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10-11-13 P12:10 JN

Agenda

MEETING OF THE METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

October 17, 2013

Executive Conference Room
9:00 a.m.

ACTION RECOMMENDED

- A. 1. Roll Call
2. Approval of the Minutes of June 13, 2013 Approve
- B. COMMITTEE DISCUSSION ITEMS
1. Draft of FY2013 Comprehensive Annual Financial Report (CAFR) (Erin Dunn & Ken Pun of Pun & McGeady LLP) Receive
Action would receive a draft of the FY2013 CAFR for review and discussion.
2. Report of new GASB statements and auditing standards (Ken Pun of Pun & McGeady LLP) Receive
Action would receive a report from Pun & McGeady regarding upcoming reporting and auditing changes.
3. Auditing Services Contract Award (Erin Dunn) Approve
Action would forward a recommendation to the Board of Directors to authorize the MTS CEO to execute MTS Doc. No. G1513.0-13 for a five-year contract with three one-year options with Pun & McGeady LLP for auditing services.
- 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

1255 Imperial Avenue, Suite 1000, San Diego, CA 92101-7490 • (619) 231-1466 • www.sdmts.com

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

MINUTES

June 13, 2013

A. 1. ROLL CALL

Chairman Ewin called the meeting to order at 8:56 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

2. APPROVAL OF MINUTES

Mr. McClellan moved for approval of the minutes of the November 8, 2012, Audit Oversight Committee meeting. Mr. Gloria seconded the motion, and the vote was 6 to 0 in favor.

Ms. Musengo announced her upcoming retirement. She stated it was likely she would be leaving MTS in October 2013 with this date being contingent upon the appropriate handover of current duties. She advised Erin Dunn, Assistant Finance Manager would be taking over and would be heavily involved in all of the aspects of the audit preparation. She discussed Ms. Dunn's past work with regard to all details of the audit several years running. Mr. Jablonski advised Ms. Dunn was also a CPA.

B. COMMITTEE DISCUSSION ITEMS

1. Audit Engagement Letter

Tom Lynch, Controller discussed the purpose of the engagement letter including the outlining of responsibilities, the terms of the Pun & McGeady LLP Engagement Letter and advised it is a standard boiler plate contract. Mr. Ewin questioned with regard to the paragraph relating to Audit Procedures – Internal Controls and what it would take for Pun & McGeady LLP to render an opinion. Mr. Pun responded the auditing standards and risk assessment process and advised there would be a separate opinion on internal control.

Action Taken

Mr. Ovrom moved to review the audit engagement letter and provide comments. Mr. Mathis seconded the motion, and the vote was 6 to 0 in favor.

2. Interim Audit (Tom Lynch)

Mr. Lynch discussed the interim audit and advised the purpose of the interim audit and the number of steps covered with the focus primarily testing internal controls. He explained the purpose of the Interim Status Report issued by Pun & McGeady LLP. He advised Pun & McGeady LLP brought two items to MTS's attention and discussed these two items. He advised what MTS is doing to prevent these issues in the future. Mr. Jablonski discussed the audit report and documenting issues and that MTS has taken the right steps in reporting issues they need to improve upon including training programs and additional positions. Mr. Ovrom asked if this triggered a size increase in the audit

sample or if it would in the future. Mr. Pun advised at year end phase of the audit they will increase the sample size and they are carefully reviewing the process to identify any situations to bring before the Executive Committee.

Action Taken

Mr. Ovrom moved to receive a report on interim audit work (conducted by MTS's independent auditor Pun and McGeady) and related observations. Mr. Mathis seconded the motion, and the vote was 6 to 0.

3. Proposed Audit Schedule (Tom Lynch)

Mr. Lynch advised of the schedule. Mr. Ewin asked when Karen Landers, General Counsel would receive responses to the Audit letters MTS sent out. Ms. Landers advised of the deadline. Mr. Lynch explained the importance of the letters not being sent out too late or too early and advised of the timing in which the Board members would receive their letters. Linda Musengo, Finance Manager advised the procedure is generally the confirmation letters are given by MTS to the auditor and the auditors mail the letters and this route is preferred. Mr. Ewin advised of the mailing target date. Mr. Jablonski asked if the letters were for sitting Board members or anyone who served in the prior fiscal year. Ms. Dunn advised.

Action Taken

Mr. Ovrom moved to review the proposed audit schedule and provide comments. Mr. Mathis seconded the motion, and the vote was 6 to 0.

4. Internal Audit Update (Daniel Madzellan)

Daniel Madzellan, Internal Auditor presented slides regarding the fiscal year 2013 ("FY13") audit plan summary and preliminary outline of the fiscal year 2014 ("FY14") plan including the approved FY13 audit plan and time budget, actual results FY13 audit plan, contract compliance and administration, trolley and bus storerooms consultative review (including notable and secondary risks identified), follow up reviews and results, token management operations, special events revenue operations, continuous monitoring program, information technology business continuity management (including a disaster recovery plan), fraud/waste/abuse hotline summary, time budget for FY14 audit plan and the FY14 audit plan – plan to date.

Mr. Jablonski advised training and safety measures were being implemented to ensure contracts and invoices are correct and what MTS is paying is correct.

Mr. Ewin questioned Mr. Madzellan if he discusses potential risk with those in upper management. Mr. Madzellan advised he informs management as issues arise. Ms. Landers advised she and Mr. Madzellan meet every Friday morning.

Mr. Gloria questioned with regard to the contract management training course. Ms. Landers discussed the training and advised there will be refresher courses which are planned throughout the year. Procurement managers have monthly meetings and there will be ongoing discussions regarding the ongoing education.

Mr. Gloria questioned regarding the new Contract Administrator and Ms. Landers confirmed it was an internal promotion of an existing MTS employee.

Mr. Gloria asked how the hotline was promoted to employees. Mr. Madzelan advised there was a link provided on MTS's internal intranet and externally on MTS's website. Mr. Gloria asked if it was anonymous. Mr. Madzelan advised it had been concluded it was best to offer several ways to in which to be contacted with the phone being more anonymous than the internet, however intranet is anonymous.

Mr. Gloria asked regarding the Compass Card operations. Mr. Jablonski answered the Compass Card program would be reviewed and they would introduce new processes and procedures once the program made the permanent move to MTS.

Mr. Ovrom asked about cost reimbursement. Mr. Madzelan advised if project managers need to modify scope of the contract or add funds there would be a formal procurement process to formally document the increase. Mr. Jablonski advised more latitude is needed in the procurement process to make substitutions and Mr. Madzelan concluded it helps to ensure fair and reasonable pricing by going through an actual process to document allowing procurement to ensure MTS is spending its money wisely.

Action Taken

Staff gave a report and no action was taken.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

There were no committee member communications.

D. PUBLIC COMMENTS

There were no public comments

E. NEXT MEETING DATE

The next meeting will be held as called.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 9:44 a.m.



Chairman

Attachment: Roll Call Sheet

**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) June 13, 2013

CALL TO ORDER (TIME) 8:56 a.m.

RECESS N/A

RECONVENE N/A

CLOSED SESSION N/A

RECONVENE N/A

ADJOURN 9:44 a.m.

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWIN (Chair) <input checked="" type="checkbox"/>	8:50 a.m.	9:44 a.m.
GLORIA <input checked="" type="checkbox"/> (Emerald) <input type="checkbox"/>	8:50 a.m.	9:44 a.m.
MATHIS <input checked="" type="checkbox"/>	8:50 a.m.	9:44 a.m.
OVROM <input checked="" type="checkbox"/> (Bragg) <input type="checkbox"/>	8:50 a.m.	9:44 a.m.
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>	8:50 a.m.	9:44 a.m.
CUNNINGHAM <input type="checkbox"/> (McClellan) <input checked="" type="checkbox"/>	8:50 a.m.	9:44 a.m.
Transportation Committee Rep Slot (Mathis)		

SIGNED BY THE CLERK OF THE BOARD: 

CONFIRMED BY THE GENERAL COUNSEL: 



1255 Imperial Avenue, Suite 1000
San Diego, CA 92101-7490
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Agenda Item No. B1

MEETING OF THE METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

October 17, 2013

SUBJECT:

DRAFT OF FY2013 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)
(ERIN DUNN AND KEN PUN OF PUN & MCGEADY LLP)

RECOMMENDATION:

That the Audit Oversight Committee receive a draft of the FY2013 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 2013 CAFR.

As of this distribution date, staff expects no material changes to the financial reports with the following exceptions:

1. Formatting and final proofreading.
2. Note 16, Subsequent Events, is subject to change until the report is published.
3. Some statistical schedules, primarily those related to operating indicators, have not been finalized for FY2013.

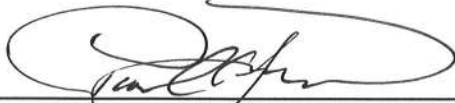
Please note the following significant changes from the prior year:

1. Increase in total assets due to contributed capital, partially offset by reduced cash on hand for capital purchases.
2. Increase in operating expenses due to retiring the variable rate POB's and an increase in depreciation expense.
3. Increase in Net Position due to a significant increase in contributed capital, offset by increased operating expenses and a significant decrease in subsidy revenue.



4. GASB 63 was implemented in FY2013. Net Assets are now referred to as Net Position.

Ken Pun from Pun & McGeady LLP will be present to provide comments regarding the draft financial report.



Paul C. Jablonski
Chief Executive Officer

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

Attachment: A. FY13 Comprehensive Annual Financial Report Draft



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2013 AND 2012**



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

San Diego Metropolitan Transit System

San Diego, California

*Comprehensive Annual Financial Report
and Independent Auditors' Report*

For the years ended June 30, 2013 and 2012

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

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, 2013 and 2012 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, 2013 and 2012 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, 2013 and 2012 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.

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 America Plaza Station to San Ysidro at the International Border, the Orange Line from the Santa Fe Depot through Centre City and then east to El Cajon Transit Center, and the Green Line from the 12th and Imperial Transit Center Bayside platform to Santee. During FY2013, MTS accomplished 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 27 routes with an active fleet of 260 buses.

The relationship between MTS and the transit operating subsidiaries, SDTI and SDTC, is formally established through operating agreements and MTS-adopted corporate policies. These agreements and corporate policies specify the roles and responsibilities of each of the organizations and outline the procedures in numerous functional areas including auditing and budgeting, fare setting, marketing and public information, revenue-producing advertising, service contracts, and programming of federal, state and local subsidies. The MTS Board of Directors has the policy-setting responsibility for the operation and development of MTS' transit operating subsidiaries as well as for the planning and approval of capital expenditures by or on behalf of these entities. The day-to-day operating functions, labor matters and maintenance of facilities are managed by the individual transit operators. MTS has centralized and consolidated Security, Planning, Human Resources, Finance, Information Technology, Stores, 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 outside parties for the operation of 70 fixed-route bus lines and paratransit services with an active fleet of 427 buses. The contracts require full operation and maintenance of the bus services. Contract services are accounted for in the Contracted Services 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. In December 2012, SDA&E entered into a 99-year lease and operating agreement with Pacific Imperial Railroad, Inc. (PIR) over the 70-mile Desert Line freight right of way in East San Diego County. The agreement provides specific performance milestones for the first 5 years of the term, with a minimum of \$1 million in annual revenue required. The agreement may be terminated if PIR fails to meet the specified milestones. If PIR meets all milestones and commences freight operations along the Desert Line, MTS's revenue will increase over time to 15% of gross freight revenue.

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 continues to show moderate 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, healthcare and housing construction. San Diego's gross regional product (GRP), the total value of the region's economy, has been forecasted to reach \$180.1 billion in 2012 and \$187.6 billion in 2013, increasing from the \$172.6 billion earned in 2011. Unemployment has declined in San Diego County and compares favorably to the unemployment rate in California and the national average. Sales tax receipts have grown in the current year as have sales tax related revenues.

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 5 years but has yet to recover fully from the economic downturn. Sales tax receipts throughout California have continued 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 restoration of some service reduced in prior years. In response to significant pressure from growing pension and benefits liabilities, MTS has made pension reform a priority. As of fiscal year 2013, all employees now contribute towards their defined benefit pension plans, and all new members of the Amalgamated Transit Union will participate in a defined contribution retirement plan.

As directed by the MTS Board of Directors, MTS plans to bring its contingency reserve balance from 10.0% of the operating budget up to 12.5% over the next three years.

MTS also established a capital reserve to begin planning for the replacement of 52 SD100 light rail vehicles that are 18 years old.

Major Initiatives

In addition to the challenge of aligning operating cost with recurring revenues, MTS is also committed to keeping its capital infrastructure in a state of good repair. During fiscal year 2013, MTS continued its ongoing programs to upgrade its bus fleet and the light rail vehicles. As of June 30, 2013, MTS accepted delivery of 54 new low-floor vehicles as part of the Trolley Renewal project, with the final 11 to arrive during fiscal year 2014. In addition, two bus maintenance facilities, in East County and South Bay, are in the process of being expanded and upgraded.

MTS partners with SANDAG on many regional capital projects to enhance the public transit system. This includes three "Rapid" bus projects in the San Diego region. These routes will operate high-frequency, limited stop service to higher-amenity stations utilizing new, articulated buses. Two of the "Rapid" bus projects are currently under construction with an anticipated in-service date in the middle of calendar year 2014. The third project is in the final development phase.

The Mid-Coast extension of the trolley system is another regional project; it is currently in the preliminary engineering phase. When complete, this extension will span 11 miles between Old Town and north University City. Construction on the Mid-Coast extension is scheduled to begin in calendar year 2016 and is anticipated to open for revenue service in calendar year 2018.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (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, 2012. This was the seventh consecutive year and the seventeenth year overall that MTS has achieved this prestigious award. To be awarded a Certificate of Achievement MTS must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The staff of the finance and administration department is 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.

