Metropolitan Transit System

1255 Imperial Avenue, #1000
San Diego, CA 92101-7490
619.231.1466 FAX 619.234.3407

Agenda

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM
AUDIT OVERSIGHT COMMITTEE

10-09-15P04:32 RCVD

October 15, 2015

Executive Conference Room
9:00 a.m.

			ACTION RECOMMENDED
A.	1.	Roll Call	
	2.	Approval of Minutes - May 7, 2015	Approve
B.		COMMITTEE DISCUSSION ITEMS	
	1.	Draft of Fiscal Year 2015 Comprehensive Annual Financial Report (CAFR) (Erin Dunn and Ken Pun and Gary Caporicci of Pun & McGeady) Action would receive a draft of the Fiscal Year (FY) 2015 CAFR for review and discussion.	Information
	2.	Internal Audit Activity Update Report (Toufic Tabshouri) Action would receive the Internal Audit activity update report.	Information
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

May 7, 2015

A. ROLL CALL

1. Chairman Ewin called the meeting to order at 10:02 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

2. APPROVAL OF MINUTES

Mr. Cunningham moved for approval of the minutes of the October 2, 2014, Audit Oversight Committee meeting. Mr. Mathis seconded the motion, and the vote was 4 to 0 in favor with Mr. Gloria and Mr. Roberts absent.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. Pun & McGeady Engagement Letter for the FY 2015 Audit (Erin Dunn)

Erin Dunn, Controller, provided a brief overview of the engagement letter for the FY 2015 audit. She stated that there are no substantial changes this year, however there could be a possible delay in the issuance of the report due to the new Governmental Accounting Standards Board (GASB) No. 68 requirements.

Chairman Ewin noted that MTS received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. He asked to have that information relayed to the Board members at their next meeting.

Action Taken

No action taken.

2. Proposed FY 2015 Audit Schedule (Erin Dunn)

Ms. Dunn stated that the interim fieldwork for the FY 2015 audit was completed on April 30, 2015. She reviewed the remaining proposed FY 2015 audit schedule dates. Chairman Ewin asked if subsequent events stay open until the audit report is completed. Kenneth Pun, with Pun and McGeady, replied that the subsequent events would stay open until the completion of the report. Chairman Ewin requested that the Board of Directors stay updated on the time frames of the audit.

Action Taken

No action taken.

3. Interim Audit (Erin Dunn and Ken Pun of Pun & McGeady, LLP)

Ms. Dunn stated that MTS had no findings or observations this year during the interim audit. Ken Pun, with Pun & McGeady, LLP, provided a presentation. He stated that his presentation combines both agenda item numbers 3, Interim Audit and 4, Report of GASB 68. Mr. Pun reviewed the Pun & McGeady project team, the scope of work for the audit and the agreed upon procedures, management's responsibilities, and the auditor's responsibilities. Mr. Pun also discussed the approach to the audit, planning and risk assessment, quality control review from the Department of Transportation (DOT), and deficiencies noted by the DOT. He clarified that the deficiencies noted by the DOT only reflect Pun & McGeady's audit paperwork and not MTS's audit results. Mr. Pun continued his presentation and provided a report on GASB Standards. Mr. Pun reviewed GASB Statements No. 68 and 71 and the impact on financial reporting and auditing. He reviewed the measurement date for the employer as it relates to the actuarial valuation, and reviewed the evidence obtained from the Plan for single, agent and cost sharing plans. Lastly, Mr. Pun provided an update on GASB Standards and selected future standards.

Action Taken

Ms. Bragg moved to receive the Interim Audit Report. Mr. Cunningham seconded the motion, and the vote was 4 to 0 in favor with Mr. Gloria and Mr. Roberts absent.

4. Report of GASB 68 - Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 (Ken Pun of Pun & McGeady, LLP)

This report was given concurrently with agenda item number 3, Interim Audit.

Action Taken

Ms. Bragg moved to approve Management and Pun & McGeady's recommendation to issue non-comparative financial statements for fiscal year 2015. Mr. Cunningham seconded the motion, and the vote was 4 to 0 in favor with Mr. Gloria and Mr. Roberts absent.

5. Internal Audit Activity Update Report (Toufic Tabshouri)

Toufic Tabshouri, Internal Auditor, provided a presentation on the internal audit activity report. He discussed the internal audit plan for FY2014-15 including Procurement, Information Technology and performance goals. Mr. Tabshouri commented that he is a member of four different auditing groups in which there is ongoing training and support. He also stated that he will be working on SDTC Revenue, MTS Security and Worker's Compensation audits. He reviewed other activities and statuses of those projects.

Action Taken

Mr. Cunningham moved to receive the Internal Audit activity update report. Ms. Bragg seconded the motion, and the vote was 4 to 0 in favor with Mr. Gloria and Mr. Roberts absent.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

There were no committee member communications and other business.

D. PUBLIC COMMENTS

There were no public comments.

E. NEXT MEETING DATE

The next Audit Oversight Committee meeting will be determined.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 11:02 a.m.

Chairman

Attachment: Roll Call Sheet

AUDIT OVERSIGHT COMMITTEE
SAN DIEGO METROPOLITAN TRANSIT SYSTEM

ROLL CALL

MEETING OF (DATE) May 7, 2015 CALL TO ORDER (TIME) 10:02 a.m.

RECESS ________ RECONVENE ________

CLOSED SESSION ________ RECONVENE ________

ADJOURN 11:02 a.m.

BOARD MEMBER		(Alternate)		PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWIN (Chair)	☒	(no stipend)		10:02 a.m.	11:02 a.m.
BRAGG	☒	(Rios)	☐	10:02 a.m.	11:02 a.m.
CUNNINGHAM	☒	(McClellan)	☐	10:02 a.m.	11:02 a.m.
GLORIA	☐	(Emerald)	☐		
MATHIS	☒			10:02 a.m.	11:02 a.m.
ROBERTS	☐	(Cox)	☐		
Transportation Committee Rep Slot (Mathis)					

SIGNED BY THE CLERK OF THE BOARD: Julia Sansone

CONFIRMED BY THE GENERAL COUNSEL: Karen Landers

Metropolitan Transit System

1255 Imperial Avenue, Suite 1000
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Agenda Item No. B1

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM
AUDIT OVERSIGHT COMMITTEE

October 15, 2015

SUBJECT:

DRAFT OF FISCAL YEAR 2015 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) (ERIN DUNN AND KEN PUN AND GARY CAPORICCI OF PUN & MCGEADY)

RECOMMENDATION:

That the Audit Oversight Committee receive a draft of the Fiscal Year (FY) 2015 CAFR for review and discussion.

Budget Impact

None

DISCUSSION:

The Finance Department presents for review and discussion the first draft of the FY 2015 CAFR.

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

1. Formatting and final proofreading
2. Note 15, Subsequent Events, is subject to change until the report is published.

In the current year, total assets increased by $93 million. The increase is due to an increase in capital assets of $208 million, primarily due to the Blue Line Rehabilitation, partially offset by a reduction in investments restricted for debt service as MTS made payments totaling $98 million to purchase the Head Lease Rights for 52 light rail vehicles. Total liabilities increased $7 million in the current year due to reporting the net pension liability of $111 million, offset by a $95 million reduction to long term debt for the light rail vehicles previously mentioned. Total revenues increased by $25 million in FY 2015 primarily due to $38 million in Proposition 1B funding and total expenses increased by $15 million due to an increase in depreciation, outside services and energy costs. Further details are available in the "Management Discussion and Analysis" section of the CAFR.

GASB 68, implemented in FY 2015, requires employers to record net pension liability, pension expense, and deferred outflows/deferred inflows of resources related to pensions in their financial statements as part of their financial position. This implementation resulted in the following for MTS:

a. Beginning net position decreased by $137 million (note 14)
b. Net pension liability was added to the Statement of Net Position - $111 million
c. The following Deferred Outflows of Resources were added
    i. Deferred pension employer contributions - $15 million
    ii. Deferred difference between expected and actual experience - $2 million
    iii. Deferred adjustments due to differences in proportions - $1 thousand
d. The following Deferred Inflows of Resources were added
    i. Deferred pension investment earnings - $14 million
    ii. Deferred adjustments due to differences in proportions - $440 thousand

Further information regarding GASB 68 and the pension plans can be found in Note 12 of the CAFR.

Ken Pun and Gary Caporicci from Pun & McGeady will be present to provide comments regarding the external audit and draft financial report.

Paul C. Jablonski
Chief Executive Officer

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

Attachment: A. Draft FY 2015 CAFR

Att. A, AI B1, 10/15/15

Comprehensive Annual Financial Report

for the Fiscal Year Ended June 30, 2015

San Diego Metropolitan Transit System

San Diego, California

San Diego Metropolitan Transit System

San Diego, California

Comprehensive Annual Financial Report and Independent Auditors' Report

For the year ended June 30, 2015

PREPARED BY SAN DIEGO METROPOLITAN TRANSIT SYSTEM
FINANCE DEPARTMENT

San Diego Metropolitan Transit System

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San Diego Metropolitan Transit System

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INTRODUCTORY SECTION

Board of Directors and Transit Riders
San Diego Metropolitan Transit System

The comprehensive annual financial report of the San Diego Metropolitan Transit System (MTS) for the fiscal year ended June 30, 2015 is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. The MTS Board of Directors has established an Audit Oversight Committee to provide an additional level of scrutiny to the preparation of the annual financial report. Management of MTS is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of MTS are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

State statutes require an annual audit by independent certified public accountants. The firm of Pun & McGeady LLP, Certified Public Accountants, has been retained to meet this requirement. The goal of the independent audit was to provide reasonable assurance that the financial statements of MTS for the fiscal year ended June 30, 2015 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; 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 unmodified opinion that MTS's financial statements for the fiscal year ended June 30, 2015 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's 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 27 routes with an active fleet of 273 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's 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 additional bus routes. MTS contracts with outside parties for the operation of 74 fixed-route bus lines and paratransit services with an active fleet of 520 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 is financially accountable for the operation of Taxicab Administration and currently has contracts with the following cities through June 30, 2019: San Diego, El Cajon, Imperial Beach, La Mesa, Lemon Grove, Poway, and Santee. The agreements include licensing and regulating taxicabs, jitneys, nonemergency medical, charter, low speed vehicle, and sightseeing for-hire vehicles.

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 economy is projected to outpace economic growth in the rest of California and the U.S. in 2015. We expect the advanced technology industry to continue to thrive, which will benefit various industries including biotech, pharmaceutical, medical devices, renewable energy, and others. San Diego's gross domestic product (GDP), the total value of the region's economy, has been forecasted to reach $208.2 billion in 2014 and $218.6 billion in 2015, increasing from the $197.9 billion earned in 2013. Unemployment is projected to further decrease to an annual average of 5.7 percent in 2015, and compares favorably to the unemployment rate in California and the national average.

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 fifth consecutive year and sales tax receipts have finally exceeded fiscal year 2007 high on a cash basis. MTS continues to monitor its costs and initiate additional revenue programs. As directed by the MTS Board of Directors, MTS has budgeted 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 has implemented three of four new 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 (235), which started in June 2014, connects the I-15 corridor and downtown. Route 237, which began operation in October 2014, offers high-frequency, peak-hour service to Sorrento Mesa and UC San Diego. Route 215 also began operation in October 2014. This Mid-City Rapid travels between San Diego State University and Downtown San Diego, primarily on El Cajon Boulevard and Park Boulevard. MTS also implemented substantial changes on its existing services in order to feed the Rapid service and maximize their use. The fourth Rapid route will connect South Bay and Downtown San Diego, and is anticipated to open for revenue service in calendar year 2018.

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 now complete, which enabled low floor service on the entire trolley system.

MTS and SANDAG completed work on the South Bay project which included a new 48,000 square foot maintenance building, a new 14,000 square foot administration and operations building, a new bus wash facility, and the renovation of the existing main building. This project was a Design-Build project with a budget of approximately $30 million. Construction began in January 2013 and the new facility opened in September 2014. The new Maintenance Building was designed and built as a Leadership in Energy and Environmental Design (LEED) Silver project. The expanded capacity at this facility will accommodate the vehicles for the South Bay Rapid.

MTS and SANDAG continue to work on the expanded East County operations and maintenance facilities. The project is a Design-Bid-Build project. The existing site is 5.2 acres and currently accommodates 83 transit buses. The final layout will be able to accommodate up to 120 buses and 120 employee/support vehicles. A budget of approximately $30 million is planned for the project. A contractor team has been selected and construction began in August 2014. The project is designed and to be built as a LEED Silver project. The new building facility is expected to be completed by Summer 2016. A CNG fueling station for the East County facility was completed in April 2014. Completion of this project will facilitate bringing alternative fuel vehicles to East County bus routes. The Mid-Coast extension of the trolley system is another regional project. The project team is currently putting together an application for a full-funding grant agreement from the FTA. When complete, this extension will span 11 miles between Old Town and north University City. It is anticipated to open for revenue service in calendar year 2021.

Also, MTS continues to fund a capital reserve for the replacement of 52 SD100 light rail vehicles that are 20 years old. To date, MTS has funded $9 million for this reserve, and has budgeted an additional $9.1 million with the FY 2016 Capital Improvement Plan.

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, 2014. This was the ninth consecutive year and the nineteenth 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.

XXXXXXX

San Diego Metropolitan Transit System

List of Board of Directors and Management

BOARD OF DIRECTORS

Members	Board position (elected position)
Harry Mathis	Chairman, since 1/06; Board Member since 12/94
Ron Roberts	Vice Chairman, since 1/11; Board Member since 11/89 (Supervisor, County Board of Supervisors)
Lorie Bragg	Board Member, since 1/12 (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)
George Gastil	Board Member, since 11/12 (Councilmember, City of Lemon Grove)
Todd Gloria	Chair Pro Tem, since 1/15, Board Member, since 1/09 (Councilmember, City of San Diego)
Bob McClellan	Board Member, since 4/08 (Councilmember, City of El Cajon)
Guy McWhirter	Board Member, since 1/15 (Councilmember, City of La Mesa)
John Minto	Board Member, since 1/11 (Councilmember, City of Santee)
Mona Rios	Board Member, since 9/11 (Councilmember, National City)
Mary Salas	Board Member, since 2/13 (Councilmember, City of Chula Vista)
Mike Woiwode	Board Member, since 12/14 (Councilmember, City of Coronado)
Lorie Zapf	Board Member, since 12/14 (Councilmember, City of San Diego)

BOARD COMMITTEE MEMBERSHIP

Executive Committee
Harry Mathis, Chair
Lorie Bragg
Jim Cunningham
Todd Gloria
Ron Roberts

Accessible Services Advisory Committee
Lorie Bragg, Chair

Airport Authority Advisory Committee
Harry Mathis

Ad Hoc Public Security Committee
Jim Cunningham
Harry Mathis
John Minto
Mona Rios
Lorie Zapf

Audit Oversight Committee
Ernie Ewin, Chair
Lorie Bragg
Jim Cunningham
Todd Gloria
Harry Mathis
Ron Roberts

Budget Development Committee
Myrtle Cole
Harry Mathis
Bob McClellan
John Minto
Ron Roberts

Joint Committee on Regional Transit
Jim Cunningham
George Gastil
Harry Mathis

Los Angeles-San Diego Rail Corridor Agency
George Gastil

SANDAG Board
Harry Mathis

SANDAG Regional Planning Committee
Mona Rios

SANDAG Transportation Committee
Harry Mathis

Taxicab Committee
Myrtle Cole

San Diego Metropolitan Transit System

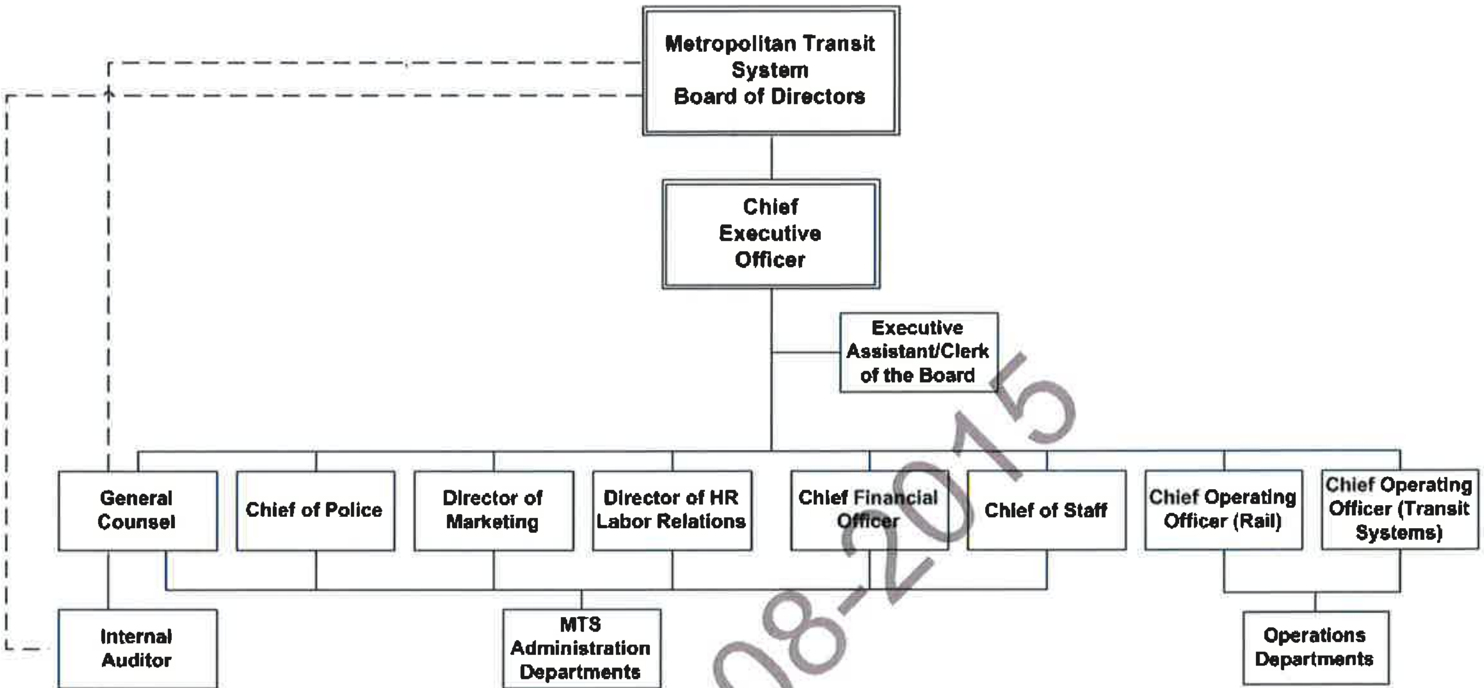
List of Board of Directors and Management (Continued)

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
Manuel Guaderrama	Chief of Police

San Diego Metropolitan Transit System

Executive Level Organization 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
Reporting

Presented to

**San Diego Metroplitan
Transit System, California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying basic financial statements of the San Diego Metropolitan Transit System (MTS), which comprise of the statement of net position as of June 30, 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and related notes to basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MTS as of June 30, 2015, and the changes in its net position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Implementation of GASB Statements No. 68 and 71

As discussed in Note 12 to the basic financial statements, MTS implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans-an amendment of GASB Statement No, 27*, and GASB Statement No, 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. The adoption of these statements requires retrospective application of previously reported net position at July 1, 2014 as described in Note 14 to the basic financial statements. In addition, Net Pension Liability is reported in the Statement of Net Position in the amount of $110,610,221 as of June 30, 2014, the measurement date. This Net Pension Liability is calculated by actuaries using estimates and actuarial techniques from an actuarial valuation as of June 30, 2013 which was then rolled-forward by the actuaries to June 30, 2014, the measurement date. 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, schedule of proportionate share of the net pension liability, schedules of changes in net pension liability and related ratios, schedules of contributions, and schedule of funding progress of the other postemployment benefits healthcare plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Government 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 opinions on the financial statements that collectively comprise MTS's 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
San Diego Metropolitan Transit System
San Diego, California
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2015, on our consideration of MTS's 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's internal control over financial reporting and compliance.

San Diego, California
October 15, 2015

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San Diego Metropolitan Transit System
Management's Discussion and Analysis
June 30, 2015

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's financial activities for the fiscal year ended June 30, 2015. 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 $1,673 million as of June 30, 2015 and $1,583 million as of June 30, 2014. Of this amount, $(32) million was an unrestricted deficit as of June 30, 2015 and $181 million was unrestricted as of June 30, 2014. Total net position increased by $90 million in the current year. The current year increase is attributable to an increase operating revenues, TDA, State revenue, and contributed capital, partially offset by increases in operating expenses and a decrease in *TransNet* funds. With the implementation of GASB 68, the beginning net position was reduced by $137 million, resulting in a restated beginning net position of $1,446 million.
- For the year ended June 30, 2015, 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 40.52% compared to 41.11% for the year ended June 30, 2014. The current year decrease is due primarily to an increase in outside services related to increased rates for purchased transportation, partially offset by an increase in passenger revenue.
- In the current fiscal year, we are not presenting comparative financial statements due to the implementation of GASB 68, however we will present comparative statements in FY16.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MTS's financial statements. The financial statements are comprised of 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's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of MTS's 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's 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, 2015

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's 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 $1,673 million at the close of the most recent fiscal year and $1,583 million at the end of FY2014.

The largest portion of MTS's 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 $20.2 million, of which the largest project under construction is the Regional Transportation Management System, $8 million. This project will expand our communication system to the contracted bus operations. Prior year construction-in-progress totaled $13 million, of which the largest projects under construction included the procurement of 65 light rail vehicles, $5 million. The capital assets that are represented by construction-in-progress will be used to provide services to citizens; consequently, these assets are not available for future spending. In FY2015, MTS transferred completed projects worth $61 million to SDTC, SDTI and Other Contracted Services compared to $90 million in FY2014.

The balance in the unrestricted component of net position decreased by $213 million during the current year and decreased $9 million in the prior year. Total assets increased by $93 million primarily due to capital assets increasing by $208 million, partially offset by the reduction of cash restricted for debt service of $98 million. In FY 2014, total assets increased by $89 million. In the current fiscal year, total liabilities increased by $7 million primarily due to the net pension liability of $111 million, partially offset by the reduction in long term debt for the LRV Lease of $95 million. In the previous year, total liabilities decreased by $1 million.

	June 30, 2015	June 30, 2014	Changes
Current and other assets	$ 194,475,830	$ 308,583,122	$ (114,107,292)
Capital assets	1,720,337,305	1,512,774,675	207,562,630
Total assets	1,914,813,135	1,821,357,797	93,455,338
Deferred outflows of resources	17,417,561	-	17,417,561
Long-term liabilities outstanding	163,147,079	152,721,866	10,425,213
Other liabilities	81,837,558	85,076,529	(3,238,971)
Total liabilities	244,984,637	237,798,395	7,186,242
Deferred inflows of resources	14,614,264	497,449	14,116,815
Net position:			
Net investment of capital assets	1,699,222,253	1,395,206,075	304,016,178
Restricted	5,309,440	6,741,898	(1,432,458)
Unrestricted Deficit	(31,899,898)	181,113,980	(213,013,878)
Total net position	$ 1,672,631,795	$ 1,583,061,953	$ 89,569,842

San Diego Metropolitan Transit System
Management's Discussion and Analysis (Continued)
June 30, 2015

Increases in operating revenue are attributable to 3.2% increase in ridership throughout the region. Variances between FY2015 and FY2014 nonoperating revenues are attributable to significant increases in TDA, Propostion1B funding and *TransNet* operations funding, partially offset by *TransNet* capital funds returned to SANDAG. These funds were advanced to MTS to cover the purchase of 65 light rail vehicles in FY2013 and FY2014 while MTS waited on Proposition 1B funding from the State of CA to be apportioned. 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..

	June 30, 2015	June 30, 2014	Changes
Revenues:			
Operating revenues:			
Charges for services	$ 97,620,664	$ 94,024,708	$ 3,595,956
Other operating revenues	10,165,340	10,400,773	(235,433)
Nonoperating revenues:			
Federal revenue	60,474,595	60,851,717	(377,122)
Transportation Development Act	87,358,869	82,565,009	4,793,860
State Transit Assistance	18,787,817	17,870,768	917,049
State revenue - other	42,953,271	4,211,454	38,741,817
TransNet funds	21,625,551	42,694,815	(21,069,264)
Other nonoperating revenue	7,687,264	9,138,116	(1,450,852)
Total revenues	346,673,371	321,757,360	24,916,011
Expenses:			
Operating expenses	358,901,485	343,566,429	15,335,056
Nonoperating expenses	6,882,602	6,994,987	(112,385)
Total expenses	365,784,087	350,561,416	15,222,671
(Decrease) in net position before capital contributions	(19,110,716)	(28,804,056)	9,693,340
Capital contributions	245,716,854	118,768,399	126,948,455
Increase in net position	226,606,138	89,964,343	136,641,795
Net position:			
Beginning of year, as previously reported	1,583,061,953	1,493,097,610	89,964,343
Restatement due to implementation of GASB 68	(137,036,296)	-	(137,036,296)
Beginning of year, as restated	1,446,025,657	1,493,097,610	(47,071,953)
End of year	$ 1,672,631,795	$ 1,583,061,953	$ 89,569,842

Capital Asset and Debt Administration

Capital assets. MTS's investment in capital assets net of depreciation as of June 30, 2015 and 2014 amounted to $1,720 million and $1,513 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 completed its multi-year program to acquire 65 light rail vehicles for a total cost of $266 million.
- MTS continues to modernize the bus fleet. In FY2015, 75 buses were placed into service for a total cost of $27 million as well as 57 new ADA buses for a total cost of $4 million.
- MTS contributed $21 million in station improvements, rail infrastructure, and platforms to SDTI along the Blue Line.
- Completed capital projects totaling $245 million were transferred from SANDAG to MTS and its component units during FY2015.

CAPITAL ASSETS
(Net of depreciation)

	2015	2014
Land	$ 256,922,883	$ 256,922,883
Buildings	948,071,187	742,531,433
Vehicles	447,072,544	449,499,941
Equipment & other	48,024,563	50,675,910
Construction-in-progress	20,246,128	13,144,508
Total	$ 1,720,337,305	$ 1,512,774,675

Additional information on MTS's 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 $3.0 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 $40.1 million. In connection with the lease/leaseback transaction, MTS placed funds on deposit, which, together with the interest earned on the deposits, will be sufficient to cover the amount 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's long-term debt can be found in Note 8 to the financial statements.

Bond Ratings

Standard & Poor's Ratings Services provided an underlying rating for the Pension Obligation Bonds at "AA-Positive" in 2015, an improvement from the "AA-" we received in 2014. Additional information on MTS's long-term debt can be found in Note 8 to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of MTS's 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
Statement of Net Position
June 30, 2015

ASSETS		
Current assets:		
Cash and cash equivalents	$	66,381,529
Investments restricted for debt service payable within one year		18,109,712
Cash and certificates of deposit restricted for capital support		9,799,597
Accounts and other receivables		4,877,084
Due from other governments		74,512,894
Inventory		18,376,748
Prepaid items and other current assets		2,418,266
Total current assets		194,475,830
Noncurrent assets:		
Capital assets (net of accumulated depreciation)		1,720,337,305
Total noncurrent assets		1,720,337,305
Total assets		1,914,813,135
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension employer contributions		15,479,359
Deferred difference between expected and actual experience		1,937,128
Deferred adjustments due to differences in proportions		1,074
Total deferred outflows of resources		17,417,561

See accompanying notes to basic financial statements.

San Diego Metropolitan Transit System
Statement of Net Position (Continued)
June 30, 2015

LIABILITIES	
Current liabilities:	
Accounts payable	12,657,289
Due to other governments	20,615,743
Unearned revenue	3,113,367
Accrued expenses	7,469,527
Retentions payable	602,421
Retentions payable from restricted assets	4,758,582
Due within one year:	
Compensated absences payable	7,242,413
Accrued damage, injury, and employee claims	4,556,951
Long-term debt	2,712,942
Long-term debt payable fro restricted assets	18,108,323
Total current liabilities	81,837,558
Noncurrent liabilities:	
Due in more than one year:	
Compensated absences payable	4,216,302
Accrued damage, injury, and employee claims	9,651,799
Net pension liability	110,610,221
Net other post employment benefits obligation	16,414,970
Long-term debt	22,253,787
Total noncurrent liabilities	163,147,079
Total liabilities	244,984,637
DEFERRED INFLOWS OF RESOURCES	
Deferred pension investment earnings	13,769,114
Deferred gain on refundings	405,612
Deferred adjustments due to differences in proportions	439,538
Total deferred inflows of resources	14,614,264
NET POSITION	
Net investment in capital assets	1,699,222,253
Restricted for:	
Capital projects	5,041,015
Debt service	268,425
Unrestricted (Deficit)	(31,899,898)
Total net position	$ 1,672,631,795

See accompanying notes to basic financial statements.

