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10-31-16A08:04 RCVD

## Agenda

### MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 3, 2016

Executive Conference Room  
9:00 a.m.

#### ACTION RECOMMENDED

- A. 1. Roll Call
2. Approval of the Minutes of June 2, 2016 Approve
- B. COMMITTEE DISCUSSION ITEMS
1. Draft of Fiscal Year 2016 Comprehensive Annual Financial Report (CAFR)  
(Erin Dunn and Ken Pun and Gary Caporicci of Pun & McGeady) Information  
Action would receive a draft of the Fiscal Year (FY) 2016 CAFR for review and discussion.
2. Proposed Revisions to MTS Board Policy No. 22 (Toufic Tabshouri & Ernie Ewin) Possible  
Action  
Action would discuss and approve proposed revisions to MTS Board Policy No. 22 and forward them to the MTS Board for approval.
3. Internal Audit Activity Update Report (Toufic Tabshouri) Information  
Action would receive the Internal Audit activity update report.
- C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS
- D. PUBLIC COMMENTS
- E. NEXT MEETING DATE: To be determined.
- F. ADJOURNMENT



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

## MINUTES

June 2, 2016

### A. ROLL CALL

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

2. APPROVAL OF MINUTES

Mr. Mathis moved for approval of the minutes of the October 15, 2015, Audit Oversight Committee meeting. Ms. Bragg seconded the motion, and the vote was 4 to 0 in favor with Mr. Gloria absent.

### B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. The Pun Group Engagement Letter for the Fiscal Year (FY) 2016 Audit (Erin Dunn)

Erin Dunn, Controller, introduced Ken Pun, with The Pun Group. She noted that The Pun Group has officially transitioned from their previous name, Pun & McGeedy. Ms. Dunn stated that the engagement letter was provided in the meeting packet.

#### Action Taken

Mr. Mathis moved to receive the audit engagement letter from The Pun Group. Ms. Bragg seconded the motion, and the vote was 4 to 0 in favor with Mr. Gloria absent.

2. Proposed Fiscal Year (FY) 2016 Audit Schedule (Erin Dunn)

Ms. Dunn stated that the interim audit fieldwork has been completed. She reviewed the timeline for the proposed fiscal year 2016 audit schedule. Chairman Ewin asked if the Comprehensive Annual Financial Report (CAFR) is required to be submitted by the end of the year. Ms. Dunn replied that in order to receive the Government Finance Officers Association (GFOA) award, the CAFR will need to be submitted by December 31, 2016.

Mr. Ewin commented about MTS Policy No. 22 which discusses policies and procedures for the Audit Oversight Committee (AOC). He stated that he would like to schedule an additional future meeting to discuss and closely review the policies and procedures of the AOC.

#### Action Taken

Ms. Bragg moved to receive the proposed FY 2016 audit schedule. Mr. Cox seconded the motion, and the vote was 4 to 0 in favor with Mr. Gloria absent.

3. Interim Audit (Erin Dunn and Ken Pun of The Pun Group, LLP)

Mr. Pun provided a presentation on the interim audit. He reviewed the scope of work for the audit and the agreed upon procedures. Mr. Ewin inquired about the new SAP system. Mr. Pun explained the differences between the old accounting systems and the new accounting system, SAP. Mr. Pun reviewed the auditor's responsibilities, approach to the audit and the exit memo. He noted that the transition to the new SAP system was smooth and there were no issues.

Action Taken

There was no action taken on this item.

4. Independent Accountants' Report on Applying Agreed-Upon Procedures to the Implementation of SAP Software (Ken Pun of The Pun Group, LLP)

Mr. Pun discussed the agreed-upon procedures to the implementation of the SAP software. He noted that they worked closely with staff on implementing and testing the new system. Mr. Pun stated that there were no issues during the implementation.

Action Taken

Ms. Bragg moved to receive a report from The Pun Group, LLP regarding their testing of the recently implemented SAP software application. Mr. McClellan seconded the motion, and the vote was 4 to 0 in favor with Mr. Gloria absent.

5. Update on GASB 72, GASB 73, GASB 76, GASB 79 and Uniform Grant Guidance (Ken Pun of The Pun Group, LLP)

Mr. Pun provided an update on the implementation of GASB standards and uniform grant guidance. He discussed GASB 72 – Fair Value Measurements and Applications; GASB 73 – Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68; GASB 76 – The GAAP Hierarchy; and GASB 79 – Certain External Investment Pools and Pool Participants. Mr. Pun reviewed the future standards including postemployment benefits accounting and financial reporting, re-examination of GASB 34, and lease accounting.

Mr. Pun also provided a brief presentation on the single audit. He reviewed the single audit changes and asked for any questions or comments.

Mr. Cox inquired if MTS had any investments with CalTRUST. Ms. Dunn replied no. Mr. Cox stated that CalTRUST is a rated fund and recommended staff to look into CalTRUST as a potential alternative fund.

Action Taken

Mr. Cox moved to receive a report from The Pun Group, LLP regarding upcoming reporting and auditing changes. Ms. Bragg seconded the motion, and the vote was 4 to 0 in favor with Mr. Gloria absent.

6. Internal Audit Activity Update Report (Toufic Tabshouri)

Karen Landers, General Counsel, provided a brief introduction to this item and noted that MTS's Internal Auditor, Toufic Tabshouri, is currently in the middle of other audits and will brief the committee of their updates. Mr. Tabshouri continued the presentation on the internal audit activity update. He reviewed the audits that are nearing completion and his other planned audits. He discussed other internal audit activities including the Enterprise Resource Planning (ERP) system; Consultations; Procurement pre-award audits; and the Fraud Hotline. Mr. Tabshouri reviewed the statuses of the implementation of audit recommendations. He noted that staff does take his recommendations seriously and staff has worked hard to implement those recommendations. Mr. Tabshouri reviewed the potential audit topics for fiscal year 2016 – 2017 which include Transit and Trolley Safety Programs; IT Security; Overtime Pay; Opportunities to Consolidate Services; Procurement Processes in the ERP System; and Stores.

Mr. Ewin asked if he has discussions with the Risk department manager. Mr. Tabshouri replied that he does have discussions with the Risk manager, although, his discussions primarily go through General Counsel. Mr. Ewin asked if he uses any outside consultants or needed to use outside consultants to help with the audits. Mr. Tabshouri replied that he does not use outside consultants, but would discuss with management if he felt that it was needed.

Mr. Jablonski noted the attention that is being given to the fare collection system and the work that is being done to become compliant with the Payment Card Industry Data Security Standard (PCI Compliance). Mr. Jablonski also noted the ERP software implementation. He stated that this is a large project and requires continual close attention.

Action Taken

Mr. McClellan 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 absent.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

There were no committee member communications

D. PUBLIC COMMENTS

*Martha Welch* – Ms. Welch commented that it is not clear how the different agencies are operated in San Diego between the City and County. She stated that the trolleys do not display when they are arriving or departing.

E. NEXT MEETING DATE

The next meeting will be held as called.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 9:53 a.m.



Chairman

Attachment: Roll Call Sheet

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

ROLL CALL

MEETING OF (DATE) June 2, 2016

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

RECESS \_\_\_\_\_

RECONVENE \_\_\_\_\_

CLOSED SESSION \_\_\_\_\_

RECONVENE \_\_\_\_\_

ADJOURN 9:53 a.m.

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWING (Chair) <input checked="" type="checkbox"/>	9:00 a.m.	9:53 a.m.
BRAGG <input checked="" type="checkbox"/> (Rios) <input type="checkbox"/>	9:00 a.m.	9:53 a.m.
MCCLELLAN <input checked="" type="checkbox"/> (McWhirter) <input type="checkbox"/>	9:00 a.m.	9:53 a.m.
GLORIA <input type="checkbox"/> (Cole) <input type="checkbox"/>		
MATHIS <input checked="" type="checkbox"/>	9:00 a.m.	9:53 a.m.
ROBERTS <input type="checkbox"/> (Cox) <input checked="" type="checkbox"/>	9:00 a.m.	9:53 a.m.
Transportation Committee Rep Slot (Mathis)		

SIGNED BY THE CLERK OF THE BOARD: *Julia Tuer*

CONFIRMED BY THE GENERAL COUNSEL: *Karen Cox*



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## Agenda Item No. B1

### MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 3, 2016

#### SUBJECT:

DRAFT OF FISCAL YEAR 2016 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
(CAFR) (ERIN DUNN AND KEN PUN AND GARY CAPORICCI OF THE PUN GROUP)

#### RECOMMENDATION:

That the Audit Oversight Committee receive a draft of the Fiscal Year (FY) 2016 CAFR for review and discussion.

#### Budget Impact

None

#### DISCUSSION:

The Finance Department presents for review and discussion the first draft of the FY 2016 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
3. Finalized statistics

In the current year, total assets increased by \$52 million. The increase is due to an increase in capital assets of \$42 million, primarily due to the 63 new buses. Total liabilities increased \$5 million in the current year due to an increase in net pension liability of \$19 million and an increase of unearned revenue of \$3 million, offset by an \$18 million reduction in long term debt to purchase the Head Lease Rights for 52 light rail vehicles. Total revenues increased by \$6 million in FY 2016 primarily due to



Compressed Natural Gas (CNG) credits totaling \$5 million and total expenses increased by \$16 million due to an increase in depreciation, personnel costs and outside services. Further details are available in the "Management Discussion and Analysis" section of the CAFR.

Ken Pun from The Pun Group will be present to provide comments regarding the external audit and draft financial report.

A handwritten signature in black ink that reads "Sharon Cooney" followed by a small "for" and a flourish.

Paul C. Jablonski  
Chief Executive Officer

Key Staff Contact: Sharon Cooney, 619.557.4513, [Sharon.Cooney@sdmts.com](mailto:Sharon.Cooney@sdmts.com)

Attachment: A. Draft FY 2016 CAFR





# Comprehensive Annual Financial Report

for the Fiscal Years Ended  
June 30, 2016 and 2015

San Diego, California



San Diego Metropolitan Transit System



DRAFT 10-26-2016

# **San Diego Metropolitan Transit System**

San Diego, California

*Comprehensive Annual Financial Report and  
Independent Auditors' Report*

*For the Years Ended June 30, 2016 and 2015*

PREPARED BY SAN DIEGO METROPOLITAN TRANSIT SYSTEM  
FINANCE DEPARTMENT

DRAFT 10-26-2016

# San Diego Metropolitan Transit System

## Table of Contents

	<b>Page</b>
<b>Introductory Section (Unaudited):</b>	
Letter of Transmittal .....	i
Listing of Board of Directors and Management .....	v
Executive Level Organization Chart .....	vii
Certificate of Achievement for Excellence in Financial Reporting – GFOA .....	viii
<b>Financial Section:</b>	
<b>Independent Auditors' Report</b> .....	<b>1</b>
<b>Management's Discussion and Analysis (Required Supplementary Information) (Unaudited)</b> .....	<b>5</b>
<b>Basic Financial Statements:</b>	
Statements of Net Position .....	10
Statements of Revenues, Expenses and Changes in Net Position .....	13
Statements of Cash Flows .....	14
Notes to Basic Financial Statements .....	17
<b>Required Supplementary Information (Unaudited):</b>	
Schedule of Proportionate Share of the Net Pension Liability .....	76
Schedule of Changes in Net Pension Liability and Related Ratios .....	77
Schedule of Contributions .....	80
Schedule of Funding Progress of Other Postemployment Healthcare Plan .....	85
<b>Supplementary Information:</b>	
Combining Schedule of Net Position .....	88
Combining Schedule of Revenues, Expenses, and Changes in Net Position .....	92
Combining Schedule of Cash Flows .....	94
<b>Schedules of Revenues, Expenses and Changes in Net Position - Budget and Actual:</b>	
Combined Operations .....	96
<b>General Operations:</b>	
General Fund .....	98
Taxicab Administration .....	100
San Diego & Arizona Eastern Railway .....	101
Contracted Services .....	102
San Diego Transit Corporation .....	104
San Diego Trolley, Inc. ....	106

# San Diego Metropolitan Transit System

## Table of Contents (Continued)

	<b>Page</b>
<b>Statistical Section (Unaudited):</b>	
Financial Trends:	
Net Position by Component .....	111
Changes in Net Position .....	112
Revenue Capacity:	
Operating Revenue by Source .....	116
Fare Structure .....	117
Farebox Recovery Percentages .....	118
Debt Capacity:	
Ratio of Outstanding Debt by Type .....	120
Demographic and Economic Statistics:	
Regional Population and Personal Income Statistics .....	122
Full-time and Part-time Employees by Function .....	123
Ten Largest Employers in San Diego County .....	124
Operating Information:	
Operating Indicators by Function .....	126
Service Performance Data .....	127
Capital Asset Statistics by Function .....	128
Ridership .....	129
Operating Subsidy .....	130
<b>Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....</b>	<b>131</b>

**INTRODUCTORY SECTION**

DRAFT 10-26-2016

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DRAFT 10-26-2016



Board of Directors and Transit Riders  
San Diego Metropolitan Transit System

The Comprehensive Annual Financial Report of the San Diego Metropolitan Transit System (MTS) for the fiscal years ended June 30, 2016 and 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 Pun Group LLP, Accountants and Advisors, has been retained to meet this requirement. The goal of the independent audit was to provide reasonable assurance that the financial statements of MTS for the fiscal years ended June 30, 2016 and 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 years ended June 30, 2016 and 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 accounting 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 stay strong at least through the end of 2016. San Diego's gross domestic product (GDP), the total value of the region's economy, has been forecasted to reach \$213.7 billion in 2015 and \$221.8 billion in 2016, increasing from the \$206.8 billion earned in 2014. Industries contributing the most to GDP growth are manufacturing, professional and business services, followed by wholesale/retail trade, health care, accommodations and food services. Unemployment is projected to further decrease to an annual average of 4.8 percent in 2016, 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 sixth consecutive year and sales tax receipts have finally exceeded the 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 brought its contingency reserve balance from 10.0% of the operating budget up to 12.5% as of June 30, 2016.

### **Major Initiatives**

MTS continues to focus on keeping the system's capital infrastructure in a state of good repair. MTS and SANDAG are nearing the completion of the expanded East County operations and maintenance facilities. The original site was 3.3-acres and accommodated 67 older model diesel transit buses. The final layout of the new site, through the consolidation of three parcels, expands to 5.2 acres and will be able to accommodate up to 120 buses and 120 employee/support/visitor vehicles. The new building facility opened in October 2016 and the total project is expected to be completed by April 2017.

The Mid-Coast extension of the trolley system is another regional project. It will extend the UC San Diego Blue Line from Santa Fe Depot to the University City community, serving major activity centers such as Old Town, UC San Diego, the VA Hospital and the Westfield UTC mall. The Federal Transit Administration (FTA) recently signed a Full Funding Grant Agreement between SANDAG and the FTA to pay for half the cost of the Mid-Coast Trolley extension. The Mid-Coast Trolley extension is the largest public transit project in the history of the region. It will cost \$2.1 billion to build, including 36 additional light rail vehicles for the fleet. It is anticipated to open for revenue service in calendar year 2021.

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 \$18 million for this reserve, and has budgeted an additional \$15 million with the FY 2017 Capital Improvement Plan.

MTS was awarded \$31.9 million from the Transit and Intercity Rail Capital Program (TIRCP). The MTS grant is one of only 14 projects in the state funded by the State of California's 2015 and 2016 cap-and-trade budget. A total of \$224 million is being allocated for the TIRCP. The grant will be used for a new trolley station serving the 22-story San Diego Central Courthouse being built on C Street between State and Union streets, and to purchase eight new light rail vehicles to increase capacity on the MTS Trolley system. The proximity of the new station will provide convenient access to the 44,500 jobs expected to be within a one-half mile walk by 2020.

MTS has implemented a new Enterprise Resource Planning (ERP) and Transit Asset Management (TAM) software application called SAP. It is designed to be a one stop shop to track our purchasing, materials management, financials, vehicle maintenance programs, grants management and more. The new system replaces many existing systems, all of which had reached the end of their useful lives. The implementation of the ERP/TAM project brought significant change to the way business is conducted at MTS, and more than 450 employees spent thousands of hours training on the new system in November and December. The system will stream line many processes, move MTS away from paper-based processes, all while providing greater access to the information contained within the system.

## **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, 2015. This was the tenth consecutive year and the twentieth 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 CAFR 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

## Listing of Board of Directors and Management

### BOARD OF DIRECTORS

<b>Members</b>	<b>Board position (elected position)</b>
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)
David Alvarez	Board Member, since 1/12 (Councilmember, City of San Diego)
Lorie Bragg	Board Member, since 1/12 (Councilmember, 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)
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

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

**San Diego Metropolitan Transit System****Listing of Board of Directors and Management (Continued)**

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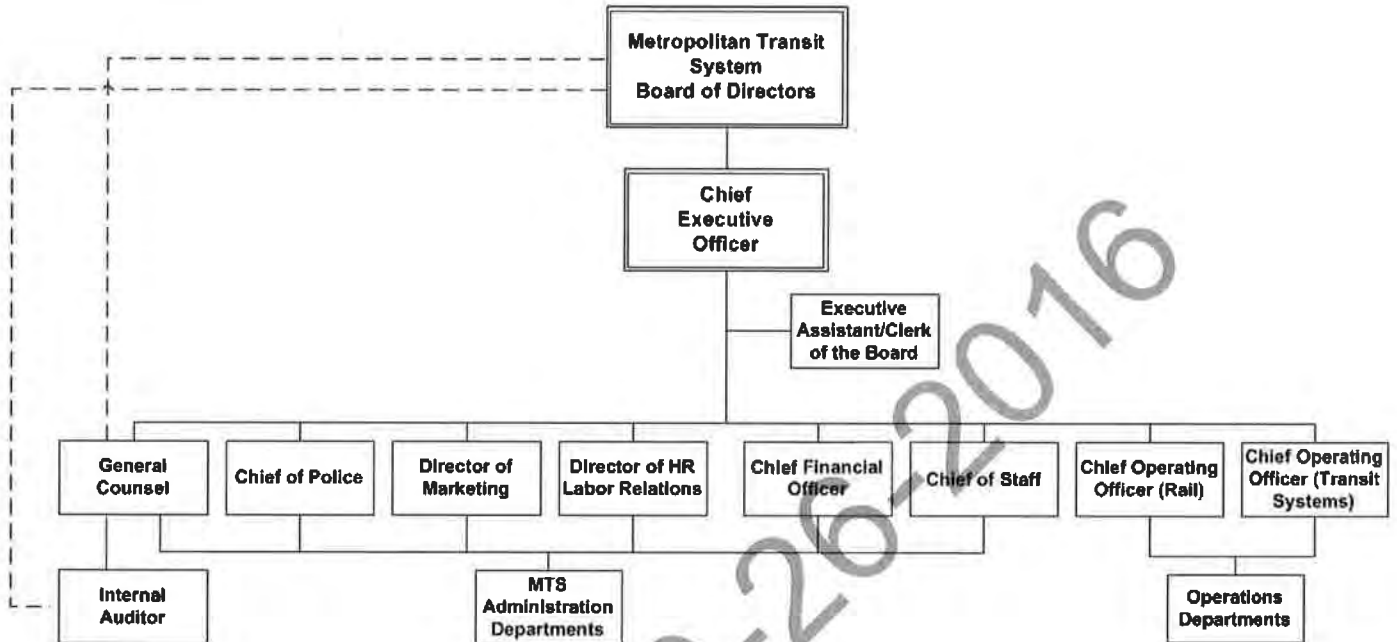
**MTS MANAGEMENT**

<b>Staff</b>	<b>Position</b>
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

DRAFT 10-26-2016

# San Diego Metropolitan Transit System

## Executive Level Organization Chart



**San Diego Metropolitan Transit System**

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

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Government Finance Officers Association

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

Presented to

**San Diego Metropolitan  
Transit System, California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

A handwritten signature in black ink, reading "Jeffrey R. Egan".

Executive Director/CEO



**FINANCIAL SECTION**

DRAFT 10-26-2016

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
of the 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 the statements of net position as of June 30, 2016 and 2015 and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### **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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 respective financial position of MTS, as of June 30, 2016 and 2015, and the respective changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**6265 Greenwich Drive, Suite 220, San Diego, California 92122**

**Tel: 858-242-5100 • Fax: 858-242-5150**

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

## **Emphasis of Matters**

### ***Net Pension Liability***

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 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 on July 1, 2014. Aggregate Net Pension Liability is reported in the Statements of Net Position in the amount of \$129,525,888 and \$110,610,221 as of the measurement dates of June 30, 2015 and 2014, respectively. The Net Pension Liability is calculated by actuaries using estimates and actuarial techniques from an actuarial valuation as of June 30, 2014 and 2013, were then rolled-forward by the actuaries to June 30, 2015 and 2014, the measurement dates. 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, Schedule of Contributions, and Schedule of Funding Progress of the Other Postemployment Health Benefits be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audits were 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  
of the San Diego Metropolitan Transit System  
San Diego, California  
Page 3

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016, 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.

The Pun Group, LLP Certified  
Public Accountants  
San Diego, California October  
31, 2016

DRAFT 10-26-2016

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DRAFT 10-26-2016

## San Diego Metropolitan Transit System Management's Discussion and Analysis June 30, 2016 and 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 years ended June 30, 2016 and 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 \$1,738 million as of June 30, 2016, \$1,673 million as of June 30, 2015, and \$1,583 million as of June 30, 2014. Of this amount, \$(36) million was unrestricted deficit as of June 30, 2016, \$(32) million was unrestricted deficit as of June 30, 2015, and \$181 million was unrestricted as of June 30, 2014. Total net position increased by \$65 million in the current year and increased by \$90 million in the prior year. The current year increase is attributable to an increase operating revenues, federal funding, and *TransNet* funds, partially offset by increases in operating expenses and a decrease in other state revenues. With the implementation of GASB 68, the beginning net position as of July 1, 2014, was reduced by \$137 million, resulting in a restated beginning net position of \$1,446 million.
- For the year ended June 30, 2016, 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 38.99% compared to 40.52% for the year ended June 30, 2015, and 41.11% for the year ended June 30, 2014. The current year decrease is due primarily to an increase in personnel costs and outside services, partially offset by a decrease in energy costs. The prior 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.

### 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, 2016 and 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 \$1,738 million at the close of the most recent fiscal year and \$1,673 million at the end of FY2015.

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 \$41 million, of which the largest project under construction is the Regional Transportation Management System, \$11.5 million. This project will expand our communication system to the contracted bus operations. Prior year construction-in-progress totaled \$20 million, of which the largest project under construction was the Regional Transportation Management System, \$8 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 FY2016, MTS transferred completed projects worth \$47 million to SDTC, SDTI and Other Contracted Services compared to \$64 million in FY2015.

The balance in the unrestricted component of net position decreased by \$5 million during the current year and decreased \$213 million in the prior year. Total assets increased by \$52 million primarily due to capital assets increasing by \$42 million. In FY2015, total assets increased by \$93 million. In the current fiscal year, total liabilities increased by \$5 million primarily due to the increase in net pension liability of \$19 million, partially offset by the reduction in long term debt for the LRV Lease of \$18 million. In the previous year, total liabilities increased by \$7 million.

	June 30, 2016	June 30, 2015	Change	June 30, 2014	Change
Current and other assets	\$ 203,688,348	\$ 194,475,830	\$ 9,212,518	\$ 308,583,122	\$ (114,107,292)
Capital assets	1,762,821,219	1,720,337,305	42,483,914	1,512,774,675	207,562,630
Total assets	1,966,509,567	1,914,813,135	51,696,432	1,821,357,797	93,455,338
Deferred outflows of resources	35,443,795	17,417,561	18,026,234	-	17,417,561
Long-term liabilities outstanding	181,882,411	163,147,079	18,735,332	152,721,866	10,425,213
Other liabilities	67,960,531	81,837,558	(13,877,027)	85,076,529	(3,238,971)
Total liabilities	249,842,942	244,984,637	4,858,305	237,798,395	7,186,242
Deferred inflows of resources	14,601,102	14,614,264	(13,162)	497,449	14,116,815
Net position:					
Net investment in capital	1,760,427,432	1,699,222,253	61,205,179	1,395,206,075	304,016,178
Restricted	13,508,715	5,309,440	8,199,275	6,741,898	(1,432,458)
Unrestricted (deficit)	(36,426,829)	(31,899,898)	(4,526,931)	181,113,980	(213,013,878)
Total net position	\$ 1,737,509,318	\$ 1,672,631,795	\$ 64,877,523	\$ 1,583,061,953	\$ 89,569,842



**San Diego Metropolitan Transit System  
Management's Discussion and Analysis (Continued)  
June 30, 2016 and 2015**

Increases in operating revenue are attributable to an increase in Compressed Natural Gas (CNG) credits totaling \$5 million. Variances between FY2016 and FY2015 nonoperating revenues are attributable to significant increases in Federal and *TransNet* operations funding, partially offset by a decrease in other state revenues. 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 personnel costs and outside services.

