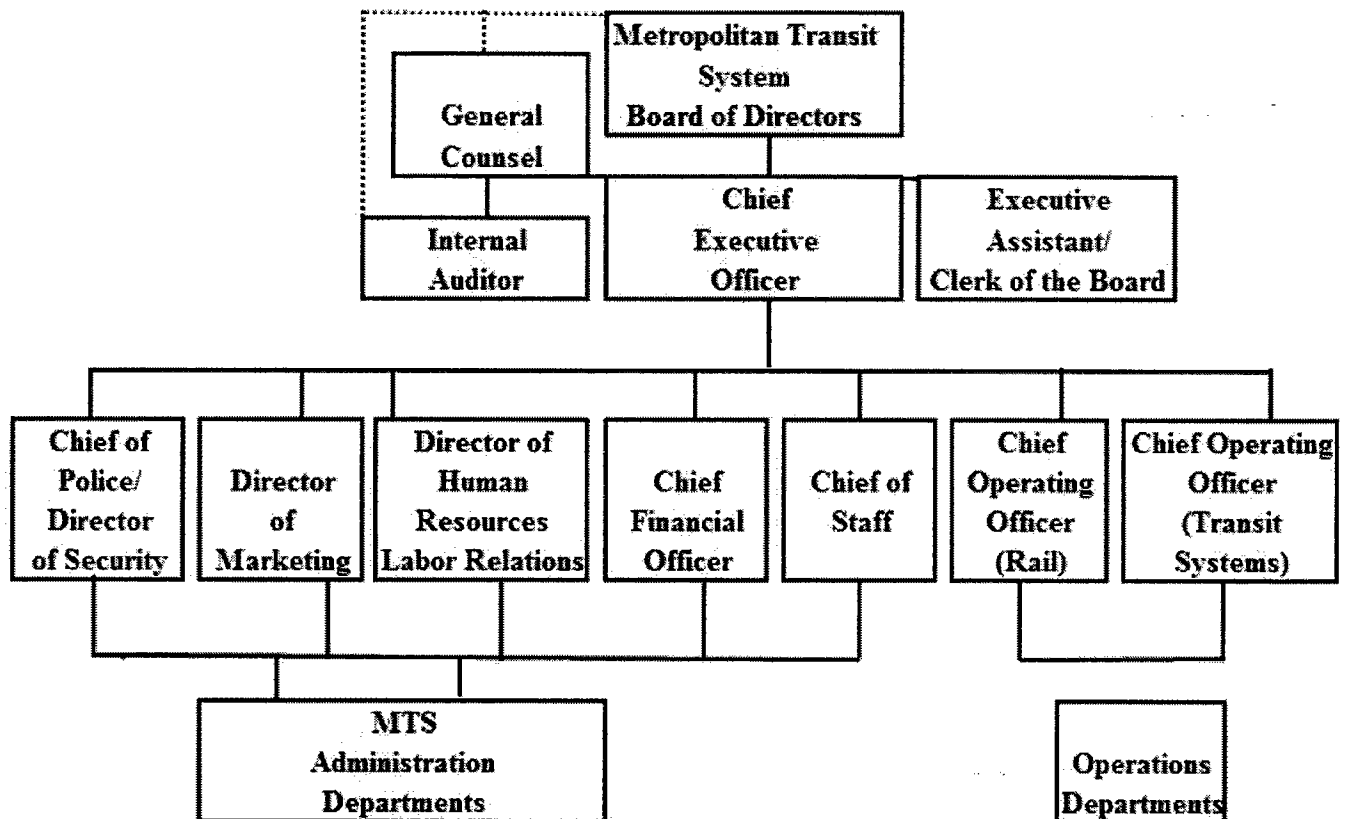
Paul Jablonski
Sharon Cooney
Karen Landers
Cliff Telfer
Claire Spielberg
E. Wayne Terry
Robert Schupp
Jeff Stumbo
Bill Burke

Position

Chief Executive Officer
Chief of Staff
General Counsel
Chief Financial Officer
Chief Operating Officer, Transit Systems
Chief Operating Officer, Rail
Director, Marketing and Communications
Director, Human Resources and Labor Relations
Chief of Police/Director of Security

**San Diego Metropolitan Transit System
Executive Level Organization Chart**

DRAFT



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Statement of Net Assets of the San Diego Metropolitan Transit System ("MTS") as of June 30, 2012, and the related Statements of Revenues, Expenses, and Changes in Net Assets and its Cash Flows for the year then ended. These financial statements are the responsibility of MTS' management. Our responsibility is to express an opinion on these financial statements based on our audit. The 2011 basic financial statements were audited by the other auditors, whose report dated November 30, 2011 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MTS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MTS as of June 30, 2012, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress for defined benefits plans and other postemployment benefits be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Our audit was conducted for the purpose of forming an opinion on MTS' basic financial statements. The introductory section, combining and individual fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

San Diego, California
[REPORT DATE]

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, 2011

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.



Linda C. Danson

President

Jeffrey R. Enos

Executive Director

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2012 and 2011

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, 2012 and 2011. This information should be used in conjunction with the Letter of Transmittal, which can be found on pages i through iv of this report.

Financial Highlights

- Net assets, as reported in the statement of net assets, totaled \$1,409 million as of June 30, 2012, \$1,254 million as of June 30, 2011 and \$1,258 million as of June 30, 2010. Of this amount, \$157 million was unrestricted as of June 30, 2012, \$173 million was unrestricted as of June 30, 2011, and \$177 million was unrestricted as of June 30, 2010. Total net assets increased by \$155 million in the current year and decreased by \$4 million in the prior year. The current year increase is attributable to increases in Federal, *TransNet* and Prop 1B subsidy revenues for capital projects.
- For the year ended June 30, 2012, 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 41.05% compared to 41.68% for the year ended June 30, 2011 and 39.70% for the year ended June 30, 2010. The current year decrease is due primarily to an increase in the amortization costs associated with the net pension asset.

Overview of the Financial Statements

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

Financial statements. The financial statements are designed to provide readers with a broad overview of MTS' finances, in a manner similar to a private-sector business. In fiscal year 2012, MTS presents comparative statements for FY2012 and FY2011.

The *statement of net assets* presents information on all of MTS' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of MTS is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The *statement of cash flows* presents information showing the sources and uses of cash related to operating activities, noncapital financing activities, capital and related financing activities and investing activities. In addition, the statement provides information about significant non-cash investing, capital and financing activities. Since MTS' primary function is to provide transportation services to the region's citizens and recover costs through user fees and charges, the financial statements include business-type activities. In addition, the financial statements include not only MTS itself (*known as the primary government*), but also two legally separate transit operators and one legally separate freight railway, for which MTS is financially accountable: San Diego and Arizona Eastern Railway Company (SD&AE).

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2012 and 2011

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 \$1,409 million at the close of the most recent fiscal year and \$1,254 million at the end of FY2011.

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 \$88 million, of which the largest projects under construction include the procurement of 65 light rail vehicles (increased from 57 reported in FY 2011), \$66 million; procurement of buses, \$14 million; and security-related trolley car enhancements, \$4.4 million. Prior year construction-in-progress totaled \$98 million, of which the largest projects under construction included the procurement of 57 light rail vehicles, \$68 million; land acquisitions and expansions, \$19 million; and CNG station improvements totaling \$5 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 FY2012, MTS transferred completed projects worth \$151 million to SDTC, SDTI, Other Contracted Services and other governments. In FY2011, MTS transferred completed projects worth \$39 million to SDTC, SDTI, Other Contracted Services and other governments.

The balance in unrestricted assets decreased by \$ 16 million during the current year and decreased \$4 million in the prior year.

	June 30, 2012	June 30, 2011	Change	June 30, 2010	Change
Current and other assets	377,313,773	299,353,436	77,960,337	300,276,165	(922,729)
Capital assets	1,295,206,414	1,198,153,827	97,052,587	1,204,818,407	(6,664,580)
Total assets	1,672,520,187	1,497,507,263	175,012,924	1,505,094,572	(7,587,309)
Long-term liabilities outstanding	193,730,156	197,238,134	(3,507,978)	213,421,810	(16,183,676)
Other liabilities	69,755,429	46,571,745	23,183,684	33,788,351	12,783,394
Total liabilities	263,485,585	243,809,879	19,675,706	247,210,161	(3,400,282)
Net assets (deficit):					
Invested in capital assets net of related debt	1,173,496,646	1,073,561,720	99,934,926	1,078,178,383	(4,616,663)
Restricted assets for capital projects	78,378,267	7,007,293	71,370,974	2,548,338	4,458,955
Unrestricted	157,159,691	173,128,373	(15,968,682)	177,157,690	(4,029,317)
Total net assets	\$ 1,409,034,604	1,253,697,386	\$ 155,337,218	1,257,884,411	(4,187,025)

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2012 and 2011

Increases in operating revenue are attributable to increased ridership in the current year. Capital and operating grants and contributions continue to be a major portion of the revenue used to fund transit operations and capital projects. Variances between FY2012 and FY2011 are attributable to significant increases in *TransNet*, FTA, and Prop 1B funding for capital projects, and an increase in TDA funding for transit operations. The current year increase in operating expense is attributable to an increase in personnel costs, primarily due to increased benefits costs and fluctuations in the amortization cost associated with the net pension asset, and an increase in depreciation cost associated with acquisition of new assets.

	June 30, 2012	June 30, 2011	Change	June 30, 2010	Change
Revenues:					
Operating revenues:					
Charges for services	89,064,983	85,514,160	3,550,823	85,078,266	435,894
Other operating revenue	4,444,439	4,687,850	(243,411)	4,264,061	423,789
Nonoperating revenues:					
Federal revenue	71,822,863	48,814,276	23,008,587	67,575,804	(18,761,528)
Transportation Development Act	71,538,917	61,509,431	10,029,486	64,977,093	(3,467,662)
State Transit Assistance	18,981,989	15,044,930	3,937,059	-	15,044,930
State revenue - other	84,878,549	18,520,399	66,358,150	6,230,977	12,289,422
<i>TransNet</i> funds	75,793,217	19,117,834	56,675,383	84,460,840	(65,343,006)
Other nonoperating revenue	9,644,573	16,250,239	(6,605,666)	10,900,482	5,349,757
Total revenues	426,169,530	269,459,119	156,710,411	323,487,523	(54,028,404)
Expenses:					
Operating expenses	306,931,351	291,893,326	15,038,025	313,084,786	(21,191,460)
Nonoperating expenses	8,018,977	8,559,112	(540,135)	13,777,062	(5,217,950)
Total expenses	314,950,328	300,452,438	14,497,890	326,861,848	(26,409,410)
Increase (decrease) in net assets before capital contributions	111,219,202	(30,993,319)	142,212,521	(3,374,325)	(27,618,994)
Capital contributions	44,118,023	26,806,292	17,311,731	11,109,844	15,696,448
Increase/(decrease) in net assets	155,337,225	(4,187,027)	159,524,252	7,735,519	(11,922,546)
Net assets-beginning of year	1,253,697,384	1,257,884,411	(4,187,027)	1,250,148,892	7,735,519
Net assets-end of year	1,409,034,609	1,253,697,384	155,337,225	1,257,884,411	(4,187,027)

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2012 and 2011

Capital Asset and Debt Administration

Capital assets. MTS' investment in capital assets net of depreciation as of June 30, 2012 and 2011 amounted to \$1,295 million and \$1.198 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 65 light rail vehicles for a total cost of \$203 million through the end of FY2012. As of June 30 MTS had placed 27 new trolley cars in service.
- Improvements to Bus Rapid Transit and trolley stations completed this year amounted to \$13 million.
- MTS has continued its program to modernize the bus fleet and has acquired 26 buses for a total cost of \$10.9 million in FY2012.
- Completed capital projects totaling \$44 million were transferred from SANDAG and other governments to MTS and its component units during FY 2012.

CAPITAL ASSETS			
(Net of depreciation)			
	2012	2011	2010
Land	240,471,287	224,793,077	221,853,921
Buildings	648,037,600	654,759,920	648,756,302
Vehicles	272,442,209	179,108,727	203,196,464
Equipment & other	46,728,919	42,137,343	45,174,474
Construction-in-progress	87,526,399	98,005,155	85,837,246
Total	<u>1,295,206,414</u>	<u>1,198,804,222</u>	<u>1,204,818,407</u>

Additional information on MTS' capital assets can be found in Note 5 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 \$4.8 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 \$157.5 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 6 to the financial statements.

Bond Ratings

Standard & Poor's Ratings Services provided an underlying rating for the Pension Obligation Bonds at A in 2010. Additional information on MTS' long-term debt can be found in Note 6 to the financial statements.

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2012 and 2011

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

San Diego Metropolitan Transit System
Statements of Net Assets
June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,090,439	\$ 25,661,196
Investments restricted for debt service payable within one year	1,678,414	1,558,561
Accounts and other receivables	12,619,581	7,918,271
Due from other governments	63,630,830	74,544,075
Material and supplies inventories	17,129,732	10,977,710
Prepaid expenses and other current assets	2,270,695	2,166,775
Total current assets	<u>134,419,691</u>	<u>122,826,588</u>
Noncurrent assets:		
Cash and certificates of deposit restricted for capital support	82,396,323	8,079,635
Investments restricted for debt service and capital projects	117,681,495	117,867,198
Contract receivable	-	977,171
Unamortized bond issuance cost	360,626	392,206
Capital assets (net of accumulated depreciation)	1,295,206,414	1,198,153,827
Net pension assets	42,455,638	49,210,638
Total noncurrent assets	<u>1,538,100,496</u>	<u>1,374,680,675</u>
Total assets	<u>1,672,520,187</u>	<u>1,497,507,263</u>

See accompanying notes to basic financial statements.

