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10-20-14A08:06 RCVD

Agenda

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

October 23, 2014

Executive Conference Room
9:00 a.m.

ACTION RECOMMENDED

- A. 1. Roll Call
- 2. Approval of the Minutes of June 12, 2014 Approve
- B. COMMITTEE DISCUSSION ITEMS
 - 1. Draft of Fiscal Year 2014 Comprehensive Annual Financial Report (CAFR) Information
(Erin Dunn and Gary Caporicci of Pun & McGeedy)
Action would receive a draft of the Fiscal Year (FY) 2014 CAFR for review and discussion.
 - 2. Internal Audit Activity Update Report (Toufic Tabshouri) Information
Action would receive the Internal Audit activity update report.
- C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS
- D. PUBLIC COMMENTS
- E. NEXT MEETING DATE: To be determined.
- F. ADJOURNMENT



MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM
AUDIT OVERSIGHT COMMITTEE
1255 Imperial Avenue, Suite 1000
San Diego, CA 92101

MINUTES

June 12, 2014

A1. ROLL CALL

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

A2. APPROVAL OF MINUTES

Mr. Cunningham moved for approval of the minutes of the April 10, 2014, Audit Oversight Committee meeting. Mr. Mathis seconded the motion, and the vote was 5 to 0 in favor, with Mr. Roberts absent.

B. COMMITTEE DISCUSSION ITEMS

1. Interim Audit

Erin Dunn, Controller, reported on the Interim Audit. She stated that during the month of April 2014, Pun & McGeady conducted their interim audit and tested MTS's internal controls. She noted that the interim exit memo was provided to all Committee members. Ms. Dunn also stated that there were some observations noted in Pun & McGeady's report. Chairman Ewin commented that he previously asked Ms. Dunn if there were any continued or repeat violations or issues that arose during the audit, and he was assured there were none. He also commented that the items of attention were reflected in the report.

Action Taken

Mr. Cunningham moved to receive a report on the interim audit work conducted by Pun & McGeady and the related observations. Mr. Mathis seconded the motion, and the vote was 5 to 0 in favor, with Mr. Roberts absent.

2. Report of GASB 67, GASB 68, and GASB 71

Gary Caporicci of Pun & McGeady referred to a handout entitled "San Diego Metropolitan Transit System Audit Oversight Committee Presentation" (attached). Mr. Caporicci reviewed updates to GASB Statements 67, 68 and 71. He also reviewed the requirements for the San Diego Transit Corporation (SDTC) Employee's Retirement Plan Audit. Paul Jablonski, Chief Executive Officer, asked when reports would be available from CalPERS regarding pension liability and whether that timing would coincide with the audit. Mr. Caporicci stated that the reports are currently going to be available on a request basis and he is hopeful that the reports will be available. Mr. Jablonski asked if CalPERS is obligated under law to provide the pension liability information. Mr. Caporicci stated that CalPERS is not obligated under law to provide that information. He also stated that if they do not receive that information from CalPERS in time for the audit, that there will be discussion of delaying the audit report. Mr. Caporicci also noted that this issue pertains to next year. Chairman Ewin asked Mr. Caporicci what the published timeline will be. Mr. Caporicci stated that there is no published timeline currently, but the advisory committee will

Audit Oversight Committee Meeting – MEETING MINUTES

June 12, 2014

Page 2

establish one. Larry Marinesi, Chief Financial Officer, noted that the Finance department is in constant communication with Pun & McGeady on all updates and new information. Mr. Caporicci reviewed the actuarial information for SDTC and CalPERS. He stated again that CalPERS will be providing GASB valuation reports on a request basis and that they will also charge employers for the report. Mr. Caporicci stated that MTS has not requested that information for the SDTC Pension Plan, but they may request at any time. He said that the estimated cost per plan for the report is approximately \$1,400. Lastly, Mr. Caporicci reported on the actual and pro forma illustration financial statements as of June 30, 2013.

Action Taken

Mr. Gloria moved to receive a report from Pun & McGeady regarding upcoming reporting and auditing changes. Mr. Mathis seconded the motion, and the vote was 6 to 0 in favor.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

Ms. Dunn stated that the SDTC Pension Plan audit is scheduled to start field work in August 2014. She also noted that the Audit Oversight Committee will meet again in October 2014.

D. PUBLIC COMMENTS

There were no public comments.

E. NEXT MEETING DATE

The next Audit Oversight Committee meeting will be scheduled in October 2014.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 9:25 a.m.


Chairman

Attachments: Roll Call Sheet
Pun & McGeady handout "SDMTS Audit Oversight Committee Presentation"
Glossary

**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) June 12, 2014

CALL TO ORDER (TIME) 9:00 a.m.

RECESS N/A

RECONVENE _____


CLOSED SESSION N/A

RECONVENE _____

ADJOURN 9:25 a.m.

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWIN (Chair) <input checked="" type="checkbox"/>	9:00a.m.	9:25a.m.
GLORIA <input checked="" type="checkbox"/> (Emerald) <input type="checkbox"/>	9:00a.m.	9:25a.m.
MATHIS <input checked="" type="checkbox"/>	9:00a.m.	9:25a.m.
OVROM <input checked="" type="checkbox"/> (Bragg) <input type="checkbox"/>	9:00a.m.	9:25a.m.
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>	9:12a.m.	9:25a.m.
CUNNINGHAM <input checked="" type="checkbox"/> (McClellan) <input type="checkbox"/>	9:00a.m.	9:25a.m.
Transportation Committee Rep Slot (Mathis)		

SIGNED BY THE CLERK OF THE BOARD:



CONFIRMED BY THE GENERAL COUNSEL:





**San Diego
Metropolitan Transit System
Audit Oversight Committee Presentation
June 12, 2014**

Presented by:
Kenneth H. Pun, CPA, CGMA
Gary M. Caporicci, CPA, CGFM, CFF

Pun & McGeady LLP

[1]



**Statement No. 67 of the Governmental Accounting
Standards Board**

**Financial Reporting for Pension Plans
(an amendment of GASB statement No. 25)**

Effective for fiscal years beginning after June 30, 2013

Pun & McGeady LLP

[2]

GASB Statement No. 67

- Defined benefit pension plans must present two financial statements
 - A statement of fiduciary net position
 - A statement of changes in fiduciary net position
- These financial statements will be prepared using the economic resources measurement focus and accrual basis of accounting

[3]

GASB Statement No. 67

Statement of fiduciary net position:

- Assets
- Deferred outflows of resources
- Liabilities
- Deferred inflows of resources
- Fiduciary net position

[4]

GASB Statement No. 67

Statement of changes in fiduciary net position:

- Additions: contributions from employers, non-employer contributing entities and plan members, and net investment income
- Deductions: benefit payments and administrative expenses
- Net increase (decrease) in fiduciary net position, (equals the difference between additions and deductions)

[5]

GASB Statement No. 67

Notes to Financial Statements

- Plan Description
- Plan Investments
- Components of Liabilities to Plan Members for Benefits
- Extensive Additional disclosures

Required Supplementary Information

- 10-year schedules

[6]

San Diego Transit Corporation Employee's Retirement Plan

Critical Dates

Fiscal Year-end Date: June 30, 2014
Measurement Date: June 30, 2013 **
Actuarial Valuation Date: June 30, 2013

**** With accounting roll-forward to June 30, 2014**

Port & McCurdy LLP

[7]

San Diego Transit Corporation Employee's Retirement Plan

Schedules to be Prepared by Actuary

- Net Pension Liability
- Total Deferred Outflows of Resources
- Total Deferred Inflows of Resources
- Total Pension Expense

Port & McCurdy LLP

[8]

San Diego Transit Corporation Employee's Retirement Plan

Auditor's Role

- Audit schedules prepared by the Actuary
- Audit Census Data of Plan
- Audit Financial Statements and related disclosures
- Issue Unmodified Auditor's Report

Pun & McGeady LLP

[9]



**Statement No. 68 of the Governmental Accounting
Standards Board, as amended by Statement No. 71**

**Accounting and Financial Reporting for Pensions Plan
(an amendment of GASB statement No. 27)**

Effective for fiscal years beginning after June 15, 2014

Pun & McGeady LLP

[10]

GASB Statement No. 68

- Focus on cost to taxpayers for providing pensions
- Accounting-based, not Funding-based
- Pension provided through trusts
- A liability should be recognized for the Net Pension Liability

(11)

GASB Statement No. 68

- Total Pension Liability should be determined as of a Measurement Date (probably June 30, 2014) and an accounting roll-forward to fiscal year-end of June 30, 2015
- Actuarial Valuation at least biennially

(12)

San Diego Metropolitan Transit System

- MTS must present the following financial statements:
 - Statement of Net Position
 - Statement of Revenues, Expenses and Change in Net Position
 - Statement of Cash Flows
 - Notes to Financial Statements
 - Required Supplementary Information
- These financial statements will be prepared using the economic resources measurement focus and accrual basis of accounting

Pro & McCord LLP

[13]

San Diego Metropolitan Transit System

- Pension Plans
 - San Diego Transit Corporation Employees' Retirement Plan
 - CalPERS
- Under GASB Statement No. 68, the Total Net Pension Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources and Total Pension Expense for both Pension Plans will be displayed in the financial statements and related disclosures

Pro & McCord LLP

[14]

San Diego Metropolitan Transit System Actuarial Information

- SDTC Actuary, Cheiron
 - Met on June 10, 2014
 - They will provide the actuarial information
- CalPERS
 - Updating systems to produce valuation reports and allow Employers to request valuation reports
 - CalPERS Board gave approval to proceed and charge employers
 - GASB valuations will be done on request
 - Established a Advisory Committee between CalPERS, CalCPA and League of California Cities

Paul A. McCurdy, CPA

[15]

San Diego Metropolitan Transit System

Auditor's Role

- Audit schedules prepared by the SDTC Actuary and receive the audited data from CalPERS
- Audit Census Data of the Plans
- Audit Financial Statements and related disclosures
- Issue Unmodified Auditor's Report

Paul A. McCurdy, CPA

[16]

San Diego Metropolitan Transit System
Actual and Pro Forma Illustration Financial Statements
Statement of Net Position
June 30, 2013

	2013	
	Actual	Pro Forma Illustration
Assets		
Current Assets	\$ 160,016,000	\$ 160,016,000
Non-Current Assets	1,544,789,000	1,544,789,000
Net Pension Assets	27,826,000	-
Total assets	1,732,631,000	1,704,805,000
Deferred Outflows of Resources:		
Contributions Made	-	17,081,000
Liabilities		
Current Liabilities	62,946,000	62,946,000
Non-current Liabilities	176,376,000	176,376,000
Accrued interest on Total Pension Liability	-	16,176,000
Net Pension Liability	-	98,159,000
Total liabilities	239,322,000	353,657,000
Net Position		
Net Investment in Capital Assets	1,296,217,000	1,296,217,000
Restricted	7,255,000	7,255,000
Unrestricted	189,837,000	64,758,000
Total Net Position	\$ 1,493,309,000	\$ 1,368,230,000

Page A-Metropolitan TTP

(17)

Appendix

GLOSSARY

This appendix contains definitions of certain terms *as they are used in Statement 68*; the terms may have different meanings in other contexts.

Active employees

Individuals employed at the end of the reporting or measurement period, as applicable.

Actual contributions

Cash contributions recognized as additions to a pension plan's fiduciary net position.

Actuarial present value of projected benefit payments

Projected benefit payments discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment.

Actuarial valuation

The determination, as of a point in time (the actuarial valuation date), of the service cost, total pension liability, and related actuarial present value of projected benefit payments for pensions performed in conformity with Actuarial Standards of Practice unless otherwise specified by the GASB.

Actuarial valuation date

The date as of which an actuarial valuation is performed.

Actuarially determined contribution

A target or recommended contribution to a defined benefit pension plan for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.

Ad hoc cost-of-living adjustments (ad hoc COLAs)

Cost-of-living adjustments that require a decision to grant by the authority responsible for making such decisions.

Ad hoc postemployment benefit changes

Postemployment benefit changes that require a decision to grant by the authority responsible for making such decisions.

Agent employer

An employer whose employees are provided with pensions through an agent multiple-employer defined benefit pension plan.

Agent multiple-employer defined benefit pension plan (agent pension plan)

A multiple-employer defined benefit pension plan in which pension plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

Allocated insurance contract

A contract with an insurance company under which related payments to the insurance company are currently used to purchase immediate or deferred annuities for individual employees. Also may be referred to as an annuity contract.

Automatic cost-of-living adjustments (automatic COLAs)

Cost-of-living adjustments that occur without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the pension plan) or to another variable (such as an increase in the consumer price index).

Automatic postemployment benefit changes

Postemployment benefit changes that occur without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the pension plan) or to another variable (such as an increase in the consumer price index).

Closed period

A specific number of years that is counted from one date and declines to zero with the passage of time. For example, if the recognition period initially is five years on a closed basis, four years remain after the first year, three years after the second year, and so forth.

Collective deferred outflows of resources and deferred inflows of resources related to pensions

Deferred outflows of resources and deferred inflows of resources related to pensions arising from certain changes in the collective net pension liability.

Collective net pension liability

The net pension liability for benefits provided through (1) a cost-sharing pension plan or (2) a single-employer or agent pension plan in circumstances in which there is a special funding situation.

Collective pension expense

Pension expense arising from certain changes in the collective net pension liability.

Contributions

Additions to a pension plan's fiduciary net position for amounts from employers, nonemployer contributing entities (for example, state government contributions to a local government pension plan), or employees. Contributions can result from cash receipts by the pension plan or from recognition by the pension plan of a receivable from one of these sources.

Cost-of-living adjustments

Postemployment benefit changes intended to adjust benefit payments for the effects of inflation.

Cost-sharing employer

An employer whose employees are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan.

Cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan)

A multiple-employer defined benefit pension plan in which the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

Covered-employee payroll

The payroll of employees that are provided with pensions through the pension plan.

Deferred retirement option program (DROP)

A program that permits an employee to elect a calculation of benefit payments based on service credits and salary, as applicable, as of the DROP entry date. The employee continues to provide service to the employer and is paid for that service by the employer after the DROP entry date; however, the pensions that would have been paid to the employee (if the employee had retired and not entered the DROP) are credited to an individual employee account within the defined benefit pension plan until the end of the DROP period.

Defined benefit pension plans

Pension plans that are used to provide defined benefit pensions.

Defined benefit pensions

Pensions for which the income or other benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The pensions may be stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation. (A pension that does not meet the criteria of a defined contribution pension is classified as a defined benefit pension for purposes of Statement 68.)

Defined contribution pension plans

Pension plans that are used to provide defined contribution pensions.

Defined contribution pensions

Pensions having terms that (1) provide an individual account for each employee; (2) define the contributions that an employer is required to make (or the credits that it is required to provide) to an active employee's account for periods in which that employee renders service; and (3) provide that the pensions an employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees, as well as pension plan administrative costs, that are allocated to the employee's account.

Discount rate

The single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected (under the requirements of Statement 68) to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term expected rate of return, calculated using the long-term expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Entry age actuarial cost method

A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the *normal cost*.² The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the *actuarial accrued liability*.³ [This definition is from “Definitions from ASOPs [Actuarial Standards of Practice] and ACGs [Actuarial Compliance Guidelines] of the ASB [Actuarial Standards Board] (including those from current exposure drafts) February 2011.” Actuarial Standards Board, <http://www.actuarialstandardsboard.org/pdf/definitions.pdf>. Accessed on June 25, 2012. Footnotes not part of original definition.]

Inactive employees

Terminated individuals that have accumulated benefits but are not yet receiving them, and retirees or their beneficiaries currently receiving benefits.

Measurement period

The period between the prior and the current measurement dates.

Multiple-employer defined benefit pension plan

A defined benefit pension plan that is used to provide pensions to the employees of more than one employer.

Net pension liability

The liability of employers and nonemployer contributing entities to employees for benefits provided through a defined benefit pension plan.