	June 30, 2016	June 30, 2015	Change	June 30, 2014	Change
Revenues:					
Operating revenues:					
Charges for services	\$ 97,913,890	\$ 97,620,664	\$ 293,226	\$ 94,024,708	\$ 3,595,956
Other operating revenue	16,749,300	10,165,340	6,583,960	10,400,773	(235,433)
Nonoperating revenues:					
Federal revenue	81,901,246	60,474,595	21,426,651	60,851,717	(377,122)
Transportation Development Act	90,869,756	87,358,869	3,510,887	82,565,009	4,793,860
State Transit Assistance	14,720,378	18,787,817	(4,067,439)	17,870,768	917,049
State revenue - other	5,724,586	42,953,271	(37,228,685)	4,211,454	38,741,817
<i>TransNet</i> funds	35,898,669	21,625,551	14,273,118	42,694,815	(21,069,264)
Other nonoperating revenue	9,373,662	7,687,264	1,686,398	9,138,116	(1,450,852)
Total revenues	353,151,487	346,673,371	6,478,116	321,757,360	24,916,011
Expenses:					
Operating expenses	380,821,790	358,901,485	21,920,305	343,566,429	15,335,056
Nonoperating expenses	1,070,914	6,882,602	(5,811,688)	6,994,987	(112,385)
Total expenses	381,892,704	365,784,087	16,108,617	350,561,416	15,222,671
Increase (decrease) in net position before capital contributions	(28,741,217)	(19,110,716)	(9,630,501)	(28,804,056)	9,693,340
Capital contributions	93,618,740	245,716,854	(152,098,114)	118,768,399	126,948,455
Changes in net position	64,877,523	226,606,138	(161,728,615)	89,964,343	136,641,795
Net Position:					
Beginning of year, as originally reported	1,672,631,795	1,583,061,953	89,569,842	1,493,097,610	89,964,343
Restatements due to implementation of GASB 68	-	(137,036,296)	137,036,296	-	(137,036,296)
Beginning of year, as restated	1,672,631,795	1,446,025,657	226,606,138	1,493,097,610	(47,071,953)
End of year	\$1,737,509,318	\$1,672,631,795	\$ 64,877,523	\$1,583,061,953	\$ 89,569,842

**San Diego Metropolitan Transit System  
Management's Discussion and Analysis (Continued)  
June 30, 2016 and 2015**

### Capital Asset and Debt Administration

**Capital assets.** MTS's investment in capital assets net of depreciation as of June 30, 2016 and 2015 amounted to \$1,763 million and \$1,720 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 continues to modernize the bus fleet. In FY2016, 63 buses were placed into service for a total cost of \$37 million, compared to 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.
- In FY2015, MTS completed its multi-year program to acquire 65 light rail vehicle for a total cost of \$266 million.
- Completed capital projects totaling \$94 million were transferred from SANDAG to MTS and its component units during FY2016, compared to FY 2015, \$245 million completed capital projects were transferred from SANDAG to MTS and its component units.

**CAPITAL ASSETS**  
(Net of Accumulated Depreciation)

	2016	2015	2014
Land	\$ 256,922,883	\$ 256,922,883	\$ 256,922,883
Buildings	975,414,607	945,992,877	740,075,249
Vehicles	441,587,804	447,072,544	449,499,941
Equipment & other	47,623,748	50,102,873	53,132,094
Construction-in-progress	41,272,177	20,246,128	13,144,508
Total	<u>\$ 1,762,821,219</u>	<u>\$ 1,720,337,305</u>	<u>\$ 1,512,774,675</u>

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 one finance obligation outstanding relating to Pension Obligation Bonds issued in fiscal year 2005 for a total obligation of \$40.1 million. During FY2016, the finance obligation relating to the lease/leaseback transaction was retired.

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-" MTS 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](http://www.sdmts.com) or direct inquiries to the Controller, MTS, 1255 Imperial Avenue, Suite 1000, San Diego, CA 92101.

**BASIC FINANCIAL STATEMENTS**

DRAFT 10-26-2016

**San Diego Metropolitan Transit System**  
**Statements of Net Position**  
**June 30, 2016 and 2015**

	2016	2015
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 77,394,644	\$ 66,381,529
Investments restricted for debt service payable within one year	-	18,109,712
Cash restricted for capital support	13,508,715	9,799,597
Accounts and other receivables	7,935,944	4,877,084
Due from other governments	82,789,378	74,512,894
Inventory	19,596,426	18,376,748
Prepaid items and other current assets	2,463,241	2,418,266
<b>Total current assets</b>	<b>203,688,348</b>	<b>194,475,830</b>
<b>Noncurrent assets:</b>		
Capital assets, net of accumulated depreciation	1,762,821,219	1,720,337,305
<b>Total noncurrent assets</b>	<b>1,762,821,219</b>	<b>1,720,337,305</b>
<b>Total assets</b>	<b>1,966,509,567</b>	<b>1,914,813,135</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Differences between projected and actual earnings on pension plan investments	18,194,912	-
Contributions made after the measurement date	15,496,003	15,479,359
Differences between expected and actual experience	1,610,468	1,937,128
Adjustments due to differences in proportions	142,412	1,074
<b>Total deferred outflows of resources</b>	<b>35,443,795</b>	<b>17,417,561</b>

**San Diego Metropolitan Transit System**  
**Statements of Net Position (Continued)**  
**June 30, 2016 and 2015**

	2016	2015
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable	20,357,013	12,657,289
Due to other governments	19,543,938	20,615,743
Unearned revenue	6,588,988	3,113,367
Accrued expenses	2,425,171	7,469,527
Retentions payable	90,042	602,421
Retentions payable from restricted assets	4,758,582	4,758,582
Due within one year:		
Compensated absences payable	6,968,657	7,242,413
Accrued damage, injury, and employee claims	4,377,066	4,556,951
Long-term debt	2,851,074	2,712,942
Long-term debt payable from restricted assets	-	18,108,323
<b>Total current liabilities</b>	<b>67,960,531</b>	<b>81,837,558</b>
<b>Noncurrent liabilities:</b>		
Due in more than one year:		
Compensated absences payable	4,215,464	4,216,302
Accrued damage, injury, and employee claims	11,218,084	9,651,799
Aggregate net pension liability	129,525,888	110,610,221
Net other post employment benefits obligation	17,520,262	16,414,970
Long-term debt	19,402,713	22,253,787
<b>Total noncurrent liabilities</b>	<b>181,882,411</b>	<b>163,147,079</b>
<b>Total liabilities</b>	<b>249,842,942</b>	<b>244,984,637</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Differences between projected and actual earnings on pension plan investments	10,326,835	13,769,114
Adjustments due to differences in proportions	421,843	439,538
Difference between actual and proportionate shares of employer contributions	323,386	-
Difference between expected and actual experience	415,807	-
Changes in assumptions	2,799,456	-
Deferred gain on refunding	313,775	405,612
<b>Total deferred inflows of resources</b>	<b>14,601,102</b>	<b>14,614,264</b>
<b>NET POSITION</b>		
Net investment in capital assets	1,760,427,432	1,699,222,253
Restricted for:		
Capital projects	13,508,715	5,041,015
Debt services	-	268,425
Total restricted	13,508,715	5,309,440
Unrestricted (Deficit)	(36,426,829)	(31,899,898)
<b>Total net position</b>	<b>\$ 1,737,509,318</b>	<b>\$ 1,672,631,795</b>

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DRAFT 10-26-2016

**San Diego Metropolitan Transit System**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended June 30, 2016 and 2015**

	2016	2015
<b>Operating revenues:</b>		
Passenger revenue	\$ 97,913,890	\$ 97,614,714
Advertising	968,078	815,944
Charter	-	5,950
Miscellaneous	15,781,222	9,349,396
<b>Total operating revenues</b>	<b>114,663,190</b>	<b>107,786,004</b>
<b>Operating expenses:</b>		
Personnel costs	121,921,667	114,574,758
Outside services	94,801,673	84,302,285
Transit operations funding	490,882	2,691,551
Materials and supplies	9,714,608	10,307,131
Energy costs	24,530,708	28,002,524
Risk management	4,864,496	5,849,167
Miscellaneous	4,978,102	4,975,418
Depreciation	119,519,654	108,198,651
<b>Total operating expenses</b>	<b>380,821,790</b>	<b>358,901,485</b>
<b>Operating (loss)</b>	<b>(266,158,600)</b>	<b>(251,115,481)</b>
<b>Public support and nonoperating revenues (expenses):</b>		
Federal revenue	81,901,246	60,474,595
Transportation Development Act (TDA) funds	90,869,756	87,358,869
State Transit Assistance (STA) funds	14,720,378	18,787,817
State revenue - other	5,724,586	42,953,271
TransNet funds	35,898,669	21,625,551
Other local subsidies	6,648,825	4,555,281
Investment earnings	291,659	3,064,756
Interest expense	(1,070,914)	(6,882,602)
Gain on disposal of assets	2,433,178	67,227
<b>Total public support and nonoperating revenues (expenses)</b>	<b>237,417,383</b>	<b>232,004,765</b>
<b>(Loss) before contributed capital</b>	<b>(28,741,217)</b>	<b>(19,110,716)</b>
Contributed capital, net	93,618,740	245,716,854
<b>Changes in net position</b>	<b>64,877,523</b>	<b>226,606,138</b>
<b>Net Position:</b>		
Beginning of year, as restated (Note 14)	1,672,631,795	1,446,025,657
End of year	<b>\$ 1,737,509,318</b>	<b>\$ 1,672,631,795</b>

**San Diego Metropolitan Transit System**  
**Statements of Cash Flows**  
**For the Year Ended June 30, 2016 and 2015**

	2016	2015
<b>Cash flows from operating activities:</b>		
Receipts from customers and users	\$ 113,469,672	\$ 110,304,627
Payments to suppliers	(137,265,125)	(136,142,038)
Payments to employees	(120,413,427)	(115,127,890)
Payments for damage and injury	(2,659,753)	(2,308,664)
<b>Net cash (used in) operating activities</b>	<b>(146,868,633)</b>	<b>(143,273,965)</b>
<b>Cash flows from noncapital financing activities:</b>		
Public support funds received	225,891,606	230,050,473
<b>Net cash provided by noncapital financing activities</b>	<b>225,891,606</b>	<b>230,050,473</b>
<b>Cash flows from capital and related financing activities:</b>		
Debt service costs	(3,756,970)	(3,805,400)
Property acquisition	(63,541,905)	(74,322,604)
Proceeds from disposal of assets	2,733,363	93,457
<b>Net cash (used in) capital and related financing activities</b>	<b>(64,565,512)</b>	<b>(78,034,547)</b>
<b>Cash flows from investing activities:</b>		
Interest received on investments	264,773	139,674
<b>Net cash provided (used) by investing activities</b>	<b>264,773</b>	<b>139,674</b>
<b>Net increase in cash and cash equivalents</b>	<b>14,722,234</b>	<b>8,881,635</b>
<b>Cash and cash equivalents:</b>		
Beginning of year	76,181,126	67,299,491
End of year	<u>\$ 90,903,359</u>	<u>\$ 76,181,126</u>
<b>Cash and cash equivalents:</b>		
Cash and cash equivalents	\$ 77,394,644	\$ 66,381,529
Cash restricted for capital support	13,508,715	9,799,597
<b>Total cash and cash equivalents</b>	<u>\$ 90,903,359</u>	<u>\$ 76,181,126</u>



**San Diego Metropolitan Transit System**  
**Statements of Cash Flows (Continued)**  
**For the Year Ended June 30, 2016 and 2015**

	2016	2015
<b>Reconciliation of Operating (Loss) to net cash (used in) operating activities</b>		
Operating (loss)	\$ (266,158,600)	\$ (251,115,481)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:		
Depreciation	119,519,654	108,198,651
(Increase) decrease in:		
Accounts and other receivables	(3,016,854)	3,212,124
Due from other governments	(1,652,285)	(118,913)
Inventory	(1,219,678)	652,792
Prepaid items and other current assets	(44,975)	(58,253)
Increase (decrease) in:		
Accounts payable	7,187,345	(1,576,847)
Due to other governments	657,841	(39,391)
Accrued expenses	(5,044,356)	(941,318)
Unearned revenue	3,475,621	(574,588)
Aggregate net pension liability	(16,644)	402,376
Net other postemployment benefits obligation	1,105,292	1,355,285
Compensated absences payable	(274,594)	(152,908)
Accrued damage, injury and employee claims	(1,386,400)	(2,517,494)
Total adjustments	119,289,967	107,841,516
<b>Net cash (used in) operating activities</b>	<b>\$ (146,868,633)</b>	<b>\$ (143,273,965)</b>
<b>Noncash investing, capital, and financing activities:</b>		
Contributions of capital assets from SANDAG	\$ 94,038,740	\$ 245,234,709
Contributions/adjustments of capital assets from outside parties	(420,000)	482,145
<b>Total contributions of capital assets</b>	<b>\$ 93,618,740</b>	<b>\$ 245,716,854</b>
Increase in fair value of investments	\$ 35,127	\$ 78,505

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DRAFT 10-26-2016

**NOTES TO BASIC FINANCIAL STATEMENTS**

DRAFT 10-26-2016

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Table of Contents**

	<b>Page</b>
<b>Note 1 – Summary of Significant Accounting Policies .....</b>	<b>19</b>
A. Reporting Entity .....	19
B. Financial Statements.....	20
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation.....	20
D. Use of Restricted/Unrestricted Assets .....	22
E. Cash, Cash Equivalents, and Investments .....	23
F. Inventory .....	23
G. Prepaid Items and Other Assets.....	24
H. Capital Assets .....	24
I. Construction-in-Progress.....	24
J. Compensated Absences .....	24
K. Long-Term Obligations .....	25
L. Refunding of Debt .....	25
M. Pension .....	25
N. Net Position .....	25
O. Use of Estimates .....	25
P. Implementation of New GASB Pronouncements for the Year Ended June 30, 2016 .....	26
Q. Upcoming Government Accounting Standards Implementation.....	27
<b>Note 2 – Cash, Cash Equivalents, and Investments.....</b>	<b>28</b>
<b>Note 3 – Accounts Receivable.....</b>	<b>32</b>
A. Accounts and Other Receivables.....	32
B. Due from Other Governments .....	32
<b>Note 4 – Inventory .....</b>	<b>32</b>
<b>Note 5 – Capital Assets.....</b>	<b>33</b>
<b>Note 6 – Due to Other Governments.....</b>	<b>35</b>
<b>Note 7 – Unearned Revenue.....</b>	<b>35</b>
<b>Note 8 – Long-Term Debt.....</b>	<b>36</b>
A. Summary .....	36
B. Capital Lease .....	38
C. 1995 LRV Lease/Leaseback.....	39
D. Pension Obligation Bonds .....	39
<b>Note 9 – Risk Management.....</b>	<b>40</b>
<b>Note 10 – Contingencies .....</b>	<b>41</b>
<b>Note 11 – Post-Employment Health Care Benefits.....</b>	<b>41</b>
<b>Note 12 – Employee Retirement Systems.....</b>	<b>45</b>
A. Summary .....	45
B. MTS .....	48
C. SDTI .....	57
D. SDTC .....	68
<b>Note 13 – Other Required Individual Fund Disclosures.....</b>	<b>74</b>
<b>Note 14 – Restatement of Net Position.....</b>	<b>74</b>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 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 MTS of San Diego for \$1. SDTC has entered into an operating agreement with MTS to operate a public transportation bus system in MTS 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 individually purchased by

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**A. Reporting Entity (Continued)**

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 Years Ended June 30, 2016 and 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 37 percent and 39 percent of MTS's \$265.0 million and \$252.4 million operating budget for FY2016 and FY2015 respectively.

**Other Operating Revenues**

MTS receives a variety of operating revenues that are not received directly from passenger fares. The sources of these revenues are advertising, interest income, rental and land management income, income related to Taxicab administration, income from the SD&AE, and other miscellaneous income.

**Non Operating Revenues**

MTS receives subsidies that are derived from federal, state and local tax revenues. MTS does not levy or collect any tax funds, but receives allocated portions of tax funds through federal, state and local granting agencies.

**Federal Transit Administration (FTA)**

FTA revenues are funded by a federal gas tax and revenues of the federal general fund. Moving Ahead for Progress in the 21st Century (MAP-21) was reauthorized on a short-term basis multiple times before being replaced by the Fixing America's Surface Transportation (FAST) Act, signed into law on December 4, 2015. The FAST Act reauthorized surface transportation programs through September 30, 2020. Under the FAST Act, MTS receives Section 5307 and Section 5337 grants which are earmarked for capital assistance and preventive maintenance. Under MAP-21, transit agencies were not eligible to be direct recipients of Section 5339 Bus and Bus Facilities Funding. However, under FAST Act, MTS is now an eligible direct recipient of Section 5339 formula funds. 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 received the last of the remaining JARC funding from previously awarded grants in FY2016.

**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 2016.

**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.

**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.

**San Diego Metropolitan Transit System  
Notes to Basic Financial Statements (Continued)  
For the Years Ended June 30, 2016 and 2015**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

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

**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.

**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.

**Other Local Subsidies**

MTS 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.



**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

***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

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the Statements of Net Position, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

***F. Inventory***

Inventories are valued at the weighted average unit cost.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 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 MTS 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.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**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 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. Pension**

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.

**N. Net Position**

Net Position is classified as follows:

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

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

**Unrestricted** - 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.

**O. Use of Estimates**

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

**San Diego Metropolitan Transit System  
Notes to Basic Financial Statements (Continued)  
For the Years Ended June 30, 2016 and 2015**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**P. Implementation of New GASB Pronouncements for the Year Ended June 30, 2016**

During fiscal year ended June 30, 2016, MTS has implemented the following new GASB Pronouncements:

**GASB Statement No. 72** – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosure related to all fair value measurements. Application of this statement is effective for MTS's fiscal year ending June 30, 2016.

**GASB Statement No. 73** – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by GASB Statements 67 and 68). Application of this statement is effective for MTS's fiscal year ending June 30, 2016, except those provisions that address employers and governmental nonemployer contributing entities that are not within the scope of GASB Statement 68, which are effective for financial statements for fiscal year ending June 30, 2017.

**GASB Statement No. 76** – In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. Application of this statement is effective for MTS's fiscal year ending June 30, 2016.

**GASB Statement No. 79** – In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. Application of this statement is effective for MTS's fiscal year ending June 30, 2017.

**GASB Statement No. 82** – In December 2015, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). Application of this statement is effective for MTS's fiscal year ending June 30, 2018.

**San Diego Metropolitan Transit System  
Notes to Basic Financial Statements (Continued)  
For the Years Ended June 30, 2016 and 2015**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

***Q. Upcoming Government Accounting Standards Implementation***

***GASB Statement No. 74*** –In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which addresses reporting by postemployment benefits other than pensions (OPEB) plans that administer benefits on behalf of governments. This statement basically parallels GASB Statement 67 and replaces GASB Statement 43. Application of this statement is effective for MTS's fiscal year ending June 30, 2017.

***GASB Statement No. 75*** –In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to government employers who provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement basically parallels GASB Statement 68 and replaces GASB Statement 45. Application of this statement is effective for MTS's fiscal year ending June 30, 2018.

***GASB Statement No. 77*** – In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. Application of this statement is effective for MTS's fiscal year ending June 30, 2017.

***GASB Statement No. 78*** – In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. Application of this statement is effective for MTS's fiscal year ending June 30, 2017.

***GASB Statement No. 80*** – In December 2015, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Application of this statement is effective for MTS's fiscal year ending June 30, 2017.

***GASB Statement No. 81*** – In December 2015, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. Application of this statement is effective for MTS's fiscal year ending June 30, 2018.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 2 – Cash, Cash Equivalents, and Investments**

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

	2016	2015
Cash and cash equivalents	\$ 77,394,644	\$ 66,381,529
Cash and cash equivalents restricted for capital support	13,508,715	9,799,597
Investments restricted for debt service and capital projects - Current	-	18,109,712
<b>Total cash and investments</b>	<b>\$ 90,903,359</b>	<b>\$ 94,290,838</b>

Cash, cash equivalents, and investments consisted as follows on June 30, 2016 and 2015:

Investment Type	Measurement	Fair Value	
	Input	2016	2015
<b>Cash and cash equivalents:</b>			
Demand Deposits	N/A	\$ 20,815,206	\$ 29,028,684
Retention Trust Account	N/A	4,758,582	4,758,582
San Diego County Investment Pool	N/A	8,750,133	5,041,015
State of California - Local Agency Investment Fund	N/A	56,579,438	37,352,845
<b>Total cash and cash equivalents</b>		<b>90,903,359</b>	<b>76,181,126</b>
<b>Investments:</b>			
U.S. Treasuries	Level 2	-	18,109,712
<b>Total investments</b>		<b>-</b>	<b>18,109,712</b>
<b>Total cash, cash equivalents, and investments</b>		<b>\$ 90,903,359</b>	<b>\$ 94,290,838</b>

**Demand Deposits**

As of June 30, 2016, the carrying amount of demand deposits was \$20,815,206 and the bank balance was \$29,643,147 compared to \$29,028,684 and \$32,342,484 at June 30, 2015, of which the total amount was collateralized or insured with securities held by the pledging financial institutions in MTS's name as discussed under Disclosures Relating to Custodial Credit Risk.

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

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

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

**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

**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, 2016, MTS had \$56,579,438 invested in LAIF, which had invested 2.81% of the pool investment funds in structured notes and asset-backed securities compared to \$37,352,845 and 2.08% at June 30, 2015.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**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 4.72% and 6.83% of the Investment Pool as of June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015, the fair value of our position in the pool is 99.99% and 99.93%, respectively, of the value of the pool shares.

Pursuant to Section 27130-27137 of the California Government Code, the County Board of Supervisors has established the Treasurer's Oversight Committee ("TOC") that monitors and reviews the Investment Policy. The TOC consists of members appointed from the districts or offices that they represent, and up to five members of the public having expertise in, or an academic background in public finance.

To mitigate credit risk, the Investment Pool's Investment Policy, which is more restrictive than the Government Code, places a minimum standard on the ratings of investments held in the Investment Pool. Investments in securities other than those guaranteed by the U.S. Treasury or Government Sponsored Enterprises must have a credit rating of no less than "A" for long-term or "A1" for short-term. Non-rated securities include sweep accounts, collateralized certificates of deposit and repurchase agreements. Sweep accounts and collateralized certificates of deposit must be FDIC insured and collateralized with securities held by a named agent of the depository. Repurchase agreements are collateralized by securities, authorized by the California Government Code Section 53601, having fair market value of 102% or greater than the amount of the repurchase agreement. The Investment Pool does not hold any investments in structured notes.

MTS's investments with the County Treasurer's Office include a portion of the pool funds invested in asset-backed securities as defined in the preceding section for LAIF investments. As of June 30, 2016, MTS had \$8,750,133 invested with the San Diego County Investment Pool, which had invested 0.55% of the pool investment funds in asset-backed securities compared to \$5,041,015 and 0% at June 30, 2015.

**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; and U.S. Government taxable bonds, are not rated and do not require ratings.