San Diego Metropolitan Transit System
Statements of Net Assets, Continued
June 30, 2012 and 2011

	2012	2011
LIABILITIES		
Current liabilities:		
Accounts payable	35,363,435	14,874,163
Due to other governments	6,803,474	7,243,634
Unearned revenue	2,214,435	2,476,354
Accrued expenses	11,103,737	8,020,334
Retention payable	57,256	48,287
Due with one year:		
Compensated absences payable	7,090,823	6,583,610
Accrued damage, injury, and employee claims	3,036,806	3,460,982
Long-term debt	2,407,049	2,305,820
Long-term debt payable from restricted assets	1,678,414	1,558,561
Total current liabilities	69,755,429	46,571,745
Noncurrent liabilities:		
Retention payable from restricted assets	6,435,064	1,996,640
Long-term debt payable from restricted assets	115,264,486	116,942,900
Due in more than one year:		
Compensated absences payable	5,133,802	5,823,470
Accrued damage, injury, and employee claims	11,227,194	10,967,018
Net other post employment benefits obligation	12,118,669	10,458,280
Long-term debt payable from restricted assets	43,550,941	51,049,826
Total noncurrent liabilities	193,730,156	197,238,134
Total liabilities	263,485,585	243,809,879
NET ASSETS		
Invested in capital assets, net of related debt	1,172,815,524	1,073,561,720
Restricted assets for capital projects	78,378,268	7,007,293
Unrestricted	157,840,810	173,128,371
Total net assets	\$ 1,409,034,602	\$ 1,253,697,384

See accompanying notes to basic financial statements.

San Diego Metropolitan Transit System
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Passanger revenue	\$ 88,094,391	\$ 84,764,142
Advertising	784,204	620,774
Charter	186,388	129,244
Miscellaneous	4,444,432	4,687,850
Total operating revenues	93,509,415	90,202,010
Operating expenses:		
Personnel costs	112,536,825	104,328,659
Outside services	66,050,312	64,037,168
Transit operations funding	3,720,825	4,053,368
Materials and supplies	7,977,299	7,677,528
Energy costs	22,688,865	21,931,847
Risk management	4,029,950	3,923,954
Miscellaneous	5,115,682	4,899,334
Depreciation	84,811,593	81,041,468
Total operating expenses	306,931,351	291,893,326
Operating (loss)	(213,421,936)	(201,691,316)
Public support and nonoperating revenues (expenses):		
Federal revenue	71,822,863	48,814,276
Transportation Development Act (TDA) funds	71,538,917	61,509,431
State Transit Assistance (STA) funds	18,981,989	15,044,930
State revenue - other	84,878,549	18,520,399
<i>TransNet</i> funds	75,793,217	19,117,834
Other local subsidies	2,642,020	7,842,623
Investmeent earnings	7,622,252	7,695,139
Interest expense	(8,013,519)	(8,419,739)
Gain (loss) on disposal of assets	(619,699)	712,477
Other expenses	(4,155)	(4,081)
Amortization of bond issuance costs	(1,303)	(135,292)
Total public support and nonoperating revenues (expenses)	324,641,131	170,697,997
Income (loss) before contributed capital	111,219,195	(30,993,319)
Contributed capital	44,118,023	26,806,292
Changes in net assets	155,337,218	(4,187,027)
Net Assets:		
Beginning of year	1,253,697,384	1,257,884,411
End of year	<u>\$ 1,409,034,602</u>	<u>\$ 1,253,697,384</u>

See accompanying notes to basic financial statements.

San Diego Metropolitan Transit System
Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011 - DRAFT

Cash flows from operating activities:		
Receipts from customers and users	91,363,633	91,363,633
Payments to suppliers	(104,677,120)	(104,677,121)
Payments to employees	(99,487,577)	(99,487,577)
Payments for damage and injury	(196,505)	(196,506)
Net cash provided (used) by operating activities	(112,997,569)	(112,997,571)
Cash flows from noncapital financing activities:		
Public support funds received	158,222,593	158,222,593
Net cash provided (used) by noncapital financing activities	158,222,593	158,222,593
Cash flows from capital and related financing activities:		
Debt service costs	(17,013,091)	(17,013,090)
Property acquisition	(46,371,156)	(46,371,156)
Proceeds from disposal of assets	2,607,890	2,607,891
Net cash provided (used) by capital financing activities	(60,776,357)	(60,776,355)
Cash flows from investing activities:		
Interest received on investments	239,774	239,774
Investments liquidated	-	-
Investments purchased	-	-
Net cash provided (used) by investing activities	239,774	239,774
Net increase (decrease) in cash and cash equivalents	(15,311,559)	(15,311,559)
Cash and cash equivalents, beginning of year	33,740,831	49,052,390
Cash and cash equivalents, end of year	119,486,762	33,740,831
Cash and Cash Equivalents		
Cash and cash equivalents	37,090,439	25,661,196
Cash and certificates of deposit restricted for capital support	82,396,323	8,079,635
Total cash and cash equivalents	119,486,762	33,740,831

See Accompanying Notes to Basic Financial Statements

San Diego Metropolitan Transit System
Statements of Cash Flows
For the year ended June 30, 2012 and 2011 - DRAFT

Reconciliation of Operating Income (Loss) to		
Net Cash Provided (Used) by Operating Activities		
Operating income (loss)	(213,421,929)	(201,691,316)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	84,811,593	81,041,468
Amortization of Net Pension Assets	3,500,000	3,500,000
(Increase) decrease in:		
Accounts and other receivables	816,298	816,298
Materials and supplies inventory	(534,446)	(534,446)
Prepaid and other current assets	(90,322)	(90,322)
Increase (decrease) in:		
Accounts payable	2,077,409	2,077,409
Accrued expenses	591,143	591,143
Unearned revenue	81,805	81,805
Accrued OPEB liability	1,346,780	1,346,780
Compensated absences payable	68,511	68,511
Accrued damage, injury and employee claims	(205,000)	(205,000)
 Total adjustments	 92,463,771	 88,693,646
Net cash provided (used) by operating activities	(120,958,158)	(112,997,670)

Noncash investing, capital, and financing activities:

	2012	2011
Contributions of capital assets from SANDAG	32,864,379	32,864,379
Contributions/adjustments of capital assets from other governments	7,596	7,596
Contributions of capital assets to other governments	(6,065,683)	(6,065,683)
Total contributions of capital assets	26,806,292	32,871,975
 Increase in fair value of investments	 1,436,364	 1,436,364

NOTE PER GFOA: it is not correct to net contributed capital to and from other governments in the statement of revenues, expenses and changes in net assets. They should be reported separately under and after nonoperating expenses.

See Accompanying Notes to Basic Financial Statements

NOTES TO BASIC FINANCIAL STATEMENTS

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

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

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San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

(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 of America (U.S. 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 (also known as 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 FY2004, 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.

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

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

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 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance, subject to this same limitation. MTS has elected not to follow subsequent private-sector guidance.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

MTS receives funding primarily from the following revenue sources:

Passenger Revenue

Passenger fares comprised approximately 38 percent and 37 percent of MTS' \$232.9 million and \$231.4 million operating budget for FY2012 and FY2011, 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.

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 FY2010 MTS received funds from the American Recovery and Reinvestment Act of 2009 (ARRA); residual funds from this program were received in FY2012. 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 7.75 percent sales tax assessed in the region. SANDAG is responsible for apportionment of these funds within the San Diego region. As economic conditions improve, sales tax receipts have increased over the prior year, and as a result the TDA funds available for disbursement have increased as well.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

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.

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 that 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.

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.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

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. SDTC has recorded assets received from the City of San Diego and the County Transit System at net book value in order to reflect SDTC's custodial accountability for the assets.

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:

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

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.

(k) Compensated Absences

It is MTS' policy to permit employees to accumulate earned but unused personal leave time up to a maximum of 400 hours, which includes both vacation and sick pay benefits. All personal leave time is accrued when incurred.

(l) Long-Term Obligations

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 U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from these estimates.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

(2) Cash, Cash Equivalents, and Investments

A summary of cash, cash equivalents, and investments at June 30, 2012 and 2011:

	2012	2011
Cash and cash equivalents	\$ 37,090,439	\$ 25,661,196
Cash and certificates of deposit restricted for capital support	82,396,323	8,079,635
Investments restricted for debt service payable within one year	1,678,414	1,558,561
Investments restricted for debt service and capital projects	117,681,495	117,867,198
Total cash and investments	<u>\$ 238,846,671</u>	<u>\$ 153,166,590</u>

Cash, cash equivalents, and investments consisted as follows on June 30, 2012 and 2011:

	Fair Value	
<u>Investment Type</u>	2012	2011
Cash and Cash Equivalents		
Demand Deposits	\$ 28,077,291	\$ 11,548,693
Retention Trust Account	6,435,064	1,996,640
San Diego County Investment Pool	75,961,259	10,671,869
State of California - Local Agency Investment Fund	9,013,148	9,523,629
Total cash and cash equivalents	<u>119,486,762</u>	<u>33,740,831</u>
Investments:		
U.S. Treasuries	38,924,428	37,372,123
Bank Investment Contract	80,435,481	82,053,636
Total investments	<u>119,359,909</u>	<u>119,425,759</u>
Total cash, cash equivalents, and investments	<u>\$ 238,846,671</u>	<u>\$ 153,166,590</u>

At year end the carrying amount of demand deposits was \$28,077,291 and the bank balance was \$29,038,991 compared to \$11,548,693 and \$13,276,931 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 in Custodial Credit Risk below.

All cash accounts in MTS, including SDTC and SDTI, are pooled and swept nightly to a concentration account. Funds required to be held by fiscal agents under the provisions of bond indentures are not included in the pooled cash account.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

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 9.3% of the Investment Pool as of June 30, 2012.

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 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, 2012, MTS had \$75,961,259 invested in the San Diego County Investment Pool, compared to \$10,671,869 at June 30, 2011.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

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, 2012, MTS had \$9,013,148 invested in LAIF, which had invested 3.47% of the pool investment funds in Structured Notes and Asset-Backed Securities compared to \$9,523,629 and 5.01% at June 30, 2011.

Interest Rate Risk

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

Credit Risk

MTS' investment policy limits investments in commercial paper and negotiable certificates of deposit to instruments rated A or better by Standard and Poor's or Moody's Investor Services, Inc. In the current year, MTS does not hold investments in commercial papers or certificates of deposit. Other investment instruments, including deposits in LAIF; 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.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

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, 2012 and 2011, are shown below:

<u>Maturity</u>	<u>2012</u>	<u>2011</u>
Current to One Year	\$ 119,486,762	\$ 33,740,831
One to Five Years	38,924,428	37,372,123
Five to Ten Years	-	-
Ten to Twenty Years	80,435,481	82,053,636
Total	<u>\$ 238,846,671</u>	<u>\$ 153,166,590</u>

(3) Accounts Receivable

(a) Accounts and other receivables

As of June 30, 2012 and 2011, the net realizable accounts and other receivables consisted of the following:

	<u>2012</u>	<u>2011</u>
Pension plan receivable	\$ 8,209,465	\$ 3,404,093
Interest receivable	2,976,781	3,034,670
Miscellaneous trade receivables	1,012,537	1,122,283
Advertising receivable	420,798	357,225
Total accounts and other receivables	<u>\$ 12,619,581</u>	<u>\$ 7,918,271</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

(b) Due from other governments

As of June 30, 2012 and 2011, amounts due from other governments consisted of the following:

	2012	2011
FTA Grant Funds	\$ 47,860,775	\$ 61,758,562
STA Funds	4,843,032	-
SANDAG - Pass Sales	4,825,097	4,561,279
County of San Diego - TDA	1,731,127	-
County of San Diego - Medicare	1,394,591	1,463,661
SANDAG - project/route reimbursements	1,101,974	2,123,653
SANDAG - <i>TransNet</i>	703,790	613,827
Department of Homeland Security	435,503	593,129
State of California	234,550	230,658
North County Transit District	205,418	384,436
City of Chula Vista	188,388	285,663
City of San Diego	69,500	69,500
County of San Diego	36,043	50,806
U.S. Treasury Department	1,042	2,408,901
Total due from other governments	<u>\$ 63,630,830</u>	<u>\$ 74,544,075</u>

(4) Inventory

At June 30, 2012 and 2011, inventory consists of the following repair and maintenance parts for revenue vehicles:

	2012	2011
San Diego Transit Corp.	\$ 2,300,244	\$ 2,148,917
San Diego Trolley, Inc.	14,829,488	8,828,793
Total inventory	<u>\$ 17,129,732</u>	<u>\$ 10,977,710</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

