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Agenda

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 2, 2017

9:00 a.m.

James R. Mills Building
Executive Conference Room, 10th Floor
1255 Imperial Avenue, San Diego

To request an agenda in an alternative format or to request accommodations to facilitate meeting participation, please call the Clerk of the Board at least two working days prior to the meeting. Assistive Listening Devices (ALDs) are available from the Clerk of the Board/Assistant Clerk of the Board prior to the meeting and are to be returned at the end of the meeting.

RECOMMENDED

A. 1. Roll Call

2. Approval of the Minutes of June 1, 2017

Approve

B. COMMITTEE DISCUSSION ITEMS

1. Draft of Fiscal Year 2017 Comprehensive Annual Financial Report (CAFR) (Erin Dunn and Ken Pun of The Pun Group)

Informational

Action would receive a draft of the Fiscal Year (FY) 2017 CAFR for review and discussion.

2. Internal Audit Activity Update Report (Toufic Tabshouri)

Informational

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

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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.



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

MINUTES

June 1, 2017

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 November 3, 2016 Audit Oversight Committee meeting. Ms. Cole seconded the motion, and the vote was 5 to 0 in favor with Mr. Roberts absent.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. The Pun Group Engagement Letter for the Fiscal Year (FY) 2017 Audit (Erin Dunn)

Erin Dunn, Controller, stated that the engagement letter for the FY 2017 audit from The Pun Group, LLP is in substantially the same format as previous years. She noted that the engagement letter was included in the meeting packet.

Action Taken

No action taken.

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

Ken Pun, with The Pun Group, LLP, provided a presentation on the interim audit. He reviewed the project team, scope of work, management's responsibilities, and auditor's responsibilities. Coley Delaney, with The Pun Group, LLP, reviewed the approach to the audit, and planning and risk assessment process. Mr. Pun stated that based on the interim audit, they found that MTS is a low risk auditee.

Action Taken

Ms. Rios moved to receive the report on the interim audit work conducted by The Pun Group. Mr. McClellan seconded the motion, and the vote was 6 to 0 in favor.

3. Update on GASB 74 and 75, GASB 77, GASB 79, GASB 80, SAS 99 and SAS 114 (Ken Pun of The Pun Group, LLP)

Mr. Pun provided a presentation on recent updates to the Governmental Accounting Standards Board (GASB). He reviewed implementation details and scopes for GASB 74

(Financial Reporting for Postemployment Benefit Plans other than Pension Plans), GASB 75 (Accounting and Financial Reporting for Postemployment Benefits other than Pensions), GASB 77 (Tax Abatement Disclosures), GASB 79 (Certain External Investment Pools and Pool Participants) and GASB 80 (Blending Requirements for Certain Component Units). Mr. Pun noted that these new standards provide more accountability and transparency.

Ms. Dunn commented that MTS was awarded the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the eleventh year in a row.

Action Taken

Mr. McClellan moved to receive a report from The Pun Group regarding upcoming reporting and auditing changes. Ms. Rios seconded the motion, and the vote was 6 to 0 in favor.

4. Internal Audit Activity Update Report (Toufic Tabshouri)

Toufic Tabshouri, Internal Auditor, provided a report on internal audit activity. He discussed current audits including Supply Chain and Operations – Procurement Compliance; Supply Chain and Operations – Inventory Management; Supply Chain and Operations – Business Processes; and Performance Measures. He discussed other activities including the review of trolley revenue internal controls; Information Technology strategic plan; Stored Value – accuracy of liability; Supply Chain and Operations - Training and Consultation; and Business Continuity. Mr. Tabshouri also stated that there has been no reportable activity on the fraud hotline. He noted that he was contacted by a customer requesting assistance regarding potential fraud however MTS was not directly impacted by that incident. Lastly, Mr. Tabshouri reported that he recently passed the Certified Public Accountants (CPA) exam.

Action Taken

No action taken.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

There were no committee member communications.