October 31, 2013

San Diego Metropolitan Transit System

Listing of Board of Directors and Management

BOARD OF DIRECTORS

Members	Board position (elected position)
Harry Mathis	Chairman, since 1/06; Board Member since 1/95
Ron Roberts	Vice Chairman, since 1/11; Board Member since 12/89 (Supervisor, County Board of Supervisors)
David Alvarez	Board Member, since 1/12 (Councilmember, City of San Diego)
Lorie Bragg	Board Member, since 1/12 (Mayor Pro Tem, Imperial Beach)
Jim Cunningham	Board Member, since 12/09 (Councilmember, City of Poway)
Marti Emerald	Board Member, since 12/09 (Councilmember, City of San Diego)
Ernest Ewin	Chair Pro Tem, since 1/13, Board Member, since 3/05 (Councilmember, City of La Mesa)
George Gastil	Board Member, since 12/12 (Councilmember, City of Lemon Grove)
Todd Gloria	Board Member, since 1/09 (Interim Mayor, 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 9/11 (Councilmember, National City)
Mary Salas	Board Member, since 2/13 (Councilmember, City of Chula Vista)
Lorie Zapf	Board Member, since 1/13 (Councilmember, City of San Diego)

BOARD COMMITTEE MEMBERSHIP

Executive Committee	Accessible Services Advisory Committee	Airport Authority Advisory Committee	Ad Hoc Public Security Committee
Harry Mathis, Chair Jim Cunningham Todd Gloria Al Ovrom Ron Roberts	Lorie Bragg, Chair	Harry Mathis	David Alvarez Jim Cunningham Harry Mathis John Minto Mona Rios
Audit Oversight Committee	Budget Development Committee	Joint Committee on Regional Transit	Los Angeles-San Diego Rail Corridor Agency
Ernie Ewin, Chair Jim Cunningham Todd Gloria Harry Mathis Al Ovrom Ron Roberts	Todd Gloria Harry Mathis Bob McClellan John Minto Ron Roberts	Jim Cunningham Ernie Ewin Harry Mathis	Jerry Rindone (Former Board Member)
SANDAG Board	SANDAG Regional Planning Committee	SANDAG Transportation Committee	Taxicab Committee
Harry Mathis	Mona Rios	Harry Mathis	Lorie Zapf, Chair

San Diego Metropolitan Transit System

Listing of Board of Directors and Management (Continued)

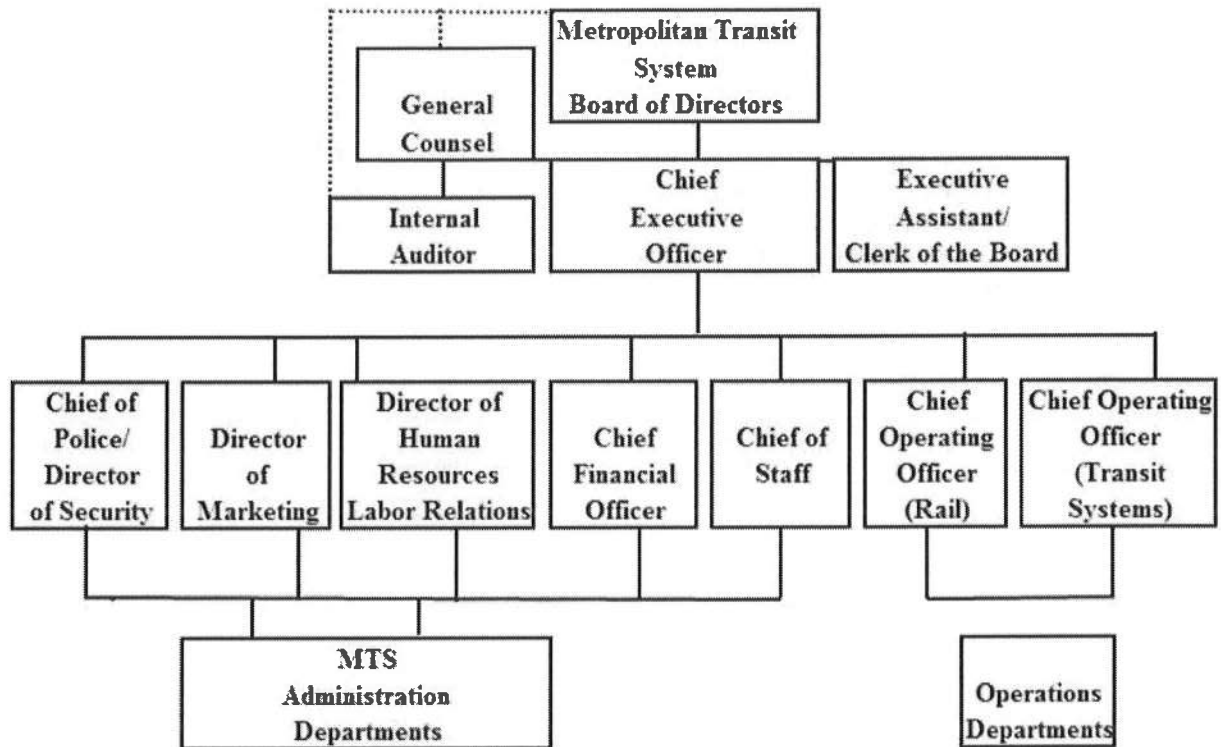
MTS MANAGEMENT

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

DRAFT 10-10-2013

San Diego Metropolitan Transit System

Executive Level Organization Chart



DRAFT

San Diego Metropolitan Transit System

Certificate of Achievement for Excellence in Financial Reporting - GFOA



Government Finance Officers Association

**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, 2012

A handwritten signature in black ink, reading 'Jeffrey R. Egan'. The signature is written in a cursive, flowing style.

Executive Director/CEO

FINANCIAL SECTION



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San Diego, California 92122

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INDEPENDENT AUDITORS' REPORT

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

Report of Financial Statements

We have audited the accompanying basic financial statements of the San Diego Metropolitan Transit System (MTS), which comprise of the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and related notes to the basic financial statements.

Management 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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.

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, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress of defined benefits pension plans and other postemployment healthcare plan 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise 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 basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013, 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 grant agreements and other matters. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering MTS' internal control over financial reporting and compliance.

San Diego, California
October 31, 2013

San Diego Metropolitan Transit System Management's Discussion and Analysis June 30, 2013 and 2012

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, 2013 and 2012. 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 position, as reported in the statement of net position, totaled \$1,493 million as of June 30, 2013, \$1,409 million as of June 30, 2012 and \$1,254 million as of June 30, 2011. Of this amount, \$190 million was unrestricted as of June 30, 2013, \$158 million was unrestricted as of June 30, 2012, and \$173 million was unrestricted as of June 30, 2011. Total net position increased by \$84 million in the current year and increased by \$155 million in the prior year. The current year increase is attributable to an increase in contributed capital offset by increases in operating expenses and decreases in Federal, *TransNet* and Prop 1B subsidy revenues for capital projects.
- For the year ended June 30, 2013, the combined farebox recovery ratio (the measure of the ability to recover operating costs through fare revenue) for San Diego Trolley, Inc., San Diego Transit Corporation, and MTS Contracted Services was 39.92% compared to 41.05% for the year ended June 30, 2012 and 41.68% for the year ended June 30, 2011. 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 2013, MTS presents comparative statements for FY2013 and FY2012.

The *statement of net position* presents information on all of MTS' assets, deferred outflow of resources, liabilities, and deferred inflow of resources with the difference between the four reported as net position. Over time, increases or decreases in net position 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 position* presents information showing how net position changed during the most recent fiscal year. All changes in net position 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 (Continued)
June 30, 2013 and 2012

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 position may serve over time as a useful indicator of an entity's financial stability. In the case of MTS, net position was \$1,493 million at the close of the most recent fiscal year and \$1,409 million at the end of FY2012.

The largest portion of MTS' net position reflects the investment in capital assets, net of accumulated depreciation and reduced by any outstanding bonds or other borrowings. Most of the investment in capital assets is comprised of trolley system assets, buses, and construction-in-progress totaling \$23 million, of which the largest project under construction is the procurement of 65 light rail vehicles, \$16 million. Prior year construction-in-progress totaled \$88 million, of which the largest projects under construction included the procurement of 65 light rail vehicles, \$66 million; procurement of buses, \$14 million; and security-related trolley car enhancements, \$4.4 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 FY2013, MTS transferred completed projects worth \$146 million to SDTC, SDTI and Other Contracted Services. In FY2012, MTS transferred completed projects worth \$151 million to SDTC, SDTI, and Other Contracted Services.

The balance in the unrestricted component of net position increased by \$32 million during the current year and decreased \$15 million in the prior year.

	June 30, 2013	June 30, 2012	Change	June 30, 2011	Change
Current and other assets	\$ 316,370,757	\$ 377,313,773	\$ (60,943,016)	\$ 299,353,436	\$ 77,960,337
Capital assets	1,416,260,555	1,295,206,414	121,054,141	1,198,153,827	97,052,587
Total assets	1,732,631,312	1,672,520,187	60,111,125	1,497,507,263	175,012,924
Long-term liabilities outstanding	176,376,307	193,730,156	(17,353,849)	197,238,134	(3,507,978)
Other liabilities	62,945,676	69,755,429	(6,809,753)	46,571,745	23,183,684
Total liabilities	239,321,983	263,485,585	(200,539,909)	243,809,879	19,675,706
Net position:					
Net investment in capital assets	1,296,216,965	1,172,815,524	123,401,441	1,073,561,720	99,253,804
Restricted	7,255,404	78,378,268	(71,122,864)	7,007,293	71,370,975
Unrestricted	189,836,960	157,840,810	31,996,150	173,128,371	(15,287,561)
Total net position	\$ 1,493,309,329	\$ 1,409,034,602	\$ 84,274,727	\$ 1,253,697,384	\$ 155,337,218

Increases in operating revenue are attributable to an increase in riders utilizing one-way fares as well as the \$2.00 fee being charged for compass cards. Variances between FY2013 and FY2012 are attributable to significant decreases in FTA, *TransNet*, and Prop 1B funding for capital projects, and a decrease in STA revenue. The current year increase in operating expenses is attributable to an increase in personnel costs, primarily due to the amortization cost associated with the net pension asset, and an increase in depreciation expense associated with the acquisition of new assets.

San Diego Metropolitan Transit System
Management's Discussion and Analysis (Continued)
June 30, 2013 and 2012

	June 30, 2013	June 30, 2012	Change	June 30, 2011	Change
Revenues:					
Operating revenues:					
Charges for services	\$ 90,652,522	\$ 88,280,779	\$ 2,371,743	\$ 84,893,386	\$ 3,387,393
Other operating revenue	5,906,691	5,228,636	678,055	5,308,624	(79,988)
Nonoperating revenues:					
Federal revenue	57,733,099	71,822,863	(14,089,764)	48,814,276	23,008,587
Transportation Development Act	71,893,404	71,538,917	354,487	61,509,431	10,029,486
State Transit Assistance	9,878,189	18,981,989	(9,103,800)	15,044,930	3,937,059
State revenue - other	5,213,539	84,878,549	(79,665,010)	18,520,399	66,358,150
TransNet funds	32,275,380	75,793,217	(43,517,837)	19,117,834	56,675,383
Other nonoperating revenue	14,022,580	9,644,573	4,378,007	16,250,239	(6,605,666)
Total revenues	287,575,404	426,169,523	(138,594,119)	269,459,119	156,710,404
Expenses:					
Operating expenses	327,929,073	306,931,351	20,997,722	291,893,324	15,038,027
Nonoperating expenses	7,553,638	8,018,977	(465,339)	8,559,112	(540,135)
Total expenses	335,482,711	314,950,328	20,532,383	300,452,436	14,497,892
Increase (decrease) in net position before capital contributions	(47,907,307)	111,219,195	(159,126,502)	(30,993,317)	142,212,512
Capital contributions	132,182,034	44,118,023	20,997,722	26,806,292	17,311,731
Increase/(decrease) in net position	84,274,727	155,337,218	(71,062,491)	(4,187,025)	159,524,243
Net position - beginning of year	1,409,034,602	1,253,697,386	155,337,218	1,257,884,411	(4,187,027)
Net position - end of year	<u>\$1,493,309,329</u>	<u>\$1,409,034,602</u>	<u>\$ 84,274,727</u>	<u>\$1,253,697,386</u>	<u>\$ 155,337,216</u>

Capital Asset and Debt Administration

Capital assets. MTS' investment in capital assets net of depreciation as of June 30, 2013 and 2012 amounted to \$1,416 million and \$1,295 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 \$239 million through the end of FY2013. As of June 30, 2013 MTS had placed 54 new trolley cars in service, 27 in the current year and 27 in FY2012.
- MTS continues to modernize the bus fleet. In FY2013, 53 buses were placed into service for a total cost of \$24 million.
- MTS purchased 40 new ADA buses for a total cost of \$2.8 million. As of June 30, 2013 MTS had placed all 40 buses in service.
- Completed capital projects totaling \$132 million were transferred from SANDAG to MTS and its component units during FY2013.

San Diego Metropolitan Transit System
Management's Discussion and Analysis (Continued)
June 30, 2013 and 2012

CAPITAL ASSETS
(Net of depreciation)

	2013	2012	2011
Land	\$ 240,453,415	\$ 240,471,287	\$ 224,793,077
Buildings	724,826,325	644,825,668	654,759,921
Vehicles	378,389,642	272,442,209	179,108,728
Equipment & other	47,215,318	46,728,919	42,137,343
Construction-in-progress	22,541,797	87,526,399	97,354,759
Total	<u>\$ 1,416,260,555</u>	<u>\$ 1,295,206,414</u>	<u>\$ 1,198,153,828</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 \$4.2 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 for a total obligation of \$141.1 million. In connection with the lease/leaseback transaction, MTS placed funds on deposit, which, together with the interest earned on the deposits, will be sufficient to cover the amounts due under the finance obligation.

The pension obligation bonds were issued in fiscal year 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; this refunding was retired in FY2013. 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 2013. Additional information on MTS' long-term debt can be found in Note 6 to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of MTS' finances for all those with an interest in the government's finances. If you have questions concerning any of the information provided in this report or need additional financial information, visit our website at www.sdmts.com or direct inquiries to the Chief Financial Officer, MTS, 1255 Imperial Avenue, Suite 1000, San Diego, CA 92101.

BASIC FINANCIAL STATEMENTS

San Diego Metropolitan Transit System
Statements of Net Position
June 30, 2013 and 2012

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 67,342,108	\$ 37,090,439
Investments restricted for debt service payable within one year	1,807,484	1,678,414
Accounts and other receivables	7,487,415	12,124,112
Due from other governments	64,554,910	64,126,299
Inventory	17,673,252	17,129,732
Prepaid expenses and other current assets	1,150,754	2,270,695
Total current assets	<u>160,015,923</u>	<u>134,419,691</u>
Noncurrent assets:		
Cash and certificates of deposit restricted for capital support	12,143,571	82,396,323
Investments restricted for debt service and capital projects	116,056,580	117,681,495
Unamortized bond issuance cost	329,045	360,626
Capital assets (net of accumulated depreciation)	1,416,260,555	1,295,206,414
Net pension asset	27,825,638	42,455,638
Total noncurrent assets	<u>1,572,615,389</u>	<u>1,538,100,496</u>
Total assets	<u>1,732,631,312</u>	<u>1,672,520,187</u>
LIABILITIES		
Current liabilities:		
Accounts payable	12,931,617	35,363,435
Due to other governments	20,184,156	6,823,611
Unearned revenue	4,223,070	2,220,667
Accrued expenses	10,123,462	11,077,368
Retentions payable	334,827	57,256
Due within one year:		
Compensated absences payable	7,455,502	7,090,823
Accrued damage, injury, and employee claims	3,394,889	3,036,806
Long-term debt	2,490,669	2,407,049
Long-term debt payable from restricted assets	1,807,484	1,678,414
Total current liabilities	<u>62,945,676</u>	<u>69,755,429</u>
Noncurrent liabilities:		
Retentions payable from restricted assets	7,487,745	6,435,064
Long-term debt payable from restricted assets	113,457,002	115,264,486
Due in more than one year:		
Compensated absences payable	4,713,238	5,133,802
Accrued damage, injury, and employee claims	8,854,074	11,227,194
Net other post employment benefits obligation	13,695,813	12,118,669
Long-term debt, due in more than one year	28,168,435	43,550,941
Total noncurrent liabilities	<u>176,376,307</u>	<u>193,730,156</u>
Total liabilities	<u>239,321,983</u>	<u>263,485,585</u>
NET POSITION		
Net investment in capital assets	1,296,216,965	1,172,815,524
Restricted assets for capital projects	7,255,404	78,378,268
Unrestricted	189,836,960	157,840,810
Total net position	<u>\$ 1,493,309,329</u>	<u>\$ 1,409,034,602</u>

See accompanying notes to basic financial statements.