(5) Capital Assets

MTS converted \$155 million in capital assets from CIP to assets in service compared to \$39 million in FY2011. Capital asset additions totaling \$44.0 million were contributed by SANDAG, including \$1.3 million to Other Contracted Services, \$369 thousand to SDTC, and \$42.3 million to SDTI. In FY 2011, the contributions from SANDAG and other governments totaled \$33.0 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, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets, not depreciated:				
Land and right-of-way	\$ 224,793,077	\$ 15,678,210		\$ 240,471,287
Construction-in-progress	97,354,759	145,087,435	(154,915,795)	87,526,399
Total capital assets, not depreciated	322,147,836	160,765,645	(154,915,795)	327,997,686
Capital assets, depreciated:				
Building and structures	1,243,997,320	44,633,601	(3,844,803)	1,284,786,118
Buses and vehicles	426,081,933	122,118,416	(17,635,827)	530,564,522
Equipment and others	83,617,864	11,535,674	(7,103,080)	88,050,458
Capital lease property	12,091,981	-	-	12,091,981
Total capital assets, depreciated	1,765,789,098	178,287,691	(28,583,710)	1,915,493,079
Less accumulated depreciation for:				
Building and structures	(592,827,205)	(50,010,398)	2,877,153	(639,960,450)
Buses and vehicles	(246,973,205)	(27,718,830)	16,569,722	(258,122,313)
Equipment and others	(41,480,521)	(6,704,491)	6,863,473	(41,321,539)
Capital lease property	(8,502,175)	(377,874)	-	(8,880,049)
Total accumulated depreciation	(889,783,106)	(84,811,593)	26,310,348	(948,284,351)
Total capital assets, depreciated, net	876,005,992	93,476,098	(2,273,362)	967,208,728
Total capital assets	<u>\$1,198,153,828</u>	<u>\$ 254,241,743</u>	<u>\$ (157,189,157)</u>	<u>\$1,295,206,414</u>

Depreciation expense for capital assets for the years ended June 30, 2012 and 2011 was comprised of the following:

	2012	2011
General operations	\$ 1,246,870	\$ 1,252,350
Other contracted services	11,249,023	10,489,238
San Diego Transit Corporation	14,612,267	13,670,867
San Diego Trolley, Inc.	57,703,433	55,629,013
Total	<u>\$ 84,811,593</u>	<u>\$ 81,041,468</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

(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 FY2005 contribution and \$69,050,638 was funded for prior year unfunded accrued actuarial liability. As of June 30, 2012, the Net Pension Asset amounted to \$42,455,638, compared to \$49,210,638 for FY2011.

(7) Due to other governments

At June 30, 2012 and 2011, amounts due to other governments consisted of the following:

	2012	2011
SANDAG - STA and TSGP funds for construction projects in process	\$ 4,531,369	\$ 4,305,040
State Board of Equalization	666,505	-
SANDAG - CIP Reimbursement	462,483	1,958,650
SANDAG - Pass Sales	357,526	424,912
City of Lemon Grove - TDA Funds	121,170	121,170
City of San Diego - Shared Revenue	104,359	109,047
City of La Mesa - TDA Funds	104,000	51,500
City of Santee - TDA Funds	100,000	-
City of El Cajon - TDA Funds	90,890	140,336
SANDAG - Compass Card Program	75,095	94,906
North County Transit District	64,143	17,473
City of Poway - TDA Funds	60,027	-
County of San Diego	47,091	-
City of Coronado - TDA Funds	18,816	20,600
Total due to other governments	<u>\$ 6,803,474</u>	<u>\$ 7,243,634</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

(8) Unearned revenue

At June 30, 2012 and 2011 unearned revenue consisted of the following:

	2012	2011
Fare media payments received in advance	\$ 1,124,825	\$ 1,015,042
Lease payments received in advance	595,886	608,681
Advertising revenue received in advance	253,450	406,800
County funds - 4S Ranch development	219,049	347,083
Land management deposits	21,225	-
City of San Diego funds - Aldine Drive development	-	91,018
Local Grant Funds - Balboa Park development	-	7,730
	<u>\$ 2,214,435</u>	<u>\$ 2,476,354</u>

(9) Commodity Swap

On April 27, 2011, 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 \$4.698 MMBTU as fixed in the contract.

Type	Objective	Notional Quantity	Effective Date	Matures	Terms
Fuel contract	Hedge natural gas market price changes	732,000 MMBTU	7/1/2011	6/30/2012	Pay fixed price \$4.698 per MMBTU

During the period of the agreement MTS paid \$2,688,798 to British Petroleum for natural gas purchases and paid an additional \$978,496 to Deutsche Bank under the terms of the pricing guarantee.

Amount Paid at June 30, 2012		Fair Value at June 30, 2012		Notional Quantity
Instrument	Amount (000s)	Classification	Amount (000s)	
Commodity forward	3,667,294	Derivative instrument	2,688,798	732,000 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. There is no commodity swap contract in place for FY2013.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

(10) Long-Term Debt

(a) Summary

The following is a summary of changes in long-term obligations for the year ended June 30, 2012:

	Balance at July 1, 2011	Additions and net increases	Reductions and net decreases	Balance at June 30, 2012	Amounts due within one year	Amounts due in more than one year
MTS:						
Capital lease obligations	5,317,686	-	(550,819)	4,766,867	577,049	4,189,818
Deferred gain on refunding	772,960	-	(91,837)	681,123		681,123
Finance obligation	118,501,461	-	(1,558,561)	116,942,900	1,678,414	115,264,486
Compensated absences payable	878,444	916,996	(895,462)	899,978	422,990	476,988
Accrued damage, injury, and employee claims	371,000	122,616	(103,616)	390,000	390,000	-
Accrued other post employment benefits	2,551,737	535,000	(50,196)	3,036,541	-	3,036,541
Total MTS	128,393,288	1,574,612	(3,250,491)	126,717,409	3,068,453	123,648,956
San Diego Transit Corporation:						
Pension Obligation Bonds	47,265,000	-	(6,755,000)	40,510,000	1,830,000	38,680,000
Compensated absences payable	8,745,257	3,899,796	(4,072,708)	8,572,345	4,072,708	4,499,637
Accrued damage, injury, and employee claims	10,288,000	2,104,744	(2,099,744)	10,293,000	2,099,744	8,193,256
Accrued other post employment benefits	2,759,846	1,444,400	(798,982)	3,405,264	-	3,405,264
Total SDTC	69,058,103	7,448,940	(13,726,434)	62,780,609	8,002,452	54,778,157
San Diego Trolley, Inc.:						
Compensated absences payable	2,783,379	2,934,487	(2,965,564)	2,752,302	2,595,125	157,177
Accrued damage, injury, and employee claims	3,769,000	86,523	(274,523)	3,581,000	547,062	3,033,938
Accrued other post employment benefits	5,146,697	648,900	(118,733)	5,676,864	-	5,676,864
Total SDTI	11,699,076	3,669,910	(3,358,820)	12,010,166	3,142,187	8,867,979
Total	209,150,467	12,693,462	(20,335,745)	201,508,184	14,213,092	187,295,092

Reconciliation to Statement of Net Assets:

Due within one year

Compensated absences payable	7,090,823
Accrued damage, injury, and employee claims	3,036,806
Long-term debt	2,407,049
Long-term debt payable from restricted assets	1,678,414
	<u>14,213,092</u>

Noncurrent liabilities:

Long-term debt payable from restricted assets	115,264,486
Compensated absences payable	5,133,802
Accrued damage, injury and employee claims	11,227,194
Accrued other post employment benefits	12,118,669
Long-term debt	43,550,941
	<u>187,295,092</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

(b) Capital Leases

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

The assets acquired through capital leases are as follows:

	2012	2011
Building - MTS Tower	\$ 12,091,981	\$ 12,091,981
Less accumulated depreciation	(8,880,049)	(8,502,174)
Total	<u>\$ 3,211,932</u>	<u>\$ 3,589,807</u>

The following is a summary of future minimum payments under capital leases as of June 30, 2012:

Year ending June 30:	Tower Lease Payment
2013	\$ 749,612
2014	736,704
2015	750,550
2016	731,665
2017	739,617
2018-2020	<u>1,859,740</u>
Total minimum lease payments	5,567,888
Less amount representing interest	<u>(801,021)</u>
Present value of minimum lease payments	<u>\$ 4,766,867</u>

At June 30, 2012, the future minimum payments were \$4,766,867

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

(c) Finance Obligations

The following is a summary of changes in finance obligations for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Amounts due within one year	Amounts due in more than one year
1995 LRV Lease/Leaseback	\$ 118,501,461	\$ -	\$ (1,558,561)	\$ 116,942,900	\$ 1,678,414	\$ 115,264,486
Pension Obligation Bonds	47,265,000	-	(6,755,000)	40,510,000	1,830,000	38,680,000
Total Finance Obligation	<u>\$ 165,766,461</u>	<u>\$ -</u>	<u>\$ (8,313,561)</u>	<u>\$ 157,452,900</u>	<u>\$ 3,508,414</u>	<u>\$ 153,944,486</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 that 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, 2012, the remaining future obligations total \$116,942,900.

Year ending June 30:	Principal	Interest	Total
2013	\$ 1,678,414	\$ 1,834,800	\$ 3,513,214
2014	1,807,484	1,750,882	3,558,366
2015	21,361,390	1,661,100	23,022,490
2016	21,495,358	1,308,065	22,803,423
2017	4,923,324	947,884	5,871,208
2018-2022	32,001,464	2,947,006	34,948,470
2023-2024	33,675,466	219,390	33,894,856
	<u>\$ 116,942,900</u>	<u>\$ 10,669,127</u>	<u>\$ 127,612,027</u>

For the above lease transaction, MTS is obligated to insure and maintain the equipment. The lease agreement also provide for MTS' right to continued use and control of the equipment. The LRVs acquired under the various finance obligations have been transferred to and are recorded by SDTI. For the 1995 LRV lease/leaseback, as well as the 1990 sale/leaseback that was retired in 2008, MTS has also agreed to indemnify the lessors for any taxes imposed by United States taxing authorities.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

Pension Obligation Bonds

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

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

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, 2012, the outstanding balance of the Pension Obligation Bonds is \$40,510,000.

Year ending June 30:	Principal	Interest	Total
2013	\$ 1,830,000	\$ 1,834,800	\$ 3,664,800
2014	1,915,000	1,750,882	3,665,882
2015	2,005,000	1,661,100	3,666,100
2016	14,900,000	1,308,065	16,208,065
2017	2,205,000	947,884	3,152,884
2018-2022	12,825,000	2,947,006	15,772,006
2023-2024	4,830,000	219,390	5,049,390
	<u>\$ 40,510,000</u>	<u>\$ 10,669,127</u>	<u>\$ 51,179,127</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

(11) Risk Management

MTS (including SDTI, SDTC, and Other Contracted Services) is self-insured for liability claims to a maximum of \$2,000,000 per occurrence. Amounts in excess of the self-insured retention limits for public liability are covered 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 statutory limits. SDTC and MTS are self-insured for unemployment claims. SDTC and SDTI have policies for crime coverage through commercial insurance.

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

	Beginning of fiscal year	Current year claims and changes in estimates	Claims payments	End of fiscal year
MTS:				
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
2011-2012	14,428,000	2,313,883	(2,477,883)	14,264,000

Following is summary of accrued damage injury, and employee claims for fiscal years 2012 and 2011:

Accrued damage, injury and employee claims	2012	2011
Current portion	\$ 3,036,806	\$ 3,460,982
Non-current portion	11,227,194	10,967,018
Total	<u>\$ 14,264,000</u>	<u>\$ 14,428,000</u>

MTS has established a policy to consolidate the minimum balances required in the liability claims reserve accounts of SDTC and SDTI to be held by MTS. The policy also established eligible uses for the MTS reserve account, which included the reimbursement to SDTC and SDTI of awards/settlements of individual liability claims for personal injury and/or property damage in excess of \$300,000, but within the self-insurance retention at SDTC and SDTI. In connection with these self-insurance programs, liabilities for SDTC, SDTI and MTS were \$14,264,000 at June 30, 2012 and \$14,428,000 at June 30, 2011.

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

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

(12) Contingencies

Pending legal actions. MTS, SDTC and SDTI have been named in certain legal actions pending at June 30, 2012. 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.

Pledged Revenue. SDTC has pledged future revenues pursuant to the provision of the Pension Obligation Bonds issued by SDTC in FY2004 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 FY2007 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 SE&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 FY2011, 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.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

(13) Post-Employment Health Care Benefits

Plan Description: As of January 1, 2011, all employees at MTS, all management employees at SDTI and SDTC, and all union employees at SDTI participated in HMO and PPO plans offered by Kaiser and Anthem. As in years past, SDTC has provided payments to operator and maintenance employee unions for provision of post-employment benefits as determined by each union. Total MTS payments for the year ended June 30, 2012 were \$50,196 for 9 retirees currently receiving post-employment health care benefits. Total SDTI payments for the year ended June 30, 2012 were \$118,733 for 27 retirees currently receiving benefits. Total SDTC payments for the year ended June 30, 2012 were \$415,583 for 45 management retirees plus \$383,399 for 156 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 2012 is as follows:

Net OPEB Obligation (NOO)

	<u>MTS</u>	<u>SDTI</u>	<u>SDTC</u>	<u>Total</u>
NOO at June 30, 2011	\$ 2,551,737	\$ 5,146,697	\$ 2,759,846	\$ 10,458,280
Benefit payments paid outside of a trust	(50,196)	(118,733)	(798,982)	(967,911)
Estimated contributions to a trust	-	-	-	-
Annual Required Contribution	526,600	631,900	1,435,300	2,593,800
Accrued interest on June 30, 2011 NOO	114,800	231,600	124,200	470,600
Amortization of June 30, 2011 NOO	(106,400)	(214,600)	(115,100)	(436,100)
NOO at June 30, 2012	<u>\$ 3,036,541</u>	<u>\$ 5,676,864</u>	<u>\$ 3,405,264</u>	<u>\$ 12,118,669</u>

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, 2011 (most current available)</u>	<u>Total</u>
Current retirees and surviving spouses	237
Other participants fully eligible for benefits	330
Other participant not yet fully eligible for benefits	964
Total	<u>1,531</u>

Funding policy. The contribution requirements of plan members and MTS are established by management and may be amended. The contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2012 MTS contributions to the plan were \$967,911 (or 48.17% of total gross health costs), while retirees contributed \$1,041,584 (or 51.83% of total gross health costs).