Nonemployer contributing entities

Entities that make contributions to a pension plan that is used to provide pensions to the employees of other entities. For purposes of Statement 68, employees are not considered nonemployer contributing entities.

Other postemployment benefits

All postemployment benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) that are provided separately from a pension plan, as well as postemployment healthcare benefits, regardless of the manner in which they are provided. Other postemployment benefits do not include termination benefits.⁴

Pension plans

Arrangements through which pensions are determined, assets dedicated for pensions are accumulated and managed, and benefits are paid as they come due.

Pensions

Retirement income and, if provided through a pension plan, postemployment benefits other than retirement income (such as death benefits, life insurance, and disability benefits). Pensions do not include postemployment healthcare benefits and termination benefits.⁵

²For purposes of application to the requirements of Statement 68, the term *normal cost* is the equivalent of *service cost*.

³For purposes of application to the requirements of Statement 68, the term *actuarial accrued liability* is the equivalent of *total pension liability*.

⁴The effects of a termination benefit on an employer's defined benefit obligations for other postemployment benefits should be accounted for and reported in conformity with the requirements for defined benefit other postemployment benefits.

⁵The effects of a termination benefit on an employer's or governmental nonemployer contributing entity's defined benefit obligations for pensions should be accounted for and reported in conformity with the requirements for defined benefit pensions.

Plan members

Individuals that are covered under the terms of a pension plan. Plan members generally include (1) employees in active service (active plan members) and (2) terminated employees who have accumulated benefits but are not yet receiving them and retirees or their beneficiaries currently receiving benefits (inactive plan members).

Postemployment

The period after employment.

Postemployment benefit changes

Adjustments to the pension of an inactive employee.

Postemployment healthcare benefits

Medical, dental, vision, and other health-related benefits paid subsequent to the termination of employment.

Projected benefit payments

All benefits estimated to be payable through the pension plan to current active and inactive employees as a result of their past service and their expected future service.

Public employee retirement system

A special-purpose government that administers one or more pension plans; also may administer other types of employee benefit plans, including postemployment healthcare plans and deferred compensation plans.

Real rate of return

The rate of return on an investment after adjustment to eliminate inflation.

Service costs

The portions of the actuarial present value of projected benefit payments that are attributed to valuation years.

Single employer

An employer whose employees are provided with pensions through a single-employer defined benefit pension plan.

Single-employer defined benefit pension plan (single-employer pension plan)

A defined benefit pension plan that is used to provide pensions to employees of only one employer.

Special funding situations

Circumstances in which a nonemployer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either of the following conditions exists:

1. The amount of contributions for which the nonemployer entity legally is responsible is *not* dependent upon one or more events or circumstances unrelated to the pensions.
2. The nonemployer entity is the only entity with a legal obligation to make contributions directly to a pension plan.

Termination benefits

Inducements offered by employers to active employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination benefits include early-retirement incentives, severance benefits, and other termination-related benefits.

Total pension liability

The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of Statement 68.



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Agenda Item No. B1

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

October 23, 2014

SUBJECT:

DRAFT OF FISCAL YEAR 2014 COMPREHENSIVE ANNUAL FINANCIAL REPORT
(CAFR) (ERIN DUNN AND GARY CAPORICCI OF PUN & MCGEADY)

RECOMMENDATION:

That the Audit Oversight Committee receive a draft of the Fiscal Year (FY) 2014 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 FY
2014 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.

Please note the following significant changes from the prior year:

1. Increase in total assets due to contributed capital.
2. Increase in operating expenses due to an increase in depreciation expense.



3. Increase in Net Position due to contributed capital and an increase in subsidy revenue, partially offset by increased operating expenses.
4. GASB 65 was implemented in FY 2014. This required two modifications to the financial statements as follows:
 - a. The beginning Net Position balance for FY 2013 decreased by \$232,000 to account for expensing the Pension Obligation Bond issuance costs not related to insurance.
 - b. The deferred gain on refunding, related to our capital lease of the MTS Tower, was previously classified as a "noncurrent" liability and is now classified as a "deferred inflow of resources."

Gary Caporicci 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. FY14 Comprehensive Annual Financial Report Draft



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2014 AND 2013**



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

DRAFT 10-14-2014

San Diego Metropolitan Transit System

San Diego, California

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

For the years ended June 30, 2014 and 2013

PREPARED BY SAN DIEGO METROPOLITAN TRANSIT SYSTEM
FINANCE DEPARTMENT

DRAFT 10-14-2014

San Diego Metropolitan Transit System

Table of Contents

	Page
Introductory Section (Unaudited):	
Letter of Transmittal	i
Listing of Board of Directors and Management	v
Executive Level Organization Chart.....	vii
Certificate of Achievement for Excellence in Financial Reporting – GFOA	viii
Financial Section:	
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information) (Unaudited)	5
Basic Financial Statements:	
Statements of Net Position.....	10
Statements of Revenues, Expenses and Changes in Net Position.....	13
Statements of Cash Flows.....	14
Notes to Basic Financial Statements.....	17
Required Supplementary Information (Unaudited):	
Schedule of Funding Progress of Defined Pension Plan.....	48
Schedule of Funding Progress of Other Postemployment Healthcare Plan.....	49
Supplementary Information:	
Combining Schedule of Net Position.....	52
Combining Schedule of Revenues, Expenses, and Changes in Net Position.....	54
Combining Schedule of Cash Flows.....	56
Schedules of Revenues, Expenses and Changes in Net Position - Budget and Actual:	
Combined Operations	58
General Operations:	
General Fund.....	60
Taxicab Administration.....	62
San Diego & Arizona Eastern Railway	63
Contracted Services.....	64
San Diego Transit Corporation	66
San Diego Trolley, Inc.	68

San Diego Metropolitan Transit System

Table of Contents (Continued)

	Page
Statistical Section (Unaudited):	
Financial Trends:	
Net Position by Component	73
Changes in Net Position	74
Revenue Capacity:	
Operating Revenue by Source	78
Fare Structure	79
Farebox Recovery Percentages	80
Debt Capacity:	
Ratio of Outstanding Debt by Type	82
Demographic and Economic Statistics:	
Regional Population and Personal Income Statistics	84
Full-time and Part-time Employees by Function	85
Ten Largest Employers in San Diego County	86
Operating Information:	
Operating Indicators by Function	88
Service Performance Data	89
Capital Asset Statistics by Function	90
Ridership	91
Operating Subsidy	92
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	93

INTRODUCTORY SECTION

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Board of Directors and Transit Riders
San Diego Metropolitan Transit System

The comprehensive annual financial report of the San Diego Metropolitan Transit System (MTS) for the fiscal years ended June 30, 2014 and 2013 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 & McGeedy 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, 2014 and 2013 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, 2014 and 2013 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 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.
- Implementing capital projects on schedule and within budget
- 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. SDTI operates on a total of 54.3 miles of track. SDTC operates 26 routes with an active fleet of 262 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 72 fixed-route bus lines and paratransit services with an active fleet of 442 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, SD&AE 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 licensing and regulating taxicabs, jitneys, and other private for-hire passenger transportation services by contract with the cities of San Diego, El Cajon, Imperial Beach, La Mesa, Lemon Grove, 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 economic momentum is projected to slow in the upcoming year due to higher taxes implemented and fallout from the policy changes associated with the Affordable Care Act. However, we do still expect to see improvements in manufacturing, technology, travel and tourism, and housing construction. San Diego's gross domestic product (GDP), the total value of the region's economy, has been forecasted to reach \$184.3 billion in 2013 and \$191.5 billion in 2014, increasing from the \$177.4 billion earned in 2012. Unemployment has declined in San Diego County and compares favorably to the unemployment rate in California and the national average. Sales tax receipts and sales tax related revenues have grown for the fourth consecutive year.

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

On a local level, area voters approved a one-half cent transportation sales tax in 1987, called *TransNet*. One-third of the sales tax proceeds is allocated for transit purposes which is further divided between MTS and North County Transit District (MTS' counterpart in North San Diego County) based on the proportion of the population within the area of each jurisdiction. Prior to FY 2004, 80% of the *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. MTS has recovered from the financial implications of the recession and is beginning to grow its service base. Sales tax receipts throughout California, which impacts subsidy revenue available to MTS from both TDA and *TransNet* funds, increased again for the fourth consecutive year and sales tax receipts have finally recovered back to the fiscal year 2007 high on a cash basis. MTS continues to monitor its costs and initiate additional revenue programs, and has implemented the first of four bus rapid transit (Rapid) routes, which feature high-frequency, seven-day-a-week, extended hour, bi-directional service to connect suburban commuters with major employment and entertainment centers. The first Rapid route, connecting the I-15 corridor and downtown, started in June 2014 and two additional Rapid routes will launch during

fiscal year 2015. MTS also implemented substantial changes on its existing services in order to feed the Rapid service and maximize their use.

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% by the end of fiscal year 2016.

Major Initiatives

MTS continues to focus on keeping the system's capital infrastructure in a state of good repair. After 30 years of operation, an extensive system-wide rehabilitation and upgrade of the MTS's Trolley operation is nearing completion, which will enable low floor service on the entire trolley system. Two of the MTS's bus maintenance facilities are in the middle of construction to rehabilitate and modernize their facilities. Also, MTS continues to fund the capital reserve for the replacement of 52 SD100 light rail vehicles that are 19 years old.

The Mid-Coast extension of the trolley system is another regional project; the project team is currently putting together an application to enter engineering, which will allow the team to pursue a full-funding grant agreement from the FTA. When complete, this extension will span 11 miles between Old Town and north University City. Major construction on the Mid-Coast extension is scheduled to begin in calendar year 2016, with some potential utility realignments in 2015. It 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, 2013. This was the eighth consecutive year and the eighteenth 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 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, 2014

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 11/89 (Supervisor, County Board of Supervisors)
David Alvarez	Board Member, since 1/13 (Councilmember, City of San Diego)
Lorie Bragg	Board Member, since 1/13 (Mayor Pro Tem, Imperial Beach)
Myrtle Cole	Board Member, since 9/13 (Councilmember, City of San Diego)
Jim Cunningham	Board Member, since 1/09 (Councilmember, City of Poway)
Marti Emerald	Board Member, since 12/09 (Councilmember, City of San Diego)
Ernest Ewin	Chair Pro Tem, since 1/14, Board Member, since 3/05 (Councilmember, City of La Mesa)
George Gastil	Board Member, since 11/12 (Councilmember, City of Lemon Grove)
Todd Gloria	Board Member, since 1/09 (Council President, 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 2/14 (Councilmember, City of Chula Vista)

BOARD COMMITTEE MEMBERSHIP

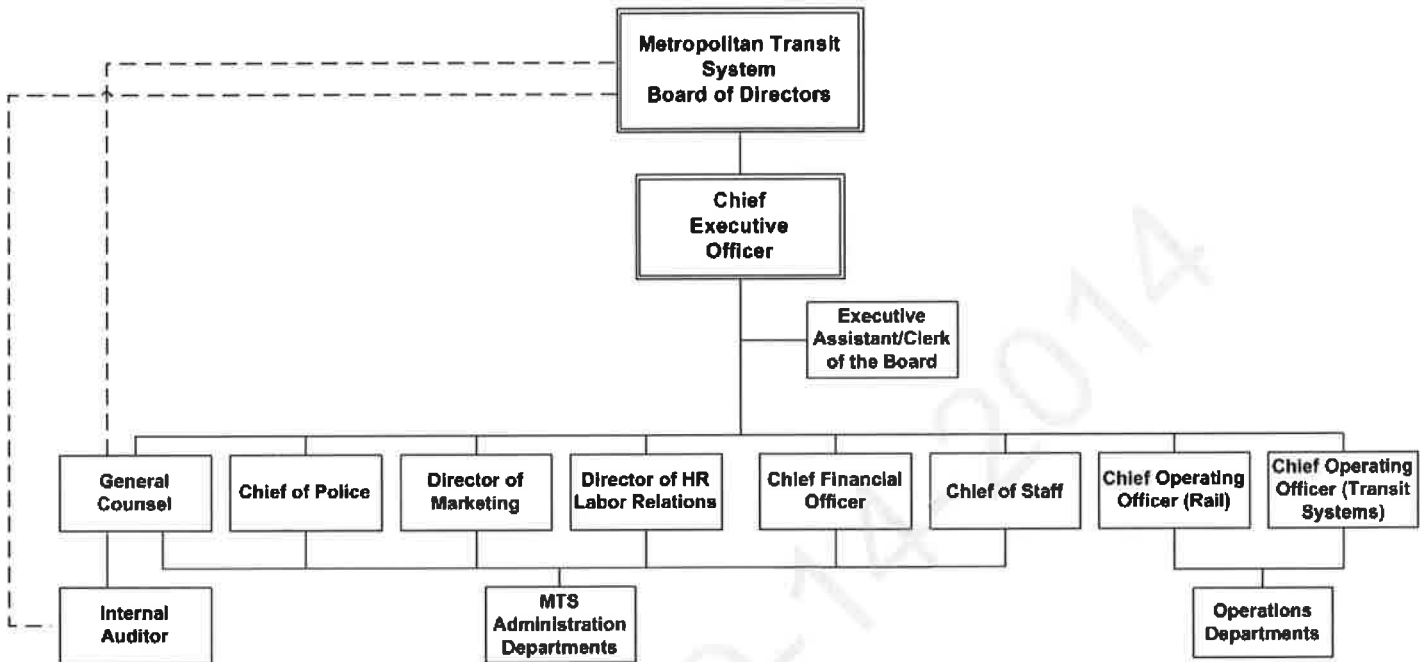
Executive Committee	Accessible Services Advisory Committee	Airport Authority Advisory Committee	Ad Hoc Public Security Committee
Harry Mathis, Chair	Lorie Bragg, Chair	Harry Mathis	David Alvarez
Jim Cunningham			Jim Cunningham
Todd Gloria			Harry Mathis
Al Ovrom, Jr.			John Minto
Ron Roberts			Mona Rios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

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
Larry Marinesi	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

San Diego Metropolitan Transit System

Executive Level Organizational Chart



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
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Presented to

**San Diego Metropolitan
Transit System, California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

FINANCIAL SECTION

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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, 2014 and 2013, 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.

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

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, 2014 and 2013, 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.

Emphasis of Matters

As discussed in Note 1 to the basic financial statements, MTS implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The adoption of this standards required retrospective application of previously reported net position and the reclassification of certain accounts at July 1, 2012 as described in Note 15 to the basic financial statements. Our opinion is not modified with respect to this matter.

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.

To the Board of Directors
of the San Diego Metropolitan Transit System
San Diego, California
Page 3

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October XX, 2014, 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 XX, 2014

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San Diego Metropolitan Transit System Management's Discussion and Analysis June 30, 2014 and 2013

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, 2014 and 2013. 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 \$1,583 million as of June 30, 2014, \$1,493 million as of June 30, 2013 and \$1,409 million as of June 30, 2012. Of this amount, \$181 million was unrestricted as of June 30, 2014, \$190 million was unrestricted as of June 30, 2013, and \$158 million was unrestricted as of June 30, 2012. Total net position increased by \$90 million in the current year and increased by \$84 million in the prior year. The current year increase is attributable to an increase operating revenues, TDA, STA, and *TransNet* funds, partially offset by increases in operating expenses and a decrease in contributed capital.
- For the year ended June 30, 2014, the combined farebox recovery ratio (the measure of the ability to recover operating costs through fare revenue) for San Diego Trolley, Inc., San Diego Transit Corporation, and MTS Contracted Services was 41.11% compared to 39.92% for the year ended June 30, 2013 and 41.05% for the year ended June 30, 2012. The current year increase is due primarily to a decrease in personnel costs related to the amortization of the net pension asset and an increase in passenger revenue.

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 2014, MTS presents comparative statements for FY2014 and FY2013.

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, 2014 and 2013

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 \$1,583 million at the close of the most recent fiscal year and \$1,493 million at the end of FY2013.