San Diego Metropolitan Transit System
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Passenger revenue	\$ 90,651,622	\$ 88,094,391
Advertising	972,190	784,204
Charter	900	186,388
Miscellaneous	4,934,501	4,444,432
Total operating revenues	96,559,213	93,509,415
Operating expenses:		
Personnel costs	123,720,353	112,536,825
Outside services	67,413,522	66,050,312
Transit operations funding	3,570,758	3,720,825
Materials and supplies	8,468,837	7,977,299
Energy costs	22,572,397	22,688,865
Risk management	2,902,322	4,029,950
Miscellaneous	6,492,642	5,115,682
Depreciation	92,788,242	84,811,593
Total operating expenses	327,929,073	306,931,351
Operating (loss)	(231,369,860)	(213,421,936)
Public support and nonoperating revenues (expenses):		
Federal revenue	57,733,099	71,822,863
Transportation Development Act (TDA) funds	71,893,404	71,538,917
State Transit Assistance (STA) funds	9,878,189	18,981,989
State revenue - other	5,213,539	84,878,549
TransNet funds	32,275,380	75,793,217
Other local subsidies	6,951,227	2,642,020
Investment earnings	6,266,933	7,622,252
Interest expense	(7,520,331)	(8,013,519)
Gain (loss) on disposal of assets	804,420	(619,699)
Other expenses	(1,726)	(4,155)
Amortization of bond issuance costs	(31,581)	(1,303)
Total public support and nonoperating revenues (expenses)	183,462,553	324,641,131
Income (Loss) before contributed capital	(47,907,307)	111,219,195
Contributed capital, net	132,182,034	44,118,023
Changes in net position	84,274,727	155,337,218
Net Position:		
Beginning of year	1,409,034,602	1,253,697,384
End of year	<u><u>\$ 1,493,309,329</u></u>	<u><u>\$ 1,409,034,602</u></u>

San Diego Metropolitan Transit System
Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Receipts from customers and users	\$ 94,759,953	\$ 93,641,105
Payments to suppliers	(122,201,949)	(109,954,300)
Payments to employees	(115,897,734)	(105,546,593)
Payments for damage and injury	(2,560,951)	(2,414,484)
Net cash provided (used) by operating activities	<u>(145,900,681)</u>	<u>(124,274,272)</u>
Cash flows from noncapital financing activities:		
Public support funds received	<u>203,981,276</u>	<u>336,075,331</u>
Net cash provided (used) by noncapital financing activities	<u>203,981,276</u>	<u>336,075,331</u>
Cash flows from capital and related financing activities:		
Debt service costs	(16,867,535)	(9,114,411)
Property acquisition	(82,816,993)	(118,522,969)
Proceeds from disposal of assets	1,409,694	1,493,031
Net cash provided (used) by capital financing activities	<u>(98,274,834)</u>	<u>(126,144,349)</u>
Cash flows from investing activities:		
Interest received on investments	<u>193,156</u>	<u>89,221</u>
Net cash provided (used) by investing activities	<u>193,156</u>	<u>89,221</u>
Net increase (decrease) in cash and cash equivalents	(40,001,083)	85,745,931
Cash and cash equivalents, beginning of year	<u>119,486,762</u>	<u>33,740,831</u>
Cash and cash equivalents, end of year	<u><u>\$ 79,485,679</u></u>	<u><u>\$ 119,486,762</u></u>
Cash and Cash Equivalents		
Cash and cash equivalents	\$ 67,342,108	\$ 37,090,439
Cash and certificates of deposit restricted for capital support	<u>12,143,571</u>	<u>82,396,323</u>
Total cash and cash equivalents	<u><u>\$ 79,485,679</u></u>	<u><u>\$ 119,486,762</u></u>

San Diego Metropolitan Transit System
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of Operating Income (Loss) to		
Net Cash Provided (Used) by Operating Activities		
Operating income (loss)	\$ (231,369,860)	\$ (213,421,936)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	92,788,242	84,811,593
Amortization of Net Pension Assets	14,630,000	6,755,000
(Increase) decrease in:		
Accounts and other receivables	(3,807,895)	393,602
Materials and supplies inventory	(543,520)	(4,529,385)
Prepaid and other current assets	1,119,941	(103,920)
Increase (decrease) in:		
Accounts payable	(23,282,245)	6,782,301
Accrued expenses	(980,275)	(6,013,542)
Unearned revenue	2,008,635	(261,919)
Accrued OPEB liability	1,577,144	1,660,389
Compensated absences payable	(55,885)	(182,455)
Accrued damage, injury and employee claims	2,015,037	(164,000)
Total adjustments	85,469,179	89,147,664
Net cash provided (used) by operating activities	<u>\$ (145,900,681)</u>	<u>\$ (124,274,272)</u>
Noncash investing, capital, and financing activities:		
Contributions of capital assets from SANDAG	\$ 131,736,037	\$ 44,118,023
Contributions/adjustments of capital assets from outside parties	445,997	-
Total contributions of capital assets	<u>\$ 132,182,034</u>	<u>\$ 44,118,023</u>
 Increase in fair value of investments	 <u>\$ 258,247</u>	 <u>\$ 1,563,278</u>

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NOTES TO BASIC FINANCIAL STATEMENTS

San Diego Metropolitan Transit System
Notes to Basic Financial Statements
For the years ended June 30, 2013 and 2012

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San Diego Metropolitan Transit System
Notes to Basic Financial Statements
For the years ended June 30, 2013 and 2012

Note 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 (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 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 position, 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 Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

A. Reporting Entity

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 position, 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. SD&AE's assets, liabilities, net position, 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 position, the statement of revenues, expenses and changes in net position, and statement of cash flows) report information on all of the activities of the primary government and its component units. The statement of revenues, expenses, and changes in net position 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.

In 2013, MTS implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as a revenue until that time.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

MTS receives funding primarily from the following revenue sources:

Passenger Revenue

Passenger fares comprised approximately 36 percent and 38 percent of MTS' \$249.4 million and \$232.9 million operating budget for FY2013 and FY2012, 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. Effective October 1, 2012 the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) Legislation was replaced with Moving Ahead for Progress in the 21st Century (MAP-21) which reauthorized surface transportation programs through Fiscal Year 2014. Under MAP-21, MTS receives Section 5307 and Section 5337 grants which are earmarked for capital assistance and preventive maintenance. In addition, MTS also receives Section 5311 and Section 5311F grants for operations. The Job Access Reverse Commute (JARC) grants which are used for operations have been eliminated. MTS expects to receive JARC funding for the next 1-2 years from grants previously awarded.

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 2013.

Transportation Development Act (TDA)

TDA provides funding for public transit operators. This state fund is one quarter of a percent of the 8.0 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, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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 Assets

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

E. Cash, Cash Equivalents, and Investments

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

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

E. Cash, Cash Equivalents, and Investments (Continued)

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

MTS participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and assets-backed securities are subject to market risk and to change in interest rates. The reported value of the pool is the same as the fair value of the pool shares. MTS also participates 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, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

H. Capital Assets (Continued)

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 generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from these estimates.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

O. Accounting Changes

GASB has issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements (SCA)*. The requirement of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This statement became effective for periods beginning after December 15, 2011 and did not have an impact on MTS' financial statements for the year ended June 30, 2013.

GASB has issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The requirement of this statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. This statement became effective for periods beginning after June 15, 2012 and did not have an impact on MTS' financial statements for year ended June 30, 2013.

GASB has issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement combines the authoritative accounting and financial reporting of the Financial Accounting Standards Board ("FASB") and the American Institute of Certified Public Accountants ("AICPA"). The statements eliminates the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments. This statement became effective for period beginning after December 15, 2011 and did not have a significant impact on MTS' financial statements for the year ended June 30, 2013.

GASB has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The requirement of this statement standardizes the presentation of the deferred inflows and outflows of resources and their effects on a government's net position. This statement became effective for periods beginning after December 15, 2011. The implementation of this statement to MTS' was limited to renaming of "Net Assets" to "Net Position" in the 2013 financial statements.

Note 2 – Cash, Cash Equivalents, and Investments

A summary of cash, cash equivalents, and investments at June 30, 2013 and 2012:

	2013	2012
Cash and cash equivalents	\$ 67,342,108	\$ 37,090,439
Cash and certificates of deposit restricted for capital support	12,143,571	82,396,323
Investments restricted for debt service and capital projects - Current	1,807,484	1,678,414
Investments restricted for debt service and capital projects - Noncurrent	116,056,580	117,681,495
Total cash and investments	<u>\$ 197,349,743</u>	<u>\$ 238,846,671</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 2 – Cash, Cash Equivalents, and Investments (Continued)

Cash, cash equivalents, and investments consisted as follows on June 30, 2013 and 2012:

<u>Investment type</u>	<u>Fair Value</u>	
	<u>2013</u>	<u>2012</u>
Cash and cash equivalents:		
Demand Deposits	\$ 25,229,120	\$ 28,077,291
Retention Trust Account	7,487,745	6,435,064
San Diego County Investment Pool	4,655,826	75,961,259
State of California - Local Agency Investment Fund	42,112,988	9,013,148
Total cash and cash equivalents	<u>79,485,679</u>	<u>119,486,762</u>
Investments:		
U.S. Treasuries	39,171,173	38,924,428
Bank Investment Contract	78,692,891	80,435,481
Total investments	<u>117,864,064</u>	<u>119,359,909</u>
Total cash, cash equivalents, and investments	<u>\$ 197,349,743</u>	<u>\$ 238,846,671</u>

At year end the carrying amount of demand deposits was \$25,299,120 and the bank balance was \$26,774,449 compared to \$28,077,291 and \$29,038,991 in the previous year, of which the total amount was collateralized or insured with securities held by the pledging financial institutions in MTS' name as discussed below.

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

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 Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 2 – Cash, Cash Equivalents, and Investments (Continued)

San Diego County Investment Pool

The San Diego County Investment Pool is a local government investment pool managed by the County Treasurer's Office on behalf of Investment Pool participants. Depositors in the Investment Pool include both mandatory participants, those agencies required by law to deposit their funds with the County Treasurer's Office, and voluntary participants, agencies that place their funds in the Investment Pool as an investment option. Voluntary participants, including cities, fire districts, and various special districts accounted for approximately 8.8% of the Investment Pool as of June 30, 2013.

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, 2013, MTS had \$4,655,826 invested in the San Diego County Investment Pool, compared to \$75,961,259 at June 30, 2012.

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, 2013, MTS had \$42,112,988 invested in LAIF, which had invested 1.96% of the pool investment funds in Structured Notes and Asset-Backed Securities compared to \$9,013,148 and 3.47% at June 30, 2012.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 2 – Cash, Cash Equivalents, and Investments (Continued)

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; U.S. Government taxable bonds; and a bank investment contract, are not rated and do not require ratings.

Concentration of Credit Risk

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

Custodial Credit Risk

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

The market value of pledged securities must equal at least 110% of the MTS' cash deposits. California law also allows institutions to secure MTS deposits by pledging first trust deed mortgage notes having a value of 150% of the MTS' total cash deposits. MTS may waive collateral requirements for cash deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. MTS, however, has not waived the collateralization requirements.

Summary of Investments to Maturity

Investments held by MTS grouped by maturity date at June 30, 2013 and 2012, are shown below:

<u>Maturity</u>	<u>2013</u>	<u>2012</u>
Current to one year	\$ 79,485,679	\$ 119,486,762
One to five	39,171,173	38,924,428
Five to ten years	-	-
Ten to twenty years	78,692,891	80,435,481
Total	<u>\$ 197,349,743</u>	<u>\$ 238,846,671</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 3 – Accounts Receivables

A. Accounts and Other Receivables

At June 30, 2013 and 2012, the net realizable accounts and other receivables consisted of the following:

	2013	2012
Interest receivable	\$ 2,910,105	\$ 2,976,781
Passenger revenue - General Public	2,188,076	-
Pension plan receivable	1,255,716	8,209,465
Miscellaneous trade receivables	687,683	517,068
Advertising receivable	445,835	420,798
Total accounts and other receivables	<u>\$ 7,487,415</u>	<u>\$ 12,124,112</u>

B. Due from Other Governments

At June 30, 2013 and 2012, amounts due from other governments consisted of the following:

	2013	2012
FTA Grant Funds	\$ 47,082,147	\$ 47,860,775
STA Funds	5,791,324	4,843,032
Passenger revenue	3,538,468	5,246,831
SANDAG - project/route reimbursements	3,468,099	1,307,296
U.S. Treasury Department	1,651,284	1,042
County of San Diego - MediCal	1,112,738	1,394,591
City of Chula Vista	745,907	188,388
Department of Homeland Security	649,937	435,503
SANDAG - <i>TransNet</i>	404,299	703,790
State of California	58,965	234,550
North County Transit District-shared costs	49,692	94,910
City of San Diego	2,050	84,464
County of San Diego - TDA	-	1,731,127
Total due from other governments	<u>\$ 64,554,910</u>	<u>\$ 64,126,299</u>

Note 4 – Inventory

At June 30, 2013 and 2012, inventory consists of the following repair and maintenance parts for revenue vehicles:

	2013	2012
San Diego Transit Corp.	\$ 2,249,585	\$ 2,300,244
San Diego Trolley, Inc.	15,423,667	14,829,488
Total inventory	<u>\$ 17,673,252</u>	<u>\$ 17,129,732</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 5 – Capital Assets

MTS converted \$151 million in capital assets from CIP to assets in service compared to \$155 million in FY2012. Capital asset additions totaling \$131.7 million were contributed by SANDAG, including \$21.5 million to SDTC, and \$110.2 million to SDTI. In FY2012, the contributions from SANDAG totaled \$44.0 million.