San Diego Metropolitan Transit System
Statement of Cash Flows
For the Year Ended June 30, 2015

Operating revenues:		
Passenger revenue	$	97,614,714
Advertising		815,944
Charter		5,950
Miscellaneous operating revenues		9,349,396
Total operating revenues		107,786,004
Operating expenses:		
Personnel costs		114,574,758
Outside services		84,302,285
Transit operations funding		2,691,551
Materials and supplies		10,307,131
Energy costs		28,002,524
Risk management		5,849,167
Miscellaneous operating expenses		4,975,418
Depreciation		108,198,651
Total operating expenses		358,901,485
Operating (loss)		(251,115,481)
Public support and nonoperating revenues (expenses)		
Federal revenue		60,474,595
Transportation Development Act		87,358,869
State Transit Assistance		18,787,817
State revenue - other		42,953,271
TransNet funds		21,625,551
Other local subsidies		4,555,281
Investment earnings		3,064,756
Interest expense		(6,882,602)
Gain on disposal of assets		67,227
Total public support and nonoperating revenues (expenses)		232,004,765
(Loss) before contributed capital		(19,110,716)
Contributed capital, net		245,716,854
Change in net position		226,606,138
Net Position:		
Beginning of year, as restated (note 14)		1,446,025,657
End of year	$	1,672,631,795

See accompanying notes to basic financial statements.

San Diego Metropolitan Transit System
Statement of Cash Flows
For the Year Ended June 30, 2015

Cash flows from operating activities:		
Receipts from customers and users	$	110,304,627
Payments to suppliers		(136,142,038)
Payments to employees		(115,127,890)
Payments for damage and injury		(2,308,664)
Net cash (used in) operating activities		(143,273,965)
Cash flows from noncapital financing activities:		
Public support funds received		230,050,474
Net cash provided by noncapital financing activities		230,050,474
Cash flows from capital and related financing activities:		
Debt service costs		(3,805,400)
Property acquisition		(74,322,604)
Proceeds from disposal of assets		93,457
Net cash (used in) capital and related financing activities		(78,034,547)
Cash flows from investing activities:		
Interest received on investments		139,674
Net cash provided by investing activities		139,674
Net increase in cash and cash equivalents		8,881,636
Cash and cash equivalents:		
Beginning of year		67,299,491
End of year	$	76,181,127
Cash and cash equivalents:		
Cash and cash equivalents	$	66,381,529
Cash and certificates of deposit restricted for capital support		9,799,597
Total cash and cash equivalents	$	76,181,126

See accompanying notes to basic financial statements.

San Diego Metropolitan Transit System
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2015

Reconciliation of Operating (Loss) to Net Cash (Used In) Operating Activities		
Operating (loss):	$	(251,115,481)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:		
Depreciation and amortization		108,198,651
(Increase) decrease in:		
Accounts and other receivable		3,093,211
Inventory		652,792
Prepaid items and other current assets		(58,253)
Increase (decrease) in:		
Accounts payable		(1,616,238)
Accrued expenses		(941,318)
Unearned revenue		(574,588)
Net pension liability		402,376
Net other postemployment benefits obligation		1,355,285
Compensated absences		(152,908)
Accrued damage, injury and employee claims		(2,517,494)
Total adjustments		107,841,516
Net cash (used in) operating activities	$	(143,273,965)
Noncash investing, capital, and financing activities:		
Contributions of capital assets from SANDAG	$	245,234,709
Contributions/adjustments of capital assets from outside parties		482,145
Total contributions of capital assets	$	245,716,854
Increase in fair value of investments	$	78,505

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

San Diego Metropolitan Transit System
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

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San Diego Metropolitan Transit System
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

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's 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's 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's 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's 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

Note 1 – Summary of Significant Accounting Policies (Continued)

A. *Reporting Entity (Continued)*

individually purchased by MTS. SDTC's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses are included in MTS's financial statements as a blended component unit. This agency has the same governing board as MTS and provides services directly to the public.

San Diego Trolley, Inc.: San Diego Trolley, Inc. (SDTI) was organized by MTS in August 1980. SDTI was created to operate and maintain the Light Rail Transit (LRT) system pursuant to an operating agreement with MTS. The current agreement, which was approved in December 2006, was renewed on June 23, 2011, as an open-ended agreement terminable upon six months' notice by either party. Purchases or construction of LRT capital items are made by MTS, with whom title remains, and are contributed to SDTI upon completion of a project or when individually purchased by MTS. SDTI's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses are included in MTS's 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's 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. The statement of revenues, expenses, and changes in net position demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

C. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The Financial Statements are reported using the *"economic resources"* measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as all eligibility requirements have been met. Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period.

In 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 (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 Year Ended June 30, 2015

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 39 percent MTS's $252.4 million operating budget for FY2015.

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 and has been extended through October 29, 2015. No new legislation for surface transportation programs has been reauthorized to replace Map-21, and additional extensions are expected until the new legislation is approved. 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 through FY16 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
Alternative fuel credits are issued by the IRS to MTS for utilizing compressed natural gas to power its vehicles. This rebate program is reviewed annually as part of the federal tax code, and was approved again for calendar year 2014.

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.

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.

Low Carbon Transit Operations Program (LCTOP):
The Low Carbon Transit Operations Program (LCTOP) is one of several programs that are part of the Transit, Affordable Housing, and Sustainable Communities Program established by the California Legislature in 2014 by Senate Bill 862. The LCTOP was created to provide operating and capital assistance for transit agencies to reduce greenhouse gas emission and improve mobility, with a priority on serving disadvantaged communities. Approved projects in LCTOP will support new or expanded bus or rail services, expand intermodal transit facilities, and may include equipment acquisition, fueling, maintenance and other costs to operate those services or facilities, with each project reducing greenhouse gas emissions. Senate Bill 862 continuously appropriates five percent of the annual auction proceeds in the Greenhouse Gas Reduction Fund for LCTOP, beginning in 2015-16.

Transit and Intercity Rail Capital Program (TIRCP)
The Transit and Intercity Rail Capital Program (TIRCP) was created by Senate Bill 862 (Chapter 36, Statutes of 2014) to provide grants from the Greenhouse Gas Reduction Fund to fund capital improvements and operational investments that will modernize California's transit systems and intercity, commuter, and urban rail systems to reduce emissions of greenhouse gases by reducing vehicle miles traveled throughout California. The goals of the TIRCP are revenue to fund capital improvements and operational investments that will reduce greenhouse gas emissions, modernize California's intercity rail, and bus and rail transit systems. The TIRCP is a discretionary program in which funds are distributed upon a competitive basis. In FY15, MTS was awarded $31.9 million in TIRCP funds to construct a new station at the Courthouse Complex and purchase additional light rail vehicles.

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 since 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 NCTD based on the proportion of the population within the area of each jurisdiction. *TransNet* funds are also apportioned by SANDAG.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Cash, Cash Equivalents, and Investments

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

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

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 asset-backed securities are subject to market risk and to change in interest rates. The reported value of the pool is the same as the fair value of the pool shares. MTS also participates in the San Diego County Investment Pool, which is a local government investment pool managed by the County Treasurer's Office on behalf of the Investment Pool participants.

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

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

F. Materials and Supplies Inventory

Inventories are valued at the weighted average unit cost.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

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:

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. Compensated Absences

It is MTS's 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

K. 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.

L. 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 using the straight-line method over the original remaining life of the old debt or the life of the new debt, whichever is less.

M. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of MTS, SDTC and SDTI's pension plans and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

N. Use of Estimates

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

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

Unrestricted – This This component of net position is the amount of the assets, deferred outflows or 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

P. Accounting Changes

During fiscal year ended June 30, 2015, MTS has implemented the following new GASB pronouncements:

Statement No. 68, *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27.* This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts and equivalent arrangements. The requirements of No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

Statement No. 69, *Government Combinations and Disposals of Government Operations.* The requirements of this Statement should be applied prospectively and are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013.

Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date; an amendment of GASB Statement No. 68.* The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

Note 2 – Cash, Cash Equivalents, and Investments

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

Cash and cash equivalents	$ 66,381,529
Cash and certificates of deposit restricted for capital support	9,799,597
Investments restricted for debt service and capital projects	18,109,712
Total cash and investments	$ 94,290,838

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

Cash, cash equivalents, and investments consisted as follows on June 30, 2015:

Investment Type	Fair Value
Cash and cash equivalents:	
Demand Deposits	$ 29,028,684
Retention Trust Account	4,758,582
San Diego County Investment Pool	5,041,015
State of California - Local Agency Investment Fund	37,352,845
Total cash and cash equivalents	76,181,126
Investments:	
U.S. Treasuries	18,109,712
Total investments	18,109,712
Total cash, cash equivalents, and investments	$ 94,290,838

Demand Deposits

At year end the carrying amount of demand deposits was $29,028,684 and the bank balance was $32,342,484 of which the total amount was collateralized or insured with securities held by the pledging financial institutions in MTS's name as discussed below.

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

Investments

Under the provisions of MTS's 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

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 6.83% of the Investment Pool as of June 30, 2015 and the fair value of our position in the pool is .07% 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, 2015, MTS had $5,041,015 invested in the San Diego County Investment Pool.

Local Agency Investment Funds

MTS's 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. They are issued by corporations and by government-sponsored enterprises.

- Asset-Backed Securities - entitle their purchaser 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), small business loans 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, 2015, MTS had $37,352,845 invested in LAIF, which had invested 2.08% of the pool investment funds in Structured Notes and Asset-Backed Securities.

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's investment policy limits investments to a maximum of five years unless otherwise approved by the Board.

Disclosures Relating to Credit Risk

MTS's 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's 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's name.

The market value of pledged securities must equal at least 110% of the MTS's 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's 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, 2015, are shown below:

Maturity	
Current to one year	$ 94,290,938
Total	$ 94,290,938

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 3 – Accounts Receivable

A. Accounts and Other Receivables

At June 30, 2015, the net realizable accounts and other receivables consisted of the following:

Passenger revenue - General Public	$ 2,081,329
Pension plan receivable	1,425,103
Other trade receivables	1,370,652
Total accounts and other receivables	$ 4,877,084

B. Due from Other Governments

At June 30, 2015, amounts due from other governments consisted of the following:

FTA Grant Funds	$ 53,569,291
SANDAG - project/route reimbursements	6,437,045
STA Funds	5,007,667
SANDAG - *TransNet*	3,307,458
County of San Diego	2,960,120
Passenger Revenue	1,772,600
North County Transit District - shared costs	789,663
Department of Homeland Security	343,427
City of San Diego	269,610
State of California	56,013
Total due from other governments	$ 74,512,894

Note 4 – Inventory

At June 30, 2015, inventory consists of the following repair and maintenance parts and administrative supplies:

San Diego Transit Corp	$ 2,232,776
San Diego Trolley, Inc.	16,143,972
Total inventory	$ 18,376,748

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 5 - Capital Assets

A summary of changes in capital assets for the year ended June 30, 2015 is as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets, not depreciated				
Land and right-of-way	$ 256,922,883	$ -	$ -	$ 256,922,883
Construction-in-progress	13,144,508	71,130,646	(64,029,026)	20,246,128
Total capital assets, not depreciated	270,067,391	71,130,646	(64,029,026)	277,169,011
Capital assets, depreciated:				
Buildings and structures	1,485,731,298	263,715,438	-	1,749,446,736
Buses and vehicles	755,187,407	37,159,413	(11,119,481)	781,227,339
Equipment and other	108,513,421	8,239,380	(386,421)	116,366,380
Capital lease property	12,091,981	-	-	12,091,981
Total capital assets, depreciated	2,361,524,107	309,114,231	(11,505,902)	2,659,132,436
Less accumulated depreciation for:				
Buildings and structures	(745,656,049)	(57,797,810)	-	(803,453,859)
Buses and vehicles	(305,687,466)	(39,164,882)	10,697,553	(334,154,795)
Equipment and other	(57,837,511)	(10,858,085)	353,779	(68,341,817)
Capital lease property	(9,635,797)	(377,874)	-	(10,013,671)
Total accumulated depreciation	(1,118,816,823)	(108,198,651)	11,051,332	(1,215,964,142)
Total capital assets, depreciated, net	1,242,707,284	200,915,580	(454,570)	1,443,168,294
Total capital assets	$1,512,774,675	$ 272,046,226	$ (64,483,596)	$1,720,337,305

Contributed Capital

MTS converted $64 million in capital assets from CIP to assets in service. Capital asset additions totaling $245 million were contributed by SANDAG as follows:

Other contracted services	$ 40,358,673
San Diego Transit Corporation	42,430,059
San Diego Trolley, Inc.	162,445,978
Total	$ 245,234,710

Depreciation

Depreciation expense for capital assets for the years ended June 30, 2015:

General operations	$ 1,843,765
Other contracted services	12,927,189
San Diego Transit Corporation	20,346,856
San Diego Trolley, Inc.	73,080,841
Total	$ 108,198,651

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 6 – Due To Other Governments

At June 30, 2015, amounts due to other governments consisted of the following:

SANDAG - Subsidy revenue for construction projects in process	$ 18,745,588
State of California	567,499
North County Transit District	490,235
SANDAG - CIP Reimbursement	222,245
City of San Diego	149,949
City of Lemon Grove - TDA Funds	121,170
City of El Cajon - TDA Funds	101,325
City of Chula Vista - TDA Funds	84,561
City of La Mesa - TDA Funds	56,500
County of San Diego	44,730
City of Coronado - TDA Funds	20,600
City of Poway - TDA Funds	11,341
Total due to other governments	$ 20,615,743

Note 7 – Unearned Revenues

At June 30, 2015, unearned revenue consisted of the following:

Fare media payments received in advance	$ 2,666,819
Lease payments received in advance	446,548
Total unearned revenue	$ 3,113,367

Note 8 – Long-Term Debt

A. *Summary*

A summary of changes in long-term obligations for the year ended June 30, 2015 is as follows:

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Amounts due within one year	Amounts due in more than one year
MTS:						
Capital lease obligations	$ 3,614,149	$ -	$ (607,420)	$ 3,006,729	$ 612,942	$ 2,393,787
Finance obligation	113,457,002	-	(95,348,679)	18,108,323	18,108,323	-
Compensated absences payable	923,899	923,986	(850,802)	997,083	850,802	146,281
Accrued damage, injury, and employee claims	402,817	344,073	(257,000)	489,890	489,890	-
Net pension liability	10,209,377	4,295,621	(6,243,451)	8,261,547	-	8,261,547
Net other postemployment benefits	3,938,925	665,200	(268,780)	4,335,345	-	4,335,345
Total MTS	132,546,169	6,228,880	(103,576,132)	35,198,917	20,061,957	15,136,960
San Diego Transit Corporation:						
Pension Obligation Bonds	23,965,000	-	(2,005,000)	21,960,000	2,100,000	19,860,000
Compensated absences payable	7,985,875	3,678,530	(3,863,317)	7,801,088	3,863,318	3,937,770
Accrued damage, injury, and employee claims	8,839,917	5,043,660	(2,700,000)	11,183,577	3,138,989	8,044,588
Net pension liability	92,754,495	24,627,047	(31,687,278)	85,694,264	-	85,694,264
Net other postemployment benefits	4,458,327	1,567,600	(1,073,699)	4,952,228	-	4,952,228
Total San Diego Transit Corporation	138,003,614	34,916,837	(41,329,294)	131,591,157	9,102,307	122,488,850
San Diego Trolley, Inc.:						
Compensated absences payable	2,701,849	3,199,175	(3,240,480)	2,660,544	2,528,293	132,251
Accrued damage, injury, and employee claims	2,448,522	969,761	(883,000)	2,535,283	928,072	1,607,211
Net pension liability	24,043,491	11,704,564	(19,093,645)	16,654,410	-	16,654,410
Net other postemployment benefits	6,662,433	923,800	(458,836)	7,127,397	-	7,127,397
Total San Diego Trolley, Inc.	35,856,295	16,797,300	(23,675,961)	28,977,634	3,456,365	25,521,269
Total	$ 306,406,078	$ 57,943,017	$ (168,581,387)	$ 195,767,708	$ 32,620,629	$ 163,147,079

Long-term debt are reported in the accompanying statement of net position as follows:

	Due within One Year	Noncurrent Liabilities
Liabilities:		
Compensated absences payable	$ 7,242,413	$ 4,216,302
Accrued damage, injury, and employee claims	4,556,951	9,651,799
Long-term debt	2,712,942	22,253,787
Long-term debt payable from restricted assets	18,108,323	-
Net Pension Liability	-	110,610,221
Net other postemployment benefits	-	16,414,970
	$ 32,620,629	$ 163,147,079

Note 8 – Long-Term Debt (Continued)

B. Capital Lease

The County of San Diego (the County) has a master lease agreement with the MTS Joint Powers Agency (Agency) for the lease of the MTS Tower building. MTS entered into a sublease agreement with the County for a portion (27.61%) of the MTS Tower building. The sublease is classified as a capital lease because 27.61% of the title transfers to MTS at the end of the County's master lease. The master lease terminates on November 1, 2086; however, the County has the option to terminate the agreement on November 1, 2041 and each tenth anniversary thereafter. In May 2011, San Diego County refunded the underlying debt obligation in order to secure a more favorable interest rate, which will result in a $1.3 million reduction in future principal and interest payments under the terms of the lease agreement. A $788,266 net economic 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:

Building – MTS Tower	$ 12,091,981
Less accumulated depreciation	(10,013,672)
Total	$ 2,078,309

The following is a summary of future minimum payments under the capital lease as of June 30, 2015:

Year Ending June 30:	Tower Lease Payments
2016	$ 731,665
2017	739,617
2018	743,537
2019	744,055
2020	372,148
Total minimum lease payments	3,331,022
Less amount representing interest	(324,293)
Present value of minimum lease payments	$ 3,006,729

At June 30, 2015, the future minimum payments were $3,006,729.

Note 8 – Long-Term Debt (Continued)

C. 1995 LRV Lease/Leaseback

In FY96, 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. In the current fiscal year, MTS exercised their option to purchase the Head Lease Rights to these vehicles. The predetermined purchase option required payments totaling $95,348,679 in FY15, and the remaining payments will be made in FY16.

As of June 30, 2015, the remaining future obligations total $18,108,323.

Year Ending June 30:	Principal
2016	$ 18,108,323
Total	$ 18,108,323

For the above lease transaction, MTS is obligated to insure and maintain the equipment. The lease agreement also provide for MTS's 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, 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 retired in December 2012.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 8 – Long-Term Debt (Continued)

D. Pension Obligation Bonds (Continued)

At June 30, 2015, the outstanding balance of the Pension Obligation Bonds is $21,960,000.

Year ending June 30:	Principal	Interest	Total
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	2,555,000	599,074	3,154,074
2021-2024	10,355,000	1,005,151	11,360,151
Total	$ 21,960,000	$ 5,166,345	$ 27,126,345

Note 9 – 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 as well as cyber liability insurance to protect the agencies from third party claims alleging computer security breaches. The policies have limits of $2,000,000 subject to a $100,000 retention and protect against theft, loss or unauthorized disclosure of personally identifiable information.

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:				
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
2014-2015	11,691,256	6,357,494	(3,840,000)	14,208,750

Note 9 – Risk Management (Continued)

Following is summary of accrued damage injury, and employee claims for fiscal year 2015:

Current portion	$ 4,556,951
Non-current portion	9,651,799
Total	$ 14,208,750

MTS has established a policy to consolidate the minimum balances required in the liability claims reserve accounts of SDTC and SDTI to be held by MTS. The policy also established eligible uses for the MTS reserve account, which included the reimbursement to SDTC and SDTI of awards/settlements of individual liability claims for personal injury and/or property damage in excess of $300,000, but within the self-insurance retention at SDTC and SDTI. In connection with these self-insurance programs, liabilities for SDTC, SDTI and MTS were $14,208,750 at June 30, 2015.

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

Note 10 - Contingencies

Pending legal actions. MTS, SDTC and SDTI have been named in certain legal actions pending at June 30, 2015. 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. SD&AE was formally recognized as an exempt organization by the Franchise Tax Board in FY2015 and expects formal recognition by the IRS in FY2016. Although it is anticipated that SD&AE will be granted exemption under federal 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, FY13, and FY14 pending formal recognition of SD&AE's exempt status.

Note 11 – Postemployment Health Care Benefits

***Plan Description*:** All employees at MTS, SDTI and all management employees at SDTC, 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, 2015 total MTS payments were $99,980 for 14 retirees, total SDTI payments were $173,436 for 30 retirees, and total SDTC payments were $432,134 for 47 management retirees plus $450,565 for 169 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 for fiscal year 2015 is as follows:

Net OPEB Obligation (NOO):

	MTS	SDTI	SDTC	Total
NOO at June 30, 2014	$ 3,938,925	$ 6,662,433	$ 4,458,327	$ 15,059,685
Benefit payments paid outside of a trust	(99,980)	(173,436)	(882,699)	(1,156,115)
Estimated contributions to a trust	-	-	-	-
Annual required contribution	487,900	624,000	1,367,000	2,478,900
Accrued interest on June 30, 2014 NOO	177,300	299,800	200,600	677,700
Amortization of June 30, 2014 NOO	(168,800)	(285,400)	(191,000)	(645,200)
NOO at June 30, 2015	$ 4,335,345	$ 7,127,397	$ 4,952,228	$ 16,414,970

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

	Participants as of June 30, 2015
Current retirees and surviving spouses	260
Active employee eligible for benefits	1,570
Total	1,830

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 2015, MTS contributions to the plan were $1,156,115 (or 50.13% of total gross health costs), while retirees contributed $1,149,911 (or 49.87% of total gross health costs).

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 11 – Postemployment Health Care Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation. MTS' annual OPEB cost (expense) is calculated based on the sponsoring employer's Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any Unfunded Actuarial Accrued Liabilities (UAAL) as a level percentage of projected payroll on a closed basis over a period not to exceed thirty years. The following table shows the components of MTS' ARC and Annual OPEB Cost for the year ended June 30, 2015, the amount actually contributed to the plans, and the changes in MTS' Net OPEB Obligation to the Plan:

	All Groups
Normal Cost	$ 956,500
Amortization of Unfunded AAL	1,522,400
Annual Required Contribution	2,478,900
Interest on beginning of year NOO	677,700
Amortization of beginning of year NOO	(645,200)
Annual OPEB cost	2,511,400
Contributions or Benefit Payments	(856,815)
Implicit subsidy payments	(299,300)
Increase in net OPEB obligation	1,355,285
Net OPEB obligation - beginning of year	15,059,685
Net OPEB obligation - end of year	$ 16,414,970

MTS's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan and the Net OPEB Obligation for fiscal years 2013, 2014 and 2015 were as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	$ 2,619,900	39.80%	$ 13,695,813
June 30, 2014	2,524,100	45.97%	15.059,685
June 30, 2015	2,511,400	46.03%	16,414,970

Funded Status and Funding Progress. As of June 30, 2015, the most recent actuarial valuation date, the Plan was not funded. The Actuarial Accrued Liability (AAL) for benefits was $33,628,566 and the actuarial value of assets was $0. The covered payroll (annual payroll of active employees covered by the plan) as of June 30, 2015 was $73,896,000 and the ratio of Unfunded AAL to covered payroll was 46% percent.

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.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 11 – Postemployment Health Care Benefits (Continued)

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
6/30/2015	$ -	$ 3,863	$ 3,863	0.00%	$ 10,416	37.09%

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
6/30/2015	$ -	$ 7,700	$ 7,700	0.00%	$ 26,709	28.83%

SDTC (in 000s):

Valuation Date	Actuarial Value of Assets	Entry Age Normal AAL	Unfunded AAL	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2015	$ -	$ 22,066	$ 22,066	0.00%	$ 36,771	60.01%

Total (in 000s):

Valuation Date	Actuarial Value of Assets	Entry Age Normal AAL	Unfunded AAL	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2015	$ -	$ 33,629	$ 33,629	$ -	$ 73,896	45.51%

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 30, 2015 report was completed in FY2016. The next study, which we will based on activity through June 2017, will be completed during FY2018 and ready for the FY2017 financial report.

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.

Note 11 – Postemployment Health Care Benefits (Continued)

In the June 30, 2015 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 which varies depending on the plan and type of health care service involved. Beginning in fiscal year 2015/2016, medical/drug trends generally grade down from 7.0% and 6.5% to an ultimate of 4.5% by 2021, while dental expense trends stay flat at 4.0%. A general inflation rate of 2.75% 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.

Note 12 – Employee Retirement Systems

A. MTS

Plan Description – All MTS management employees working the equivalent of 1,000 hours per fiscal year are eligible to participate in the MTS Miscellaneous, MTS Miscellaneous PEPRA, or MTS Miscellaneous Second Tier cost-sharing multiple employer defined benefit plans administered by California Public Employees'' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit Provisions under the Plans are established by State statutes within the Public Employee's Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment and can only be amended by the MTS Board of Directors.

The Plan's provisions and benefits in effect as of June 30, 2015, are summarized as follows:

MTS Miscellaneous Plan-1223
CLOSED TO NEW MEMBERS

Hire date	Prior to December 24, 2012
Benefit formula	2.7% @ 55
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Final Average Compensation Period	12 months
Retirement age	50-55
Monthly benefits, as a % of eligible compensation	2.0%-2.7%
Required employee contribution rates	4.00%
Required employer contribution rates	22.73%
Pre-Retirement Death Benefit	Optional Settlement 2W
Post-Retirement Death Benefit	$500 Lump Sum
Non-Industrial Standard Disability	1.8% of final compensation X multiplied by service
COLA	2.00%

Note 12 – Employee Retirement Systems (Continued)

A. MTS (Continued)

MTS PEPRA Miscellaneous Plan - 26789

Hire date	On or after January 1, 2013
Benefit formula	2.0% @ 62
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Final Average Compensation Period	36 months
Retirement age	52-67
Monthly benefits, as a % of eligible compensation	1.0-2.5%
Required employee contribution rates	6.25%
Required employer contribution rates	6.31%
Pre-Retirement Death Benefit	Optional Settlement 2W
Post-Retirement Death Benefit	$500 Lump Sum
Non-Industrial Standard Disability	1.8% of final compensation X multiplied by service
COLA	2.00%

MTS Miscellaneous Second Tier Plan - 30134

Hire date	On or Between December 24 and 31, 2012 or Grandfathered classic members
Benefit formula	2.0% @ 60
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Final Average Compensation Period	12 months
Retirement age	50-63
Monthly benefits, as a % of eligible compensation	1.092%-2.418%
Required employee contribution rates	7.00%
Required employer contribution rates	8.37%
Pre-Retirement Death Benefit	Optional Settlement 2W
Post-Retirement Death Benefit	$500 Lump Sum
Non-Industrial Standard Disability	1.8% of final compensation X multiplied by service
COLA	2.00%

Employees Covered – At June 30, 2015 the following employees were covered by the benefit terms for each Plan:

	Misc. Plan - 1223	PEPRA Misc. Plan - 26789	Misc. Second Tier Plan - 30134
Inactive employees or beneficiaries currently receiving benefits	93	0	0
Inactive employees entitled to but not yet receiving benefits	14	0	0
Active employees	89	57	8

Note 12 – Employee Retirement Systems (Continued)

A. MTS (Continued)

Contributions – Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For period ended June 30, 2014 (the measurement date), the active employee contribution rate is 7.947 percent of annual pay, and the average employer's contribution rate is 18.786 percent of annual payroll for the Miscellaneous Plan, 6.880 and 8.486 for the Second Tier Plan, and 6.308 and 6.250 for the PEPRA Plan.

For the year ended June 30, 2015, the contributions made for each Plan were as follows:

	Misc. Plan - 1223	PEPRA Misc. Plan - 26789	Misc. Second Tier Plan - 30134
Contributions - employer	$ 754,893	$ 267	$ 10
Contributions - employee	604,332	79,887	26,377

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – As of June 30, 2015, MTS reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Plan-1223	$ 8,259,452
PEPRA Miscellaneous Plan - 26789	2,019
Miscellaneous Second Tier Plan - 30134	76
Aggregate Net Pension Liability	$ 8,261,547

San Diego Metropolitan Transit System
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 12 – Employee Retirement Systems (Continued)

A. MTS (Continued)

MTS' net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. MTS' proportion of the net pension liability was based on a projection of the MTS' long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. MTS' proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	Misc. Plan - 1223	PEPRA Misc. Plan - 26789	Misc. Second Tier Plan - 30134
Proportion June 30, 2013	0.13%	0.00%	0.00%
Proportion June 30, 2014	0.13%	0.00%	0.00%
Change - Increase (Decrease)	0.00%	0.00%	0.00%

For the year ended June 30, 2015, MTS recognized pension expense of $1,156,369. At June 30, 2015 MTS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 1,559,846	$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Changes in employer's proportion and difference between the employer's contributions and the employers' proportionate share of contributions	1,074	(439,538)
Net differences between projected and actual earnings on plan investments	-	(1,918,209)
Total	$ 1,560,920	$ (2,357,747)

The $1,559,846 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Amounts
2016	$ (636,148)
2017	(636,148)
2018	(604,827)
2019	(479,553)
2020	-
Thereafter	-

Note 12 – Employee Retirement Systems (Continued)

A. MTS (Continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	MTS Misc. Plan - 1223	MTS PEPRA Misc. Plan - 26789	MTS Misc. Second Tier Plan - 30134
Valuation Date	June 30, 2013	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:			
Discount Rate	7.50%	7.50%	7.50%
Inflation	2.75%	2.75%	2.75%
Payroll Growth	3.00%	3.00%	3.00%
Projected Salary Increase	varies by entry age and service (1)	varies by entry age and service (1)	varies by entry age and service (1)
Investment Rate of Return	7.50% (2)	7.50% (2)	7.50% (2)
Mortality	Derived using CalPERS' Membership Data for all funds (3)	Derived using CalPERS' Membership Data for all funds (3)	Derived using CalPERS' Membership Data for all funds (3)

(1) Depending on age, service, and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvement using Society of actuaries Scale BB.