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 \$13 million, of which the largest project under construction is the procurement of 65 light rail vehicles, \$5 million. Prior year construction-in-progress totaled \$23 million, of which the largest project under construction was the procurement of 65 light rail vehicles, \$16 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 FY2014, MTS transferred completed projects worth \$90 million to SDTC, SDTI and Other Contracted Services. In FY2013, MTS transferred completed projects worth \$146 million to SDTC, SDTI, and Other Contracted Services.

The balance in the unrestricted component of net position decreased by \$9 million during the current year and increased \$32 million in the prior year.

	June 30, 2014	June 30, 2013	Change	June 30, 2012	Change
Current and other assets	\$ 308,583,122	\$ 316,159,038	\$ (7,575,916)	\$ 377,081,734	\$ (60,922,696)
Capital assets, net	1,512,774,675	1,416,260,555	96,514,120	1,295,206,414	121,054,141
Total assets	1,821,357,797	1,732,419,593	88,938,204	1,672,288,148	60,131,445
Long-term liabilities outstanding	152,721,866	175,787,021	(23,065,155)	193,049,033	(17,262,012)
Other liabilities	85,076,529	62,945,676	22,130,853	69,755,429	(6,809,753)
Total liabilities	237,798,395	238,732,697	(934,302)	262,804,462	(24,071,765)
Deferred inflows of resources	497,449	589,286	(91,837)	681,123	(91,837)
Net position:					
Net investment in capital assets	1,395,206,075	1,296,216,965	98,989,110	1,172,815,524	123,401,441
Restricted	6,741,898	7,255,404	(513,506)	78,378,268	(71,122,864)
Unrestricted	181,113,980	189,625,241	(8,511,261)	157,608,771	32,016,470
Total net position	\$ 1,583,061,953	\$ 1,493,097,610	\$ 89,964,343	\$ 1,408,802,563	\$ 84,295,047

Increases in operating revenue are attributable to an increase in riders utilizing one-way fares, revenues from the Desert Line lease, and \$2.00 fees being charged for Compass Cards. Variances between FY2014 and FY2013 nonoperating revenues are attributable to significant increases in TDA, STA, and *TransNet* funding for capital projects. The current year increase in operating expenses is attributable to an increase in depreciation expense associated with the acquisition of new capital assets, as well as increases in outside services and energy costs, partially offset by a decrease in personnel costs primarily due to the amortization cost associated with the net pension asset.

San Diego Metropolitan Transit System
Management's Discussion and Analysis (Continued)
June 30, 2014 and 2013

	June 30, 2014	June 30, 2013	Change	June 30, 2012	Change
Revenues:					
Operating revenues:					
Charges for services	\$ 94,024,708	\$ 90,652,522	\$ 3,372,186	\$ 88,280,779	\$ 2,371,743
Other operating revenue	10,400,773	5,906,691	4,494,082	5,228,636	678,055
Nonoperating revenues:					
Federal revenue	60,851,717	57,733,099	3,118,618	71,822,863	(14,089,764)
Transportation Development Act	82,565,009	71,893,404	10,671,605	71,538,917	354,487
State Transit Assistance	17,870,768	9,878,189	7,992,579	18,981,989	(9,103,800)
State revenue - other	4,211,454	5,213,539	(1,002,085)	84,878,549	(79,665,010)
TransNet funds	42,694,815	32,275,380	10,419,435	75,793,217	(43,517,837)
Other nonoperating revenue	9,138,116	14,022,580	(4,884,464)	9,644,573	4,378,007
Total revenues	321,757,360	287,575,404	34,181,956	426,169,523	(138,594,119)
Expenses:					
Operating expenses	343,566,429	327,929,073	15,637,356	306,931,351	20,997,722
Nonoperating expenses	6,994,987	7,533,318	(538,331)	8,018,977	(485,659)
Total expenses	350,561,416	335,462,391	15,099,025	314,950,328	20,512,063
Increase (decrease) in net position before capital contributions	(28,804,056)	(47,886,987)	19,082,931	111,219,195	(159,106,182)
Capital contributions	118,768,399	132,182,034	(13,413,635)	44,118,023	88,064,011
Increase (decrease) in net position	89,964,343	84,295,047	5,669,296	155,337,218	(71,042,171)
Net position - beginning of year	1,493,097,610	1,408,802,563	84,295,047	1,253,465,345	155,337,218
Net position - end of year	\$ 1,583,061,953	\$ 1,493,097,610	\$ 89,964,343	\$ 1,408,802,563	\$ 84,295,047

Capital Asset and Debt Administration

Capital assets. MTS' investment in capital assets net of depreciation as of June 30, 2014 and 2013 amounted to \$1,513 million and \$1,416 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 FY2014. As of June 30, 2014 MTS had placed 64 new trolley cars in service, 10 in the current year, 27 in FY2013 and 27 in FY2012.
- MTS continues to modernize the bus fleet. In FY2014, 79 buses were placed into service for a total cost of \$51 million.
- MTS purchased 3.59 acres of land in Barrio Logan for \$17 million to expand the trolley yard
- Completed capital projects totaling \$119 million were transferred from SANDAG to MTS and its component units during FY2014.

San Diego Metropolitan Transit System
Management's Discussion and Analysis (Continued)
June 30, 2014 and 2013

CAPITAL ASSETS
(Net of depreciation)

	2014	2013	2012
Land	\$ 256,922,883	\$ 240,453,415	\$ 240,471,287
Buildings	742,531,433	727,660,383	648,037,600
Vehicles	449,499,941	378,389,642	272,442,209
Equipment & other	50,675,910	47,215,318	46,728,919
Construction-in-progress	13,144,508	22,541,797	87,526,399
Total	<u>\$ 1,512,774,675</u>	<u>\$ 1,416,260,555</u>	<u>\$ 1,295,206,414</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 \$3.6 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 \$137.4 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 9 to the financial statements.

Bond Ratings

Standard & Poor's Ratings Services provided an underlying rating for the Pension Obligation Bonds at "AA-" in 2014. Additional information on MTS' long-term debt can be found in Note 9 to the financial statements.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

San Diego Metropolitan Transit System
Statements of Net Position
June 30, 2014 and 2013

ASSETS	2014	2013
Current assets:		
Cash and cash equivalents	\$ 54,586,864	\$ 67,342,108
Investments restricted for debt service and capital projects	21,361,390	1,807,484
Accounts and other receivables	8,031,828	7,487,415
Due from other governments	69,724,565	64,554,910
Inventory	19,029,540	17,673,252
Prepaid expenses and other current assets	2,360,013	1,268,080
Total current assets	175,094,200	160,133,249
Noncurrent assets:		
Cash and certificates of deposit restricted for capital support	12,712,627	12,143,571
Investments restricted for debt service and capital projects	94,865,657	116,056,580
Capital assets, net of accumulated depreciation	1,512,774,675	1,416,260,555
Net pension asset	25,910,638	27,825,638
Total noncurrent assets	1,646,263,597	1,572,286,344
Total assets	1,821,357,797	1,732,419,593

San Diego Metropolitan Transit System
Statements of Net Position (Continued)
June 30, 2014 and 2013

	2014	2013
LIABILITIES		
Current liabilities:		
Accounts payable	14,234,136	12,931,617
Due to other governments	22,773,555	20,184,156
Unearned revenue	3,687,955	4,223,070
Accrued expenses	8,410,845	10,123,462
Retentions payable	552,447	334,827
Due within one year:		
Compensated absences payable	7,526,670	7,455,502
Accrued damage, injury, and employee claims	3,917,111	3,394,889
Long-term debt	2,612,420	2,490,669
Long-term debt payable from restricted assets	21,361,390	1,807,484
Total current liabilities	85,076,529	62,945,676
Noncurrent liabilities:		
Retentions payable from restricted assets	8,740,742	7,487,745
Long-term debt payable from restricted assets	92,095,612	113,457,002
Due in more than one year:		
Compensated absences payable	4,084,953	4,713,238
Accrued damage, injury, and employee claims	7,774,145	8,854,074
Net other post employment benefits obligation	15,059,685	13,695,813
Long-term debt	24,966,729	27,579,149
Total noncurrent liabilities	152,721,866	175,787,021
Total liabilities	237,798,395	238,732,697
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refunding	497,449	589,286
Total deferred inflows of resources	497,449	589,286
NET POSITION		
Net investment in capital assets	1,395,206,075	1,296,216,965
Restricted for:		
Capital projects	3,971,854	4,655,826
Debt service	2,770,044	2,599,578
Unrestricted	181,113,980	189,625,241
Total net position	\$ 1,583,061,953	\$ 1,493,097,610

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San Diego Metropolitan Transit System
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Passenger revenue	\$ 93,994,559	\$ 90,651,622
Advertising	869,797	972,190
Charter	30,149	900
Miscellaneous	9,530,976	4,934,501
Total operating revenues	104,425,481	96,559,213
Operating expenses:		
Personnel costs	117,092,259	123,720,353
Outside services	73,858,746	67,413,522
Transit operations funding	4,242,856	3,570,758
Materials and supplies	9,276,195	8,468,837
Energy costs	26,043,694	22,572,397
Risk management	3,610,207	2,902,322
Miscellaneous	6,244,272	6,492,642
Depreciation	103,198,200	92,788,242
Total operating expenses	343,566,429	327,929,073
Operating income (loss)	(239,140,948)	(231,369,860)
Public support and nonoperating revenues (expenses):		
Federal revenue	60,851,717	57,733,099
Transportation Development Act (TDA) funds	82,565,009	71,893,404
State Transit Assistance (STA) funds	17,870,768	9,878,189
State revenue - other	4,211,454	5,213,539
TransNet funds	42,694,815	32,275,380
Other local subsidies	3,323,619	6,951,227
Investment earnings	6,087,302	6,266,933
Interest expense	(6,981,977)	(7,520,331)
Gain (loss) on disposal of assets	(272,805)	804,420
Other expenses	(13,010)	(12,987)
Total public support and nonoperating revenues (expenses)	210,336,892	183,482,873
Income (loss) before contributed capital	(28,804,056)	(47,886,987)
Contributed capital, net	118,768,399	132,182,034
Changes in net position	89,964,343	84,295,047
Net Position:		
Beginning of year, as restated (Note 15)	1,493,097,610	1,408,802,563
End of year	<u>\$ 1,583,061,953</u>	<u>\$ 1,493,097,610</u>

San Diego Metropolitan Transit System
Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Receipts from customers and users	\$ 105,377,683	\$ 94,759,953
Payments to suppliers	(117,564,640)	(122,201,949)
Payments to employees	(117,476,323)	(115,897,734)
Payments for damage and injury	(3,635,978)	(2,560,951)
Net cash provided (used) by operating activities	<u>(133,299,258)</u>	<u>(145,900,681)</u>
Cash flows from noncapital financing activities:		
Public support funds received	<u>206,101,814</u>	<u>203,981,276</u>
Net cash provided (used) by noncapital financing activities	<u>206,101,814</u>	<u>203,981,276</u>
Cash flows from capital and related financing activities:		
Debt service costs	(3,938,254)	(16,867,535)
Property acquisition	(81,756,393)	(82,816,993)
Proceeds from disposal of assets	<u>581,165</u>	<u>1,409,694</u>
Net cash provided (used) by capital financing activities	<u>(85,113,482)</u>	<u>(98,274,834)</u>
Cash flows from investing activities:		
Interest received on investments	<u>124,738</u>	<u>193,156</u>
Net cash provided (used) by investing activities	<u>124,738</u>	<u>193,156</u>
Net increase (decrease) in cash and cash equivalents	(12,186,188)	(40,001,083)
Cash and cash equivalents, beginning of year	<u>79,485,679</u>	<u>119,486,762</u>
Cash and cash equivalents, end of year	<u><u>\$ 67,299,491</u></u>	<u><u>\$ 79,485,679</u></u>
Cash and cash equivalents:		
Cash and cash equivalents	\$ 54,586,864	\$ 67,342,108
Cash and certificates of deposit restricted for capital support	<u>12,712,627</u>	<u>12,143,571</u>
Total cash and cash equivalents	<u><u>\$ 67,299,491</u></u>	<u><u>\$ 79,485,679</u></u>

San Diego Metropolitan Transit System
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of operating (loss) to net cash provided (used) by operating activities		
Operating (loss)	\$ (239,140,948)	\$ (231,369,860)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	103,198,200	92,788,242
Amortization of net pension asset	1,915,000	14,630,000
(Increase) decrease in:		
Accounts and other receivables	1,487,317	(3,807,895)
Inventory	(1,356,288)	(543,520)
Prepaid expenses and other current assets	(1,209,259)	1,119,941
Increase (decrease) in:		
Accounts payable	2,689,990	(23,282,245)
Accrued expenses	(1,712,617)	(980,275)
Unearned revenue	(535,115)	2,008,635
Net other postemployment benefits obligation	1,363,872	1,577,144
Compensated absences payable	(557,117)	(55,885)
Accrued damage, injury and employee claims	557,707	2,015,037
Total adjustments	105,841,690	85,469,179
Net cash provided (used) by operating activities	\$ (133,299,258)	\$ (145,900,681)
Noncash investing, capital, and financing activities:		
Contributions of capital assets from SANDAG	\$ 118,768,399	\$ 131,736,037
Contributions/adjustments of capital assets from outside parties	-	445,997
Total contributions of capital assets	\$ 118,768,399	\$ 132,182,034
Increase in fair value of investments	\$ 249,501	\$ 258,247

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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, 2014 and 2013

Table of Contents

	Page
Note 1 – Summary of Significant Accounting Policies	19
A. Reporting Entity	19
B. Financial Statements.....	20
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	20
D. Use of Restricted/Unrestricted Assets	22
E. Cash, Cash Equivalents, and Investments	22
F. Inventory	23
G. Prepaid Items and Other Assets.....	23
H. Capital Assets.....	23
I. Construction-in-Progress.....	24
J. Net Pension Asset.....	24
K. Compensated Absences	24
L. Long-Term Obligations.....	24
M. Refunding of Debt.....	24
N. Use of Estimates.....	24
O. Net Position	25
P. Accounting Changes.....	25
Note 2 – Cash, Cash Equivalents, and Investments	25
Note 3 – Accounts Receivable.....	29
A. Accounts and Other Receivables.....	29
B. Due from Other Governments.....	29
Note 4 – Inventory	29
Note 5 – Capital Assets.....	30
Note 6 – Net Pension Asset.....	31
Note 7 – Due to Other Governments.....	31
Note 8 – Unearned Revenue	32
Note 9 – Long-Term Debt	32
A. Summary	32
B. Capital Lease	34
C. 1995 LRV Lease/Leaseback.....	35
D. Pension Obligation Bonds	35
Note 10 – Risk Management.....	36
Note 11 – Contingencies	37
Note 12 – Postemployment Health Care Benefits.....	38
Note 13 – Employee Retirement Systems	41
A. MTS and SDTI.....	41
B. SDTC	43
Note 14 – Other Required Individual Fund Disclosures.....	44
Note 15 – Restatement of Net Position.....	44
Note 16 – Subsequent Events.....	45

San Diego Metropolitan Transit System
Notes to Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

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 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, deferred outflows, liabilities, deferred inflows, 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, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

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, deferred outflows, liabilities, deferred inflows, 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. Since SD&AE provides almost exclusive benefit to MTS, its assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses are included in MTS' financial statements as a blended component unit. 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.

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 accordance with 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, 2014 and 2013

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 40 percent and 38 percent of MTS' \$236.5 million and \$236.9 million operating budget for FY2014 and FY2013, 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. This rebate program ended in 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, 2014 and 2013

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, 2014 and 2013

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. 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, 2014 and 2013

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 trolley 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, if any, 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 expensed when incurred.

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, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

O. Net Position

Net Position is classified as follows:

Net investments in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amounts of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investments in capital assets or the restricted component of net position.

P. Accounting Changes

GASB has issued Statement No. 65, *Items previously Reported as Assets and Liabilities*. This Statement specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This Statement became effective for periods beginning after December 15, 2012 and result in certain restatements as disclosed in Note 15 to the basic financial statements and reclassification of certain accounts as presented in the Statement of Net Position.