A summary of changes in capital assets is as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets, not depreciated				
Land and right-of-way	\$ 240,471,287	\$ -	\$ (17,872)	\$ 240,453,415
Construction-in-progress	87,526,399	85,516,636	(150,501,238)	22,541,797
Total capital assets, not depreciated	327,997,686	85,516,636	(150,519,110)	262,995,212
Capital assets, depreciated:				
Buildings and structures	1,284,786,118	131,358,102	(2,836,934)	1,413,307,286
Buses and Vehicles	530,564,522	138,314,777	(7,100,681)	661,778,618
Equipment and other	88,050,458	9,176,022	(117,074)	97,109,406
Capital lease property	12,091,981	-	-	12,091,981
Total capital assets, depreciated	1,915,493,079	278,848,901	(10,054,689)	2,184,287,291
Less accumulated depreciation for:				
Buildings and structures	(639,960,450)	(51,357,445)	2,836,934	(688,480,961)
Buses and vehicles	(258,122,313)	(32,365,779)	7,099,116	(283,388,976)
Equipment and other	(41,321,539)	(8,687,144)	114,595	(49,894,088)
Capital lease property	(8,880,049)	(377,874)	-	(9,257,923)
Total accumulated depreciation	(948,284,351)	(92,788,242)	10,050,645	(1,031,021,948)
Total capital assets, depreciated, net	967,208,728	186,060,659	(4,044)	1,153,265,343
Total capital assets	<u>\$1,295,206,414</u>	<u>\$ 271,577,295</u>	<u>\$ (150,523,154)</u>	<u>\$1,416,260,555</u>

Depreciation expense for capital assets for the years ended June 30, 2013 and 2012 was comprised of the following:

	2013	2012
General operations	\$ 1,361,426	\$ 1,246,870
Other contracted services	12,305,236	11,249,023
San Diego Transit Corporation	14,121,961	14,612,267
San Diego Trolley, Inc.	64,999,619	57,703,433
Total	<u>\$ 92,788,242</u>	<u>\$ 84,811,593</u>

Note 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, 2013, the Net Pension Asset amounted to \$27,825,638, compared to \$42,455,638 for FY2012.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 7 – Due to Other Governments

At June 30, 2013 and 2012, amounts due to other governments consisted of the following:

	2013	2012
SANDAG - Subsidy revenue for construction projects in process	\$ 18,172,628	\$ 4,531,369
SANDAG - CIP Reimbursement	1,182,154	462,483
North County Transit District	295,945	64,143
City of Lemon Grove - TDA Funds	134,122	121,170
City of San Diego - Shared Revenue	122,338	104,359
City of El Cajon - TDA Funds	90,883	90,890
State of California	45,638	666,505
City of Poway - TDA Funds	67,977	60,027
City of La Mesa - TDA Funds	51,500	104,000
City of Coronado - TDA Funds	20,600	18,816
County of San Diego	371	47,091
SANDAG - Pass Sales	-	357,526
City of Santee - TDA Funds	-	100,000
SANDAG - Compass Card Program	-	75,095
Total due to other governments	<u>\$ 20,184,156</u>	<u>\$ 6,803,474</u>

Note 8 – Unearned Revenue

At June 30, 2013 and 2012 unearned revenue consisted of the following:

	2013	2012
Fare media payments received in advance	\$ 2,787,666	\$ 1,124,825
Lease payments received in advance	898,185	595,886
Deposit from City of Mendoza for sale of light rail vehicles	428,341	-
County funds - 4S Ranch development	98,570	219,049
Land management deposits	10,308	21,225
Advertising revenue received in advance	-	253,450
Total unearned revenue	<u>\$ 4,223,070</u>	<u>\$ 2,214,435</u>

Note 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

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 9 – Commodity Swap (Continued)

During the period of the agreement (FY2012) 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.

While the commodity swap did not provide a reduction in the total cost of natural gas, it did shield MTS from seasonal price variances. Therefore, a commodity swap contract was not in place for FY2013.

Note 10 – Long-Term Debt

A. Summary

The following is a summary of changes in long-term obligations for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Amounts due within one year	Amounts due in more than one year
MTS:						
Capital lease obligations	\$ 4,766,867	\$ -	\$ (577,049)	\$ 4,189,818	\$ 575,669	\$ 3,614,149
Deferred gain on refunding	681,123	-	(91,837)	589,286	-	589,286
Finance obligation	116,942,900	-	(1,678,414)	115,264,486	1,807,484	113,457,002
Compensated absences payable	899,978	823,098	(756,471)	966,605	756,471	210,134
Accrued damage, injury, and employee claims	390,000	215,950	(97,000)	508,950	508,950	-
Accrued other post employment benefits	3,036,541	533,100	(49,167)	3,520,474	-	3,520,474
Total MTS	126,717,409	1,572,148	(3,249,938)	125,039,619	3,648,574	121,391,045
San Diego Transit Corporation:						
Pension Obligation Bonds	40,510,000	-	(14,630,000)	25,880,000	1,915,000	23,965,000
Compensated absences payable	8,572,345	3,984,336	(4,134,207)	8,422,474	4,134,207	4,288,267
Accrued damage, injury, and employee claims	10,293,000	1,525,943	(2,481,213)	9,337,730	2,015,000	7,322,730
Accrued other post employment benefits	3,405,264	1,442,600	(840,906)	4,006,958	-	4,006,958
Total San Diego Transit Corporation	62,780,609	6,952,879	(22,086,326)	47,647,162	8,064,207	39,582,955
San Diego Trolley, Inc.:						
Compensated absences payable	2,752,302	3,033,316	(3,005,957)	2,779,661	2,564,824	214,837
Accrued damage, injury, and employee claims	3,581,000	(52,717)	(1,126,000)	2,402,283	870,939	1,531,344
Net other post employment benefits	5,676,864	644,200	(152,683)	6,168,381	-	6,168,381
Total San Diego Trolley, Inc	12,010,166	3,624,799	(4,284,640)	11,350,325	3,435,763	7,914,562
Total	\$ 201,508,184	\$ 12,149,826	\$ (29,620,904)	\$ 184,037,106	\$ 15,148,544	\$ 168,888,562

Reconciliation to Statement of Net Position:

Due within one year

Compensated absences payable	\$ 7,455,502
Accrued damage, injury, and employee claims	3,394,889
Long-term debt	2,490,669
Long-term debt payable from restricted assets	1,807,484
	<u>\$ 15,148,544</u>

Noncurrent liabilities:

Long-term debt payable from restricted assets	\$ 113,457,002
Compensated absences payable	4,713,238
Accrued damage, injury and employee claims	8,854,074
Accrued other post employment benefits	13,695,813
Long-term debt	<u>28,168,435</u>
	<u>\$ 168,888,562</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 10 – Long-Term Debt (Continued)

B. Capital Lease

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 \$788,266 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 asset acquired through a capital lease is as follows:

	2013	2012
Building – MTS Tower	\$ 12,091,981	\$ 12,091,981
Less accumulated depreciation	(9,257,923)	(8,880,049)
Total	<u>\$ 2,834,058</u>	<u>\$ 3,211,932</u>

The following is a summary of future minimum payments under the capital lease as of June 30, 2013:

Year ending June 30:	Tower Lease Payments
2014	\$ 736,704
2015	750,550
2016	731,665
2017	739,617
2018	743,537
2019-2020	<u>1,116,203</u>
Total minimum lease payments	4,818,276
Less amount representing interest	<u>(628,459)</u>
Present value of minimum lease payments	<u>\$ 4,189,817</u>

At June 30, 2013, the future minimum payments were \$4,189,817

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 10 – Long-Term Debt (Continued)

C. Finance Obligations

The following is a summary of changes in finance obligations for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Amounts due within one one year	Amounts due in more than one year
1995 LRV Lease/Leaseback	\$116,942,900	\$ -	\$ (1,678,414)	\$115,264,486	\$ 1,807,484	\$113,457,002
Pension Obligation Bonds	40,510,000	-	(14,630,000)	25,880,000	1,915,000	23,965,000
Total Finance Obligations	<u>\$157,452,900</u>	<u>\$ -</u>	<u>\$ (16,308,414)</u>	<u>\$141,144,486</u>	<u>\$ 3,722,484</u>	<u>\$137,422,002</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, 2013, the remaining future obligations total \$115,264,486.

Year ending June 30:	Principal	Interest	Total
2014	\$ 1,807,484	\$ 5,759,506	\$ 7,566,990
2015	21,361,390	5,689,623	27,051,013
2016	21,495,358	5,560,115	27,055,473
2017	4,923,324	5,240,909	10,164,233
2018	4,642,844	4,873,030	9,515,874
2019-2023	37,342,982	17,303,046	54,646,028
2024-2026	23,691,104	2,015,568	25,706,672
	<u>\$115,264,486</u>	<u>\$ 46,441,797</u>	<u>\$161,706,283</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, 2013 and 2012

Note 10 – Long-Term Debt (Continued)

C. Finance Obligations (Continued)

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 2024 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. The Taxable Pension Obligation Refunding Bonds 2009 Series A were retired in December 2012.

At June 30, 2013, the outstanding balance of the Pension Obligation Bonds is \$25,880,000.

Year ending June 30:	Principal	Interest	Total
2014	\$ 1,915,000	\$ 1,238,882	\$ 3,153,882
2015	2,005,000	1,149,100	3,154,100
2016	2,100,000	1,052,065	3,152,065
2017	2,205,000	947,884	3,152,884
2018	2,315,000	838,500	3,153,500
2019-2023	13,495,000	2,280,387	15,775,387
2024	1,845,000	47,509	1,892,509
	<u>\$ 25,880,000</u>	<u>\$ 7,554,327</u>	<u>\$ 33,434,327</u>

Note 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 \$250,000 (used to be \$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.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 11 – Risk Management (Continued)

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 position. 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:				
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
2012-2013	14,264,000	1,689,176	(3,704,213)	12,248,963

Following is summary of accrued damage injury, and employee claims for fiscal years 2013 and 2012:

Accrued damage, injury and employee claims	2013	2012
Current portion	\$ 3,394,889	\$ 3,036,806
Non-current portion	8,854,074	11,227,194
Total	<u>\$ 12,248,963</u>	<u>\$ 14,264,000</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 \$12,248,963 at June 30, 2013 and \$14,264,000 at June 30, 2012.

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

Note 12 – Contingencies

Pending legal actions. MTS, SDTC and SDTI have been named in certain legal actions pending at June 30, 2013. 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.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 12 – Contingencies (Continued)

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 SD&AE has never reported taxable income, because the federal and state statutes provide exemption from income tax for not for profit corporations, and because the fiscal tax year 2007 is now closed management does not anticipate future examinations of these returns or any future tax liability.

Note 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, 2013 were \$49,167 for 9 retirees currently receiving post-employment health care benefits. Total SDTI payments for the year ended June 30, 2013 were \$152,683 for 25 retirees currently receiving benefits. Total SDTC payments for the year ended June 30, 2013 were \$433,836 for 45 management retirees plus \$407,070 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 2013 is as follows:

Net OPEB Obligation (NOO)

	MTS	SDTI	SDTC	Total
NOO at June 30, 2012	\$ 3,036,541	\$ 5,676,864	\$ 3,405,264	\$ 12,118,669
Benefit payments paid outside of a trust	(49,167)	(152,683)	(840,906)	(1,042,756)
Estimated contributions to a trust	-	-	-	-
Annual Required Contribution	526,600	631,900	1,435,300	2,593,800
Accrued interest on June 30, 2012 NOO	136,600	255,500	153,200	545,300
Amortization of June 30, 2012 NOO	(130,100)	(243,200)	(145,900)	(519,200)
NOO at June 30, 2013	<u>\$ 3,520,474</u>	<u>\$ 6,168,381</u>	<u>\$ 4,006,958</u>	<u>\$ 13,695,813</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 13 – Post-Employment Health Care Benefits (Continued)

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.

Participants as of June 30, 2012 (most current available)	Total
Current retirees and surviving spouses	237
Other participants fully eligible for benefits	330
Other participants 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 2013 MTS contributions to the plan were \$1,042,756 (or 49.29% of total gross health costs), while retirees contributed \$1,072,969 (or 50.71% of total gross health costs).

Annual OPEB Cost and Net OPEB Obligation. MTS' annual OPEB cost (expense) is calculated based on the sponsoring employer's Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any Unfunded Actuarial Accrued Liabilities (UAAL) as a level percentage of projected payroll on a closed basis over a period not to exceed thirty years. The following table shows 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	<u>1,543,500</u>
Annual Required Contribution	2,593,800
Interest on beginning of year NOO	545,300
Amortization of beginning of year NOO	<u>(519,200)</u>
Annual OPEB cost	2,619,900
Contributions or Benefit Payments	(726,656)
Implicit subsidy payments	<u>(316,100)</u>
Increase in net OPEB obligation	1,577,144
Net OPEB obligation - beginning of year	<u>12,118,669</u>
Net OPEB obligation - end of year	<u>\$ 13,695,813</u>

MTS' Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan and the Net OPEB Obligation for fiscal years 2011, 2012 and 2013 were as follows:

Fiscal Year ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 2,276,900	40.85%	\$ 10,458,280
June 30, 2012	2,628,300	36.83%	12,118,669
June 30, 2013	2,619,900	39.80%	13,695,813

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 13 – Post-Employment Health Care Benefits (Continued)

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:

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	0.00%	\$ 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	0.00%	\$ 24,617	38.25%

SDTC (in 000s)

Valuation Date	Actuarial Value Assets	Entry Age Normal AAL	Unfunded AAL	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2011	-	\$ 24,326	\$ 24,326	0.00%	\$ 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, a compensation increase of 3%, 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 expense trends grade down from 5.0% to an ultimate of 4.5% by 2018/2019. A general inflation rate of 3.0% was included in the investment rate, compensation rate, and the health care cost trend rate. 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, 2013 and 2012

Note 14 – Employee Retirement Systems

A. MTS and SDTI

Plan Description and Provisions

MTS' and SDTI's defined benefit pension plans (Plan) 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 (CalPERS), 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 have selected optional benefit provisions in their contracts with CalPERS and adopt these benefits through local ordinances. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

Funding Policy

All employees working the equivalent of 1,000 hours per fiscal year are eligible to participate as members of CalPERS. The age at which MTS and SDTI employees are eligible to retire varies depending based on when they joined the Agency; all employees must have at least five years of vested service at separation to receive benefits. Annual retirement benefits are determined based on age at retirement, the length of membership service, and the amount of earnings based on the highest average pay rate in either a 12 or 36 month period (depending on when the employee first became a CalPERS member). CalPERS also provides death and disability benefits. CalPERS 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 based on annual CalPERS actuarial studies of Plan assets and liabilities and participant demographics. All MTS and SDTI employees are required to contribute a percentage of their gross pay to fund their future retirement benefits. Employee contributions vary based on the applicable Collective Bargaining Agreement, agency policy, and the date the employees' CalPERS membership began. 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 CalPERS Board of Administration.

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

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	\$ 77,582	\$ 88,127	\$ 10,545	88.03%	\$ 24,097	43.76%

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, 2013 and 2012

Note 14 – Employee Retirement Systems (Continued)

A. MTS and SDTI (Continued)

Annual Pension Cost

For fiscal year 2013, MTS' and SDTI's annual required employer contributions were \$1,647,350 and \$4,029,158, respectively. Of these totals, employees contributed \$66,436 and \$1,398,251. The required contribution for fiscal year 2013 was determined as part of the June 30, 2010, actuarial valuation using the Entry Age Normal Actuarial Cost Method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses); (b) projected salary increases from 3.30% to 14.20% depending on age, service, and type of employment; (c) 3.00% payroll growth adjustment; (d) 2.75% inflation adjustment; and (e) a merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% 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, 2011, the most recent valuation date, was 20 years for MTS and 27 years for SDTI.