There were no changes in assumptions, benefit terms or other inputs that affected the measurement of the net pension liability. There were no changes between the measurement date of the net pension liability and the reporting date. The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuations were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

Note 12 – Employee Retirement Systems (Continued)

A. MTS (Continued)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	12.00	6.83	6.95
Real Estate	11.00	4.50	5.13
Infrastructure and Forestland	3.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)

(a) an expected inflation of 2.5% for this period
(b) an expected inflation of 3.0% for this period

Note 12 – Employee Retirement Systems (Continued)

A. MTS (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents MTS' proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what MTS' proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	Misc. Plan - 1223	PEPRA Misc. Plan - 26789	Misc. Second Tier Plan - 30134	Aggregate
1% Decrease	6.50%	6.50%	6.50%	6.50%
Net Pension Liability	$ 13,058,580	$ 3,598	$ 135	$ 13,062,313
Current Discount Rate	7.50%	7.50%	7.50%	7.50%
Net Pension Liability	$ 8,259,453	$ 2,019	$ 76	$ 8,261,548
1% Increase	8.50%	8.50%	8.50%	8.50%
Net Pension Liability	$ 4,276,636	$ 709	$ 27	$ 4,277,372

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan – At June 30, 2015, MTS reported a payable of $56,672 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Note 12 – Employee Retirement Systems (Continued)

B. SDTI

Plan Description – All SDTI employees working the equivalent of 1,000 hours per fiscal year are eligible to participate in the SDTI Miscellaneous or PEPRA Miscellaneous single employer defined benefit plans administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit Provisions under the Plans are established by State statutes within the Public Employee's Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacrament, CA 95814.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan members include both contract and non-contract employees. Benefits are based on years of credited service, equal to one year of full time employment and can only be amended by the MTS Board of Directors.

The Plan's provisions and benefits in effect as of June 30, 2015, are summarized as follows:

SDTI Miscellaneous Plan-1406
CLOSED TO NEW MEMBERS

Hire date	Prior to Jan 1, 2013
Benefit formula	2.0% @ 55
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Final Average Compensation Period	12 months
Retirement age	50-63%
Monthly benefits, as a % of eligible compensation	1.426-2.418%
Required employee contribution rates	4.00%
Required employer contribution rates	12.68%
Pre-Retirement Death Benefit	1959 Survivor Benefit Level 2
Post-Retirement Death Benefit	$500 Lump Sum
Non-Industrial Standard Disability	1.8% of final compensation X multiplied by service
COLA	2.00%

Note 12 – Employee Retirement Systems (Continued)

B. SDTI (Continued)

SDTI PEPRA Miscellaneous Plan-26965

Hire date	On or After Jan 1, 2013
Benefit formula	2.0% @ 62
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Final Average Compensation Period	36 months
Retirement age	52-67
Monthly benefits, as a % of eligible compensation	1.0-2.5%
Required employee contribution rates	6.25%
Required employer contribution rates	9.71%
Pre-Retirement Death Benefit	1959 Survivor Benefit Level 2
Post-Retirement Death Benefit	$500 Lump Sum
Non-Industrial Standard Disability	1.8% of final compensation X multiplied by service
COLA	2.00%

Employees Covered – At June 30, 2015 the following employees were covered by the benefit terms for each Plan:

	SDTI Misc. Plan - 1406	SDTI PEPRA Misc. Plan - 26965
Inactive employees or beneficiaries currently receiving benefits	184	0
Inactive employees entitled to but not yet receiving benefits	24	0
Active employees	436	113

Contributions – Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. SDTI is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the period ended June 30, 2014 (the measurement date), the active employee contribution rate is 6.976 percent of annual pay, and the average employer's contribution rate is 9.708 percent of annual payroll.

For the year ended June 30, 215, the contributions recognized as part of pension expense were:

Contributions - employer	$ 2,498,345
Contributions - employee	2,179,194

Note 12 – Employee Retirement Systems (Continued)

B. SDTI (Continued)

Net Pension Liability

SDTI's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	varies by entry age and service
Investment Rate of Return	7.50% (1)
Mortality	Derived using CalPERS' Membership Data for all Funds (2)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power applies, 2.75% thereafter

(1) Net of pension plan investment and administrative expenses, including inflation

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

There were no changes in assumptions, benefit terms or other inputs that affected the measurement of the net pension liability. There were no changes between the measurement date of the net pension liability and the reporting date. The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuations were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

Note 12 – Employee Retirement Systems (Continued)

B. SDTI (Continued)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the agent multiple-employer plan.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	12.00	6.83	6.95
Real Estate	11.00	4.50	5.13
Infrastructure and Forestland	3.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)

(a) an expected inflation of 2.5% for this period
(b) an expected inflation of 3.0% for this period

San Diego Metropolitan Transit System
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 12 – Employee Retirement Systems (Continued)

B. SDTI (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents SDTI's net pension liability, calculated using the discount rate, as well as what SDTI's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

1% Decrease	6.50%
Net Pension Liability	$ 33,081,879
Current Discount Rate	7.50%
Net Pension Liability	$ 16,654,410
1% Increase	8.50%
Net Pension Liability	$ 3,069,404

Changes in the Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2014	$ 106,151,686	$ 82,108,195	$ 24,043,491
Changes in the year:			
Service cost	3,721,950	-	3,721,950
Interest on the total pension liabilities	7,982,614	-	7,982,614
Differences between expected and actual experience	-	-	-
Benefit payments, including refunds of members contributions	(3,155,596)	(3,155,596)	-
Contributions - employer	-	2,498,345	(2,498,345)
Contributions - employee	-	2,179,194	(2,179,194)
Net investment income	-	14,416,106	(14,416,106)
Administrative expenses	-	-	-
Net changes	8,548,968	15,938,049	(7,389,081)
Balance at June 30, 2015	$ 114,700,654	$ 98,046,244	$ 16,654,410

Note 12 – Employee Retirement Systems (Continued)

B. SDTI (Continued)

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2015, SDTI recognized pension expense of $1,695,021. At June 30, 2015 SDTI reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 2,566,885	$ -
Net differences between projected and actual earnings on plan investments	-	(6,585,757)
Total	$ 2,566,885	$ (6,585,757)

The $2,566,885 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Amounts
2016	$ 1,646,439
2017	1,646,439
2018	1,646,439
2019	1,646,438
2020	-
Thereafter	-

Payable to the Pension Plan

At June 30, 2015, SDTI reported a payable of $452,100 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Note 12 – Employee Retirement Systems (Continued)

C. SDTC

Plan Description - The San Diego Transit Corporation (SDTC) Employee Retirement Plan (Plan), a single-employer defined benefit plan, is currently open to all full-time non-contract employees and certain part-time noncontract employees who have completed one year of service in which they have worked at least 1,000 hours. For contract employees 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.

The SDTC Plan issues a publicly available financial report that includes financial statements and required supplementary information. The financial report may be obtained by writing to San Diego Transit Corporation, 1255 Imperial Avenue, Suite 1000, San Diego, CA 92101.

Benefits Provided – The SDTC Plan provides retirement, termination, and disability benefits, annual cost-of-living adjustments, and death benefits to eligible Plan members and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment and can only be amended by the MTS Board of Directors.

The Plan's provisions and benefits in effect as of June 30, 2015, are summarized as follows:

San Diego Transit Pension Plan - Non-Contract Employees		
Hire date	Prior to Jan 1, 2013	On or after Jan 1, 2013
Benefit formula	2 @ 55	2 @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Final Average Compensation Period	12 months	36 months
Retirement age	53-63	52-67
Monthly benefits, as a % of eligible compensation	1.742%-2.418%	1.0%-2.5%
Required employee contribution rates	4.00%	6.25%
Required employer contribution rates	34.65%	32.40%
Pre-Retirement Death Benefit	50% Joint & Survivor	
Post-Retirement Death Benefit	Based on benefit election	
Non-Industrial Standard Disability	1.5% times average monthly final earnings times credited years of service	
COLA	Lesser of CPI or 2.0%	

San Diego Metropolitan Transit System
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 12 – Employee Retirement Systems (Continued)

C. SDTC (Continued)

SDTC Contract Employees		
	ATU - Closed Plan	**IBEW - Closed Plan**
Hire date	Prior to November 25, 2012	Prior to January 1, 2013
Benefit formula	2 @ 55	2 @ 55
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Final Average Compensation Period	36 months	36 months
Retirement age	53-63	55-65
Monthly benefits, as a % of eligible compensation	1.742%-2.418%	2.0%-2.418%
Required employee contribution rates	3.00%	4.00%
Required employer contribution rates	35.65%	34.65%
Pre-Retirement Death Benefit	50% Joint & Survivor	
Post-Retirement Death Benefit	Based on benefit election	
Disability	1.5% times average monthly final earnings times credited years of service	

Employees Covered – At June 30, 2015 the following employees were covered by the benefit terms for each Plan:

	SDTC Plan
Inactive employees or beneficiaries currently receiving benefits	909
Inactive employees entitled to but not yet receiving benefits	223
Active employees	591

Contributions – Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the period ended June 30, 2014 (the measurement date), the active employee contribution rate is 6.0-6.25% of annual pay, and the average employer's contribution rate is 34.35% of annual payroll.

For the year ended June 30, 215, the contributions recognized as part of pension expense for the Plan were as follows:

Contributions - employer	$ 12,628,190
Contributions - employee	899,791

Note 12 – Employee Retirement Systems (Continued)

C. SDTC (Continued)

Net Pension Liability

SDTC's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of July 1, 2014, using an annual actuarial valuation as of July 1, 2014.

Actuarial Assumptions – The total pension liabilities in the July 1, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	July 1, 2014
Measurement Date	July 1, 2014
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	3.00%
Payroll Growth	3.50% - 10.50% for Drivers and Mechanics 3.25% - 12.00% for Non-Contract Members 3.50% - 14.00% for Clerical Members
Projected Salary Increase	3.00%
Investment Rate of Return (1)	7.50%
Mortality	RP-2000 Combined Healthy Tables set forward one year for females-Drivers & Mechanics. 1994 Group Annuity Mortality Table, weighting male rates by 50% and female rates by 50% for Clerical & Non-Contract employees
COLA Increase - Non-Contract Members	2.00%

(1) Net of pension plan investment expenses

There were no changes in assumptions, benefit terms or other inputs that affected the measurement of the net pension liability. There were no changes between the measurement date of the net pension liability and the reporting date.

Discount Rate-The discount rate used to measure the Total Pension Liability was 7.50%

We have assumed that the employees will continue to contribute to the Plan at the required rates and the employer will continue the historical and legally required practice of contributing to the Plan based on an actuarially determined contribution, reflecting a payment equal to annual Normal Cost, a portion of the expected Administrative Expenses, and an amount necessary to amortize the remaining Unfunded Actuarial Liability as of July 1, 2012, over a closed 25-year period (23 years remaining as of the July 1, 2014 actuarial valuation), and amounts necessary to amortize the June 30, 2013 and June 30, 2014 gains/losses over closed layered 15-year periods. Future gains and losses will be recognized over separate 15 year closed periods. All amortization payments are level dollar amounts.

Note 12 – Employee Retirement Systems (Continued)

C. SDTC (Continued)

We have not performed a formal cash flow projection as described under Paragraph 65 of GASB Statement 68. However, Paragraph 67 allows for alternative methods to confirm the sufficiency of the Net Position if the evaluations "can be made with sufficient reliability without a separate projection of cash flows into and out of the pension plan…" In our professional judgment, adherence to the actuarial funding policy described above will result in the pension plan's projected Fiduciary Net Position being greater than or equal to the benefit payments projected for each future period. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

According to Paragraph 30 of GASB Statement 68, the long-term expected rate of return should be determined net of pension plan investment expenses but without reduction for pension plan administrative expenses. The 7.50% investment return assumption used in the Total Pension Liability is net of investment expenses only.

The table below reflects long-term expected real rate of return by asset class. The critical inputs of the asset allocation model are the expected risk, return and correlations of different asset classes. The arithmetic rate of return is net of administrative expenses.

Asset Class	Strategic Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (a)
United States Equity	20.00%	4.55%	4.55%
Global Equity	20.00	6.10	6.10
Fixed Income	25.00	1.00	1.00
Absolute Return	15.00	4.00	4.00
Real Return	20.00	3.15	3.15

(a) an expected inflation of 2.5% is used

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability for the SDTC Plan, calculated using the discount rate, as well as what SDTC's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

1% Decrease	6.50%
Net Pension Liability	$ 110,642,733
Current Discount Rate	7.50%
Net Pension Liability	$ 85,694,263
1% Increase	8.50%
Net Pension Liability	$ 64,231,535

San Diego Metropolitan Transit System
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 12 – Employee Retirement Systems (Continued)

C. SDTC (Continued)

Changes in Net Pension Liability

The change in the Net Pension Liability for the SDTC Plan is as follows:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2014	$ 241,331,470	$ 148,576,975	$ 92,754,495
Changes in the year:			
Service cost	3,908,376	-	3,908,376
Interest on the total pension liabilities	17,812,979	-	17,812,979
Differences between expected and actual experience	2,905,692	-	2,905,692
Benefit payments, including refunds of members contributions	(15,466,924)	(15,466,924)	-
Contributions - employer	-	12,628,190	(12,628,190)
Contributions - employee	-	899,791	(899,791)
Net investment income	-	18,417,439	(18,417,439)
Administrative expenses	-	(258,142)	258,142
Net changes	9,160,123	16,220,354	(7,060,231)
Balance at June 30, 2015	$ 250,491,593	$ 164,797,329	$ 85,694,264

Pension Plan Fiduciary Net Position – Detailed information about the SDTC Plan's fiduciary net position is available in the separately issued financial reports. The financial report may be obtained by writing to San Diego Transit Corporation, 1255 Imperial Avenue, Suite 1000, San Diego, CA 92101.

Pension Expenses and Deferred Outflows/Inflows or Resources Related to Pensions

For the year ended June 30, 2015, SDTC recognized pension expense of $8,895,979. At June 30, 2015 SDTC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 11,352,628	$ -
Differences between actual and expected experience	1,937,128	-
Net differences between projected and actual earnings on plan investments	-	(5,265,148)
Total	$ 13,289,756	$ (5,265,148)

Note 12 – Employee Retirement Systems (Continued)

C. SDTC (Continued)

The $11,352,628 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,		Amounts
2016	$	347,723
2017		347,723
2018		1,316,287
2019		1,316,287
2020		-
Thereafter		-

Payable to the Pension Plan

At June 30, 2015 SDTC reported a payable of $222,888 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

D. Summary

Net Pension Liability

Net Pension Liability is reported in the accompanying statement of net position as follows:

		Net Pension Liability
MTS Miscellaneous Plan - 1223	$	8,259,452
MTS PEPRA Miscellaneous Plan 26789		2,019
MTS Miscellaneous Second Tier Plan - 30134		76
SDTI Miscellaneous Plan - 1406		16,654,410
SDTC Retirement Plan		85,694,264
Total Net Pension Liability	$	110,610,221

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 12 – Employee Retirement Systems (Continued)

D. Summary (Continued)

Deferred Outflows of Resources

Deferred Outflows of Resources are reported in the accompanying statement of net position as follows:

	Employer Contributions	Difference between expected and actual experience	Adjustments due to differences in proportions
MTS Miscellaneous Plan - 1223	$ 1,368,359	$ -	$ -
MTS PEPRA Miscellaneous Plan 26789	146,007	-	-
MTS Miscellaneous Second Tier Plan - 30134	45,480	-	1,074
SDTI Miscellaneous Plan - 1406	2,566,885	-	-
SDTC Retirement Plan	11,352,628	1,937,128	-
Total	$ 15,479,359	$ 1,937,128	$ 1,074

Deferred Inflows of Resources

Deferred Inflows of Resources are reported in the accompanying statement of net position as follows:

	Pension Investment Earnings	Adjustments due to differences in proportions
MTS Miscellaneous Plan - 1223	$ 1,917,506	$ 431,030
MTS PEPRA Miscellaneous Plan 26789	678	8,508
MTS Miscellaneous Second Tier Plan - 30134	25	-
SDTI Miscellaneous Plan - 1406	6,585,757	-
SDTC Retirement Plan	5,265,148	-
Total	$ 13,769,114	$ 439,538

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2015

Note 13 – Other Required Individual Disclosures

At June 30, 2015, SDTC and SDTI had unrestricted (deficits) of $126,630,215 and $16,627,567, respectively. These deficits are primarily a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27,* of recording the pension liability on a full accrual basis of accounting instead of funding basis. MTS expects that these deficits will be funded with future subsidies.

Note 14 – Prior Period Adjustments

As a result of the implementation of GASB Statements No. 68 and 71, net position as of July 1, 2014 was restated as follows:

Net position at July 1, 2014, as previously reported	$ 1,583,061,953
Restatement to recognize pension contributions subsequent to the measurement date as deferred outflows of resources	15,881,705
Restatement to recognize net pension liability	(127,007,363)
Restatement to remove net pension assets from the statement of net position	(25,910,638)
Total restatements	(137,036,296)
Net position at July 1, 2014, as restated	$ 1,446,025,657

Note 15 – Subsequent Events

[IF ANY]

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2015

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

MTS'S PLANS
(LAST TEN YEARS*)

		2015
Miscellaneous Plan		
Proportion of the net pension liability		0.13274%
Proportionate share of the net pension liability	$	8,259,452
Covered - employee payroll	$	8,422,933
Proportionate share of the net pension liability as percentage of covered-employee payroll		98.06%
Plan's fiduciary net position as percentage of the total pension liability		77.17%
Proportionate share of aggregate employer contributions	$	754,893
PEPRA Miscellaneous Plan		
Proportion of the net pension liability		0.00003%
Proportionate share of the net pension liability	$	2,019
Covered - employee payroll	$	685,453
Proportionate share of the net pension liability as percentage of covered-employee payroll		0.29%
Plan's fiduciary net position as percentage of the total pension liability		83.03%
Proportionate share of aggregate employer contributions	$	267
Miscellaneous Second Tier Plan		
Proportion of the net pension liability		0.00000%
Proportionate share of the net pension liability	$	76
Covered - employee payroll	$	169,396
Proportionate share of the net pension liability as percentage of covered-employee payroll		0.04%
Plan's fiduciary net position as percentage of the total pension liability		82.96%
Proportionate share of aggregate employer contributions	$	10

* Fiscal Year 2015 was the first year of implementation of GASB 68, therefore, only one year is shown.

San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2015

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

SDTI'S PLAN
(LAST TEN YEARS*)

	2015
Total Pension Liability	
Service Cost	$ 3,721,950
Interest on total pension liability	7,982,614
Differences between expected and actual experience	-
Changes in assumptions	-
Changes in benefit terms	-
Benefit payments, including refunds of employee contributions	(3,155,596)
Net change in total pension liability	8,548,968
Total pension liability - beginning of year	106,151,686
Total pension liability - end of year (a)	$ 114,700,654
Plan Fiduciary Net Position	
Contributions - Employer	$ 2,498,345
Contributions - Employee	2,179,194
Net investment income	14,416,106
Benefit payments	(3,155,596)
Net change in plan fiduciary net position	15,938,049
Plan fiduciary net position - beginning of year	82,108,195
Plan fiduciary net position - end of year (b)	$ 98,046,244
Net Pension Liability - End of Year (a) - (b)	$ 16,654,410
Plan fiduciary net position as a percentage of the total pension liability	85.48%
Covered Payroll	$ 26,268,261
Plan Net Pension Liability/(Asset) as a Percentage of Covered Employee Payroll	63.40%

Notes to Schedule:

Benefit Changes - The figues above do not included any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact.

Changes of Assumption - There were no changes in assumptions.

* Fiscal Year 2015 was the first year of implementation of GASB 68, therefore, only one year is shown.

San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2015

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

SDTC'S PLAN
(LAST TEN YEARS*)

	2015
Total Pension Liability	
Service Cost	$ 3,908,376
Interest on total pension liability	17,812,979
Differences between expected and actual experience	2,905,692
Changes in assumptions	-
Changes in benefit terms	-
Benefit payments, including refunds of employee contributions	(15,466,924)
Net change in total pension liability	9,160,123
Total pension liability - beginning of year	241,331,470
Total pension liability - end of year (a)	$ 250,491,593
Plan Fiduciary Net Position	
Contributions - Employer	$ 12,628,190
Contributions - Employee	899,791
Net investment income	18,159,297
Benefit payments	(15,466,924)
Net change in plan fiduciary net position	16,220,354
Plan fiduciary net position - beginning of year	148,576,975
Plan fiduciary net position - end of year (b)	$ 164,797,329
Net Pension Liability - End of Year (a) - (b)	$ 85,694,264
Plan fiduciary net position as a percentage of the total pension liability	65.79%
Covered Payroll	$ 32,313,553
Plan Net Pension Liability/(Asset) as a Percentage of Covered Employee Payroll	265.20%

Notes to Schedule:

Changes of Assumption - There were no changes in assumptions.

* Fiscal Year 2015 was the first year of implementation of GASB 68, therefore, only one year is shown.

San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2015

SCHEDULE OF CONTRIBUTIONS

MTS'S PLANS
(LAST TEN YEARS*)

	2015	2014
Miscellaneous Plan		
Actuarially determined contribution	$ 1,368,359	$ 1,424,726
Contributions in relation to the actuarially determined contribution	(1,368,359)	(1,424,726)
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 8,422,933	$ 8,422,933
Contributions as a percentage of covered-employee payroll	16.25%	16.91%
PEPRA Miscellaneous Plan		
Actuarially determined contribution	$ 146,007	$ 79,778
Contributions in relation to the actuarially determined contribution	(146,007)	(79,778)
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 685,453	$ 685,453
Contributions as a percentage of covered-employee payroll	21.30%	11.64%
Miscellaneous Second Tier Plan		
Actuarially determined contribution	$ 45,480	$ 32,575
Contributions in relation to the actuarially determined contribution	(45,480)	(32,575)
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 169,396	$ 169,396
Contributions as a percentage of covered-employee payroll	26.85%	19.23%

Notes to Schedule:

Benefit Changes - The figues above do not included any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact.

Changes of Assumption - There were no changes in assumptions.

Valuation Date:	June 30, 2011
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Average Remaining Period	20 years as of the valuation date
Assets Valuation Method	15 years smoothed market
Inflation	2.75%
Salary increases	3.30% - 14.20% depending on age, service and type of employment
Payroll growth	3.00%
Investment rate of return	7.50% net of administrative expenses

* Fiscal Year 2015 was the first year of implementation of GASB 68, therefore, only two year is shown.

San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2015

SCHEDULE OF CONTRIBUTIONS

SDTI'S PLAN
(LAST TEN YEARS*)

	2015	2014
Actuarially determined contribution	$ 2,566,885	$ 2,498,345
Contributions in relation to the actuarially determined contribution	(2,566,885)	(2,498,345)
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 26,268,261	$ 26,268,261
Contributions as a percentage of covered-employee payroll	9.77%	9.51%

Notes to Schedule:

Benefit Changes - The figues above do not included any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact.

Changes of Assumption - There were no changes in assumptions.

Valuation Date:	June 30, 2011
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Average Remaining Period	27 years as of the valuation date
Assets Valuation Method	15 years smoothed market
Inflation	2.75%
Salary increases	3.30% - 14.20% depending on age, service and type of employment
Payroll growth	3.00%
Investment rate of return	7.50% net of administrative expenses

* Fiscal Year 2015 was the first year of implementation of GASB 68, therefore, only two years is shown.

San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2015

SCHEDULE OF CONTRIBUTIONS

SDTC'S PLAN
(LAST TEN YEARS*)

	2015	2014
Actuarially determined contribution	$ 11,352,628	$ 12,628,190
Contributions in relation to the actuarially determined contribution	(11,352,628)	(12,628,190)
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 32,313,553	$ 32,313,553
Contributions as a percentage of covered-employee payroll	35.13%	39.08%

Notes to Schedule:

Benefit Changes - The figues above do not included any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact.

Changes of Assumption - There were no changes in assumptions.

Valuation Date:	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method/period	5 years smoothed market
Assets valuation method	Level percent of payroll, closed 25-year period
Inflation	3.00%
Salary increases	3.50% - 10.50% for drivers and mechanics 3.25% - 12.00% for non-contract members 3.50% - 14.00% for clerical members
Payroll growth	3.00%
Investment rate of return	7.50% net of administrative expenses
Mortality	Drivers and mechanics: RP-2000 Combined healthy table set forward one year for females Clerical and non-contract: 1994 Group annunity mortality (GAM) table, weighting male rate by 50% and female rate by 50%

* Fiscal Year 2015 was the first year of implementation of GASB 68, therefore, only two years is shown.

San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2015

SCHEDULE OF FUNDING PROGRESS OF OTHER POSTEMPLOYMENT HEALTHCARE PLAN (OPEB)

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
6/30/2011	$ -	$ 3,276	$ 3,276	0.00%	$ 8,023	40.83%
6/30/2013	-	3,855	3,855	0.00%	8,698	44.32%
6/30/2015	-	3,863	3,863	0.00%	10,416	37.09%

SDTI (in 000s):

Valuation Date	Actuarial Value of Assets	Entry Age Normal AAL	Unfunded AAL	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2011	$ -	$ 9,417	$ 9,417	0.00%	$ 24,617	38.25%
6/30/2013	-	9,545	9,545	0.00%	25,277	37.76%
6/30/2015	-	7,700	7,700	0.00%	26,709	28.83%

SDTC (in 000s):

Valuation Date	Actuarial Value of Assets	Entry Age Normal AAL	Unfunded AAL	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2011	$ -	$ 24,326	$ 24,326	0.00%	$ 33,136	73.41%
6/30/2013	-	23,111	23,111	0.00%	34,070	67.83%
6/30/2015	-	22,066	22,066	0.00%	36,771	60.01%

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 FY2018 based on the year ending June 30, 2017.