GASB has issued Statement No. 66, "Technical Corrections - 2012; an amendment of GASB Statements No. 10 and No. 62." The requirements of this Statement resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This Statement became effective for periods beginning after December 15, 2012 and did not have a significant impact on MTS' financial statements for the year ended June 30, 2014.

Note 2 – Cash, Cash Equivalents, and Investments

Cash and investments are reported in the accompanying statements of net position as follows:

	2014	2013
Cash and cash equivalents	\$ 54,586,864	\$ 67,342,108
Cash and certificates of deposit restricted for capital support	12,712,627	12,143,571
Investments restricted for debt service and capital projects - current	21,361,390	1,807,484
Investments restricted for debt service and capital projects - noncurrent	94,865,657	116,056,580
Total cash and investments	\$ 183,526,538	\$ 197,349,743

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

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

Cash, cash equivalents, and investments consisted as follows on June 30, 2014 and 2013:

Investment type	Fair Value	
	2014	2013
Cash and cash equivalents:		
Demand Deposits	\$ 21,360,671	\$ 25,229,120
Retention Trust Account	8,740,742	7,487,745
San Diego County Investment Pool	3,971,885	4,655,826
State of California - Local Agency Investment Fund	33,226,193	42,112,988
Total cash and cash equivalents	67,299,491	79,485,679
Investments:		
U.S. Treasuries	39,410,751	39,171,173
Bank Investment Contract	76,816,296	78,692,891
Total investments	116,227,047	117,864,064
Total cash, cash equivalents, and investments	\$ 183,526,538	\$ 197,349,743

Demand Deposits

At year end the carrying amount of demand deposits was \$21,360,671 and the bank balance was \$22,022,808 compared to \$25,229,120 and \$26,774,449 in the previous year, of which the total amount was collateralized or insured with securities held by the pledging financial institutions in MTS' name as discussed in Disclosures Relating to Custodial Credit Risk.

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, 2014 and 2013

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 8.36% and 8.8% of the Investment Pool as of June 30, 2014 and 2013, respectively. At June 30, 2014 and 2013, the fair value of our position in the pool is 99.38% and 98.99%, respectively, of the value of the pool shares.

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, 2014, MTS had \$3,971,885 invested in the San Diego County Investment Pool, compared to \$4,655,826 at June 30, 2013.

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 Investment Advisory Board, which consists of five members, in accordance with State statute. The fair value of our position in the pool is the same as the value of the pool shares.

As of June 30, 2014, MTS had \$33,226,193 invested in LAIF, which had invested 1.86% of the pool investment funds in Structured Notes and Asset-Backed Securities compared to \$42,112,988 and 1.96% at June 30, 2013.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

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

Disclosures Relating to 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.

Disclosures Relating to 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.

Disclosures Relating to 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.

Disclosures Relating to 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, 2014 and 2013, are shown below:

Maturity	2014	2013
Current to one year	\$ 70,552,450	\$ 79,485,679
One to five years	36,157,792	39,171,173
Five to ten years	-	-
Ten to twenty years	76,816,296	78,692,891
Total	\$ 183,526,538	\$ 197,349,743

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Note 3 – Accounts Receivable**A. Accounts and Other Receivables**

At June 30, 2014 and 2013, the net realizable accounts and other receivables consisted of the following:

	2014	2013
Interest receivable	\$ 2,844,812	\$ 2,910,105
Passenger revenue - General Public	2,728,084	2,188,076
Pension plan receivable	1,367,723	1,255,716
Miscellaneous trade receivables	623,549	687,683
Advertising receivable	467,660	445,835
Total accounts and other receivables	\$ 8,031,828	\$ 7,487,415

B. Due from Other Governments

At June 30, 2014 and 2013, amounts due from other governments consisted of the following:

	2014	2013
FTA Grant Funds	\$ 52,004,792	\$ 47,082,147
STA Funds	5,257,318	5,791,324
SANDAG - <i>TransNet</i>	5,177,208	404,299
SANDAG - project/route reimbursements	3,374,173	3,468,099
Passenger revenue	1,640,347	3,538,468
County of San Diego	1,540,498	1,112,738
North County Transit District - shared costs	456,199	49,692
Department of Homeland Security	105,723	649,937
City of San Diego	77,057	2,050
State of California	76,511	58,965
City of Coronado	13,340	-
U.S. Treasury Department	1,399	1,651,284
City of Chula Vista	-	745,907
Total due from other governments	\$ 69,724,565	\$ 64,554,910

Note 4 – Inventory

At June 30, 2014 and 2013, inventory consists of the following repair and maintenance parts and administrative supplies:

	2014	2013
San Diego Transit Corp.	\$ 2,133,808	\$ 2,249,585
San Diego Trolley, Inc.	16,895,732	15,423,667
Total inventory	\$ 19,029,540	\$ 17,673,252

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Note 5 – Capital Assets

A summary of changes in capital assets for the year ended June 30, 2014 is as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets, not depreciated				
Land and right-of-way	\$ 240,453,415	\$ 16,799,468	\$ (330,000)	\$ 256,922,883
Construction-in-progress	22,541,797	85,332,661	(94,729,950)	13,144,508
Total capital assets, not depreciated	262,995,212	102,132,129	(95,059,950)	270,067,391
Capital assets, depreciated:				
Buildings and structures	1,413,307,286	72,942,750	(518,738)	1,485,731,298
Buses and vehicles	661,778,618	107,246,075	(13,837,286)	755,187,407
Equipment and other	97,109,406	12,976,342	(1,572,327)	108,513,421
Capital lease property	12,091,981	-	-	12,091,981
Total capital assets, depreciated	2,184,287,291	193,165,167	(15,928,351)	2,361,524,107
Less accumulated depreciation for:				
Buildings and structures	(688,480,961)	(57,306,010)	130,922	(745,656,049)
Buses and vehicles	(283,388,976)	(36,143,744)	13,845,254	(305,687,466)
Equipment and other	(49,894,088)	(9,370,572)	1,427,149	(57,837,511)
Capital lease property	(9,257,923)	(377,874)	-	(9,635,797)
Total accumulated depreciation	(1,031,021,948)	(103,198,200)	15,403,325	(1,118,816,823)
Total capital assets, depreciated, net	1,153,265,343	89,966,967	(525,026)	1,242,707,284
Total capital assets	\$ 1,416,260,555	\$ 192,099,096	\$ (95,584,976)	\$ 1,512,774,675

A summary of changes in capital assets for the year ended June 30, 2013 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	\$ 1,295,206,414	\$ 271,577,295	\$ (150,523,154)	\$ 1,416,260,555

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Note 5 – Capital Assets (Continued)

MTS converted \$95 million in capital assets from CIP to assets in service compared to \$151 million in FY2013. Capital asset additions totaling \$119 million were contributed by SANDAG, including \$64 million to SDTC, and \$55 million to SDTI. In FY2013, the contributions from SANDAG totaled \$132 million.

Depreciation expense for capital assets for the years ended June 30, 2014 and 2013 was comprised of the following:

	2014	2013
General operations	\$ 1,587,986	\$ 1,361,426
Other contracted services	11,686,999	12,305,236
San Diego Transit Corporation	15,628,029	14,121,961
San Diego Trolley, Inc.	74,295,186	64,999,619
Total	<u>\$ 103,198,200</u>	<u>\$ 92,788,242</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, 2014, the Net Pension Asset amounted to \$25,910,638, compared to \$27,825,638 for FY2013.

Note 7 – Due to Other Governments

At June 30, 2014 and 2013, amounts due to other governments consisted of the following:

	2014	2013
SANDAG - Subsidy revenue for construction projects in process	\$ 19,745,587	\$ 18,172,628
SANDAG - CIP Reimbursement	745,215	1,182,154
State of California	607,648	45,638
SANDAG - Compass Card Program	559,958	-
North County Transit District	381,749	295,945
City of San Diego - Shared Revenue	294,979	122,338
City of Chula Vista - TDA Funds	145,000	-
City of Lemon Grove - TDA Funds	121,170	134,122
City of El Cajon - TDA Funds	90,883	90,883
City of La Mesa - TDA Funds	38,146	51,500
City of Coronado - TDA Funds	19,718	20,600
City of Poway - TDA Funds	16,074	67,977
County of San Diego	7,428	371
Total due to other governments	<u>\$ 22,773,555</u>	<u>\$ 20,184,156</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Note 8 – Unearned Revenue

At June 30, 2014 and 2013, unearned revenue consisted of the following:

	2014	2013
Fare media payments received in advance	\$ 2,574,031	\$ 2,787,666
Lease payments received in advance	590,962	898,185
Deposit from City of Mendoza for sale of light rail vehicles	428,341	428,341
Land management deposits	94,621	10,308
County funds - 4S Ranch development	-	98,570
Total unearned revenue	\$ 3,687,955	\$ 4,223,070

Note 9 – Long-Term Debt**A. Summary**

A summary of changes in long-term obligations for the year ended June 30, 2014 is as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Amounts due within one year	Amounts due in more than one year
MTS:						
Capital lease obligations	\$ 4,189,818	\$ -	\$ (575,669)	\$ 3,614,149	\$ 607,420	\$ 3,006,729
Deferred gain on refunding	589,286	-	(91,837)	497,449	-	497,449
1995 LRV Lease/Leaseback	115,264,486	-	(1,807,484)	113,457,002	21,361,390	92,095,612
Compensated absences payable	966,605	855,542	(898,248)	923,899	898,248	25,651
Accrued damage, injury, and employee claims	508,950	(3,133)	(103,000)	402,817	402,817	-
Net other postemployment benefits	3,520,474	499,500	(81,049)	3,938,925	-	3,938,925
Total MTS	125,039,619	1,351,909	(3,557,287)	122,834,241	23,269,875	99,564,366
San Diego Transit Corporation:						
Pension obligation bonds	25,880,000	-	(1,915,000)	23,965,000	2,005,000	21,960,000
Compensated absences payable	8,422,474	3,643,267	(4,079,866)	7,985,875	4,079,866	3,906,009
Accrued damage, injury, and employee claims	9,337,730	3,602,187	(4,100,000)	8,839,917	2,401,612	6,438,305
Net other postemployment benefits	4,006,958	1,380,200	(928,831)	4,458,327	-	4,458,327
Total San Diego Transit Corporation	47,647,162	8,625,654	(11,023,697)	45,249,119	8,486,478	36,762,641
San Diego Trolley, Inc.:						
Compensated absences payable	2,779,661	3,134,211	(3,212,023)	2,701,849	2,548,556	153,293
Accrued damage, injury, and employee claims	2,402,283	818,239	(772,000)	2,448,522	1,112,682	1,335,840
Net other postemployment benefits	6,168,381	644,400	(150,348)	6,662,433	-	6,662,433
Total San Diego Trolley, Inc	11,350,325	4,596,850	(4,134,371)	11,812,804	3,661,238	8,151,566
Total	\$ 184,037,106	\$ 14,574,413	\$ (18,715,355)	\$ 179,896,164	\$ 35,417,591	\$ 144,478,573

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Note 9 – Long-Term Debt (Continued)**A. Summary (Continued)**

A summary of changes in long-term obligations for the year ended June 30, 2013 is as follows:

	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
1995 LRV Lease/Leaseback	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	-
Net other postemployment 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
Net other postemployment 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 postemployment 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

Long-term debt is reported in the accompanying statements of net position as follows:

	2014		2013	
	Due within One Year	Noncurrent Liabilities	Due within One Year	Noncurrent Liabilities
Liabilities:				
Compensated absences	\$ 7,526,670	\$ 4,084,953	\$ 7,455,502	\$ 4,713,238
Accrued damage, injury, and employee claims	3,917,111	7,774,145	3,394,889	8,854,074
Long-term debt	2,612,420	24,966,729	2,490,669	27,579,149
Long-term debt payable from restricted assets	21,361,390	92,095,612	1,807,484	113,457,002
Net other postemployment benefits	-	15,059,685	-	13,695,813
Deferred inflows of resources				
Deferred gain on debt refunding	-	497,449	-	589,286
	\$ 35,417,591	\$ 144,478,573	\$ 15,148,544	\$ 168,888,562

Because of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, deferred gain on debt refunding has been reclassified as Deferred Inflows of Resources.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Note 9 – 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 resulted in a \$1.3 million reduction in future principal and interest payments under the terms of the lease agreement. A \$788,266 net economic capital 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 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:

	2014	2013
Building – MTS Tower	\$ 12,091,981	\$ 12,091,981
Less accumulated depreciation	(9,635,797)	(9,257,923)
Total	<u>\$ 2,456,184</u>	<u>\$ 2,834,058</u>

The following is a summary of future minimum payments under the capital lease as of June 30, 2014:

Year Ending June 30:	Tower Lease Payments
2015	\$ 750,550
2016	731,665
2017	739,617
2018	743,537
2019	744,055
2020	372,148
Total minimum lease payments	4,081,572
Less amount representing interest	(467,423)
Present value of minimum lease payments	<u>\$ 3,614,149</u>

At June 30, 2014 and 2013, the future minimum payments were \$3,614,149 and \$4,189,818, respectively.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Note 9 – Long-Term Debt (Continued)

C. 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.

At June 30, 2014 and 2013, the remaining future obligation total \$113,457,002 and \$115,264,486, respectively.

Year ending June 30:	Principal	Interest	Total
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	4,989,231	4,502,751	9,491,982
2020-2024	43,105,910	14,211,017	57,316,927
2025-2026	12,938,945	604,846	13,543,791
Total	<u>\$ 113,457,002</u>	<u>\$ 40,682,291</u>	<u>\$ 154,139,293</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.

D. 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 were variable rate bonds that were to mature on December 23, 2015. Interest was adjusted on a weekly basis indexed to LIBOR and was 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.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Note 9 – Long-Term Debt (Continued)**D. Pension Obligation Bonds (Continued)**

At June 30, 2014 and 2013, the outstanding balance of the Pension Obligation Bonds is \$23,965,000 and \$25,880,000, respectively.

Year ending June 30:	Principal	Interest	Total
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	2,430,000	723,671	3,153,671
2020-2024	12,910,000	1,604,225	14,514,225
Total	<u>\$ 23,965,000</u>	<u>\$ 6,315,445</u>	<u>\$ 30,280,445</u>

Note 10 – 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, 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. MTS, SDTC and SDTI have policies for crime coverage through commercial insurance.

Claims expenditures and liabilities in connection with these self-insurance programs are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported based upon past experience, modified for current trends and information. Claim payments up to \$2,000,000 per incident were recorded as general and administrative expenses in the statements of revenues, expenses, and changes in net 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:				
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
2013-2014	12,248,963	4,417,293	(4,975,000)	11,691,256

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Note 10 – Risk Management (Continued)

Following is a summary of accrued damage, injury and employee claims for fiscal years 2014 and 2013:

Accrued damage, injury and employee claims	2014	2013
Current portion	\$ 3,917,111	\$ 3,394,889
Non-current portion	7,774,145	8,854,074
Total	<u>\$ 11,691,256</u>	<u>\$ 12,248,963</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 \$11,691,256 at June 30, 2014 and \$12,248,963 at June 30, 2013.

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

Note 11 - Contingencies

Pending legal actions. MTS, SDTC and SDTI have been named in certain legal actions pending at June 30, 2014. 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.

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 FY07 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 are not required for not for profit corporations that are deemed to be instrumentalities of a political subdivision such as MTS. Under the direction of tax consultants, MTS directed that the freight operator prepare a final return for calendar year 2007. However, MTS recently learned it was also necessary that SD&AE be formally recognized as an exempt organization by the Internal Revenue Service and Franchise Tax Board. Although it is anticipated that SD&AE will be granted exemption under federal and state laws as an instrumentality of MTS and, therefore, exempt from filing any form of tax return, there is a risk of audit of returns that should have been filed by SD&AE for FY11, FY12, and FY13 pending formal recognition of SD&AE exempt status. This risk will be eliminated once SD&AE's exempt status is formally recognized which is anticipated before the end of the current calendar year.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Note 12 - Postemployment 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 postemployment benefits as determined by each union.