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

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	\$ 1,050,300
Amortization of Unfunded AAL	1,543,500
Annual Required Contribution	2,593,800
Interest on beginning of year NOO	470,600
Amortization of beginning of year NOO	(436,100)
Annual OPEB cost	2,628,300
Contributions or Benefit Payments	(706,611)
Implicit subsidy payments	(261,300)
Increase in net OPEB obligation	1,660,389
Net OPEB obligation - beginning of year	10,458,280
Net OPEB obligation - end of year	<u>\$ 12,118,669</u>

MTS' Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan and the Net OPEB Obligation for fiscal years 2010, 2011 and 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 2,283,894	53.38%	\$ 9,111,500
June 30, 2011	2,276,900	40.85%	10,458,280
June 30, 2012	2,628,300	36.83%	12,118,669

Funded Status and Funding Progress. As of June 30, 2011, the most recent actuarial valuation date, the Plan was not funded. The Actuarial Accrued Liability (AAL) for benefits was \$37,018,400 and the actuarial value of assets was \$0 compared to \$31,643,500 and \$0 as of June 30, 2009. The covered payroll (annual payroll of active employees covered by the plan) as of June 30, 2011 was \$65,775,100 and the ratio of Unfunded AAL to covered payroll was 56% percent compared to \$72,531,100 and 44% as of June 30, 2009.

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:

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

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
6/30/2011	\$ -	\$ 3,276	\$ 3,276	0%	\$ 8,023	40.83%

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
6/30/2011	\$ -	\$ 9,417	\$ 9,417	0%	\$ 24,616	38.25%

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
6/30/2011	\$ -	\$ 24,326	\$ 24,326	0%	\$ 33,136	73.41%

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 2011 study was completed during FY2012. The next study, which we will based on activity through June 2013, will be completed during FY2014.

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, 2011, 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 2012/2013, medical/drug trends generally grade down from 7.5% and 8% to an ultimate of 4.5% by 2024/2025, while dental/vision/expense trends grade down from 5.0% to an ultimate of 4.5% by 2018/2019. The UAAL is being amortized as a level percentage of projected payroll over a rolling 30 years.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

(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 2012, MTS paid the entire employee contribution for all employees, and SDTI paid the entire employee contribution for management and supervisory employees who were hired before June 30, 1988. For management and supervisory employees hired after June 30, 1988, SDTI paid half the employee contribution until their third anniversary, after which SDTI pays their full contribution. Prior to January 1, 1992, SDTI paid half the employee contribution for non-managerial employees. As of January 1, 1992, the non-managerial employees pay the entire contribution.

The most recent funding progress schedule available for SDTI is presented below:

Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
6/30/2010	\$ 71,032	\$ 79,497	\$ 8,466	89.4%	\$ 23,364	36.2%

MTS is a member of the CalPers risk pool for groups under 100 because the plan had less than 100 active members for at least one valuation since June 30, 2003. As a result individual funding progress is not available for MTS.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

Annual Pension Cost

For fiscal year 2012, MTS' and SDTI's annual required employer contributions were \$2,049,797 and \$2,408,963 respectively. The required contribution for fiscal year 2012 was determined as part of the June 30, 2009, 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, 2010, the most recent valuation date, was 19 years for MTS and 23 years for SDTI.

Trend information for MTS (in 000s):

	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:			
2010	\$ 1,851	\$ 1,851	100%
2011	1,850	1,850	100%
2012	2,050	2,050	100%

Trend information for SDTI(in 000s):

	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:			
2010	\$ 2,102	\$ 2,102	100%
2011	2,105	2,105	100%
2012	2,409	2,409	100%

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

(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 FY2011 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 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, 2011, the most recent valuation date, was 30 years.

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

Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
7/1/2011	\$ 151,113	\$ 236,875	\$ 85,762	64%	\$ 32,573	263%

San Diego Metropolitan Transit System
Notes to Basic Financial Statements, Continued
For the Years Ended June 30, 2012 and 2011

Annual Pension Cost

For fiscal year ended June 30, 2012, the annual pension cost of \$10,132,138 for the pension plan was equal to SDTC's required and actual contributions. Of this total, employees contributed \$95,370. The required contribution was determined as part of the July 1, 2010 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:			
2010	\$ 5,670	\$ 5,670	100%
2011	7,753	7,753	100%
2012	10,132	10,132	100%

(15) Other Required Individual Fund Disclosures

SDTC had unrestricted net deficits of \$21,072,105 at June 30, 2012 compared to \$16,837,904 at June 30, 2011. SDTI had no unrestricted net deficit as of June 30, 2012 and no deficit as of June 30, 2011. 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.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

San Diego Metropolitan Transit System
Required Supplementary Information
For the Years Ended June 30, 2012 and 2011

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, stand alone information for the Schedule of Funding Progress for MTS is not available.

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
6/30/2008	\$ 59,712	\$ 65,261	\$ 5,549	91.50%	\$ 22,479	24.70%
6/30/2009	65,117	74,005	8,889	88.00%	25,301	37.80%
6/30/2010	71,031	79,497	8,466	89.40%	23,364	36.20%

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
7/1/2009	\$ 144,196	\$ 202,089	\$ 57,893	71.35%	\$ 33,894	171.00%
7/1/2010	152,896	226,821	73,925	67.40%	31,889	232.00%
7/1/2011	151,113	236,875	85,792	63.79%	32,573	263.00%

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

**San Diego Metropolitan Transit System
Required Supplementary Information
For the Years Ended June 30, 2012 and 2011**

POST EMPLOYMENT 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%
6/30/2011	-	3,276	3,276	0%	8,023	40.82%

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%
6/30/2011	-	24,326	24,326	0%	33,136	73.41%

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%
6/30/2011	-	9,417	9,417	0%	24,617	38.25%

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 FY2014 based on the year ending June 30, 2013.

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, 2012

	<u>General Operations</u>	<u>Contracted Services</u>	<u>SDTC</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 37,314,539	\$ -	\$ (100,165)
Investments restricted for debt service payable within one year	1,678,414	-	-
Accounts and other receivables	3,649,565	11,497	8,441,074
Due from other governments	58,812,232	1,687,546	1,854,546
Internal balances	(1,996,546)	3,386,266	(4,690,473)
Materials and supplies inventory	-	-	2,300,244
Prepaid expenses and other current assets	153,931	129,837	617,123
Total current assets	<u>99,612,135</u>	<u>5,215,146</u>	<u>8,422,349</u>
Noncurrent assets:			
Cash and certificates of deposit restricted for capital support	82,396,323	-	-
Investments restricted for debt service and capital projects	117,681,495	-	-
Unamortized bond issuance cost	-	-	360,626
Capital assets (net of accumulated depreciation)	145,250,650	86,413,344	132,748,055
Net pension assets	-	-	42,455,638
Total noncurrent assets	<u>345,328,468</u>	<u>86,413,344</u>	<u>175,564,319</u>
Total assets	<u>444,940,603</u>	<u>91,628,490</u>	<u>183,986,668</u>

<u>SDTI</u>	<u>Eliminations</u>	<u>Total</u>
\$ (123,935)	\$ -	\$ 37,090,439
-	-	1,678,414
517,445	-	12,619,581
1,276,506	-	63,630,830
3,300,753	-	-
14,829,488	-	17,129,732
1,369,804	-	2,270,695
<u>21,170,061</u>	<u>-</u>	<u>134,419,691</u>
-	-	82,396,323
-	-	117,681,495
-	-	360,626
930,794,365	-	1,295,206,414
-	-	42,455,638
<u>930,794,365</u>	<u>-</u>	<u>1,538,100,496</u>
<u>951,964,426</u>	<u>-</u>	<u>1,672,520,187</u>

San Diego Metropolitan Transit System
Combining Schedule of Net Assets, Continued
For the Years Ended June 30, 2012

	<u>General Operations</u>	<u>Contracted Services</u>	<u>SDTC</u>
Liabilities			
Current liabilities:			
Accounts payable	24,391,488	4,390,870	6,235,963
Due to other governments	6,803,474	-	-
Unearned revenue	1,089,610	281,930	380,963
Accrued expenses	3,324,752	-	2,913,186
Retentions payable	57,256	-	-
Due within one year:			
Compensated absences payable	422,990	-	4,072,708
Accrued damage, injury, and employee claims	390,000	-	2,099,744
Long-term debt, due within one year	577,049	-	1,830,000
Long-term debt payable from restricted assets	1,678,414	-	-
Total current liabilities	<u>38,735,033</u>	<u>4,672,800</u>	<u>17,532,564</u>
Noncurrent liabilities:			
Retentions payable from restricted assets	6,435,064	-	-
Long-term debt payable from restricted assets	115,264,486	-	-
Due in more than one year:			
Compensated absences payable, due in more than one year	476,988	-	4,499,637
Accrued damage, injury, and employee claims, due in more than one year	-	-	8,193,256
Accrued other post employment benefits	3,036,541	-	3,405,264
Long-term debt, due in more than one year	4,870,941	-	38,680,000
Total noncurrent liabilities	<u>130,084,020</u>	<u>-</u>	<u>54,778,157</u>
Total liabilities	<u>168,819,053</u>	<u>4,672,800</u>	<u>72,310,721</u>
Net Assets			
Invested in capital assets, net of related debt	23,540,882	86,413,344	132,748,055
Restricted assets for capital projects	78,378,267	-	-
Unrestricted	174,202,397	542,345	(21,072,105)
Total net assets	<u>\$ 276,121,546</u>	<u>\$ 86,955,689</u>	<u>\$ 111,675,950</u>

SDTI	Eliminations	Total
345,114	-	35,363,435
-	-	6,803,474
461,932	-	2,214,435
4,865,799	-	11,103,737
-	-	57,256
2,595,125	-	7,090,823
547,062	-	3,036,806
-	-	2,407,049
-	-	1,678,414
8,815,032	-	69,755,429
-	-	6,435,064
-	-	115,264,486
157,177	-	5,133,802
3,033,938	-	11,227,194
5,676,864	-	12,118,669
-	-	43,550,941
8,867,979	-	193,730,156
17,683,011	-	263,485,585
930,794,365	-	1,173,496,646
-	-	78,378,267
3,487,054	-	157,159,691
\$ 934,281,419	\$ -	\$ 1,409,034,604

San Diego Metropolitan Transit System
Combining Schedule of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2012

	<u>General Operations</u>	<u>Contracted Services</u>	<u>SDTC</u>	<u>SDTI</u>
Operating revenues:				
Passenger revenue	\$ -	\$ 25,380,121	\$ 27,497,861	\$ 35,216,409
Advertising	784,204	-	-	-
Charter	-	-	186,388	-
Miscellaneous operating revenues	3,883,356	-	9,190	551,893
Total operating revenues	4,667,560	25,380,121	27,693,439	35,768,302
Operating expenses:				
Personnel costs	15,900,329	542,065	65,233,216	30,861,215
Outside services	9,633,571	50,606,469	1,889,001	3,921,271
Transit operations funding	93,864,186	-	-	-
Materials and supplies	23,128	7,901	4,541,786	3,404,484
Energy costs	215,910	8,345,092	5,605,268	8,522,595
Risk management	321,283	15,300	2,450,878	1,242,489
Miscellaneous operating expenses	(21,574,152)	1,637,514	9,164,968	15,887,352
Depreciation	1,246,870	11,249,023	14,612,267	57,703,433
Total operating expenses	99,631,125	72,403,364	103,497,384	121,542,839
Operating income (loss)	(94,963,565)	(47,023,243)	(75,803,945)	(85,774,537)

Eliminations	Total
\$ -	\$ 88,094,391
-	784,204
-	186,388
-	<u>4,444,439</u>
-	93,509,422
-	112,536,825
-	66,050,312
(90,143,361)	3,720,825
-	7,977,299
-	22,688,865
-	4,029,950
-	5,115,682
-	<u>84,811,593</u>
(90,143,361)	306,931,351
<u>90,143,361</u>	<u>(213,421,929)</u>