Trend information for MTS (in 000s):

Fiscal Year Ended June 30:	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
2011	\$ 1,647	\$ 1,647	100%
2012	2,021	2,021	100%
2013	2,095	2,095	100%

Trend information for SDTI (in 000s):

Fiscal Year Ended June 30:	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
2011	\$ 3,565	\$ 3,565	100%
2012	3,908	3,908	100%
2013	4,029	4,029	100%

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 14 – Employee Retirement Systems (Continued)

B. SDTC

Plan Description

The San Diego Transit Corporation (SDTC) Employee Retirement Plan (Plan) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to eligible Plan members and beneficiaries. 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 Plan. To be eligible for participation in the defined benefit plan, the employee must have been hired before November 25, 2012 if they are an Amalgamated Transit Union (ATU), Local 1309 member, or before April 28, 2011 if they are an International Brotherhood of Electrical Workers (IBEW) Local 465 member.

Beginning in FY 2011, SDTC negotiated changes to retirement benefits for ATU Local 1309 members and IBEW Local 465 members. ATU Local 1309 represented employees hired after November 25, 2012 and IBEW local 465 represented employees hired after April 28, 2011 will receive their retirement benefits from a defined contribution 401(a) plan. Based on the applicable Collective Bargaining Agreement, SDTC contributes a fixed percentage of each employee's gross wages to a 401(a) account and matches voluntary employee contributions up to a maximum of 2% of the employees' gross wages.

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

The SDTC defined benefit pension plan is funded with both employer and employee contributions. Required funding levels are determined by annual independent actuarial studies comparing plan assets and liabilities and participant demographics. Employee contributions vary based on the applicable Collective Bargaining Agreement, agency policy, and the date the employees' membership began. After deducting employee contributions, SDTC contributes the remaining balance necessary to achieve the actuarially required funding level. 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 3.25% 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, 2012, the most recent valuation date, was 25 years.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the years ended June 30, 2013 and 2012

Note 14 – Employee Retirement Systems (Continued)

B. SDTC (Continued)

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

Valuation Date	Actuarial Value of Assets	Entry Age Normal AAL	Unfunded Liability	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll
7/1/2012	\$ 147,787	\$ 235,401	\$ 87,614	62.78%	\$ 33,393	262.37%

Annual Pension Cost

For fiscal year ended June 30, 2013, the annual pension cost of \$10,957,255 for the pension plan was equal to SDTC's required and actual contributions. Of this total, employees contributed \$401,274. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the entry age normal cost method. Following is the most recent data available.

Fiscal Year Ended June 30:	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
2011	\$ 7,753	\$ 7,753	100%
2012	10,132	10,132	100%
2013	10,957	10,957	100%

Note 15 – Other Required Individual Fund Disclosures

SDTC had unrestricted net deficits of \$15,881,180 at June 30, 2013 compared to \$21,072,108 at June 30, 2012. The deficit is 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 this deficit will be funded with future subsidies.

Note 16 – Subsequent Events

MTS negotiated a sale of a property commonly known as the Pyramid Van Lines Building. The property, 1603 Main Street, is located at the southwest corner of Main Street and Sigsbee Street in the Barrio Logan neighborhood of the City of San Diego (APN 538-210-25). The parcel is 3.59 acres and is improved with a 90,000 square-foot warehouse. The property is contiguous and directly east of the existing trolley yard. The purchase of the property is for the last remaining viable yard expansion property. The purchase price for the property was \$16,610,000 plus closing costs, engineering studies, and brokers fees.

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REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

San Diego Metropolitan Transit System
Required Supplementary Information
For the year ended June 30, 2013

SCHEDULE OF FUNDING PROGRESS OF DEFINED PENSION PLAN

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

MTS

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

SDTI (in 000s)

Valuation Date	Actuarial Value of Assets	Entry Age Normal AAL	Unfunded AAL	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2009	\$ 65,117	\$ 74,005	\$ 8,888	87.99%	\$ 23,501	37.82%
6/30/2010	71,032	79,497	8,466	89.35%	23,364	36.24%
6/30/2011	77,582	88,127	10,545	88.03%	24,097	43.76%

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
7/1/2010	\$ 152,896	\$ 226,821	\$ 73,925	67.41%	\$ 31,889	231.82%
7/1/2011	151,113	236,875	85,762	63.79%	32,573	263.29%
7/1/2012	147,787	235,401	87,613	62.78%	33,393	262.37%

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 (Continued)
For the year ended June 30, 2013

SCHEDULE OF FUNDING PROGRESS OF OTHER POST EMPLOYMENT HEALTHCARE PLAN

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

MTS (in 000s)

Valuation Date	Actuarial Value of Assets	Entry Age Normal AAL	Unfunded AAL	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2007	\$ -	\$ 8,292	\$ 8,292	0.00%	\$ 9,573	86.62%
6/30/2009	-	2,701	2,701	0.00%	8,281	32.62%
6/30/2011	-	3,276	3,276	0.00%	8,023	40.83%

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
6/30/2007	\$ -	\$ 26,473	\$ 26,473	0.00%	\$ 35,935	73.67%
6/30/2009	-	21,378	21,378	0.00%	37,463	57.06%
6/30/2011	-	24,326	24,326	0.00%	33,136	73.41%

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
6/30/2007	\$ -	\$ 15,399	\$ 15,399	0.00%	\$ 17,749	86.76%
6/30/2009	-	7,565	7,565	0.00%	26,788	28.24%
6/30/2011	-	9,417	9,417	0.00%	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.

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SUPPLEMENTARY INFORMATION

Combining Schedule of Net Position

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

Combining Schedule of Cash Flows

Schedule of Revenues, Expenses, and Changes in Net Position – 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 Position
June 30, 2013

	General Operations	Contracted Services	SDTC	SDTI	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 68,043,182	\$ -	\$ (603,155)	\$ (97,919)	\$ 67,342,108
Investments restricted for debt service payable within one year	1,807,484	-	-	-	1,807,484
Accounts and other receivables	5,259,186	750,559	1,385,004	92,666	7,487,415
Due from other governments	62,077,048	104,989	1,284,975	1,087,898	64,554,910
Internal balances	(12,177,057)	4,481,031	3,263,083	4,432,943	-
Inventory	-	-	2,249,585	15,423,667	17,673,252
Prepaid expenses and other current assets	143,069	114,537	449,475	443,673	1,150,754
Total current assets	125,152,912	5,451,116	8,028,967	21,382,928	160,015,923
Noncurrent assets:					
Cash and certificates of deposit restricted for capital support	12,143,571	-	-	-	12,143,571
Investments restricted for debt service and capital projects	116,056,580	-	-	-	116,056,580
Unamortized bond issuance cost	-	-	329,045	-	329,045
Capital assets (net of accumulated depreciation)	80,070,149	87,340,937	154,410,214	1,094,439,255	1,416,260,555
Net pension asset	-	-	27,825,638	-	27,825,638
Total noncurrent assets	208,270,300	87,340,937	182,564,897	1,094,439,255	1,572,615,389
Total assets	333,423,212	92,792,053	190,593,864	1,115,822,183	1,732,631,312

San Diego Metropolitan Transit System
Combining Schedule of Net Position (Continued)
June 30, 2013

	General Operations	Contracted Services	SDTC	SDTI	Total
LIABILITIES					
Current liabilities:					
Accounts payable	5,541,694	4,906,859	1,522,316	960,748	12,931,617
Due to other governments	20,058,022	1,911	27,565	96,658	20,184,156
Unearned revenue	3,794,729	-	-	428,341	4,223,070
Accrued expenses	3,348,982	-	2,867,787	3,906,693	10,123,462
Retentions payable	334,827	-	-	-	334,827
Due within one year:					
Compensated absences payable	756,471	-	4,134,207	2,564,824	7,455,502
Accrued damage, injury, and employee claims	508,950	-	2,015,000	870,939	3,394,889
Long-term debt	575,669	-	1,915,000	-	2,490,669
Long-term debt payable from restricted assets	1,807,484	-	-	-	1,807,484
Total current liabilities	36,726,828	4,908,770	12,481,875	8,828,203	62,945,676
Noncurrent liabilities:					
Retentions payable from restricted assets	7,487,745	-	-	-	7,487,745
Long-term debt payable from restricted assets	113,457,002	-	-	-	113,457,002
Due in more than one year:					
Compensated absences payable	210,134	-	4,288,267	214,837	4,713,238
Accrued damage, injury, and employee claims	-	-	7,322,730	1,531,344	8,854,074
Net other post employment benefits obligation	3,520,474	-	4,006,958	6,168,381	13,695,813
Long-term debt, due in more than one year	4,203,435	-	23,965,000	-	28,168,435
Total noncurrent liabilities	128,878,790	-	39,582,955	7,914,562	176,376,307
Total liabilities	165,605,618	4,908,770	52,064,830	16,742,765	239,321,983
NET POSITION					
Net investment in capital assets	(39,973,441)	87,340,937	154,410,214	1,094,439,255	1,296,216,965
Restricted assets for capital projects	7,255,404	-	-	-	7,255,404
Unrestricted	200,535,631	542,346	(15,881,180)	4,640,163	189,836,960
Total net position	\$ 167,817,594	\$ 87,883,283	\$ 138,529,034	\$ 1,099,079,418	\$ 1,493,309,329

San Diego Metropolitan Transit System
Combining Schedule of Revenues, Expenses, and Changes in Net Position
For the year ended June 30, 2013

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
Operating revenues:						
Passenger revenue	\$ -	\$ 26,476,421	\$ 28,621,363	\$ 35,553,838	\$ -	\$ 90,651,622
Advertising	972,190	-	-	-	-	972,190
Charter	-	-	900	-	-	900
Miscellaneous operating revenues	4,355,342	-	4,877	574,282	-	4,934,501
Total operating revenues	5,327,532	26,476,421	28,627,140	36,128,120	-	96,559,213
Operating expenses:						
Personnel costs	17,688,738	569,249	74,452,424	31,009,942	-	123,720,353
Outside services	10,430,851	52,032,538	1,635,086	3,315,047	-	67,413,522
Transit operations funding	109,181,503	-	-	-	(105,610,745)	3,570,758
Materials and supplies	34,567	1,981	4,517,591	3,914,698	-	8,468,837
Energy costs	216,244	8,240,259	5,246,719	8,869,175	-	22,572,397
Risk management	479,284	15,300	1,478,030	929,708	-	2,902,322
Miscellaneous operating expenses	(23,883,816)	1,713,190	10,351,122	18,312,146	-	6,492,642
Depreciation	1,361,426	12,305,236	14,121,961	64,999,619	-	92,788,242
Total operating expenses	115,508,797	74,877,753	111,802,933	131,350,335	(105,610,745)	327,929,073
Operating income (loss)	(110,181,265)	(48,401,332)	(83,175,793)	(95,222,215)	105,610,745	(231,369,860)

San Diego Metropolitan Transit System
Combining Schedule of Revenues, Expenses, and Changes in Net Position (Continued)
For the year ended June 30, 2013

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
Public support and nonoperating revenues (expenses):						
Federal revenue	57,733,099	5,595,366	20,265,957	22,425,986	(48,287,309)	57,733,099
Transportation Development Act (TDA) funds	71,893,404	26,659,232	28,826,153	3,353,833	(58,839,218)	71,893,404
State Transit Assistance (STA) funds	9,878,189	-	3,127,607	-	(3,127,607)	9,878,189
State revenue - other	5,213,539	1,473,067	-	25,470	(1,498,537)	5,213,539
<i>TransNet</i> funds	37,775,380	992,174	18,607,740	5,000,000	(30,099,914)	32,275,380
Other local subsidies	6,951,227	1,376,257	278,000	-	(1,654,257)	6,951,227
Investment earnings	6,266,933	-	-	-	-	6,266,933
Interest expense	(5,973,879)	-	(1,546,452)	-	-	(7,520,331)
Gain (loss) on disposal of assets	726,382	-	27,025	51,013	-	804,420
Other expenses	-	-	(1,726)	-	-	(1,726)
Amortization of bond issuance costs	-	-	(31,581)	-	-	(31,581)
Total public support and nonoperating revenues (expenses)	190,464,274	36,096,096	69,552,723	30,856,302	(143,506,842)	183,462,553
Income (loss) before transfers and contributed capital	80,283,009	(12,305,236)	(13,623,070)	(64,365,913)	(37,896,097)	(47,907,307)
Transfers	(37,896,097)	-	-	-	37,896,097	-
Contributed capital, net	(150,690,868)	13,232,829	40,476,157	229,163,916	-	132,182,034
Changes in net position	(108,303,956)	927,593	26,853,087	164,798,003	-	84,274,727
Net Position:						
Beginning of year	276,121,550	86,955,690	111,675,947	934,281,415	-	1,409,034,602
End of year	<u>\$ 167,817,594</u>	<u>\$ 87,883,283</u>	<u>\$ 138,529,034</u>	<u>\$ 1,099,079,418</u>	<u>\$ -</u>	<u>\$ 1,493,309,329</u>

San Diego Metropolitan Transit System
Combining Schedule of Cash Flows
For the year ended June 30, 2013

	General Operations	Contracted Services	SDTC	SDTI	Total
Cash flows from operating activities:					
Receipts from customers and users	\$ 4,228,260	\$ 25,983,066	\$ 29,093,709	\$ 35,454,918	\$ 94,759,953
Payments to suppliers	(25,857,725)	(64,315,623)	(9,724,104)	(22,304,497)	(122,201,949)
Payments to employees	(16,570,311)	(533,256)	(69,744,929)	(29,049,238)	(115,897,734)
Payments for damage and injury	(23,346)	-	(1,903,392)	(634,213)	(2,560,951)
Net cash provided (used) by operating activities	(38,223,122)	(38,865,813)	(52,278,716)	(16,533,030)	(145,900,681)
Cash flows from noncapital financing activities:					
Public support funds received	81,248,481	38,865,813	67,956,896	15,910,086	203,981,276
Net cash provided (used) by noncapital financing activities	81,248,481	38,865,813	67,956,896	15,910,086	203,981,276
Cash flows from capital and related financing activities:					
Debt service costs	(657,776)	-	(16,209,759)	-	(16,867,535)
Property acquisition	(82,816,993)	-	-	-	(82,816,993)
Proceeds from disposal of assets	732,145	-	28,589	648,960	1,409,694
Net cash provided (used) by capital and related financing activities	(82,742,624)	-	(16,181,170)	648,960	(98,274,834)
Cash flows from investing activities:					
Interest received on investments	193,156	-	-	-	193,156
Net cash provided (used) by investing activities	193,156	-	-	-	193,156
Net increase (decrease) in cash and cash equivalents	(39,524,109)	-	(502,990)	26,016	(40,001,083)
Cash and cash equivalents:					
Beginning of year	119,710,862	-	(100,165)	(123,935)	119,486,762
End of year	\$ 80,186,753	\$ -	\$ (603,155)	\$ (97,919)	\$ 79,485,679
Cash and cash equivalents:					
Cash and cash equivalents	\$ 68,043,182	\$ -	\$ (603,155)	\$ (97,919)	\$ 67,342,108
Cash and certificates of deposit restricted for capital support	12,143,571	-	-	-	12,143,571
Total cash and cash equivalents	\$ 80,186,753	\$ -	\$ (603,155)	\$ (97,919)	\$ 79,485,679

San Diego Metropolitan Transit System
Combining Schedule of Cash Flows (Continued)
For the year ended June 30, 2013

	General Operations	Contracted Services	SDTC	SDTI	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating income (loss):	\$ (30,786,275)	\$ (46,993,208)	\$ (73,372,291)	\$ (80,218,086)	\$ (231,369,860)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation and amortization	1,361,426	12,305,236	14,121,961	64,999,619	92,788,242
Amortization of Net Pension Assets			14,630,000		14,630,000
(Increase) decrease in:					
Accounts and other receivables	(2,100,464)	(739,062)	(1,033,960)	65,591	(3,807,895)
Materials and supplies inventory	-	-	50,659	(594,179)	(543,520)
Prepaid and other current assets	10,862	15,300	167,648	926,131	1,119,941
Increase (decrease) in:					
Accounts payable	(16,012,083)	(3,172,149)	(4,713,647)	615,634	(23,282,245)
Accrued expenses	6,166,683	-	(3,155,216)	(3,991,742)	(980,275)
Unearned revenue	2,705,119	(281,930)	(380,963)	(33,591)	2,008,635
Accrued OPEB liability	483,933	-	601,694	491,517	1,577,144
Compensated absences payable	66,627	-	(149,871)	27,359	(55,885)
Accrued damage, injury and employee claims	(118,950)	-	955,270	1,178,717	2,015,037
Total adjustments	<u>(7,436,847)</u>	<u>8,127,395</u>	<u>21,093,575</u>	<u>63,685,056</u>	<u>85,469,179</u>
Net cash provided (used) by operating activities	<u><u>\$ (38,223,122)</u></u>	<u><u>\$ (38,865,813)</u></u>	<u><u>\$ (52,278,716)</u></u>	<u><u>\$ (16,533,030)</u></u>	<u><u>\$ (145,900,681)</u></u>

Supplemental noncash disclosures:

During the year other governments contributed \$132,812,034 in capital assets.