For the year ended June 30, 2014, total MTS payments were \$81,049 for 13 retirees, total SDTI payments were \$150,348 for 28 retirees, and total SDTC payments were \$468,265 for 45 management retirees plus \$460,666 for 150 union retirees currently receiving postemployment health care benefits.

For the year ended June 30, 2013, total MTS payments were \$49,167 for 9 retirees, total SDTI payments were \$152,683 for 25 retirees, and total SDTC payments were \$433,836 for 45 management retirees plus \$407,070 for 156 union retirees currently receiving postemployment health care 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 years 2014 and 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	\$ 3,520,474	\$ 6,168,381	\$ 4,006,958	\$ 13,695,813
Benefit payments paid outside of a trust	(81,049)	(150,348)	(928,831)	(1,160,228)
Estimated contributions to a trust	-	-	-	-
Annual Required Contribution	487,900	624,000	1,367,000	2,478,900
Accrued interest on June 30, 2013 NOO	158,400	277,600	180,300	616,300
Amortization of June 30, 2013 NOO	(146,800)	(257,200)	(167,100)	(571,100)
NOO at June 30, 2014	<u>\$ 3,938,925</u>	<u>\$ 6,662,433</u>	<u>\$ 4,458,327</u>	<u>\$ 15,059,685</u>

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

	Participants as of (Most Current Available)	
	June 30, 2013	June 30, 2012
Current retirees and surviving spouses	229	237
Other participants fully eligible for benefits	352	330
Other participants not yet fully eligible for benefits	1,074	964
Total	<u>1,655</u>	<u>1,531</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Note 12 - Postemployment Health Care Benefits (Continued)

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 2014, MTS contributions to the plan were \$1,160,228 (or 52.79% of total gross health costs), while retirees contributed \$1,037,710 (or 47.21% of total gross health costs), as compared to 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 years ended June 30, 2014 and 2013, the amount actually contributed to the plans, and the changes in MTS' Net OPEB Obligation to the Plan:

	All Groups	
	2014	2013
Normal Cost	\$ 956,500	\$ 1,050,300
Amortization of Unfunded AAL	1,522,400	1,543,500
Annual Required Contribution	2,478,900	2,593,800
Interest on beginning of year NOO	616,300	545,300
Amortization of beginning of year NOO	(571,100)	(519,200)
Annual OPEB cost	2,524,100	2,619,900
Contributions or Benefit Payments	(873,128)	(726,656)
Implicit subsidy payments	(287,100)	(316,100)
Increase in net OPEB obligation	1,363,872	1,577,144
Net OPEB obligation - beginning of year	13,695,813	12,118,669
Net OPEB obligation - end of year	\$ 15,059,685	\$ 13,695,813

MTS' Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan and the Net OPEB Obligation for fiscal years 2012, 2013 and 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 2,628,300	36.83%	\$ 12,118,669
June 30, 2013	2,619,900	39.80%	13,695,813
June 30, 2014	2,524,100	45.97%	15,059,685

Funded Status and Funding Progress. As of June 30, 2013, the most recent actuarial valuation date, the Plan was not funded. The Actuarial Accrued Liability (AAL) for benefits was \$36,511,800 and the actuarial value of assets was \$0 compared to \$37,018,400 and \$0 as of June 30, 2011. The covered payroll (annual payroll of active employees covered by the plan) as of June 30, 2013 was \$68,044,900 and the ratio of Unfunded AAL to covered payroll was 54% percent compared to \$65,775,100 and 56% as of June 30, 2011.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Note 12 - Postemployment Health Care Benefits (Continued)

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
6/30/2013	\$ -	\$ 3,855	\$ 3,855	0.00%	\$ 8,698	44.32%

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
6/30/2013	\$ -	\$ 9,545	\$ 9,545	0.00%	\$ 25,277	37.76%

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
6/30/2013	\$ -	\$ 23,111	\$ 23,111	0.00%	\$ 34,070	67.83%

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 2013 study was completed during FY2014. The next study, which will be based on activity through June 2015, will be completed during FY2016.

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, 2013, actuarial valuation the Entry Age Normal actuarial cost method was used. The actuary assumed 4.5% investment rate of return (net of administrative expenses) which is the expected long-term investment returns on the employer's own investments, and a compensation increase of 3%. The annual healthcare cost trend rate varies depending on the plan and type of health care service involved. Beginning in fiscal year 2013/2014, medical/drug trends generally grade down from 7.25% and 7.75% to an ultimate of 4.5% by 2025/2026, 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, 2014 and 2013

Note 13 – Employee Retirement System

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 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
6/30/2012	\$ 84,011	\$ 93,892	\$ 9,881	89.48%	\$ 24,008	41.16%

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, 2014 and 2013

Note 13 – Employee Retirement System (Continued)

A. MTS and SDTI (Continued)

Annual Pension Cost

For fiscal year 2014, MTS' and SDTI's annual required employer contributions were \$2,384,715 and \$4,326,440 respectively. Of these totals, employees contributed \$337,168 and \$1,580,463. The required contribution for fiscal year 2014 was determined as part of the June 30, 2011, actuarial valuation using the Entry Age Normal Cost Method with the contributions determined as a percent of pay.

For fiscal year 2013, MTS' and SDTI's annual required employer contributions were \$2,095,466 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 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 smoothing technique that spreads 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, 2012, the most recent valuation date, was 19 years for MTS and 21 years for SDTI.

Trend information for MTS (in 000s)

Fiscal Year Ended June 30:	Annual Required Contribution (ARC)	Actual Contribution	Percentage of ARC Contributed
2012	\$ 2,021	\$ 2,021	100%
2013	2,095	2,095	100%
2014	2,385	2,385	100%

Trend information for SDTI (in 000s)

Fiscal Year Ended June 30:	Annual Required Contribution (ARC)	Actual Contribution	Percentage of ARC Contributed
2012	\$ 3,908	\$ 3,908	100%
2013	4,029	4,029	100%
2014	4,326	4,326	100%

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Note 13 – Employee Retirement System (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 study 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 Individual Entry Age Actuarial 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 smoothing technique that spreads 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, 2013, 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, 2014 and 2013

Note 13 – Employee Retirement System (Continued)**B. SDTC (Continued)**

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

SDTC (in 000s)

Valuation Date	Actuarial Value of Assets	Entry Age Normal AAL	Unfunded Liability	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll
7/1/2013	\$ 148,452	\$ 241,331	\$ 92,879	61.51%	\$ 32,707	283.97%

Annual Pension Cost

For fiscal year ended June 30, 2014, the annual pension cost of \$13,527,981 for the pension plan was equal to SDTC's required and actual contributions. Of this total, employees contributed \$899,791. The required contribution was determined as part of the July 1, 2012 actuarial valuation using the entry age normal cost method. Following is the most recent data available.

Trend information for SDTC (in 000s)

Fiscal Year Ended June 30:	Annual Required Contribution (ARC)	Actual Contribution	Percentage of ARC Contributed
2012	\$ 10,132	\$ 10,132	100%
2013	11,359	11,359	100%
2014	13,528	13,528	100%

Note 14 – Other Required Individual Disclosures

SDTC had unrestricted net deficits of \$26,537,249 at June 30, 2014 compared to \$15,881,180 at June 30, 2013. 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 15 – Restatement of Net Position

As a result of the implementation of GASB Statement No. 65, net position was restated as follows:

Net position at July 1, 2012, as previously reported	\$ 1,409,034,602
Restatement to recognize deferred bond issuance cost as an expense due to implementation of GASB 65	(360,626)
Restatement to record insurance costs related to bond issuance as prepaid expenses due to implementation of GASB 65	<u>128,587</u>
Net position at July 1, 2012, as restated	<u><u>\$ 1,408,802,563</u></u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Note 16 – Subsequent Events***Purchase of Head Lease Rights***

On September 18, 2014, the MTS Board of Directors authorized staff to execute the purchase of the Head Lease Rights to 52 light rail vehicles as set forth in the Participation Agreement and other leverage lease documents executed by MTS on December 15, 1995. MTS has sufficient funds on hand in Treasury Strips and a fixed rate deposit account at Rabobank to fulfill the \$119 million purchase option in five installments during FY15 and FY16.

GASB Statement No. 68, Accounting and Financial Reporting for Pension Plans

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27). This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures for Pensions Plans. This Statement further identifies the methods and assumptions that should be used to project benefit payments, discount projected benefits payments to their actuarial present value, and attribute that present value, attribute that present value to periods of employee service. Management is evaluating the impact of the adoption of this standard on the financial statements and believes that its impact, when adopted, may be substantial to MTS. GASB No. 68 will be implemented effective with the fiscal year 2014-2015 financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

San Diego Metropolitan Transit System
Required Supplementary Information
For the Year Ended June 30, 2014

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
6/30/2010	\$ 71,032	\$ 79,497	\$ 8,465	89.35%	\$ 23,364	36.23%
6/30/2011	77,582	88,127	10,545	88.03%	24,097	43.76%
6/30/2012	84,011	93,892	9,881	89.48%	24,008	41.16%

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
7/1/2011	\$ 151,113	\$ 236,875	\$ 85,762	63.79%	\$ 32,573	263.29%
7/1/2012	147,787	235,401	87,614	62.78%	33,393	262.37%
7/1/2013	148,452	241,331	92,879	61.51%	32,707	283.97%

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, 2014

SCHEDULE OF FUNDING PROGRESS OF OTHER POSTEMPLOYMENT 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
6/30/2009	\$ -	\$ 2,701	\$ 2,701	0.00%	\$ 8,281	32.62%
6/30/2011	-	3,276	3,276	0.00%	8,023	40.83%
6/30/2013	-	3,855	3,855	0.00%	8,698	44.32%

SDTI (in 000s):

Valuation Date	Actuarial Value of Assets	Entry Age Normal AAL	Unfunded AAL	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2009	\$ -	\$ 7,565	\$ 7,565	0.00%	\$ 26,788	28.24%
6/30/2011	-	9,417	9,417	0.00%	24,617	38.25%
6/30/2013	-	9,545	9,545	0.00%	25,277	37.76%

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
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%
6/30/2013	-	23,111	23,111	0.00%	34,070	67.83%

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 FY2016 based on the year ending June 30, 2015.

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SUPPLEMENTARY INFORMATION

Combining Schedule of Net Position

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

Combining Statement 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

Contracted Services

San Diego Transit Corporation

San Diego Trolley, Inc.

San Diego Metropolitan Transit System
Combining Schedule of Net Position
June 30, 2014

ASSETS

	General Operations	Contracted Services	SDTC	SDTI	Total
Current assets:					
Cash and cash equivalents	\$ 55,167,148	\$ -	\$ (862,606)	\$ 282,322	\$ 54,586,864
Investments restricted for debt service payable within one year	21,361,390	-	-	-	21,361,390
Accounts and other receivables	6,446,497	26,405	1,468,983	89,943	8,031,828
Due from other governments	67,401,320	120,801	155,739	2,046,705	69,724,565
Internal balances	888,175	5,645,531	(6,151,370)	(382,336)	-
Inventory	-	-	2,133,808	16,895,732	19,029,540
Prepaid expenses and other current assets	470,361	283,072	800,102	806,478	2,360,013
Total current assets	151,734,891	6,075,809	(2,455,344)	19,738,844	175,094,200
Noncurrent assets:					
Cash and certificates of deposit restricted for capital support	12,712,627	-	-	-	12,712,627
Investments restricted for debt service and capital projects	94,865,657	-	-	-	94,865,657
Capital assets (net of accumulated depreciation)	70,110,710	91,402,055	215,970,216	1,135,291,694	1,512,774,675
Net pension asset	-	-	25,910,638	-	25,910,638
Total noncurrent assets	177,688,994	91,402,055	241,880,854	1,135,291,694	1,646,263,597
Total assets	329,423,885	97,477,864	239,425,510	1,155,030,538	1,821,357,797

San Diego Metropolitan Transit System
Combining Schedule of Net Position (Continued)
June 30, 2014

LIABILITIES					
	General Operations	Contracted Services	SDTC	SDTI	Total
Current liabilities:					
Accounts payable	6,019,023	5,196,433	1,871,068	1,147,612	14,234,136
Due to other governments	22,237,406	10,607	55,231	470,311	22,773,555
Unearned revenue	3,259,614	-	-	428,341	3,687,955
Accrued expenses	3,256,094	-	2,817,125	2,337,626	8,410,845
Retention payable	552,447	-	-	-	552,447
Due within one year:					
Compensated absences payable	898,248	-	4,079,866	2,548,556	7,526,670
Accrued damage, injury, and employee claims	402,817	-	2,401,612	1,112,682	3,917,111
Long-term debt	607,420	-	2,005,000	-	2,612,420
Long-term debt payable from restricted assets	21,361,390	-	-	-	21,361,390
Total current liabilities	58,594,459	5,207,040	13,229,902	8,045,128	85,076,529
Noncurrent liabilities:					
Retention payable from restricted assets	8,740,742	-	-	-	8,740,742
Long-term debt payable from restricted assets	92,095,612	-	-	-	92,095,612
Due in more than one year:					
Compensated absences payable	25,651	-	3,906,009	153,293	4,084,953
Accrued damage, injury, and employee claims	-	-	6,438,305	1,335,840	7,774,145
Net other postemployment benefits obligation	3,938,925	-	4,458,327	6,662,433	15,059,685
Long-term debt, due in more than one year	3,006,729	-	21,960,000	-	24,966,729
Total noncurrent liabilities	107,807,659	-	36,762,641	8,151,566	152,721,866
Total liabilities	166,402,118	5,207,040	49,992,543	16,196,694	237,798,395
DEFERRED INFLOWS OF RESOURCES					
Deferred gain on debt refunding	497,449	-	-	-	497,449
Total deferred inflows of resources	497,449	-	-	-	497,449
NET POSITION					
Net investment in capital assets	(47,457,890)	91,402,055	215,970,216	1,135,291,694	1,395,206,075
Restricted for:					
Capital projects	3,971,854	-	-	-	3,971,854
Debt service	2,770,044	-	-	-	2,770,044
Unrestricted	203,240,310	868,769	(26,537,249)	3,542,150	181,113,980
Total net position	\$ 162,524,318	\$ 92,270,824	\$ 189,432,967	\$ 1,138,833,844	\$ 1,583,061,953

San Diego Metropolitan Transit System
Combining Schedule of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2014

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
Operating revenues:						
Passenger revenue	\$ -	\$ 26,025,468	\$ 27,781,183	\$ 40,187,908	\$ -	\$ 93,994,559
Advertising	869,797	-	-	-	-	869,797
Charter	-	-	29,420	729	-	30,149
Miscellaneous	8,270,611	-	4,965	1,255,400	-	9,530,976
Total operating revenues	9,140,408	26,025,468	27,815,568	41,444,037	-	104,425,481
Operating expenses:						
Personnel costs	18,655,522	683,179	65,666,847	32,086,711	-	117,092,259
Outside services	13,567,397	54,697,311	1,767,954	3,826,084	-	73,858,746
Transit operations funding	94,077,918	-	-	-	(89,835,062)	4,242,856
Materials and supplies	18,869	15,095	4,707,738	4,534,493	-	9,276,195
Energy costs	236,255	8,767,317	6,004,285	11,035,837	-	26,043,694
Risk management	275,136	15,300	1,625,295	1,694,476	-	3,610,207
Miscellaneous	(24,820,112)	1,780,633	10,869,184	18,414,567	-	6,244,272
Depreciation	1,587,986	11,686,999	15,628,029	74,295,186	-	103,198,200
Total operating expenses	103,598,971	77,645,834	106,269,332	145,887,354	(89,835,062)	343,566,429
Operating income (loss)	(94,458,563)	(51,620,366)	(78,453,764)	(104,443,317)	89,835,062	(239,140,948)

San Diego Metropolitan Transit System
Combining Schedule of Revenues, Expenses, and Changes in Net Position (Continued)
For the Year Ended June 30, 2014