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SUPPLEMENTARY INFORMATION

San Diego Metropolitan Transit System
Combining Schedule of Net Position
June 30, 2015

	General Operation	Contracted Services	SDTC	SDTI	Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 67,190,053	$ -	$ (614,373)	$ (194,151)	$ 66,381,529
Investments restricted for deb service payable within one year	18,109,712	-	-	-	18,109,712
Cash and certificates of deposit restricted for capital support	9,799,597	-	-	-	9,799,597
Accounts and other receivables	3,152,816	4,092	1,475,238	244,938	4,877,084
Due from other governments	72,861,819	138,428	143,535	1,369,112	74,512,894
Internal balances	(7,326,155)	6,838,299	(1,713,403)	2,201,259	-
Inventory	-	-	2,232,776	16,143,972	18,376,748
Prepaid items and other current assets	1,050,393	267,835	651,597	448,441	2,418,266
Total current assets	164,838,235	7,248,654	2,175,370	20,213,571	194,475,830
Noncurrent assets:					
Capital assets (net of accumulated depreciation)	77,944,360	146,252,696	244,331,086	1,251,809,163	1,720,337,305
Total noncurrent assets	77,944,360	146,252,696	244,331,086	1,251,809,163	1,720,337,305
Total assets	242,782,595	153,501,350	246,506,456	1,272,022,734	1,914,813,135
DEFERRED OUTFLOWS OF RESOURCES					
Deferred pension employer contributions	1,559,846	-	11,352,628	2,566,885	15,479,359
Deferred difference between expected and actual experience	-	-	1,937,128	-	1,937,128
Deferred adjustments due to differences in proportions	1,074	-	-	-	1,074
Total deferred outflows of resources	1,560,920	-	13,289,756	2,566,885	17,417,561

San Diego Metropolitan Transit System
Combining Schedule of Net Position (Continued)
June 30, 2015

	General Operation	Contracted Services	SDTC	SDTI	Total
LIABILITIES					
Current liabilities:					
Accounts payable	4,479,412	6,265,119	1,558,460	354,298	12,657,289
Due to other governments	20,189,997	82,125	55,109	288,512	20,615,743
Unearned revenue	3,097,617	-	-	15,750	3,113,367
Accrued expenses	657,988	-	3,625,467	3,186,072	7,469,527
Retentions payable	602,421	-	-	-	602,421
Retentions payable from restricted assets	4,758,582	-	-	-	4,758,582
Due within one year:					
Compensated absences payable	850,802	-	3,863,318	2,528,293	7,242,413
Accrued damage, injury, and employee claims	489,890	-	3,138,989	928,072	4,556,951
Long-term debt	612,942	-	2,100,000	-	2,712,942
Long-term debt payable from restricted assets	18,108,323	-	-	-	18,108,323
Total current liabilities	53,847,974	6,347,244	14,341,343	7,300,997	81,837,558
Noncurrent liabilities:					
Due in more than one year:					
Compensated absences payable	146,281	-	3,937,770	132,251	4,216,302
Accrued damage, injury, and employee claims	-	-	8,044,588	1,607,211	9,651,799
Net pension liability	8,261,547	-	85,694,264	16,654,410	110,610,221
Net other post employment benefits obligation	4,335,345	-	4,952,228	7,127,397	16,414,970
Long-term debt	2,393,787	-	19,860,000	-	22,253,787
Total noncurrent liabilities	15,136,960	-	122,488,850	25,521,269	163,147,079
Total liabilities	68,984,934	6,347,244	136,830,193	32,822,266	244,984,637
DEFERRED INFLOWS OF RESOURCES					
Deferred pension investment earnings	1,918,209	-	5,265,148	6,585,757	13,769,114
Deferred gain on refundings	405,612	-	-	-	405,612
Deferred adjustments due to differences in proportions	439,538	-	-	-	439,538
Total deferred inflows of resources	2,763,359	-	5,265,148	6,585,757	14,614,264

San Diego Metropolitan Transit System
Combining Schedule of Net Position (Continued)
June 30, 2015

	General Operation	Contracted Services	SDTC	SDTI	Total
NET POSITION					
Net investment in capital assets	56,829,308	146,252,696	244,331,086	1,251,809,163	1,699,222,253
Restricted for:					
Capital projects	5,041,015	-	-	-	5,041,015
Debt service	268,425	-	-	-	268,425
Unrestricted (Deficit)	110,456,474	901,410	(126,630,215)	(16,627,567)	(31,899,898)
Total net position	$ 172,595,222	$ 147,154,106	$ 117,700,871	$ 1,235,181,596	$ 1,672,631,795

San Diego Metropolitan Transit System
Combining Schedule of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2015

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
Operating revenues:						
Passenger revenue	$ -	$ 29,318,217	$ 27,156,322	$ 41,140,175	$ -	$ 97,614,714
Advertising	815,944	-	-	-	-	815,944
Charter	-	-	-	5,950	-	5,950
Miscellaneous operating revenues	8,643,417	78,902	5,286	621,791	-	9,349,396
Total operating revenues	9,459,361	29,397,119	27,161,608	41,767,916	-	107,786,004
Operating expenses:						
Personnel costs	19,019,545	625,294	63,806,728	31,123,191	-	114,574,758
Outside services	13,728,735	64,386,284	1,774,998	4,412,268	-	84,302,285
Transit operations funding	102,817,714	-	-	-	(100,126,163)	2,691,551
Materials and supplies	47,328	38,390	4,685,264	5,536,149	-	10,307,131
Energy costs	233,823	8,962,423	6,125,789	12,680,489	-	28,002,524
Risk management	510,922	15,300	3,366,399	1,956,546	-	5,849,167
Miscellaneous operating expenses	(26,231,881)	2,162,229	11,651,762	17,393,308	-	4,975,418
Depreciation	1,843,765	12,927,189	20,346,856	73,080,841	-	108,198,651
Total operating expenses	111,969,951	89,117,109	111,757,796	146,182,792	(100,126,163)	358,901,485
Operating income (loss)	(102,510,590)	(59,719,990)	(84,596,188)	(104,414,876)	100,126,163	(251,115,481)

San Diego Metropolitan Transit System
Combining Schedule of Revenues, Expenses and Changes in Net Position (Continued)
For the Year Ended June 30, 2015

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
Public support and nonoperating revenues (expenses)						
Federal revenue	60,474,595	14,126,804	18,095,707	21,150,743	(53,373,254)	60,474,595
Transportation Development Act	87,358,869	29,130,231	14,451,685	5,038,110	(48,620,026)	87,358,869
State Transit Assistance	18,787,817	-	3,632,936	-	(3,632,936)	18,787,817
State revenue - other	42,953,270	1,412,636	-	8,911	(1,421,546)	42,953,271
TransNet funds	27,125,551	1,347,551	28,704,072	5,000,000	(40,551,623)	21,625,551
Other local subsidies	4,555,281	775,579	278,000	-	(1,053,579)	4,555,281
Investment earnings	3,064,756	-	-	-	-	3,064,756
Interest expense	(5,740,916)	-	(1,141,686)	-	-	(6,882,602)
Gain (loss) on disposal of assets	(29,785)	-	21,226	75,786	-	67,227
Total public support and nonoperating revenues (expenses)	238,549,438	46,792,801	64,041,940	31,273,550	(148,652,964)	232,004,765
Income (loss) before contributed capital	136,038,848	(12,927,189)	(20,554,248)	(73,141,326)	(48,526,801)	(19,110,716)
Transfers	(48,526,801)	-	-	-	48,526,801	-
Contributed capital, net	(67,986,936)	67,810,471	54,859,095	191,034,224	-	245,716,854
Change in net position	19,525,111	54,883,282	34,304,847	117,892,898	-	226,606,138
Net Position:						
Beginning of year, as previously reported	162,524,318	92,270,824	189,432,967	1,138,833,844	-	1,583,061,953
Restatements due to implementation of GASB 68	(9,454,207)	-	(106,036,943)	(21,545,146)	-	(137,036,296)
Beginning of year, as restated	153,070,111	92,270,824	83,396,024	1,117,288,698	-	1,446,025,657
End of year	$ 172,595,222	$ 147,154,106	$ 117,700,871	$ 1,235,181,596	$ -	$ 1,672,631,795

San Diego Metropolitan Transit System
Combining Schedule of Cash Flows
For the Year Ended June 30, 2015

	General Operations	Contracted Services	SDTC	SDTI	Total
Cash flows from operating activities:					
Receipts from customers and users	$ 9,680,397	$ 30,084,038	$ 27,796,290	$ 42,743,902	$ 110,304,627
Payments to suppliers	9,020,447	(75,572,376)	(27,607,043)	(41,983,066)	(136,142,038)
Payments to employees	(19,111,365)	(628,313)	(64,114,768)	(31,273,444)	(115,127,890)
Payments for damage and injury	(125,867)	-	(1,854,255)	(328,542)	(2,308,664)
Net cash (used in) operating activities	(536,388)	(46,116,651)	(65,779,776)	(30,841,150)	(143,273,965)
Cash flows from noncapital financing activities:					
Public support funds received	84,485,050	46,116,651	69,153,469	30,295,304	230,050,474
Net cash provided by noncapital financing activities	84,485,050	46,116,651	69,153,469	30,295,304	230,050,474
Cash flows from capital and related financing activities:					
Debt service costs	(658,714)	-	(3,146,686)	-	(3,805,400)
Property acquisition	(74,322,604)	-	-	-	(74,322,604)
Proceeds from disposal of assets	2,858	-	21,226	69,373	93,457
Net cash provided by (used in) capital and related financing activities	(74,978,460)	-	(3,125,460)	69,373	(78,034,547)
Cash flows from investing activities:					
Interest received on investments	139,674	-	-	-	139,674
Net cash provided by investing activities	139,674	-	-	-	139,674
Net increase (decrease) in cash and cash equivalents	9,109,876	-	248,233	(476,473)	8,881,636
Cash and cash equivalents:					
Beginning of year	67,879,775	-	(862,606)	282,322	67,299,491
End of year	$ 76,989,651	$ -	$ (614,373)	$ (194,151)	$ 76,181,127
Cash and cash equivalents:					
Cash and cash equivalents	$ 67,190,053	$ -	$ (614,373)	$ (194,151)	$ 66,381,529
Cash and certificates of deposit restricted for capital support	9,799,597	-	-	-	9,799,597
Total cash and cash equivalents	$ 76,989,650	$ -	$ (614,373)	$ (194,151)	$ 76,181,126

San Diego Metropolitan Transit System
Combining Schedule of Cash Flows (Continued)
For the Year Ended June 30, 2015

	General Operations	Contracted Services	SDTC	SDTI	Total
Reconciliation of Operating (Loss) to Net Cash (Used In) Operating Activities					
Operating (loss):	$ (2,384,427)	$ (59,719,990)	$ (84,596,188)	$ (104,414,876)	$ (251,115,481)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:					
Depreciation and amortization	1,843,765	12,927,189	20,346,856	73,080,841	108,198,651
(Increase) decrease in:					
Accounts and other receivable	4,074,102	(504,021)	296,715	(773,585)	3,093,211
Inventory	-	-	(98,968)	751,760	652,792
Prepaid items and other current assets	(580,032)	15,237	148,505	358,037	(58,253)
Increase (decrease) in:					
Accounts payable	(307,578)	1,164,934	(1,926,054)	(547,540)	(1,616,238)
Accrued expenses	(2,598,106)	-	808,342	848,446	(941,318)
Unearned revenue	(161,997)	-	-	(412,591)	(574,588)
Net pension liability	(804,646)	-	1,275,562	(68,540)	402,376
Net other postemployment benefits obligation	396,420	-	493,901	464,964	1,355,285
Compensated absences	73,184	-	(184,787)	(41,305)	(152,908)
Accrued damage, injury and employee claims	(87,073)	-	(2,343,660)	(86,761)	(2,517,494)
Total adjustments	1,848,039	13,603,339	18,816,412	73,573,726	107,841,516
Net cash (used in) operating activities	$ (536,388)	$ (46,116,651)	$ (65,779,776)	$ (30,841,150)	$ (143,273,965)

Supplemental Noncash Disclosures:
During the year, SANDAG and outside parties contributed $245,234,709 in capital assets.
During the year, the fair value of investments by $78,505.

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, 2015

	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 Positive (Negative)
Operating revenues:						
Passenger revenue	$ 98,375,330	$ 98,426,269	$ 97,614,714	$ -	$ 97,614,714	$ (811,555)
Advertising	1,050,000	1,050,000	815,944	-	815,944	(234,056)
Charter	-	-	5,950	-	5,950	5,950
Miscellaneous operating revenues	9,411,827	9,068,757	9,349,396	(410,751)	8,938,645	(130,112)
Total operating revenues	108,837,157	108,545,026	107,786,004	(410,751)	107,375,253	(1,169,773)
Operating expenses:						
Personnel costs	120,224,870	119,342,087	114,574,758	1,853,877	116,428,635	2,913,452
Outside services	82,406,924	83,714,849	84,302,285	-	84,302,285	(587,436)
Transit operations funding	3,003,009	3,020,532	2,691,551	-	2,691,551	328,981
Materials and supplies	10,179,701	10,066,660	10,307,131	(361,305)	9,945,826	120,834
Energy costs	27,497,097	28,102,745	28,002,524	-	28,002,524	100,221
Risk management	4,438,278	3,875,065	5,849,167	(1,849,409)	3,999,758	(124,693)
Miscellaneous operating expenses	4,100,277	4,327,388	4,975,418	(800,807)	4,174,611	152,777
Depreciation	-	-	108,198,651	(108,198,651)	-	-
Total operating expenses	251,850,156	252,449,326	358,901,485	(109,356,295)	249,545,190	2,904,136
Operating income (loss)	(143,012,999)	(143,904,300)	(251,115,481)	108,945,544	(142,169,937)	1,734,363

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, 2015

	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 Positive (Negative)
Public support and nonoperating revenues (expenses)						
Federal revenue	51,152,465	53,397,000	60,474,595	(6,954,256)	53,520,339	123,339
Transportation Development Act	53,627,792	51,427,792	87,358,869	(35,801,927)	51,556,942	129,150
State Transit Assistance	3,632,936	3,632,936	18,787,817	(14,399,798)	4,388,019	755,083
State revenue - other	1,600,000	1,600,000	42,953,271	(41,511,723)	1,441,548	(158,452)
TransNet funds	36,299,327	36,299,327	21,625,551	13,426,072	35,051,623	(1,247,704)
Other local subsidies	1,036,574	1,034,102	4,555,281	(3,501,702)	1,053,579	19,477
Investment earnings	27,141,013	101,128,302	3,064,756	98,112,601	101,177,357	49,055
Interest expense	(28,950,663)	(102,937,952)	(6,882,602)	(96,047,936)	(102,930,538)	7,414
Gain (loss) on disposal of assets	-	-	67,227	454,571	521,798	521,798
Total public support and nonoperating revenues (expenses)	145,539,444	145,581,507	232,004,765	(86,224,098)	145,780,667	199,160
Income (loss) before contributed capital	2,526,445	1,677,207	(19,110,716)	22,721,446	3,610,730	1,933,523
Reserve revenue	(26,444)	22,793	-	51,205	51,205	28,412
Contributed capital, net	-	-	245,716,854	(245,716,854)	-	-
Change in net position	$ 2,500,001	$ 1,700,000	226,606,138	$ (222,944,203)	$ 3,661,935	$ 1,961,935
Net Position:						
Beginning of year, as restated			1,446,025,657			
End of year			$ 1,672,631,795			

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, 2015

	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 Positive (Negative)
Operating revenues:						
Advertising	$ 1,050,000	$ 1,050,000	$ 815,944	$ -	$ 815,944	$ (234,056)
Miscellaneous operating revenues	7,578,827	7,207,577	6,539,109	589,249	7,128,358	(79,219)
Total operating revenues	8,628,827	8,257,577	7,355,053	589,249	7,944,302	(313,275)
Operating expenses:						
Personnel costs	18,685,551	18,498,053	18,232,520	(73,771)	18,158,749	339,304
Outside services	13,142,350	13,330,716	13,614,461	-	13,614,461	(283,745)
Transit operations funding	3,003,009	3,020,532	102,817,714	(100,126,163)	2,691,551	328,981
Materials and supplies	23,024	28,920	44,734	-	44,734	(15,814)
Energy costs	225,625	219,200	223,826	-	223,826	(4,626)
Risk management	368,511	451,677	495,521	(87,073)	408,448	43,229
Miscellaneous operating expenses	(26,836,785)	(26,491,539)	(26,458,103)	(157,677)	(26,615,780)	124,241
Depreciation	-	-	1,819,567	(1,819,567)	-	-
Total operating expenses	8,611,285	9,057,559	110,790,240	(102,264,251)	8,525,989	531,570
Operating income (loss)	17,542	(799,982)	(103,435,187)	102,853,500	(581,687)	218,295

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, 2015

	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 Positive (Negative)
Public support and nonoperating revenues (expenses)						
Federal revenue	140,000	140,000	60,474,595	(60,176,767)	297,828	157,828
Transportation Development Act	3,003,009	3,020,532	87,358,869	(83,579,522)	3,779,347	758,815
State Transit Assistance	-	-	18,787,817	(18,032,734)	755,083	755,083
State revenue - other	-	-	42,953,270	(42,933,270)	20,000	20,000
TransNet funds	-	-	27,125,551	(27,125,551)	-	-
Other local subsidies	-	-	4,555,281	(4,555,281)	-	-
Investment earnings	27,141,013	101,128,302	3,064,756	98,112,601	101,177,357	49,055
Interest expense	(27,801,563)	(101,788,852)	(5,740,916)	(96,047,936)	(101,788,852)	-
Gain (loss) on disposal of assets	-	-	(29,785)	32,643	2,858	2,858
Total public support and nonoperating revenues (expenses)	2,482,459	2,499,982	238,549,438	(234,305,817)	4,243,621	1,743,639
Income (loss) before contributed capital	2,500,001	1,700,000	135,114,251	(131,452,317)	3,661,934	1,961,934
Transfers	-	-	(48,526,801)	48,526,801	-	-
Contributed capital, net	-	-	(66,986,936)	66,986,936	-	-
Change in net position	$ 2,500,001	$ 1,700,000	19,600,514	$ (15,938,580)	$ 3,661,934	$ 1,961,934
Net Position:						
Beginning of year, as restated			133,795,593			
End of year			$ 153,396,107			

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, 2015

	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 Positive (Negative)
Operating revenues:						
Miscellaneous operating revenues	$ 989,000	$ 1,047,180	$ 946,543	$ -	$ 946,543	$ (100,637)
Total operating revenues	989,000	1,047,180	946,543	-	946,543	(100,637)
Operating expenses:						
Personnel costs	647,012	690,692	684,432	-	684,432	6,260
Outside services	85,610	85,510	46,207	-	46,207	39,303
Materials and supplies	7,000	19,000	2,594	-	2,594	16,406
Energy costs	8,000	9,850	9,997	-	9,997	(147)
Miscellaneous operating expenses	219,715	220,702	225,913	-	225,913	(5,211)
Depreciation	-	-	7,118	(7,118)	-	-
Total operating expenses	967,337	1,025,754	976,261	(7,118)	969,143	56,611
Operating income (loss)	21,663	21,426	(29,718)	7,118	(22,600)	(44,026)
Reserve revenue	(21,663)	(21,426)	-	22,600	22,600	44,026
Change in net position	$ -	$ -	(29,718)	$ 29,718	$ -	$ -
Net Position:						
Beginning of year			226,591			
End of year			$ 196,873			

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, 2015

	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 Positive (Negative)
Operating revenues:						
Miscellaneous operating revenues	$ 135,000	$ 135,000	$ 1,157,765	$ (1,000,000)	$ 157,765	$ 22,765
Total operating revenues	135,000	135,000	1,157,765	(1,000,000)	157,765	22,765
Operating expenses:						
Personnel costs	92,719	92,719	102,593	-	102,593	(9,874)
Outside services	20,000	70,000	68,067	-	68,067	1,933
Risk management	17,000	16,000	15,401	-	15,401	599
Miscellaneous operating expenses	500	500	309	-	309	191
Depreciation	-	-	17,080	(17,080)	-	-
Total operating expenses	130,219	179,219	203,450	(17,080)	186,370	(7,151)
Operating income (loss)	4,781	(44,219)	954,315	(982,920)	(28,605)	29,916
Reserve revenue	(4,781)	44,219	-	28,605	28,605	15,614
Contributed capital, net	-	-	(1,000,000)	1,000,000	-	-
Change in net position	$ -	$ -	(45,685)	$ 45,685	$ -	$ 45,530
Net Position:						
Beginning of year			19,047,927			
End of year			$ 19,002,242			

San Diego Metropolitan Transit System
Contracted Services
Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual
For the Year Ended June 30, 2015

	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 Positive (Negative)
Operating revenues:						
Passenger revenue	$ 26,768,186	$ 27,215,850	$ 27,156,322	$ -	$ 27,156,322	$ (59,528)
Miscellaneous operating revenues	5,000	5,000	5,286	-	5,286	286
Total operating revenues	26,773,186	27,220,850	27,161,608	-	27,161,608	(59,242)
Operating expenses:						
Personnel costs	67,296,282	67,343,043	63,806,728	1,388,214	65,194,942	2,148,101
Outside services	1,771,253	1,522,467	1,774,998	-	1,774,998	(252,531)
Materials and supplies	4,912,877	4,681,753	4,685,264	-	4,685,264	(3,511)
Energy costs	6,799,949	6,210,290	6,125,789	-	6,125,789	84,501
Risk management	1,928,899	1,596,566	3,366,399	(1,584,345)	1,782,054	(185,488)
Miscellaneous operating expenses	11,695,732	11,645,892	11,651,762	(11,261)	11,640,501	5,391
Depreciation	-	-	20,346,856	(20,346,856)	-	-
Total operating expenses	94,404,992	93,000,011	111,757,796	(20,554,248)	91,203,548	1,796,463
Operating income (loss)	(67,631,806)	(65,779,161)	(84,596,188)	20,554,248	(64,041,940)	1,737,221

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, 2015

	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 Positive (Negative)
Public support and nonoperating revenues (expenses)						
Federal revenue	12,912,465	14,161,000	14,126,804	-	14,126,804	(34,196)
Transportation Development Act	29,096,707	28,368,757	29,130,231	-	29,130,231	761,474
State revenue - other	1,600,000	1,600,000	1,412,636	-	1,412,636	(187,364)
TransNet funds	1,258,834	1,428,400	1,347,551	-	1,347,551	(80,849)
Other local subsidies	758,574	756,102	775,579	-	775,579	19,477
Total public support and nonoperating revenues (expenses)	45,626,580	46,314,259	46,792,801	-	46,792,801	478,542
Income (loss) before contributed capital	-	-	(12,927,189)	12,927,189	-	-
Contributed capital, net	-	-	67,810,471	(67,810,471)	-	-
Change in net position	$ -	$ -	54,883,282	$ (54,883,282)	$ -	$ -
Net Position:						
Beginning of year, as restated			92,270,824			
End of year			$ 147,154,106			

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, 2015

	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 Positive (Negative)
Operating revenues:						
Passenger revenue	$ 26,768,186	$ 27,215,850	$ 27,156,322	$ -	$ 27,156,322	$ (59,528)
Miscellaneous operating revenues	5,000	5,000	5,286	-	5,286	286
Total operating revenues	26,773,186	27,220,850	27,161,608	-	27,161,608	(59,242)
Operating expenses:						
Personnel costs	67,296,282	67,343,043	63,806,728	1,388,214	65,194,942	2,148,101
Outside services	1,771,253	1,522,467	1,774,998	-	1,774,998	(252,531)
Materials and supplies	4,912,877	4,681,753	4,685,264	-	4,685,264	(3,511)
Energy costs	6,799,949	6,210,290	6,125,789	-	6,125,789	84,501
Risk management	1,928,899	1,596,566	3,366,399	(1,584,345)	1,782,054	(185,488)
Miscellaneous operating expenses	11,695,732	11,645,892	11,651,762	(11,261)	11,640,501	5,391
Depreciation	-	-	20,346,856	(20,346,856)	-	-
Total operating expenses	94,404,992	93,000,011	111,757,796	(20,554,248)	91,203,548	1,796,463
Operating income (loss)	(67,631,806)	(65,779,161)	(84,596,188)	20,554,248	(64,041,940)	1,737,221

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, 2015

	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 Positive (Negative)
Public support and nonoperating revenues (expenses)						
Federal revenue	19,100,000	18,096,000	18,095,707	-	18,095,707	(293)
Transportation Development Act	15,729,477	15,050,398	14,451,685	-	14,451,685	(598,713)
State Transit Assistance	3,632,936	3,632,936	3,632,936	-	3,632,936	-
TransNet funds	30,040,493	29,870,927	28,704,072	-	28,704,072	(1,166,855)
Other local subsidies	278,000	278,000	278,000	-	278,000	-
Interest expense	(1,149,100)	(1,149,100)	(1,141,686)	-	(1,141,686)	7,414
Gain (loss) on disposal of assets	-	-	21,226	-	21,226	21,226
Total public support and nonoperating revenues (expenses)	67,631,806	65,779,161	64,041,940	-	64,041,940	(1,737,221)
Income (loss) before contributed capital	-	-	(20,554,248)	20,554,248	-	-
Contributed capital, net	-	-	54,859,095	(54,859,095)	-	-
Change in net position	$ -	$ -	34,304,847	$ (34,304,847)	$ -	$ -
Net Position:						
Beginning of year, as restated			83,396,024			
End of year			$ 117,700,871			

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, 2015

	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 Positive (Negative)
Operating revenues:						
Passenger revenue	$ 41,577,585	$ 41,256,504	$ 41,140,175	$ -	$ 41,140,175	$ (116,329)
Charter	-	-	5,950	-	5,950	5,950
Miscellaneous operating revenues	704,000	674,000	621,791	-	621,791	(52,209)
Total operating revenues	42,281,585	41,930,504	41,767,916	-	41,767,916	(162,588)
Operating expenses:						
Personnel costs	33,038,911	32,082,022	31,123,191	539,434	31,662,625	419,397
Outside services	3,958,060	4,357,067	4,412,268	-	4,412,268	(55,201)
Transit operations funding	-	-	-	-	-	-
Materials and supplies	5,154,660	5,265,260	5,536,149	(361,305)	5,174,844	90,416
Energy costs	11,007,836	12,624,900	12,680,489	-	12,680,489	(55,589)
Risk management	2,108,568	1,795,522	1,956,546	(177,991)	1,778,555	16,967
Miscellaneous operating expenses	16,812,149	16,793,838	17,393,308	(631,869)	16,761,439	32,399
Depreciation	-	-	73,080,841	(73,080,841)	-	-
Total operating expenses	72,080,184	72,918,609	146,182,792	(73,712,572)	72,470,220	448,389
Operating income (loss)	(29,798,599)	(30,988,105)	(104,414,876)	73,712,572	(30,702,304)	285,801

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, 2015

	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 Positive (Negative)
Public support and nonoperating revenues (expenses)						
Federal revenue	19,000,000	21,000,000	21,150,743	(150,743)	21,000,000	-
Transportation Development Act	5,798,599	4,988,105	5,038,110	(842,431)	4,195,679	(792,426)
State Transit Assistance	-	-	-	-	-	-
State revenue - other	-	-	8,911	-	8,911	8,911
TransNet funds	5,000,000	5,000,000	5,000,000	-	5,000,000	-
Gain (loss) on disposal of assets	-	-	75,786	421,928	497,714	497,714
Total public support and nonoperating revenues (expenses)	29,798,599	30,988,105	31,273,550	(571,246)	30,702,304	(285,801)
Income (loss) before contributed capital	-	-	(73,141,326)	73,141,326	-	-
Contributed capital, net	-	-	191,034,224	(191,034,224)	-	-
Change in net position	$ -	$ -	117,892,898	$ (117,892,898)	$ -	$ -
Net Position:						
Beginning of year, as restated			1,117,288,698			
End of year			$ 1,235,181,596			

Statistical Section

(Unaudited)

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

Contents

Financial trends
These schedules contain trend information to help the reader understand how MTS's financial position has changed over time.

Revenue Capacity
These schedules contain detailed information about the fare structures and revenue generated from transit operations provided by MTS.

Debt Capacity
This schedule presents information to help the reader assess the affordability of MTS's current levels of outstanding debt and MTS's ability to issue debt in the future.

Demographic and Economic Information
These schedules provide service and infrastructure data to help the reader understand how the information in MTS's financial report relates to the services MTS provides.

Operating Information
These schedules provide service and infrastructure data to help the reader understand how the information in MTS's financial report relates to the services MTS provides.

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FINANCIAL TRENDS

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Governmental activities:										
Net investment in capital assets	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 111,960
Unrestricted	-	-	-	-	-	-	-	-	-	35,868
Total government activities net position	-	-	-	-	-	-	-	-	-	147,828
Business-type activities:										
Net investment in capital assets	1,699,222	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
Restricted	5,309	6,742	7,255	78,378	7,007	2,548	2,700	-	-	-
Unrestricted	(31,900)	181,114	189,837	157,609	173,128	177,158	172,344	185,610	163,244	(33,761)
Total business-type activities net position	1,672,631	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
Primary government:										
Net investment in capital assets	1,699,222	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
Restricted	5,309	6,742	7,255	78,378	7,007	2,548	2,700	-	-	-
Unrestricted	(31,900)	181,114	189,837	157,609	173,128	177,158	172,344	185,610	163,244	2,107
Total primary government net position	1,672,631	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

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Operating revenues:										
Passenger revenue	$ 97,615	$ 93,995	$ 90,652	$ 88,094	$ 84,764	$ 84,167	$ 85,192	$ 75,939	$ 68,635	$ 67,580
Advertising	816	870	972	784	621	783	925	1,119	1,001	839
Charter	6	30	1	186	129	128	69	63	45	31
Miscellaneous	9,349	9,531	4,934	4,445	4,688	4,264	4,874	3,671	3,703	1,734
Total operating revenues	107,786	104,426	96,559	93,509	90,202	89,342	91,060	80,792	73,384	70,184
Operating expenses:										
Personnel costs	114,575	117,092	123,720	112,537	104,329	109,512	101,913	102,847	91,206	90,490
Outside services	84,302	73,859	67,414	66,050	64,037	63,574	65,140	64,940	62,630	57,709
Transit operations funding	2,692	4,243	3,571	3,721	4,053	3,758	3,004	3,853	5,438	6,758
Materials and supplies	10,307	9,276	8,469	7,977	7,678	6,680	7,190	7,590	7,266	8,158
Energy costs	28,003	26,044	22,572	22,689	21,932	22,892	25,283	27,211	22,767	24,305
Risk management	5,849	3,610	2,902	4,030	3,924	4,859	4,074	3,898	5,615	5,078
Miscellaneous	4,975	6,244	6,493	5,116	4,899	3,571	2,052	1,975	944	2,336
Depreciation	108,199	103,198	92,788	84,811	81,041	98,238	75,499	85,543	74,473	66,799
Total operating expenses	358,902	343,566	327,929	306,931	291,893	313,084	284,155	297,857	270,339	261,633
Operating income (loss)	(251,116)	(239,140)	(231,370)	(213,422)	(201,691)	(223,742)	(193,095)	(217,065)	(196,955)	(191,449)

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Public support and nonoperating revenues (expenses):										
Grants and contributions	235,755	211,517	183,945	325,658	170,850	224,506	176,979	200,879	184,332	155,746
Investment earnings	3,065	6,087	6,267	7,622	7,695	9,708	10,584	13,394	13,349	7,095
Indirect cost recovery	-	-	-	-	-	-	-	-	-	1,685
Interest expense	(6,883)	(6,982)	(7,520)	(8,014)	(8,420)	(12,702)	(11,153)	(10,666)	(14,230)	(11,499)
Gain (loss) on disposal of assets	67	(273)	804	(620)	712	(69)	294	88	(1,260)	(1,800)
Other expenses	-	(13)	(13)	(5)	(139)	(1,075)	(705)	(465)	(355)	(188)
Total public support and nonoperating revenues (expenses)	232,004	210,336	183,483	324,641	170,698	220,368	175,999	203,230	181,836	151,039
Income (loss) before contributed capital	(19,111)	(28,804)	(47,887)	111,219	(30,993)	(3,374)	(17,096)	(13,835)	(15,119)	(40,410)
Contributed capital, net	245,717	118,768	132,182	44,118	26,806	11,110	1,668	18,492	27,729	23,013
Changes in net position	$ 226,606	$ 89,964	$ 84,295	$ 155,337	$ (4,187)	$ 7,736	$ (15,428)	$ 4,657	$ 12,610	$ (17,397)

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

REVENUE CAPACITY

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

Fiscal Year Ended	Passenger Fares	Federal Operating Funds	State Operating Funds	Local Operating Funds	Interest	Other
San Diego Transit						
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	27,784	19,336	16,489	20,897	-	7
2015	27,156	18,096	18,085	28,982	-	27
San Diego Trolley						
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
2015	41,140	21,151	5,047	5,000	-	704
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	-	-
2015	29,318	14,127	30,543	2,123	-	-

Source: Audited Financial Statements.