D. PUBLIC COMMENTS

There were no public comments.

E. NEXT MEETING DATE

The next meeting will be held as called.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 10:05 a.m.

/s/ Ernie Ewin
Chairman

Attachment: Roll Call Sheet

AUDIT OVERSIGHT COMMITTEE
SAN DIEGO METROPOLITAN TRANSIT SYSTEM

ROLL CALL

MEETING OF (DATE) June 1, 2017

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

RECESS _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 10:05 a.m.

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWIN (Chair) <input checked="" type="checkbox"/>	9:00 a.m.	10:05 a.m.
COLE <input checked="" type="checkbox"/> (Gomez) <input type="checkbox"/>	9:00 a.m.	10:05 a.m.
MATHIS <input checked="" type="checkbox"/>	9:00 a.m.	10:05 a.m.
MCCLELLAN <input checked="" type="checkbox"/> (McWhirter) <input type="checkbox"/>	9:00 a.m.	10:05 a.m.
RIOS <input checked="" type="checkbox"/> (Salas) <input type="checkbox"/>	9:00 a.m.	10:05 a.m.
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>	9:07 a.m.	10:05 a.m.
Transportation Committee Rep Slot (Mathis)		

SIGNED BY THE CLERK OF THE BOARD: Julia Tuer

CONFIRMED BY THE GENERAL COUNSEL: Paul C. [Signature]



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Agenda Item No. B1

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 2, 2017

SUBJECT:

DRAFT OF FISCAL YEAR 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT
(CAFR) (ERIN DUNN AND KEN PUN OF THE PUN GROUP)

RECOMMENDATION:

That the Audit Oversight Committee receive a draft of the Fiscal Year (FY) 2017 CAFR for review and discussion.

Budget Impact

None

DISCUSSION:

The Finance Department presents for review and discussion the first draft of the FY 2017 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 14, Subsequent Events, is subject to change until the report is published.

In the current year, total assets decreased by \$13 million. The decrease is due to a decrease in capital assets of \$22 million, partially offset by an increase in cash. Total liabilities increased \$38 million in the current year due to an increase in net pension liability of \$49 million. Total revenues decreased by \$6 million in FY 2017 primarily due to passenger revenue and federal revenue being down a combined \$15 million, offset by an \$8 million increase in state revenue. Current year operating expenses increased by



\$27 million, primarily as a result of increased personnel costs and depreciation. 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.

/s/ Paul C. Jablonski
Paul C. Jablonski
Chief Executive Officer

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

Attachment: A. Draft FY 2017 CAFR



Comprehensive Annual Financial Report

for the Fiscal Years Ended
June 30, 2017 and 2016

San Diego, California



San Diego Metropolitan Transit System



DRAFT 10-23-2017

San Diego Metropolitan Transit System

San Diego, California

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

For the Years Ended June 30, 2017 and 2016

PREPARED BY SAN DIEGO METROPOLITAN TRANSIT SYSTEM
FINANCE DEPARTMENT

DRAFT 10-23-2017

San Diego Metropolitan Transit System

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San Diego Metropolitan Transit System

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INTRODUCTORY SECTION

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Board of Directors and Transit Riders
San Diego Metropolitan Transit System

The comprehensive annual financial report of the San Diego Metropolitan Transit System (MTS) for the fiscal years ended June 30, 2017 and 2016 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 comprehensive 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, 2017 and 2016 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, 2017 and 2016 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" and 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 UC San Diego Blue Line from the America Plaza Station to San Ysidro at the International Border, the Orange Line from the America Plaza 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 73 fixed-route bus lines and paratransit services with an active fleet of 525 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 UC San Diego Blue Line (downtown San Diego south to San Ysidro) and Orange Line (downtown San Diego east to El Cajon) trolley segments. MTS provides no subsidy to SDIV, but does receive a portion of its gross revenue. SD&AE is considered 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. PIR filed for bankruptcy in September 2016 and the lease was transferred to Baja California Rail Road, Inc. (BJRR) as part of the bankruptcy process. On September 21, 2017, MTS executed an amended and restated Desert Line lease agreement with BJRR. The BJRR agreement provides specific performance milestones which begin after the US and Mexico governments formally approve construction and operation of a customs inspection facility serving the Desert Line, with a minimum of \$1 million in annual revenue required. The agreement may be terminated if BJRR fails to meet the specified milestones, or at BJRR's election with six months' notice. If BJRR meets all milestones and commences freight operations along the Desert Line, MTS's revenue will increase to 7% 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, National City, 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