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
Public support and nonoperating revenues (expenses):						
Federal revenue	60,851,717	10,362,108	19,335,691	22,912,890	(52,610,689)	60,851,717
Transportation Development Act (TDA) funds	82,565,009	25,275,681	14,306,051	1,500,525	(41,082,257)	82,565,009
State Transit Assistance (STA) funds	17,870,768	-	2,182,725	-	(2,182,725)	17,870,768
State revenue - other	4,211,454	1,630,545	-	-	(1,630,545)	4,211,454
<i>TransNet</i> funds	48,194,815	1,298,865	20,619,180	5,000,000	(32,418,045)	42,694,815
Other local subsidies	3,323,619	1,366,168	278,000	-	(1,644,168)	3,323,619
Investment earnings	6,087,302	-	-	-	-	6,087,302
Interest expense	(5,828,318)	-	(1,153,659)	-	-	(6,981,977)
Gain (loss) on disposal of assets	(300,501)	-	(27,873)	55,569	-	(272,805)
Other expenses	-	-	(13,010)	-	-	(13,010)
Total public support and nonoperating revenues (expenses)	216,975,865	39,933,367	55,527,105	29,468,984	(131,568,429)	210,336,892
Income (loss) before transfers and contributed capital	122,517,302	(11,686,999)	(22,926,659)	(74,974,333)	(41,733,367)	(28,804,056)
Transfers	(41,733,367)	-	-	-	41,733,367	-
Contributed capital, net	(86,077,211)	16,074,540	74,042,311	114,728,759	-	118,768,399
Changes in net position	(5,293,276)	4,387,541	51,115,652	39,754,426	-	89,964,343
Net Position:						
Beginning of year, as previously reported	167,817,594	87,883,283	138,529,034	1,099,079,418	-	1,493,309,329
Restatements due to implementation of GASB 65	-	-	(211,719)	-	-	(211,719)
Beginning of year, as restated	167,817,594	87,883,283	138,317,315	1,099,079,418	-	1,493,097,610
End of year	\$ 162,524,318	\$ 92,270,824	\$ 189,432,967	\$ 1,138,833,844	\$ -	\$ 1,583,061,953

San Diego Metropolitan Transit System
Combining Schedule of Cash Flows
For the Year Ended June 30, 2014

	General Operations	Contracted Services	SDTC	SDTI	Total
Cash flows from operating activities:					
Receipts from customers and users	\$ 9,223,755	\$ 26,262,781	\$ 28,069,204	\$ 41,821,943	\$ 105,377,683
Payments to suppliers	(20,120,853)	(60,707,601)	(13,987,739)	(22,748,447)	(117,564,640)
Payments to employees	(18,716,712)	(685,420)	(65,882,235)	(32,191,956)	(117,476,323)
Payments for damage and injury	(29,301)	-	(3,140,157)	(466,520)	(3,635,978)
Net cash provided (used) by operating activities	(29,643,111)	(35,130,240)	(54,940,927)	(13,584,980)	(133,299,258)
Cash flows from noncapital financing activities:					
Public support funds received	99,575,620	35,130,240	57,885,377	13,510,577	206,101,814
Net cash provided (used) by noncapital financing activities	99,575,620	35,130,240	57,885,377	13,510,577	206,101,814
Cash flows from capital and related financing activities:					
Debt service costs	(644,866)	-	(3,293,388)	-	(3,938,254)
Property acquisition	(81,756,393)	-	-	-	(81,756,393)
Proceeds from disposal of assets	37,034	-	89,487	454,644	581,165
Net cash provided (used) by capital and related financing activities	(82,364,225)	-	(3,203,901)	454,644	(85,113,482)
Cash flows from investing activities:					
Interest received on investments	124,738	-	-	-	124,738
Net cash provided (used) by investing activities	124,738	-	-	-	124,738
Net increase (decrease) in cash and cash equivalents	(12,306,978)	-	(259,451)	380,241	(12,186,188)
Cash and cash equivalents:					
Beginning of year	80,186,753	-	(603,155)	(97,919)	79,485,679
End of year	\$ 67,879,775	\$ -	\$ (862,606)	\$ 282,322	\$ 67,299,491
Cash and cash equivalents:					
Cash and cash equivalents	\$ 55,167,148	\$ -	\$ (862,606)	\$ 282,322	\$ 54,586,864
Cash and certificates of deposit restricted for capital support	12,712,627	-	-	-	12,712,627
Total cash and cash equivalents	\$ 67,879,775	\$ -	\$ (862,606)	\$ 282,322	\$ 67,299,491

San Diego Metropolitan Transit System
Combining Schedule of Cash Flows (Continued)
For the Year Ended June 30, 2014

	General Operations	Contracted Services	SDTC	SDTI	Total
Reconciliation of operating (loss) to net cash provided (used) by operating activities:					
Operating (loss)	\$ (32,201,432)	\$ (50,001,505)	\$ (68,146,576)	\$ (88,791,435)	\$ (239,140,948)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities					
Depreciation	1,587,986	11,686,999	15,628,029	74,295,186	103,198,200
Amortization of net pension asset	-	-	1,915,000	-	1,915,000
(Increase) decrease in:					
Accounts and other receivables	732,412	724,154	28,028	2,723	1,487,317
Inventory	-	-	115,777	(1,472,065)	(1,356,288)
Prepaid expenses and other current assets	(327,292)	(168,535)	(350,627)	(362,805)	(1,209,259)
Increase (decrease) in:					
Accounts payable	711,340	2,628,647	(4,592,479)	3,942,482	2,689,990
Accrued expenses	(92,888)	-	(50,662)	(1,569,067)	(1,712,617)
Unearned revenue	(535,115)	-	-	-	(535,115)
Net other postemployment benefits obligation	418,451	-	451,369	494,052	1,363,872
Compensated absences payable	(42,706)	-	(436,599)	(77,812)	(557,117)
Accrued damage, injury and employee claims	106,133	-	497,813	(46,239)	557,707
Total adjustments	2,558,321	14,871,265	13,205,649	75,206,455	105,841,690
Net cash provided (used) by operating activities	\$ (29,643,111)	\$ (35,130,240)	\$ (54,940,927)	\$ (13,584,980)	\$ (133,299,258)

Supplemental noncash disclosures:

During the year SANDAG and outside parties contributed \$118,768,399 in capital assets
During the year the fair value of investments increased by \$249,501

San Diego Metropolitan Transit System
Combined Operations
Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget
Operating revenues:						
Passenger revenue	\$ 92,527,518	\$ 94,221,057	\$ 93,994,559	\$ -	\$ 93,994,559	\$ (226,498)
Advertising	720,000	1,125,000	869,797	-	869,797	(255,203)
Charter	-	-	30,149	-	30,149	30,149
Miscellaneous	5,280,360	6,779,720	9,530,976	(1,789,249)	7,741,727	962,007
Total operating revenues	98,527,878	102,125,777	104,425,481	(1,789,249)	102,636,232	510,455
Operating expenses:						
Personnel costs	117,070,825	115,429,187	117,092,259	(1,516,490)	115,575,769	(146,582)
Outside services	73,480,775	73,978,843	73,858,746	-	73,858,746	120,097
Transit operations funding	4,353,928	4,268,223	4,242,856	-	4,242,856	25,367
Materials and supplies	8,816,458	9,551,310	9,276,195	182,407	9,458,602	92,708
Energy costs	24,237,537	24,549,325	26,043,694	-	26,043,694	(1,494,369)
Risk management	4,298,369	4,860,419	3,610,207	1,267,435	4,877,642	(17,223)
Miscellaneous	3,611,647	3,906,747	6,244,272	(2,170,903)	4,073,369	(166,622)
Depreciation	-	-	103,198,200	(103,198,200)	-	-
Total operating expenses	235,869,539	236,544,054	343,566,429	(105,435,751)	238,130,678	(1,586,624)
Operating income (loss)	(137,341,661)	(134,418,277)	(239,140,948)	103,646,502	(135,494,446)	(1,076,169)

San Diego Metropolitan Transit System
Combined Operations
Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual (Continued)
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget
Public support and nonoperating revenues (expenses):						
Federal revenue	38,735,638	46,388,688	60,851,717	(1,102,514)	59,749,203	13,360,515
Transportation Development Act	65,433,430	57,780,381	82,565,009	(37,590,648)	44,974,361	(12,806,020)
State Transit Assistance	5,600,000	4,264,150	17,870,768	(13,884,232)	3,986,536	(277,614)
State revenue - other	1,320,000	1,600,000	4,211,454	(2,580,909)	1,630,545	30,545
<i>TransNet</i> funds	26,248,289	26,248,289	42,694,815	(15,776,770)	26,918,045	669,756
Other local subsidies	1,741,698	1,633,533	3,323,619	(1,679,451)	1,644,168	10,635
Investment earnings	7,656,990	7,656,990	6,087,302	1,556,138	7,643,440	(13,550)
Interest expense	(9,542,576)	(9,542,576)	(6,981,977)	(2,383,153)	(9,365,130)	177,446
Gain (loss) on disposal of assets	-	-	(272,805)	853,968	581,163	581,163
Other expenses	-	-	(13,010)	11,261	(1,749)	(1,749)
Total public support and nonoperating revenues (expenses)	137,193,469	136,029,455	210,336,892	(72,576,310)	137,760,582	1,731,127
Income (loss) before contributed capital	(148,192)	1,611,178	(28,804,056)	31,070,192	2,266,136	654,958
Reserve revenue						
Contributed capital, net	148,192	212,633	-	(12,964)	(12,964)	(225,597)
Changes in net position	-	-	118,768,399	(119,768,399)	-	-
	\$ -	\$ 1,823,811	\$ 89,964,343	\$ (88,711,171)	\$ 2,253,172	\$ 429,361
Net Position:						
Beginning of year, as restated			1,493,097,610			
End of year			<u>\$ 1,583,061,953</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, 2014

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget
Operating revenues:						
Advertising	\$ 720,000	\$ 1,125,000	\$ 869,797	\$ -	\$ 869,797	\$ (255,203)
Miscellaneous	3,685,360	5,090,720	6,082,244	(789,249)	5,292,995	202,275
Total operating revenues	4,405,360	6,215,720	6,952,041	(789,249)	6,162,792	(52,928)
Operating expenses:						
Personnel costs	17,739,118	17,253,004	17,927,122	(375,745)	17,551,377	(298,373)
Outside services	13,100,249	13,163,616	13,365,021	-	13,365,021	(201,405)
Transit operations funding	4,353,928	4,268,223	94,077,918	(89,835,062)	4,242,856	25,367
Materials and supplies	24,423	18,255	12,520	-	12,520	5,735
Energy costs	219,650	231,950	227,243	-	227,243	4,707
Risk management	434,610	341,083	259,941	106,133	366,074	(24,991)
Miscellaneous	(27,619,394)	(25,298,892)	(25,034,183)	(117,797)	(25,151,980)	(146,912)
Depreciation	-	-	1,563,788	(1,563,788)	-	-
Total operating expenses	8,252,584	9,977,239	102,399,370	(91,786,259)	10,613,111	(635,872)
Operating income (loss)	(3,847,224)	(3,761,519)	(95,447,329)	90,997,010	(4,450,319)	(688,800)

San Diego Metropolitan Transit System
General Operations
Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual (Continued)
For the Year Ended June 30, 2014

	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	140,000	140,000	60,851,717	(60,508,848)	342,869	202,869
Transportation Development Act (TDA) funds	4,353,928	4,268,223	82,565,009	(77,477,201)	5,087,808	819,585
State Transit Assistance (STA) funds	-	1,823,811	17,870,768	(16,066,957)	1,803,811	(20,000)
State revenue - other	-	-	4,211,454	(4,211,454)	-	-
<i>TransNet</i> funds	-	-	48,194,815	(48,194,815)	-	-
Other local subsidies	-	-	3,323,619	(3,323,619)	-	-
Investment earnings	7,656,990	7,656,990	6,087,302	1,556,138	7,643,440	(13,550)
Interest expense	(8,303,694)	(8,303,694)	(5,828,318)	(2,383,153)	(8,211,471)	92,223
Gain (loss) on disposal of assets	-	-	(300,501)	337,535	37,034	37,034
Total public support and nonoperating revenues (expenses)	3,847,224	5,585,330	216,975,865	(210,272,374)	6,703,491	1,118,161
Income (loss) before transfers and contributed capital	-	1,823,811	121,528,536	(119,275,364)	2,253,172	429,361
Transfers	-	-	(41,733,367)	41,733,367	-	-
Contributed capital, net	-	-	(85,077,211)	85,077,211	-	-
Changes in net position	-	1,823,811	(5,282,042)	7,535,214	2,253,172	429,361
Net Position:						
Beginning of year			148,531,842			
End of year			<u>\$ 143,249,800</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, 2014

	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	\$ 865,000	\$ 865,000	\$ 938,512	\$ -	\$ 938,512	\$ 73,512
Total operating revenues	865,000	865,000	938,512	-	938,512	73,512
Operating expenses:						
Personnel costs	610,561	610,561	601,284	-	601,284	9,277
Outside services	167,500	204,160	160,908	-	160,908	43,252
Materials and supplies	7,000	7,000	6,349	-	6,349	651
Energy costs	8,000	8,000	9,012	-	9,012	(1,012)
Miscellaneous	231,180	219,261	213,337	-	213,337	5,924
Depreciation	-	-	7,118	(7,118)	-	-
Total operating expenses	1,024,241	1,048,982	998,008	(7,118)	990,890	58,092
Operating income (loss)	(159,241)	(183,982)	(59,496)	7,118	(52,378)	131,604
Reserve revenue	159,241	183,982	-	52,378	52,378	(131,604)
Changes in net position	-	-	(59,496)	\$ 59,496	\$ -	\$ -
Net Position:						
Beginning of year			286,087			
End of year			<u>\$ 226,591</u>			

San Diego Metropolitan Transit System
San Diego and Arizona Eastern Railway
Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget
Operating revenues:						
Miscellaneous	\$ 145,000	\$ 135,000	\$ 1,249,855	\$ (1,000,000)	\$ 249,855	\$ 114,855
Total operating revenues	145,000	135,000	1,249,855	(1,000,000)	249,855	114,855
Operating expenses:						
Personnel costs	86,151	116,151	127,116	-	127,116	(10,965)
Outside services	20,000	30,000	41,468	-	41,468	(11,468)
Risk management	27,300	17,000	15,195	-	15,195	1,805
Miscellaneous	500	500	734	-	734	(234)
Depreciation	-	-	17,080	(17,080)	-	-
Total operating expenses	133,951	163,651	201,593	(17,080)	184,513	(20,862)
Operating income (loss)	11,049	(28,651)	1,048,262	(982,920)	65,342	93,993
Reserve revenue	(11,049)	28,651	-	(65,342)	(65,342)	(93,993)
Contributed capital, net	-	-	(1,000,000)	1,000,000	-	-
Changes in net position	-	-	48,262	(48,262)	-	-
Net Position:						
Beginning of year			18,999,665			
End of year			<u>\$ 19,047,927</u>			

64

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, 2014

	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	4,831,422	9,684,472	10,362,108	-	10,362,108	677,636
Transportation Development Act (TDA) funds	30,873,462	26,193,576	25,275,681	-	25,275,681	(917,895)
State revenue - other	1,320,000	1,600,000	1,630,545	-	1,630,545	30,545
TransNet funds	1,094,000	1,094,000	1,298,865	-	1,298,865	204,865
Other local subsidies	1,463,698	1,355,533	1,366,168	-	1,366,168	10,635
Total public support and nonoperating revenues (expenses)	39,582,582	39,927,581	39,933,367	-	39,933,367	5,786
Income (loss) before contributed capital	-	-	(11,686,999)	11,686,999	-	-
Contributed capital, net	-	-	16,074,540	(16,074,540)	-	-
Changes in net position	-	-	4,387,541	\$ (4,387,541)	\$ -	\$ -
Net Position:						
Beginning of year			87,883,283			
End of year			<u>\$ 92,270,824</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, 2014