**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

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

**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, 2016 and 2015, are shown below:

Maturity	2016	2015
Current to one year	\$ 90,903,359	\$ 94,290,838
Total	\$ 90,903,359	\$ 94,290,838

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

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

At June 30, 2016 and 2015, the net realizable accounts and other receivables consisted of the following:

	2016	2015
Passenger revenue - General Public	\$ 4,243,919	\$ 2,081,329
Other trade receivables	2,224,916	1,370,652
Pension plan receivable	1,467,109	1,425,103
Total accounts and other receivables	<u>\$ 7,935,944</u>	<u>\$ 4,877,084</u>

**B. Due From Other Governments**

At June 30, 2016 and 2015, amounts due from other governments consisted of the following:

	2016	2015
FTA Grant Funds	\$ 60,138,136	\$ 53,569,291
STA Funds	8,144,367	5,007,667
SANDAG- TransNet	4,445,843	3,307,458
County of San Diego	2,937,874	2,960,120
North County Transit District - shared costs	2,514,319	789,663
Passenger Revenue - Other Governments	1,652,285	1,772,600
State of California	1,549,949	56,013
SANDAG- project/route reimbursement	687,063	6,437,045
Department of Homeland Security	476,283	343,427
City of San Diego	196,836	269,610
Other Local Governments	46,423	-
Total due from other governments	<u>\$ 82,789,378</u>	<u>\$ 74,512,894</u>

**Note 4 – Inventory**

At June 30, 2016 and 2015, inventory consists of the following repair and maintenance parts and administrative supplies:

	2016	2015
San Diego Transit Corp.	\$ 2,431,515	\$ 2,232,776
San Diego Trolley, Inc.	17,164,911	16,143,972
Total inventory	<u>\$ 19,596,426</u>	<u>\$ 18,376,748</u>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 5 – Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2016 is as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, not depreciated				
Land and right-of-way	\$ 256,922,883	\$ -	\$ -	\$ 256,922,883
Construction-in-progress	20,246,128	68,222,804	(47,196,755)	41,272,177
Total capital assets, not depreciated	277,169,011	68,222,804	(47,196,755)	298,195,060
Capital assets, depreciated:				
Buildings and structures	1,749,446,736	94,558,044	(705,847)	1,843,298,933
Buses and vehicles	781,227,339	37,340,001	(40,464,195)	778,103,145
Equipment and other	116,366,380	9,337,450	(2,095,566)	123,608,264
Capital lease property	12,091,981	-	-	12,091,981
Total capital assets, depreciated	2,659,132,436	141,235,495	(43,265,608)	2,757,102,323
Less accumulated depreciation for:				
Buildings and structures	(803,453,859)	(65,232,353)	801,886	(867,884,326)
Buses and vehicles	(334,154,795)	(42,717,663)	40,357,117	(336,515,341)
Equipment and other	(68,341,817)	(11,191,762)	1,848,629	(77,684,950)
Capital lease property	(10,013,671)	(377,876)	-	(10,391,547)
Total accumulated depreciation	(1,215,964,142)	(119,519,654)	43,007,632	(1,292,476,164)
Total capital assets, depreciated, net	1,443,168,294	21,715,841	(257,976)	1,464,626,159
Total capital assets, net	\$ 1,720,337,305	\$ 89,938,645	\$ (47,454,731)	\$ 1,762,821,219

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, net	\$ 1,512,774,675	\$ 272,046,226	\$ (64,483,596)	\$ 1,720,337,305

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 5 – Capital Assets (Continued)****Contributed Capital**

MTS converted \$47 million in capital assets from CIP to assets in service compared to \$64 million in FY2015. A summary of capital asset additions contributed by MTS is as follows:

	2016	2015
General operations	\$ 3,411,258	\$ 2,747,029
Other contracted services	15,267,146	26,798,421
San Diego Transit Corporation	25,425,706	6,277,666
San Diego Trolley, Inc.	3,092,645	28,205,910
Total	<u>\$ 47,196,755</u>	<u>\$ 64,029,026</u>

Capital asset additions totaling \$94 million were contributed by SANDAG compared to \$245 million in FY2015. A summary of capital asset additions contributed by SANDAG is as follows:

	2016	2015
Other contracted services	\$ 136,228	\$ 40,840,817
San Diego Transit Corporation	7,041,137	42,430,059
San Diego Trolley, Inc.	86,861,375	162,445,978
Total	<u>\$ 94,038,740</u>	<u>\$ 245,716,854</u>

MTS contributed \$420,000 in capital assets to MTS of La Mesa in FY2016 compared to \$171,232 in FY2015. A summary of contributed capital is as follows:

	2016	2015
Contributed capital:		
From SANDAG to MTS	\$ 94,038,740	\$ 245,234,709
From City of Chula Vista to MTS	-	653,377
From MTS to City of La Mesa	(420,000)	(171,232)
Total	<u>\$ 93,618,740</u>	<u>\$ 245,716,854</u>

**Depreciation**

Depreciation expense for capital assets for the years ended June 30, 2016 and 2015 were comprised of the following:

	2016	2015
General operations	\$ 2,454,052	\$ 1,843,765
Other contracted services	16,001,781	12,927,189
San Diego Transit Corporation	24,278,346	20,346,856
San Diego Trolley, Inc.	76,785,475	73,080,841
Total	<u>\$ 119,519,654</u>	<u>\$ 108,198,651</u>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 6 – Due To Other Governments**

At June 30, 2016 and 2015, amounts due to other governments consisted of the following:

	2016	2015
SANDAG- Subsidy revenue for construction projects in process	\$ 15,576,914	\$ 18,745,588
SANDAG- Project/Route Reimbursements	1,740,255	222,245
City of San Diego	745,245	149,949
State of California	545,515	567,499
North County Transit District	505,130	490,235
City of Lemon Grove - TDA Funds	121,170	121,170
County of San Diego	92,223	44,730
City of El Cajon - TDA Funds	90,883	101,325
City of La Mesa - TDA Funds	51,500	56,500
City of Coronado - TDA Funds	36,434	20,600
Miscellaneous Other Governments	22,141	-
City of Chula Vista	9,633	84,561
City of Poway - TDA Funds	6,895	11,341
Total due to other governments	<u>\$ 19,543,938</u>	<u>\$ 20,615,743</u>

**Note 7 – Unearned Revenue**

At June 30, 2016 and 2015, unearned revenue consisted of the following:

	2016	2015
Caltrans LCTOP Payment for Trolley LRVs	\$ 3,663,014	\$ -
Fare media payments received in advance	2,359,820	2,666,819
Lease payments received in advance	566,154	446,548
Total unearned revenue	<u>\$ 6,588,988</u>	<u>\$ 3,113,367</u>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 8 – Long-Term Debt****A. Summary**

A summary of changes in long-term obligations for the year ended June 30, 2016 is as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amounts due within one year	Amounts due in more than one year
<b>MTS:</b>						
Capital lease obligations	\$ 3,006,729	\$ -	\$ (612,942)	\$ 2,393,787	\$ 646,074	\$ 1,747,713
Finance obligation	18,108,323	-	(18,108,323)	-	-	-
Compensated absences payable	997,083	1,111,907	(1,055,376)	1,053,614	972,455	81,159
Accrued damage, injury, and employee claims	489,890	137,167	(167,000)	460,057	183,616	276,441
Net pension liability	8,261,547	7,357,876	(5,912,126)	9,707,297	-	9,707,297
Net other postemployment benefits	4,335,345	376,296	-	4,711,641	-	4,711,641
Total MTS	35,198,917	8,983,246	(25,855,767)	18,326,396	1,802,145	16,524,251
<b>San Diego Transit Corporation:</b>						
Pension Obligation Bonds	21,960,000	-	(2,100,000)	19,860,000	2,205,000	17,655,000
Compensated absences payable	7,801,088	3,396,875	(3,558,892)	7,639,071	3,675,916	3,963,155
Accrued damage, injury, and employee claims	11,183,577	5,381,585	(4,500,000)	12,065,162	3,088,291	8,976,871
Net pension liability	85,694,264	25,119,593	(12,715,720)	98,098,137	-	98,098,137
Net other postemployment benefits	4,952,228	299,220	-	5,251,448	-	5,251,448
Total San Diego Transit Corporation	131,591,157	34,197,273	(22,874,612)	142,913,818	8,969,207	133,944,611
<b>San Diego Trolley, Inc.:</b>						
Compensated absences payable	2,660,544	2,145,208	(2,314,316)	2,491,436	2,320,286	171,150
Accrued damage, injury, and employee claims	2,535,283	1,436,648	(902,000)	3,069,931	1,105,159	1,964,772
Aggregate net pension liability	16,654,410	15,166,913	(10,100,869)	21,720,454	-	21,720,454
Net other postemployment benefits	7,127,397	429,776	-	7,557,173	-	7,557,173
Total San Diego Trolley, Inc.	28,977,634	19,178,545	(13,317,185)	34,838,994	3,425,445	31,413,549
<b>Total</b>	<b>\$ 195,767,708</b>	<b>\$ 62,359,064</b>	<b>\$ (62,047,564)</b>	<b>\$ 196,079,208</b>	<b>\$ 14,196,797</b>	<b>\$ 181,882,411</b>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 8 – Long-Term Debt (Continued)****A. Summary (Continued)**

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
<b>MTS:</b>						
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
<b>Total MTS</b>	<b>132,546,169</b>	<b>6,228,880</b>	<b>(103,576,132)</b>	<b>35,198,917</b>	<b>20,061,957</b>	<b>15,136,960</b>
<b>San Diego Transit Corporation:</b>						
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
Aggregate 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
<b>Total San Diego Transit Corporation</b>	<b>138,003,614</b>	<b>34,916,837</b>	<b>(41,329,294)</b>	<b>131,591,157</b>	<b>9,102,307</b>	<b>122,488,850</b>
<b>San Diego Trolley, Inc.:</b>						
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
<b>Total San Diego Trolley, Inc.</b>	<b>35,856,295</b>	<b>16,797,300</b>	<b>(23,675,961)</b>	<b>28,977,634</b>	<b>3,456,365</b>	<b>25,521,269</b>
<b>Total</b>	<b>\$ 306,406,078</b>	<b>\$ 57,943,017</b>	<b>\$ (168,581,387)</b>	<b>\$ 195,767,708</b>	<b>\$ 32,620,629</b>	<b>\$ 163,147,079</b>

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

	2016		2015	
	Due Within One Year	Noncurrent Liabilities	Due Within One Year	Noncurrent Liabilities
<b>Liabilities:</b>				
Compensated absences payable	\$ 6,968,657	\$ 4,215,464	\$ 7,242,413	\$ 4,216,302
Accrued damage, injury, and employee claims	4,377,066	11,218,084	4,556,951	9,651,799
Long-term debt	2,851,074	19,402,713	2,712,942	22,253,787
Long-term debt payable from restricted assets	-	-	18,108,323	-
Aggregate net pension liability	-	129,525,888	-	110,610,221
Net other postemployment benefits	-	17,520,262	-	16,414,970
	<b>\$ 14,196,797</b>	<b>\$ 181,882,411</b>	<b>\$ 32,620,629</b>	<b>\$ 163,147,079</b>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 8 – Long-Term Debt (Continued)****B. Capital Lease (Continued)**

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:

	2016	2015
Building – MTS Tower	\$ 12,091,981	\$ 12,091,981
Less accumulated depreciation	(10,391,547)	(10,013,672)
Total	<u>\$ 1,700,434</u>	<u>\$ 2,078,309</u>

The following is a summary of future minimum payments under the capital lease as of June 30, 2016:

Year ending June 30:	Tower Lease Payments
2017	\$ 739,617
2018	743,537
2019	744,055
2020	372,148
Total minimum lease payments	2,599,357
Less amount representing interest	(205,570)
Present value of minimum lease payments	<u>\$ 2,393,787</u>

At June 30, 2016 and 2015, the future minimum payments were \$2,393,787 and \$3,006,729, respectively.



**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**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 would 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, were sufficient to cover the amounts due under the finance obligation. In FY2015, MTS exercised their option to purchase the Head Lease Rights to these vehicles. The predetermined purchase option required principal payments totaling \$18,108,323 in FY2016 and \$95,348,679 in FY2015.

As of June 30, 2016 and 2015, the remaining future obligations total \$0 and \$18,108,323, respectively.

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, originally issued at \$38,800,000, were retired in December 2012.

At June 30, 2016 and 2015, the outstanding balance of the Pension Obligation Bonds is \$19,860,000 and \$21,960,000, respectively.

Year ending June 30	Principal	Interest	Total
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	2,690,000	464,015	3,154,015
2022-2024	7,665,000	541,136	8,206,136
Total	<u>\$ 19,860,000</u>	<u>\$ 4,114,280</u>	<u>\$ 23,974,280</u>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**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. MTS, SDTC, and SDTI all finance their respective unemployment insurance liabilities. 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 crime coverage policy has a limit of \$1,000,000 subject to a \$25,000 deductible and the cyber liability policy has a limit of \$2,000,000 subject to a \$100,000 deductible. These policies protect against theft, loss or unauthorized disclosure of personally identifiable information.

Claim 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 risk management 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
2014	\$ 12,248,963	\$ 4,417,293	\$ (4,975,000)	\$ 11,691,256
2015	11,691,256	6,357,494	(3,840,000)	14,208,750
2016	14,208,750	6,955,400	(5,569,000)	15,595,150

Following is summary of accrued damage injury, and employee claims for fiscal years 2016 and 2015:

	2016	2015
Current portion	\$ 4,377,066	\$ 4,556,951
Non-current portion	11,218,084	9,651,799
Total	<u>\$ 15,595,150</u>	<u>\$ 14,208,750</u>

MTS has established a policy to consolidate the minimum balances required in the liability claims reserve accounts of SDTC and SDTI to be held by MTS. The policy also established eligible uses for the MTS reserve account, which included the reimbursement to SDTC and SDTI of awards/settlements of individual liability claims for personal injury and/or property damage in excess of \$300,000, but within the self-insurance retention at SDTC and SDTI. In connection with these self-insurance programs, liabilities for SDTC, SDTI and MTS were \$15,595,150 at June 30, 2016 and \$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.

**San Diego Metropolitan Transit System  
Notes to Basic Financial Statements (Continued)  
For the Years Ended June 30, 2016 and 2015**

**Note 10 – Contingencies**

**Pending legal actions.** MTS, SDTC and SDTI have been named in certain legal actions pending at June 30, 2016. 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 Component Unit.** MTS learned in FY2007 that the freight operator who has managed SD&AE operations in the past filed federal and state corporate tax returns through calendar year 2005, which 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 FY2017. 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 FY2011 through FY2015 pending formal recognition of SD&AE's exempt status.

**Note 11 – Other Postemployment Health Care Benefits**

**Plan Description**

Effective January 1, 2016, MTS contracts with a third party to provide MTS, SDTI, and SDTC Management and SDTI Union retirees a nationwide private health care exchange. The third party also provides non-commissioned benefits advisors to assist retirees in determining the health plan that best suits their needs. MTS funds a Health Reimbursement Arrangement (HRA) account for each eligible retiree to offset the cost of the healthcare they purchase through the exchange. Prior to January 1, 2016 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, 2016, total MTS payments were \$108,990 for 18 retirees, total SDTI payments were \$195,117 for 42 retirees, and total SDTC payments were \$430,350 for 48 management retirees plus \$357,048 for 163 union retirees currently receiving postemployment health care benefits.

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.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 11 – Other Postemployment Health Care Benefits (Continued)**

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 changes in NOO for fiscal years 2016 and 2015 is as follows:

Net OPEB Obligation (NOO):	MTS	SDTI	SDTC	Total
<b>NOO at June 30, 2014</b>	\$ 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)
<b>NOO at June 30, 2015</b>	4,335,345	7,127,397	4,952,228	16,414,970
Benefit payments paid outside of a trust	(116,864)	(172,789)	(1,019,791)	(1,309,444)
Estimated contributions to a trust	-	-	-	-
Annual required contribution	482,855	585,625	1,307,241	2,375,721
Accrued interest on June 30, 2015 NOO	195,091	320,733	222,850	738,674
Amortization of June 30, 2015 NOO	(184,786)	(303,793)	(211,080)	(699,659)
<b>NOO at June 30, 2016</b>	<u>\$ 4,711,641</u>	<u>\$ 7,557,173</u>	<u>\$ 5,251,448</u>	<u>\$ 17,520,262</u>

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

	Participants as of (Most Current Available)	
	June 30, 2015	June 30, 2013
Current retirees and surviving spouses	260	229
Active employees eligible for benefits	1,570	1,426
Total	<u>1,830</u>	<u>1,655</u>

**Funding policy.** The contribution requirements of plan members and MTS are established by management and may be amended. The contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2016 MTS contributions to the plan were \$984,145 (or 49.21% of total gross health costs), while retiree contributed \$1,015,633 (or 50.79% of total gross health costs), as compared to 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).

**Annual OPEB Cost and Net OPEB Obligation.** MTS's 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.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 11 – Other Postemployment Health Care Benefits (Continued)**

The following table shows the components of MTS's ARC and Annual OPEB Cost for the years ended June 30, 2016 and 2015, the amount actually contributed to the plans, and the changes in MTS' Net OPEB Obligation to the Plan:

	All Group	
	2016	2015
Normal Cost	\$ 942,363	\$ 956,500
Amortization of Unfunded AAL	1,433,358	1,522,400
Annual Required Contribution	2,375,721	2,478,900
Interest on beginning of year NOO	738,674	677,700
Amortization of beginning of year NOO	(699,659)	(645,200)
Annual OPEB cost	2,414,736	2,511,400
Contributions or Benefit Payments	(983,684)	(856,815)
Implicit subsidy payments	(325,760)	(299,300)
Increase in net OPEB obligation	1,105,292	1,355,285
Net OPEB obligation:		
Beginning of year	16,414,970	15,059,685
End of year	\$ 17,520,262	\$ 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 2014, 2015 and 2016 were as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 2,524,100	45.97%	\$ 15,059,685
June 30, 2015	2,511,400	46.03%	16,414,970
June 30, 2016	2,414,736	46.58%	17,520,262

**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 compared to \$36,511,800 and \$0 as of June 30, 2013. 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 compared to \$68,044,900 and 54% as of June 30, 2013.

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 Years Ended June 30, 2016 and 2015**

**Note 11 – Other Postemployment Health Care Benefits (Continued)**

The most recent funding progress schedules available for MTS, SDTI and SDTC are presented below:

	Valuation Date	Actuarial Value of Assets	Entry Age Normal AAL	Unfunded AAL	Funded Status	Annual Covered Payroll	UAAL as of % of Payroll
MTS	6/30/2015	\$ -	\$ 3,863	\$ 3,863	0.00%	\$ 10,416	37.09%
SDTI	6/30/2015	-	7,700	7,700	0.00%	26,709	28.83%
SDTC	6/30/2015	-	22,066	22,066	0.00%	36,771	60.01%
Total		\$ -	\$ 33,629	\$ 33,629	0.00%	\$ 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.

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.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems**

**A. Summary**

**Aggregate Net Pension Liability**

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

	2016	2015
MTS Miscellaneous Plan - 1223	\$ 9,717,218	\$ 8,259,452
MTS PEPRM Miscellaneous Plan - 26789	(7,322)	2,019
MTS Miscellaneous Second Tier Plan - 30134	(2,599)	76
SDTI Miscellaneous Plan - 1406	19,555,041	16,654,410
SDTI PARS Plan	2,165,413	-
SDTC Retirement Plan	98,098,137	85,694,264
Total	<u>\$ 129,525,888</u>	<u>\$ 110,610,221</u>

**Deferred Outflows of Resources**

Deferred Outflows of Resources at June 30, 2016 are reported in the accompanying statement of net position as follows:

	Contributions Made After Measurement Date	Difference Between Expected and Actual Experience	Adjustments Due To Difference in Proportions	Difference Between Projected and Actual Earnings on Pension Plan Investments	Total
MTS Miscellaneous Plan - 1223	\$ 1,306,126	\$ 87,715	\$ 141,721	\$ 2,127,113	\$ 3,662,675
MTS PEPRM Miscellaneous Plan - 26789	227,181	9,362	-	227,042	463,585
MTS Miscellaneous Second Tier Plan - 30134	49,020	2,908	691	70,501	123,120
SDTI Miscellaneous Plan - 1406	2,659,911	-	-	4,226,627	6,886,538
SDTI PARS Plan	542,483	-	-	164,631	707,114
SDTC Retirement Plan	10,711,282	1,510,483	-	11,378,998	23,600,763
Total	<u>\$ 15,496,003</u>	<u>\$ 1,610,468</u>	<u>\$ 142,412</u>	<u>\$ 18,194,912</u>	<u>\$ 35,443,795</u>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)****A. Summary (Continued)****Deferred Outflows of Resources (Continued)**

Deferred Outflows of Resources at June 30, 2015 are reported in the accompanying statement of net position as follows:

	Contributions Made After Measurement Date	Difference Between Expected and Actual Experience	Adjustments Due To Difference in Proportions	Total
MTS Miscellaneous Plan - 1223	\$ 1,368,359	\$ -	\$ -	\$ 1,368,359
MTS PEPRA Miscellaneous Plan - 26789	146,007	-	-	146,007
MTS Miscellaneous Second Tier Plan - 30134	45,480	-	1,074	46,554
SDTI Miscellaneous Plan - 1406	2,566,885	-	-	2,566,885
SDTC Retirement Plan	11,352,628	1,937,128	-	13,289,756
Total	<u>\$ 15,479,359</u>	<u>\$ 1,937,128</u>	<u>\$ 1,074</u>	<u>\$ 17,417,561</u>

**Deferred Inflows of Resources**

Deferred Inflows of Resources at June 30, 2016 are reported in the accompanying statement of net position as follows:

	Difference Between Actual and Proportionate Share of Employer Contributions	Difference Between Expected and Actual Experience	Changes in Assumption	Adjustments Due To Difference in Proportions	Difference Between Projected and Actual Earnings on Pension Plan Investments	Total
MTS Miscellaneous Plan - 1223	\$ 283,702	\$ -	\$ 829,869	\$ 277,091	\$ 1,438,130	\$ 2,828,792
MTS PEPRA Miscellaneous Plan - 26789	30,281	-	88,578	111,875	509	231,243
MTS Miscellaneous Second Tier Plan - 30134	9,403	-	27,505	32,877	17	69,802
SDTI Miscellaneous Plan - 1406	-	415,807	1,853,504	-	4,939,318	7,208,629
SDTC Retirement Plan	-	-	-	-	3,948,861	3,948,861
Total	<u>\$ 323,386</u>	<u>\$ 415,807</u>	<u>\$ 2,799,456</u>	<u>\$ 421,843</u>	<u>\$ 10,326,835</u>	<u>\$ 14,287,327</u>



**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)**

**A. Summary (Continued)**

**Deferred Inflows of Resources (Continued)**

Deferred Inflows of Resources at June 30, 2015 are reported in the accompanying statement of net position as follows:

	Difference Between Projected and Actual Earnings on Pension Plan Investments	Adjustments Due To Difference in Proportions	Total
MTS Miscellaneous Plan - 1223	\$ 1,917,506	\$ 431,030	\$ 2,348,536
MTS PEPRA Miscellaneous Plan - 26789	678	8,508	9,186
MTS Miscellaneous Second Tier Plan - 30134	25	-	25
SDTI Miscellaneous Plan - 1406	6,585,757	-	6,585,757
SDTC Retirement Plan	5,265,148	-	5,265,148
Total	<u>\$ 13,769,114</u>	<u>\$ 439,538</u>	<u>\$ 14,208,652</u>

**Pension Expense**

Pension expenses are included in the accompanying statements of revenues, expenses, and changes in net position as follows:

	2016	2015
MTS Miscellaneous Plan - 1223	\$ 950,048	\$ 1,156,369
MTS PEPRA Miscellaneous Plan - 26789	122,389	8,713
MTS Miscellaneous Second Tier Plan - 30134	39,438	(1,066)
SDTI Miscellaneous Plan - 1406	1,850,776	1,695,021
SDTI PARS Plan	468,660	-
SDTC Retirement Plan	11,487,861	8,508,553
Total	<u>\$ 14,919,172</u>	<u>\$ 11,367,590</u>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)****B. MTS****General Information about the Pension Plans**

**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 PEPR, 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, 2016 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	7.00%
Required employer contribution rates	17.71%
Pre-Retirement Death Benefit	Optional Settlement 2W
Post-Retirement Death Benefit	\$500 Lump Sum
Non-Industrial Standard Disability	1.8% of final compensation multiplied by service
COLA	2.00%

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)****B. MTS (Continued)****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	7.16%
Pre-Retirement Death Benefit	Optional Settlement 2W
Post-Retirement Death Benefit	\$500 Lump Sum
Non-Industrial Standard Disability	1.8% of final compensation multiplied by service
COLA	2.00%

**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	6.24%
Pre-Retirement Death Benefit	Optional Settlement 2W
Post-Retirement Death Benefit	\$500 Lump Sum
Non-Industrial Standard Disability	1.8% of final compensation multiplied by service
COLA	2.00%

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)****B. MTS (Continued)**

**Employees Covered** – At June 30, 2016, the following employees were covered by the benefit terms for each Plan:

	MTS Miscellaneous Plan - 1223	MTS Miscellaneous Second Tier Plan - 30134	MTS PEPRA Miscellaneous Plan - 26789
Inactive employees or beneficiaries currently receiving benefits	128	0	0
Inactive employees entitled to but not yet receiving benefits	55	0	0
Active employees	72	11	83

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

	MTS Miscellaneous Plan - 1223	MTS Miscellaneous Second Tier Plan - 30134	MTS PEPRA Miscellaneous Plan - 26789
Inactive employees or beneficiaries currently receiving benefits	128	0	0
Inactive employees entitled to but not yet receiving benefits	55	0	0
Active employees	72	8	57

**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 the year ended June 30, 2015 and 2014 (the measurement dates), the active employee contribution rates and average employer contribution rates were as follows:

	Measurement Date			
	2015		2014	
	Employee Contribution Rate	Employer Contribution Rate	Employee Contribution Rate	Employer Contribution Rate
MTS - Miscellaneous Plan-1223	7.00%	17.71%	7.95%	18.79%
MTS Miscellaneous Second Tier Plan - 30134	7.00%	7.16%	6.88%	8.49%
MTS PEPRA Miscellaneous Plan - 26789	6.25%	6.24%	6.31%	6.25%

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)**

**B. MTS (Continued)**

For the year ended June 30, 2015 (the measurement date), the plan's proportionate share of aggregate contributions recognized as part of pension expense for each Plan were as follows:

	MTS Miscellaneous Plan - 1223	MTS Miscellaneous Second Tier Plan - 30134	MTS PEPR Miscellaneous Plan - 26789
Contributions - employer	\$ 1,753,602	\$ 58,121	\$ 187,174
Contributions - employee	717,034	23,765	76,534

For the year ended June 30, 2014 (the measurement date), the plan's proportionate share of aggregate contributions recognized as part of pension expense for each Plan were as follows:

	MTS Miscellaneous Plan - 1223	MTS Miscellaneous Second Tier Plan - 30134	MTS PEPR Miscellaneous Plan - 26789
Contributions - employer	\$ 754,893	\$ 10	\$ 267
Contributions - employee	604,332	26,377	79,887

**Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**  
– As of June 30, 2016 and 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	
	2016	2015
MTS - Miscellaneous Plan-1223	\$ 9,717,218	\$ 8,259,452
MTS Miscellaneous Second Tier Plan - 30134	(2,599)	76
MTS PEPR Miscellaneous Plan - 26789	(7,322)	2,019
Aggregate Net Pension Liability	<u>\$ 9,707,297</u>	<u>\$ 8,261,547</u>

MTS's 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, 2015, 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, 2014 rolled forward to June 30, 2015 using standard update procedures. MTS's proportion of the net pension liability was based on a projection of the MTS's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)**

**B. MTS (Continued)**

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool:

- (1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2014). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability ("TPL") determines the net pension liability ("NPL") at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2015). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2015 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (FY2015).
- (3) The individual plan's TPL, FNP, and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from step (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the measurement date is equal to the risk pool TPL generated in step (2) multiplied by the TPL ratio generated in step (4). The plan's FNP as of the measurement date is equal to the FNP generated in step (2) multiplied by the FNP ratio generated in step (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan's NPL at the measurement date is the difference between the TPL and FNP calculated in step (5).