San Diego region's economy is geared toward continued prosperity in 2017. Industries projected to lead the region's growth are defense, tourism and innovation, followed by healthcare and professional services which are also predicted to continuously thrive in the current year. San Diego's gross domestic product (GDP), the total value of the region's economy, soared to \$220.6 billion in 2015 compared to the \$206.8 billion earned in 2014, and is forecasted to grow 2.7% in 2017. Unemployment is projected to further decrease to an annual average of 3.9 percent in 2017, 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. While sales tax receipts throughout California, which impacts subsidy revenue available to MTS from both TDA and TransNet funds, increased again for the seventh consecutive year, MTS is currently in the second year of ridership declines, with overall passenger levels down by over 10% compared to the FY15 peaks. This had a similar impact on passenger revenue levels, and to compensate, MTS utilized one-time funding to balance both the FY17 amended budget and the FY18 operating budget. MTS also has a contingency reserve balance of 12.5% of the operating budget at its disposal.

Major Initiatives

MTS has been addressing this two year ridership decline in a number of different ways. In Fall 2016, MTS launched its Transit Optimization Plan (TOP) to evaluate MTS' current network of services and ensure that it is efficient and effective for the region's travel needs. MTS collected nearly 4,000 online surveys, as well as valuable feedback at 15 outreach events. MTS then analyzed the findings in conjunction with system performance data, route segments and ridership patterns. MTS hosted more than 20 open house events at transit centers/stations across the county, asking the public for feedback on the proposed route and schedule changes that

are aimed at realigning current transit services to meet market needs. The proposed system adjustments were approved by the Board in September 2017.

As part of this ridership review and ease of use of the system, MTS had undertaken an initiative upgrading the region's current fare collection system. A fare collection working group was established in 2016 to spearhead the creation of a set of preliminary requirements for the future electronic fare collection system. The working group hired a consultant to assist in its work, held a peer agency workshop, reviewed numerous documents produced by other agencies, and attended an international workshop. A whitepaper details the results of the working group's efforts, and recommended the agency develop a Concept of Operations (ConOps). This ConOps, which was completed in summer of 2017, reviewed the current system components and contract terms, produced detailed system requirements for the new system (Eg. design of equipment, reporting system, sales channel review), provided direction for the procurement strategy and provided an updated cost estimate. The ConOps also generated plans for Mobile ticketing integration, implementation and transition to the new system.

While the replacement of the current fare collection system is being reviewed, enhancements to the existing system are being rolled out to give added functionality to the system. In March of 2017, MTS and the North County Transit District (NCTD) launched Compass Cloud, the new anytime, anywhere mobile ticketing option for San Diego transit riders. It is the first mobile ticketing app that is good for both transit agencies, good 7 days a week and available for MTS Rapid, MTS Bus Operations, the San Diego Trolley and NCTD Coaster, Sprinter and Breeze. In the first phase, day passes, 30-day passes and Coaster one-way tickets are available for adult passengers (senior fares are available for Coaster one-ways). Future phases will include discounted fares for youth, seniors and disabled. Prices for passes will be the same as from Ticket Vending Machines, The Transit Store, Customer Service Centers and third-party outlets. With Compass Cloud, there is no need to have any other fare media. In June of 2017, MTS and NCTD launched Compass Cash, which added the capability of stored value to the Compass Card fare collection system. This gives the riders the ability to add funds to their smart card to be utilized as needed.