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget
Operating revenues:						
Passenger revenue	\$ 28,993,362	\$ 27,670,601	\$ 27,781,183	\$ -	\$ 27,781,183	\$ 110,582
Charter	-	-	29,420	-	29,420	29,420
Miscellaneous	10,000	5,000	4,965	-	4,965	(35)
Total operating revenues	29,003,362	27,675,601	27,815,568	-	27,815,568	139,967
Operating expenses:						
Personnel costs	65,654,127	65,043,296	65,666,847	(682,906)	64,983,941	59,355
Outside services	1,930,716	1,646,886	1,767,954	-	1,767,954	(121,068)
Materials and supplies	4,745,690	4,818,612	4,707,738	-	4,707,738	110,874
Energy costs	5,586,715	5,617,326	6,004,285	-	6,004,285	(386,959)
Risk management	1,937,285	2,535,172	1,625,295	1,165,946	2,791,241	(256,069)
Miscellaneous	11,869,618	10,878,620	10,869,184	-	10,869,184	9,436
Depreciation	-	-	15,628,029	(15,628,029)	-	-
Total operating expenses	91,724,151	90,539,912	106,269,332	(15,144,989)	91,124,343	(584,431)
Operating income (loss)	(62,720,789)	(62,864,311)	(78,453,764)	15,144,989	(63,308,775)	(444,464)

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, 2014

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts		Actuals on Budget Basis	Variance with Final Budget
			Position Amounts	Budget Basis Adjustments		
Public support and nonoperating revenues (expenses):						
Federal revenue	17,764,216	18,564,216	19,335,691	7,653,049	26,988,740	8,424,524
Transportation Development Act (TDA) funds	20,163,166	22,666,349	14,306,051	-	14,306,051	(8,360,298)
State Transit Assistance (STA) funds	5,600,000	2,440,339	2,182,725	-	2,182,725	(257,614)
<i>TransNet</i> funds	20,154,289	20,154,289	20,619,180	-	20,619,180	464,891
Other local subsidies	278,000	278,000	278,000	-	278,000	-
Interest expense	(1,238,882)	(1,238,882)	(1,153,659)	-	(1,153,659)	85,223
Gain (loss) on disposal of assets	-	-	(27,873)	117,360	89,487	89,487
Other expenses	-	-	(13,010)	11,261	(1,749)	(1,749)
Total public support and nonoperating revenues (expenses)	62,720,789	62,864,311	55,527,105	7,781,670	63,308,775	444,464
Income (loss) before contributed capital	-	-	(22,926,659)	22,926,659	-	-
Contributed capital, net	-	-	74,042,311	(74,042,311)	-	-
Changes in net position	-	-	51,115,652	\$ (51,115,652)	\$ -	\$ -
Net Position:						
Beginning of year, as restated			138,317,315			
End of year			<u>\$ 189,432,967</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, 2014

	Budgeted Amounts		Actual Amounts				
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position		Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget
Operating revenues:							
Passenger revenue	\$ 36,773,378	\$ 40,611,107	\$ 40,187,908	\$ -	\$ -	\$ 40,187,908	\$ (423,199)
Charter	-	-	729	-	-	729	729
Miscellaneous	575,000	684,000	1,255,400	-	-	1,255,400	571,400
Total operating revenues	37,348,378	41,295,107	41,444,037	-	-	41,444,037	148,930
Operating expenses:							
Personnel costs	32,383,932	31,769,821	32,086,711	(457,839)		31,628,872	140,949
Outside services	3,562,818	3,949,206	3,826,084	-		3,826,084	123,122
Materials and supplies	4,036,345	4,699,890	4,534,493	182,407		4,716,900	(17,010)
Energy costs	9,559,236	10,255,364	11,035,837	-		11,035,837	(780,473)
Risk management	1,883,874	1,951,864	1,694,476	(4,644)		1,689,832	262,032
Miscellaneous	16,965,047	16,321,195	18,414,567	(2,053,106)		16,361,461	(40,266)
Depreciation	-	-	74,295,186	(74,295,186)		-	-
Total operating expenses	68,391,252	68,947,340	145,887,354	(76,628,368)		69,258,986	(311,646)
Operating income (loss)	(31,042,874)	(27,652,233)	(104,443,317)	76,628,368		(27,814,949)	(162,716)

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, 2014

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget
Public support and nonoperating revenues (expenses):						
Federal revenue	16,000,000	18,000,000	22,912,890	(857,404)	22,055,486	4,055,486
Transportation Development Act (TDA) funds	10,042,874	4,652,233	1,500,525	(1,195,704)	304,821	(4,347,412)
TransNet funds	5,000,000	5,000,000	5,000,000	-	5,000,000	-
Gain (loss) on disposal of assets	-	-	55,569	399,073	454,642	454,642
Total public support and nonoperating revenues (expenses)	31,042,874	27,652,233	29,468,984	(1,654,035)	27,814,949	162,716
Income (loss) before contributed capital	-	-	(74,974,333)	74,974,333	-	-
Contributed capital, net	-	-	114,728,759	(114,728,759)	-	-
Changes in net position	\$ -	\$ -	\$ 39,754,426	\$ (39,754,426)	\$ -	\$ -
Net Position:						
Beginning of year			1,099,079,418			
End of year			<u>\$ 1,138,833,844</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.

FINANCIAL TRENDS

San Diego Metropolitan Transit System
Net Position by Component (in 000's)
Last Ten Fiscal Years

	2014	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 government activities net position	-	-	-	-	-	-	-	-	147,828	605,783
Business-type activities:										
Net investment in capital assets	1,395,206	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	6,742	7,255	78,378	7,007	2,548	2,700	-	-	-	-
Unrestricted	181,114	189,837	157,609	173,128	177,158	172,344	185,610	163,244	(33,761)	(35,563)
Total business-type activities net position	1,583,062	1,493,309	1,408,803	1,253,697	1,257,884	1,250,149	1,265,577	1,260,920	1,100,482	659,923
Primary government:										
Net investment in capital assets	1,395,206	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	6,742	7,255	78,378	7,007	2,548	2,700	-	-	-	-
Unrestricted	181,114	189,837	157,609	173,128	177,158	172,344	185,610	163,244	2,107	149,552
Total primary government net position	\$ 1,583,062	\$ 1,493,309	\$ 1,408,803	\$ 1,253,697	\$ 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.

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operating revenues:										
Passenger revenue	\$ 93,995	\$ 90,652	\$ 88,094	\$ 84,764	\$ 84,167	\$ 85,192	\$ 75,939	\$ 68,635	\$ 67,580	\$ 63,803
Advertising	870	972	784	621	783	925	1,119	1,001	839	1,340
Charter	30	1	186	129	128	69	63	45	31	895
Miscellaneous	9,531	4,934	4,445	4,688	4,264	4,874	3,671	3,703	1,734	18
Total operating revenues	104,426	96,559	93,509	90,202	89,342	91,060	80,792	73,384	70,184	66,056
Operating expenses:										
Personnel costs	117,092	123,720	112,537	104,329	109,512	101,913	102,847	91,206	90,490	91,486
Outside services	73,859	67,414	66,050	64,037	63,574	65,140	64,940	62,630	57,709	70,260
Transit operations funding	4,243	3,571	3,721	4,053	3,758	3,004	3,853	5,438	6,758	6,245
Materials and supplies	9,276	8,469	7,977	7,678	6,680	7,190	7,590	7,266	8,158	8,756
Energy costs	26,044	22,572	22,689	21,932	22,892	25,283	27,211	22,767	24,305	14,140
Risk management	3,610	2,902	4,030	3,924	4,859	4,074	3,898	5,615	5,078	5,212
Miscellaneous	6,244	6,493	5,116	4,899	3,571	2,052	1,975	944	2,336	2,564
Depreciation	103,198	92,788	84,811	81,041	98,238	75,499	85,543	74,473	66,799	49,139
Total operating expenses	343,566	327,929	306,931	291,893	313,084	284,155	297,857	270,339	261,633	247,802
Operating income (loss)	(239,140)	(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 Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Public support and nonoperating revenues										
(expenses):										
Grants and contributions	211,517	183,945	325,658	170,850	224,506	176,979	200,879	184,332	155,746	209,483
Investment earnings	6,087	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	(6,982)	(7,520)	(8,014)	(8,420)	(12,702)	(11,153)	(10,666)	(14,230)	(11,499)	(10,313)
Gain (loss) on disposal of assets	(273)	804	(620)	712	(69)	294	88	(1,260)	(1,800)	291
Other expenses	(13)	(13)	(5)	(139)	(1,075)	(705)	(465)	(355)	(188)	(185)
Total public support and nonoperating revenues	210,336	183,483	324,641	170,698	220,368	175,999	203,230	181,836	151,039	213,810
(expenses)										
Income (loss) before contributed capital	(28,804)	(47,887)	111,219	(30,993)	(3,374)	(17,096)	(13,835)	(15,119)	(40,410)	32,064
Contributed capital, net	118,768	132,182	44,118	26,806	11,110	1,668	18,492	27,729	23,013	30,008
Changes in net position	\$ 89,964	\$ 84,295	\$ 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 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 Ten Fiscal Years

		Federal	State	Local		
Fiscal Year Ended	Passenger Fares	Operating Funds	Operating Funds	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
2014	27,781	19,336	16,489	20,897	-	7
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
2014	40,188	22,913	1,501	5,000	-	1,312
MTS - Contracted 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	-	-
2014	26,025	10,362	26,906	2,665	-	-

Source: Audited Financial Statements.

San Diego Metropolitan Transit System

Fare Structure

Last Eight Fiscal Years

	2014	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	\$ 2.25	\$ 2.00	\$ 1.75
Senior/disabled, local routes	1.10	1.10	1.10	1.10	1.10	1.10	0.75	0.75
Urban	-	-	-	-	-	-	2.25	2.25
Rapid/Express	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50-4.00
Senior/disabled Rapid/Express	1.25	1.25	1.25	1.25	1.25	1.25	0.75	0.75
Rapid Express/Premium	5.00	5.00	5.00	5.00	5.00	5.00	5.00	-
Senior/disabled Rapid Express/Premium	2.50	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	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	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	2.50	-	-
Senior/disabled one-way fare all stations	1.25	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	5.00	-	-	-
Region plus day pass	12.00	12.00	12.00	14.00	14.00	-	-	-
Bus and Trolley Monthly Passes								
Regional monthly pass	72.00	72.00	72.00	72.00	72.00	68.00	64.00	-
Senior/disabled Regional	18.00	18.00	18.00	18.00	18.00	17.00	16.00	14.50
Youth Regional	36.00	36.00	36.00	36.00	36.00	34.00	32.00	29.00
14-Day/Half-month	43.00	43.00	43.00	43.00	43.00	41.00	-	-
Rapid Express/Premium monthly pass	100.00	100.00	100.00	100.00	100.00	90.00	-	-
Senior/disabled Rapid Express/Premium	25.00	25.00	25.00	25.00	25.00	22.50	-	-
Youth Rapid Express/Premium	50.00	50.00	50.00	50.00	50.00	45.00	-	-
14-Day/Half-month	60.00	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 2014.

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 Percentage
Last Ten Fiscal Years**

<u>Fiscal Year Ended</u>	<u>San Diego Transit</u>	<u>San Diego Trolley</u>	<u>MTS-Contract Services</u>
2005	26.67	54.25	31.97
2006	30.38	50.78	31.96
2007	30.44	48.97	33.05
2008	29.59	55.62	34.40
2009	34.31	57.15	40.00
2010	28.46	54.26	42.06
2011	31.22	57.41	40.37
2012	30.50	55.63	41.50
2013	29.01	53.98	42.31
2014	30.34	56.52	39.46

Source: Audited Financial Statements; calculated as passenger revenue divided by operating expenses (less depreciation and OPEB), interest expense, and miscellaneous expenses.

DEBT CAPACITY

San Diego Metropolitan Transit System
Ratio of Outstanding Debt by Type
Last Nine Fiscal Years

Year Ended June 30	Capital Lease - Tower	Capital Lease - Equipment	1990 LRV Sale/Leaseback	1995 LRV Lease/Leaseback	Certificate of Participation 2002	Certificate 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%	\$ 86
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%	77
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%	55
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%	46
2014	3,614,149	-	-	113,457,002	-	-	23,965,000	141,036,151	0.08%	44

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. 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. 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.

DEMOGRAPHIC AND ECONOMIC STATISTICS

**San Diego Metropolitan Transit System
Regional Population and Personal Income Statistics
Last Nine 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	\$ 2,982,816	\$ 129,600,000	\$ 47,055	4.10%
2007	3,014,165	136,200,000	47,405	4.80%
2008	3,051,262	142,000,000	47,019	6.40%
2009	3,077,633	139,600,000	46,047	10.20%
2010	3,104,581	142,700,000	45,974	10.50%
2011	3,131,254	150,200,000	46,767	10.40%
2012	3,157,669	160,200,000	48,265	9.30%
2013	3,186,188	171,200,000	49,778	7.40%
2014	3,216,304	181,700,000	52,878	6.10%

Source:

- (1) California Department of Transportation - Estimates 2006-2011, Forecast 2012-2014
- (2) California Employment Development Department, June 2014

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. 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. 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.

San Diego Metropolitan Transit System
Full-Time and Part-Time Employees by Function
Last Ten 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
2014	149	785	600	1,534

Source: MTS payroll records

**San Diego Metropolitan Transit System
Ten Largest Employers in San Diego County
Last Ten Fiscal Years**

<u>Company Name</u>	<u>Number of Employees (1)</u>	<u>Percent of 1,491,600 County Total (2)</u>
State of California	43,300	2.90%
University of California, San Diego	28,672	1.92%
Federal Government	24,200	1.62%
U.S. Department of Defense	21,500	1.44%
County of San Diego	20,100	1.35%
City of San Diego	18,000	1.21%
Sharp Healthcare	15,865	1.06%
Scripps Health	13,750	0.92%
San Diego Unified School District	13,559	0.91%
Kaiser San Diego Medical Center	8,900	0.60%

Source:

- (1) The Daily Transcript - 2014 Data updated July 31, 2014
- (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 Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operating Cost (in 000's)										
San Diego Transit	\$ 91,568	\$ 98,666	\$ 90,153	\$ 83,457	\$ 93,831	\$ 81,271	\$ 80,031	\$ 73,257	\$ 73,284	\$ 80,187
San Diego Trolley	71,098	65,859	63,309	60,395	60,913	58,537	55,949	55,952	55,015	47,662
MTS-Contract Services	65,959	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	27,781	28,621	27,498	26,056	26,708	27,882	23,680	22,298	22,264	21,383
San Diego Trolley	40,188	35,554	35,216	34,673	33,050	33,454	31,120	27,402	27,934	25,855
MTS-Contract Services	26,025	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	28,541	28,927	28,802	27,252	26,921	29,762	28,094	26,076	24,890	24,427
San Diego Trolley	39,695	29,699	32,655	31,613	30,469	36,928	37,621	35,114	33,830	29,334
MTS-Contract Services	23,761	23,479	23,780	22,664	21,988	21,645	21,460	21,143	18,907	18,449
Revenue Miles (in 000's)										
San Diego Transit	8,695	8,557	8,221	8,178	8,624	9,221	9,522	9,622	9,958	10,087
San Diego Trolley	8,516	7,758	7,544	7,519	7,743	7,895	8,003	7,940	8,180	7,060
MTS-Contract Services	12,139	11,607	11,214	11,196	11,450	12,179	12,501	12,454	12,242	12,701
Subsidy / Total Passenger										
San Diego Transit	2.24	2.42	2.18	2.11	2.50	1.79	2.01	1.95	2.05	2.41
San Diego Trolley	0.78	1.02	0.86	0.81	0.92	0.68	0.66	0.81	0.80	0.74
MTS-Contract Services	1.68	1.54	1.50	1.57	1.53	1.66	1.88	1.81	1.96	1.91

Source: NTD Report, and Audited Financial Statements.