MTS's proportionate share of the net pension liability for each Plan as of year ended June 30, 2015, 2014, and 2013 (measurement dates) were as follows:

	MTS		
	MTS Miscellaneous Plan - 1223	Miscellaneous Second Tier Plan - 30134	MTS PEPRA Miscellaneous Plan - 26789
Proportion June 30, 2013	0.13274%	0.00000%	-0.00011%
Proportion June 30, 2014	0.13274%	0.00000%	-0.00011%
Change - Increase (Decrease)	0.00000%	0.00000%	0.00000%
Proportion June 30, 2015	0.14157%	-0.00004%	0.00003%
Change - Increase (Decrease)	0.00883%	-0.00004%	0.00014%

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)**

**B. MTS (Continued)**

For the years ended June 30, 2016 and 2015, MTS recognized pension expense of \$1,111,875 and \$1,164,016, respectively. At June 30, 2016 and 2015, MTS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,582,327	\$ -	\$ 1,559,846	\$ -
Differences between actual and expected experience	99,985	-	-	-
Changes in assumptions	-	(945,952)	-	-
Adjustments due to difference in proportions	142,412	(421,843)	1,074	(439,538)
Employer contributions in excess of proportions	-	(323,386)	-	-
Net differences between projected and actual earnings on pension plan investments	2,424,656	(1,438,656)	-	(1,918,209)
Total	<u>\$ 4,249,380</u>	<u>\$ (3,129,837)</u>	<u>\$ 1,560,920</u>	<u>\$ (2,357,747)</u>

The \$1,582,237 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, 2017 compared to \$1,559,846 reported in the previous year. 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
2017	\$ 1,398,269
2018	(184,059)
2019	(184,060)
2020	(107,807)
2021	197,200
Total	<u>\$ 1,119,543</u>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)**

**B. MTS (Continued)**

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	MTS Miscellaneous Plan - 1223	MTS Miscellaneous Second Tier Plan - 30134	MTS PEPRA Miscellaneous Plan - 26789
Valuation Date	June 30, 2014	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:			
Discount Rate	7.65%	7.65%	7.65%
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's membership data for all funds (3)	derived using CalPERS's membership data for all funds (3)	derived using CalPERS's 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's specific data.

The table includes 20 years of mortality improvements using Society of Actuaries Scales BB.

**Change of Assumption** – GASB 68, paragraph 30 states that the long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense. The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 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 7.65 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 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 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.



**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)**

**B. MTS (Continued)**

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	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%

(a) an expected inflation of 2.50% for this period

(b) an expected inflation of 3.00% for this period

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)****B. MTS (Continued)****Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate –**

The following presents MTS's proportionate share of the net pension liability for each Plan as of June 30, 2016, calculated using the discount rate for each Plan, as well as what MTS's 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:

	MTS			
	MTS Miscellaneous Plan - 1223	Miscellaneous Second Tier Plan - 30134	MTS PEPRA Miscellaneous Plan - 26789	Aggregate
1% Decrease	6.65%	6.65%	6.65%	6.65%
Net Pension Liability	\$ 16,296,453	\$ (4,359)	\$ (12,280)	\$ 16,279,814
Current Discount Rate	7.65%	7.65%	7.65%	7.65%
Net Pension Liability	\$ 9,717,218	\$ (2,599)	\$ (7,322)	\$ 9,707,297
1% Increase	8.65%	8.65%	8.65%	8.65%
Net Pension Liability	\$ 4,285,296	\$ (1,146)	\$ (3,229)	\$ 4,280,921

The following presents MTS's proportionate share of the net pension liability for each Plan as of June 30, 2015, calculated using the discount rate for each Plan, as well as what MTS's 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:

	MTS			
	MTS Miscellaneous Plan - 1223	Miscellaneous Second Tier Plan - 30134	MTS PEPRA Miscellaneous Plan - 26789	Aggregate
1% Decrease	6.50%	6.50%	6.50%	6.50%
Net Pension Liability	\$ 13,058,580	\$ 135	\$ 3,598	\$ 13,062,313
Current Discount Rate	7.50%	7.50%	7.50%	7.50%
Net Pension Liability	\$ 8,259,453	\$ 76	\$ 2,019	\$ 8,261,548
1% Increase	8.50%	8.50%	8.50%	8.50%
Net Pension Liability	\$ 4,276,636	\$ 27	\$ 709	\$ 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, 2016, MTS reported a payable of \$47,800 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016 compared to \$56,672 for the year ended June 30, 2015.

**San Diego Metropolitan Transit System  
Notes to Basic Financial Statements (Continued)  
For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)**

**C. SDTI**

**1. CalPERS Plan**

**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, 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. 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, 2016 are summarized as follows:

**San Diego Trolley Miscellaneous Plan - 1406  
Closed to New Members**

Hire date	Prior to January 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	7.00%
Required employer contribution rates	10.34%
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%

**San Diego Trolley PEPRA Miscellaneous Plan - 26965**

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	10.34%
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%

**San Diego Metropolitan Transit System  
Notes to Basic Financial Statements (Continued)  
For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)**

**C. SDTI (Continued)**

**2. PARS Plan**

**Plan Description** – All full-time SDTI management employees employed between October 1, 2003 and December 24, 2012 are eligible to participate in the PARS Retirement Enhancement Plan, a defined benefit plan held by the Public Agency Retirement System Trust, an agent multiple employer retirement trust under Internal Revenue Service Code Section 401(a). The Plan administered by Public Agency Retirement Services (PARS). Separate information for the Plan is included in another financial report issued by PARS. Copies of the financial report can be obtained in writing from Public Agency Retirement Services, 4350 Von Karman Ave., Suite 100, Newport Beach, CA 92660.

**Benefits Provided** – PARS provides supplemental service retirement benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Members are eligible to receive benefits if they, have retired under CalPERS, have terminated employment, or had their position eliminated due to internal reorganization or mandatory operating budget reductions after January 1, 2004. The Plan benefit supplements member's CalPERS benefit to provide members with an enhanced retirement benefit and MTS management has the authority to amend the Plan's benefit terms. The monthly lifetime benefit is calculated by taking the difference between (1) and (2) below and multiplying it by one-twelfth (1/12):

- (1) PARS Age Factor x Benefit Service x Highest Average Annual Compensation (Subject to CalPERS Deductions) during the Last 12 Months of Employment
- (2) CalPERS Age Factor x Benefit Service x Highest Average Annual Compensation (Subject to CalPERS Deductions) during the Last 12 Months of Employment

The Plan's provisions and benefits in effect as of June 30, 2016 are summarized as follows:

**San Diego Trolley PARS Plan  
Closed to New Members**

Hire date	Prior to January 1, 2013
Benefit formula	2.7% @ 55
Benefit vesting schedule	5 years service
Benefit payments	Monthly for life
Final Average Compensation Period	12 months
Retirement age	50-63
Monthly benefits, as a % of eligible compensation	0.282-0.574%
Required employee contribution rates	Not Required or Permitted
Required employer contribution rates	9.14%
Pre-Retirement Death Benefit	None
Post-Retirement Death Benefit	Joint-and-100% Survivor Option
Disability Retirement Benefit	None
COLA	2.00%

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)****C. SDTI (Continued)****Employees Covered**

At June 30, 2016, the following employees were covered by the benefit terms for each Plan:

	SDTI Miscellaneous Plan - 1406*	SDTI PARS Plan
Inactive employees or beneficiaries currently receiving benefits	228	39
Inactive employees entitled to but not yet receiving benefits	233	0
Active employees	519	61

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

	SDTI Miscellaneous Plan - 1406	SDTI PEPRA Miscellaneous Plan - 26965
Inactive employees or beneficiaries currently receiving benefits	229	0
Inactive employees entitled to but not yet receiving benefits	233	0
Active employees	389	92

**Contributions****1. CalPERS Plan**

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 year ended June 30, 2015 and 2014 (the measurement dates), the active employee contribution rates and average employer contribution rates were as follows:

	Measurement Date			
	2015		2014	
	Employee Contribution Rate	Employer Contribution Rate	Employee Contribution Rate	Employer Contribution Rate
SDTI Miscellaneous Plan 1406	7.00%	10.34%	6.98%	9.71%
SDTI PEPRA Miscellaneous Plan 26965	6.25%	10.34%	6.25%	9.78%

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)**

**C. SDTI (Continued)**

**Contributions**

**1. CalPERS Plan (Continued)**

For the years June 30, 2015 and 2014 (measurement date), the contributions recognized as part of pension expense were:

	CalPERS Plans	
	2015	2014
Contributions - employer	\$ 2,553,900	\$ 2,498,345
Contributions - employee	1,839,206	2,179,194

**2. PARS Plan**

Employer contribution rates for the PARS plan are contractually established by the Plan's administrator and agreed to by the employer, and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined biannually on an actuarial basis as of June 30 by PARS. For the period ended June 30, 2015 (measurement date), the average employer's contribution rate is 9.14%.

For the year June 30, 2015 (measurement date), the contributions recognized as part of pension expense were:

	PARS Plan
	2015
Contributions - employer	\$ 590,203
Contributions - employee	-

**Net Pension Liability**

**1. CalPERS Plan**

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, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown on the following page.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)****C. SDTI (Continued)****Net Pension Liability (Continued)****1. CalPERS Plan (Continued)**

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
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 (1)
Investment Rate of Return	7.50% (2)
Mortality	derived using CalPERS's membership data for all funds (3)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power applies, 2.75% thereafter

(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's specific data.

The table includes 20 years of mortality improvements using Society of Actuaries Scales BB.

**Change of Assumption** – GASB 68, paragraph 30 states that the long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense. The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 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 7.65 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 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 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.

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.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)****C. SDTI (Continued)****Net Pension Liability (Continued)****1. CalPERS Plan (Continued)**

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	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%

(a) an expected inflation of 2.50% for this period

(b) an expected inflation of 3.00% for this period



**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)**

**C. SDTI (Continued)**

**Net Pension Liability (Continued)**

**2. PARS Plan**

The net pension liability for the PARS Plan 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, 2015, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2015 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 liability in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	3.00%
Salary Increases Including Inflation	Graded rates based on years of services, 3.85% after 22 years of services
Investment Rate of Return	7.00%
Pre-Retirement Mortality	Consistent with Non-Industrial rates used to value the Miscellaneous CALPERS Pension Plans (1)
Post Retirement Benefit Increase	Any benefit in payment status will increase by 2% per annum on the anniversary of the participant's date of retirement

(1) CalPERS 1997-2011 Healthy Retiree Table (sex-distinct) with an assumed based year of 2008 and full generational projections using Scale AA.

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 7.00 percent.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a CalPERS actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)****C. SDTI (Continued)****Net Pension Liability (Continued)****2. PARS Plan**

We have not performed a formal cash flow projection as described under Paragraph 27 of GASB Statement 68. However, Paragraph 29 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.

The best estimate for the long-term expected rate of return of 7.00% was determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The table below reflects long-term expected real rate of return presented as arithmetic and geometric means by asset class.

Asset Class	Target Allocation	Real Return Years 1-10	Real Return Years 11+
Cash	4.77%	0.53%	0.53%
Core Fixed Income	38.55%	2.03%	1.90%
Broad U.S. Equities	41.05%	5.64%	4.25%
Developed Foreign Equities	12.09%	6.31%	4.58%
Emerging Market Equities	3.54%	8.56%	5.11%

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents SDTI’s net pension liability at June 30, 2016 and 2015, 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:

	CalPERS		PARS Plan
	2016	2015	2016
1% Decrease	6.65%	6.50%	6.00%
Net Pension Liability	\$ 37,308,074	\$ 33,081,879	\$ 3,039,616
Current Discount Rate	7.65%	7.50%	7.00%
Net Pension Liability	\$ 19,555,041	\$ 16,654,410	\$ 2,165,413
1% Increase	8.65%	8.50%	8.00%
Net Pension Liability	\$ 4,941,415	\$ 3,069,404	\$ 1,429,988

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)****C. SDTI (Continued)****Changes in the Net Pension Liability****1. CalPERS Plan**

At June 30, 2016, the change in the Net Pension Liability for the Plan is as follows:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at July 1, 2015	\$ 114,700,654	\$ 98,046,244	\$ 16,654,410
Changes in the year:			
Service cost	3,615,793	-	3,615,793
Interest on the total pension liability	8,554,525	-	8,554,525
Changes of assumptions	(2,274,755)	-	(2,274,755)
Differences between expected and actual experience	(510,309)	-	(510,309)
Benefit payments, including refunds of member contributions	(3,799,240)	(3,799,240)	-
Contributions - employer	-	2,553,900	(2,553,900)
Contributions - employee	-	1,839,206	(1,839,206)
Net investment income	-	2,204,904	(2,204,904)
Administrative expense	-	(113,387)	113,387
Net Changes	5,586,014	2,685,383	2,900,631
Balance at June 30, 2016	\$ 120,286,668	\$ 100,731,627	\$ 19,555,041

At June 30, 2015, the change in the Net Pension Liability for the Plan is as follows:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at July 1, 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 liability	7,982,614	-	7,982,614
Benefit payments, including refunds of member 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 expense	-	-	-
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

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

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)****C. SDTI (Continued)****Changes in the Net Pension Liability (Continued)****2. PARS Plan**

At June 30, 2016, the change in the Net Pension Liability for the Plan is as follows:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at July 1, 2015	\$ 6,713,539	\$ 4,591,214	\$ 2,122,325
Changes in the year:			
Service cost	267,889	-	267,889
Interest on the total pension liability	480,808	-	480,808
Changes of assumptions	-	-	-
Differences between expected and actual experience	-	-	-
Benefit payments, including refunds of member contributions	(229,364)	(229,364)	-
Contributions - employer	-	590,203	(590,203)
Contributions - employee	-	-	-
Net investment income	-	127,592	(127,592)
Administrative expense	-	(12,186)	12,186
Net Changes	519,333	476,245	43,088
Balance at June 30, 2016	\$ 7,232,872	\$ 5,067,459	\$ 2,165,413

**Pension Plan Fiduciary Net Position** – Detailed information about the PARS Plan’s fiduciary net position is available in the separately issued financial reports.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)**

**C. SDTI (Continued)**

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

For the years ended June 30, 2016 and 2015, SDTI recognized pension expense of \$2,319,436 and \$1,695,021, respectively. At June 30, 2016 and 2015, SDTI reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,202,394	\$ -	\$ 2,566,885	\$ -
Differences between actual and expected experience	-	(415,807)	-	-
Changes in assumptions	-	(1,853,504)	-	-
Net differences between projected and actual earnings on pension plan investments	4,391,258	(4,939,318)	-	(6,585,757)
Total	<u>\$ 7,593,652</u>	<u>\$ (7,208,629)</u>	<u>\$ 2,566,885</u>	<u>\$ (6,585,757)</u>

The \$3,202,394 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 compared to \$2,566,885 for the previous year. 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
2017	\$ 2,129,785
2018	(1,072,609)
2019	(1,072,609)
2020	573,829
2021	(173,373)
Total	<u>\$ 385,023</u>

**Payable to the Pension Plan**

At June 30, 2016, SDTI reported a payable of \$286,513 to CalPERS and \$36,893 to PARS for the outstanding amount of contributions to the pension plans required for the fiscal year compared to \$452,100 payable to CalPERS and \$67,290 payable to PARS for the year ended June 30, 2015.

**San Diego Metropolitan Transit System  
Notes to Basic Financial Statements (Continued)  
For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)**

**D. SDTC**

**General Information about the Pension Plans**

**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, 2016 and 2015 are summarized as follows:

	<b>San Diego Transit Pension Plan - Non-Contract Employees</b>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date	Prior to January 1, 2013	On or after January 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	6.00%	6.25%
Required employer contribution rates	33.68%	33.43%
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 Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)****D. SDTC (Continued)****General Information about the Pension Plans (Continued)**

	<b>SDTC Contract Employees</b>	
	<b>ATU - Closed Plan</b>	<b>IBEW - Closed Plan</b>
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	6.00%	6.00%
Required employer contribution rates	33.68%	33.68%
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, 2016 and 2015, the following employees were covered by the benefit terms for each Plan:

	<u>2016</u>	<u>2015</u>
Inactive employees or beneficiaries currently receiving benefits	932	909
Inactive employees entitled to but not yet receiving benefits	219	223
Active employees	563	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 July 1, 2015 (the measurement date), the active employee contribution rate is 6.0-6.25% of annual pay, and the average employer's contribution rate is 33.62% of annual payroll compared to 3.0-6.25% and 34.35% for the previous year.

For the years ended July 1, 2015 and 2014 (the measurement dates), the contributions recognized as part of pension expense for the Plan were as follows:

	<u>2015</u>	<u>2014</u>
Contributions - employer	\$ 11,352,628	\$ 12,628,190
Contributions - employee	1,363,092	899,791

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)**

**D. 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, 2015, using an annual actuarial valuation as of July 1, 2015.

**Actuarial Assumptions** – The total pension liabilities in the July 1, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	July 1, 2015
Measurement Date	July 1, 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	3.00%
Payroll Growth	3.50%-10.50% for Drivers & 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 June 30, 2012, over a closed 25-year period (22 years remaining as of the July 1, 2015 actuarial valuation). Actuarial gains and losses in plan years after June 30, 2012 are amortized over closed 15-year periods as a level dollar amount.



**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)**

**D. SDTC (Continued)**

**Net Pension Liability (Continued)**

We have not performed a formal cash flow projection as described under Paragraph 27 of GASB Statement 68. However, Paragraph 29 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%	5.40%	5.40%
Fixed Income	25.00%	1.00%	1.00%
Absolute Return	15.00%	4.00%	4.00%
Real Return	20.00%	4.00%	4.00%

(a) an expected inflation of 2.50% 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 as of June 30, 2016 and 2015, 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:

	2016	2015
1% Decrease	6.50%	6.50%
Net Pension Liability	\$ 123,319,640	\$ 110,642,733
Current Discount Rate	7.50%	7.50%
Net Pension Liability	\$ 98,098,137	\$ 85,694,263
1% Increase	8.50%	8.50%
Net Pension Liability	\$ 76,368,870	\$ 64,231,535

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)****D. SDTC (Continued)****Changes in Net Pension Liability**

At June 30, 2016, 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 July 1, 2015	\$ 250,491,593	\$ 164,797,329	\$ 85,694,264
Changes in the year:			
Service cost	3,590,766	-	3,590,766
Interest on the total pension liability	18,434,275	-	18,434,275
Changes of assumptions	-	-	-
Differences between expected and actual experience	812,878	-	812,878
Benefit payments, including refunds of member	(16,584,043)	(16,584,043)	-
Contributions - employer	-	11,352,628	(11,352,628)
Contributions - employee	-	1,363,092	(1,363,092)
Net investment income	-	(2,018,866)	2,018,866
Administrative expense	-	(262,808)	262,808
Net Changes	6,253,876	(6,149,997)	12,403,873
Balance at June 30, 2016	\$ 256,745,469	\$ 158,647,332	\$ 98,098,137

At June 30, 2015, 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 July 1, 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 liability	17,812,979	-	17,812,979
Changes of assumptions	-	-	-
Differences between expected and actual experience	2,905,692	-	2,905,692
Benefit payments, including refunds of member	(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 expense	-	(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

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**Note 12 – Employee Retirement Systems (Continued)**

**D. SDTC (Continued)**

**Changes in Net Pension Liability (Continued)**

**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 of Resources Related to Pensions**

For the years ended June 30, 2016 and 2015, SDTC recognized pension expense of \$11,487,861 and \$8,508,553, respectively. At June 30, 2016 and 2015, SDTC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 10,711,282	\$ -	\$ 11,352,628	\$ -
Differences between actual and expected experience	1,510,483	-	1,937,128	-
Net differences between projected and actual earnings on pension plan investments	11,378,998	(3,948,861)	-	(5,265,148)
Total	<u>\$ 23,600,763</u>	<u>\$ (3,948,861)</u>	<u>\$ 13,289,756</u>	<u>\$ (5,265,148)</u>

The \$10,711,282 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 compared to \$11,352,628 for the previous year. 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
2017	\$ 13,479,268
2018	1,799,423
2019	1,528,463
2020	2,844,748
2021	-
Total	<u>\$ 19,651,902</u>

**Payable to the Pension Plan**

At June 30, 2016, SDTC reported a payable of \$852,440 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016 compared to \$911,918 for the year ended June 30, 2015.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

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**Note 13 – Other Required Individual Fund Disclosures**

SDTC and SDTI had unrestricted (deficits) of \$93,851,767 and \$5,572,877 respectively as of June 30, 2016 compared to \$126,630,215 and 16,627,567 at June 30, 2015. These deficits are primarily a result of the implementation of GASB 68 as well as timing difference between recognition of expenses on an accrual basis and when those expenses are funded by subsidy transfers for SDTC and SDTI.

**Note 14 – Restatement of Net Position**

As a result of the implementation of GASB Statement 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 asset from the statement of net position	<u>(25,910,638)</u>
Net Position at July 1, 2014, as restated	<u><u>\$ 1,446,025,657</u></u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**(Unaudited)**

DRAFT 10-26-2016

**San Diego Metropolitan Transit System  
Required Supplementary Information (Continued)  
For the Years Ended June 30, 2016 and 2015**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
MTS'S PLANS  
(LAST TEN YEARS\*)**

	2016	2015
	<u>Miscellaneous Plan</u>	
Proportion of the net pension liability	0.14157%	0.13274%
Proportionate share of the net pension liability	\$ 9,717,218	\$ 8,259,452
Covered Payroll	\$ 7,016,370	\$ 8,422,933
Proportionate Share of the Net Pension Liability as percentage of covered payroll	138.49%	98.06%
Plan's fiduciary net position as percentage of the total pension liability	74.90%	77.17%
Proportionate share of aggregate employer contributions	\$ 1,753,602	\$ 754,893
	<u>Miscellaneous Plan - Second Tier</u>	
Proportion of the net pension liability	-0.00004%	0.00000%
Proportionate share of the net pension liability	\$ (2,599)	\$ 76
Covered Payroll	\$ 539,177	\$ 169,396
Proportionate Share of the Net Pension Liability as percentage of covered payroll	-0.48%	0.04%
Plan's fiduciary net position as percentage of the total pension liability	104.82%	82.96%
Proportionate share of aggregate employer contributions	\$ 58,121	\$ 10
	<u>Miscellaneous PEPRA Plan</u>	
Proportion of the net pension liability	-0.00011%	0.00003%
Proportionate share of the net pension liability	\$ (7,322)	\$ 2,019
Covered Payroll	\$ 2,399,171	\$ 685,453
Proportionate Share of the Net Pension Liability as percentage of covered payroll	-0.31%	0.29%
Plan's fiduciary net position as percentage of the total pension liability	104.24%	83.03%
Proportionate share of aggregate employer contributions	\$ 187,174	\$ 267

\*GASB 68 was implemented in fiscal year 2015, therefore only two years of data is available.

**San Diego Metropolitan Transit System  
Required Supplementary Information (Continued)  
For the Years Ended June 30, 2016 and 2015**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
SDTI'S CALPERS PLAN  
(LAST TEN YEARS\*)**

	2016	2015
<b>Total Pension Liability</b>		
Service Cost	\$ 3,615,793	\$ 3,721,950
Interest on total pension liability	8,554,525	7,982,614
Differences between expected and actual experience	(510,309)	-
Changes in assumptions	(2,274,755)	-
Changes in benefit terms	-	-
Benefit payments, including refunds of employee contributions	(3,799,240)	(3,155,596)
<b>Net change in total pension liability</b>	5,586,014	8,548,968
<b>Total pension liability - beginning</b>	114,700,654	106,151,686
<b>Total pension liability - ending (a)</b>	<u>\$ 120,286,668</u>	<u>\$ 114,700,654</u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 2,553,900	\$ 2,498,345
Contributions - employee	1,839,206	2,179,194
Net investment income	2,204,904	14,416,106
Benefit payments, including refunds of employee contributions	(3,799,240)	(3,155,596)
Administrative expense	(113,387)	-
<b>Net change in plan fiduciary net position</b>	2,685,383	15,938,049
<b>Plan fiduciary net position - beginning</b>	98,046,244	82,108,195
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 100,731,627</u>	<u>\$ 98,046,244</u>
<b>Net pension liability - ending (a) - (b)</b>	\$ 19,555,041	\$ 16,654,410
Plan fiduciary net position as a percentage of the total pension liability	83.74%	85.48%
Covered payroll	\$ 26,965,416	\$ 26,268,261
Plan net pension liability/(asset) as a percentage of covered payroll	72.52%	63.40%

**Notes to Schedule:**

**Benefit changes.** The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date.

**Changes of assumption.** The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

\*GASB 68 was implemented in fiscal year 2015, therefore only two years of data is available.