San Diego Metropolitan Transit System

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

For the Years Ended June 30, 2012

	General Operations	Contracted Services	SDTC	SDTI
Public support and nonoperating revenues:				
Federal revenue	71,822,863	7,155,299	20,708,755	14,989,149
Transportation Development Act (TDA) funds	71,538,917	25,237,289	20,496,717	7,208,278
State Transit Assistance (STA) funds	18,981,989	-	-	-
State revenue - other	84,878,549	1,397,749	-	-
TransNet funds	81,293,217	744,505	16,153,902	5,491,647
Other local subsidies	2,642,020	1,239,378	1,394,913	-
Investment earnings	7,622,252	-	-	-
Interest expense	(6,105,844)	-	(1,907,675)	-
Gain (loss) on disposal of assets	(447,506)	-	18,853	(191,046)
Other expenses	-	-	(4,155)	-
Amortization of bond issuance costs	-	-	(1,303)	-
Total public support and nonoperating revenues	332,226,457	35,774,220	56,860,007	27,498,028
Income (loss) before contributed capital	237,262,892	(11,249,023)	(18,943,938)	(58,276,509)
Transfers	(37,574,220)	-	-	-
Contributions	(149,677,254)	26,322,833	15,478,785	151,993,659
Change in net assets	50,011,418	15,073,810	(3,465,153)	93,717,150
Net assets, beginning of year	226,110,130	71,881,878	115,141,107	840,564,269
Net assets, end of year	\$ 276,121,548	\$ 86,955,688	\$ 111,675,954	\$ 934,281,419

<u>Eliminations</u>	<u>Total</u>
(42,853,203)	71,822,863
(52,942,284)	71,538,917
-	18,981,989
(1,397,749)	84,878,549
(27,890,054)	75,793,217
(2,634,291)	2,642,020
-	7,622,252
-	(8,013,519)
-	(619,699)
-	(4,155)
-	(1,303)
<u>(127,717,581)</u>	<u>324,641,131</u>
(37,574,220)	111,219,202
37,574,220	-
<u>-</u>	<u>44,118,023</u>
-	155,337,225
-	1,253,697,384
<u>\$ -</u>	<u>\$ 1,409,034,609</u>

San Diego Metropolitan Transit System

Combining Statement of Cash Flows

For the Year Ended June 30, 2012

	MTS	Other Contracted Services	SDTC	SDTI	Total
Cash flows from operating activities:					
Receipts from customers and users	4,820,004	24,345,591	26,544,599	35,653,439	91,363,633
Payments to suppliers	(14,043,338)	(58,097,704)	(14,139,373)	(18,396,706)	(104,677,121)
Payments to employees	(14,732,375)	(407,920)	(55,127,332)	(29,219,950)	(99,487,577)
Payments for damage and injury	(1,091)	(7,650)	(305,822)	118,057	(196,506)
Net cash provided (used) by operating activities	(23,956,800)	(34,167,683)	(43,027,928)	(11,845,160)	(112,997,571)
Cash flows from noncapital financing activities:					
Public support funds received	54,803,469	34,167,683	59,279,959	9,971,482	158,222,593
Net cash provided (used) by noncapital financing activities	54,803,469	34,167,683	59,279,959	9,971,482	158,222,593
Cash flows from capital and related financing activities:					
Debt service costs	(908,934)	-	(16,104,157)	-	(17,013,091)
Property acquisition	(46,371,156)	-	-	-	(46,371,156)
Proceeds from disposal of assets	4,749	-	14,800	2,588,342	2,607,891
Net cash provided (used) by capital and related financing activities	(47,275,341)	-	(16,089,357)	2,588,342	(60,776,356)
Cash flows from investing activities:					
Interest received on investments	239,774	-	-	-	239,774
Investments liquidated	-	-	-	-	-
Intercompany equity transfers	-	-	-	-	-
Net cash provided (used) by investing activities	239,774	-	-	-	239,774
Net increase (decrease) in cash and cash equivalents	(16,188,898)	-	162,674	714,664	(15,311,560)
Cash and cash equivalents, beginning of year	34,062,976	-	(13,550)	(308,595)	33,740,831
Cash and cash equivalents, end of year	\$ 119,710,862	-	\$ (100,165)	\$ (123,935)	\$ 119,486,762

San Diego Metropolitan Transit System
Combining Statement of Cash Flows, continued

For the Year Ended June 30, 2012

	MTS	Other Contracted Services	SDTC	SDTI	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating income (loss):	\$ (18,753,909)	\$ (47,023,243)	\$ (67,809,285)	\$ (73,293,669)	(206,880,106)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation and amortization	1,246,870	11,249,023	14,612,267	57,703,433	84,811,593
Amortization of Net Pension Assets			3,500,000		3,500,000
(Increase) decrease in:					
Accounts and other receivables	438,096	1,982	362,626	13,594	816,298
Materials and supplies inventory	-	-	(79,210)	(455,236)	(534,446)
Prepaid and other current assets	1,732,628	(134,042)	(602,044)	(61,693)	934,849
Increase (decrease) in:					
Accounts payable	(116,337)	1,447,254	302,908	443,583	2,077,408
Accrued expenses	(454,910)	-	175,415	870,638	591,143
Unearned revenue	50,329	16,770	(119,994)	134,800	81,905
Accrued OPEB liability	377,937		548,046	420,797	1,346,780
Compensated absences payable	66,291		(33,009)	35,229	68,511
Accrued damage, injury and employee claims	43,000		(136,000)	(112,000)	(205,000)
Total adjustments	3,383,904	12,580,987	18,531,005	58,993,145	93,489,041
Net cash provided (used) by operating activities	(15,370,005)	(34,442,256)	(49,278,280)	(14,300,524)	(113,391,065)

Supplemental noncash disclosures:

During the year other governments contributed \$32,871,975 in capital assets and MTS contributed \$6,065,683 to other governments
During the year the fair value of investments increased by \$1,436,364

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, 2012

	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	\$ 86,189,334	\$ 88,727,331	\$ 88,094,391	\$ -	\$ 88,094,391	\$ (632,940)
Advertising	1,293,800	1,453,800	784,204	-	784,204	(669,596)
Charter	-	-	186,388	-	186,388	186,388
Miscellaneous operating revenues	4,038,348	3,930,556	4,444,439	(74,798)	4,369,641	439,085
Total operating revenues	91,521,482	94,111,687	93,509,422	(74,798)	93,434,624	(677,063)
Operating expenses:						
Personnel costs	112,115,113	111,629,158	112,536,825	(1,005,866)	111,530,959	98,199
Outside services	67,384,969	67,156,206	66,050,312	-	66,050,312	1,105,894
Transit operations funding	4,114,614	3,952,042	3,720,825	-	3,720,825	231,217
Materials and supplies	7,340,829	7,777,887	7,977,299	-	7,977,299	(199,412)
Energy costs	21,616,850	22,058,569	22,688,865	-	22,688,865	(630,296)
Risk management	3,834,496	3,983,478	4,029,950	(379,000)	3,650,950	332,528
Miscellaneous operating expenses	3,295,497	3,224,255	5,115,682	(1,949,454)	3,166,228	58,027
Depreciation	-	-	84,811,593	(84,811,593)	-	-
Total operating expenses	219,702,368	219,781,595	306,931,351	(88,145,913)	218,785,438	996,157
Operating income (loss)	(128,180,886)	(125,669,908)	(213,421,929)	88,071,115	(125,350,814)	319,094

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, 2012

	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	38,518,186	38,402,528	71,822,863	(33,310,700)	38,512,163	109,635
Transportation Development Act	63,610,770	65,341,900	71,538,917	(6,197,019)	65,341,898	(2)
State Transit Assistance	1,697,468	1,697,468	18,981,989	(17,284,521)	1,697,468	-
State revenue - other	1,600,000	1,400,000	84,878,549	(83,407,117)	1,471,432	71,432
TransNet funds	21,082,395	21,749,412	75,793,217	(53,403,163)	22,390,054	640,642
Other local subsidies	4,344,268	4,749,394	2,642,020	2,174,247	4,816,267	66,873
Investment earnings	7,826,508	7,666,508	7,622,252	(18,740)	7,603,512	(62,996)
Interest expense	(10,530,655)	(10,198,630)	(8,013,519)	(2,109,381)	(10,122,900)	75,730
Gain (loss) on disposal of assets	-	-	(619,699)	619,699	-	-
Other expenses	-	-	(4,155)	-	(4,155)	(4,155)
Amortization of bond issuance costs	-	-	(1,303)	1,303	-	-
Total public support and nonoperating revenues	128,148,940	130,808,580	324,641,131	(192,935,392)	131,705,739	897,159
Income (loss) before contributed capital	(31,946)	5,138,672	111,219,202	(104,864,277)	6,354,925	1,216,253
Reserve revenue	31,946	43,473	-	31,845	31,845	(11,628)
Contribution of capital assets	-	-	44,118,023	(44,118,023)	-	-
Change in net assets	-	\$ 5,182,145	155,337,225	\$(148,950,455)	\$ 6,386,770	\$ 1,204,625
Net assets, beginning of year			1,253,697,384			
Net assets, end of year			1,409,034,609			

**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, 2012**

	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	\$ 1,293,800	\$ 1,453,800	\$ 784,204	\$ -	\$ 784,204	\$ (669,596)
Miscellaneous operating revenues	2,237,548	2,235,007	2,918,480	(74,798)	2,843,682	608,675
Total operating revenues	3,531,348	3,688,807	3,702,684	(74,798)	3,627,886	(60,921)
Operating expenses:						
Personnel costs	14,642,303	14,469,951	15,232,758	(506,338)	14,726,420	(256,469)
Outside services	9,991,795	9,821,271	9,542,017	-	9,542,017	279,254
Transit operations funding	4,114,614	3,952,042	93,864,186	(90,143,361)	3,720,825	231,217
Materials and supplies	21,950	33,620	12,987	-	12,987	20,633
Energy costs	178,918	206,645	208,404	-	208,404	(1,759)
Risk management	525,805	395,172	297,741	(19,000)	278,741	116,431
Miscellaneous operating expenses	(22,252,950)	(21,804,738)	(21,770,559)	(32,528)	(21,803,087)	(1,651)
Depreciation	-	-	1,224,853	(1,224,853)	-	-
Total operating expenses	7,222,435	7,073,963	98,612,387	(91,926,080)	6,686,307	387,656
Operating income (loss)	(3,691,087)	(3,385,156)	(94,909,703)	91,851,282	(3,058,421)	326,735

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, 2012

	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	47,500	74,000	71,822,863	(71,671,091)	151,772	77,772
Transportation Development Act (TDA) funds	4,114,614	9,134,188	71,538,917	(61,715,197)	9,823,720	689,532
State Transit Assistance (STA) funds	-	-	18,981,989	(18,981,989)	-	-
State revenue - other	-	-	84,878,549	(84,804,866)	73,683	73,683
TransNet funds	-	-	81,293,217	(81,293,217)	-	-
Other local subsidies	-	-	2,642,020	(2,634,291)	7,729	7,729
Investment earnings	7,826,508	7,666,508	7,622,252	(18,740)	7,603,512	(62,996)
Interest expense	(8,297,535)	(8,307,394)	(6,105,844)	(2,109,381)	(8,215,225)	92,169
Gain (loss) on disposal of assets	-	-	(447,506)	447,506	-	-
Total public support and nonoperating revenues	3,691,087	8,567,302	332,226,457	(322,781,266)	9,445,191	877,889
Income (loss) before contributed capital	-	5,182,146	237,316,754	(230,929,984)	6,386,770	1,204,624
Transfers	-	-	(37,574,220)	37,574,220	-	-
Contribution of capital assets	-	-	(149,677,254)	149,677,254	-	-
Change in net assets	\$ -	\$ 5,182,146	50,065,280	\$ (43,678,510)	\$ 6,386,770	\$ 1,204,624
Net assets, beginning of year			207,223,622			
Net assets, end of year			\$ 257,288,902			

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, 2012

	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	\$ 881,000	\$ 881,000	\$ 845,127	\$ -	\$ 845,127	\$ (35,873)
Total operating revenues	881,000	881,000	845,127	-	845,127	(35,873)
Operating expenses:						
Personnel costs	584,015	584,014	583,563	-	583,563	451
Outside services	128,108	128,108	91,554	-	91,554	36,554
Materials and supplies	2,500	4,500	10,141	-	10,141	(5,641)
Energy costs	10,600	10,600	7,506	-	7,506	3,094
Miscellaneous operating expenses	204,463	200,301	195,976	-	195,976	4,325
Depreciation	-	-	4,937	(4,937)	-	-
Total operating expenses	929,686	927,523	893,677	(4,937)	888,740	38,783
Operating income (loss)	(48,686)	(46,523)	(48,550)	4,937	(43,613)	2,910
Reserve revenue	48,686	46,523	-	43,613	43,613	(2,910)
Change in net assets	\$ -	\$ -	(48,550)	\$ 48,550	\$ -	\$ -
Net assets, beginning of year			449,575			
Net assets, end of year			\$ 401,025			

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, 2012

	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	\$ 170,000	\$ 140,000	\$ 119,749	\$ -	\$ 119,749	\$ (20,251)
Total operating revenues	170,000	140,000	119,749	-	119,749	(20,251)
Operating expenses:						
Personnel costs	87,160	77,850	84,008	-	84,008	(6,158)
Outside services	30,000	30,000	-	-	-	30,000
Risk management	34,100	27,100	23,542	-	23,542	3,558
Miscellaneous operating expenses	2,000	2,000	431	-	431	1,569
Depreciation	-	-	17,080	(17,080)	-	-
Total operating expenses	153,260	136,950	125,061	(17,080)	107,981	28,969
Operating income (loss)	16,740	3,050	(5,312)	17,080	11,768	8,718
Reserve revenue	(16,740)	(3,050)	-	(11,768)	(11,768)	(8,718)
Change in net assets	\$ -	\$ -	(5,312)	\$ 5,312	\$ -	\$ -
Net assets, beginning of year			18,436,933			
Net assets, end of year			\$ 18,431,621			