During the year the fair value of investments increased by \$258,247.

San Diego Metropolitan Transit System
Combined Operations
Combining Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual
For the year ended June 30, 2013

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget
Operating revenues:						
Passenger revenue	\$ 90,681,677	\$ 91,347,457	\$ 90,651,622	\$ -	\$ 90,651,622	\$ (695,835)
Advertising	540,000	900,000	972,190	-	972,190	72,190
Charter	-	-	900	-	900	900
Miscellaneous operating revenues	4,680,806	4,722,704	4,934,501	(72,917)	4,861,584	138,880
Total operating revenues	95,902,483	96,970,161	96,559,213	(72,917)	96,486,296	(483,865)
Operating expenses:						
Personnel costs	120,962,348	125,023,299	123,720,353	(25,524)	123,694,829	1,328,470
Outside services	68,755,994	69,198,219	67,413,522	(42,164)	67,371,358	1,826,861
Transit operations funding	4,028,379	4,248,534	3,570,758	-	3,570,758	677,776
Materials and supplies	8,382,140	8,444,148	8,468,837	-	8,468,837	(24,689)
Energy costs	21,266,420	22,470,194	22,572,397	-	22,572,397	(102,203)
Risk management	4,036,364	3,823,463	2,902,322	442,154	3,344,476	478,987
Miscellaneous operating expenses	3,472,174	3,717,522	6,492,642	(2,662,070)	3,830,572	(113,050)
Depreciation	-	-	92,788,242	(92,788,242)	-	-
Total operating expenses	230,903,819	236,925,379	327,929,073	(95,075,846)	232,853,227	4,072,152
Operating income (loss)	(135,001,336)	(139,955,218)	(231,369,860)	95,002,929	(136,366,931)	3,588,287

San Diego Metropolitan Transit System
Combined Operations
Combining Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual (Continued)
For the year ended June 30, 2013

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget
Public support and nonoperating revenues (expenses):						
Federal revenue	41,565,787	41,738,755	57,733,099	(15,724,341)	42,008,758	270,003
Transportation Development Act	65,123,144	67,740,993	71,893,404	(3,745,834)	68,147,570	406,577
State Transit Assistance	5,023,764	5,023,765	9,878,189	(6,750,582)	3,127,607	(1,896,158)
State revenue - other	1,320,000	1,320,000	5,213,539	(3,740,472)	1,473,067	153,067
TransNet funds	23,534,650	24,853,634	32,275,380	(7,675,466)	24,599,914	(253,720)
Other local subsidies	2,548,074	2,539,631	6,951,227	(4,507,544)	2,443,683	(95,948)
Investment earnings	7,661,926	7,661,926	6,266,933	1,341,980	7,608,913	(53,013)
Interest expense	(10,035,998)	(9,759,269)	(7,520,331)	(2,255,463)	(9,775,794)	(16,525)
Gain (loss) on disposal of assets	-	-	804,420	(804,420)	-	-
Other expenses	-	-	(1,726)	-	(1,726)	(1,726)
Amortization of bond issuance costs	-	-	(31,581)	31,581	-	-
Total public support and nonoperating revenues (expenses)	136,741,347	141,119,435	183,462,553	(43,830,561)	139,631,992	(1,487,443)
Income (loss) before contributed capital	1,740,011	1,164,217	(47,907,307)	51,172,368	3,265,061	2,100,844
Reserve revenue	(1,740,011)	3,342,498	-	3,364,912	3,364,912	22,414
Contributed capital, net	-	-	132,182,034	(132,182,034)	-	-
Changes in net position	\$ -	\$ 4,506,715	84,274,727	\$ (77,644,754)	\$ 6,629,973	\$ 2,123,258
Net Position:						
Beginning of year			1,409,034,602			
End of year			<u>\$ 1,493,309,329</u>			

San Diego Metropolitan Transit System
General Operations
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual
For the year ended June 30, 2013

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget
Operating revenues:						
Advertising	540,000	900,000	972,190	-	972,190	72,190
Miscellaneous operating revenues	2,998,826	3,107,704	3,311,774	(72,917)	3,238,857	131,153
Total operating revenues	3,538,826	4,007,704	4,283,964	(72,917)	4,211,047	203,343
Operating expenses:						
Personnel costs	15,323,177	16,025,922	16,990,145	(550,560)	16,439,585	(413,663)
Outside services	9,998,155	11,039,888	10,180,479	-	10,180,479	859,409
Transit operations funding	4,028,379	4,248,534	109,181,503	(105,610,747)	3,570,756	677,778
Materials and supplies	21,725	19,415	13,454	-	13,454	5,961
Energy costs	211,318	218,822	208,760	-	208,760	10,062
Risk management	379,088	358,112	460,392	(118,950)	341,442	16,670
Miscellaneous operating expenses	(23,054,249)	(24,204,064)	(24,095,842)	-	(24,095,842)	(108,222)
Depreciation	-	-	1,337,228	(1,337,228)	-	-
Total operating expenses	6,907,593	7,706,629	114,276,119	(107,617,485)	6,658,634	1,047,995
Operating income (loss)	(3,368,767)	(3,698,925)	(109,992,155)	107,544,568	(2,447,587)	1,251,338

San Diego Metropolitan Transit System
General Operations
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual
For the year ended June 30, 2013

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget
Public support and nonoperating revenues (expenses):						
Federal revenue	-	110,000	57,733,099	(57,515,739)	217,360	107,360
Transportation Development Act (TDA) funds	4,028,379	8,755,252	71,893,404	(61,708,429)	10,184,975	1,429,723
State Transit Assistance (STA) funds	1,800,000	1,800,000	9,878,189	(9,878,189)	-	(1,800,000)
State revenue - other	-	-	5,213,539	(5,213,539)	-	-
TransNet funds	-	-	37,775,380	(37,775,380)	-	-
Other local subsidies	-	-	6,951,227	(6,951,227)	-	-
Investment earnings	7,661,926	7,661,926	6,266,933	1,341,980	7,608,913	(53,013)
Interest expense	(8,321,538)	(8,321,538)	(5,973,879)	(2,255,463)	(8,229,342)	92,196
Gain (loss) on disposal of assets	-	-	84,168	(84,168)	-	-
Total public support and nonoperating revenues (expenses)	5,168,767	10,005,640	189,822,060	(180,040,154)	9,781,906	(223,734)
Income (loss) before transfers and contributed capital	1,800,000	6,306,715	79,829,905	(72,495,586)	7,334,319	1,027,604
Transfers	-	-	(37,896,097)	37,896,097	-	-
Reserve revenue	(1,800,000)	(1,800,000)	-	(1,800,000)	(1,800,000)	-
Contributed capital, net	-	-	(150,690,868)	150,690,868	-	-
Changes in net position	\$ -	\$ 4,506,715	(108,757,060)	\$ 114,291,379	\$ 5,534,319	\$ 1,027,604
Net Position:						
Beginning of year			257,288,902			
End of year			<u>\$ 148,531,842</u>			

San Diego Metropolitan Transit System
Taxicab Administration
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual
For the year ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts</u>	<u>Budget Basis Adjustments</u>	<u>Actuals on Budget Basis</u>	<u>Variance with Final Budget</u>
Operating revenues:						
Miscellaneous operating revenues	\$ 865,000	\$ 865,000	\$ 883,985	\$ -	\$ 883,985	\$ 18,985
Total operating revenues	<u>865,000</u>	<u>865,000</u>	<u>883,985</u>	<u>-</u>	<u>883,985</u>	<u>18,985</u>
Operating expenses:						
Personnel costs	610,285	595,285	594,429	-	594,429	856
Outside services	106,600	191,600	157,422	-	157,422	34,178
Materials and supplies	5,000	26,700	21,113	-	21,113	5,587
Energy costs	10,100	8,000	7,484	-	7,484	516
Miscellaneous operating expenses	209,006	213,415	211,357	-	211,357	2,058
Depreciation	-	-	7,118	(7,118)	-	-
Total operating expenses	<u>940,991</u>	<u>1,035,000</u>	<u>998,923</u>	<u>(7,118)</u>	<u>991,805</u>	<u>43,195</u>
Operating income (loss)	<u>(75,991)</u>	<u>(170,000)</u>	<u>(114,938)</u>	<u>7,118</u>	<u>(107,820)</u>	<u>62,180</u>
Reserve revenue	75,991	170,000	-	107,820	107,820	(62,180)
Changes in net position	<u>\$ -</u>	<u>\$ -</u>	<u>(114,938)</u>	<u>\$ 114,938</u>	<u>\$ -</u>	<u>\$ -</u>
Net Position:						
Beginning of year			401,025			
End of year			<u>\$ 286,087</u>			

San Diego Metropolitan Transit System
San Diego Arizona and Eastern Railway
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual
For the year ended June 30, 2013

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget
Operating revenues:						
Miscellaneous operating revenues	\$ 140,000	\$ 165,000	\$ 159,583	\$ -	\$ 159,583	\$ (5,417)
Total operating revenues	<u>140,000</u>	<u>165,000</u>	<u>159,583</u>	<u>-</u>	<u>159,583</u>	<u>(5,417)</u>
Operating expenses:						
Personnel costs	81,198	91,198	104,164	-	104,164	(12,966)
Outside services	20,000	20,000	92,950	-	92,950	(72,950)
Risk management	22,300	22,300	18,892	-	18,892	3,408
Miscellaneous operating expenses	500	4,000	669	-	669	3,331
Depreciation	-	-	17,080	(17,080)	-	-
Total operating expenses	<u>123,998</u>	<u>137,498</u>	<u>233,755</u>	<u>(17,080)</u>	<u>216,675</u>	<u>(79,177)</u>
Operating income (loss)	<u>16,002</u>	<u>27,502</u>	<u>(74,172)</u>	<u>17,080</u>	<u>(57,092)</u>	<u>(84,594)</u>
Public support and nonoperating revenues:						
Gain (loss) on disposal of assets	-	-	642,214	(642,214)	-	-
Total public support and nonoperating revenues	<u>-</u>	<u>-</u>	<u>642,214</u>	<u>(642,214)</u>	<u>-</u>	<u>-</u>
Reserve revenue	(16,002)	(27,502)	-	57,092	57,092	84,594
Changes in net position	<u>\$ -</u>	<u>\$ -</u>	<u>568,042</u>	<u>\$ (568,042)</u>	<u>\$ -</u>	<u>\$ -</u>
Net Position:						
Beginning of year			18,431,623			
End of year			<u>\$ 18,999,665</u>			

San Diego Metropolitan Transit System
Contracted Services
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual
For the year ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts</u>	<u>Budget Basis Adjustments</u>	<u>Actuals on Budget Basis</u>	<u>Variance with Final Budget</u>
Operating revenues:						
Passenger revenue	\$ 26,399,537	\$ 26,345,409	\$ 26,476,421	\$ -	\$ 26,476,421	\$ 131,012
Total operating revenues	<u>26,399,537</u>	<u>26,345,409</u>	<u>26,476,421</u>	<u>-</u>	<u>26,476,421</u>	<u>131,012</u>
Operating expenses:						
Personnel costs	588,839	579,381	569,249	-	569,249	10,132
Outside services	52,497,588	52,673,577	52,032,538	-	52,032,538	641,039
Materials and supplies	4,800	2,639	1,981	-	1,981	658
Energy costs	8,092,939	8,389,654	8,240,259	-	8,240,259	149,395
Risk management	15,300	15,300	15,300	-	15,300	-
Miscellaneous operating expenses	1,729,864	1,718,531	1,713,190	-	1,713,190	5,341
Depreciation	-	-	12,305,236	(12,305,236)	-	-
Total operating expenses	<u>62,929,330</u>	<u>63,379,082</u>	<u>74,877,753</u>	<u>(12,305,236)</u>	<u>62,572,517</u>	<u>806,565</u>
Operating income (loss)	<u>(36,529,793)</u>	<u>(37,033,673)</u>	<u>(48,401,332)</u>	<u>12,305,236</u>	<u>(36,096,096)</u>	<u>937,577</u>

San Diego Metropolitan Transit System
Contracted Services
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual (Continued)
For the year ended June 30, 2013

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget
Public support and nonoperating revenues (expenses):						
Federal revenue	7,308,531	7,337,754	5,595,366	2,455,482	8,050,848	713,094
Transportation Development Act (TDA) funds	25,732,614	25,904,017	26,659,232	(2,455,482)	24,203,750	(1,700,267)
State revenue - other	1,320,000	1,320,000	1,473,067	-	1,473,067	153,067
TransNet funds	688,000	999,697	992,174	-	992,174	(7,523)
Other local subsidies	1,480,648	1,472,205	1,376,257	-	1,376,257	(95,948)
Total public support and nonoperating revenues (expenses)	36,529,793	37,033,673	36,096,096	-	36,096,096	(937,577)
Income (loss) before contributed capital	-	-	(12,305,236)	12,305,236	-	-
Contributed capital, net	-	-	13,232,829	(13,232,829)	-	-
Changes in net position	\$ -	\$ -	927,593	\$ (927,593)	\$ -	\$ -
Net Position:						
Beginning of year			86,955,690			
End of year			<u>\$ 87,883,283</u>			

San Diego Metropolitan Transit System
San Diego Transit Corporation
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual
For the year ended June 30, 2013