San Diego Metropolitan Transit System
Fare Structure
Last Nine Fiscal Years

	2015	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	$ 2.25	$ 2.00	$ 1.75
Senior/disabled, local routes	1.00	1.10	1.10	1.10	1.10	1.10	1.10	0.75	0.75
Urban	-	-	-	-	-	-	-	2.25	2.25
Rapid/Express	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.50	2.50-4.00
Senior/disabled Rapid/Express	1.25	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	5.00	-
Senior/disabled Rapid Express/Premium	2.50	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	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	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	2.50	-	-
Senior/disabled one-way fare all stations	1.25	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	5.00	-	-	-
Region plus day pass	12.00	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	72.00	68.00	64.00	-
Senior/disabled Regional	18.00	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	36.00	34.00	32.00	29.00
14-Day/Half-month	43.00	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	100.00	90.00	-	-
Senior/disabled Rapid Express/Premium	25.00	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	50.00	45.00	-	-
14-Day/Half-month Rapid Express/Premium	60.00	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 Percentages
Last Ten Fiscal Years

Fiscal Year Ended	San Diego Transit	San Diego Trolley	MTS-Contracted Services
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
2015	29.50	56.64	38.48

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 Ten Fiscal Years

Year ended June 30	Capital Lease - Tower	Capital Lease-Equipment	1990 LRV Sale/ Leaseback	1995 LRV Lease/ Leaseback	Certificates of Participation 2002	Certificates of Participation 2003	Pension Obligation Bonds	Total	Percentage of Personal Income	Debt per Capita
2006	8,516,304	319,719	13,174,798	124,775,518	7,430,000	26,065,000	76,075,000	256,356,339	0.20%	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	7,141,327	117,470	-	121,292,645	-	-	71,565,000	200,116,441	0.15%	65
2010	6,647,108	44,190	-	119,948,726	-	-	61,150,000	187,790,023	0.13%	61
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	0.09%	46
2014	3,614,149	-	-	113,457,002	-	-	23,965,000	141,036,151	0.08%	44
2015	3,006,729	-	-	18,108,323	-	-	21,960,000	43,075,052	0.02%	13

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

- MTS retired three financial obligations in FY 2008
- MTS retired the capital equipment lease and refunded the Tower capital lease in FY2011
- MTS retired the variable rate Pension Obligation Bonds in FY2013

DEMOGRAPHIC AND ECONOMIC STATISTICS

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

	County of San Diego Population (1)	County of San Diego Personal Income (thousands) (1)	Per Capita Personal Income (1)	San Diego County Average Unemployment Rate (2)
2006	2,982,816	130,700,000	50,461	4.10%
2007	3,014,165	136,300,000	50,452	4.80%
2008	3,051,262	141,800,000	50,069	6.40%
2009	3,077,633	137,300,000	48,464	10.20%
2010	3,102,852	141,200,000	48,854	10.50%
2011	3,125,734	151,500,000	50,652	10.40%
2012	3,153,376	160,900,000	52,276	9.30%
2013	3,176,770	165,000,000	52,641	7.40%
2014	3,212,298	173,500,000	54,004	6.10%
2015	3,245,170	183,800,000	56,109	5.00%

Source:
(1) California Department of Transportation - Actuals 2006-2014, Forecast 2015
(2) California Employment Development Department, July 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

	MTS	San Diego Transit	San Diego Trolley	Total
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
2015	154	852	595	1,601

Source: MTS payroll records

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

Company Name	Number of Employees (1)	Percent of 1,565,900 County Total (2)
State of California	40,100	2.56%
University of California, San Diego	28,341	1.81%
Sharp Healthcare	16,477	1.05%
Scripps Health	13,717	0.88%
Qualcomm Inc.	13,700	0.87%
City of San Diego	10,584	0.68%
UC San Diego Health System	7,726	0.49%
Kaiser Permanente	7,549	0.48%
General Atomics (and affiliated companies)	6,714	0.43%
San Diego State University	6,042	0.39%

Source:

- San Diego Business Journal - 2015 Book of Lists
- 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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Operating Cost (in 000's)										
San Diego Transit	$92,059	$ 91,568	$ 98,666	$ 90,153	$ 83,457	$ 93,831	$ 81,271	$ 80,031	$ 73,257	$ 73,284
San Diego Trolley	72,637	71,098	65,859	63,309	60,395	60,913	58,537	55,949	55,952	55,015
MTS-Contract Services	76,190	65,959	62,573	61,154	59,536	58,037	59,639	61,451	57,287	54,387
Farebox Revenue (in 000's)										
San Diego Transit	27,156	$ 27,781	$ 28,621	$ 27,498	$ 26,056	$ 26,708	$ 27,882	$ 23,680	$ 22,298	$ 22,264
San Diego Trolley	41,140	40,188	35,554	35,216	34,673	33,050	33,454	31,120	27,402	27,934
MTS-Contract Services	29,318	26,025	26,476	25,380	24,036	24,410	23,857	21,138	18,935	17,382
Total Passengers (in 000's)										
San Diego Transit	27,264	28,541	28,927	28,802	27,252	26,921	29,762	28,094	26,076	24,890
San Diego Trolley	40,082	39,695	29,699	32,655	31,613	30,469	36,928	37,621	35,114	33,830
MTS-Contract Services	27,574	23,761	23,479	23,780	22,664	21,988	21,645	21,460	21,143	18,907
Revenue Miles (in 000's)										
San Diego Transit	9,561	8,695	8,557	8,221	8,178	8,624	9,221	9,522	9,622	9,958
San Diego Trolley	8,596	8,516	7,758	7,544	7,519	7,743	7,895	8,003	7,940	8,180
MTS-Contract Services	13,328	12,139	11,607	11,214	11,196	11,450	12,179	12,501	12,454	12,242
Subsidy / Total Passenger										
San Diego Transit	2.38	2.24	2.42	2.18	2.11	2.50	1.79	2.01	1.95	2.05
San Diego Trolley	0.79	0.78	1.02	0.86	0.81	0.92	0.68	0.66	0.81	0.80
MTS-Contract Services	1.70	1.68	1.54	1.50	1.57	1.53	1.66	1.88	1.81	1.96

Source: NTD Report, and audited financial statements.

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

Service Provided	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
San Diego Transit										
Vehicle Revenue Miles (in 000's)	9,561	8,695	8,557	8,221	8,178	8,624	9,221	9,522	9,622	9,958
Vehicle Revenue Hours (in 000's)	806	795	787	757	754	789	843	870	853	840
Passengers (in 000's)	27,264	28,541	28,927	28,802	27,252	26,921	29,762	28,094	26,076	24,890
Passenger Miles (in 000's)	117,585	110,009	108,222	106,804	100,500	98,163	107,408	100,256	98,203	93,580
Number of Vehicles	272	310	260	236	236	238	247	267	267	274
San Diego Trolley										
Vehicle Revenue Miles (in 000's)	8,596	8,516	7,758	7,544	7,519	7,743	7,895	8,003	7,940	8,180
Vehicle Revenue Hours (in 000's)	496	504	472	428	423	442	410	439	432	469
Passenger Car Hours (in 000's)	509	512	476	433	429	448	416	445	439	480
Passengers (in 000's)	40,082	39,695	29,699	32,655	31,613	30,469	36,928	37,621	35,114	33,830
Passenger Miles (in 000's)	224,422	228,531	173,151	194,822	193,063	186,509	220,639	206,924	207,727	208,875
Number of Vehicles	160	179	178	151	128	134	133	134	134	134
MTS-Contracted Services										
Vehicle Revenue Miles (in 000's)	13,328	12,139	11,607	11,214	11,196	11,450	12,179	12,501	12,454	12,242
Vehicle Revenue Hours (in 000's)	1,112	998	961	933	927	946	986	1,019	996	928
Passengers (in 000's)	27,573	23,761	23,479	23,780	22,664	21,988	21,645	21,460	21,143	18,907
Passenger Miles (in 000's)	94.504	85,269	84,021	79,789	82,125	79,237	80,104	77,173	78,304	73,343
Number of Vehicles	520	449	427	404	407	369	388	358	348	337
Total										
Passengers (in 000's)	94,919	91,997	82,105	85,237	81,529	79,378	88,335	87,175	82,333	77,672
Passenger Miles (in 000's)	436,511	423,809	365,394	381,415	375,688	363,909	408,151	384,353	384,234	375,798

Source: NTD Report and MTS internal capital asset system

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
General Operations										
Buildings and structures	1	1	1	1	1	1	1	1	1	1
Nonrevenue vehicles	3	3	3	5	5	5	7	7	10	10
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	272	310	260	236	236	238	247	267	267	274
Nonrevenue vehicles	12	12	14	19	22	32	39	53	47	45
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)	160	179	178	151	128	134	133	134	134	134
Nonrevenue vehicles	16	16	15	31	43	51	68	72	69	58
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	520	449	427	404	407	369	388	358	348	337
Nonrevenue vehicles	10	8	8	8	10	7	7	9	4	2
Taxicab Administration										
Buildings and structures	1	1	1	1	1	1	1	1	1	1
Nonrevenue vehicles	2	2	2	4	3	3	3	3	2	1

Source: MTS internal capital asset system.

San Diego Metropolitan Transit System
Ridership
Last Ten Fiscal Years

Ridership (in 000's)	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
San Diego Transit	27,264	28,541	28,927	28,802	27,252	26,921	29,762	28,094	26,076	24,890
% Change	-4.48%	-1.33%	0.43%	5.69%	1.23%	-9.55%	5.94%	7.74%	4.77%	1.90%
San Diego Trolley	40,082	39,695	29,699	32,655	31,613	30,469	36,928	37,621	35,114	33,830
% Change	0.98%	33.65%	-9.05%	3.30%	3.75%	-17.49%	-1.84%	7.14%	3.80%	15.32%
MTS - Contracted Services	27,574	23,761	23,479	23,780	22,664	21,988	21,645	21,460	21,143	18,907
% Change	16.05%	1.20%	-1.27%	4.92%	3.07%	1.58%	0.86%	1.50%	11.83%	2.49%

Source: NTD Report

San Diego Metropolitan Transit System
Operating Subsidy
Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2,0(
Average Fare per Rider										
San Diego Transit	1.00	0.97	0.99	0.95	0.96	0.99	0.94	0.84	0.86	
San Diego Trolley	1.03	1.01	1.20	1.08	1.1	1.08	0.91	0.83	0.78	
MTS - Contract Services	1.06	1.10	1.13	1.07	1.06	1.11	1.10	0.98	0.90	
Operating Expense per Rider										
San Diego Transit	3.38	3.21	3.41	3.13	3.06	3.49	2.73	2.85	2.81	
San Diego Trolley	1.81	1.79	2.22	1.94	1.91	2.00	1.59	1.49	1.59	
MTS - Contract Services	2.76	2.78	2.67	2.57	2.63	2.64	2.76	2.86	2.71	
Subsidy per Rider										
San Diego Transit	2.38	2.24	2.42	2.18	2.11	2.50	1.79	2.01	1.95	
San Diego Trolley	.79	0.78	1.02	0.86	0.81	0.92	0.68	0.66	0.81	
MTS - Contract Services	1.70	1.68	1.54	1.50	1.57	1.53	1.66	1.88	1.81	

Source: NTD report and Audited financial statements

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 statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 15, 2015.

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*.

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 15, 2015

PUN & McGEADY LLP

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

AUDIT OVERSIGHT COMMITTEE PRESENTATION

October 15, 2015

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

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PUN & McGEADY LLP

Review of 2015 Independent Audit

Pun & McGeady LLP

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SAN DIEGO METROPOLITAN TRANSIT SYSTEM
AUDIT OVERSIGHT COMMITTEE PRESENTATION

Management's Responsibilities

- Present the Financial Statements in accordance with Generally Accepted Accounting Principles
- Adopt sound accounting policies
- Establish and maintain Internal Controls over Financial Reporting and Compliance
- Provide evidence supporting the financial statements and related disclosures
- Fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error

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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

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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

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

	2015	2014
Assets:		
Current assets	$ 194,476,000	$ 175,094,000
Non-current assets	-	133,489,000
Property and equipment, net	1,720,337,000	1,512,775,000
Total assets	1,914,813,000	1,821,358,000
Deferred outflows of resources:	17,418,000	-
Liabilities:		
Current liabilities	81,838,000	85,077,000
Long-term liabilities	163,147,000	152,722,000
Total liabilities	244,985,000	237,799,000
Deferred inflows of resources:	14,614,000	497,000
Net Position:		
Net Investement in Capital Assets	1,699,222,000	1,395,206,000
Restricted	5,309,000	6,742,000
Unrestricted	(31,899,000)	181,114,000
Total net position	$ 1,672,632,000	$ 1,583,062,000

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

	2015	2014
Revenues		
Operating revenues	$ 107,786,000	$ 104,425,000
Nonoperating revenues	238,888,000	217,605,000
Total Revenues	346,674,000	322,030,000
Expenses		
Operating expenses	358,902,000	343,566,000
Nonoperating expenses	6,883,000	7,268,000
Total Expenses	365,785,000	350,834,000
Change in net position before Capital Contribution	(19,111,000)	(28,804,000)
Capital Contribution	245,717,000	118,768,000
Change in Net Position	226,606,000	89,964,000
Net Position:		
Beginning of Year	1,583,062,000	1,493,098,000
Restatement due to implementation of GASB 68	(137,036,000)	-
End of Year	$ 1,672,632,000	$ 1,583,062,000

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

	2015	2014
Cash flows from Operating	$ (143,274,000)	$ (133,299,000)
Cash Flows from Noncapital Financing	230,051,000	206,102,000
Cash Flows from Capital and Related Financing	(78,035,000)	(85,114,000)
Cash Flows from Investing	140,000	125,000
Changes in cash and cash equivalents	$ 8,882,000	$ (12,186,000)

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San Diego Metropolitan Transit System
Net Pension Liability
of Defined Benefits Plans
For the Year Ended June 30, 2015

		Net Pension Liability
MTS Miscellaneous Plan - 1223	$	8,259,452
MTS PEPRA Miscellaneous Plan 26789		2,019
MTS Miscellaneous Second Tier Plan - 30134		76
SDTI Miscellaneous Plan - 1406		16,654,410
SDTC Retirement Plan		85,694,264
Total Net Pension Liability	$	110,610,221

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San Diego Metropolitan Transit System
Deferred Outflows of Resources
of Defined Benefits Plans
For the Year Ended June 30, 2015

		Employer Contributions		Difference between expected and actual experience		Adjustments due to differences in proportions
MTS Miscellaneous Plan - 1223	$	1,368,359	$	-	$	-
MTS PEPRA Miscellaneous Plan 26789		146,007		-		-
MTS Miscellaneous Second Tier Plan - 30134		45,480		-		1,074
SDTI Miscellaneous Plan - 1406		2,566,885		-		-
SDTC Retirement Plan		11,352,628		1,937,128		-
Total	$	15,479,359	$	1,937,128	$	1,074

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San Diego Metropolitan Transit System
Deferred Inflows of Resources
of Defined Benefits Plans
For the year ended June 30, 2015

	Pension Investment Earnings	Adjustments due to differences in proportions
MTS Miscellaneous Plan - 1223	$ 1,917,506	$ 431,030
MTS PEPRA Miscellaneous Plan 26789	678	8,508
MTS Miscellaneous Second Tier Plan - 30134	25	-
SDTI Miscellaneous Plan - 1406	6,585,757	-
SDTC Retirement Plan	5,265,148	-
Total	$ 13,769,114	$ 439,538

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San Diego Metropolitan Transit System
Schedule of Funding Progress
of Other Post Employment Healthcare Plan
For the Year Ended June 30, 2015

	MTS	Transit	Trolley
Actuarial Value of Assets	$ -	$ -	$ -
Entry Age Normal Actuarial Accrued Liabilities	(3,863,000)	(22,066,000)	(7,700,000)
Unfunded Actuarial Accrued Liabilities	$ (3,863,000)	$ (22,066,000)	$ (7,700,000)
Funded Status	0.00%	0.00%	0.00%
Actuarial Valuation Date	June 30, 2015	June 30, 2015	June 30, 2015

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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

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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

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to provide services to

San Diego Metropolitan Transit System

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GASB 68 Glossary

Net pension liability – Plan's total pension liability less the plan's fiduciary net position. Previously this was reported in the required supplementary information, and is now on the financial statements.

Deferred pension employer contributions – Contributions made to the plan subsequent to the measurement date of the net pension liability. These will be recognized in the following year.

Deferred difference between expected and actual experience – Plan experience differing from that anticipated by the economic or demographic assumptions, ie discount rate and inflation rate. Amortized over the average expected remaining service lives of all.

Deferred adjustments due to differences in proportions – for cost sharing plans, this adjustment captures the changes in proportions that result from CalPERS allocation methodology. They apply different employer proportions to various pension-related items such as assets, liabilities and service cost. This adjustment reconciles the differences in proportions for these various items with the employer's change in net pension liability during the measurement period. Amortized over the average expected remaining service lives of all.

Deferred pension investment earnings – difference between projected and actual earnings on investments. 5 year straight line amortization

Metropolitan Transit System

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Agenda Item No. B2

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM
AUDIT OVERSIGHT COMMITTEE

October 15, 2015

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 the Internal Audit Plan for fiscal year 2015-16 and a report on internal audit activity.

Paul C. Jablonski
Chief Executive Officer

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

Internal Audit Plan for Fiscal Year 2015-16 and Audit Activity Update

Presentation for the
Audit Oversight Committee
October 15, 2015

MTS 1

This presentation will cover:

A. Internal Audit Plan for fiscal year 2015-16
B. The results of three audits:
   1. Information Technology Governance and Planning
   2. Business Continuity Planning
   3. Transit Revenue

MTS 2

Internal Audit Plan

Audit Time Budget	
Category	October 2015 - June 2016
Total Work Hours	1,560
Less	
Holidays	(54)
Annual Leave	(132)
Training	(45)
Audit Administration	(108)
Consultations	(156)
Available Audit Hours	1,065

Internal Audit Plan

Planned Audits		
#	Audit Area	Estimated Hours
1	MTS Security	160
2	Enterprise Resource Planning - Pre and Post-Implementation Reviews	160
3	Procurement - Purchase Orders	160
4	Light Rail Vehicle - Parts Management	160

Internal Audit Plan

Planned Audits		
#	Audit Area	Estimated Hours
5	Audits Carried Over	
	a) Worker's Compensation	240
	b) MTS Security - Citations	100
	c) MTS Performance Goals	85
Total		1,065

MTS 5

Internal Audit Plan

Methodology for audit selection:

1. Fiscal year 2014-15 risk assessment
2. Input from CEO
3. Internal Auditor's judgment based on audit findings and discussions with MTS managers

MTS 6

Information Technology Governance and Planning Audit

Purpose:

- IT registered as a high-risk area on the risk assessment for fiscal year 2014-15
- Foundational audit of IT that sets the stage for future audits

Audit Objective: To evaluate the state of IT Governance and IT Planning efforts at MTS.

MTS 7

Information Technology Governance and Planning Audit

Finding: MTS should institute the structures necessary for good IT Governance and Planning.

Causes: Underinvestment in IT; challenges with recruitment and retention; and lack of attention to the business aspects of managing an IT function.

MTS 8

Information Technology Governance and Planning Audit

Recommendations:

1. The Chief Information Officer (CIO) should create an IT strategic plan for MTS.
2. MTS should conduct a comprehensive assessment of its IT enterprise architecture.
3. Executive Management should provide oversight of IT through monthly steering committee meetings.

MTS 9

Information Technology Governance and Planning Audit

Recommendations:

4. MTS should use Service Level Agreements to document requirements for IT services.
5. The IT Department should establish a comprehensive performance measurement system.
6. MTS should adopt criteria for sourcing IT services.

MTS 10

Information Technology Governance and Planning Audit

7. The CIO should formalize the management of the IT Department.

- Policies and Procedures
- Information Security
- Business Continuity
- Disaster Recovery
- Project Management
- Organizational Structure
- Development and Documentation Standards
- Resource and License Management
- Capacity, Growth, and Maturity Assessments
- Employee Training

MTS 11

Business Continuity Audit

Purpose: This audit emanated from a previous audit of IT Disaster Recovery.

Audit Objective: To evaluate Business Continuity (BC) efforts at MTS.

Finding: The current BC plan should be revised.

Recommendation: MTS should form a cross-functional work group to develop a new BC plan.

MTS 12

Transit Revenue Audit

Purpose: Audits of cash are performed periodically due to the high inherent risk.

Audit Objective: To evaluate internal controls over bus cash handling operations.

Description of Controls:

1. Cash is recorded by machines in buses; an armored carrier picks up cash and counts it; these two counts are reconciled by the Revenue Administrator.
2. A staff accountant in Finance reconciles the vendor count with bank deposit.

MTS 13

Transit Revenue Audit

Finding: Controls over cash collections from bus revenue are strong.

Recommendations: None.

MTS 14

Questions?

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MTS 15

Metropolitan Transit System

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Memorandum

DATE: September 30, 2015

TO: Sandra Bobek

FROM: Toufic Tabshouri

SUBJECT: Audit Report – Information Technology Governance & Planning

CC: Paul Jablonski, Larry Marinesi, Karen Landers

Report Summary

In accordance with the Internal Audit Plan for fiscal year 2015, the Internal Auditor conducted an audit of *Information Technology Governance & Planning*. Information Technology (IT) Governance is concerned with organizational oversight of the IT function to ensure that IT resource expenditures are aligned with the organization's business needs, that IT risks are minimized, and that the organization derives the greatest benefits possible from technology. Planning describes the process of establishing goals and following a methodical approach to achieving them. A variety of planning activities are needed to properly steer an IT department, from broad strategic plans that define the department's mission and establish long-term objectives, to detailed implementation plans for specific IT projects.

IT is a difficult function to oversee for various reasons that are delineated in the report, and the IT Department at MTS has been beset by many of the problems that plague the IT field in general. Despite some unique challenges that the IT function presents, managing and supervising an IT department is not an esoteric job. Standard business techniques and tools that are used to administer other departments can be employed to direct and monitor the IT function.

This audit entailed researching IT Governance and other standards and comparing them to current MTS practices as well as assessing existing planning activities. The audit found that MTS is lacking many of the elements that are necessary for good IT Governance. To cite a few examples, the IT Department has not performed basic management activities such as developing policies and procedures, creating long-term plans, adopting a project management methodology, providing employee training, and providing meaningful performance reports to MTS Management. Despite these shortcomings, the current Chief

Information Officer[1] (CIO) and MTS Executive Management recognize the need to make consequential changes in the operation of the IT Department. This report makes seven recommendations that will help improve the oversight and management of the IT function. These recommendations are interrelated, and they aim to improve the communication between the IT Department and its stakeholders, to inject structure into the operations of the IT Department, and to make the IT function more comprehensible and transparent to client departments and Executive Management.

[1] The current CIO was promoted into this position in March 2015.

Table of Contents

Introduction

IT is a crosscutting function that permeates almost all work areas in an organization. In this respect, it differs from other support functions whose work can be more readily confined to a single department. While a problem in Finance or Human Resources can be inconvenient and create delays for other departments, an IT system crash can have a broader impact and prevent other departments from performing their work. The growing importance of technology in modern organizations and the increased dependence on IT systems have, unfortunately, only amplified the complexities and risks in IT environments. The text below provides a brief overview of the challenges of managing an IT function.

To start, creating a modern IT environment requires a significant investment to fund hardware and software acquisitions and deployments. The relatively short lifespan of computer equipment and applications – compared to buildings or roads, for example – requires continuous funding to replace obsolete equipment and systems. Furthermore, IT acquisitions entail more risk than purchases of other types of assets such as vehicles, for example. Whereas a placing a new vehicle into service requires little preparation, installing an IT system often involves detailed project planning, testing of applications and data, hardware reconfigurations, and extensive staff training. Research shows that organizations regularly neglect to adequately prepare for deploying large IT systems, resulting in a high failure rate for IT acquisitions. Implementation failures result from any number of factors, including inflated promises by vendors and unrealistic expectations by users. However, poor requirements definition and weak project management are common causes. Failed implementations lead to the abandonment of projects or to costly rework.[2]

Exacerbating the risk of IT investments is the difficulty of accurately estimating the total cost of IT procurements over their useful life. Assumptions made to justify a purchase may not remain valid for long. The emergence of a new technology can dramatically change user expectations, forcing the early retirement of an otherwise acceptable system, and shrinking its planned lifespan. The emergence of smart phones and abandonment of regular cellular phones is an example of this phenomenon. Changes in technology can also cause vendors to increase prices for product support and upgrades, to stop supporting a product altogether, or to go out of business.

Beyond the investment risks and unreliable cost estimates, quantifying the value of IT investments is also challenging. While the rate of return on funds deposited in a savings account can be precisely known a priori, the calculation of financial returns from IT investments rests on assumptions and business judgement that may ultimately prove incorrect. Disappointing financial returns is only one measure of dissatisfaction with the value of IT investments. Qualitatively, business users often have unrealistic expectations about the transformational powers of new IT systems, and they are subsequently disappointed when these systems do not deliver exceptional results.

In addition to the technological and financial challenges noted above, properly staffing and managing an IT department is a demanding endeavor. The complexity of IT work and wide variety of technologies that it encompasses requires a skilled workforce that is continually training on new technologies. While a marketing department is generally comprised of employees with similar educational backgrounds, the

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[2] In addition to the hard (budgetary) costs of IT implementation failures, there are other economic costs that are frequently not taken into account. The opportunity cost from a delay in implementing an improved system, as well as the staff time spent working on a failed (sunk cost) or struggling (excess cost) project are examples of such costs.

preparation needed to work with various hardware and software systems necessitates employing technically diverse and specialized staff. Consequently, IT workers are generally not interchangeable. Moreover, the strong employment market demand for IT workers has made recruiting qualified personnel challenging. In organizations with small IT departments such as MTS, the departure of one or two key IT employees can significantly impact organizational productivity, create workflow bottlenecks, and delay project implementations.

Finally, the nature of IT service provision and the necessity of maintaining near-constant availability of IT resources creates a situation where IT stakeholders and users generally only become aware of IT issues when they experience a computer failure, unfairly shaping the perception of IT as a problem area. This perception is often exacerbated by the lack of visibility into IT by employees outside the IT Department.

What is IT Governance?

IT Governance is concerned with the stewardship of IT resources on behalf of organizational stakeholders. Organizations practicing good governance direct IT endeavors to ensure that they are aligned with the enterprise's objectives and that potential and promised benefits from IT are realized. For this alignment to occur, Executive Management must understand the capabilities and limitations of IT, and IT Management must understand the objectives and corresponding needs of Executive Management and business stakeholders.[3] A shared responsibility for the function prevents an IT Department from independently making, and later being held solely responsible for, poor decisions. Governance creates a forum and mechanisms to evaluate alternatives, provide direction, monitor, and follow up on implementation.

The potential for substantial disruptions and financial losses from IT system failures, as well as the growth in online criminal activity, have led to a greater recognition of the importance of good IT Governance among corporate boards and government entities.

Why is IT Governance Important?

IT Governance helps to increase an organization's ability to achieve its overall goals and objectives. IT Governance can benefit the organization in several ways, such as:

- ✓ Providing visibility into IT management's performance
- ✓ Understanding the cost and value of IT
- ✓ Enhancing the communication between IT and its clients and stakeholders
- ✓ Increasing the IT department's flexibility and responsiveness to changes
- ✓ Improving organizational risk management

Stated differently, IT Governance is concerned with reducing the risks of IT failures such as service disruptions, project implementation delays, and security breaches. Improving communication between the IT Department and its stakeholders also helps preempt unwelcome surprises, since stakeholders will be better informed of potential problems as they arise.

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[3] Most of the professional guidance for IT Governance is targeted at private sector firms and assigns the responsibility for Governance to corporate boards of directors. Professional guidance also recommends the formation of a subcommittee of the board of directors to oversee IT strategy. As used in this report, Governance is synonymous with oversight, and it is presumed to be the responsibility of Executive Management.

What Are Sources for IT Governance Best Practices?