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

Service Provided	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
San Diego Transit										
Vehicle Revenue Miles (in 000's)	8,695	8,557	8,221	8,178	8,624	9,221	9,522	9,622	9,958	10,090
Vehicle Revenue Hours (in 000's)	795	787	757	754	789	843	870	853	840	830
Passengers (in 000's)	28,541	28,927	28,802	27,252	26,921	29,762	28,094	26,076	24,890	24,425
Passenger Miles (in 000's)	110,009	108,222	106,804	100,500	98,163	107,408	100,256	98,203	93,580	93,746
Number of Vehicles	310	260	236	236	238	247	267	267	274	280
San Diego Trolley										
Vehicle Revenue Miles (in 000's)	8,516	7,758	7,544	7,519	7,743	7,895	8,003	7,940	8,180	7,060
Vehicle Revenue Hours (in 000's)	504	472	428	423	442	410	439	432	469	368
Passenger Car Hours (in 000's)	512	476	433	429	448	416	445	439	480	379
Passengers (in 000's)	39,695	29,699	32,655	31,613	30,469	36,928	37,621	35,114	33,830	29,334
Passenger Miles (in 000's)	228,531	173,151	194,822	193,063	186,509	220,639	206,924	207,727	208,875	187,988
Number of Vehicles	179	178	151	128	134	133	134	134	134	123
MTS-Contracted Services										
Vehicle Revenue Miles (in 000's)	12,139	11,607	11,214	11,196	11,450	12,179	12,501	12,454	12,242	12,701
Vehicle Revenue Hours (in 000's)	998	961	933	927	946	986	1,019	996	928	946
Passengers (in 000's)	23,761	23,479	23,780	22,664	21,988	21,645	21,460	21,143	18,907	18,449
Passenger Miles (in 000's)	85,269	84,021	79,789	82,125	79,237	80,104	77,173	78,304	73,343	69,958
Number of Vehicles	449	427	404	407	369	388	358	348	337	357
Total										
Passengers (in 000's)	91,997	82,105	85,237	81,529	79,378	88,335	87,175	82,333	77,627	72,208
Passenger Miles (in 000's)	423,809	365,394	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

San Diego Metropolitan Transit System
Capital Assets Statistics by Function
Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Operations										
Buildings and structures	1	1	1	1	1	1	1	1	1	1
Nonrevenue vehicles	3	3	5	5	5	7	7	10	10	12
San Diego Transit										
Land (parcels)	2	2	2	2	2	2	2	2	2	2
Buildings and structures	2	2	2	2	2	2	2	2	2	2
Buses	310	260	236	236	238	247	267	267	274	280
Nonrevenue vehicles	12	14	19	22	32	39	53	47	45	49
San Diego Trolley										
Trolley stations	54	54	54	54	54	54	54	54	54	50
Track miles	54	54	54	54	54	54	54	54	54	49
Light rail vehicles (total inventory)	179	178	151	128	134	133	134	134	134	123
Nonrevenue vehicles	16	15	31	43	51	68	72	69	58	78
MTS - Contracted Services										
Land (parcel)	2	2	2	1	1	1	1	1	1	1
Buildings and structures	4	4	4	3	3	3	3	1	1	1
Buses	449	427	404	407	369	388	358	348	337	357
Nonrevenue vehicles	8	8	8	10	7	7	9	4	2	2
Taxicab Administration										
Buildings and structures	1	1	1	1	1	1	1	1	1	1
Nonrevenue vehicles	2	2	4	3	3	3	3	2	1	1

Source: MTS internal capital asset system.

**San Diego Metropolitan Transit System
Ridership
Last Ten Fiscal Years**

Ridership (in 000's)	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
San Diego Transit % Change	28,541 -1.33%	28,927 0.43%	28,802 5.69%	27,252 1.23%	26,921 -9.55%	29,762 5.94%	28,094 7.74%	26,076 4.77%	24,890 1.90%	24,427
San Diego Trolley % Change	39,695 33.65%	29,699 -9.05%	32,655 3.30%	31,613 3.75%	30,469 -17.49%	36,928 -1.84%	37,621 7.14%	35,114 3.80%	33,830 15.32%	29,334
MTS - Contracted Services % Change	23,761 1.20%	23,479 -1.27%	23,780 4.92%	22,664 3.07%	21,988 1.58%	21,645 0.86%	21,460 1.50%	21,143 11.83%	18,907 2.49%	18,449

Source: NTD Report

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Average Fare per Rider										
San Diego Transit	0.97	0.99	0.95	0.96	0.99	0.94	0.84	0.86	0.90	0.88
San Diego Trolley	1.01	1.20	1.08	1.10	1.08	0.91	0.83	0.78	0.83	0.88
MTS - Contract Services	1.10	1.13	1.07	1.06	1.11	1.10	0.98	0.90	0.92	0.90
Operating Expense per Rider										
San Diego Transit	3.21	3.41	3.13	3.06	3.49	2.73	2.85	2.81	2.74	3.20
San Diego Trolley	1.79	2.22	1.94	1.91	2.00	1.59	1.49	1.59	1.63	1.62
MTS - Contract Services	2.78	2.67	2.57	2.63	2.64	2.76	2.86	2.71	2.88	2.81
Subsidy per Rider										
San Diego Transit	2.24	2.42	2.18	2.11	2.50	1.79	2.01	1.95	2.05	2.41
San Diego Trolley	0.78	1.02	0.86	0.81	0.92	0.68	0.66	0.81	0.80	0.74
MTS - Contract Services	1.68	1.54	1.50	1.57	1.53	1.66	1.88	1.81	1.96	1.91

Source: NTD report and Audited Financial Statements



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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 net position as of June 30, 2014 and 2013, 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 XX, 2014**.

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 XX, 2014



SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE PRESENTATION

October 23, 2014

**Presented by:
Gary M. Caporicci, CPA, CGFM, CFF**

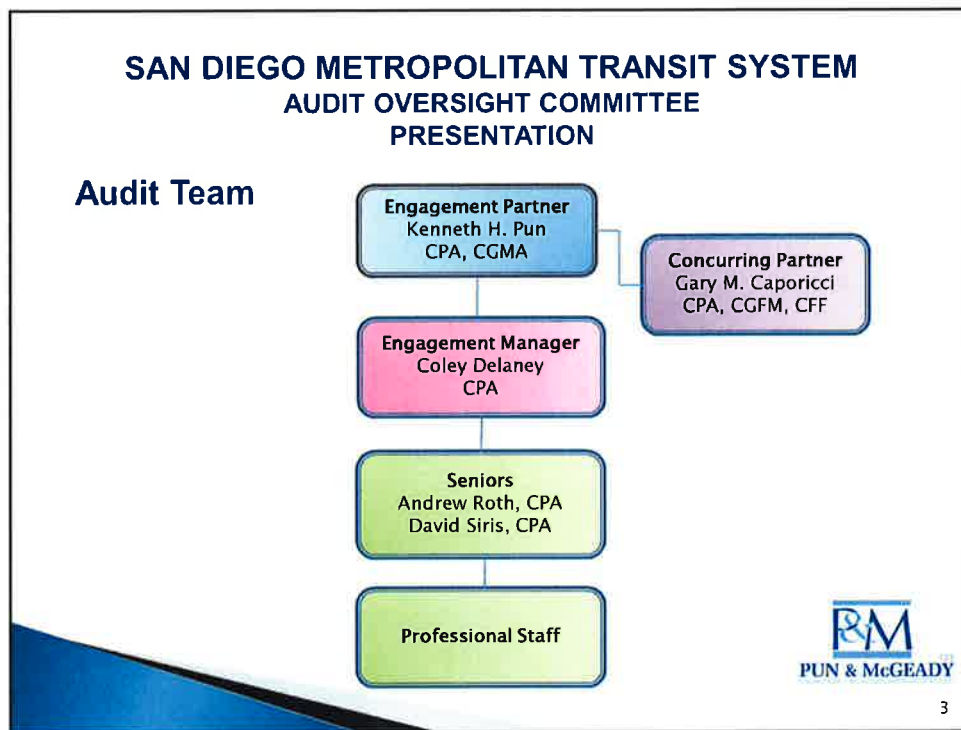
1



Review of 2014 Independent Audit

Pun & McGeady LLP

2



**SAN DIEGO METROPOLITAN TRANSIT SYSTEM
AUDIT OVERSIGHT COMMITTEE
PRESENTATION**

Auditor's Responsibilities

- ▶ Assess Audit Risk of Internal Controls Over Financial Reporting and Compliance
- ▶ Determine compliance with Generally Accepted Accounting Principles in the United States of America
- ▶ Determine the fairness and accuracy of Financial Statements presentation
- ▶ Issue Audit Opinion on the Financial Statements
- ▶ Issue Recommendations to Management, if any



5

**SAN DIEGO METROPOLITAN TRANSIT SYSTEM
AUDIT OVERSIGHT COMMITTEE
PRESENTATION**

Approach To The Audit



- P&M's Audit Approach for MTS
 - Phase I – Detailed Planning
 - Phase II – Risk Based Review of Internal Controls Over Systems and Compliance
 - Phase III – Validation of Account Balances
 - Phase IV – Review Financial Statements and Issue Audit Opinion



6

San Diego Metropolitan Transit System Summary Statement of Net Position June 30,

	2014	2013
Assets:		
Current assets	\$ 175,094,000	\$ 160,133,000
Non-current assets	133,489,000	156,026,000
Property and equipment, net	1,512,775,000	1,416,261,000
Total assets	<u>1,821,358,000</u>	<u>1,732,420,000</u>
Liabilities:		
Current liabilities	85,077,000	62,946,000
Long-term liabilities	152,722,000	175,787,000
Total liabilities	<u>237,799,000</u>	<u>238,733,000</u>
Deferred inflows of resources:	<u>497,000</u>	<u>589,000</u>
Net Position:		
Net investment in Capital Assets	1,395,206,000	1,296,217,000
Restricted	6,742,000	7,255,000
Unrestricted	181,114,000	189,626,000
Total net position	<u>\$ 1,583,062,000</u>	<u>\$ 1,493,098,000</u>



7

San Diego Metropolitan Transit System Summary Statements of Revenues, Expenses and Changes in Net Position For the years ended June 30,

	2014	2013
Revenues		
Operating revenues	\$ 104,425,000	\$ 96,559,000
Nonoperating revenues	217,605,000	191,017,000
Total Revenues	<u>322,030,000</u>	<u>287,576,000</u>
Expenses		
Operating expenses	343,566,000	327,929,000
Nonoperating expenses	7,268,000	7,534,000
Total Expenses	<u>350,834,000</u>	<u>335,463,000</u>
Change in net position before Capital Contribution	(28,804,000)	(47,887,000)
Capital Contribution	<u>118,768,000</u>	<u>132,182,000</u>
Change in Net Position	<u>89,964,000</u>	<u>84,295,000</u>
Net Position:		
Beginning of Year	1,493,098,000	1,408,803,000
End of Year	<u>\$ 1,583,062,000</u>	<u>\$ 1,493,098,000</u>



8

**San Diego Metropolitan Transit System
Summary Statement of Cash Flows
June 30,**

	<u>2014</u>	<u>2013</u>
Cash flows from Operating	\$ (133,299,000)	\$ (145,901,000)
Cash Flows from Noncapital Financing	206,102,000	203,981,000
Cash Flows from Capital and Related Financing	(85,114,000)	(98,275,000)
Cash Flows from Investing	<u>125,000</u>	<u>193,000</u>
Changes in cash and cash equivalents	\$ (12,186,000)	\$ (40,001,000)



9

**San Diego Metropolitan Transit System
Schedule of Funding Progress
of Defined Benefits Plans
For the year ended June 30, 2014**

	<u>SDTC Transit *</u>	<u>SDTI Trolley **</u>
Actuarial Value of Assets	\$ 148,452,000	\$ 84,011,000
Entry Age Normal Actuarial Accrued Liabilities	<u>(241,331,000)</u>	<u>(93,892,000)</u>
Unfunded Actuarial Accrued Liabilities	\$ (92,879,000)	\$ (9,881,000)
Funded Status	<u>62%</u>	<u>89%</u>
Actuarial Valuation Date	July 1, 2013	June 30, 2012

* SDTC Employee Retirement Plan
** CALPERS



10

**San Diego Metropolitan Transit System
Schedule of Funding Progress
of Other Post Employment Healthcare Plan
For the year ended June 30, 2014**

	MTS	Transit	Trolley
Actuarial Value of Assets	\$ -	\$ -	\$ -
Entry Age Normal Actuarial Accrued Liabilities	(3,855,000)	(23,111,000)	(9,545,000)
Unfunded Actuarial Accrued Liabilities	\$ (3,855,000)	\$ (23,111,000)	\$ (9,545,000)
Funded Status	0.00%	0.00%	0.00%
Actuarial Valuation Date	June 30, 2013	June 30, 2013	June 30, 2013



11

**SAN DIEGO METROPOLITAN TRANSIT SYSTEM
AUDIT OVERSIGHT COMMITTEE
PRESENTATION**

Audit Results

- Unmodified Opinion
- Financial Statements are fairly presented in all material respects
- Significant accounting policies have been consistently applied
- Estimates are reasonable
- Disclosures are properly reflected in the financial statements



12

**SAN DIEGO METROPOLITAN TRANSIT SYSTEM
AUDIT OVERSIGHT COMMITTEE
PRESENTATION**

Other Results

- No disagreements with Management
- No material weaknesses or significant deficiencies in internal controls were noted
- No accounting issues



13

**Thank You
For Allowing Pun & McGeedy LLP
to provide services to**

San Diego Metropolitan Transit System



14



1255 Imperial Avenue, Suite 1000
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Agenda Item No. B2

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

October 23, 2014

SUBJECT:

INTERNAL AUDIT ACTIVITY UPDATE REPORT (TOUFIC TABSHOURI)

RECOMMENDATION:

That the Audit Oversight Committee receive the Internal Audit activity update report.

Budget Impact

None.

DISCUSSION:

The MTS Internal Auditor will present a report on Internal Audit activities.

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

Paul C. Jablonski
Chief Executive Officer

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



Internal Audit Activity Update

Presentation for the
Audit Oversight Committee
October 23, 2014



1

Internal Audit Activity Update

This presentation will cover the following work areas:

1. Administrative
2. Audits
3. Consultations
4. Other Activities



2

Internal Audit Activity Update

Administrative

1. Prepared a record retention schedule for Internal Audit.
2. Prepared an audit charter for MTS.



3



Internal Audit Activity Update

Why does MTS need an audit charter?

- Because audit standards require one.

What is the impact of adopting an audit charter?

- None. The proposed charter merely formalizes existing practices. It does not make any changes to the Internal Audit function.



4



Internal Audit Activity Update

Why should MTS Internal Audit follow audit standards?

1. Enhanced credibility for the audit function
2. Accountability
3. Quality assurance



5



Internal Audit Plan

What is the downside of following audit standards?

- Complying with standards involves performing additional administrative work related to audit quality control, documentation, and training.



6



Internal Audit Activity Update

Which audit standards should MTS Internal Audit follow? The options are:

- Generally Accepted Government Audit Standards (GAGAS), promulgated by the US General Accountability Office (GAO).
- The International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA).



7



Internal Audit Activity Update

- GAGAS and IIA audit standards are similar; they share many principals and concepts.
- IIA standards are easier to comply with.
- Some types of audits mandate compliance with GAGAS.



8



Internal Audit Activity Update

Completed Audits:

1. Buy America Audits

Audits In Progress:

1. Information Technology Disaster Recovery
2. Procurement: Vendor Oversight & Monitoring
3. Worker's Compensation



9



Internal Audit Activity Update

Consultations:

1. Capital Improvement Program - Budgeting for Project Reserves (MTS Board Policy # 45)
2. Investment Policy Memo
3. Compass Card Inventory (*in progress*)



10



Internal Audit Activity Update

Other Activities:

1. Enterprise Resource Planning vendor selection and project implementation
2. Information Technology Department needs assessment
3. Fraud Hotline - no reportable activity



11



Internal Audit Activity Update

Questions?

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12