**San Diego Metropolitan Transit System  
Required Supplementary Information (Continued)  
For the Years Ended June 30, 2016 and 2015**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
SDTI'S PARS PLAN  
(LAST TEN YEARS\*)**

	2016
<b>Total Pension Liability</b>	
Service Cost	\$ 267,889
Interest on total pension liability	480,808
Differences between expected and actual experience	-
Changes in assumptions	-
Changes in benefit terms	-
Benefit payments, including refunds of employee contributions	(229,364)
<b>Net change in total pension liability</b>	519,333
<b>Total pension liability - beginning</b>	6,713,539
<b>Total pension liability - ending (a)</b>	<u>\$ 7,232,872</u>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 590,203
Contributions - employee	-
Net investment income	127,592
Benefit payments, including refunds of employee contributions	(229,364)
Administrative expense	(12,186)
<b>Net change in plan fiduciary net position</b>	476,245
<b>Plan fiduciary net position - beginning</b>	4,591,214
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 5,067,459</u>
<b>Net pension liability - ending (a) - (b)</b>	\$ 2,165,413
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	70.06%
<b>Covered payroll</b>	\$ 4,943,557
<b>Plan net pension liability/(asset) as a percentage of covered payroll</b>	43.80%

**Notes to Schedule:**

**Benefit changes.** The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2013 valuation date.

**Changes of assumption.** There were no changes in assumptions.

\*GASB 68 for PARS was implemented in fiscal year 2016, therefore only one year of data is available.



**San Diego Metropolitan Transit System**  
**Required Supplementary Information (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**SDTC'S PLAN**  
**(LAST TEN YEARS\*)**

	2016	2015
<b>Total Pension Liability</b>		
Service Cost	\$ 3,590,766	\$ 3,908,376
Interest on total pension liability	18,434,275	17,812,979
Differences between expected and actual experience	812,878	2,905,692
Changes in assumptions	-	-
Changes in benefit terms	-	-
Benefit payments, including refunds of employee contributions	(16,584,043)	(15,466,924)
<b>Net change in total pension liability</b>	<b>6,253,876</b>	<b>9,160,123</b>
<b>Total pension liability - beginning</b>	<b>250,491,593</b>	<b>241,331,470</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 256,745,469</b>	<b>\$ 250,491,593</b>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 11,352,628	\$ 12,628,190
Contributions - employee	1,363,092	899,791
Net investment income	(2,018,866)	18,417,439
Benefit payments, including refunds of employee contributions	(16,584,043)	(15,466,924)
Administrative expense	(262,808)	(258,142)
<b>Net change in plan fiduciary net position</b>	<b>(6,149,997)</b>	<b>16,220,354</b>
<b>Plan fiduciary net position - beginning</b>	<b>164,797,329</b>	<b>148,576,975</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 158,647,332</b>	<b>\$ 164,797,329</b>
<b>Net pension liability - ending (a) - (b)</b>	<b>\$ 98,098,137</b>	<b>\$ 85,694,264</b>
Plan fiduciary net position as a percentage of the total pension liability	61.79%	65.79%
Covered payroll	\$ 32,658,827	\$ 32,313,553
Plan net pension liability/(asset) as a percentage of covered payroll	300.37%	265.20%

**Notes to Schedule:**

**Changes of assumption.** There were no changes in assumptions.

\*GASB 68 was implemented in fiscal year 2015, therefore only two years of data is available.

**San Diego Metropolitan Transit System**  
**Required Supplementary Information (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

**SCHEDULE OF CONTRIBUTIONS**  
**MTS'S PLANS**  
**(LAST TEN YEARS\*)**

	2016	2015	2014
	<b>Miscellaneous Plan</b>		
Actuarially determined contribution	\$ 1,306,296	\$ 1,368,359	\$ 1,424,726
Contributions in relation to the actuarially determined contribution	(1,306,296)	(1,368,359)	(1,424,726)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 6,680,093	\$ 7,016,370	\$ 8,422,933
Contributions as a percentage of covered payroll	19.56%	19.50%	16.91%
	<b>Miscellaneous Plan - Second Tier</b>		
Actuarially determined contribution	\$ 49,020	\$ 45,480	\$ 32,575
Contributions in relation to the actuarially determined contribution	(49,020)	(45,480)	(32,575)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 685,044	\$ 539,177	\$ 169,396
Contributions as a percentage of covered payroll	7.16%	8.44%	19.23%
	<b>Miscellaneous PEPPRA Plan</b>		
Actuarially determined contribution	\$ 227,181	\$ 146,007	\$ 79,778
Contributions in relation to the actuarially determined contribution	(227,181)	(146,007)	(79,778)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 3,713,332	\$ 2,399,171	\$ 685,453
Contributions as a percentage of covered payroll	6.12%	6.09%	11.64%

**San Diego Metropolitan Transit System  
Required Supplementary Information (Continued)  
For the Years Ended June 30, 2016 and 2015**

**SCHEDULE OF CONTRIBUTIONS  
MTS'S PLANS (Continued)  
(LAST TEN YEARS\*)**

**Notes to Schedule:**

**Benefit changes:** The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact.

**Changes of assumption:** The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

**Methods and assumptions used to determine contribution rates:**

The actuarial methods and assumption used to set the actuarially determined contributions for Fiscal Year 2014-2015 was derived from the June 30, 2012 funding valuation report.

Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2012 Funding Valuation
Asset valuation method	Actuarial value of assets. For details, see June 30, 2012 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50% net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 and 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

\* GASB 68 was implemented in fiscal year 2015, therefore only three years data are available.

**San Diego Metropolitan Transit System  
Required Supplementary Information (Continued)  
For the Years Ended June 30, 2016 and 2015**

**SCHEDULE OF CONTRIBUTIONS  
SDTI'S CALPERS PLAN  
(LAST TEN YEARS\*)**

	2016	2015	2014
Actuarially determined contribution	\$ 2,659,911	\$ 2,553,900	\$ 2,498,345
Contributions in relation to the actuarially determined contribution	(2,659,911)	(2,553,900)	(2,498,345)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 25,718,424	\$ 26,965,416	\$ 26,268,261
Contributions as a percentage of covered payroll	10.34%	9.47%	9.51%

**Notes to Schedule:**

**Benefit changes:** The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact.

**Changes of assumption:** The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

**Methods and assumptions used to determine contribution rates:**

The actuarial methods and assumption used to set the actuarially determined contributions for Fiscal Year 2014-2015 was derived from the June 30, 2012 funding valuation report.

Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2012 Funding Valuation
Asset valuation method	Actuarial value of assets. For details, see June 30, 2012 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50% net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 and 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

\* GASB 68 was implemented in fiscal year 2015, therefore only three years data are available.

**San Diego Metropolitan Transit System  
Required Supplementary Information (Continued)  
For the Years Ended June 30, 2016 and 2015**

**SCHEDULE OF CONTRIBUTIONS  
SDTI PARS PLAN  
(LAST TEN YEARS\*)**

	2016	2015	2014
Actuarially determined contribution	\$ 445,465	\$ 546,873	\$ 463,079
Contributions in relation to the actuarially determined contribution	(547,473)	(590,203)	(453,934)
Contribution deficiency (excess)	\$ (102,008)	\$ (43,330)	\$ 9,145
Covered payroll	\$ 5,020,011	\$ 4,943,557	\$ 5,984,089
Contributions as a percentage of covered payroll	10.91%	11.94%	7.59%

**Notes to Schedule:**

**Benefit changes:** The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact.

**Methods and assumptions used to determine contribution rates:**

Valuation date	July 1, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll
Amortization period	20 years as of valuation date
Asset valuation method	5-year smoothed market
Inflation	3.00%
Salary increases	varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.00%

\* GASB 68 was implemented in fiscal year 2015, therefore only three years data are available.

**San Diego Metropolitan Transit System  
Required Supplementary Information (Continued)  
For the Years Ended June 30, 2016 and 2015**

**SCHEDULE OF CONTRIBUTIONS  
SDTC'S PLAN  
(LAST TEN YEARS\*)**

	2016	2015	2014
Actuarially determined contribution	\$ 10,711,282	\$ 11,352,628	\$ 12,628,190
Contributions in relation to the actuarially determined contribution	(10,711,282)	(11,352,628)	(12,628,190)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 31,048,663	\$ 32,658,827	\$ 32,313,553
Contributions as a percentage of covered payroll	34.50%	34.76%	39.08%

**Notes to Schedule:**

**Benefit changes:** The figures above do not include any liability impact that may have resulted from plan changes which occurred after July 1, 2015 as they have minimal cost impact.

**Methods and assumptions used to determine contribution rates:**

Valuation date	July 1, 2015
Actuarial cost method	Entry Age
Amortization method/period	Level percent of payroll, closed 25-year period
Asset valuation method	5-year smoothed market
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 pension plan investment expenses.
Mortality	Drivers and mechanics: RP-2000 Combined healthy one year for females Clerical and non-contract: 1994 Group annuity mortality weighting male rates by 50% and female rates by 50%

\* GASB 68 was implemented in fiscal year 2015, therefore only three years data are available.

**San Diego Metropolitan Transit System**  
**Required Supplementary Information (Continued)**  
**For the Years Ended June 30, 2016 and 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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DRAFT 10-26-2016



## **SUPPLEMENTARY INFORMATION**

Combining Schedule of Net Position

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

Combining Statement of Cash Flows

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

Combined Operations

General Fund

Taxicab Administration

San Diego & Arizona Eastern Railway

Contracted Services

San Diego Transit Corporation

San Diego Trolley, Inc.

DRAFT 10-26-2016

**San Diego Metropolitan Transit System**  
**Combining Schedule of Net Position**  
**June 30, 2016**

	General Operations	Contracted Services	SDTC	SDTI	Total
<b>ASSETS</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 81,117,699	\$ (961,314)	\$ (2,778,741)	\$ 17,000	\$ 77,394,644
Cash restricted for capital support	13,508,715	-	-	-	13,508,715
Accounts and other receivables	6,130,229	77,397	1,478,744	249,574	7,935,944
Due from other governments	82,055,989	145,979	152,610	434,800	82,789,378
Internal balances	(53,139,022)	8,302,574	30,963,883	13,872,565	-
Inventory	-	-	2,431,515	17,164,911	19,596,426
Prepaid expenses and other current assets	1,064,456	310,003	616,840	471,942	2,463,241
<b>Total current assets</b>	130,738,066	7,874,639	32,864,851	32,210,792	203,688,348
<b>Noncurrent assets:</b>					
Capital assets (net of accumulated depreciation)	99,753,851	145,601,483	252,444,773	1,265,021,112	1,762,821,219
<b>Total noncurrent assets</b>	99,753,851	145,601,483	252,444,773	1,265,021,112	1,762,821,219
<b>Total assets</b>	230,491,917	153,476,122	285,309,624	1,297,231,904	1,966,509,567
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Differences between projected and actual earnings on pension plan investments	2,424,656	-	11,378,998	4,391,258	18,194,912
Contributions made after the measurement date	1,582,327	-	10,711,282	3,202,394	15,496,003
Differences between expected and actual experience	99,985	-	1,510,483	-	1,610,468
Adjustments due to differences in proportions	142,412	-	-	-	142,412
<b>Total deferred outflows of resources</b>	4,249,380	-	23,600,763	7,593,652	35,443,795

**San Diego Metropolitan Transit System**  
**Combining Schedule of Net Position (Continued)**  
**June 30, 2016**

<b>LIABILITIES</b>					
	General Operations	Contracted Services	SDTC	SDTI	Total
<b>Current liabilities:</b>					
Accounts payable	9,047,856	6,906,656	2,602,807	1,799,694	20,357,013
Due to other governments	18,960,224	13,642	71,863	498,209	19,543,938
Unearned revenue	6,575,071	-	-	13,917	6,588,988
Accrued expenses	630,234	125	780,032	1,014,780	2,425,171
Retentions payable	86,944	-	-	3,098	90,042
Retentions payable from restricted assets	4,758,582	-	-	-	4,758,582
Due within one year:					
Compensated absences payable	972,455	-	3,675,916	2,320,286	6,968,657
Accrued damage, injury, and employee claims	183,616	-	3,088,291	1,105,159	4,377,066
Long-term debt	646,074	-	2,205,000	-	2,851,074
<b>Total current liabilities</b>	<b>41,861,056</b>	<b>6,920,423</b>	<b>12,423,909</b>	<b>6,755,143</b>	<b>67,960,531</b>
<b>Noncurrent liabilities:</b>					
Due in more than one year:					
Compensated absences payable	81,159	-	3,963,155	171,150	4,215,464
Accrued damage, injury, and employee claims	276,441	-	8,976,871	1,964,772	11,218,084
Aggregate net pension liability	9,707,297	-	98,098,137	21,720,454	129,525,888
Net other post employment benefits obligation	4,711,641	-	5,251,448	7,557,173	17,520,262
Long-term debt	1,747,713	-	17,655,000	-	19,402,713
<b>Total noncurrent liabilities</b>	<b>16,524,251</b>	<b>-</b>	<b>133,944,611</b>	<b>31,413,549</b>	<b>181,882,411</b>
<b>Total liabilities</b>	<b>58,385,307</b>	<b>6,920,423</b>	<b>146,368,520</b>	<b>38,168,692</b>	<b>249,842,942</b>

**San Diego Metropolitan Transit System**  
**Combining Schedule of Net Position (Continued)**  
**June 30, 2016**

**DEFERRED INFLOWS OF RESOURCES**

Differences between projected and actual earnings on pension plan investments

	General Operations	Contracted Services	SDTC	SDTI	Total
Adjustments due to differences in proportions	1,438,656	-	3,948,861	4,939,318	10,326,835
Difference between actual and proportionate shares of employer contributions	421,843	-	-	-	421,843
Difference between expected and actual experience	323,386	-	-	-	323,386
Changes in assumptions	-	-	-	415,807	415,807
Deferred gain on refunding	945,952	-	-	1,853,504	2,799,456
	313,775	-	-	-	313,775
<b>Total deferred inflows of resources</b>	<b>3,443,612</b>	<b>-</b>	<b>3,948,861</b>	<b>7,208,629</b>	<b>14,601,102</b>

**NET POSITION**

Net investment in capital assets

Restricted for:

Capital projects

Unrestricted (deficit)

**Total net position**

	97,360,064	145,601,483	252,444,773	1,265,021,112	1,760,427,432
	13,508,715	-	-	-	13,508,715
	62,043,599	954,216	(93,851,767)	(5,572,877)	(36,426,829)
	\$ 172,912,378	\$ 146,555,699	\$ 158,593,006	\$ 1,259,448,235	\$ 1,737,509,318

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DRAFT 10-26-2016

**San Diego Metropolitan Transit System**  
**Combining Schedule of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2016**

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
<b>Operating revenues:</b>						
Passenger revenue	\$ -	\$ 30,631,228	\$ 26,169,280	\$ 41,113,382	\$ -	\$ 97,913,890
Advertising	968,078	-	-	-	-	968,078
Miscellaneous operating revenues	15,082,527	(1,917)	2,129	698,483	-	15,781,222
<b>Total operating revenues</b>	<b>16,050,605</b>	<b>30,629,311</b>	<b>26,171,409</b>	<b>41,811,865</b>	<b>-</b>	<b>114,663,190</b>
<b>Operating expenses:</b>						
Personnel costs	18,900,748	484,714	68,106,396	34,429,809	-	121,921,667
Outside services	17,145,509	68,744,383	2,298,278	6,613,503	-	94,801,673
Transit operations funding	103,995,482	-	-	-	(103,504,600)	490,882
Materials and supplies	37,218	31,278	4,284,200	5,361,912	-	9,714,608
Energy costs	210,333	7,963,002	5,524,761	10,832,612	-	24,530,708
Risk management	340,079	15,300	2,952,706	1,556,411	-	4,864,496
Miscellaneous operating expenses	(26,630,945)	3,271,982	11,615,659	16,721,406	-	4,978,102
Depreciation	2,454,052	16,001,781	24,278,346	76,785,475	-	119,519,654
<b>Total operating expenses</b>	<b>116,452,476</b>	<b>96,512,440</b>	<b>119,060,346</b>	<b>152,301,128</b>	<b>(103,504,600)</b>	<b>380,821,790</b>
<b>Operating income (loss)</b>	<b>(100,401,871)</b>	<b>(65,883,129)</b>	<b>(92,888,937)</b>	<b>(110,489,263)</b>	<b>103,504,600</b>	<b>(266,158,600)</b>

**San Diego Metropolitan Transit System**  
**Combining Schedule of Revenues, Expenses and Changes in Net Position (Continued)**  
**For the Year Ended June 30, 2016**

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
<b>Public support and nonoperating revenues (expenses):</b>						
Federal revenue	81,901,246	13,826,834	18,000,000	21,148,089	(52,974,923)	81,901,246
Transportation Development Act (TDA) funds	90,869,756	32,296,025	15,814,040	5,928,770	(54,038,835)	90,869,756
State Transit Assistance (STA) funds	14,720,378	-	100,000	7,698	(107,698)	14,720,378
State revenue - other	5,724,586	1,500,000	79,035	103,299	(1,682,334)	5,724,586
TransNet funds	41,398,669	1,521,215	29,377,457	5,000,000	(41,398,672)	35,898,669
Other local subsidies	6,648,825	737,274	4,180,212	-	(4,917,486)	6,648,825
Investment earnings	291,659	-	-	-	-	291,659
Interest expense	(26,886)	-	(1,044,028)	-	-	(1,070,914)
Gain (loss) on disposal of assets	2,435,106	-	(52,959)	51,031	-	2,433,178
<b>Total public support and nonoperating revenues (expenses):</b>	<b>243,963,339</b>	<b>49,881,348</b>	<b>66,453,757</b>	<b>32,238,887</b>	<b>(155,119,948)</b>	<b>237,417,383</b>
<b>Income (loss) before transfers and contributed capital</b>	<b>143,561,468</b>	<b>(16,001,781)</b>	<b>(26,435,180)</b>	<b>(78,250,376)</b>	<b>(51,615,348)</b>	<b>(28,741,217)</b>
Transfers	(51,615,348)	-	-	-	51,615,348	-
Contributed capital, net	(91,628,964)	15,403,374	67,327,315	102,517,015	-	93,618,740
<b>Changes in net position</b>	<b>317,156</b>	<b>(598,407)</b>	<b>40,892,135</b>	<b>24,266,639</b>	<b>-</b>	<b>64,877,523</b>
<b>Net Position:</b>						
Beginning of year	172,595,222	147,154,106	117,700,871	1,235,181,596	-	1,672,631,795
End of year	\$ 172,912,378	\$ 146,555,699	\$ 158,593,006	\$ 1,259,448,235	\$ -	\$ 1,737,509,318

**San Diego Metropolitan Transit System**  
**Combining Schedule of Cash Flows**  
**For the Year Ended June 30, 2016**

	General Operations	Contracted Services	SDTC	SDTI	Total
<b>Cash flows from operating activities:</b>					
Receipts from customers and users	\$ 14,898,361	\$ 30,556,006	\$ 26,209,909	\$ 41,805,396	\$ 113,469,672
Payments to suppliers	14,406,326	(80,913,954)	(29,339,952)	(41,417,545)	(137,265,125)
Payments to employees	(19,444,725)	(484,714)	(65,270,676)	(35,213,312)	(120,413,427)
Payments for damage and injury	(61,559)	-	(1,520,348)	(1,077,846)	(2,659,753)
<b>Net cash (used in) operating activities</b>	<b>9,798,403</b>	<b>(50,842,662)</b>	<b>(69,921,067)</b>	<b>(35,903,307)</b>	<b>(146,868,633)</b>
<b>Cash flows from noncapital financing activities:</b>					
Public support funds received	69,075,394	49,881,348	70,878,874	36,055,989	225,891,605
<b>Net cash provided by noncapital financing activities</b>	<b>69,075,394</b>	<b>49,881,348</b>	<b>70,878,874</b>	<b>36,055,989</b>	<b>225,891,605</b>
<b>Cash flows from capital and related financing activities:</b>					
Debt service costs	(612,942)	-	(3,144,028)	-	(3,756,970)
Property acquisition	(63,541,905)	-	-	-	(63,541,905)
Proceeds from disposal of assets	2,653,041	-	21,853	58,469	2,733,363
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(61,501,806)</b>	<b>-</b>	<b>(3,122,175)</b>	<b>58,469</b>	<b>(64,565,512)</b>
<b>Cash flows from investing activities:</b>					
Interest received on investments	264,773	-	-	-	264,773
<b>Net cash provided by investing activities</b>	<b>264,773</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>264,773</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>17,636,764</b>	<b>(961,314)</b>	<b>(2,164,368)</b>	<b>211,151</b>	<b>14,722,233</b>
<b>Cash and cash equivalents:</b>					
Beginning of year	76,989,650	-	(614,373)	(194,151)	76,181,126
End of year	\$ 94,626,414	\$ (961,314)	\$ (2,778,741)	\$ 17,000	\$ 90,903,359
<b>Cash and cash equivalents:</b>					
Cash and cash equivalents	\$ 81,117,699	\$ (961,314)	\$ (2,778,741)	\$ 17,000	\$ 77,394,644
Cash restricted for capital support	13,508,715	-	-	-	13,508,715
<b>Total cash and cash equivalents</b>	<b>\$ 94,626,414</b>	<b>\$ (961,314)</b>	<b>\$ (2,778,741)</b>	<b>\$ 17,000</b>	<b>\$ 90,903,359</b>



**San Diego Metropolitan Transit System**  
**Combining Schedule of Cash Flows (Continued)**  
**For the Year Ended June 30, 2016**

	General Operations	Contracted Services	SDTC	SDTI	Total
<b>Reconciliation of Operating (Loss) to Net Cash (Used In) Operating Activities</b>					
<b>Operating income (loss):</b>	\$ 3,102,729	\$ (65,883,129)	\$ (92,888,937)	\$ (110,489,263)	\$ (266,158,600)
Adjustments to reconcile operating income (loss) to net cash (used in) operating activities					
Depreciation and amortization	2,454,052	16,001,781	24,278,346	76,785,475	119,519,654
(Increase) decrease in:					
Accounts and other receivables	(2,977,413)	(73,305)	38,500	(4,636)	(3,016,854)
Due from other governments	(1,652,285)	-	-	-	(1,652,285)
Inventory	-	-	(198,739)	(1,020,939)	(1,219,678)
Prepaid expenses and other current assets	(14,063)	(42,168)	34,757	(23,501)	(44,975)
Increase (decrease) in:					
Accounts payable	4,495,630	(777,483)	1,746,723	1,722,474	7,187,344
Due to other governments	499,873	(68,483)	(2,845,435)	209,697	(2,204,348)
Accrued expenses	(27,754)	125	16,754	(2,171,292)	(2,182,167)
Unearned revenue	3,477,454	-	-	(1,833)	3,475,621
Aggregate pension liability	(22,481)	-	641,346	(635,509)	(16,644)
Net other post employment benefits obligation	376,296	-	299,220	429,776	1,105,292
Compensated absences payable	56,531	-	(162,017)	(169,108)	(274,594)
Accrued damage, injury and employee claims	29,833	-	(881,585)	(534,648)	(1,386,400)
Total adjustments	6,695,673	15,040,467	22,967,870	74,585,956	119,289,966
<b>Net cash (used in) operating activities</b>	<b>\$ 9,798,402</b>	<b>\$ (50,842,662)</b>	<b>\$ (69,921,067)</b>	<b>\$ (35,903,307)</b>	<b>\$ (146,868,634)</b>

**Supplemental noncash disclosures:**

During the year SANDAG and outside parties contributed \$94,038,740 in capital assets  
During the year the fair value of investments increased by \$35,127

**San Diego Metropolitan Transit System**  
**Combined Operations**  
**Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts				Variance with Final Budget Positive (Negative)
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts	Budget Basis Adjustments	Actuals on Budget Basis		
<b>Operating revenues:</b>							
Passenger revenue	\$ 101,879,972	\$ 100,679,973	\$ 97,913,890	\$ -	\$ 97,913,890	\$	(2,766,083)
Advertising	750,000	825,000	968,078	-	968,078		143,078
Miscellaneous operating revenues	8,780,576	14,014,537	15,781,222	(1,247,535)	14,533,687		519,150
<b>Total operating revenues</b>	<b>111,410,548</b>	<b>115,519,510</b>	<b>114,663,190</b>	<b>(1,247,535)</b>	<b>113,415,655</b>		<b>(2,103,855)</b>
<b>Operating expenses:</b>							
Personnel costs	124,314,350	122,940,652	121,921,667	(1,865,475)	120,056,192		2,884,460
Outside services	90,235,520	93,655,398	94,801,673	(1,091,157)	93,710,516		(55,118)
Transit operations funding	544,014	544,014	490,882	-	490,882		53,132
Materials and supplies	10,536,012	9,889,738	9,714,608	-	9,714,608		175,130
Energy costs	29,165,637	27,063,752	24,530,708	-	24,530,708		2,533,044
Risk management	4,553,978	6,117,206	4,864,496	506,802	5,371,298		745,908
Miscellaneous operating expenses	3,615,021	4,777,216	4,978,102	(217,197)	4,760,905		16,311
Depreciation	-	-	119,519,654	(119,519,654)	-		-
<b>Total operating expenses</b>	<b>262,964,532</b>	<b>264,987,976</b>	<b>380,821,790</b>	<b>(122,186,681)</b>	<b>258,635,109</b>		<b>6,352,867</b>
<b>Operating income (loss)</b>	<b>(151,553,984)</b>	<b>(149,468,466)</b>	<b>(266,158,600)</b>	<b>120,939,146</b>	<b>(145,219,454)</b>		<b>4,249,012</b>