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget
Operating revenues:						
Passenger revenue	\$ 28,403,719	\$ 28,707,697	\$ 28,621,363	\$ -	\$ 28,621,363	\$ (86,334)
Charter	-	-	900	-	900	900
Miscellaneous operating revenues	10,000	10,000	4,877	-	4,877	(5,123)
Total operating revenues	28,413,719	28,717,697	28,627,140	-	28,627,140	(90,557)
Operating expenses:						
Personnel costs	72,712,205	76,160,139	74,452,424	554,263	75,006,687	1,153,452
Outside services	2,269,214	1,774,128	1,635,086	(42,164)	1,592,922	181,206
Materials and supplies	4,750,476	4,616,976	4,517,591	-	4,517,591	99,385
Energy costs	5,208,716	5,165,772	5,246,719	-	5,246,719	(80,947)
Risk management	1,798,810	1,604,634	1,478,030	(50,816)	1,427,214	177,420
Miscellaneous operating expenses	9,937,028	10,340,965	10,351,122	-	10,351,122	(10,157)
Depreciation	-	-	14,121,961	(14,121,961)	-	-
Total operating expenses	96,676,449	99,662,614	111,802,933	(13,660,678)	98,142,255	1,520,359
Operating income (loss)	(68,262,730)	(70,944,917)	(83,175,793)	13,660,678	(69,515,115)	1,429,802

San Diego Metropolitan Transit System
San Diego Transit Corporation
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual (Continued)
For the year ended June 30, 2013

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget
Public support and nonoperating revenues (expenses):						
Federal revenue	20,820,293	18,291,001	20,265,957	(7,149,251)	13,116,706	(5,174,295)
Transportation Development Act (TDA) funds	27,019,057	25,946,519	28,826,153	1,317,661	30,143,814	4,197,295
State Transit Assistance (STA) funds	3,223,764	3,223,765	3,127,607	-	3,127,607	(96,158)
TransNet funds	17,846,650	18,853,937	18,607,740	-	18,607,740	(246,197)
Other local subsidies	1,067,426	1,067,426	278,000	789,426	1,067,426	-
Interest expense	(1,714,460)	(1,437,731)	(1,546,452)	-	(1,546,452)	(108,721)
Gain (loss) on disposal of assets	-	-	27,025	(27,025)	-	-
Other expenses	-	-	(1,726)	-	(1,726)	(1,726)
Amortization of bond issuance costs	-	-	(31,581)	31,581	-	-
Total public support and nonoperating revenues (expenses)	68,262,730	65,944,917	69,552,723	(5,037,608)	64,515,115	(1,429,802)
Income (loss) before contributed capital	-	(5,000,000)	(13,623,070)	8,623,070	(5,000,000)	-
Reserve revenue	-	5,000,000	-	5,000,000	5,000,000	-
Contributed capital, net	-	-	40,476,157	(40,476,157)	-	-
Changes in net position	\$ -	\$ -	26,853,087	\$ (26,853,087)	\$ -	\$ -
Net Position:						
Beginning of year			111,675,947			
End of year			<u>\$ 138,529,034</u>			

San Diego Metropolitan Transit System
San Diego Trolley Incorporated
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual
For the year ended June 30, 2013

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget
Operating revenues:						
Passenger revenue	\$ 35,878,421	\$ 36,294,351	\$ 35,553,838	\$ -	\$ 35,553,838	\$ (740,513)
Miscellaneous operating revenues	666,980	575,000	574,282	-	574,282	(718)
Total operating revenues	36,545,401	36,869,351	36,128,120	-	36,128,120	(741,231)
Operating expenses:						
Personnel costs	31,646,644	31,571,374	31,009,942	(29,227)	30,980,715	590,659
Outside services	3,864,438	3,499,026	3,315,047	-	3,315,047	183,979
Materials and supplies	3,600,139	3,778,418	3,914,698	-	3,914,698	(136,280)
Energy costs	7,743,347	8,687,946	8,869,175	-	8,869,175	(181,229)
Risk management	1,820,866	1,823,117	929,708	611,920	1,541,628	281,489
Miscellaneous operating expenses	14,650,024	15,644,675	18,312,146	(2,662,070)	15,650,076	(5,401)
Depreciation	-	-	64,999,619	(64,999,619)	-	-
Total operating expenses	63,325,458	65,004,556	131,350,335	(67,078,996)	64,271,339	733,217
Operating income (loss)	(26,780,057)	(28,135,205)	(95,222,215)	67,078,996	(28,143,219)	(8,014)

San Diego Metropolitan Transit System
San Diego Trolley Incorporated
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual (Continued)
For the year ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts</u>	<u>Budget Basis Adjustments</u>	<u>Actuals on Budget Basis</u>	<u>Variance with Final Budget</u>
Public support and nonoperating revenues (expenses):						
Federal revenue	13,436,963	16,000,000	22,425,986	(1,802,142)	20,623,844	4,623,844
Transportation Development Act (TDA) funds	8,343,094	7,135,205	3,353,833	(834,458)	2,519,375	(4,615,830)
State revenue - other	-	-	25,470	(25,470)	-	-
TransNet funds	5,000,000	5,000,000	5,000,000	-	5,000,000	-
Gain (loss) on disposal of assets	-	-	51,013	(51,013)	-	-
Total public support and nonoperating revenues (expenses)	<u>26,780,057</u>	<u>28,135,205</u>	<u>30,856,302</u>	<u>(2,713,083)</u>	<u>28,143,219</u>	<u>8,014</u>
Income (loss) before contributed capital	-	-	(64,365,913)	64,365,913	-	-
Contributed capital, net	-	-	229,163,916	(229,163,916)	-	-
Changes in net position	<u>\$ -</u>	<u>\$ -</u>	<u>164,798,003</u>	<u>\$ (164,798,003)</u>	<u>\$ -</u>	<u>\$ -</u>
Net Position:						
Beginning of year			934,281,415			
End of year			<u>\$ 1,099,079,418</u>			

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Statistical Section

(Unaudited)

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

Contents

Financial trends

These schedules contain 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.

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FINANCIAL TRENDS

San Diego Metropolitan Transit System
Changes in Net Position (in 000's)
Last Nine Fiscal Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005
Governmental activities:									
Net investment in capital assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 111,960	\$ 420,668
Unrestricted	-	-	-	-	-	-	-	35,868	185,115
Total governmental activities net position	-	-	-	-	-	-	-	147,828	605,783
Business-type activities:									
Net investment in capital assets	1,296,217	1,172,816	1,073,562	1,078,178	1,075,105	1,079,967	1,097,676	1,134,243	695,486
Restricted	7,255	78,378	7,007	2,548	2,700	-	-	-	-
Unrestricted	189,837	157,841	73,128	177,158	172,344	185,610	163,244	(33,761)	(35,563)
Total business-type activities net position	1,493,309	1,409,035	1,153,697	1,257,884	1,250,149	1,265,577	1,260,920	1,100,482	659,923
Primary government:									
Net investment in capital assets	1,296,217	1,172,816	1,073,562	1,078,178	1,075,105	1,079,967	1,097,676	1,246,203	1,116,154
Restricted	7,255	78,378	7,007	2,548	2,700	-	-	-	-
Unrestricted	189,837	157,841	73,128	177,158	172,344	185,610	163,244	2,107	149,552
Total primary government net position	\$ 1,493,309	\$ 1,409,035	\$ 1,153,697	\$ 1,257,884	\$ 1,250,149	\$ 1,265,577	\$ 1,260,920	\$ 1,248,310	\$ 1,265,706

Source: Audited financial statements

In FY 2013, MTS implemented GASB Statement 63. In accordance with the provisions of GASB Statement 63, some line descriptions have been modified. There were no reclassifications resulting from the implementation of GASB Statement 63.

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 Position (in 000's)
Last Nine Fiscal Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operating revenues:									
Passenger revenue	\$ 90,652	\$ 88,094	\$ 84,764	\$ 84,167	\$ 85,192	\$ 75,939	\$ 68,635	\$ 67,580	\$ 63,803
Advertising	972	784	621	783	925	1,119	1,001	839	1,340
Charter	1	186	129	128	69	63	45	31	895
Miscellaneous	4,934	4,445	4,688	4,264	4,874	3,671	3,703	1,734	18
Total operating revenues	96,559	93,509	90,202	89,342	91,060	80,792	73,384	70,184	66,056
Operating expenses:									
Personnel costs	123,720	112,537	104,329	109,512	101,913	102,847	91,206	90,490	91,486
Outside services	67,414	66,050	64,037	63,574	65,140	64,940	62,630	57,709	70,260
Transit operations funding	3,571	3,721	4,053	3,758	3,004	3,853	5,438	6,758	6,245
Materials and supplies	8,469	7,977	7,678	6,680	7,190	7,590	7,266	8,158	8,756
Energy costs	22,572	22,689	21,932	22,892	25,283	27,211	22,767	24,305	14,140
Risk management	2,902	4,030	3,924	4,859	4,074	3,898	5,615	5,078	5,212
Miscellaneous	6,493	5,116	4,899	3,571	2,052	1,975	944	2,336	2,564
Depreciation	92,788	84,811	81,041	98,238	75,499	85,543	74,473	66,799	49,139
Total operating expenses	327,929	306,931	291,893	313,084	284,155	297,857	270,339	261,633	247,802
Operating income (loss)	(231,370)	(213,422)	(201,691)	(223,742)	(193,095)	(217,065)	(196,955)	(191,449)	(181,746)

San Diego Metropolitan Transit System
Changes in Net Position (in 000's) (Continued)
Last Nine Fiscal Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005
Public support and nonoperating revenues (expenses):									
Grants and contributions	183,945	325,658	170,850	224,506	176,979	200,879	184,332	155,746	209,483
Investment earnings	6,267	7,622	7,695	9,708	10,584	13,394	13,349	7,095	11,707
Indirect cost recovery	-	-	-	-	-	-	-	1,685	2,827
Interest expense	(7,520)	(8,014)	(8,420)	(12,702)	(11,153)	(10,666)	(14,230)	(11,499)	(10,313)
Gain (loss) on disposal of assets	804	(620)	712	(69)	294	88	(1,260)	(1,800)	291
Other expenses	(2)	(4)	(4)	(289)	(642)	(142)	(355)	(188)	(185)
Amortization of bond issuance costs	(31)	(1)	(135)	(786)	(63)	(323)	-	-	-
Total public support and nonoperating revenues (expenses)	183,463	324,641	170,698	220,368	175,999	203,230	181,836	151,039	213,810
Income (loss) before contributed capital	(47,907)	111,219	(30,993)	(3,374)	(17,096)	(13,835)	(15,119)	(40,410)	32,064
Contributed capital, net	132,182	44,118	26,806	11,110	1,668	18,492	27,729	23,013	30,008
Changes in net position	\$ 84,275	\$ 155,337	\$ (4,187)	\$ 7,736	\$ (15,428)	\$ 4,657	\$ 12,610	\$ (17,397)	\$ 62,072

Source: Audited financial statements.

In FY2013, MTS implemented GASB Statement 63. In accordance with the provisions of GASB Statement 63, some line descriptions have been modified. There were no reclassifications resulting from the implementation of GASB Statement 63.

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

In FY2007, 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.

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REVENUE CAPACITY

San Diego Metropolitan Transit System
Operating Revenue by Source (in 000's)
Last Nine Fiscal Years

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
2013	28,621	20,266	31,954	18,886	-	33
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
2013	35,554	22,426	3,379	5,000	-	625
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	-	-
2012	25,380	7,155	26,635	1,984	-	-
2013	26,476	5,595	28,132	2,368	-	-

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
Last Seven Fiscal Years

	2013	2012	2011	2010	2009	2008	2007
Bus Cash Fares							
One-way fare, local routes	\$ 2.25	\$ 2.25	\$ 2.25	\$ 2.25	\$ 2.25	\$ 2.00	\$ 1.75
Senior/disabled, local routes	1.10	1.10	1.10	1.10	1.10	0.75	0.75
Urban	-	-	-	-	-	2.25	2.25
Express	2.50	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	1.25	0.75	0.75
Premium	5.00	5.00	5.00	5.00	5.00	5.00	-
Senior/disabled Premium	2.50	2.50	2.50	2.50	2.50	0.75	0.75
Rural bus	5.00-10.00	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	2.50-5.00	-	-
Sorrento Valley Coaster Connection	-	-	-	-	1.00	-	-
Senior/disabled Coaster Connection	-	-	-	-	0.50	-	-
Shuttles	-	-	-	-	-	1.00	1.00
Trolley Cash Fares							
One-way fare, all stations	2.50	2.50	2.50	2.50	2.50	-	-
Senior/disabled one-way fare all stations	1.25	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	5.00	-	-	-
Region plus day pass	12.00	12.00	14.00	14.00	-	-	-
Bus and Trolley Monthly Passes							
Regional monthly pass	72.00	72.00	72.00	72.00	68.00	64.00	-
Senior/disabled Regional	18.00	18.00	18.00	18.00	17.00	16.00	14.50
Youth Regional	36.00	36.00	36.00	36.00	34.00	32.00	29.00
Half-month/14-Day	43.00	43.00	43.00	43.00	41.00	-	-
Premium monthly pass	100.00	100.00	100.00	100.00	90.00	-	-
Senior/disabled Premium	25.00	25.00	25.00	25.00	22.50	-	-
Youth Premium	50.00	50.00	50.00	50.00	45.00	-	-
Half-month/14-Day	60.00	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.

MTS has continued to convert all passengers to Compass Cards issued at a cost of \$2.00. As of November 2012, MTS requires day and monthly passes to be on Compass Cards. Passengers who purchase a day pass without a compass card on the bus are charged a \$2.00 fee.

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 Nine Fiscal Years**

Fiscal Year Ended	San Diego Transit	San Diego Trolley	MTS-Contract Services
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
2013	29.01	53.98	42.31

SOURCE: Audited financial statements; calculated as passenger revenue divided by operating expenses, (less depreciation and OPEB) interest expense, and miscellaneous 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

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
2006	\$ 8,516,304	\$ 319,719	\$ 13,174,798	\$ 124,775,518	\$ 7,430,000	\$ 26,065,000	76,075,000	256,356,339	0.20%	87
2007	8,075,925	255,113	3,823,388	123,699,432	3,770,000	19,155,000	74,620,000	233,398,858	0.17%	78
2008	7,617,599	187,737	-	122,540,596	-	-	73,120,000	203,465,932	0.14%	67
2009	7,141,326	117,471	-	121,292,644	-	-	71,565,000	200,116,441	0.14%	65
2010	6,647,108	44,190	-	119,948,726	-	-	61,150,000	187,790,024	0.13%	60
2011	5,317,686	-	-	118,501,460	-	-	47,265,000	171,084,146	0.11%	54
2012	4,766,867	-	-	116,942,900	-	-	40,510,000	162,219,767	0.10%	51
2013	4,189,818	-	-	115,264,486	-	-	25,880,000	145,334,304	0.08%	45

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
- MTS retired the variable rate Pension Obligation Bonds in FY2013

In FY2012, MTS changed the presentation of income statistics and has restated this schedule with data for all of San Diego County rather than the MTS service area. In addition, MTS presents this schedule from 2006 through the current year and will present one additional year of activity to a maximum of ten years as of 2015. MTS has made these changes because comparable data for San Diego County Data is available from 2006 forward, and because it has proven difficult to obtain reliable data for the MTS service area from published sources.