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, 2012

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	Variance with Final Budget Positive (Negative)
Operating revenues:						
Passenger revenue	\$ 23,823,591	\$ 25,807,244	\$ 25,380,121	\$ -	\$ 25,380,121	\$ (427,123)
Total operating revenues	23,823,591	25,807,244	25,380,121	-	25,380,121	(427,123)
Operating expenses:						
Personnel costs	515,656	566,592	542,065	-	542,065	24,527
Outside services	51,541,938	50,918,193	50,606,469	-	50,606,469	311,724
Materials and supplies	4,800	4,800	7,901	-	7,901	(3,101)
Energy costs	7,901,103	8,144,011	8,345,092	-	8,345,092	(201,081)
Risk management	-	15,300	15,300	-	15,300	-
Miscellaneous operating expenses	1,770,635	1,644,007	1,637,514	-	1,637,514	6,493
Depreciation	-	-	11,249,023	(11,249,023)	-	-
Total operating expenses	61,734,132	61,292,903	72,403,364	(11,249,023)	61,154,341	138,562
Operating income (loss)	(37,910,541)	(35,485,659)	(47,023,243)	11,249,023	(35,774,220)	(288,561)

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, 2012

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Public support and nonoperating revenues:						
Federal revenue	4,822,730	4,668,006	7,155,299	(2,455,482)	4,699,817	31,811
Transportation Development Act (TDA) funds	29,783,889	27,578,776	25,237,289	2,455,482	27,692,771	113,995
State revenue - other	1,600,000	1,400,000	1,397,749	-	1,397,749	(2,251)
TransNet funds	637,654	658,643	744,505	-	744,505	85,862
Other local subsidies	1,066,268	1,180,234	1,239,378	-	1,239,378	59,144
Total public support and nonoperating revenues	37,910,541	35,485,659	35,774,220	-	35,774,220	288,561
Income (loss) before contributed capital	-	-	(11,249,023)	11,249,023	-	-
Contribution of capital assets	-	-	26,322,833	(26,322,833)	-	-
Change in net assets	\$ -	\$ -	15,073,810	\$ (15,073,810)	\$ -	\$ -
Net assets, beginning of year			71,881,878			
Net assets, end of year			\$ 86,955,688			

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, 2012

	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	\$ 26,700,919	\$ 27,812,570	\$ 27,497,861	\$ -	\$ 27,497,861	\$ (314,709)
Charter	-	-	186,388	-	186,388	186,388
Miscellaneous operating revenues	20,000	10,000	9,190	-	9,190	(810)
Total operating revenues	26,720,919	27,822,570	27,693,439	-	27,693,439	(129,131)
Operating expenses:						
Personnel costs	65,261,921	65,382,447	65,233,216	(9,506)	65,223,710	158,737
Outside services	2,057,125	2,093,687	1,889,001	-	1,889,001	204,686
Materials and supplies	4,164,767	4,531,797	4,541,786	-	4,541,786	(9,989)
Energy costs	5,558,852	5,680,358	5,605,268	-	5,605,268	75,090
Risk management	1,450,019	1,775,259	2,450,878	(468,000)	1,982,878	(207,619)
Miscellaneous operating expenses	9,571,868	9,165,106	9,164,968	-	9,164,968	138
Depreciation	-	-	14,612,267	(14,612,267)	-	-
Total operating expenses	88,064,552	88,628,654	103,497,384	(15,089,773)	88,407,611	221,043
Operating income (loss)	(61,343,633)	(60,806,084)	(75,803,945)	15,089,773	(60,714,172)	91,912

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, 2012

	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	19,987,993	20,223,559	20,708,755	(503,798)	20,204,957	(18,602)
Transportation Development Act (TDA) funds	23,168,551	21,116,364	20,496,717	503,798	21,000,515	(115,849)
State Transit Assistance (STA) funds	1,697,468	1,697,468	-	1,697,468	1,697,468	-
TransNet funds	15,444,741	16,090,769	16,153,902	-	16,153,902	63,133
Other local subsidies	3,278,000	3,569,160	1,394,913	2,174,247	3,569,160	-
Interest expense	(2,233,120)	(1,891,236)	(1,907,675)	-	(1,907,675)	(16,439)
Gain (loss) on disposal of assets	-	-	18,853	(18,853)	-	-
Other expenses	-	-	(4,155)	-	(4,155)	(4,155)
Amortization of bond issuance costs	-	-	(1,303)	1,303	-	-
Total public support and nonoperating revenues	61,343,633	60,806,084	56,860,007	3,854,165	60,714,172	(91,912)
Income (loss) before contributed capital	-	-	(18,943,938)	18,943,938	-	-
Contribution of capital assets	-	-	15,478,785	(15,478,785)	-	-
Change in net assets	\$ -	\$ -	(3,465,153)	\$ 3,465,153	\$ -	\$ -
Net assets, beginning of year			115,141,107			
Net assets, end of year			\$ 111,675,954			

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, 2012

	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	\$ 35,664,824	\$ 35,107,517	\$ 35,216,409	\$ -	\$ 35,216,409	\$ 108,892
Miscellaneous operating revenues	729,800	664,549	551,893	-	551,893	(112,656)
Total operating revenues	36,394,624	35,772,066	35,768,302	-	35,768,302	(3,764)
Operating expenses:						
Personnel costs	31,024,058	30,548,303	30,861,215	(490,022)	30,371,193	177,110
Outside services	3,636,003	4,164,947	3,921,271	-	3,921,271	243,676
Materials and supplies	3,146,812	3,203,170	3,404,484	-	3,404,484	(201,314)
Energy costs	7,967,377	8,016,955	8,522,595	-	8,522,595	(505,640)
Risk management	1,824,572	1,770,647	1,242,489	108,000	1,350,489	420,158
Miscellaneous operating expenses	13,999,481	14,017,579	15,887,352	(1,916,926)	13,970,426	47,153
Depreciation	-	-	57,703,433	(57,703,433)	-	-
Total operating expenses	61,598,303	61,721,601	121,542,839	(60,002,381)	61,540,458	181,143
Operating income (loss)	(25,203,679)	(25,949,535)	(85,774,537)	60,002,381	(25,772,156)	177,379

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, 2012

	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	13,659,963	13,436,963	14,989,149	(1,533,532)	13,455,617	18,654
Transportation Development Act (TDA) funds	6,543,716	7,512,572	7,208,278	(383,386)	6,824,892	(687,680)
TransNet funds	5,000,000	5,000,000	5,491,647	-	5,491,647	491,647
Gain (loss) on disposal of assets	-	-	(191,046)	191,046	-	-
Total public support and nonoperating revenues	25,203,679	25,949,535	27,498,028	(1,725,872)	25,772,156	(177,379)
Income (loss) before contributed capital	-	-	(58,276,509)	58,276,509	-	-
Contribution of capital assets	-	-	151,993,659	(151,993,659)	-	-
Change in net assets	\$ -	\$ -	93,717,150	\$ (93,717,150)	\$ -	\$ -
Net assets, beginning of year			840,564,269			
Net assets, end of year			\$ 934,281,419			

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 Eight Fiscal Years - DRAFT

	2012	2011	2010	2009	2008	2007	2006	2005
Governmental activities								
Invested in capital assets, net of related debt	-	-	-	-	-	-	111,959,506	420,667,651
Restricted assets for capital projects	-	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-	35,868,448	185,115,587
Total governmental activities net assets	-	-	-	-	-	-	147,827,954	605,783,238
Business-type activities								
Invested in capital assets, net of related debt	1,173,496,646	1,073,561,720	1,078,178,383	1,075,104,676	1,079,967,043	1,097,675,395	1,134,242,639	695,486,022
Restricted assets for capital projects	78,378,267	7,007,293	2,548,338	2,699,649	-	-	-	-
Unrestricted	157,159,691	173,128,371	177,157,690	172,344,567	185,609,462	163,244,170	(33,761,144)	(35,563,034)
Total Business-type activities net assets	1,409,034,604	1,253,697,384	1,257,884,411	1,250,148,892	1,265,576,505	1,260,919,565	1,100,481,495	659,922,988
Primary government								
Invested in capital assets, net of related debt	1,173,496,646	1,073,561,720	1,078,178,383	1,075,104,676	1,079,967,043	1,097,675,395	1,246,202,145	1,116,153,673
Restricted assets for capital projects	78,378,267	7,007,293	2,548,338	2,699,649	-	-	-	-
Unrestricted	157,159,691	173,128,371	177,157,690	172,344,567	185,609,462	163,244,170	2,107,304	149,552,553
Total primary government net assets	1,409,034,604	1,253,697,384	1,257,884,411	1,250,148,892	1,265,576,505	1,260,919,565	1,248,309,449	1,265,706,226

Source: Audited financial statements

In FY 2011 MTS elected to present additional information regarding restricted net assets and accordingly provides this information.

In FY 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 FY 2006 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 Eight Fiscal Years

	2012	2011	2010	2009	2008	2007	2006	2005
Operating revenues								
Passenger Revenue	88,094,391	84,764,142	84,167,615	85,192,330	75,938,626	68,634,694	67,579,729	63,802,747
Advertising	784,204	620,774	782,986	924,522	1,118,697	1,001,597	838,663	1,339,470
Charter	186,388	129,244	127,665	68,801	63,435	44,999	30,940	895,092
Miscellaneous	4,444,439	4,687,850	4,264,061	4,874,700	3,671,549	3,703,043	1,734,582	18,240
Total operating revenue	93,509,422	90,202,010	89,342,327	91,060,353	80,792,307	73,384,333	70,183,914	66,055,549
Operating expenses:								
Personnel costs	112,536,825	104,328,659	109,511,444	101,912,799	102,847,479	91,205,761	90,490,021	91,485,718
Outside services	66,050,312	64,037,168	63,573,977	65,139,831	64,940,409	62,629,613	57,709,213	70,259,897
Transportation								
operations funding	3,720,825	4,053,368	3,758,340	3,003,698	3,852,449	5,438,052	6,758,525	6,244,510
Materials and supplies	7,977,299	7,677,528	6,680,355	7,190,088	7,590,216	7,266,337	8,157,794	8,756,096
Energy costs	22,688,865	21,931,847	22,892,291	25,283,357	27,210,670	22,767,220	24,304,787	14,140,307
Risk management	4,029,950	3,923,954	4,858,835	4,074,104	3,898,094	5,614,889	5,078,068	5,212,337
Miscellaneous	5,115,682	4,899,334	3,571,062	2,052,140	1,974,588	944,296	2,335,990	2,563,968
Depreciation	84,811,593	81,041,468	98,238,482	75,498,980	85,543,426	74,472,549	66,798,819	49,138,639
Total operating expenses	306,931,351	291,893,326	313,084,786	284,154,997	297,857,331	270,338,717	261,633,217	247,801,472
Operating income (loss)	(213,421,929)	(201,691,316)	(223,742,459)	(193,094,644)	(217,065,024)	(196,954,384)	(191,449,303)	(181,745,923)
Public support and nonoperating revenue:								
Grants and contributions	325,657,555	170,849,493	224,506,234	176,978,790	200,879,074	184,332,341	155,746,015	209,482,693
Investment earnings	7,622,252	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	(8,013,519)	(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	(619,699)	712,477	(69,089)	294,006	87,898	(1,260,113)	(1,800,414)	291,047
Other expenses	(4,155)	(4,081)	(289,006)	(641,552)	(141,711)	(355,528)	(187,452)	(184,767)
Amortization of bond issuance cost	(1,303)	(135,292)	(785,858)	(63,379)	(322,852)	-	-	-
Total public support and nonoperating revenue	324,641,131	170,697,997	220,368,134	175,998,560	203,230,067	181,835,968	151,039,509	213,810,364

Income (loss) before contributed capital	111,219,202	(30,993,319)	(3,374,325)	(17,096,084)	(13,834,957)	(15,118,416)	(40,409,794)	32,064,441
Capital contribution	44,118,023	<u>26,806,292</u>	11,109,844	1,668,471	18,491,897	27,728,531	23,013,017	30,007,339
Changes in net assets:	<u>155,337,225</u>	<u>(4,187,027)</u>	<u>7,735,519</u>	<u>(15,427,613)</u>	<u>4,656,940</u>	<u>12,610,115</u>	<u>(17,396,777)</u>	<u>62,071,780</u>