**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, 2016**

	Budgeted Amounts		Actual Amounts		Variance with Final Budget Positive (Negative)
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts	Budget Basis Adjustments	
<b>Public support and nonoperating revenues (expenses):</b>					
Federal revenue	53,251,654	53,093,321	81,901,246	(28,862,089)	53,039,157 (54,164)
Transportation Development Act (TDA) funds	58,080,789	58,080,788	90,869,756	(31,368,746)	59,501,010 1,420,222
State Transit Assistance (STA) funds	3,600,000	600,000	14,720,378	(14,612,680)	107,698 (492,302)
State revenue - other	1,600,000	1,600,000	5,724,586	(4,039,257)	1,685,329 85,329
<i>TransNet</i> funds	37,720,455	36,330,346	35,898,669	-	35,898,669 (431,677)
Other local subsidies	1,034,102	5,434,102	6,648,825	(1,682,792)	4,966,033 (468,069)
Investment earnings	18,198,323	18,228,323	291,659	18,082,817	18,374,476 146,153
Interest expense	(19,892,053)	(19,892,053)	(1,070,914)	(18,813,102)	(19,884,016) 8,037
Gain (loss) on disposal of assets	-	-	2,433,178	(1,800,562)	632,616 632,616
<b>Total public support and nonoperating revenues (expenses):</b>	<b>153,593,270</b>	<b>153,474,827</b>	<b>237,417,383</b>	<b>(83,096,411)</b>	<b>154,320,972 846,145</b>
<b>Income (loss) before contributed capital</b>	<b>2,039,286</b>	<b>4,006,361</b>	<b>(28,741,217)</b>	<b>37,842,735</b>	<b>9,101,518 5,095,157</b>
Reserve revenue	60,714	(1,111,300)	-	(852,803)	(852,803) 258,497
Contributed capital, net	-	-	93,618,740	(93,618,740)	- -
<b>Changes in net position</b>	<b>\$ 2,100,000</b>	<b>\$ 2,895,061</b>	<b>64,877,523</b>	<b>\$ (56,628,808)</b>	<b>\$ 8,248,715 5,353,654</b>
<b>Net Position:</b>					
Beginning of year			1,672,631,795		
End of year			<u>\$1,737,509,318</u>		

**San Diego Metropolitan Transit System**  
**General Operations**  
**Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts				Variance with Final Budget Positive (Negative)
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts	Budget Basis Adjustments	Actuals on Budget Basis		
<b>Operating revenues:</b>							
Advertising	\$ 750,000	\$ 825,000	\$ 968,078	\$ -	\$ 968,078	\$	143,078
Miscellaneous operating revenues	6,556,572	10,642,537	11,860,121	(247,535)	11,612,586		970,049
<b>Total operating revenues</b>	<b>7,306,572</b>	<b>11,467,537</b>	<b>12,828,199</b>	<b>(247,535)</b>	<b>12,580,664</b>		<b>1,113,127</b>
<b>Operating expenses:</b>							
Personnel costs	20,318,752	18,463,235	17,996,739	2,137,795	20,134,534		(1,671,299)
Outside services	14,384,400	15,838,041	17,009,232	(1,091,157)	15,918,075		(80,034)
Transit operations funding	544,014	544,014	103,995,482	(103,504,600)	490,882		53,132
Materials and supplies	22,000	25,000	36,982	-	36,982		(11,982)
Energy costs	213,140	226,700	200,217	-	200,217		26,483
Risk management	426,465	391,350	325,446	29,833	355,279		36,071
Miscellaneous operating expenses	(30,659,850)	(26,808,727)	(26,935,277)	(96,159)	(27,031,436)		222,709
Depreciation	-	-	2,429,983	(2,429,983)	-		-
<b>Total operating expenses</b>	<b>5,248,921</b>	<b>8,679,613</b>	<b>115,058,804</b>	<b>(104,954,271)</b>	<b>10,104,533</b>		<b>(1,424,920)</b>
<b>Operating income (loss)</b>	<b>2,057,651</b>	<b>2,787,924</b>	<b>(102,230,605)</b>	<b>104,706,736</b>	<b>2,476,131</b>		<b>(311,793)</b>

**San Diego Metropolitan Transit System**  
**General Operations**  
**Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual (Continued)**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget Positive (Negative)
<b>Public support and nonoperating revenues (expenses):</b>						
Federal revenue	140,000	140,000	81,901,246	(81,750,729)	150,517	10,517
Transportation Development Act (TDA) funds	544,014	544,014	90,869,756	(85,386,010)	5,483,746	4,939,732
State Transit Assistance (STA) funds	-	-	14,720,378	(14,720,378)	-	-
State revenue - other	-	-	5,724,586	(5,721,591)	2,995	2,995
<i>TransNet</i> funds	-	-	41,398,669	(41,398,669)	-	-
Other local subsidies	-	34,788	6,648,825	(6,600,277)	48,548	13,760
Investment earnings	18,198,323	18,228,323	291,659	18,082,817	18,374,476	146,153
Interest expense	(18,839,988)	(18,839,988)	(26,886)	(18,813,102)	(18,839,988)	-
Gain (loss) on disposal of assets	-	-	2,435,106	(1,882,812)	552,294	552,294
<b>Total public support and nonoperating revenues (expenses):</b>	<b>42,349</b>	<b>107,137</b>	<b>243,963,339</b>	<b>(238,190,751)</b>	<b>5,772,588</b>	<b>5,665,451</b>
<b>Income (loss) before transfers and contributed capital</b>	<b>2,100,000</b>	<b>2,895,061</b>	<b>141,732,734</b>	<b>(133,484,015)</b>	<b>8,248,719</b>	<b>5,353,658</b>
Transfers	-	-	(51,615,348)	-	(51,615,348)	(51,615,348)
Contributed capital, net	-	-	(90,628,964)	90,628,964	-	-
<b>Changes in net position</b>	<b>\$ 2,100,000</b>	<b>\$ 2,895,061</b>	<b>(511,578)</b>	<b>\$ (42,855,051)</b>	<b>\$ (43,366,629)</b>	<b>\$ (46,261,690)</b>
<b>Net Position:</b>						
Beginning of year			153,396,107			
End of year			<u>\$ 152,884,529</u>			

**San Diego Metropolitan Transit System**  
**Taxicab Administration**  
**Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget Positive (Negative)
<b>Operating revenues:</b>						
Miscellaneous operating revenues	\$ 1,390,000	\$ 2,532,000	\$ 2,091,110	\$ -	\$ 2,091,110	\$ (440,890)
<b>Total operating revenues</b>	<b>1,390,000</b>	<b>2,532,000</b>	<b>2,091,110</b>	<b>-</b>	<b>2,091,110</b>	<b>(440,890)</b>
<b>Operating expenses:</b>						
Personnel costs	980,229	960,229	865,876	-	865,876	94,353
Outside services	92,110	128,110	85,723	-	85,723	42,387
Materials and supplies	19,000	7,000	236	-	236	6,764
Energy costs	11,500	14,000	10,116	-	10,116	3,884
Miscellaneous operating expenses	320,394	293,880	294,579	-	294,579	(699)
Depreciation	-	-	6,981	(6,981)	-	-
<b>Total operating expenses</b>	<b>1,423,233</b>	<b>1,403,219</b>	<b>1,263,511</b>	<b>(6,981)</b>	<b>1,256,530</b>	<b>146,689</b>
<b>Operating income (loss)</b>	<b>(33,233)</b>	<b>1,128,781</b>	<b>827,599</b>	<b>6,981</b>	<b>834,580</b>	<b>(294,201)</b>
Reserve revenue	33,233	(1,128,781)	-	(834,580)	(834,580)	294,201
<b>Changes in net position</b>	<b>-</b>	<b>-</b>	<b>827,599</b>	<b>\$ (827,599)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Position:</b>						
Beginning of year			196,873			
End of year			<u>\$ 1,024,472</u>			

**San Diego Metropolitan Transit System**  
**San Diego Arizona and Eastern Railway**  
**Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget Positive (Negative)
<b>Operating revenues:</b>						
Miscellaneous operating revenues	\$ 135,000	\$ 135,000	\$ 1,131,296	\$ (1,000,000)	\$ 131,296	\$ (3,704)
<b>Total operating revenues</b>	<b>135,000</b>	<b>135,000</b>	<b>1,131,296</b>	<b>(1,000,000)</b>	<b>131,296</b>	<b>(3,704)</b>
<b>Operating expenses:</b>						
Personnel costs	95,981	70,981	38,133	-	38,133	32,848
Outside services	50,000	65,000	50,554	-	50,554	14,446
Risk management	16,000	16,000	14,633	-	14,633	1,367
Miscellaneous operating expenses	500	500	9,753	-	9,753	(9,253)
Depreciation	-	-	17,088	(17,088)	-	-
<b>Total operating expenses</b>	<b>162,481</b>	<b>152,481</b>	<b>130,161</b>	<b>(17,088)</b>	<b>113,073</b>	<b>39,408</b>
<b>Operating income (loss)</b>	<b>(27,481)</b>	<b>(17,481)</b>	<b>1,001,135</b>	<b>(982,912)</b>	<b>18,223</b>	<b>35,704</b>
Reserve revenue	27,481	17,481	-	(18,223)	(18,223)	(35,704)
Contributed capital, net	-	-	(1,000,000)	1,000,000	-	-
<b>Changes in net position</b>	<b>\$ -</b>	<b>\$ -</b>	<b>1,135</b>	<b>\$ (1,135)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Position:</b>						
Beginning of year			19,002,242			
End of year			<u>\$ 19,003,377</u>			

**San Diego Metropolitan Transit System**  
**Contracted Services**  
**Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget Positive (Negative)
<b>Operating revenues:</b>						
Passenger revenue	\$ 32,315,858	\$ 31,865,859	\$ 30,631,228	\$ -	\$ 30,631,228	\$ (1,234,631)
Miscellaneous operating revenues	-	-	(1,917)	-	(1,917)	(1,917)
<b>Total operating revenues</b>	<b>32,315,858</b>	<b>31,865,859</b>	<b>30,629,311</b>	<b>-</b>	<b>30,629,311</b>	<b>(1,236,548)</b>
<b>Operating expenses:</b>						
Personnel costs	679,991	692,528	484,714	-	484,714	207,814
Outside services	69,366,974	70,084,004	68,744,383	-	68,744,383	1,339,621
Materials and supplies	78,800	51,010	31,278	-	31,278	19,732
Energy costs	9,596,105	8,680,536	7,963,002	-	7,963,002	717,534
Risk management	15,759	15,300	15,300	-	15,300	-
Miscellaneous operating expenses	2,404,566	3,131,329	3,271,982	-	3,271,982	(140,653)
Depreciation	-	-	16,001,781	(16,001,781)	-	-
<b>Total operating expenses</b>	<b>82,142,195</b>	<b>82,654,707</b>	<b>96,512,440</b>	<b>(16,001,781)</b>	<b>80,510,659</b>	<b>2,144,048</b>
<b>Operating income (loss)</b>	<b>(49,826,337)</b>	<b>(50,788,848)</b>	<b>(65,883,129)</b>	<b>16,001,781</b>	<b>(49,881,348)</b>	<b>907,500</b>



**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, 2016**

	Budgeted Amounts		Actual Amounts		
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position	Budget Basis Adjustments	Actuals on Budget Basis
<b>Public support and nonoperating revenues (expenses):</b>					
Federal revenue	14,111,654	13,953,321	13,826,834	-	13,826,834
Transportation Development Act (TDA) funds	31,787,032	32,830,931	32,296,025	-	32,296,025
State revenue - other	1,600,000	1,600,000	1,500,000	-	1,500,000
TransNet funds	1,571,549	1,685,494	1,521,215	-	1,521,215
Other local subsidies	756,102	719,102	737,274	-	737,274
<b>Total public support and nonoperating revenues (expenses):</b>	<b>49,826,337</b>	<b>50,788,848</b>	<b>49,881,348</b>	<b>-</b>	<b>49,881,348</b>
<b>Income (loss) before contributed capital</b>	<b>-</b>	<b>-</b>	<b>(16,001,781)</b>	<b>16,001,781</b>	<b>-</b>
Contributed capital, net	-	-	15,403,374	(15,403,374)	-
<b>Changes in net position</b>	<b>-</b>	<b>-</b>	<b>(598,407)</b>	<b>\$ 598,407</b>	<b>\$ -</b>
<b>Net Position:</b>					
Beginning of year			147,154,106		
End of year			<u>\$ 146,555,699</u>		

**San Diego Metropolitan Transit System**  
**San Diego Transit Corporation**  
**Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts				Variance with Final Budget Positive (Negative)
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts	Budget Basis Adjustments	Actuals on Budget Basis		
<b>Operating revenues:</b>							
Passenger revenue	\$ 27,492,066	\$ 26,742,066	\$ 26,169,280	\$ -	\$ 26,169,280	\$	(572,786)
Miscellaneous operating revenues	5,004	5,000	2,129	-	2,129		(2,871)
<b>Total operating revenues</b>	<b>27,497,070</b>	<b>26,747,066</b>	<b>26,171,409</b>	<b>-</b>	<b>26,171,409</b>		<b>(575,657)</b>
<b>Operating expenses:</b>							
Personnel costs	68,199,270	69,038,782	68,106,396	(2,748,441)	65,357,955		3,680,827
Outside services	1,686,261	1,745,130	2,298,278	-	2,298,278		(553,148)
Materials and supplies	4,767,131	4,506,727	4,284,200	-	4,284,200		222,527
Energy costs	6,150,992	5,961,116	5,524,761	-	5,524,761		436,355
Risk management	2,171,324	3,995,104	2,952,706	679,604	3,632,310		362,794
Miscellaneous operating expenses	13,659,626	11,488,239	11,615,659	(13,185)	11,602,474		(114,235)
Depreciation	-	-	24,278,346	(24,278,346)	-		-
<b>Total operating expenses</b>	<b>96,634,604</b>	<b>96,735,098</b>	<b>119,060,346</b>	<b>(26,360,368)</b>	<b>92,699,978</b>		<b>4,035,120</b>
<b>Operating income (loss)</b>	<b>(69,137,534)</b>	<b>(69,988,032)</b>	<b>(92,888,937)</b>	<b>26,360,368</b>	<b>(66,528,569)</b>		<b>3,459,463</b>

**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, 2016**

	Budgeted Amounts		Actual Amounts		
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position	Budget Basis Adjustments	Actuals on Budget Basis
<b>Public support and nonoperating revenues (expenses):</b>					Variance with Final Budget Positive (Negative)
Federal revenue	18,000,000	18,000,000	18,000,000	-	18,000,000
Transportation Development Act (TDA) funds	17,162,693	18,115,033	15,814,040	-	15,814,040
State Transit Assistance (STA) funds	3,600,000	600,000	100,000	-	100,000
State revenue - other	-	-	79,035	-	79,035
<i>TransVet</i> funds	31,148,906	29,644,852	29,377,457	-	29,377,457
Other local subsidies	278,000	4,680,212	4,180,212	-	4,180,212
Interest expense	(1,052,065)	(1,052,065)	(1,044,028)	-	(1,044,028)
Gain (loss) on disposal of assets	-	-	(52,959)	74,812	21,853
<b>Total public support and nonoperating revenues (expenses):</b>	69,137,534	69,988,032	66,453,757	74,812	66,528,569
<b>Income (loss) before contributed capital</b>	-	-	(26,435,180)	26,435,180	-
Contributed capital, net	-	-	67,327,315	(67,327,315)	-
<b>Changes in net position</b>	-	-	40,892,135	\$ (40,892,135)	\$ -
<b>Net Position:</b>					
Beginning of year			117,700,871		
End of year			<u>\$ 158,593,006</u>		

**San Diego Metropolitan Transit System**  
**San Diego Trolley Incorporated**  
**Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts				Variance with Final Budget Positive (Negative)
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts	Budget Basis Adjustments	Actuals on Budget Basis		
<b>Operating revenues:</b>							
Passenger revenue	\$ 42,072,048	\$ 42,072,048	\$ 41,113,382	\$ -	\$ 41,113,382	\$	(958,666)
Miscellaneous operating revenues	694,000	700,000	698,483	-	698,483		(1,517)
<b>Total operating revenues</b>	<b>42,766,048</b>	<b>42,772,048</b>	<b>41,811,865</b>	<b>-</b>	<b>41,811,865</b>		<b>(960,183)</b>
<b>Operating expenses:</b>							
Personnel costs	34,040,127	33,714,897	34,429,809	(1,254,829)	33,174,980		539,917
Outside services	4,655,775	5,795,113	6,613,503	-	6,613,503		(818,390)
Materials and supplies	5,649,081	5,300,001	5,361,912	-	5,361,912		(61,911)
Energy costs	13,193,900	12,181,400	10,832,612	-	10,832,612		1,348,788
Risk management	1,924,430	1,699,452	1,556,411	(202,635)	1,353,776		345,676
Miscellaneous operating expenses	17,889,785	16,671,995	16,721,406	(107,853)	16,613,553		58,442
Depreciation	-	-	76,785,475	(76,785,475)	-		-
<b>Total operating expenses</b>	<b>77,353,098</b>	<b>75,362,858</b>	<b>152,301,128</b>	<b>(78,350,792)</b>	<b>73,950,336</b>		<b>1,412,522</b>
<b>Operating income (loss)</b>	<b>(34,587,050)</b>	<b>(32,590,810)</b>	<b>(110,489,263)</b>	<b>78,350,792</b>	<b>(32,138,471)</b>		<b>452,339</b>

**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, 2016**

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget Positive (Negative)
<b>Public support and nonoperating revenues (expenses):</b>						
Federal revenue	21,000,000	21,000,000	21,148,089	(86,283)	21,061,806	61,806
Transportation Development Act (TDA) funds	8,587,050	6,590,810	5,928,770	(21,571)	5,907,199	(683,611)
State Transit Assistance (STA) funds	-	-	7,698	-	7,698	7,698
State revenue - other	-	-	103,299	-	103,299	103,299
<i>TransNet</i> funds	5,000,000	5,000,000	5,000,000	-	5,000,000	-
Gain (loss) on disposal of assets	-	-	51,031	7,438	58,469	58,469
<b>Total public support and nonoperating revenues (expenses):</b>	<b>34,587,050</b>	<b>32,590,810</b>	<b>32,238,887</b>	<b>(100,416)</b>	<b>32,138,471</b>	<b>(452,339)</b>
<b>Income (loss) before contributed capital</b>	-	-	(78,250,376)	78,250,376	-	-
Reserve revenue	-	-	-	-	-	-
Contributed capital, net	-	-	102,517,015	(102,517,015)	-	-
<b>Changes in net position</b>	<b>\$ -</b>	<b>\$ -</b>	<b>24,266,639</b>	<b>\$ (24,266,639)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Position:</b>						
Beginning of year			1,235,181,596			
End of year			<u>\$1,259,448,235</u>			

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DRAFT 10-26-2016

## Statistical Section

### (Unaudited)

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

### Contents

#### *Financial trends*

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

#### *Revenue Capacity*

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

#### *Debt Capacity*

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

#### *Demographic and Economic Information*

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

#### *Operating Information*

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

**FINANCIAL TRENDS**

DRAFT 10-26-2016



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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Business-type activities:</b>										
Net investment in capital assets	\$ 1,760,427	\$ 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
Restricted	13,509	5,309	6,742	7,255	78,378	7,007	2,548	2,700	-	-
Unrestricted	(36,427)	(31,900)	181,114	189,837	157,609	173,128	177,158	172,344	185,610	163,244
<b>Total business-type activities net position</b>	<b>\$ 1,737,509</b>	<b>\$ 1,672,631</b>	<b>\$ 1,583,062</b>	<b>\$ 1,493,309</b>	<b>\$ 1,408,803</b>	<b>\$ 1,253,697</b>	<b>\$ 1,257,884</b>	<b>\$ 1,250,149</b>	<b>\$ 1,265,577</b>	<b>\$ 1,260,920</b>
<b>Primary government:</b>										
Net investment in capital assets	\$ 1,760,427	\$ 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
Restricted	13,509	5,309	6,742	7,255	78,378	7,007	2,548	2,700	-	-
Unrestricted	(36,427)	(31,900)	181,114	189,837	157,609	173,128	177,158	172,344	185,610	163,244
<b>Total primary government net position</b>	<b>\$ 1,737,509</b>	<b>\$ 1,672,631</b>	<b>\$ 1,583,062</b>	<b>\$ 1,493,309</b>	<b>\$ 1,408,803</b>	<b>\$ 1,253,697</b>	<b>\$ 1,257,884</b>	<b>\$ 1,250,149</b>	<b>\$ 1,265,577</b>	<b>\$ 1,260,920</b>

Source: Audited financial statements

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Operating revenues:</b>										
Passenger revenue	\$ 97,914	\$ 97,615	\$ 93,995	\$ 90,652	\$ 88,094	\$ 84,764	\$ 84,167	\$ 85,192	\$ 75,939	\$ 68,635
Advertising	968	816	870	972	784	621	783	925	1,119	1,001
Charter	-	6	30	1	186	129	128	69	63	45
Miscellaneous	15,781	9,349	9,531	4,934	4,445	4,688	4,264	4,874	3,671	3,703
<b>Total operating revenues</b>	<b>114,663</b>	<b>107,786</b>	<b>104,426</b>	<b>96,559</b>	<b>93,509</b>	<b>90,202</b>	<b>89,342</b>	<b>91,060</b>	<b>80,792</b>	<b>73,384</b>
<b>Operating expenses:</b>										
Personnel costs	121,921	114,575	117,092	123,720	112,537	104,329	109,512	101,913	102,847	91,206
Outside services	94,802	84,302	73,859	67,414	66,050	64,037	63,574	65,140	64,940	62,630
Transit operations funding	491	2,692	4,243	3,571	3,721	4,053	3,758	3,004	3,853	5,438
Materials and supplies	9,715	10,307	9,276	8,469	7,977	7,678	6,680	7,190	7,590	7,266
Energy costs	24,531	28,003	26,044	22,572	22,689	21,932	22,892	25,283	27,211	22,767
Risk management	4,864	5,849	3,610	2,902	4,030	3,924	4,859	4,074	3,898	5,615
Miscellaneous	4,978	4,975	6,244	6,493	5,116	4,899	3,571	2,052	1,975	944
Depreciation	119,520	108,199	103,198	92,788	84,811	81,041	98,238	75,499	85,543	74,473
<b>Total operating expenses</b>	<b>380,822</b>	<b>358,902</b>	<b>343,566</b>	<b>327,929</b>	<b>306,931</b>	<b>291,893</b>	<b>313,084</b>	<b>284,155</b>	<b>297,857</b>	<b>270,339</b>
<b>Operating income (loss)</b>	<b>(266,159)</b>	<b>(251,116)</b>	<b>(239,140)</b>	<b>(231,370)</b>	<b>(213,422)</b>	<b>(201,691)</b>	<b>(223,742)</b>	<b>(193,095)</b>	<b>(217,065)</b>	<b>(196,955)</b>

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Public support and nonoperating revenues (expenses):</b>										
Grants and contributions	235,763	235,755	211,517	183,945	325,658	170,850	224,506	176,979	200,879	184,332
Investment earnings	292	3,065	6,087	6,267	7,622	7,695	9,708	10,584	13,394	13,349
Interest expense	(1,071)	(6,883)	(6,982)	(7,520)	(8,014)	(8,420)	(12,702)	(11,153)	(10,666)	(14,230)
Gain (loss) on disposal of assets	2,433	67	(273)	804	(620)	712	(69)	294	88	(1,260)
Other expenses	-	-	(13)	(13)	(5)	(139)	(1,075)	(705)	(465)	(355)
<b>Total public support and nonoperating revenues (expenses)</b>	<b>237,417</b>	<b>232,004</b>	<b>210,336</b>	<b>183,483</b>	<b>324,641</b>	<b>170,698</b>	<b>220,368</b>	<b>175,999</b>	<b>203,230</b>	<b>181,836</b>
<b>Income (loss) before contributed</b>	<b>(28,742)</b>	<b>(19,112)</b>	<b>(28,804)</b>	<b>(47,887)</b>	<b>111,219</b>	<b>(30,993)</b>	<b>(3,374)</b>	<b>(17,096)</b>	<b>(13,835)</b>	<b>(15,119)</b>
Contributed capital, net	93,619	245,717	118,768	132,182	44,118	26,806	11,110	1,668	18,492	27,729
<b>Changes in net position</b>	<b>\$ 64,877</b>	<b>\$ 226,605</b>	<b>\$ 89,964</b>	<b>\$ 84,295</b>	<b>\$ 155,337</b>	<b>\$ (4,187)</b>	<b>\$ 7,736</b>	<b>\$ (15,428)</b>	<b>\$ 4,657</b>	<b>\$ 12,610</b>

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DRAFT 10-26-2016

**REVENUE CAPACITY**

DRAFT 10-26-2016

**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						
2007	\$ 22,298	\$ 15,000	\$ 29,360	\$ 9,901	\$ 63	\$ 1,115
2008	23,680	13,934	21,863	10,507	-	868
2009	27,882	17,177	24,496	14,416	-	271
2010	26,708	18,267	16,249	21,456	-	31
2011	26,056	19,894	29,435	18,307	-	166
2012	27,498	20,709	20,497	17,549	-	214
2013	28,621	20,266	31,954	18,886	-	33
2014	27,781	19,336	16,489	20,897	-	7
2015	27,156	18,096	18,085	28,982	-	27
2016	26,169	18,000	15,993	33,558	-	(51)
San Diego Trolley						
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
2016	41,113	21,148	6,040	5,000	-	750
MTS - Contracted Services						
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	-	-
2016	30,631	13,827	33,796	2,258	-	2

# San Diego Metropolitan Transit System Fare Structure Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Bus Cash Fares</b>										
One-way fare, local routes	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.00	1.75
Senior/disabled, local routes	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	0.75	0.75
Urban	-	-	-	-	-	-	-	-	2.25	2.25
Rapid/Express	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50-4.00
Senior/disabled Rapid/Express	1.25	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	5.00	-
Senior/disabled Rapid Express/Premium	2.50	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	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	2.50-5.00	-	-
Sorrento Valley Coaster Connection	-	-	-	-	-	-	-	1.00	-	-
Senior/disabled Coaster Connection	-	-	-	-	-	-	-	0.50	-	-
Shuttles	-	-	-	-	-	-	-	-	1.00	1.00
<b>Trolley Cash Fares</b>										
One-way fare, all stations	2.50	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	1.25	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
<b>Bus and Trolley Day Passes</b>										
Regional day pass	5.00	5.00	5.00	5.00	5.00	5.00	5.00	-	-	-
Region plus day pass	12.00	12.00	12.00	12.00	12.00	14.00	14.00	-	-	-
<b>Bus and Trolley Monthly Passes</b>										
Regional monthly pass	72.00	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	18.00	17.00	16.00	14.50
Youth Regional	36.00	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	43.00	41.00	-	-
Rapid Express/Premium monthly pass	100.00	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	25.00	22.50	-	-
Youth Rapid Express/Premium	50.00	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	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.