DEMOGRAPHIC AND ECONOMIC STATISTICS

**San Diego Metropolitan Transit System
Regional Population and Personal Income Statistics
Last Eight Fiscal Years**

	County of San Diego Population (1)	County of San Diego Personal Income (thousands) (1)	County of San Diego Per Capita Personal Income (1)	San Diego County Average Unemployment Rate (2)
2006	2,956,077	\$ 129,600,000	\$ 47,055	4.10%
2007	2,986,085	136,200,000	47,405	4.80%
2008	3,031,360	142,000,000	47,019	4.80%
2009	3,067,544	139,600,000	46,047	10.20%
2010	3,104,160	142,700,000	45,974	10.50%
2011	3,140,025	150,200,000	46,767	10.40%
2012	3,172,600	160,200,000	48,265	9.30%
2013	3,206,892	171,200,000	49,778	7.40%

SOURCE:

- (1) California Department of Transportation - Actuals 2006-2010, Estimates 2011-2013
- (2) California Employment Development Department, June 2013

In FY2012, MTS changed the presentation of income statistics and has restated this schedule with data for all of San Diego County rather than the MTS service area. In addition, MTS presents this schedule from 2006 through the current year and will present one additional year of activity to a maximum of ten years as of 2015. MTS has made these changes because comparable data for San Diego County Data is available from 2006 forward, and because it has proven difficult to obtain reliable data for the MTS service area from published sources.

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

Full-time and Part-time Employees at June 30

	<u>MTS</u>	<u>San Diego Transit</u>	<u>San Diego Trolley</u>	<u>Total</u>
2005	73	927	528	1,528
2006	90	880	539	1,509
2007	121	866	527	1,514
2008	117	844	533	1,494
2009	114	824	530	1,468
2010	110	782	528	1,420
2011	116	758	543	1,417
2012	122	761	568	1,451
2013	136	786	599	1,521

SOURCE: MTS payroll records.

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

San Diego Metropolitan Transit System Ten Largest Employers in San Diego County

Company Name	Number of Employees (1)	Percent of 1,492,300 County Total (2)
U.S. Department of Defense	136,664	9.16%
Federal Government	46,100	3.09%
State of California	44,700	3.00%
University of California, San Diego	26,000	1.74%
County of San Diego	16,011	1.07%
San Diego Unified School District	14,438	0.94%
Sharp Healthcare	14,390	0.96%
Scripps Health	13,000	0.87%
Qualcomm Inc.	11,775	0.79%
City of San Diego	10,296	0.69%

SOURCE:

- (1) The Daily Transcript - 2013 Data updated June 28, 2013
- (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 Nine Fiscal Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operating Cost (in 000's)									
San Diego Transit	98,666	90,153	83,457	93,831	81,271	80,031	73,257	73,284	80,187
San Diego Trolley	65,859	63,309	60,395	60,913	58,537	55,949	55,952	55,015	47,662
MTS-Contract Services	62,573	61,154	59,536	58,037	59,639	61,451	57,287	54,387	51,815
Farebox Revenue (in 000's)									
San Diego Transit	28,621	27,498	26,056	26,708	27,882	23,680	22,298	22,264	21,383
San Diego Trolley	35,554	32,216	34,673	33,050	33,454	31,120	27,402	27,934	25,855
MTS-Contract Services	26,476	25,380	24,036	24,410	23,857	21,138	18,935	17,382	16,564
Total Passengers (in 000's)									
San Diego Transit	28,927	28,802	27,252	26,921	29,762	28,094	26,076	24,890	24,427
San Diego Trolley	29,699	32,655	31,613	30,469	36,928	37,621	35,114	33,830	29,334
MTS-Contract Services	23,795	23,780	22,664	21,988	21,645	21,460	21,143	18,907	18,449
Revenue Miles (in 000's)									
San Diego Transit	8,557	8,221	8,178	8,624	9,221	9,522	9,622	9,958	10,087
San Diego Trolley	7,757	7,544	7,519	7,743	7,895	8,003	7,940	8,180	7,060
MTS-Contract Services	11,607	11,214	11,196	11,450	12,179	12,501	12,454	12,242	12,701
Subsidy / Total Passenger									
San Diego Transit	2	2	2	3	2	2	2	2	2
San Diego Trolley	1	1	1	1	1	1	1	1	1
MTS-Contract Services	2	2	2	2	2	2	2	2	2

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 to a maximum of ten years as of 2014.

San Diego Metropolitan Transit System
Service Performance Data
Last Nine Fiscal Years

Service Provided	2013	2012	2011	2010	2009	2008	2007	2006	2005
San Diego Transit									
Vehicle Revenue Miles (in 000's)	8,557	8,221	8,178	8,624	9,221	9,522	9,622	9,958	10,090
Vehicle Revenue Hours (in 000's)	787	757	754	789	843	870	853	840	830
Passengers (in 000's)	28,927	28,802	27,252	26,921	29,762	28,094	26,076	24,890	24,425
Passenger Miles (in 000's)	108,222	106,804	100,500	98,163	107,408	100,256	98,203	93,580	93,746
Number of Vehicles	260	236	236	238	247	267	267	274	280
San Diego Trolley									
Vehicle Revenue Miles (in 000's)	7,757	7,544	9	7,742	7,895	8,003	7,940	8,180	7,060
Vehicle Revenue Hours (in 000's)	472	428	423	442	410	439	432	469	368
Passenger Car Hours (in 000's)	476	433	429	448	416	445	439	480	379
Passengers (in 000's)	29,699	32,655	31,613	30,469	36,928	37,621	35,114	33,830	29,334
Passenger Miles (in 000's)	173,151	194,822	193,063	186,509	220,639	206,924	207,727	208,875	187,988
Number of Vehicles	178	151	128	134	133	134	134	134	123
MTS-Contract Services									
Vehicle Revenue Miles (in 000's)	11,607	11,214	11,196	11,450	12,179	12,501	12,454	12,242	12,701
Vehicle Revenue Hours (in 000's)	961	933	927	946	986	1,019	996	928	946
Passengers (in 000's)	23,795	23,780	22,664	21,988	21,645	21,460	21,143	18,907	18,449
Passenger Miles (in 000's)	79,269	79,789	82,125	79,237	80,104	77,173	78,304	73,343	69,958
Number of Vehicles	427	404	407	369	388	358	348	337	357
Total									
Passengers (in 000's)	82,421	85,237	81,529	79,378	88,335	87,175	82,333	77,627	72,208
Passenger Miles (in 000's)	360,642	381,415	375,688	363,909	408,151	384,353	384,234	375,798	351,692

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 Nine Fiscal Years**

	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Operations									
Buildings and structures	1	1	1	1	1	1	1	1	1
Nonrevenue vehicles	3	5	5	5	7	7	10	10	12
San Diego Transit									
Land (parcels)	2	2	2	2	2	2	2	2	2
Buildings and structures	2	2	2	2	2	2	2	2	2
Buses	260	236	236	238	247	267	267	274	280
Nonrevenue vehicles	14	19	22	32	39	53	47	45	49
San Diego Trolley									
Trolley stations	54	54	54	54	54	54	54	54	50
Track miles	54	54	54	54	54	54	54	54	49
Light rail vehicles (total inventory)	178	151	128	134	133	134	134	134	123
Nonrevenue vehicles	15	31	43	51	68	72	69	58	78
MTS - Contracted Services									
Land (parcel)+A2	2	2	1	1	1	1	1	1	1
Buildings and structures	4	4	3	3	3	3	1	1	1
Buses	427	393	407	369	388	358	348	337	357
Nonrevenue vehicles	8	8	10	7	7	9	4	2	2
Taxicab Administration									
Buildings and structures	1	1	1	1	1	1	1	1	1
Nonrevenue vehicles	2	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 Fiscal Nine Years**

	2013	2012	2011	2010	2009	2008	2007	2006	2005
Ridership (in 000's)									
San Diego Transit	28,927	28,802	27,252	26,921	29,762	28,094	26,076	24,890	24,427
% Change	0.43%	5.69%	1.23%	-9.55%	5.94%	7.74%	4.77%	1.90%	
San Diego Trolley	29,699	32,655	31,613	30,469	36,928	37,621	35,114	33,830	29,334
% Change	-9.05%	3.30%	3.75%	-17.49%	-1.84%	7.14%	3.80%	15.32%	
MTS - Contract Services	23,795	23,780	22,664	21,988	21,645	21,460	21,143	18,907	18,449
% Change	0.06%	4.92%	3.07%	1.58%	0.86%	1.50%	11.83%	2.49%	

SOURCE: NTD report.

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

**San Diego Metropolitan Transit System
Operating Subsidy
Last Nine Fiscal Years**

	2013	2012	2011	2010	2009	2008	2007	2006	2005
Average Fare per Rider									
San Diego Transit	0.99	0.95	0.96	0.99	0.94	0.84	0.86	0.90	0.88
San Diego Trolley	1.20	1.08	1.10	1.08	0.91	0.83	0.78	0.83	0.88
MTS - Contract Services	1.11	1.07	1.06	1.11	1.10	0.98	0.90	0.92	0.90
Operating Expense per Rider									
San Diego Transit	3.41	3.13	3.06	3.49	2.73	2.85	2.81	2.74	3.20
San Diego Trolley	2.22	1.94	1.91	2.00	1.59	1.49	1.59	1.63	1.62
MTS - Contract Services	2.63	2.57	2.63	2.64	2.76	2.86	2.71	2.88	2.81
Subsidy per Rider									
San Diego Transit	2.42	2.18	2.11	2.50	1.79	2.01	1.95	2.05	2.41
San Diego Trolley	1.02	0.86	0.81	0.92	0.68	0.66	0.81	0.80	0.74
MTS - Contract Services	1.52	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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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditors' Report

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

We have audited, in accordance with the 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, the financial statements of the San Diego Metropolitan Transit System (MTS), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MTS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MTS' internal control. Accordingly, we do not express an opinion on the effectiveness of MTS' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MTS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors
of the San Diego Metropolitan Transit System
San Diego, California
Page 2

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Diego, California
October 31, 2013

DRAFT 10-10-2013



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Agenda Item No. B2

MEETING OF THE METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

October 17, 2013

SUBJECT:

REPORT OF NEW GASB STATEMENTS AND AUDITING STANDARDS (KEN
PUN OF PUN & MCGEADY LLP)

RECOMMENDATION:

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

Budget Impact

None at this time.

DISCUSSION:

1. Ken Pun will present information about the following statements of accounting standards as issued by the Government Accounting Standards Board that have become effective or 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.
 - a. No. 60 – Services Concession Arrangements
 - b. No. 61 – The Reporting Entity
 - c. No. 62 – Codification of FASB and AICPA Pronouncements
 - d. No. 63 – Deferred Inflows and Outflows of Resources
 - e. No. 64 - Derivative Instruments
 - f. No. 65 – Reclassification of Assets and Liabilities
 - g. No. 66 – Technical Corrections
 - h. No. 67 – Pension Plan Reporting - Plan
 - i. No. 68 – Pension Plan Reporting – Employer
 - j. No. 69 – Acquisition and Discontinuing Operations
 - k. No. 70 – Financial Guarantee



2. Ken Pun will present information about changes in auditing standards as provided in the AICPA Clarity Standards
 - a. SAS 122 Clarification and Recodification
 - b. SAS 123 Omnibus Statement on Auditing Standards – 2011
 - c. SAS 124 Financial Statements Prepared in Accordance with a Financial Reporting Framework Generally Accepted in Another Country
 - d. SAS 125 Alert that Restricts the Use of the Auditor's Written Communications
 - e. SAS 126 The Auditor's Consideration of An Entity's Ability to Continue as a Growing Concern (Redrafted)
 - f. SAS 127 Omnibus Statement on Auditing Standards -2013



Paul C. Jablonski
Chief Executive Officer

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Agenda Item No. B3

MEETING OF THE METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

October 17, 2013

SUBJECT:

AUDITING SERVICES CONTRACT AWARD (ERIN DUNN)

RECOMMENDATION:

That the Audit Oversight Committee forward a recommendation to the Board of Directors to authorize the MTS CEO to execute MTS Doc. No. G1513.0-13 for a five-year contract with three one-year options with Pun & McGeady LLP for auditing services.

Budget Impact

The eight year contract, assuming the three option years are exercised, would not exceed \$1,752,683. The bid came in lower than both the independent cost estimate and our current year costs.

DISCUSSION:

MTS is required to have annual audited financial statements by an independent audit firm. Additionally, we are required have a financial audit of the SDTC Retirement Plan, a Single Audit in compliance with Federal Single Audit Act and to have issued a number of Agreed upon Procedures (AUP) reports by independent auditors. Funding from Federal, State, and local subsidies is contingent upon these requirements.

In order to perform these services, a Request for Proposals (RFP) was issued. The scope of services was to perform the above 11 audits and AUP's for a period of 5 years with three one year options.



Five accounting firms submitted proposals and were rated on the below four criteria and assigned weights:

- | | |
|---|-----|
| • Qualifications and Project Experience of Firm and Staff | 30% |
| • Contractor Responsiveness and Communication | 25% |
| • Proposed Methodology and Approach to Work | 25% |
| • Cost/Price | 20% |

Based on the initial evaluations, MTS chose to conduct two interviews and after interviews and receiving the Best and Final Offers, all reviewers gave Pun & McGeady LLP a higher score.

Staff has concluded that the bid submitted by Pun & McGeady LLP is fair and reasonable.



Paul C. Jablonski
Chief Executive Officer

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Attachment: A. Pun & McGeady LLP Cost Proposal

San Diego Metropolitan Transit System*Cost Proposal to Perform Independent Auditing Services - Best and Final Offer***SAN DIEGO METROPOLITAN TRANSIT SYSTEM****INDEPENDENT AUDITING SERVICES - MTS DOC. NO. G1513.0-13****COST/PRICE PROPOSAL FORMS - continued****SUMMARY SHEET**

YEAR	AUDIT YEAR	Grand Total From Yearly Sheets	Totals Without SDTC Retirement Plan	SDTC Retirement Plan
<u>Base Contract</u>				
Year 1	FY 2014 Audit	215,000	197,500	17,500
Year 2	FY 2015 Audit	215,000	197,500	17,500
Year 3	FY 2016 Audit	215,000	197,500	17,500
Year 4	FY 2017 Audit	217,150	199,475	17,675
Year 5	FY 2018 Audit	219,322	201,470	17,852
Total - Base Years		1,081,472	993,445	88,027
<u>Option Years</u>				
Year 6	FY 2019 Audit	221,515	203,484	18,030
Year 7	FY 2020 Audit	223,730	205,519	18,211
Year 8	FY 2021 Audit	225,967	207,574	18,393
Total - Option Years		671,212	616,578	54,634
Grand Total		1,752,683	1,610,023	142,660