Over the past decade, there has been a proliferation of IT standards covering various topics such as security, project management, performance, and value. Two publications are concerned exclusively with IT governance: ISO 38500 is an international standard for corporate governance of information technology published jointly by the International Organization for Standardization and the International Electrotechnical Commission. It provides guidance for effective governance of IT to assist executives to understand their legal, regulatory, and ethical obligations pertaining to IT. This standard provides guiding principles for directors of organizations on the effective, efficient, and acceptable use of IT within their organizations. Control Objectives for Information and Related Technology (COBIT) is a framework developed by ISACA[4] for IT governance and management. COBIT allows managers to bridge the gap between control requirements, technical issues and business risks. ITIL, formerly known as the Information Technology Infrastructure Library, is a set of concepts and best practices for the management, delivery and continuous improvement of information technology services is a good resource for best practices. This report draws on these standards and other sources such as guidance from The Institute of Internal Auditors (IIA) and U.S. Government agencies such as the White House Office of Management and Budget.

Objectives, Scope & Methodology

This audit had two objectives: to evaluate the state of IT Governance and IT Planning efforts at MTS. The audit focused on administrative and managerial aspects of the IT function rather than on technical topics such as data management or IT security. The scope of the audit was broad, covering the interaction between the IT Department, business stakeholders, and Executive Management. The audit work also required a brief review of management activities internal to the IT function.

To accomplish the audit objectives, the Internal Auditor compared the IT Department's recent practices to industry standards and guidance for IT Governance, planning, and management. The Internal Auditor also reviewed recent IT reports and plans at MTS. The most relevant report reviewed was an IT needs assessment that was conducted by a consultant (Lumenor) and completed in December 2014.[5] Finally, the Internal Auditor also met with and interviewed the CIO, the Chief Financial Officer (CFO),[6] and other key personnel to obtain their views on improving and supporting the IT Department.

Background

The IT Department is currently budgeted for 27 personnel and organized into five work areas. Most work areas are overseen by a manager, but Customer Support staff report directly to the CIO. Excluding Customer Support, approximately half of the IT Department's staff work as system administrators in the data center or as network administrators, while the rest are business analysts or programmers who work on business applications and enterprise systems. The IT Department also has three employees who are currently assigned to the Enterprise Resource Planning (ERP) project, which is managed outside the IT Department and overseen by the CFO. Exhibit A presents the IT Department's current organization chart, positions and funding sources.

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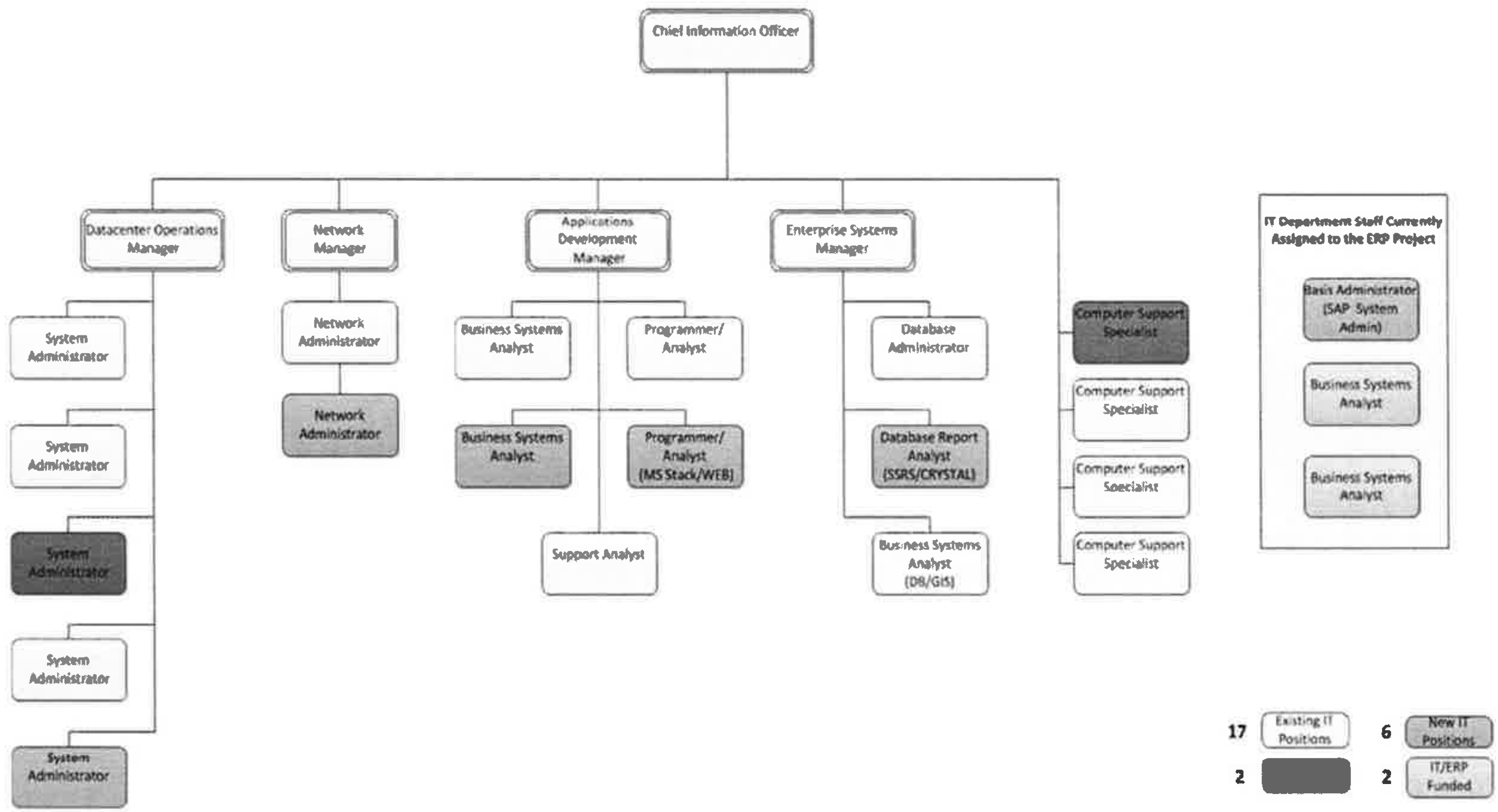
[4] ISACA is a professional association focused on IT Governance; it was previously known as the Information Systems Audit and Control Association.

[5] The Lumenor report also included brief evaluations of IT capacity, security, and staffing requirements.

[6] The CIO reports to the CFO at MTS.

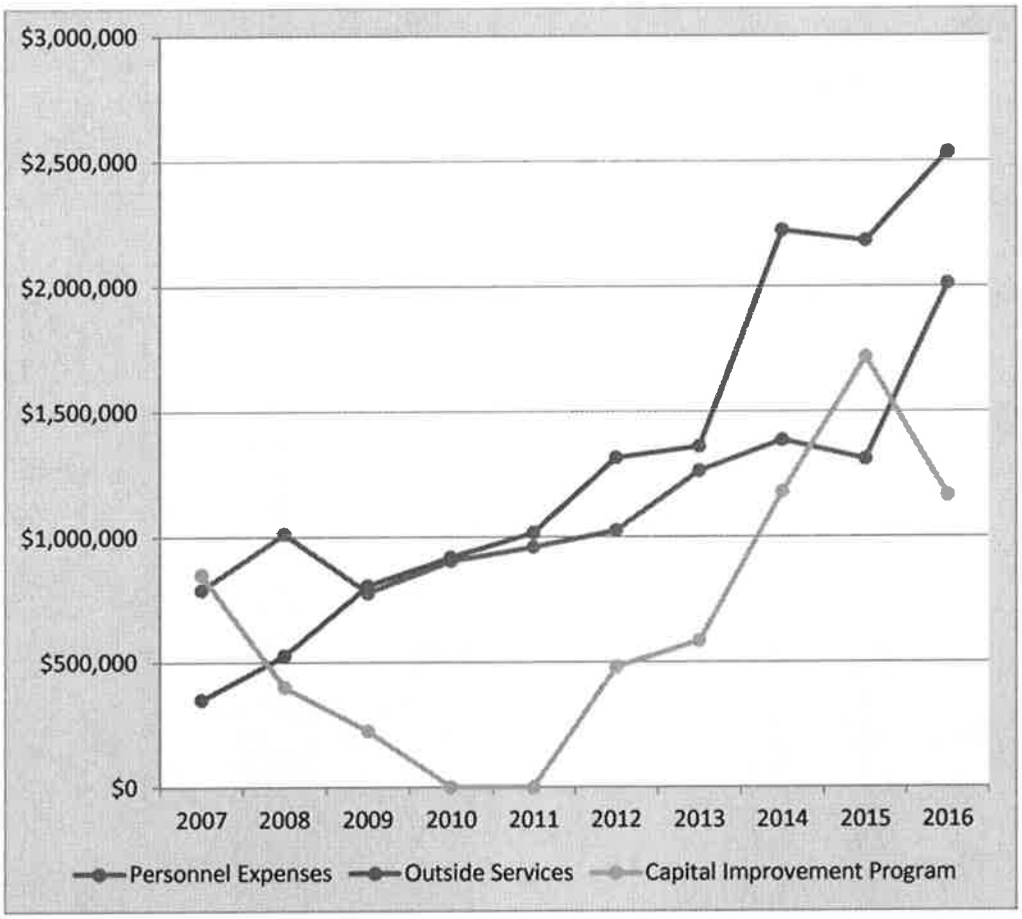
Exhibit A – IT Department Organizational Chart



Source: MTS Chief Information Officer

The IT Department's budget has grown steadily over the past decade, as shown in Exhibit B. The average annual growth rate for Personnel Expenses and Outside Services in the last ten years was 13 and 27 percent, respectively. Outside services consist of software licensing fees, maintenance and support fees for various applications and systems, as well as consulting fees. The proposed IT operating budget for fiscal year 2016 is approximately $4.5 million, consisting of $2 million in personnel expenses and an additional $2.5 million in outside services.

Exhibit B – IT Department Budget for Fiscal Years 2007 - 2016



Source: MTS budget documents for fiscal years 2007 through 2016
Note: The CIP figures do not include funding for the ERP project, which is budgeted for $10.5 million.

MTS also budgets Capital Improvement Program (CIP) funds to procure and install IT assets. CIP budgets fluctuate considerably more than operating budgets, and they have ranged from zero to $1.7 million. Implementing CIP projects places additional demands on IT staff, as these projects add new tasks to the staff's normal workload. Exhibit C displays a listing of current CIP projects, most of which involve the replacement or upgrade of existing infrastructure.

Exhibit C – Current List of Capital Improvement Projects Managed By IT

Project Name and Description	Cost *(thousands)*
Network Infrastructure – Replaces the MTS network infrastructure and deploys core switches and multiple edge switches. Transitions from old Nortel equipment to a Cisco platform.	$ 1,794
Cyber Security Project – Conducts intrusion testing of the MTS network, resulting in multiple recommendations. Additionally, project funds were used to determine agency Internet Protocol (IP) addressing as well as to pay for a Payment Card Industry (PCI) Compliance study for the Compass Card program.	$ 250
Wireless Infrastructure – Centralizes all wireless usage by the agency and decommissions multiple wireless islands installed by various vendors in support of specific applications into a centralized infrastructure. Provides for video uploads from trolleys and buses that are within range of the access points, and will eventually enable live video feed of security incidents on buses and trolleys that are within range of the access points.	$ 875
Cisco VOIP Phone system – Replaces an aging Toshiba phone system with a Cisco Voice over Internet Protocol (VoIP) system which integrates voice mail and faxing with the email system, provides call recording and support for four call centers (Compass Card, Teleinfo, Customer Service and IT) and provides an instant messaging system (Jabber).	$ 680
Enterprise Data Warehouse – Consolidates multiple reporting systems into a central comprehensive reporting platform that collects data from multiple systems and provides Key Performance Indicator (KPI) reports to Executive Management.	$ 202
SDMTS Website Redesign – Replaces the external MTS website with a mobile website with trip planning functionality.	$ 271
Kronos Upgrade Project – Replaces the timekeeping software (Stromberg) with a newer product.	$ 201
Compass Card Back Office – Upgrades the hardware that the NextFare software runs on including all the sub systems to increase the security of the platform and meet PCI compliance requirements. This project is on hold pending evaluation of fare systems.	$ 450

Source: MTS CIO.

In addition to the projects listed in Exhibit C, MTS is also planning on upgrading its fare system, which will result in the consolidation or replacement of applications. Although the fare system project is not funded from the IT Department's CIP budget, it is a significant CIP project that is estimated to cost more than $25 million over the next three fiscal years and will likely require significant support from the IT resources.

Audit Results

This report has one overarching finding, which is that MTS has not put in place many of the basic elements that are necessary for IT Governance and Planning. The IT Department has not been providing Executive Management with the information necessary to exercise good IT Governance. IT planning documents are scarce, and the IT Department is missing programs, policies, and other activities that are normally found in a professional IT Department. The root causes of this finding are unclear, and uncovering them requires a significant effort that includes interviewing personnel who are no longer employed by MTS. Such an effort would not confer much benefit, and it is more important to focus on improving the capabilities of the IT Department and its interaction with its stakeholders than to fully account for its present shortcomings.

MTS should ensure that the activities, goals and objectives of the IT function are aligned with the needs of the organization. Achieving this alignment requires the CIO to keep Executive Management well-informed of developments in the IT field and to communicate and collaborate with business stakeholders. Directing and monitoring the IT function also requires sufficient management and organization structures, tools, and controls.

Specifically, controls are necessary to ensure that the MTS Board and Executive Management are receiving meaningful information regarding IT activities and performance. Controls support management and governance and provide information on the state of IT infrastructure, applications, and employees. Soft controls address intangible objectives such as competence, values, openness, leadership, and expectations. Hard controls, or formal controls, include policies and procedures, reporting mechanisms, and internal review processes.

The report contains seven recommendations that will help rectify the current lack of structure surrounding the IT function. The first six recommendations aim to establish adequate organizational oversight of the IT function, strengthen the IT control environment, and improve communication between the IT Department and its stakeholders.

The last recommendation covers ten areas within the IT Department that require attention from the CIO. Although the management of the IT Department was not the focus of this audit, the absence of formal organization within the IT Department necessitated mention in this report. However, this recommendation provides only a cursory evaluation of the areas it addresses, each of which could be the subject of a separate audit.

1. The CIO Should Create An IT Strategic Plan for MTS

The IT Department lacks plans[7] and other documents[8] that are necessary for performing work and managing the IT Department efficiently and effectively. A strategic plan is a good tool to connect business needs, IT resources, policies, and programs. Absent such a plan or a framework for managing the IT Department, the IT Department will expend resources inefficiently as it responds to urgent requests for service. Creating a strategic plan can enable the IT Department to gain better control of its workload and to transition from a state where its employees are reacting to crises and shifting project priorities to a state where they are able to devote sufficient time to their assignments and complete

[7] The IT Department does have a few limited-scope reports that were written by consultants.
[8] An IT Department Manual is an example of such a document.

tasks efficiently. Developing an IT strategic plan will also compel IT Management to think through the organization and management of the IT Department.

Furthermore, a strategic plan provides a good means for articulating a vision for the IT Department, establishing intermediate-term goals, and communicating these goals to stakeholders. Executive Management, client departments, and IT Department employees should be engaged in shaping the IT Department's direction. The process of creating a strategic plan presents an opportunity for such engagement. For example, the strategic plan will require input from client departments and Executive Management regarding the project priorities and desired completion schedules, which should spur discussions about the financial and staff resources necessary to implement these projects. In the past, communication to stakeholders regarding project schedules was generally limited to weekly status update emails from the Chief Technology Officer (CTO).[9]

A strategic plan is not a panacea and will not solve all the IT Department's problems, but it will inject some needed structure into the IT Department and to document institutional knowledge. A strategic plan should not be overly-detailed; to be useful, the strategic plan should be relevant to stakeholders and regularly updated. Appendix A presents a sampling of IT strategic plan contents, collated from the IT strategic plans of three government agencies.

2. MTS Should Conduct a Comprehensive Assessment of its IT Enterprise Architecture

Enterprise Architecture (EA) is a practice that entails assessing existing IT infrastructure, evaluating current and future IT needs, and surveying industry IT trends to design a favorable technology environment for the organization. Traditionally, organizations acquired IT systems in a piecemeal fashion to address particular business needs. While this approach is acceptable in low-tech workplaces that have a limited number of IT systems, ignoring broader organizational requirements can generate waste from duplicate acquisitions and a lack of standardization. Over time, the IT environment increases in complexity and becomes expensive to operate as the organization accumulates IT systems.

Although conceptually simple, implementing an EA is technically complex because it requires a detailed technical examination of existing applications, data, and hardware, to assess compatibilities, dependencies, and remaining useful lifespans. Accordingly, enterprise architects tend to be highly experienced and qualified professionals. Many large organizations recognize the importance of EA. The U.S. Government requires federal agencies to develop an EA and establish a governance structure that ensures that the EA is referenced and maintained in the planning and budgeting activities of IT systems.[10]

Designing a new EA should be carried out carefully, as it requires a significant financial investment and is costly to modify if the new EA fails to meet the needs of the organization. Although a demanding task, it is nonetheless easier to implement a new EA at MTS than at geographically dispersed organizations such as multinational companies that have decentralized systems. Centralization allows MTS to enforce a homogeneous IT infrastructure, reducing the number of applications across the enterprise, facilitating information sharing and standardization, and improving monitoring, reporting, and decision-making activities.

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[9] The CTO position has been reclassified to CIO.
[10] The US Government publishes several guides on EA, including *The Common Approach to Federal Enterprise Architecture*, as well as the comprehensive *Federal Enterprise Architecture Framework*.

MTS is currently undertaking two projects that will significantly alter its IT environment. The implementation of an ERP system will consolidate two financial systems into one, replace existing reporting applications, and introduce an asset management module. Additionally, the ongoing evaluation of the MTS fare system may result in the consolidation of several applications. As important as these changes are, they do not nullify the benefit that MTS can derive from a comprehensive assessment of its architecture.

3. Executive Management Should Provide Oversight of IT Through Monthly Steering Committee Meetings

Effective IT Governance occurs when Executive Management directs IT investments, monitors IT projects, and enforces accountability for results. Governance also requires Executive Management to provide clear and regular direction to the IT Department in order to maintain alignment between IT efforts and resource expenditures and organizational needs and objectives. To provide this direction, Executive Management must understand a wide range of IT issues along with the opportunities and risks associated with them.

The complexity of IT work and issues compels Executive Management to rely on qualified advisors for obtaining reliable information about the IT function. While auditors and consultants can play a helpful role in information provision, the CIO is in the best position to ensure that Executive Management remains current on IT issues. Monthly steering committee meetings provide a good forum for the CIO to conduct structured briefings to Executive Management on various IT topics. MTS had a steering committee that met quarterly, but this committee has been inactive the past fiscal year. In addition to serving as a reporting channel that informs Executive Management on IT issues, the steering committee will help the CIO become more cognizant of Executive Management's plans and preferences. Exhibit D depicts the main functions of an IT Steering Committee.

Exhibit D – Functions of an IT Steering Committee

Functions of an IT Steering Committee
✓ ***Decides the overall level of IT spending and how costs will be allocated***
✓ ***Reviews and approves the enterprise's IT architecture***
✓ ***Approves project plans and budgets, setting priorities and milestones***
✓ ***Ensures projects continuously meet business requirements, including reevaluation of the business case***
✓ ***Monitors project plans for delivery of expected value and desired outcomes, on time and within budget***
✓ ***Monitors resource and priority conflict between client departments and the IT function as well as between projects***
✓ ***Initiates changes to strategic plans (priorities, funding, technology approaches, resources, etc.)***
✓ ***Communicates strategic goals to project teams***
✓ ***Contributes to management's IT governance responsibilities and governance practices***

Source: MTS Internal Auditor. Adapted from ISACA publications.

4. MTS Should Use Service Level Agreements to Document Requirements for IT Services

A Service Level Agreement (SLA) is a contractual tool that formalizes the terms of an IT service. SLAs are commonly used to help organizations manage information resources provided by vendors. SLAs stipulate and commit a vendor to a required level of service and support options. Examples include providing for a guaranteed level of system performance such as downtime or uptime, and a specified level of customer support. SLAs can also stipulate hardware and software requirements. SLAs commonly include penalty provisions and enforcement options for deficient performance, and may include financial incentives such as for exceeding service levels.

The use of SLAs is not restricted to external vendors, however, and they are frequently used to clarify service relationships between IT departments and their business clients. An internal SLA will specify the scope and level of the service, user requirements, the roles and responsibilities of the IT Department and the business user. Like other departments such as Human Resources, the IT Department performs the dual roles of providing customer service and enforcing organizational IT controls. Restricting the ability of employees to download and install personal software on work computers is an example of an IT control.[11] While decisions about the IT security environment and IT controls should be within the purview of the IT Department, decisions concerning service provision should be driven by business clients, negotiated with the IT Department, memorialized in an SLA and approved by Executive Management.

The absence of formal agreements regarding services can lead to disagreements regarding the role and responsibilities of the IT Department and to dissatisfaction with the level of service provided. Many of these problems can be avoided through the normal discussions that occur in the process of negotiating an SLA. Furthermore, creating an SLA can establish the cost of a service and help determine whether to procure a service internally or to outsource it. Moreover, since SLAs commonly have expiration dates of one to five years, renewing an SLA provides an opportunity to periodically reassess a service. Creating SLAs is an important prerequisite to developing performance measures for operations, since technical and operational performance goals and targets should be based on the service levels agreed to in an SLA. The absence of an SLA results in any performance measures that are bereft of any input from business users.[12]

5. The IT Department Should Establish a Comprehensive Performance Measurement System

The IT Department should establish a comprehensive performance measurement system to monitor its operations. Such a system will capture sufficient quantitative and qualitative data and generate meaningful reports to aid in the management and oversight of the IT function. Performance measures can provide information on the technical operation of IT systems, the progress of project implementations, the financial returns from investments in technology, and on customer satisfaction with IT services. IT work is readily amenable to measurement, and many IT systems contain reporting

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[11] Controls and prohibitions enforced by IT should be directly tied to IT policies that are well-reasoned and justified based on cost, technical, security or other legitimate considerations. Otherwise, they will appear arbitrary and may generate user complaints. Ideally, policies should be developed with input from stakeholders. IT policies and procedures are addressed in the recommendation 7.1 of this report.

[12] The IT Department can solicit input from business users in establishing technical performance measures without creating SLAs. However, doing so would entail performing some of the work needed to create SLAs without accruing the other benefits of SLAs.

utilities that record exceptions and issue alerts and notifications when system performance is poor. Other aspects of IT work such as progress on project implementation or customer satisfaction levels can also be easily tracked.

Establishing performance measures is a time-consuming but conceptually simple endeavor. An initial step involves deciding what to measure, which requires developing performance goals. Generally, goals can be categorized as strategic, tactical, and operational or technical. These categories can be visualized on a continuum as high, medium, and low level, respectively. Strategic goals address the purpose of the work or the "what" over the long term, and they are often explicitly stated in strategic plans (see examples in Appendix A). Tactical goals are concerned with the implementation of strategy in the medium term, addressing "how do we get there" questions. Technical or operational goals cover short term performance. Performance goals should be developed with input from stakeholders such as Executive Management and client departments. Once performance goals and measures are established, performance targets should be set. For example, the goal of improving customer satisfaction may have a target of ninety percent "very satisfied." Performance levels are usually established and reported along with relevant comparative data such as prior year performance, industry averages, benchmark figures.

Finally, appropriate reports should be created and disseminated. These reports should be tailored to the informational needs of their recipients: Executive Management, the CIO, IT staff and client departments will require different reports.

In fiscal year 2015, the IT Department was assigned seven performance goals – part of an incentive program – which are shown in Exhibit E below.

Exhibit E – Fiscal Year 2015 Performance Incentive Goals for the IT Department

Goal #	Description
1	Achieve a favorable Information Technology Department expense budget variance for Fiscal Year 2015.
2	Address or remediate all infrastructure risk areas identified in the SOAF II[1] document as follows: - Completion of Storage Infrastructure migration - Completion of Data Backup Infrastructure - Completion of Network Infrastructure
3	Update the Disaster Recovery Plan as the network and storage infrastructure is completed. The plan is to be completed by November 30, 2014.
4	Complete the update and technical infrastructure of the Enterprise Data Warehouse (EDW). The goal is to have Key Performance Indicator (KPI) reports to be generated out of the new EDW system by January 2015.
5	Provide all KPI reports to the CEO by the 25th of each following month, provided that the data is provided from the source systems by the 20th of each month.
6	Complete the refresh of the MTS website by December 2014.
7	Complete the refresh of the MTS intranet by February 2015.

Source: MTS performance incentive goals for fiscal year 2015.
Note1: SOAF is an acronym for *Sum of All Fears*, a novel by the late Tom Clancy. Here it refers to a document outlining remediation efforts to avoid worst-case scenario damage to the IT infrastructure.

These goals in Exhibit E were established by Executive Management and reflect priority projects for MTS. They represent a "To Do" list for the IT Department with deadlines, but they do not constitute a comprehensive performance measurement system.

In contrast with strategic goals or the high-level goals in Exhibit E, technical measures can provide detailed information to monitor the performance of various systems and operations within the IT Department. Appendix B provides examples of performance measures related to system availability, Help Desk workload, peak usage time periods, capacity, and utilization. Information from these detailed measurements can be used to direct IT investments and efforts to areas that need improvement. Absent such information, the management decisions will be based on anecdotal experiences, customer complaints, or intuition.

To make a performance management system comprehensive, the IT Department should adopt a set of financial metrics[13] for monitoring the IT budget, forecasting future IT investment costs, and analyzing financial results. An important prerequisite to good financial management is the ability to extract the detailed financial information. This is difficult to do with MTS's existing financial systems, but will be possible with the implementation of the new ERP system. Exhibit F below highlights some of the conditions and difficulties that arise when the IT function is lacking detailed financial information.

Exhibit F – Indicators and Consequences of Financial Information Limitations

Indicators	Consequences
• Costs are higher than comparable entities • Limited drill-down capabilities • IT costs are unknown or insufficiently detailed • No tracking of the value delivered by IT initiatives • No meaningful metrics, or too many metrics • No measures of technical, operational, or financial performance in IT	➢ Inefficiencies are the norm and not the exception ➢ Failure to achieve organizational goals ➢ Returns on IT investments are unknown ➢ Lack of decision-making information ➢ Lack of accurate financial data ➢ No accountability for initiatives or outcomes ➢ Lack of alignment with goals and strategic mission

Source: MTS Internal Auditor, adapted from IIA Global Technology Audit Guide 17.

Monitoring IT spending and measuring the value of IT investments increases the likelihood of meeting desired returns on IT investments. Outcomes[14] enabled by IT should be measured to show IT's value contribution at the strategic and operational levels. Such measurements will allow the CIO to evaluate

[13] In this context, most financial metrics provide tactical information on goals such as the financial performance of a particular IT project; they also cover the medium term (i.e. quarterly to a few years). Financial metrics provide reliable information that can demonstrate whether short-term performance is contributing to the achievement of strategic goals, as financial information is generally subject to more quality control than operational data.

[14] Examples of outcomes are "improved customer service" and "increased efficiency."

the IT Department's performance against the IT Department's strategic plan, and to more effectively manage the cost of IT service delivery.

Many government entities establish internal services funds (ISFs) for functions such as IT that provide services to other departments.[15] These funds charge the costs of IT services (i.e. staff time, computer hardware, and other costs) to client departments based on their level of consumption. This type of chargeback scheme can incentivize client departments to be mindful of their IT spending. ISFs are also used as a mechanism to fund computer replacements and upgrades. Since MTS is currently implementing an ERP system, MTS has a good opportunity to establish a structure for capturing and reporting on IT expenditures within the ERP system. This will allow MTS to generate detailed financial information about IT costs without having to establish an ISF.[16]

6. MTS Should Adopt Criteria for Sourcing IT Services

Many organizations currently outsource all or part of their IT workforce to external service providers. While there are potential benefits to outsourcing arrangements, they can entail additional risk. The decision to outsource IT work may prove to be fruitful, but it should be done with care. Managing a sourcing partner requires an appropriate structure to monitor performance and hold the sourcing partner accountable. Some of the tools used to manage and monitor IT service providers are performance targets, SLAs, and scorecards. Failure to adequately monitor vendors can lead to disappointing experiences with outsourcing.

A variety of factors can entice an organization to consider outsourcing IT work. A primary motive is the desire to reduce the cost of IT services. Outsourcing can also provide flexibility to cope with fluctuating workloads, as IT service providers can generally adjust their workforce and work capacity more rapidly than other employers.