**San Diego Metropolitan Transit System  
Farebox Recovery Percentages  
Last Ten Fiscal Years**

<u>Fiscal Year Ended</u>	<u>San Diego Transit</u>	<u>San Diego Trolley</u>	<u>MTS-Contracted Services</u>
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
2016	27.39	54.76	38.05

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



**DEBT CAPACITY**

DRAFT 10-26-2016

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

Year ended June 30	Capital Lease - Tower	Capital Lease- Leaseback	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
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
2016	2,393,787	-	-	-	-	-	19,860,000	22,253,787	0.01%	7

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
- MTS retired the 1995 LRV Lease/Leaseback obligation in FY2016

Att. A, AI B1, 11/3/16

**DEMOGRAPHIC AND ECONOMIC STATISTICS**

DRAFT 10-26-2016

**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)
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%
2016	3,278,461	196,800,000	57,745	5.10%

## Source:

(1) California Department of Transportation - Actuals 2006-2014, Forecast 2015-2016

(2) California Employment Development Department, September 2015

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

**Full-time and Part-time Employees at June 30**

	<u>MTS</u>	<u>San Diego Transit</u>	<u>San Diego Trolley</u>	<u>Total</u>
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
2016	163	823	571	1,557

Source: MTS payroll records

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

Company Name	Number of Employees (1)	Percent of 1,511,300 County Total (2)
University of California, San Diego	30,671	2.03%
Sharp Healthcare	17,809	1.18%
Scripps Health	14,863	0.98%
Qualcomm Inc.*	13,700	0.91%
City of San Diego	11,347	0.75%
State of California	9,126	0.60%
Kaiser Permanente	8,406	0.56%
UC San Diego Health System	7,438	0.49%
San Diego Community College District	5,902	0.39%
General Atomics Aeronautical Systems, Inc.	5,480	0.36%

## Source:

- (1) San Diego Business Journal - 2016 Book of Lists
- (2) Employment Development Department, State of California

Note: County of San Diego employment information is presented. Employer information is not currently available for the area served by the Metropolitan Transit System within San Diego County. MTS presents only current employment data for the county of San Diego.

**OPERATING INFORMATION**

DRAFT 10-26-2016

**San Diego Metropolitan Transit System**  
**Operating Indicators by Function**  
**Last Ten Fiscal Years**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Operating Cost (in 000's)</b>										
San Diego Transit	\$ 95,526	\$ 92,059	\$ 91,568	\$ 98,666	\$ 90,153	\$ 83,457	\$ 93,831	\$ 81,271	\$ 80,031	\$ 73,257
San Diego Trolley	75,086	72,637	71,098	65,859	63,309	60,395	60,913	58,537	55,949	55,952
MTS-Contract Services	80,511	76,190	65,959	62,573	61,154	59,536	58,037	59,639	61,451	57,287
<b>Farebox Revenue (in 000's)</b>										
San Diego Transit	\$ 26,169	\$ 27,156	\$ 27,781	\$ 28,621	\$ 27,498	\$ 26,056	\$ 26,708	\$ 27,882	\$ 23,680	\$ 22,298
San Diego Trolley	41,113	41,140	40,188	35,554	35,216	34,673	33,050	33,454	31,120	27,402
MTS-Contract Services	30,631	29,318	26,025	26,476	25,380	24,036	24,410	23,857	21,138	18,935
<b>Total Passengers (in 000's)</b>										
San Diego Transit	\$ 25,628	\$ 27,264	\$ 28,541	\$ 28,927	\$ 28,802	\$ 27,252	\$ 26,921	\$ 29,762	\$ 28,094	\$ 26,076
San Diego Trolley	39,614	40,082	39,695	29,699	32,655	31,613	30,469	36,928	37,621	35,114
MTS-Contract Services	27,194	27,574	23,761	23,479	23,780	22,664	21,988	21,645	21,460	21,143
<b>Revenue Miles (in 000's)</b>										
San Diego Transit	\$ 9,702	\$ 9,561	\$ 8,695	\$ 8,557	\$ 8,221	\$ 8,178	\$ 8,624	\$ 9,221	\$ 9,522	\$ 9,622
San Diego Trolley	8,424	8,596	8,516	7,758	7,544	7,519	7,743	7,895	8,003	7,940
MTS-Contract Services	14,969	13,328	12,139	11,607	11,214	11,196	11,450	12,179	12,501	12,454
<b>Subsidy / Total Passenger</b>										
San Diego Transit	\$ 2.71	\$ 2.38	\$ 2.24	\$ 2.42	\$ 2.18	\$ 2.11	\$ 2.50	\$ 1.79	\$ 2.01	\$ 1.95
San Diego Trolley	0.86	0.79	0.78	1.02	0.86	0.81	0.92	0.68	0.66	0.81
MTS-Contract Services	1.83	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.



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

Service Provided	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>San Diego Transit</b>										
Vehicle Revenue Miles (in 000's)	9,702	9,561	8,695	8,557	8,221	8,178	8,624	9,221	9,522	9,622
Vehicle Revenue Hours (in 000's)	825	806	795	787	757	754	789	843	870	853
Passengers (in 000's)	25,628	27,264	28,541	28,927	28,802	27,252	26,921	29,762	28,094	26,076
Passenger Miles (in 000's)	11,639	117,585	110,009	108,222	106,804	100,500	98,163	107,408	100,256	98,203
Number of Vehicles	279	272	310	260	236	236	238	247	267	267
<b>San Diego Trolley</b>										
Vehicle Revenue Miles (in 000's)	8,424	8,596	8,516	7,758	7,544	7,519	7,743	7,895	8,003	7,940
Vehicle Revenue Hours (in 000's)	493	496	504	472	428	423	442	410	439	432
Passenger Car Hours (in 000's)	507	509	512	476	433	429	448	416	445	439
Passengers (in 000's)	39,614	40,082	39,695	29,699	32,655	31,613	30,469	36,928	37,621	35,114
Passenger Miles (in 000's)	223,185	224,422	228,531	173,151	194,822	193,063	186,509	220,639	206,924	207,727
Number of Vehicles	160	160	179	178	151	128	134	133	134	134
<b>MTS-Contracted Services</b>										
Vehicle Revenue Miles (in 000's)	14,969	13,328	12,139	11,607	11,214	11,196	11,450	12,179	12,501	12,454
Vehicle Revenue Hours (in 000's)	1,252	1,112	998	961	933	927	946	986	1,019	996
Passengers (in 000's)	27,194	27,573	23,761	23,479	23,780	22,664	21,988	21,645	21,460	21,143
Passenger Miles (in 000's)	84,873	94,504	85,269	84,021	79,789	82,125	79,237	80,104	77,173	78,304
Number of Vehicles	520	520	449	427	404	407	369	388	358	348
<b>Total</b>										
Passengers (in 000's)	92,686	94,919	91,997	82,105	85,237	81,529	79,378	88,335	87,175	82,333
Passenger Miles (in 000's)	419,697	436,511	423,809	365,394	381,415	375,688	363,909	408,151	384,353	384,234

Source: NTD Report and MTS internal capital asset system

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>General Operations</b>										
Buildings and structures	1	1	1	1	1	1	1	1	1	1
Nonrevenue vehicles	1	3	3	3	5	5	5	7	7	10
<b>San Diego Transit</b>										
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	279	272	310	260	236	236	238	247	267	267
Nonrevenue vehicles	12	12	12	14	19	22	32	39	53	47
<b>San Diego Trolley</b>										
Trolley stations	54	54	54	54	54	54	54	54	54	54
Track miles	54	54	54	54	54	54	54	54	54	54
Light rail vehicles (total inventory)	160	160	179	178	151	128	134	133	134	134
Nonrevenue vehicles	12	16	16	15	31	43	51	68	72	69
<b>MTS - Contracted Services</b>										
Land (parcel)	2	2	2	2	2	1	1	1	1	1
Buildings and structures	4	4	4	4	4	3	3	3	3	1
Buses	520	520	449	427	404	407	369	388	358	348
Nonrevenue vehicles	9	10	8	8	8	10	7	7	9	4
<b>Taxicab Administration</b>										
Buildings and structures	1	1	1	1	1	1	1	1	1	1
Nonrevenue vehicles	1	2	2	2	4	3	3	3	3	2

Source: MTS ERP System

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

Ridership (in 000's)	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
San Diego Transit	25,628	27,264	28,541	28,927	28,802	27,252	26,921	29,762	28,094	26,076
% Change	-6.00%	-4.48%	-1.33%	0.43%	5.69%	1.23%	-9.55%	5.94%	7.74%	4.77%
San Diego Trolley	39,614	40,082	39,695	29,699	32,655	31,613	30,469	36,928	37,621	35,114
% Change	-1.17%	0.98%	33.65%	-9.05%	3.30%	3.75%	-17.49%	-1.84%	7.14%	3.80%
MTS - Contracted Services	27,194	27,574	23,761	23,479	23,780	22,664	21,988	21,645	21,460	21,143
% Change	-1.38%	16.05%	1.20%	-1.27%	4.92%	3.07%	1.58%	0.86%	1.50%	11.83%

Source: NTD Report

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Average Fare per Rider</b>										
San Diego Transit	1.02	1.00	0.97	0.99	0.95	0.96	0.99	0.94	0.84	0.86
San Diego Trolley	1.04	1.03	1.01	1.20	1.08	1.10	1.08	0.91	0.83	0.78
MTS - Contract Services	1.13	1.06	1.10	1.13	1.07	1.06	1.11	1.10	0.98	0.90
<b>Operating Expense per Rider</b>										
San Diego Transit	3.73	3.38	3.21	3.41	3.13	3.06	3.49	2.73	2.85	2.81
San Diego Trolley	1.90	1.81	1.79	2.22	1.94	1.91	2.00	1.59	1.49	1.59
MTS - Contract Services	2.96	2.76	2.78	2.67	2.57	2.63	2.64	2.76	2.86	2.71
<b>Subsidy per Rider</b>										
San Diego Transit	2.71	2.38	2.24	2.42	2.18	2.11	2.50	1.79	2.01	1.95
San Diego Trolley	0.86	0.79	0.78	1.02	0.86	0.81	0.92	0.68	0.66	0.81
MTS - Contract Services	1.83	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 basic financial statements of the San Diego Metropolitan Transit System (MTS), which comprise of the statements of net position as of and for the years ended June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and notes to basic financial statements, and have issued our report thereon dated October 31, 2016.

**Internal Control over Financial Reporting**

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

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

**Purpose of this Report**

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

The Pun Group, LLP  
Certified Public Accountants  
San Diego, California  
October 31, 2016

DRAFT 10-26-2016

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 6 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 7% of gross freight revenue. In June 2016, MTS approved a sublease of the Desert Line's first 60 miles to Baja California Railroad (BJRR, which operates the connecting railroad in Mexico and has a direct relationship with the prospective shippers in the Tijuana-Tecate maquiladora region. BJRR is in the process of finalizing repair plans and anticipates repair work to be completed between late 2016 and late 2018. Under the sublease, BJRR has the right to cure any default by PIR. PIR retains the obligation to repair and the right to operate on the last 10 miles of right-of-way between Coyote Wells and Plaster City. PIR also retained the right to negotiate a connection to the Desert Line for an intermodal facility along the right-of-way, which could be an additional source of revenue to MTS and SD&AE.

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 stay strong at least through the end of 2016. San Diego's gross domestic product (GDP), the total value of the region's economy, has been forecasted to reach \$213.7 billion in 2015 and \$221.8 billion in 2016, increasing from the \$206.8 billion earned in 2014. Industries contributing the most to GDP growth are manufacturing, professional and business services, followed by wholesale/retail trade, health care, accommodations and food services. Unemployment is projected to further decrease to an annual average of 4.8 percent in 2016, 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 sixth consecutive year and sales tax receipts have finally exceeded the 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 brought its contingency reserve balance from 10.0% of the operating budget up to 12.5% as of June 30, 2016.

### **Major Initiatives**

MTS continues to focus on keeping the system's capital infrastructure in a state of good repair. MTS and SANDAG are nearing the completion of the expanded East County operations and maintenance facilities. The original site was 3.3-acres and accommodated 67 older model diesel transit buses. The final layout of the new site, through the consolidation of three parcels, expands to 5.2 acres and will be able to accommodate up to 120 buses and 120 employee/support/visitor vehicles. The new building facility opened in October 2016 and the total project is expected to be completed by April 2017.



# SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Presentation to the Audit Oversight Committee  
For the Fiscal Year Ended June 30, 2016

November 3, 2016

[www.PunGroup.com](http://www.PunGroup.com)



## Contents

- Audit Responsibilities
- Overview of Financial Statements
- Financial Indicators and Key Pension Information
- Audit Results
- Findings







## Audit Responsibilities

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## Management Responsibilities

- Responsible for the Financial Statements
- Present the Financial Statements in accordance with Accounting Principles Generally Accepted in the United States of America
- Adopt sound accounting policies
- Establish and maintain internal controls over financial reporting and compliance
- Provide evidence supporting the amounts and disclosures in the financial statements
- Fair presentation of financial statements that are free from material misstatements, whether due to fraud or error
- Prevent and detect fraud



## Auditors' Responsibilities

- Perform the audit in conformity with Auditing Standards Generally Accepted in the United States of America and the Standards applicable to Financial Audits contained in *Government Auditing Standards*
- Communicate with "Those Charged with Governance"
- Assess audit risk of internal control over financial reporting
- Determine fairness presentation of the financial statements
- Render an opinion on the Financial Statements
- Issue recommendations to Management, if any

6



## Approach to the Audit

6



### **The Pun Group's Audit Approach for MTS**

- Phase I – Detailed Planning
- Phase II – Risk Based Review of Internal Controls Over Systems and Compliance
  - Financial Reporting
  - Revenues – Billings and Cash receipts
  - Expenses – Purchasing and Cash Disbursements
  - Payroll and Related Liabilities
  - IT Controls
- Phase III – Validation of Account Balances
- Phase IV – Review Financial Statements and Issue Audit



### **Implementation of New ERP System**

- MTS has implemented SAP Accounting Software during the fiscal year 2016
- The Pun Group has performed an Agreed Upon Procedures and obtained an understanding in the following processes:
  - Enterprise Asset Management
  - Master Data Manager
  - Accounts Payable
  - Accounts Receivable
  - Material Management
  - Customer Relation Management



### Implementation of New ERP System (Continued)

- The Pun Group has selected sample of 20 transactions from the following areas that were considered significant with respect to the MTS's accounting transaction process:
  - The recording of Capital Assets
  - The receipt of purchased good – inventory
  - Three-way matching of a purchase order, vendor invoice, contract to support the initiation of a payment to a vendor, testing included compliance with Board Policy No. 41 and significant guidelines established by this policy
  - Vendor Master Data setup and maintenance.
  - Posting cash receipt to outstanding receivable.
- The Pun Group also reviewed Finance personnel roles and responsibilities and concluded that the responsibilities achieved proper segregation of duties in terms of segregation of entering, reviewing, and approving transaction
- The Pun Group also reviewed December 2015 Month End Closing including personnel processing, reviewing, and posting journal entries

9



### IT Controls Review

As part of the 2016 Audit, The Pun Group IT Specialists reviewed MTS IT policy and IT security

MTS has been working to bring the IT systems under control, and using some intelligent triage, worked their way through the process of upgrading and/or replacing its IT systems.

#### Procedures performed:

- Researched the vendor's documentation for selected systems
- Interviewed the following employees:
  - Data Center Operations Manager, Jon Saul
  - Network Operations Manager, Ernesto Garcia
  - Enterprise Business Solutions Manager, Robert Borowski
  - Applications Development Manager, Gary Dexter

10



### IT Controls Review (Continued)

- **Observations:**

- Effort in the area of backup and disaster planning are improving in a stair step fashion. Hot sites are coming online to accelerate any necessary recovery process.
- Change management is documented and reasonably managed within IT
- SAP transition is going through normal cleanup list phase with no significant issues
- Integration of software has considerable benefits to eliminate uncertainty and audit issues
- Accounting systems are provided by reputable and well recognized vendors.
- Control of access to data center is managed by state of the art biometric security with limited access list.
- Enterprise access policy is well managed by HR with good communications with IT for admission to various system

11



### IT Controls Review (Continued)

- **Recommendation:**

- With security threats increasing in the world, MTS should consider creating a Security Manager position with organization wide scope
- Expecting more formal documentation of policy and procedures as system evolve.
- Security weaknesses in the fare system ticket vending machines since they are built on unsupported Microsoft Windows 2000 servers.
- Network security will benefit from new controls down to the network port and MAC address level.
- Network manager is challenged with projects that are started without network manager's knowledge.

12



## Overview of the Financial Statements

13

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### San Diego Metropolitan Transit System Summary Statements of Net Position June 30, 2016 and 2015

	2016	2015
<b>Assets</b>	<u>\$ 1,966,510,000</u>	<u>\$ 1,914,813,000</u>
<b>Deferred Outflows of Resources</b>	<u>35,444,000</u>	<u>17,418,000</u>
<b>Liabilities</b>	<u>249,843,000</u>	<u>244,985,000</u>
<b>Deferred Inflows of Resources</b>	<u>14,601,000</u>	<u>14,614,000</u>
<b>Net Position:</b>		
Net investments in capital assets	1,760,427,000	1,699,222,000
Restricted	13,509,000	5,309,000
Unrestricted	<u>(36,426,000)</u>	<u>(31,899,000)</u>
<b>Total Net Position</b>	<u>\$ 1,737,510,000</u>	<u>\$ 1,672,632,000</u>

14



**San Diego Metropolitan Transit System**  
Summary Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Revenues</b>		
Operating revenues	\$ 114,663,000	\$ 107,786,000
Nonoperating revenues	238,488,000	238,888,000
<b>Total revenues</b>	<u>353,151,000</u>	<u>346,674,000</u>
<b>Expenses</b>		
Operating expenses	380,822,000	358,902,000
Nonoperating expenses	1,071,000	6,883,000
<b>Total expenses</b>	<u>381,893,000</u>	<u>365,785,000</u>
<b>(Loss) before Capital Contributions</b>	(28,742,000)	(19,111,000)
Capital Contributions	<u>93,619,000</u>	<u>245,717,000</u>

15



**San Diego Metropolitan Transit System**  
Summary Statements of Cash Flows  
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating</b>	\$ (146,869,000)	\$ (143,274,000)
<b>Cash Flows from Noncapital Financing Activities</b>	225,892,000	230,050,000
<b>Cash Flows from Capital and Related Financing Activities</b>	(64,566,000)	(78,035,000)
<b>Cash Flows from Investing Activities</b>	<u>265,000</u>	<u>140,000</u>
<b>Changes in cash and cash equivalents</b>	<u>\$ 14,722,000</u>	<u>\$ 8,881,000</u>

16





## Key Pension and OPEB Information

17

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### San Diego Metropolitan Transit System Net Pension Liability June 30, 2016 and 2015

	2016	2015
MTS Miscellaneous Plan - 1223	\$ 9,717,218	\$ 8,259,452
MTS PEPR A Miscellaneous Plan - 26789	(7,322)	2,019
MTS Miscellaneous Second Tier Plan - 30134	(2,599)	76
SDTI Miscellaneous Plan - 1406	19,555,041	16,654,410
SDTI PARS Plan	2,165,413	-
SDTC Retirement Plan	98,098,137	85,694,264
<b>Total</b>	<b>\$ 129,525,888</b>	<b>\$ 110,610,221</b>

18





**San Diego Metropolitan Transit System**  
**Pension Expenses**  
**For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
MTS Miscellaneous Plan - 1223	\$ 950,048	\$ 1,156,369
MTS PEPRA Miscellaneous Plan - 26789	122,389	8,713
MTS Miscellaneous Second Tier Plan - 30134	39,438	(1,066)
SDTI Miscellaneous Plan - 1406	1,850,776	1,695,021
SDTI PARS Plan	468,660	-
SDTC Retirement Plan	<u>11,487,861</u>	<u>8,508,553</u>
<b>Total</b>	<b>\$ 14,919,172</b>	<b>\$ 11,367,590</b>

19



**San Diego Metropolitan Transit System**  
**Other Postemployment Benefits Plan**  
**Schedule of Funding Progress**  
**For the Year Ended June 30, 2016**

	<u>MTS</u>	<u>SDTC</u>	<u>SDTI</u>
Actuarial Value of Assets	\$ -	\$ -	\$ -
Entry Age Normal Actuarial Accrued Liabilities	<u>(3,863,000)</u>	<u>(22,066,000)</u>	<u>(7,700,000)</u>
Unfunded Actuarial Accrued Liability	<u>(3,863,000)</u>	<u>(22,066,000)</u>	<u>(7,700,000)</u>
Funded Status	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Valuation Date	June 30, 2015	June 30, 2015	June 30, 2015

20



## Audit Result

21

[www.PunGroup.com](http://www.PunGroup.com)



## Audit Result

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

22



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**For more information, contact:**

**Presenters:**

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## Agenda Item No. B2

### MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 3, 2016

#### SUBJECT:

PROPOSED REVISIONS TO MTS BOARD POLICY NO. 22 (TOUFIC TABSHOURI & ERNIE EWIN)

#### RECOMMENDATION:

That the Audit Oversight Committee discuss and approve proposed revisions to MTS Board Policy No. 22 and forward them to the MTS Board for approval.

#### Budget Impact

None.

#### DISCUSSION:

These revisions pertain to section 22.9 of Board Policy 22, which delineates the structure, role, and procedures of the Audit Oversight Committee (AOC). The proposed changes define or clarify terms such as "internal auditor" and "external auditor", eliminate redundant language, improve conciseness, or decompose compound questions, and clarify communications between internal auditors and the AOC and Executive Committee.

Three items have not been changed but have been noted for discussion by the AOC Chairman: the role of the AOC Chairman, the supervision of external auditors by the AOC, and establishment of a procedure for handling accounting, internal controls, or audit-related complaints.

A handwritten signature in cursive script that reads "Sharon Cooney for".

Paul C. Jablonski  
Chief Executive Officer

Key Staff Contact: Sharon Cooney, 619.557.4513, [Sharon.Cooney@sdmts.com](mailto:Sharon.Cooney@sdmts.com)

Attachment: A. Proposed Revisions to Policy No. 22 (red-line version)

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Metropolitan Transit System (MTS) is a California public agency comprised of San Diego Transit Corp., San Diego Trolley, Inc. and San Diego and Arizona Eastern Railway Company (nonprofit public benefit corporations). MTS is the taxicab administrator for seven cities.

MTS member agencies include the cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, San Diego, Santee, and the County of San Diego.





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## Policies and Procedures No. 22

Board Approval: 2/12/15 11/10/16

### SUBJECT:

RULES OF PROCEDURE FOR THE SAN DIEGO METROPOLITAN TRANSIT  
SYSTEM (MTS) BOARD OF DIRECTORS

### PURPOSE:

To define and clarify Board Rules of Procedure and incorporate them in Board Policy.

### BACKGROUND:

In 1977, the Board adopted Rules of Procedure by resolution and from time to time amendments have been adopted. The Rules shall be contained in Board Policy for ease of reference and periodic updating. The Board is established and governed by the Mills-Deddeh Transit Development Act, set forth in the Sections 120000 through 120702 of the California Public Utilities Code ("MTS Enabling Legislation"). Section 120101 requires to the Board to "establish rules for its proceedings." In the event the rules of procedure set forth herein conflict with the MTS Enabling Legislation, or other applicable law, the applicable law shall supersede these rules.

#### 22.1 Membership and Organization

22.1.1 Membership in this Board is established by Sections  
120050 through 120051.6 of the California Public Utilities Code.

22.1.2 The Board consists of 15 members selected as follows:

- a. One member of the County of San Diego Board of Supervisors appointed by the Board of Supervisors.
- b. Four members of the City Council of the City of San Diego, one of whom may be the mayor, appointed by the City Council.
- c. One member of each city council appointed individually by the City Councils of the Cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, and Santee.
- d. One person, a resident of San Diego County, elected by a two-thirds vote of the Board, a quorum being present, who shall serve as chairperson of the Board.