Source: Audited financial statements

In FY 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 Eight 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	26,056	19,894	29,435	18,307	-	166
2012	27,498	20,709	20,497	17,549	-	214
San Diego Trolley						
2005	25,855	10,651	1,741	8,279	-	880
2006	27,934	12,788	7,415	6,000	-	695
2007	27,402	15,325	6,279	6,000	-	469
2008	31,120	13,881	4,479	6,000	-	664
2009	33,454	16,616	787	7,043	-	997
2010	33,050	16,449	5,637	5,000	-	462
2011	34,673	14,912	5,497	5,000	-	1,220
2012	35,216	14,989	7,208	5,492	-	361
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	24,036	4,641	28,857	2,002	-	0
2012	25,380	7,155	26,635	1,984	-	-
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>2012</u>	<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	\$2.25	\$2.00	\$ 1.75
Senior/disabled, local routes	1.10	1.10	1.10	1.10	-	-
Urban	-	-	-	-	2.25	2.25
Express	2.50	2.50	2.50	2.50	2.50	2.50-4.00
Senior/disabled Express	1.25	1.25	1.25	1.25	-	-
Premium	5.00	5.00	5.00	5.00	5.00	-
Senior/disabled Premium	2.50	2.50	2.50	2.50	-	-
Rural bus	5.00-10.00	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	2.50- 5.00	-	-
Sorrento Valley Coaster Connection	-	-	-	1.00	-	-
Senior/disabled Coaster	-	-	-	0.50	-	-
Connection						
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	2.50	-	-
Senior/disabled one-way fare all stations	1.25	1.25	1.25	1.25	1.00	1.00
Downtown	-	-	-	1.25	1.25	1.25
Senior/disabled Downtown	-	-	-	0.60	-	-
1 station-20+ stations	-	-	-	-	1.50-3.00	1.50-3.00
Bus and Trolley Day Passes						
Regional day pass	5.00	5.00	5.00	-	-	-
Region plus day pass	12.00	14.00	14.00	-	-	-
Bus and Trolley Monthly Passes						
Regional monthly pass	72.00	72.00	72.00	68.00	64.00	-
Senior/disabled Regional	18.00	18.00	18.00	17.00	16.00	14.50
Youth Regional	36.00	36.00	36.00	34.00	32.00	29.00
Half-month/14-Day	43.00	43.00	43.00	41.00	-	-
Premium monthly pass	100.00	100.00	100.00	90.00	-	-
Senior/disabled Premium	25.00	25.00	25.00	22.50	-	-
Youth Premium	50.00	50.00	50.00	45.00	-	-
Half-month/14-Day	60.00	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 FY2007 MTS elected to present fare structure statistical data prospectively from 2007 forward, and will present one additional year of activity to a maximum of ten years as of 2016. There were no changes to the fare structure for several years prior to 2008.

San Diego Metropolitan Transit System

Farebox Recovery Percentages

Last Eight 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	28.46	54.26	42.06
2011	31.22	57.41	40.37
2012	30.50	55.63	41.50

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 Eight 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	0.42%	82
2011	5,317,686	-	-	118,501,460	-	-	47,265,000	171,084,146	0.39%	75
2012	4,766,867	-	-	116,942,900	-	-	40,510,000	162,219,767		

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

MTS made a \$5 million principal payment on the variable rate Pension Obligation Bonds in FY2012

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 Eight 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	44,339,315	19,382	10.50%
2011	2,287,701	47,185,564	20,626	10.40%
2012	2,230,371			9.30%

(1) SOURCE: San Diego Association of Governments, January 2010 Estimate. SANDAG has not released a 2011 estimate

(2) SOURCE: FY 2011 data is not currently available

Estimate based on the statewide increase of personal income of 6.42% between June 30, 2010 and June 30, 2011
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 Eight 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	<u>1,494</u>
2009	114	824	530	1,468
2010	110	782	528	1,420
2011	116	758	543	1,417
2012	122	761	568	1,451

Source: MTS payroll records

In FY2006 MTS elected to present statistical data prospectively from 2005 forward, and will present one additional year of a 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 1,450,600 million County Total (2)
US Department of Defense	136,664	9.42%
Federal Government	46,300	3.19%
State of California	45,500	3.14%
University of California, San Diego	27,393	1.89%
North Island Naval Air Station	27,000	1.86%
County of San Diego	15,109	1.04%
Sharp Healthcare	14,969	1.03%
Scripps Health	13,830	0.95%
San Diego Unified School District	13,730	0.95%
San Diego State University	11,000	0.76%

Source:

(1) The Daily Transcript - 2011 Data updated April 20,2012

(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 Eight Fiscal Years - DRAFT

	2012	2011	2010	2009	2008	2007	2006	2005
Operating Cost:								
San Diego Transit	90,152,832	83,456,613	93,831,484	81,271,392	80,031,464	73,256,992	73,284,403	80,187,053
San Diego Trolley	63,309,239	60,395,041	60,912,966	58,536,769	55,949,228	55,951,561	55,014,599	47,661,707
MTS-Contract Services	61,154,341	59,535,674	58,037,290	59,639,023	61,450,734	57,286,732	54,387,095	51,815,445
Farebox Revenue:								
San Diego Transit	27,497,861	26,055,593	26,708,013	27,881,541	23,680,179	22,297,629	22,263,739	21,383,099
San Diego Trolley	35,216,409	34,672,528	33,049,793	33,453,633	31,120,169	27,401,733	27,933,766	25,855,241
MTS-Contract Services	25,380,121	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	28,801,745	27,252,222	26,920,502	29,762,278	28,094,257	26,075,859	24,889,685	24,426,571
San Diego Trolley	32,654,613	31,612,877	30,468,981	36,928,284	37,620,944	35,114,385	33,829,833	29,334,362
MTS-Contract Services	23,779,568	22,664,343	21,988,343	21,645,421	21,460,283	21,142,942	18,907,112	18,448,621
Revenue Miles:								
San Diego Transit	8,220,685	8,177,701	8,623,561	9,221,197	9,522,460	9,622,029	9,958,013	10,087,350
San Diego Trolley	7,544,239	7,518,512	7,743,230	7,894,528	8,002,889	7,940,011	8,180,189	7,060,498
MTS-Contract Services	11,213,865	11,196,215	11,449,530	12,178,979	12,501,267	12,453,692	12,241,939	12,701,361
Subsidy / Total Passenger								
San Diego Transit	\$2.18	\$2.11	\$2.50	\$1.79	\$2.01	\$1.95	\$2.05	\$2.41
San Diego Trolley	0.86	0.92	0.92	0.68	0.66	0.81	0.80	0.74
MTS-Contract Services	1.50	1.57	1.53	1.66	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 Eight Fiscal Years - DRAFT

Service Provided	2012	2011	2010	2009	2008	2007	2006	2005
San Diego Transit								
Vehicle Revenue Miles	8,220,685	8,177,701	8,623,561	9,221,197	9,522,460	9,622,029	9,958,013	10,089,671
Vehicle Revenue Hours	756,651	753,549	788,560	843,438	870,432	853,044	840,408	829,742
Passengers	28,801,745	27,252,222	26,920,502	29,762,278	28,094,257	26,075,859	24,889,685	24,425,116
Passenger Miles	106,803,639	100,500,080	98,162,772	107,408,405	100,255,833	98,202,798	93,579,662	93,745,993
Number of Vehicles	266	236	238	247	267	267	274	280
San Diego Trolley								
Vehicle Revenue Miles	7,544,239	7,518,512	7,743,230	7,894,528	8,002,889	7,940,011	8,180,189	7,060,498
Vehicle Revenue Hours	427,603	422,795	442,457	409,519	439,377	432,440	468,829	368,184
Passenger Car Hours	433,420	429,189	448,290	416,147	445,277	438,555	480,396	379,050
Passengers	32,654,613	31,612,877	30,468,981	36,928,284	37,620,944	35,114,385	33,829,833	29,334,362
Passenger Miles	194,821,533	193,062,561	186,509,312	220,638,983	206,923,846	207,726,689	208,875,499	187,987,995
Number of Vehicles	154	128	134	133	134	134	134	123
MTS-Contract Services								
Vehicle Revenue Miles	11,213,865	11,196,215	11,449,530	12,178,979	12,501,267	12,453,692	12,241,939	12,701,361
Vehicle Revenue Hours	933,322	926,887	945,717	985,709	1,018,879	995,636	927,652	946,314
Passengers	23,779,568	22,664,343	21,988,343	21,645,421	21,460,283	21,142,942	18,907,112	18,448,621
Passenger Miles	79,788,816	82,124,774	79,236,564	80,104,104	77,173,278	78,303,615	73,343,433	69,957,802
Number of Vehicles	404	407	369	388	358	348	337	357
Total								
Passengers	85,235,926	81,529,442	79,377,826	88,335,983	87,175,484	82,333,186	77,626,630	72,208,099
Passenger Miles	381,413,988	375,687,415	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 Eight Fiscal Years - DRAFT

	Fiscal Year							
	2012	2011	2010	2009	2008	2007	2006	2005
General Operations								
Buildings and structures	1	1	1	1	1	1	1	1
Nonrevenue vehicles	5	5	5	7	7	10	10	12
San Diego Transit								
Land (parcels)	2	2	2	2	2	2	2	2
Buildings and structures	2	2	2	2	2	2	2	2
Buses	238	236	238	247	267	267	274	280
Nonrevenue vehicles	19	22	32	39	53	47	45	49
San Diego Trolley								
Trolley stations	54	54	54	54	54	54	54	50
Track miles	54	54	54	54	54	54	54	49
Light rail vehicles (total inventory)	140	128	134	133	134	134	134	123
Nonrevenue vehicles	31	43	51	68	72	69	58	78
MTS - Contracted Services								
Land (parcel)	2	1	1	1	1	1	1	1
Buildings and structures	4	3	3	3	3	1	1	1
Buses	393	407	369	388	358	348	337	357
Nonrevenue vehicles	8	10	7	7	9	4	2	2
Taxicab Administration								
Buildings and structures	1	1	1	1	1	1	1	1
Nonrevenue vehicles	4	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 Eight Years - DRAFT

	2012	2011	2010	2009	2008	2007	2006	2005
Ridership (in 000's)								
San Diego Transit % Change	28,802 5.69%	27,252 1.23%	26,921 -9.55%	29,762 5.94%	28,094 7.74%	26,076 4.77%	24,890 1.90%	24,427
San Diego Trolley % Change	32,655 3.30%	31,613 3.75%	30,469 -17.49%	36,928 -1.84%	37,621 7.14%	35,114 3.80%	33,830 15.32%	29,334
MTS - Contract Services % Change	23,780 4.92%	22,664 3.07%	21,988 1.58%	21,645 0.86%	21,460 1.50%	21,143 11.83%	18,907 2.49%	18,449

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 Eight Fiscal Years - DRAFT

	2012	2011	2010	2009	2008	2007	2006	2005
Average Fare per Rider								
San Diego Transit	0.95	0.96	0.99	0.94	0.84	0.86	0.90	0.88
San Diego Trolley	1.08	1.10	1.08	0.91	0.83	0.78	0.83	0.88
MTS - Contract Services	1.07	1.06	1.11	1.10	0.98	0.90	0.92	0.90
Operating Expense per Rider								
San Diego Transit	3.13	3.06	3.49	2.73	2.85	2.81	2.74	3.20
San Diego Trolley	1.94	1.91	2.00	1.59	1.49	1.59	1.63	1.62
MTS - Contract Services	2.57	2.63	2.64	2.76	2.86	2.71	2.88	2.81
Subsidy per Rider								
San Diego Transit	2.18	2.11	2.50	1.79	2.01	1.95	2.05	2.41
San Diego Trolley	0.86	0.81	0.92	0.68	0.66	0.81	0.80	0.74
MTS - Contract Services	1.50	1.57	1.53	1.66	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.



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Agenda Item No. B2

MEETING OF THE METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 8, 2012

SUBJECT:

NEW GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) AND AUDITING
STANDARDS (LINDA MUSENGO)

RECOMMENDATION:

That the MTS Audit Oversight Committee receive a report from Pun & McGeady
regarding upcoming reporting and auditing changes.

Budget Impact

None at this time.

DISCUSSION:

Ken Pun and Gary Caporicci will present information about the following statements of
accounting standards as issued by the Government Accounting Standards Board that
will become effective during the next few years. These statements will have a significant
effect on both the appearance of financial statements and the amounts that are reported.

1. GASB 63 – Financial Reporting of Deferred Outflows of Resources, Deferred
Inflows of Resources, and Net Position
2. GASB 65 – Items Previously Reported as Assets and Liabilities
3. GASB 67 – Financial Reporting for Pension Plans—an amendment of GASB
Statement No. 25
4. GASB 68 – Accounting and Financial Reporting for Pensions—an amendment of
GASB Statement No. 27

Mr. Pun and Mr. Caporicci will present information about changes in auditing standards
as provided in the American Institute of Certified Public Accountants (AICPA) Clarity
Standards.