The nature and complexity of the work that is outsourced can vary, depending on the needs of the organization. Some organizations outsource low-skilled work such as data entry, while others outsource specialized work such as applications development or system conversions. Complex work is often outsourced when internal staff does not have the requisite skills necessary to perform it or cannot do so because of competing workload demands. Moderately complex work such as the maintenance of existing applications can also be outsourced. IT services can be delivered in three main ways:

1. ***In-House*** – Performed by the organization's employees
2. ***Outsourced*** – Performed by the vendor
3. ***Co-sourced*** – Performed by a combination of employees and vendor staff

Determining the optimal sourcing arrangement requires an analysis of relevant factors, and none of the above methods is optimal in all circumstances. For example, in-house staff provide a continuity of knowledge for the organization and are necessary to manage core IT projects. Co-sourcing is a good approach to use when both vendors and employees have unique or complementary skills that they can contribute to a project. It is also a good approach to use in order to acquire specialized knowledge from a vendor. Outsourcing is attractive when substantial savings can be realized; in other cases, it may be the only option when the skills being sought are difficult to secure by recruiting new employees.

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[15] Internal service funds are commonly used for fleets, printing, risk management, and utilities.
[16] MTS should nonetheless evaluate the benefits of establishing an ISF for IT.

The IT Department at MTS has, until recently, been funded for 19 positions. The IT Department has also had a high turnover in its staff, with seven staff members leaving in the last two fiscal years. According to benchmarking figures provided in the Lumenor report, this level of staffing is far lower than that of other transit agencies.[17] At this staffing level, there is little skill redundancy among employees, and the organization is exposed to significant project delays whenever key personnel depart. This problem is exacerbated by the general difficulty in recruiting qualified IT personnel, and by the presence of legacy IT systems at MTS that are not in wide use outside MTS.

Given the conditions outlined above, outsourcing existing positions at MTS has not been a viable strategy. Nonetheless, the IT Department has relied on outsourcing in order to acquire specialized skills when needed. For example, the IT Department recently contracted with a consultant to advise on Payment Card Industry compliance. The IT Department has also relied on hardware vendors to provide support for new system implementations instead of attempting to perform the work entirely with internal staff.

Despite its use of contracting to perform specialized IT work, the IT Department may have neglected to consider the outsourcing alternatives in some cases. For example, when procuring network storage devices in March 2013, the IT Department did not evaluate the potential for cloud storage of MTS data. While cloud storage may present unique challenges for government agencies, it is nonetheless a growing industry trend, and a careful evaluation of this option was warranted. In this case, the consideration was not primarily an outsourcing decision; it had more to do with the choice of technology. However, there are potential staffing ramifications that arise from such choices.

When contemplating outsourcing, it is important for an organization to evaluate the costs and benefits of such a choice. A first step is to define the required service levels and performance metrics. Another is to establish the desired level of knowledge, skills and quality of potential service providers. It is also necessary to know the current in-house cost of a service in order to compare it with contractor bids. Exhibit G illustrates a four-part test for determining whether to outsource an IT service.

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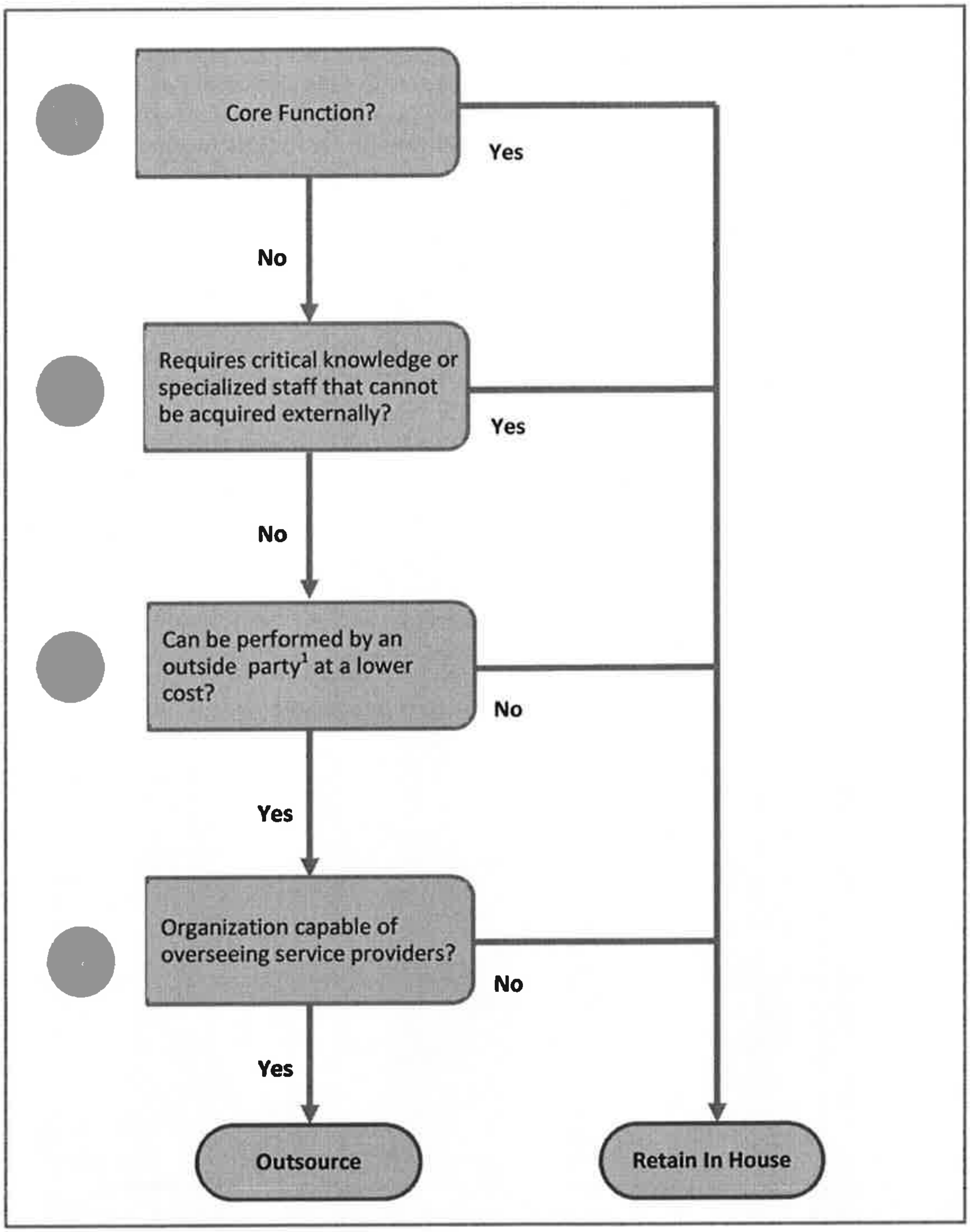
[17] The Lumenor report presented statistics on the number of IT employees for five other transit agencies, as well as ratios of IT budgets to agency budgets. Benchmarking staffing levels with other agencies provides limited utility, however, due to a multitude of variables that can invalidate such comparisons. Differences in staffing practices (e.g. the extent of reliance on contractors), dissimilar portfolios of IT systems, and disparate IT investment lifecycles are a few such variables. In this case, the comparison was useful because the number of IT employees at MTS was comparatively so low as to conclusively demonstrate that the IT Department was understaffed. The agency with the next smallest IT workforce had almost three times the number of IT staff as MTS.

Exhibit G – Four-Part Test for Outsourcing IT Services



Source: MTS Internal Auditor

Note 1: Cost comparisons of internal and outsourced services assume that the quality of service and level of risk will not change. If they do, MTS should evaluate whether the change is acceptable, and it should apply a financial adjustment factor to maintain the validity of the comparison.

A prime consideration with outsourcing arrangements is to enter into contracts where MTS can retain strong bargaining leverage with service providers and to avoid getting tied to service arrangements or technologies with high switching costs and where the vendor is able to increase prices with impunity.

Exhibit H – IT Outsourcing Considerations

Potential Advantages of Outsourcing	Potential Disadvantages of Outsourcing	Measures to Mitigate the Risks of Outsourcing
+ Commercial service providers may be cost competitive because they can achieve greater economies of scale and offer lower labor rates. + Vendors may be able to devote more time to a given project than internal staff. + Vendors are likely to have more experience with a wider array of problems, issues and techniques than internal staff. + Merely developing the technical requirements and contractual agreements for outsourcing can improve service specifications. + Vendors are highly sensitive to time-consuming changes; feature creep or scope creep is less likely to occur with vendors.[18]	- Costs may exceed expectations, and savings from outsourcing may not materialize. - Internal IT capability and experience can be lost. - The organization can lose control over IT. - A vendor may go out of business. - Reversing or changing outsourcing arrangements can be difficult. - Vendor compliance with legal and regulatory requirements may be deficient. - Contractor staff may not be as invested in the work as employees. - Employees may become disgruntled as a result of the outsourcing arrangement. - Lengthy and expensive litigation may occur in case of contract disputes. - A vendor may introduce additional security risks.	✓ Establish clear, measurable, and binding goals and performance incentives. ✓ Use multiple suppliers, or withhold a portion of business to induce better performance. ✓ Conduct periodic competitive reviews and benchmarking. ✓ Issue short-term contracts. ✓ Form a cross-functional contract management team. ✓ Include contractual provisions that address reasonably foreseeable contingencies.

Source: MTS Internal Auditor. Adapted from ISACA publications.

Service delivery by a third party should include security arrangements, service definitions and service management. Service agreements should be delineated in an SLA, as discussed earlier in this report. Organizations should plan the necessary transitions for new outsourcing arrangements (of information, data center facilities, and anything else that needs to be moved) and ensure that security is maintained throughout the transition period. The responsibility for managing the relationship with a third party should be assigned to a designated individual or service management team. Sufficient technical skills

[18] For fixed-price contracts; other types of contracts such as "labor hours" may increase costs.

and resources should be made available to monitor whether requirements of the agreement, in particular the information security requirements, are being met.

Requiring a service provider to periodically deliver a third-party audit report is a good method of obtaining assurance that the provider's internal controls are functioning adequately. Third-party audit reports are common in the IT services industry. Organizations use these reports for various reasons such as conducting risk assessments of operations and obtaining assurances for financial audits. The American Institute of Certified Public Accountants (AICPA) and other professional associations publish guidance[19] on evaluating internal controls at service organizations.

[19] Specifically, AICPA Statement on Standards for Attestation Engagements No. 16, *Reporting on Controls at a Service Organization (SSAE16)*, which replaced *Statement on Auditing Standards No. 70 (SAS 70)*.

7. The CIO Should Formalize the Management of the IT Department

This audit was focused on IT Governance and Planning and not on the management of the IT function. However, the lack of structure in the IT Department necessitated mention in this report.[20] Best practices and standards require IT departments to develop and implement adequate policies, procedures, programs, and plans to perform their work. These documents form the backbone of the structure necessary to formalize the management of the IT Department; without them, an IT department will not be managed professionally and cannot function efficiently. Rather, decision-making will be concentrated with the CIO, and work will be performed by staff on an ad hoc basis and in response to the latest crisis. Organizational knowledge will not be captured anywhere or retained by anyone, especially in an environment where employee turnover is high.

This recommendation covers ten separate areas in the IT Department that should be addressed by the CIO. While the recommendation is not a comprehensive task list for the CIO, it nonetheless presents specific steps that can be taken to build structure and formalize the management of the IT Department.

7.1 Policies and Procedures	**Best Practice**	Organizations should adopt IT policies and procedures covering a variety of topics such as security, resource use, funding, and planning. The level of detail in the policies and procedures will vary depending on the complexity and needs of the organization. Clear IT policies confer many benefits, improving the quality of decision-making as well as the interaction between IT and client departments. Organization-wide IT policies should be developed with input from stakeholders, and they should be approved by a competent authority.
	Current State	The IT Department does not have any policies and procedures covering its internal operations or the business use of technology. MTS has a single IT-related policy – the Technology Resources Policy – that is promulgated by the Human Resources Director.
	Recommendation	The IT Department should identify and prioritize the policies and procedures needed to create basic structure in the IT Department. Policies internal to the IT Department should be approved by the CIO, while organization-wide policies should be approved at a higher level. Policies and procedures should be periodically reviewed and updated to reflect new technology, regulatory changes, and significant changes in business processes.

[20] To properly manage audit resources and auditee expectations, auditors attempt to adhere to the planned scope (i.e. boundary) of an audit and decline to pursue tangential issues. However, this general practice is balanced against a mandate not to ignore important information, even if it relates to matters that fall outside the scope of the audit. Determining what is important requires professional judgment, but fraud, significant violation of laws or policies, actions that significantly increase risk, and mismanagement all merit reporting.

7.2 Information Security	**Best Practice**	IT Security is concerned with the confidentiality, integrity, and availability of information, continuity of services and protection of information assets. Security is a significant and growing concern. Consequently, many organizations have established security programs with dedicated staff. Large organizations often appoint a Chief Information Security Officer with a reporting line outside the IT Department.
	Current State	The IT Department employs standard security measures such as firewalls and user passwords to protect information. The IT Department has in the past contracted with consultants to perform security assessments and intrusion checks. However, MTS does not currently have an IT security policy or dedicated IT security staff. A complex IT infrastructure, a relatively high number of applications, and a lack of security standards make it difficult to implement good security practices.
	Recommendation	The IT Department should develop a security program, to include policies and procedures, roles and responsibilities. The IT Department should also assess the need for dedicated IT security staff. It should also contract with an IT security firm to conduct an assessment to identify the areas of greatest inherent risk.
7.3 Business Continuity (BC)	**Best Practice**	BC planning covers mitigation efforts and interim operations for the time period following a disaster or major disruption and ending with the restoration of operations to their pre-disaster state. Organizations should have updated BC plans which are tested periodically. Although BC is not the sole responsibility of IT, the IT Department is a major contributor to BC planning efforts, since IT staff possess crucial information regarding the time required to restore various systems.
	Current State	The Internal Auditor has recently conducted an audit of BC at MTS.
	Recommendation	While formal recommendations are pending the issuance of the BC audit report, the IT Department is expected to play an integral role in any organizational workgroup that is established to develop a BC plan.

7.4 Disaster Recovery (DR)	**Best Practice**	Organizations should create DR plans, update and test them periodically.
	Current State	DR planning addresses the response to the failure of IT systems in the aftermath of a disaster and the efforts to recover, restore or replace these systems. The IT Department created a new DR plan in October of 2014, and the Internal Auditor performed an audit of DR. The audit evaluated the new DR plan and made four recommendations.
	Recommendation	The following is a summary of the recommendations made in the DR audit. The IT Department should: 1. Conduct an annual DR training sessions for IT staff 2. Conduct an annual DR drill, and it should revise the DR plan periodically 3. Obtain input from business users to establish a minimum tolerable downtime (MTD) for each IT system 4. Assess its current resources and report to Executive Management on resources, vulnerabilities, and options to improve recovery capabilities
7.5 Project Management	**Best Practice**	Organizations should measure IT project effectiveness in terms of timeliness of delivery and cost (i.e. budgeted vs. actual spending). They should also determine whether the solutions contributed to the achievement of organizational objectives as noted in the project's cost-benefit analysis. Organizations should also conduct post-implementation reviews to evaluate project performance and to learn from successes and mistakes.
	Current State	IT projects have been managed in an ad hoc manner. IT staff have been shuffled from one project to another based on changing priorities. High staff turnover in the IT Department and a heavy workload on some employees have exacerbated this problem.
	Recommendation	The IT Department should adopt a project management methodology and a project management plan, and establish metrics for evaluating project performance. The plan should be shared with stakeholders and updated annually as needed.

7.6 Organizational Structure	**Best Practice**	IT departments are generally organized by function such as network support, applications development, and customer support. They can be further divided by work process. For example, applications development can be divided into business requirements analysis, programming, integration and testing, The size of an IT department and complexity of its work informs the design of the organizational hierarchy.
	Current State	The IT Department was recently authorized to add six new positions. The CIO has reorganized the IT Department, creating one new management position and one new supervisory position.
	Recommendation	The IT Department's new organizational chart is consistent with professional guidance and the organizational schemes of other IT departments. While the new organizational structure appears logical, the CIO must take care to manage possible disruptions that may result from reassigning staff, and changing management responsibilities and reporting lines.
7.7 Development and Documentation Standards	**Best Practice**	Applications and databases should be accompanied by sufficient reference information to facilitate configuration changes, maintenance, integration, and upgrades. Such information should include business process diagrams, database schemas, a data dictionary, and source code notes.
	Current State	Some IT systems are fully documented, while others lack any documentation.
	Recommendation	The IT Department should adopt development and documentation standards for software. Applications developed by employees should undergo a quality control review, and vendor contracts for software should mandate adequate documentation.
7.8 Resource and License Management	**Best Practice**	Focuses on maintaining an updated inventory of all IT resources and addresses the risk management process.
	Current State	The IT Department uses an application to track hardware such as personal computers. The IT Department also provides an online utility that MTS employees can use to submit Help Desk requests.
	Recommendation	The Internal Auditor has not assessed the accuracy and completeness of the hardware inventory data; this is a potential audit area. The IT Department's Help Desk utility is cumbersome and should be redesigned.

7.9 Capacity, Growth, and Maturity Assessments	**Best Practice**	Given the importance of IT and the constant change in technology, capacity and growth planning are essential. Capability maturity models offer a quick way of describing how well processes are functioning, using a simple rating scale: 1. *Undefined, poorly-controlled* 2. *Managed* 3. *Defined* 4. *Measured and controlled* 5. *Continuously improving*
	Current State	IT Management has an intuitive understanding of the capability of various functions. The IT Department's capabilities are largely a function of the skills of key staff members and can change drastically with employee turnover.
	Recommendation	The CIO should evaluate the capability of various IT functions in terms of technical proficiency and workload capacity. The CIO should then determine whether current capability & maturity levels are adequate to meet organizational needs.
7.10 Employee Training	**Best Practice**	Training is important for IT professionals, given the constant change in technology and products. Training leads to more effective and efficient use of IT resources, strengthens employee morale, and helps retain qualified employees. Training must be provided when new hardware or software is being implemented.
	Current State	The IT Department's training budget has increased from \$11,000 in fiscal year 2015 to \$23,000 in fiscal year 2016. However, this budget is primarily directed at filling skills gaps and training staff on existing or recently-acquired systems. This budget does not account for staff training preferences and career development goals, and it is not tied to any long-term workforce development plans for the IT Department. Tuition for IT coursework ranges between \$200 to \$300 per credit at local public universities, and most IT certifications cost between \$2,500 and \$6,000 for training materials and examination fees. Given these figures, the current training budget for the IT Department cannot adequately support staff development needs.
	Recommendation	The IT Department should identify the training needs of its workforce and then develop a training budget that is based on this need. The IT Department should encourage staff to seek relevant

	certifications and pursue educational opportunities that will further their career development and prepare them for more advanced IT work. The Department should develop a policy that covers tuition assistance for IT staff for coursework and certifications that are related to their work. Investing in staff training will benefit MTS by increasing the technical competence of its workforce and employee job satisfaction.

Recommendations & Management Response

The CIO agrees with all of the recommendations presented in the audit. These recommendations are necessary to the effective and efficient management of any IT department. The CIO also confirms that the IT management team has begun the work necessary to implement these recommendations.

The current CIO has been in the position for approximately six months. In April 2015, the CIO reorganized the department eliminating the Assistant Technology Officer (ATO) position and added two additional manager positions to the existing two manager positions. This reorganization effectively flattened the reporting hierarchy and broke the division into a logical structure better suited to supporting MTS's technology needs. It is expected that the new organizational structure will provide gains in effectiveness and efficiency in the support of technology throughout the agency. IT is committed to fully implementing all of these recommendations, but due to size of scope and IT resource availability, the implementation will therefore take time.

1. MTS Should Conduct a Comprehensive Assessment of its IT Enterprise Architecture
Agreed – IT management has begun this effort and will continue adding detail. This will be an ongoing effort as new systems are implemented and obsolete ones are retired. In addition, the CIO recommends that technology efforts currently undertaken by SANDAG on MTS's behalf should return to being managed by MTS and become part of this scope.

2. Executive Management Should Provide Oversight of IT through Monthly Steering Committee Meetings
Agreed – CIO proposes the creation of the Information Technology Advisory Committee (ITAC) which is made up of executive level staff. The purpose is the two-way exchange of information between IT and ITAC members and can cover day to day issues and project reporting. ITAC can advise IT on relative cross-departmental priority of projects and where to direct resources. The CIO recommends initially meeting bi-monthly and this schedule can be adjusted as ITAC members become more familiar with IT technology and projects.

3. The CIO Should Create a Strategic IT Plan for MTS
Agreed – the CIO will provide a strategic plan to the MTS steering committee for consideration by April 2016.

4. MTS Should Use Service Level Agreements to Document Requirements for IT Services
Agreed – IT Management is currently implementing methodologies for systems management throughout their respective lifecycles. As part of this effort, IT Management will work with the business units to determine the SLA's associated with each system supported.

5. The IT Department Should Establish a Comprehensive Performance Measurement System
Agreed – IT currently uses a system called, Track-IT to manage and track customer requests and will expand reporting to incorporate metrics on network, storage and server uptimes.

6. MTS Should Adopt Criteria for Sourcing IT Services
Agreed – MTS currently has a mix of both 'in-house' and 'vendor' supported systems. MTS IT currently relies on performing Opportunity Cost and Return On Investment (ROI) analysis in order to determine the best way to support systems; however this is an informal method. A sourcing plan will memorialize a method within the group to analyze the best and most cost effective method to support systems.

Historically, there have been technology projects that were implemented outside of IT which has caused difficulties for the IT department during the implementation and support phases. Therefore the CIO recommends that all technology projects within MTS are managed by, or in partnership with the IT department so that:

1. They will be in accordance with the IT Strategic Plan
2. IT can ensure that the technology will comply with MTS organizational technology standards
3. IT can ensure that resources are available to support the system throughout its lifecycle

7. The CIO Should Formalize the Management of the IT Department
Agreed – The IT Management Team are currently undertaking the process of documenting IT processes and policies.

Conclusion

For years, the IT Department has struggled to convey its capabilities and limitations to its business clients and to Executive Management. Although the communication between the IT Department and its stakeholders is improving, the IT Department is confronting the difficult task of integrating a relatively large number of new employees while preparing to support new systems. Implementing the recommendations in this report will require sufficient attention from IT Management.[21] However, these recommendations are not intended to be mere additions to IT Management's "To Do" list. They are, instead, geared to building an adequate level of administrative structure for the IT Department in order to improve its work capacity and the quality of its communication with its stakeholders. Improved communication will demystify the work of the IT Department and make it more transparent and responsive to its stakeholders. Increased attention to the management of the IT function will help the IT Department assimilate new staff and cope with its increasing workload.

The process of moving from a nascent IT Governance position to a more mature state will take time and entail considerable effort. While the recommendations in this report will help move the IT Department forward, they should not be construed as all-encompassing or final. The IT field is constantly changing, with new technologies emerging and others fading every few years. To remain relevant in such an environment, IT Management needs to monitor and adapt to these changes.

[21] Given the time and effort needed to implement these recommendations, the IT Department should borrow from existing materials and adapt plans, policies, and performance measures for use at MTS rather than attempt to develop any of these documents internally. In addition to the professional and government sources mentioned previously in this report, a number of private firms such as CEB and Gartner offer suitable IT guidance.

Appendix A – Sample Contents of an IT Strategic Plan

This appendix provides a sampling of IT strategic plan contents, adapted from the IT strategic plans of Boston College, the Federal Bureau of Investigations, and the County of San Diego. These sample contents echo many of the recommendations of this report.

Strategic Plan Section	Sample Content
Vision	The IT Department will be recognized as a high performance team providing technology excellence. All areas of the our mission require a resilient, agile and sustainable IT infrastructure. This Strategic Plan lays the groundwork for enabling a portfolio of IT within a highly capable Enterprise Architecture (EA), delivering reliable and effective technology solutions needed to fulfill our mission anytime, anywhere, on time and on budget.
Mission	The IT Department provides secure, reliable and integrated technology solutions in alignment with operational and administrative goals, while delivering excellence in customer service. In support of this mission, we will: • Partner with stakeholders to understand the information technology needs of our customers • Provide leadership and planning for the effective and strategic use of emerging technologies • Demonstrate technical and operational excellence through a commitment to professionalism and continuous improvement
Scope	This IT Strategic Plan (ITSP) was developed on the foundation of current legislation and directives, and maps to the organization's Strategic Plan (SP) and Strategy Management System (SMS). It aligns with the enterprise perspective for improving strategic processes, tactical activities and technology to achieve increasing benefits to the mission owners that can be measured in desired outcomes. The target audience for the ITSP includes senior executives, mission owners, IT enterprise architects, IT program managers and financial planners.
Core Values	Our core values drive and guide us as we serve the organization. As members of the IT Department, we are committed to: • **Collaboration:** We are dedicated to a constructive, team-oriented environment, gathering varied perspectives, sharing knowledge and building effective partnerships with key stakeholders. • **Continuous Improvement:** We strive for operational excellence through the ongoing development of the staff and the organization as a whole.

Strategic Plan Section	Sample Content
	• **Innovation:** We encourage creative and critical thinking in the development of technology services and solutions. • **People:** We listen to, respect and care for employees, customers, and one another, both professionally and personally. • **Service:** We strive to provide excellent service by being consistent, agile, reliable and accessible to all. • **Transparency:** We leverage open communications and thoughtful business processes to be accountable in our interactions and our work.
Alignment	Through the Strategy Management System (SMS), the CEO identified the enterprise shifts and organizational strategy that guides our collective efforts. The SMS uses strategy articulation, performance measurement and a concise management communication "language" to enable organizations to make proper decisions and manage toward the right solutions. Combined with the "Strategy Drives Budget" initiative, SMS provides a holistic view of an organization's overall performance by integrating financial measures with other key performance indicators around customer needs, internal business processes and learning and development tools.
IT Workforce	Emerging and advanced technologies are of little value without the skilled professionals that understand and can maximize their full potential. We recognize that the execution of the IT mission is driven by the collective talent, skills and capabilities of our IT professionals. As we move toward a consolidated and agile IT enterprise and implement policies and technologies necessary to support that transformation, we will ensure that the critical success factors necessary to identify, develop and support the IT workforce transformation are accounted for in IT strategic planning and execution.
Gap Analysis	The *Director's Budget Planning Guidance* for 2011-2015 identified six IT mission gaps. These gaps correspond with the Strategy Management System themes. • The first gap is with surveillance technologies, where the need has arisen for enhanced staffing and sustaining systems. • Another gap involves the rapid evolution of digital technologies, enabling the us to remain current with lawful intercept technologies and avoid the possibility of "going dark". • The IT infrastructure was also identified as a strategic gap. Specifically, we need to address data center relocation,

Strategic Plan Section	Sample Content
	investigate data warehouse re-engineering, legacy mainframe applications replacement, information sharing capabilities, and network deficiencies. • A strategic gap identified the need to enable case management capabilities. • Additional strategic gaps identified the need for additional digital forensics capabilities to eliminate backlogs and ensure that growth in cheap media storage does not overwhelm our capabilities. • The need for new biometrics to evolve the legacy identity systems to a multi-modal biometrics system.
Customer Service	We will develop and implement well-articulated service and support protocols based on industry standards. • We will review existing service and support procedures against the ITIL framework, perform a gap analysis and define specific plans for improvement. • We will create IT collaboration teams for the purpose of generating actionable improvements in the areas of Customer Relationship Management, Customer Intelligence and Analytics, Continual Service Improvement and Research & Development. • We will create ongoing customer service training programs for both support personnel and key IT partners. • We schedule yearly benchmarking activities with key partners as well as related industries.
Information Security	In order to secure and protect IT resources commensurate with our mitigated risk tolerance, IT Security ensures: • The ability to change current services and deploy new services rapidly and securely • The harmonization of information security policies, standards and practices across the organization • A nuanced approach to information security services based on consistent, thorough IT risk management • A high degree of assurance that sensitive information is protected at rest and in transit, and that we are compliant with regulatory requirements • Information security services such as identity management, federated access and mobility solutions to enable our workforce to perform their jobs effectively and allow greater customer access to services
Infrastructure	The continued variety and growth of applications and services supported by IT requires ongoing investment in our infrastructure.

Strategic Plan Section	Sample Content
	A thoughtful review of, and measured planning effort for, infrastructure investments will ensure a reliable and scalable technology infrastructure.
Portfolio Management	Portfolio Management provides a consistent approach and improvement across the portfolios, project management and program management through oversight of department key projects and initiatives. • **Comprehensive view of all IT projects.** We will assess and evaluate all projects to identify dependencies or risks that would justify oversight or assistance in order to be proactive on those projects/programs. We will also establish key checkpoints to ensure the projects are evaluated for compliance with organizational standards. • **Manage applications as assets, with documented performance criteria.** We will utilize performance testing tools and establish a practice that evaluates the potential performance of the systems being implemented through a project and also the performance of the project itself. Performance measurements will be built into the project for acceptance to be process. • **Close the gap between IT project outcomes and customer satisfaction.** We will establish effective and efficient process improvements to close the gap between what the customer expects as an outcome of a project/program compared to the actual outcome that meets business requirements documented.
Content Management	Content Management improves the visibility and manageability of unstructured content. Content management establishes a platform foundation that provides single source of truth, and implements controls that increase reusability and information sharing. Version management, record retention and metadata are key functions that enable collaboration. Federation is the final piece that supports content management and search capabilities, making the data accessible and usable. • **Improve employee efficiency through collaboration and data sharing.** We will leverage common tools and features to promote interoperability and collaborative experiences. Federation will be a key element into the data sharing and integration of different systems. • **Reduce redundant and obsolete content.** As data proliferates and copies of documents multiply, we will evaluate tools that identify and reduce obsolete and duplicate content.