- 22.1.3 Any person who is a member of the Board may be appointed by his or her appointing authority to continue to serve as a member of the Board after the termination of his or her term of office for a period not to exceed four years after the date of termination of his or her term of elected office.
- 22.1.4 Alternate members of the Board shall be appointed as follows:
- a. The County of San Diego Board of Supervisors shall appoint any other county supervisor who qualifies for appointment to serve as an alternate member.
  - b. The City Council of the City of San Diego shall appoint a member of the City Council not already appointed to serve as an alternate member.
  - c. The City Councils of the Cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, and Santee shall each individually appoint a member of their respective city councils not already appointed to serve as an alternate member.
- 22.1.5 This Board shall exercise all powers authorized by the laws of the State of California.
- 22.1.6 Only the duly selected official representative, or in his or her absence his or her duly selected alternate, shall be entitled to represent a member agency in the deliberations of the Board.
- 22.1.7 Names of the official representatives and alternates shall be communicated in writing to the Board by each participating member agency and shall thereafter be annually communicated or reaffirmed prior to the February meeting of the Board and at such other times as changes in representation are made by member agencies.
- 22.1.8 The Board shall have the authority to appoint committees or subcommittees and may provide for the appointment of alternates to these committees or subcommittees.
- 22.1.9 Standing committees shall be appointed by the Board as may be required to carry out general and continuing functions and shall be abolished only upon specific action by the Board.
- 22.1.10 Ad hoc specialized subcommittees may be appointed by the Board as the need arises to accomplish specific tasks. Upon completion of its assignment, each ad hoc subcommittee shall disband.

22.1.11 Board members serving on such subcommittees shall be compensated as provided by Board ordinance. The Chief Executive Officer is authorized to enter into agreements to compensate individuals who were Board members at the time of their appointments to such subcommittees and who continue to serve on such subcommittees after their terms of office as Board members, subject to the same limitations as exist for compensation of Board members, and subject to replacement by the Board.

22.2 Meetings

22.2.1 On or before the first regular meeting of the Board in December of each year, the Board shall adopt a schedule of its meetings by date, time, and location for the coming year. The schedule of the meetings shall be published in the local newspaper of general circulation prior to the next regular meeting. The schedule of meetings shall also be published on the MTS website and posted at the MTS Executive Offices.

22.2.2 The Board may, when necessary, change the time and place of regular meetings. Notice of such change shall be posted pursuant to the Ralph M. Brown Act.

22.2.3 The Clerk of the Board shall forward written notice of the annual schedule of regular meetings and any changes thereto stating the dates, times, and locations to each member's agency and to the respective members and alternates of the Board and the standing committees.

22.2.4 Special meetings may be called and noticed under the provisions of the Ralph M. Brown Act as applicable and, specifically, Section 54956 of the California Government Code. The call and notice shall be posted in an area accessible to the public at least 24 hours prior to the meeting.

Special meetings normally shall be called by a majority of the Board or Executive Committee only upon a finding that extraordinary circumstances require Board action prior to the next scheduled Board meeting, such as to discuss a work stoppage or significant litigation, or that a special meeting is necessary to hold a workshop, a joint meeting with another agency, or for other special purposes at a future date beyond the next Board meeting. The Chair may call such meetings only when such extraordinary circumstances arise after the last Board or Executive Committee meeting and Board action is required prior to the next regularly scheduled Board or Executive Committee meeting.

22.2.5 A majority of the members of the Board shall constitute a quorum for the transaction of business, and all official acts of the

Board shall require the affirmative vote of a majority of the members of the Board.

22.2.6 Parliamentary procedure at all meetings shall be governed by Robert's Rules of Order Newly Revised except as otherwise modified herein.

22.2.7 Prior to each regular meeting, the Clerk of the Board shall forward a copy of the agenda to each member in accordance with the schedule adopted by the Board. The agendas shall also be mailed to each person or entity previously requesting such in writing. The Clerk shall post the agenda in an area accessible to the public at least 72 hours before the meeting in accordance with the Ralph M. Brown Act. Agenda materials shall be available as public record in accordance with the Ralph M. Brown Act and, specifically, Section 54957.5 of the California Government Code.

22.2.8 The Board may take action on items of business not appearing on the posted agenda in accordance with the Ralph M. Brown Act.

22.2.9 Requests for Board action may be initiated by any member of the Board or any staff officer.

22.2.10 Communication requests may be initiated by an individual and submitted to the Clerk by letter or on forms provided by the Clerk and must state the subject matter and the action which the writer wishes the Board to take. The Clerk shall review all communication requests so received and shall list them on the Board's docket under those items which the Clerk deems to be proper areas of discussion or action by the Board. When a Communications item is listed on the docket, it is not debatable and must be referred to an appropriate committee, other public agency, or to staff to prepare a report or response.

22.2.11 Any permanent rule of the Board as set forth herein and unless otherwise established by law may be suspended temporarily by a two-thirds vote of the members present.

## 22.3 Amendments

22.3.1 The Board shall be responsible for making all amendments to these rules.

22.3.2 Proposed amendments may be originated by the Board, or any member of such, or by the Chief Executive Officer.

22.3.3 Each proposed amendment shall be considered by the Board and a copy thereof forwarded by the Clerk of the Board to the official representative of each member agency.



22.4 Ordinances

- 22.4.1 Every ordinance shall be signed by the Chairman of the Board and attested by the Clerk of the Board.
- 22.4.2 On the passage of all ordinances, the votes of the several members of the Board shall be entered on the minutes.
- 22.4.3 Ordinances shall not be passed at other than a regular meeting or at an adjourned regular meeting. However, an urgency ordinance may be passed at a special meeting. Except when, after reading the title, further reading is waived by regular motion adopted by unanimous vote of the Board members present, all ordinances shall be read in full either at the time of introduction or passage. When ordinances, other than urgency ordinances, are altered after introduction, they shall be passed only at a regular or at an adjourned regular meeting held at least five days after alteration. Corrections of typographical or clerical errors are not alterations within the meaning of this section.
- 22.4.4 Consistent with Section 120109 of the MTS Enabling Legislation, the Clerk of the Board shall cause a proposed ordinance or proposed amendment to an ordinance, and any ordinance adopted by the Board, to be published at least once, in a newspaper of general circulation published and circulated in the Board's area of jurisdiction.
- 22.4.5 The publication of an ordinance, as required by subdivision 22.4.4, may be satisfied by either of the following actions:
- a. The Board may publish a summary of a proposed ordinance or proposed amendment to an ordinance. The summary shall be prepared by the Clerk of the Board and General Counsel. The summary shall be published and a certified copy of the full text of the proposed ordinance or proposed amendment shall be posted in the office of the Clerk of the Board at least five (5) days prior to the Board meeting at which the proposed ordinance or amendment is to be adopted. Within 15 days after adoption of the ordinance or amendment, the Board shall publish a summary of the ordinance or amendment with the names of those Board members voting for and against the ordinance or amendment, and the Clerk of the Board shall post in the office of the clerk a certified copy of the full text of the adopted ordinance or amendment along with the names of those Board members voting for and against the ordinance or amendment.
  - b. If the person designated by the Board determines that it is not feasible to prepare a fair and adequate summary of the proposed ordinance or amendment, and if the Board so

orders, a display advertisement of at least one-quarter of a page in a newspaper of general circulation in the Board's area of jurisdiction shall be published at least five (5) days prior to the Board meeting at which the proposed ordinance or amendment is to be adopted. Within 15 days after adoption of the ordinance or amendment, a display advertisement of at least one-quarter of a page shall be published. The advertisement shall indicate the general nature of, and provide information regarding, the adopted ordinance or amendment, including information sufficient to enable the public to obtain copy of the complete text of the ordinance or amendment and the name of those Board members voting for and against the ordinance amendment.

- 22.4.6 Ordinances shall take effect thirty days after their final passage. An ordinance takes effect immediately, if it is an ordinance for the immediate preservation of the public peace, health, or safety, containing a declaration of the facts constituting the urgency and is passed by a four-fifths vote of the Board.

22.5 Public Comment

- 22.5.1 At a public hearing of the Board, persons wishing to provide comment and testimony shall be permitted to address the Board after submitting a written request to speak to the Clerk identifying the person and the subject agenda item. The Chairman may limit the time for each presentation and may permit additional time to speakers representing a group of individuals or organizations to avoid duplicative testimony. Ordinarily, each speaker will be allowed no more than three minutes.

- 22.5.2 Persons wishing to comment on agenda items other than a public hearing must submit a written request to speak in advance to the Clerk identifying the person and the subject agenda item. Comments must be limited to issues relevant to the particular agenda item. The Chairman may limit the time for each presentation and may permit additional time to speakers representing a group of individuals or organizations to avoid duplicative testimony. Ordinarily, each speaker will be allowed no more than three minutes.

- 22.5.3 Public comment on matters not on the agenda will be permitted on items of interest to the public that are within the subject matter jurisdiction of the Board. Persons wishing to comment must submit a written request in advance to the Clerk identifying the person and subject matter. The Chairman may limit the time for each speaker. Ordinarily, each speaker will be allowed no more than three minutes.

22.6 Chairperson

Prior to the expiration of a Chairperson's term, the Executive Committee shall make a recommendation to the Board on whether to reelect the current Chairperson. In the event that the Board does not reelect a chairperson, or in the event of a vacancy in the position of Chairperson, the Executive Committee shall create an ad hoc nominating committee that shall, by whatever means it deems appropriate, recommend to the Board a candidate or candidates for the position of Chairperson. The Board shall then vote to elect a Chairperson.

22.7 Election of Board Officers and Appointments to Committees

- 22.7.1 On or before the Board's first meeting in November, the Board shall appoint less than a quorum of members to an Ad Hoc Nominating Committee. The Ad Hoc Nominating Committee shall review the list of MTS committees and make recommendations to the Board with respect to the appointment of members of the Board or former Board members to serve on each MTS committee.
- 22.7.2 The Ad Hoc Nominating Committee shall also review the list of outside boards and/or committees and make recommendations to the Board with respect to the appointment of members of the Board to represent MTS on each outside board or committee, except for the Board representative appointed to the San Diego Association of Governments (SANDAG) Transportation Committee, which shall be appointed by the Executive Committee.
- 22.7.3 The Ad Hoc Nominating Committee shall also make a recommendation to the Board with respect to the appointment of the Vice Chairman and the Chair Pro Tem and any other board officers.
- 22.7.4 The Ad Hoc Nominating Committee shall forward its recommendations for appointments of officers and committee members on or before the first Board meeting in January.
- 22.7.5 At its first meeting in January, the Board shall elect a Vice Chairman and a Chair Pro Tem from amongst its members. The Vice Chairman shall preside in the absence of the Chairman. In the event of the absence or inability to act by the Chairman and Vice Chairman, the Chair Pro Tem shall preside.
- 22.7.6 The Board shall then vote on the recommendations made by the Ad Hoc Nominating Committee with respect to all other committee appointments.
- 22.7.7 In the event that a Board member vacates his or her position on the Board, at the next meeting, the Chairperson shall take nominations from the floor to fill any opening in any Committee positions vacated by that Board member.

22.8 Executive Committee

22.8.1 The Executive Committee of the Board shall consist of the Chairman, the Vice Chairman (if he or she is not already a voting member), a member from the County of San Diego, a member from the City of San Diego, the Transportation Committee Representative (if he or she is not already a voting member), one member who represents the cities of Chula Vista, National City, Coronado, and Imperial Beach (the "South Bay Cities' representative"), and one member who represents the cities of Lemon Grove, La Mesa, El Cajon, Poway, and Santee (the "East County Cities' representative"). The South Bay Cities' representative and the East County Cities' representative shall serve as members of the Executive Committee for a term of two years each. The terms of these two members shall be staggered so as to avoid replacement of both members at the same time.

22.8.2 The East County and South Bay representatives shall serve in the following order:

East County: El Cajon, La Mesa, Lemon Grove, Santee, Poway—each serving a two-year term.

South Bay: Chula Vista, Coronado, Imperial Beach, National City—each serving a two-year term.

After each member has served as either the East County or South Bay representative, the rotation schedule shall repeat.

22.8.3 The alternates to the Executive Committee members shall be as follows:

22.8.3.1 The alternate for the County of San Diego shall be the alternate appointed by the County of San Diego to serve as the alternate for the Board.

2.8.3.2 The alternate for the City of San Diego shall be selected by the City of San Diego from amongst the three remaining City of San Diego Board members.

2.8.3.3 The alternates for the East County Cities' and the South Bay Cities' representatives shall be the representative from the city that is next in the rotation order set forth in section 22.8.2 above (for example, if the City of El Cajon is currently the primary Executive Committee member, then the City of La Mesa member shall be the alternate Executive Committee member). Alternates shall be appointed for a term of two years or such lesser term as necessary to coincide with the term of the member for whom the alternate is appointed.

22.8.4 The Vice Chairman shall attend each Executive Committee meeting as a voting member. The Vice Chairman shall serve as the alternate to the Chairman in his or her absence and as a second alternate at large for any of the Executive Committee representatives and shall be a voting member when serving in this capacity.

22.8.5 On or before its first meeting in January, the Executive Committee shall appoint one of its members to serve as the representative and one of its members to serve as the alternate to the San Diego Association of Governments (SANDAG) Transportation Committee to serve for a term of one year. In the event that the Executive Committee feels a member of the Board who does not serve on the Executive Committee is their preferred representative or alternate for the SANDAG Transportation Committee, the Executive Committee shall have the ability to select the representative or alternate from the full Board. In that instance, the SANDAG Transportation Committee representative, or the alternate in his or her absence, shall attend the Executive Committee meetings as a voting member.

22.8.6 The primary purpose of the Executive Committee shall be to review and recommend consent items for the agenda of the next MTS Board of Directors meeting; add or delete items as appropriate; and provide input and direction on emerging policies, plans, and issues, in advance, for Board consideration. The Executive Committee shall have the authority to create ad hoc subcommittees for purposes of carrying out its duties and responsibilities.

22.8.7 Three members shall constitute a quorum of the Executive Committee, and a majority vote of the members present shall be required to approve any item. In the absence of a quorum, the Chairman may review and recommend consent items for the agenda, establish the order of items, and add or delete items.

22.8.8 The Executive Committee shall adopt operating procedures as are necessary for the conduct of its business.

22.9 Audit Oversight Committee

22.9.1 The Audit Oversight Committee shall be comprised of the same members that make up the Executive Committee and such other individuals as the Board may appoint at the first MTS Board meeting each calendar year. The Chairman of the Audit Oversight Committee shall be a voting member. The Chairman of the Audit Oversight Committee shall not be the member who serves as the Executive Committee Chairman. The Board may also appoint individuals who are not members of the Board to serve as non-voting advisory members to the Audit Oversight Committee

- 22.9.2 No additional compensation shall be paid to the members of the Audit Oversight Committee unless a meeting takes place on a day other than a regularly scheduled MTS Board meeting or MTS Executive Committee meeting. Compensation shall be paid to any additional voting members who are appointed to serve on the Audit Oversight Committee. No compensation shall be paid to any non-voting advisory member appointed by the MTS Board.
- 22.9.3 The primary duties and responsibilities of the Audit Oversight Committee shall be to ensure that management is maintaining a comprehensive framework of internal control, to ensure that management's financial reporting practices are assessed objectively, and to determine to its own satisfaction that the financial statements are properly audited and that any problems disclosed-uncovered in the course of the audit are properly reported and resolved.
- 22.9.4 The ~~tasks to be performed by the~~ Audit Oversight Committee shall be as follows:
- a. Review the ~~appropriate scope of the annual independent financial statement audit and any other audits the committee feels is are appropriate.~~ The financial statement or CAFR audit should be conducted by an external, independent, public accounting firm experienced in municipal financial audits (external auditor).
  - b. Review the ~~appropriate purpose and scope of any nonaudit services to be performed by the independent external auditor~~ auditor.
  - c. Oversee the procurement of ~~outside the external auditor and any related advisory~~ services with final approval by the Board.
  - d. ~~Review and e~~ Oversee the preparation of annual financial statements, the annual financial reporting process, internal controls, and the external auditor using an appropriate degree of professional skepticism.
  - e. Assess the performance of the external auditors.
  - f. Provide a forum for ~~MTS internal auditors to report findings during committee meetings.~~ Internal auditors are MTS employees who report to management and primarily perform operational and compliance audits. In unusual circumstances involving significant fraud, waste, or abuse, the internal auditors must contact the chairman of the Executive Committee and the chairman of the Audit Oversight Committee.

~~g. Provide at least an annual written and oral report to the Board on how the committee discharged its duties and responsibilities.~~

~~h.g. Establish a procedure for receipt, retention, and treatment of complaints regarding accounting, internal controls, or auditing matters.~~

22.9.5

The Audit Oversight Committee shall perform the following tasks each year and, to the extent possible, adhere to this timetable:

- a. ~~In June of each year or as soon as reasonably practicable,~~ review the independent audit engagement letter.
- b. ~~In March or April of each year or as soon as reasonably practicable,~~ establish a plan for review of the audits with independent external auditor.
- c. ~~In September of each year or as soon as reasonably practicable,~~ receive report on the status of any audit(s).
- d. ~~In October of each year or as soon as reasonably practicable,~~ receive a report on the preliminary audit findings.
- e. ~~In December of each year or as soon as reasonably practicable,~~ receive a report and provide feedback on financial and compliance statements to Board, and provide the annual report to the Board on the committee's activities.
- f. ~~In March of each year or as soon as reasonably practicable,~~ review the management letter and management's response to the letter.

~~22.9.6~~

~~On a periodic basis the Audit Oversight Committee shall perform the following functions:~~

- ~~a. Establish procedure for handling complaints.~~
- ~~b. Receive reports from MTS internal auditor.~~
- ~~c. Report to the Board in addition to annual report.~~
- ~~d. Review the appropriate scope of any nonaudit services recommended for performance by the independent auditor.~~
- ~~e. Review the procurement of independent auditor services and make a recommendation to the Board.~~

f. ~~Request procurement of outside independent advisor(s) with Board concurrence.~~

g. ~~Meet with the independent auditor without MTS management present.~~

~~22-9-722.9.6~~

At a minimum, and no later than the final MTS Board meeting for the CAFR final adoption meeting, the Audit Oversight Committee shall publically ask the following questions of MTS Staff, the Internal Auditor management and/or the independent external auditors:

a. What is the name of the audit firm performing the audit, and how long has such firm been under contract to perform such audits?

b. Was the audit performed in accordance with generally accepted auditing standards ~~(AICPA GAAS standards)~~ and/or generally accepted government auditing standards ~~(GAO GAGAS)~~? If not, why?

c. Has the ~~independent external auditor(s)~~ prepared an unqualified opinion regarding the financial statements? If not, what type of opinion was issued and why?

d. Did the external auditor issue a management letter?

e. Did the external auditor find any nonmaterial weaknesses or reportable conditions?

~~b.f.~~ Was the audit performed independently? ~~The Audit Oversight Committee should ask how~~ How did the external audit firm maintain its independence during the course of the audit?

g. ~~The Audit Oversight Committee should have the independent auditor(s) d~~ Describe, in general, the audit procedures performed.

~~e.h.~~ Were any new accounting principles adopted? If so, what was their effect?

~~d.i.~~ Does the external auditor recommend any changes in the accounting policies used or their application? Did management apply the best accounting principles or merely permitted ones? Audit Oversight Committee should have the independent auditor(s) discuss whether any new accounting principles were adopted, whether any changes were made, or whether the independent auditor(s)



~~recommends any changes in the accounting policies used or their application. In particular, the relevant issue is whether the audit applied best or merely permissible principles.~~

~~e.i.~~ The Audit Oversight Committee should have the independent auditor(s) ~~d~~Describe any significant accounting adjustments affecting the financial statements (prior year as well as current year).

k. Did the independent external auditor(s) encounter any difficulties in dealing with management in performing the audit?

~~l.~~ ~~including whether there w~~Were there any disagreements with management regarding any accruals, estimates, reserves, or accounting principles?

~~f.m.~~ Did the independent external auditor(s) have the full cooperation of MTS management and staff?

~~g.n.~~ The Audit Oversight Committee should ask the audit firm about the ~~Assess the~~ quality of the component unit's accounting, internal controls, and the competency of staff. Did the independent auditor(s) issue a management letter? What nonmaterial weaknesses or reportable conditions has the independent auditor(s) noted?

h.o. Were there any accounting issues on which the audit firm sought the advice of other audit firms or regulatory bodies?

~~i.p.~~ Are there new pronouncements and/or risks affecting future financial statements which the Audit Oversight Committee should be aware of? ~~The Audit Oversight Committee should ask the audit firm whether there are new pronouncements and/or areas of potential financial risk affecting future financial statements of which the Audit Oversight Committee should be aware.~~

22.9.8 Three members shall constitute a quorum of the Audit Oversight Committee, and a majority vote of the members present shall be required to approve any item. In the absence of a quorum, the Chairman may review and recommend consent items for the agenda, establish the order of items, and add or delete items.

22.9.9 The Audit Oversight Committee shall adopt operating procedures as are necessary for the conduct of its business.

## 22.10 Board Member Standards of Conduct

- 22.10.1 The purpose of this policy is to emphasize that each Board member occupies a position of public trust that demands the highest moral and ethical standard of conduct.
- 22.10.2 This policy shall be supplemental and in addition to the Conflict of Interest Code of the Board and any applicable laws or regulations (including, but not limited to, the Brown Act, Government Code section 1090 and the Political Reform Act) and is not intended to supersede any provisions thereof.
- 22.10.3 Board members shall not engage in any business or transaction or have a financial or other personal interest, actual, potential, or apparent, which is incompatible with the proper discharge of his or her official duties or would tend to impair his or her independence of judgment or action in the performance of such duties. Such business, transaction, or interest shall constitute a conflict of interest.
- 22.10.4 No Board member shall engage in any enterprise or activity that shall result in any of the following:
- a. Using the prestige or influence of the Board office for private gain or advantage of the member or another person.
  - b. Using time, facilities, equipment, or supplies of the Board for the private gain or advantage of the member or another person.
  - c. Using official information not available to the general public for private gain or advantage of the member or another person.
  - d. Receiving or accepting money or other consideration from anyone other than the Board for the performance of acts done in the regular course of duty.
  - e. Receiving or accepting, directly or indirectly, any gift or favor from any one doing business with the Board under circumstances from which it could reasonably be inferred that such was intended to influence such person in such person's duties or as a reward for official action.
  - f. Soliciting any gift or favor in such person's official capacity, either directly or indirectly, when such solicitation might reasonably be inferred as to have a potential effect on such person's duties or decision, or when the individual's position as a Board member would in any way influence the decision of the person being solicited.

- g. Engaging in or accepting private employment or rendering services for private interest, direct or indirect, which may conflict with such person's responsibility or duty, or which, because of that person's position, may influence a decision to the benefit of the organization in which such person has an interest.

- 22.10.5 If a Board member has an actual, potential, or apparent conflict of interest in the subject of an agenda item, and the Board will make a decision regarding this agenda item during an open session meeting, the Board member must recuse himself or herself or, in the case of uncertainty, request a binding determination from the Board's General Counsel. If the Board member has a conflict, he or she may observe, but not participate, in the decision-making process.
- 22.10.6 If a Board member has an actual, potential, or apparent conflict of interest in the subject of an agenda item to be discussed during a closed session meeting, the Board member shall be disqualified and not present during such discussion so as not to make, participate in making, or in any way attempt to use his or her official position to influence the discussion or decision. In such case, the Board member must recuse himself or herself or, in the case of uncertainty, request a binding determination from the Board's General Counsel. In accordance with the Brown Act, the Board member would be entitled to any information that is publicly reported. The Board member would not, however, be privy to any confidential or privileged information or communications pertaining to the closed session agenda item.
- 22.10.7 No Board member shall disclose to any person, other than members of the Board and other Board staff designated to handle such confidential matters, the content or substance of any information presented or discussed during a closed session meeting unless the Board authorizes such disclosure by the affirmative vote by a majority of the Board.
- 22.10.8 No Board member may disclose confidential or privileged information or communications to any person other than a Board member, General Counsel to the Board, or other Board staff designated to handle such matters, unless disclosure is mandated by law or the Board authorizes such disclosure by the affirmative vote of a majority of the Board.
- 22.10.9 A Board member shall not be privy to confidential or privileged information or communications concerning threatened, anticipated, or actual litigation affecting the Board where the Board member has an actual, potential, or apparent conflict of interest. In the case of uncertainty as to whether a conflict of interest exists, the Board's General Counsel shall issue a binding determination.

- 22.10.10 No Board member shall represent a position on an issue to be the Board's unless the Board has formally adopted such position at a public meeting.
- 22.10.11 Any violation of this policy shall constitute official misconduct if determined by an affirmative vote of the majority of the Board in an open and public meeting. The Board may elect to censure the Board member and the violation may be subject to criminal and/or civil penalties as provided for by applicable law.

Original Policy approved on 4/5/84.

Policy revised on 1/12/84.

Policy revised on 7/11/85.

Policy revised on 1/8/87.

Policy revised on 1/11/90.

Policy revised on 8/23/90.

Policy revised on 1/10/91.

Policy revised on 3/24/94.

Policy revised on 1/14/99.

Policy revised on 6/14/01.

Policy revised on 1/10/02.

Policy revised on 1/24/02.

Policy revised on 5/8/03.

Policy revised 2/26/04.

Policy revised 1/12/06.

Policy revised 3/9/06.

Policy revised 3/23/06.

Policy revised 6/14/07.

Policy revised 7/19/07.

Policy revised 2/21/08.

Policy revised 12/11/08.

Policy revised 2/12/15.

Policy revised 11/10/16.



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## Agenda Item No. B3

### MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 3, 2016

#### 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:

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

  
Paul C. Jablonski  
Chief Executive Officer

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