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

Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Sharon Cooney, 619.557.4513, Sharon.Cooney@sdmts.com

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





MTS AUDIT COMMITTEE PRESENTATION

Thursday, November 8, 2012



*Gary M. Caporicci, CPA, CGFM, CFF
Kenneth H. Pun, CPA, CGMA*

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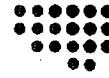
MTS AUDIT COMMITTEE PRESENTATION

UPDATE OF ACCOUNTING & AUDITING STANDARDS



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MTS AUDIT COMMITTEE PRESENTATION



I. Governmental Accounting Standards Board

- GASB No. 63 and No. 65, Deferred Outflows and Inflows...
- GASB No. 67 and No. 68, Pension Accounting and Financial Reporting

II. American Institute of CPAs (AICPA)

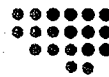
- SAS No. 126, Going Concern
- Audits of Group Financial Statements
- New Format of Auditor's Report



PUN & McGEADY

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MTS AUDIT COMMITTEE PRESENTATION



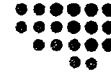
GASB Standards Update



PUN & McGEADY

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MTS AUDIT COMMITTEE PRESENTATION



GASB STANDARDS UPDATE

GASB Statement No. 63

**Financial Reporting of
Deferred Outflows of Resources,
Deferred Inflows of Resources
and Net Position**



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GASB Statement No. 63



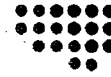
- GASB Concepts Statement No. 4, *Elements of Financial Statements*
- The elements of a statement of financial position are defined as follows:
 - Assets are resources with present service capacity that the government presently controls.
 - Liabilities are present obligations to sacrifice resources that the government has little or no discretion to avoid.
 - A deferred outflow of resources is a consumption of net assets by the government that is applicable to future reporting period.
 - A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period.
 - Net position is the residual of all other elements presented in a statement of financial position.



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GASB Statement No. 63

Statement of Net Position



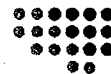
- Deferred Outflows of Resources and Deferred Inflow of Resources should be reported in a statement of financial position in a separate section following assets and liabilities respectively.



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GASB Statement No. 63

Statement of Net Position



- Replaces Statement of Net Assets
- Represents the difference between all other elements in a statement of financial position and should be displayed in three components as:
 - Net Investment in Capital Assets
 - Restricted (by major categories)
 - Unrestricted



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GASB Statement No. 63



Current GASB Statements Presenting Deferred Outflows / Deferred Inflows

- Hedging Derivatives
(GASB Statements No.53 and No. 64)
- Certain Service Concession Arrangements
(GASB Statement No. 60)
- Pension Plans
(GASB Statements No.67 and No. 68)



PUN & McGEADY

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GASB Statement No. 63



Effective Date

Effective Date and Transition

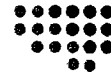
- The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. (For years ended June 30, 2013 or later)
- Earlier application is encouraged.



PUN & McGEADY

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MTS AUDIT COMMITTEE PRESENTATION



GASB STANDARDS UPDATE

GASB Statement No. 65

**Items Previously Reported
as Assets and Liabilities**



PUN & McGEADY

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GASB Statement No. 65



- Reclassifies certain items that were previously reported as assets and liabilities as deferred outflows resources, deferred inflows of resources, or current-period outflows and inflows.
- Deferrals are reported in a statement of financial position and they result from outflows and inflows of resources that have already taken place but are not recognized in the financial statements as revenues and expenses/expenditures because they relate to a future period.



PUN & McGEADY

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GASB Statement No. 65

- Use of the term “deferred” should be limited to items reported as deferred outflows of resources and deferred inflow of resources.



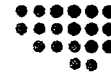
GASB Statement No. 65

Issued March 2012

Effective Date

- For Financial Statements for periods beginning after December 15, 2012 (For years ended June 30, 2014 or later)
- Earlier application is encouraged.

MTS AUDIT COMMITTEE PRESENTATION



GASB STANDARDS UPDATE

GASB Statement No. 67
Financial Reporting for Pension Plans



15

GASB Statement No. 67



Effective Date

- Pension Plans in fiscal year beginning after June 15, 2013 (for years ended June 30, 2014 or later)
- Encourage to implement the New Standards earlier

Replaces

- GASB Statement No. 25 Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.
- GASB Statement No. 50, Pension Disclosures



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MTS AUDIT COMMITTEE PRESENTATION



GASB STANDARDS UPDATE

GASB Statement No. 68

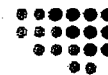
**Accounting and Financial Reporting
for Pension Plans**



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GASB Statement No. 68



Effective Date

- Employers and government non-employer contributing entities in fiscal years beginning after June 15, 2014 (For years ended June 30, 2015 or later)
- Encourage to implement the New Standards earlier

Replaces

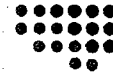
- GASB Statement No. 27, *Accounting for Pensions by State and local Governmental Employers.*
- GASB Statement No. 50, *Pension Disclosures*



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MTS AUDIT COMMITTEE PRESENTATION



Accounting and Financial Reporting for Pension Plans

Summary of Certain Significant Changes:

- ❖ **Accounting – based**, not funding-based
- ❖ Liability recognition in the financial statements would be the difference between total pension obligation and Plan Assets. This would be reported a **Net Pension Liability**.



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Accounting and Financial Reporting for Pension Plans

Actuarial Valuations Requirements



☐ GASB 67 Measurement Date:

- As of plan's fiscal year end
- OK to roll forward from a prior date within 24 months
- For example:

Plan Fiscal Year End	Earliest Valuation Date
12/31/13	12/31/11
06/30/14	06/30/12



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Accounting and Financial Reporting for Pension Plans

Actuarial Valuations Requirements

☐ GASB 68 Measurement Date:

- Within 12 months of employer fiscal year end
- OK to roll forward from a prior date within 30 months of employer fiscal year end
- For example:

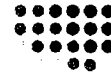
Employer Fiscal Year End	Earliest Measurement Date	Earliest Valuation Date
12/31/14	12/31/13	06/30/12
06/30/14	06/30/13	12/31/11

MTS AUDIT COMMITTEE PRESENTATION

Accounting and Financial Reporting for Pension Plans

- ❖ **Discount Rate** would be based on the long-term expected rate of return
- ❖ Use **Entry Age Normal Actuarial Cost Method**
- ❖ Difference between Actual and Projected earnings on Plan investments should be reported as **Deferred Outflows or Inflows of Resources** and should be recognized as pension expense over five years.

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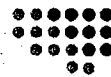
Accounting and Financial Reporting for Pension Plans

- ❖ Changes in **Total Pension Liability** from differences between expected and actual experience with regard to economic or demographic factors or changes of assumptions should be recognized as **Deferred Outflows or Inflows of Resources** and recognized as expenses over period of employees remaining service lives with:
 - ✓ Relating to past services cost, pension expense should be recognized immediately.
 - ✓ Relating to past services cost of active employees, pension expense should be recognized over the average expected remaining service lives.



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MTS AUDIT COMMITTEE PRESENTATION



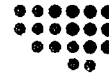
Accounting and Financial Reporting for Pension Plans

- ❖ Note **Disclosures** in the Financial Statements are significant
- ❖ **Required Supplementary Information** are 10 year schedules
- ❖ Other matters, such as **Cost-Sharing** and **Special Funding Situations Plans**



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MTS AUDIT COMMITTEE PRESENTATION



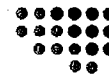
GASB Future Standards

- ❖ Financial Guarantee Transactions
- ❖ Combinations and Disposals of Government Operations
- ❖ Postemployment Benefits Accounting and Financial Reporting



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MTS AUDIT COMMITTEE PRESENTATION

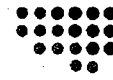


AICPA STANDARDS UPDATE



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MTS AUDIT COMMITTEE PRESENTATION



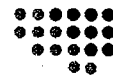
SAS No. 126

**The Auditor's Consideration of an Entity's
Ability to Continue as a Going Concern**



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MTS AUDIT COMMITTEE PRESENTATION



**FASB has divided the "Going Concern"
project into two phases:**

Phase 1

- Exposure Draft issued in July 2012 addressed "The Liquidation Basis of Accounting"

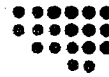
Phase 2

- Exposure Draft to be issued in fourth quarter of 2012 titled "Going Concern"



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MTS AUDIT COMMITTEE PRESENTATION



SAS No. 126 Addresses auditor's responsibilities in an audit of financial statements as follows:

1

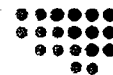
- Evaluating substantial doubt about an entity's ability to continue as a going concern.



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MTS AUDIT COMMITTEE PRESENTATION



SAS No. 126 Addresses auditor's responsibilities in an audit of financial statements as follows:

2

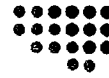
- Does not apply to an audit of financial statements based on assumption of liquidation, for example (a) entity in process of liquidation, (b) owners have decided to commence dissolution or liquidation, or (c) legal proceedings, including bankruptcy.



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MTS AUDIT COMMITTEE PRESENTATION



Audits of Group Financial Statements (Including the Work of Component Auditors)

- ☐ Group Engagement Partner
- ☐ Group Engagement Team:
 - ✓ Establish overall group strategy.
 - ✓ Communicate with Component Auditors.
 - ✓ Perform work on consolidation process.
 - ✓ Evaluate the conclusions drawn from the audit evidence as the basis for forming an opinion on the group financial statements.
- ☐ Component Auditors



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MTS AUDIT COMMITTEE PRESENTATION



New Format of Auditor's Report

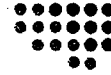
INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.



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MTS AUDIT COMMITTEE PRESENTATION



New Format of Auditor's Report

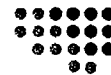
Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.



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MTS AUDIT COMMITTEE PRESENTATION



New Format of Auditor's Report

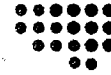
Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.



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MTS AUDIT COMMITTEE PRESENTATION



New Format of Auditor's Report

Auditor's Responsibility, Continued

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

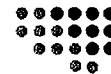
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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MTS AUDIT COMMITTEE PRESENTATION



New Format of Auditor's Report


Auditor's Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.




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Thank You!



Questions?
Questions?



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1255 Imperial Avenue, Suite 1000
San Diego, CA 92101-7490
(619) 231-1466 • FAX (619) 234-3407

Agenda Item No. B3

MEETING OF THE METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 8, 2012

SUBJECT:

FY 13 AUDIT PLAN UPDATE (DANIEL MADZELAN)

RECOMMENDATION:

That the Audit Oversight Committee receive a status report on the fiscal year (FY) 13 audit plan.

Budget Impact

None.

DISCUSSION:

The MTS Internal Auditor will provide a status update on the FY 13 approved Audit Plan, which consisted of 5 internal audits, follow-up reviews on FY 12 audits, and 1 nonreporting audit project.



Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Sharon Cooney, 619.557.4513, Sharon.Cooney@sdmts.com



MTS Internal Audit

FY13 Audit Plan - Progress Update

Daniel Madzellan
11/8/2012



Approved FY13 Audit Plan

Audit	Primary Business Unit	Audit Type	Risk Impact	Risk Likelihood	Estimated Hours
Follow Up Audits – FY12 Audits	Multiple Business Units	Follow Up/Assurance	Medium	Possible	220.0
Contract Compliance and Administration	Integrated Review – Multiple Business Units	External Business Relationships/Operational/Performance	High	Probable	400.0
Storeroom Operations /Off-Site Property Mgmt.	Finance	Consultative/Operational	High	Possible	280.0
IT – Business Continuity Management	IT/Finance	Operational	High	Possible	160.0
Token Management Operations	Finance	Business Process Review	High	Possible	104.0
Special Event Revenue Management	SDTI	Consultative/Operational	High	Probable	96.0
Establish Continuous Monitoring Program	Finance/Accounting	Operational/Finance	High	Possible	88.0
Totals – Planned Engagements					1,348.0
Audit Administration					240.0
Unscheduled Projects/Management Requests					200.00
Total Audit Hours – FY13					1,788.00



Follow Up Audits

- **Completed**
 - Transit Store - All findings remediated
 - SDTC Revenue - All findings remediated
 - SDTI Revenue - One open finding (low priority); nearly entirely remediated at this time.
- **In Progress (Substantial Complete)**
 - Customer Services - Classroom Day Trip Program
- **Planned, not Commenced**
 - IT System Access/Security
 - Payroll
 - Procurement - FTA Compliance



Storeroom Operations - Consultative Review

- **Agreed Upon Scope of Reviews**
 - Inventory Requisition/Ordering Procedures
 - Inventory Receiving Procedures
 - Distribution/Acquitting of Inventory Procedures
 - Physical Counting (Daily Cycle Counting) Procedures
 - Security controls of facilities
 - Physical Inventory Security; and
 - Building Security
 - Obsolete/Slowing Moving and Scrapping Inventory Procedures
 - Management Reporting and Monitoring of Performance



Storeroom Operations - Consultative Review

Preliminary Summary - All Storerooms

Management has implemented internal controls to prevent, detect, and address standard business risks regarding inventory management. Overall, controls subject to review to date were working as designed and intended.

- There were some scope limitations which prevented Audit from reviewing certain aspect of agreed upon operations. Also, data reviewed did not always include tangible evidence to support compliance with stated operating procedures. Audit also identified some opportunities for process improvement, which could help improve the overall effectiveness and efficiency of operations, as well as communication and monitoring of activities.
- Risk Assessment of Findings to date: Low to Medium Impacting.



Contract Compliance & Administration

- Population Potentially Subject to Review: 1,671
 - Contracts Executed between May 2007 and June 2012.
- Creating Risk Profile for Contracts
 - Dollar value of the contract,
 - Duration of the contract,
 - Type of contract (service, goods, construction, etc.),
 - Capital vs. operating expenditures;
 - Organization responsible for administration (MTS, SDTI, or SDTC), which determines the system used for procuring the related goods or services (IFAS or Ellipse),
 - Internal policies and procedures; and
 - Regulatory requirements.
- Population Identified for Potential Review - 10.



Contract Compliance & Administration

- Audit has contacted selected vendors notifying them of MTS's intention to validate compliance with contractual terms; notification letters include a listing of the necessary documentation vendors need to provide in order to complete the review process.