Strategic Plan Section	Sample Content
Information Management	Information Management sets the direction and shapes the enterprise's information management vision. Effective enterprise information management delivers relevant and actionable information that is reusable, trusted, and available both internally and externally. Information Management utilizes tools to enhance and produce quality information through various methods for consumption by end users, partners and Public Information Act requests. • **Deploy solutions that deliver relevant and actionable information that enable impactful decision-making.** Information Management entails the ability to provide reporting of historical and current data, track leading indicators, and present the business driven information through a tool that is easy to use. Validations and sets of controls will ensure that the data is trustworthy and derived from an authoritative source. • **Provide highly reusable and trusted data that can be readily applied in accordance with departmental and enterprise needs.** We will provide trusted data that is accurate and has been through a data quality process. The data has to be meaningful and its metadata attributes provided in a manner that is understood by the end user, regardless of where the data resides within the enterprise.
Cloud Storage	We evaluate cloud technologies and establish guidelines for use of cloud solution providers by departments. We will leverage cloud computing technologies to achieve scalability, cost efficiencies, and improved system utilization. Cloud technology will be leveraged to meet business needs through an appropriate blend of internal and cloud platforms. • **Targeted migration from on-premise computing to cloud and the integration of both.** We will review applications that can potentially be moved to the cloud through a governance process that vets policies and practices to assist in decision making and final best-fit solutions. Cloud solutions are application-specific, hence the potential benefit varies and will be assessed on a case by case basis. • **Develop interfaces to move data securely between cloud and on-premise.** At times cloud solutions require interfaces to and from on-premise solutions which will be assessed for interoperability between systems with proper security and access requirements. • **External identity management for cloud-based applications and services** Whether on premise or in the cloud, the solution should be seamless to the end user or

Strategic Plan Section	Sample Content
	customer of the application. The identity management lifecycle and authorization provisioning are important considerations when moving applications to the cloud.
Goals, Objectives, Action Items	**Goal 1:** Advance the information security infrastructure and management practices using industry standards (ISO27002) in support of the specifics needs of the organization. **Objective 1:** Strengthen the overall data security posture by enhancing business practices to ensure consistent data security practices are in place throughout the community. **Action Items:** Create end user environments that encourage safe storage of data, including a review of elements that could be automated. • Improve the granularity of user roles so additional security layers for oversight and prevention can be introduced for those who access sensitive data. • Define physical assets that access University data which should be managed and implement automated tools to manage defined devices. • Develop ITS security checklists that outline best practices and allow self-certification on a regular basis as a means of ongoing risk mitigation. **Goal: Improve Analysis, Collaboration and Information Sharing** **Objectives:** 1. Deploy enterprise-wide analytical capabilities. 2. Advance knowledge management. 3. Improve ability to provide timely and relevant information sharing with partners. **Goal: Transform Our IT Workforce** **Objectives:** 1. Become a center of excellence and employer of choice. 2. Align workforce skills to achieve IT strategic goals and objectives. 3. Promote continuous learning and formal training programs for proactive skills development. **Goal: Improve the overall Management of Information Technology** **Objectives:** 1. Provide enterprise solutions that support multiple mission areas. 2. Leverage technology and science for innovative new solutions. 3. Recommend IT solutions for enterprise services.

Strategic Plan Section	Sample Content
	4. Optimize the portfolio of IT resources (assets, projects, investments) through effective governance processes.
Compliance	The Office of Integrity and Compliance develops, implements and oversees a program that ensures processes and procedures are in place to promote compliance with the letter and spirit of applicable laws, regulations, rules and policies. IT capabilities and solutions are needed to enforce our policies and prevent instances of legal noncompliance.

Appendix B – Examples of Technical Performance Measures

The technical or operational measures in this appendix provide information on the function of various systems and processes. They are qualitatively different from strategic and tactical performance measures, both of which are geared towards reporting on the accomplishment of an objective. Although technical performance measures cover specialized systems, processes, and work areas, they provide similar feedback regarding system availability, timeliness of service, customer satisfaction, and incident resolution.

Service	Performance Measure	Description of Measure
Help Desk	Time to Answer	The number of seconds it takes to answer a call
	Call Abandonment Rate	Percentage of customers who hang up before speaking to a representative
	First Call Resolution Rate	Percentage of incidents that are resolved on the first phone call
	Customer Satisfaction	Annual customer satisfaction level measured on a five-point scale
Data Center	Mainframe Availability	Percentage of time the mainframe computer is available
	Mainframe Incident Resolution Rate[1]	Percentage of incidents resolved within four hours
	Server Availability	Percentage of time server is available
	Server Incident Resolution Rate	Percentage of incidents resolved within four hours
	Data Storage Availability	Percentage of time data storage is available
	Time to Provision a Server	Average number of business days to provision a service and place it into production
	Customer Satisfaction	Annual customer satisfaction level measured on a five-point scale
Application Hosting	Email Availability	Percentage of time email is available
	Incident Resolution Rate	Percentage of email incidents resolved within four hours
	Customer Satisfaction	Annual customer satisfaction level measured on a five-point scale
Directory Services	Directory Availability	Percentage of time the system is available
	Incident Resolution Rate	Percentage of Directory Services incidents resolved within four hours
	Customer Satisfaction	Annual customer satisfaction level measured on a five-point scale
Web Services	Availability of Hosted Website	Percentage of time the website is available
	Web Content Response Rates	Percentage of web time incidents responded to within the agreed-upon timeframe
	Content Management Technical Support Response Rate	Percentage of time content management technical support is available
	Customer Satisfaction	Annual customer satisfaction level measured on a five-point scale
Desktop Network	Network Availability	Percentage of time the network is available
	Network Responsiveness	Percentage of time each month that network circuits do

Service	Performance Measure	Description of Measure
Services		not exceed a 50% utilization level
	Application Remote Access Completion Time	Percentage of time requests for a new application with remote access connectivity is processed within eight weeks
	Workstation Software Update Time	Percentage of time workstations are configured within three business days
	Service Request Review Time	Percentage of time service requests are reviewed, evaluated, and responded to within three business days
	Antivirus Signature Deployment	Percentage of servers and workstations whose antivirus software is within the last three updates
	Incident Resolution Rate	Percentage of time an incident is resolved within four hours
	Customer Satisfaction	Annual customer satisfaction level measured on a five-point scale
Data Network Services	Network Availability	Percentage of time the network is available
	Circuit Provision	Percentage of time a circuit is provisioned within 90 days
	Incident Resolution Rate	Percentage of time an incident is resolved within 24 hours
	Customer Satisfaction	Annual customer satisfaction level measured on a five-point scale
Voice Network Services	Dial Tone Availability	Percentage of time a dial tone is available throughout the year
	Time to Install a Line	Average number of days to install up to ten lines
	Time to Answer	Number of seconds it takes to answer a call for assistance
	First Time Call Resolution Rate	Percentage of first-time incidents that are logged and resolved without further action or delay
	Daily Ticket Resolution Close Rate	Percentage of trouble incident tickets that are closed within 24 hours of receipt
	Customer Satisfaction	Annual customer satisfaction level measured on a five-point scale
Training & Workforce Development	Training System Availability	Percentage of time the training system is available
	Training Coordination Response Time	Percentage of training coordination requests responded to within one business day
	Quality of Training Services	Customer satisfaction rating of classroom training measured on a five-point scale
	Customer Satisfaction	Annual customer satisfaction level measured on a five-point scale

Source: MTS Internal Auditor. Adapted from the New York State Office of Information Technology Service Level Agreement template.
Note 1: Incidents are usually triaged and rated by severity. Most measures of incident resolution report on high-severity incidents. However, it is beneficial to report on the resolution of low and medium-severity incidents as well in order to ensure that these incidents are resolved in a timely manner.

Metropolitan Transit System

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Memorandum

DATE: September 30, 2015

TO: Paul Jablonski

FROM: Toufic Tabshouri

SUBJECT: Audit Report – Business Continuity

CC: Sandra Bobek, Sharon Cooney, Manuel Guaderrama, Karen Landers, Larry Marinesi, Rob Schupp, Bill Spraul, Jeff Stumbo, Wayne Terry

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Report Summary

The Internal Auditor conducted an audit of the MTS Business Contingency and Continuity Plan (BCP). The audit entailed reviewing the existing BCP, researching Business Continuity (BC) best practices, and conducting interviews with several MTS directors to solicit their views on organizational preparedness efforts. The audit found that the BCP has not been updated in almost five years and is lacking in several respects. This report recommends that MTS establish a cross-functional workgroup to create a new BCP.

Introduction

This report is part of a series of audits focusing on organizational preparedness and response in the event of a significant business disruption or disaster. It was originally scheduled as part of an audit titled *Information Technology: Business Continuity and Security* in the fiscal year 2014-15 Internal Audit Plan. The Internal Auditor subsequently received a request for assistance from the Information Technology (IT) Department to help with updating its disaster recovery plan. Along with advising the IT Department, the Internal Auditor conducted an audit that was focused on IT Disaster Recovery (DR) efforts. The audit was completed and submitted as an informational item to the MTS Board of Directors in December 2014.

In conducting the DR audit, the Internal Auditor reviewed organizational plans related to BC and Emergency Preparedness (EP). Based on this review, it was evident that some of these plans were outdated and need revision. These plans also overlap and have gaps between them, but any attempt to consolidate and streamline them will be complicated by the lack of a uniform terminology used in these plans, as various government regulations and industry guidelines define the same terms differently.

Objectives, Scope & Methodology

The objective of this audit was to evaluate BC efforts at MTS. To accomplish this objective, the Internal Auditor reviewed the existing BCP, researched BC best practices and conducted interviews with several MTS directors to solicit their views on organizational preparedness efforts. The scope of the audit was limited to BC and did not entail a review of other plans.

Background

As used in this report, BC is concerned with keeping organizational processes functioning in the aftermath of a disruption or disaster, regardless of whether IT systems have been restored. DR pertains specifically to restoring information systems after a disruption, while EP covers the organizational response in the immediate aftermath of a disaster and is focused on health and safety issues.

Planning for various disaster scenarios is a crucial activity that allows decision-makers to anticipate problems before they materialize and to think through possible solutions. Planning also allows decision-makers to identify vulnerabilities and eliminate or mitigate them. Finally, planning activities bring together employees from disparate functions and compel them to work together in a team setting, markedly improving the effectiveness of the organizational response to a real disaster. Planning efforts generally produce reference documents and various plans, some of which are presented in Exhibit A.

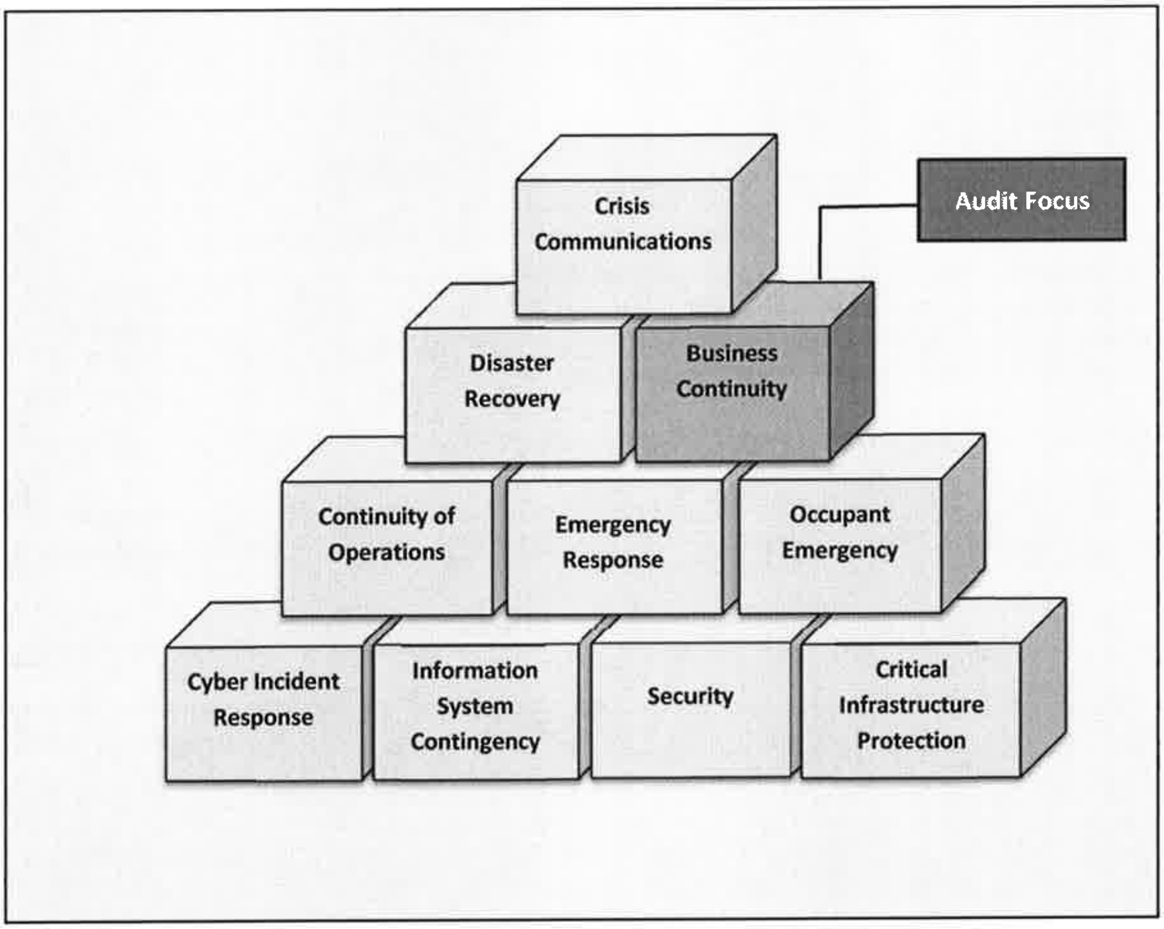
Exhibit A – Commonly Used Preparedness Plans

Plan Name	Purpose
Crisis Communications	Delineates responsibilities for communication during a disaster.
Disaster Recovery	Focuses on the restoration of information technology systems and services following a disaster.
Business Continuity	Outlines procedures for sustaining business operations while recovering from a significant disruption.
Continuity of Operations	Focuses on restoring mission essential functions at an alternate site and performing those functions for up to 30 days before returning to normal operations.
Emergency Response	Specifies initial response procedures for various threat and disaster scenarios.
Occupant Emergency	Focuses on the protection of facilities and personnel within them.
Cyber Incident Response	Provides protocols for detecting, mitigating, and recovering from cyber attacks such as denial of service attacks and data thefts.
Information System Contingency	Focuses on recovery of systems independent of the site or location.
Physical Security	Formalizes processes for addressing security threats and remediating vulnerabilities.
Critical Infrastructure Protection	Provides for the protection of critical infrastructure such as highways, bridges, hospitals, and power plants.

Source: MTS Internal Auditor, based on National Institute of Standards and Technology 800-34 and other sources.

Exhibit B provides a visual description of the relationships between the various plans listed in Exhibit A, and it identifies the scope of this audit.

Exhibit B – Hierarchical Relationship Among Various Preparedness and Response Plans



Source: MTS Internal Auditor

The blocks higher on the pyramid represent plans that are broader in scope than those in lower blocks. Most organizations do not create all the plans listed in Exhibit B; instead, they subsume the contents of lower-level plans such as the Cyber Incident Response Plan into other plans. Organizational needs and organizational complexity drive the level of detail required in the planning effort.

Audit Results

The current BCP is deficient and should be revised. The BCP is dated June 2010, but the author of the plan is not identified. Furthermore, the BCP also does not show any evidence of approval by MTS. The following is a partial list of the BCP's shortcomings:

- The BCP uses an outdated approach to risk management. The introductory section of the plan states that "Our organization needs to identify all potential risks and threats to the continuity of its business." Current thinking on risk management emphasizes flexibility, resilience, and redundancy, rather than producing an exhaustive listing of everything that could go possibly wrong.

- The BCP employs a risk scoring scale that is unusually wide, with scores ranging from 0.1 to ten. Most risk management scoring schemes use narrower numerical scales such as one through ten or a qualitative scale that uses terms such as "low, moderate, high" for probability of occurrence and "minor, serious, major, catastrophic" for impact. While the computation of the risk score follows the conventional Risk x Impact formula, no justification is provided for the scores. It is also unclear how the scoring was conducted – whether by a single rater or a group.

- The process narratives in section three of the BCP represent general descriptions of various divisions or functions. They do not describe any processes in sufficient detail. Furthermore, some of the information in these narratives is no longer current.

- Nine of the sixteen named "action contacts" in the BCP are no longer employed by MTS.

- Some IT systems referenced in the plan have been replaced or are currently being replaced. For example, the financial systems IFAS and Ellipse will be discarded after the ERP[1] system is implemented.

- Important sections (columns) of the plan titled "Risk Mitigation Strategy" and "Contingency" are populated with minimal, general information. These sections represent the heart of BC efforts and should contain much more detail.

- Finally, the BCP provides no assurance that it covers the universe of critical operating processes at MTS.

There is no standard template for creating a good BCP that will work for all organizations, as the contents of a BCP should be tailored to the processes of an organization. While creating a BCP requires an investment in staff time, it is not a daunting undertaking. The Federal Government and private industry provide guidance on creating BCPs. Professional associations such as the Business Continuity Institute and the Disaster Recovery Institute offer resources and training opportunities at a reasonable cost. Exhibit C below shows the basic steps required to develop a BCP.

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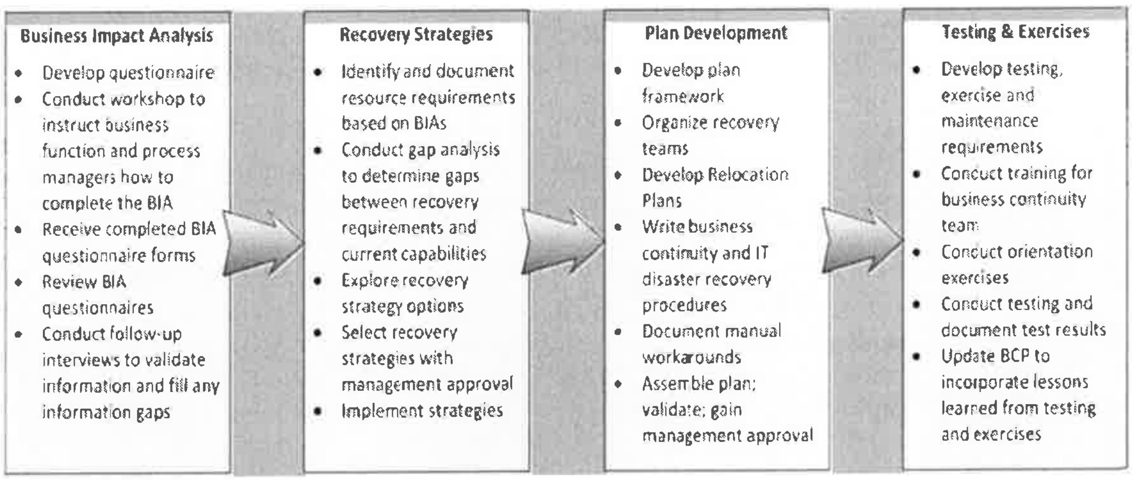
[1] MTS is currently implementing an Enterprise Resource Planning (ERP) system from SAP.

Exhibit C – Business Continuity and Contingency Planning Process



Source: Ready.gov website

The feedback received from MTS directors interviewed during this audit ranged from skepticism to conviction about the need for plans such as the BCP. On one end of the spectrum was the view that MTS management is very experienced[2] and is able to respond to disasters and improvise as needed, and that one cannot plan for every bad scenario. Investing staff time to update and consolidate various plans may bring little benefit, particularly if plans are too cumbersome to use in an actual disaster. On the other end of the spectrum was the view that plans are essential and required for good administrative housekeeping. Most people interviewed articulated views that were in between these two. One perspective offered was that the San Diego County Office of Emergency Services is responsible for coordinating disaster response, and that more severe disasters would likely trigger a federal response. MTS simply serves as a resource and plays a supporting role. In general, directors were open to undertaking some planning, but they were leery of over-planning.

The BC consulting industry is mature and competitive, and MTS will have no trouble engaging a qualified consultant to create a new BCP. However, it will be more beneficial and economical for MTS to assign the task of creating a new BCP to an internal workgroup. Involving MTS employees in creating a BCP will enhance organizational awareness and knowledge of BC issues, and it will also improve communication between various departments that need to work together during a business disruption. Furthermore, a revised BCP is likely to reflect a consensus opinion of various participants and have greater buy-in than a report developed by an outside party.

Recommendations and Management Response

MTS should establish a cross-functional workgroup to update the BCP. This workgroup should be comprised of representatives from Finance, Transit, Trolley, Human Resources, Information Technology,

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[2] This point about MTS management experience is accurate; the CEO, COO of Transit, COO of Trolley, and many superintendents and managers have decades of experience working at MTS or in the transit industry. However, experience does not obviate the need for planning. Furthermore, less junior staff can benefit from involvement in planning and training exercises.

as well as Marketing and Security. This workgroup should be sponsored by at least one director, and should meet regularly until it delivers a new BCP.

Executive Management agrees with this recommendation. MTS will establish a workgroup to update the Business Continuity Plan.

Conclusion

Planning should not be an all-consuming endeavor that yields monstrous plans and that nobody reads. But the temptation or pitfall of over-planning is not a good reason to forgo any planning. A good plan is concise and has high utility for the people that need to use it during a disruption or disaster. It should read like a checklist and be easy to navigate – akin to emergency checklists that are found on every plane.

Metropolitan Transit System

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Memorandum

DATE: September 25, 2015

TO: Israel Maldonado

FROM: Toufic Tabshouri

SUBJECT: Audit Report – Transit Revenue

CC: Amanda Denham, Paul Jablonski, Karen Landers, Larry Marinesi, Bill Spraul

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Report Summary

In accordance with the Internal Audit Plan for fiscal year 2014-15, the Internal Auditor conducted an audit of the Transit Revenue Department. This audit was included in the fiscal year 2014-15 Internal Audit Plan because of the high inherent risk of cash collections. The objective of the audit was to evaluate the internal controls over cash handling operations. The audit found that controls over cash handling were strong and functioning properly, and this finding mitigates the high inherent risk in the Transit Revenue Department. To avoid disclosing detailed information regarding cash handling processes that could compromise the integrity of collection operations, this report presents the results of the audit work at a high or summary level. This audit report contains no recommendations for the Transit Revenue Department.

Introduction

The Transit Revenue Department (Revenue Department) is responsible for the daily collection of cash and coins from approximately 280 buses, and for maintaining fare box equipment. The Revenue Department is managed by the Revenue Administrator, and employs a staff of twelve Revenue Processors, Revenue Technicians, and assistants. The primary task that Revenue Department employees perform is to transfer the cash contained in lockboxes within buses into vaults located in bus facilities (vaulting). While performing this task, employees also download information from bus fare boxes into a software application (probing). Employees generally do not handle any cash, and the vaults are monitored by security cameras. A vendor provides an armored-car service and retrieves the vaults, counts the coin and paper currency in the vaults, and sends a daily collections report to the Revenue Administrator.

Daily collections fluctuate considerably, and they average approximately $35,000 per day in cash and $4,000 in coins. Bus cash collections represent a small fraction of MTS bus fare revenue, the majority of which is generated from the sale of transit passes from ticket vending machines and local grocery stores.

Objectives, Scope & Methodology

The objective of the audit was to evaluate the strength of controls over revenue cash handling operations. The scope of the audit was limited to cash revenue in fiscal year 2014-2015.
Audit work entailed reviewing the Financial Procedures Manual, which delineates revenue collection procedures; comparing the Revenue Department's practices to the Financial Procedures Manual; evaluating monitoring activities and controls over revenue collections; reviewing a sample of daily collections; observing vaulting and probing operations; reviewing physical security controls; and visiting a vendor facility and observing cash counting operations.

Background

After completing their daily runs, buses return to their service yards at the Imperial Avenue Division or the Kearney Mesa Division where they are cleaned and refueled. While the buses are queued for cleaning and refueling, Revenue Department personnel remove the cash boxes contained within the buses and empty their contents into vaults. A personal identification number and a key are required to access the cash box in a bus, and another key is needed to open the vault. To transfer the cash from the bus cash box to a vault, an employee opens the vault door, inserts the cash box, and then closes the vault door. The employee then operates a lever that releases the cash box contents into the vault. Afterwards, the employee opens the vault and removes the empty cash box and secures it back in the bus. The Revenue Department personnel involved in this activity cannot access cash during this transfer.

The Revenue Administrator verifies that all buses are probed and vaulted every night. The Revenue Administrator also reconciles collections reports received from the vendor with the report generated from the bus probing data. A Staff Accountant in the Finance Department reconciles the collections reports from the vendor with bank deposit statements.

Audit Results

Based on the audit observations, reviews, and testing, the Internal Auditor found that the controls over revenue cash collections are strong; variances and discrepancies are promptly investigated; duties are properly segregated; physical security is adequate; and that Revenue Department staff are adhering to the procedures established in the Financial Procedures Manual.

The Internal Auditor randomly sampled ten collection dates and reviewed the monitoring activities of the Revenue Administrator and the Staff Accountant for those dates. For each of those dates, the reconciliations were properly conducted by the Revenue Administrator and the responsible Staff Accountant and supported by adequate source documentation.

The Revenue Administrator's reconciliations (Exhibit A) showed variances ranging from $9 to $356 between the bus fare collection reports[1] and the vendor collection reports. On a percentage basis, these variances range from 0.02 percent to 1.5 to percent of daily collections. With one exception, all the variances are positive: the vendor count was higher than the amounts recorded in our system. Most discrepancies occur due to known but unavoidable problems such as calibration issues with fare boxes and coin counting machines.[2]

Exhibit A – Revenue Administrator's Reconciliation of Bus Fare Collection Reports and Vendor Collection Reports

Sample Date Selected by Internal Auditor	Date Counted by Vendor	Paper Currency Amount Per Vendor Collections Report	Paper Currency Amount Per MTS Bus Data Report	Variance	Variance Percentage
8/17/2014	8/18/2014	$69,477	$69,387	$90	0.1%
10/25/2014	10/27/2014	$57,698	$57,613	$85	0.1%
12/16/2014	12/16/1014	$24,041	$23,685	$356	1.5%
1/7/2015	1/7/2015	$27,814	$27,615	$199	0.7%
1/19/2015	1/20/2015	$27,316	$27,264	$52	0.2%
2/6/2015	2/6/2015	$29,956	$29,947	$9	0.0%
2/22/2015	2/23/2015	$56,829	$56,841	($12)	0.0%
3/3/2015	3/3/2015	$28,955	$28,841	$114	0.4%
5/14/2015	5/14/2015	$26,391	$26,345	$46	0.2%
6/25/2015	6/25/2015	$29,432	$29,406	$26	0.1%

The Staff Accountant's reconciliations (Exhibit B) showed no variances between the bank deposit receipts and vendor collection reports .

[1] These reports are generated from the data downloaded during the probing of buses.

[2] Coins are counted separately by the vendor and reconciled by the Revenue Administrator and the Staff Accountant in the same manner as paper currency. Although reconciliations of coin counts show variances, the dollar value of these variances is low compared to the paper currency variances.

Exhibit B – Staff Accountant's Reconciliation of Vendor Collection Reports and Bank Deposit Receipts

Sample Date Selected by Internal Auditor	Date Counted by Vendor	Paper Currency Amount Per Vendor Count	Paper Currency Bank Deposit Date	Paper Currency Amount Per Bank Statement	Variance
8/17/2014	8/18/2014	$69,477	8/22/2014	$69,477	$0
10/25/2014	10/27/2014	$57,698	10/31/2014	$57,698	$0
12/16/2014	12/16/1014	$24,041	12/22/2014	$24,041	$0
1/7/2015	1/7/2015	$27,814	1/13/2014	$27,814	$0
1/19/2015	1/20/2015	$27,316	1/26/2015	$27,316	$0
2/6/2015	2/6/2015	$29,956	2/12/2015	$29,956	$0
2/22/2015	2/23/2015	$56,829	2/27/2015	$56,829	$0
3/3/2015	3/3/2015	$28,955	3/9/2015	$28,955	$0
5/14/2015	5/14/2015	$26,391	5/20/2015	$26,391	$0
6/25/2015	6/25/2015	$29,432	7/1/2015	$29,432	$0

Management Response

The Revenue Administrator agrees with the Internal Auditor's audit. The Revenue Administrator will ensure that current successful internal controls are maintained adequately. The Revenue Administrator would like to thank the Internal Auditor for his professionalism and insight.

Conclusion

The Revenue Department's cash collection process and related controls are functioning well. The monitoring activities performed by the Revenue Administrator and Staff Accountant have improved since the last audit of the Revenue Department (December 2011).

The Internal Auditor would like to thank the Revenue Administrator and the Staff Accountant for their help and responsiveness during this audit.