MTS has also focused on the customer facilities in its service area. Electronic display boards showing real-time next train arrival information are active at all 53 transit stations and on all three rail lines. The electronic boards connect GPS locating technology and Trolley schedules to map out the next arrival times. The information is used to create "by-the-minute" accuracy of the next arriving Trolley. The display boards identify the line, current time and the next three Trolley arrival times. Relative to Bus Operations, 600 new bus shelters and 1,850 bus benches are being installed throughout the MTS service territory. The new shelters have features such as a modern look, better lighting, solar power, custom aluminum benches, advertising panels, and a new roof design.

Finally, a major service enhancement is now underway. The Federal Transit Administration (FTA) 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 San Diego region. It will cost \$2.1 billion to build, and MTS rail operations are expected to commence in 2021. The extension 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. MTS will have 11 more miles of track to serve, nine new stations, more trains to operate, and up to 20,000 more daily riders as a result of this project.

Over the last decade, MTS has made funding the Capital Improvement Plan (CIP) a priority to bring the system up to a state of good repair, with over \$800 million of funding spent on Capital. MTS and SANDAG completed the rehabilitation of the Blue Line, also replaced both the East County and South Bay Bus facilities. The bus fleet replacement plan has been adjusted to keep the number of buses replaced to a manageable figure each year. The U2 light rail vehicle (LRV) fleet has been replaced and \$48M has already been saved towards SD100 LRVs as they approach the end of their useful lives. MTS has committed \$69 million for CIP in FY18, funding 46 projects focused on fleet replacement, maintaining a state of good repair, and a number of rehabilitation projects along the Orange Line.

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, 2016. This was the eleventh consecutive year and the twenty first 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.

[REPORT DATE]

DRAFT 10-23-2017

San Diego Metropolitan Transit System

Listing of Board of Directors and Management

BOARD OF DIRECTORS

Members	Board position (elected position)
Harry Mathis	Chairman, since 1/06; Board Member since 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)
David Arambula	Board Member, since 1/17 (Councilmember, City of Lemon Grove)
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)
Georgette Gomez	Board Member, since 1/17 (Councilmember, City of San Diego)
Ronn Hall	Board Member, since 5/17 (Councilmember, City of Santee)
Bob McClellan	Board Member, since 4/08 (Councilmember, City of El Cajon)
Guy McWhirter	Board Member, since 1/15 (Councilmember, City of La Mesa)
Mona Rios	Board Member, since 9/11 (Councilmember, National City)
Mary Salas	Chair Pro Tem, since 1/17, Board Member, since 2/13 (Councilmember, City of Chula Vista)
Bill Sandke	Board Member, since 1/17 (Councilmember, City of Coronado)
Lorie Zapf	Board Member, since 12/14 (Councilmember, City of San Diego)

BOARD COMMITTEE MEMBERSHIP

Executive Committee	Accessible Services Advisory Committee	Airport Authority Advisory Committee	Public Security Committee
Harry Mathis, Chair	Lorie Bragg, Chair	Harry Mathis	Myrtle Cole
Myrtle Cole			Jim Cunningham
Bob McClellan			Harry Mathis
Mona Rios			Guy McWhirter
Ron Roberts			Bill Sandke
Audit Oversight Committee	Budget Development Committee	Los Angeles-San Diego Rail Corridor Agency	Taxicab Advisory Committee
Ernie Ewin, Chair	Ron Roberts, Chair	Lorie Bragg	Lorie Zapf
Myrtle Cole	Harry Mathis		
Harry Mathis	Bob McClellan		
Bob McClellan	Mary Salas		
Mona Rios	Lorie Zapf		
Ron Roberts			
SANDAG Board	SANDAG Regional Planning Committee	SANDAG Transportation Committee	
Harry Mathis	Mona Rios	Harry Mathis	

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

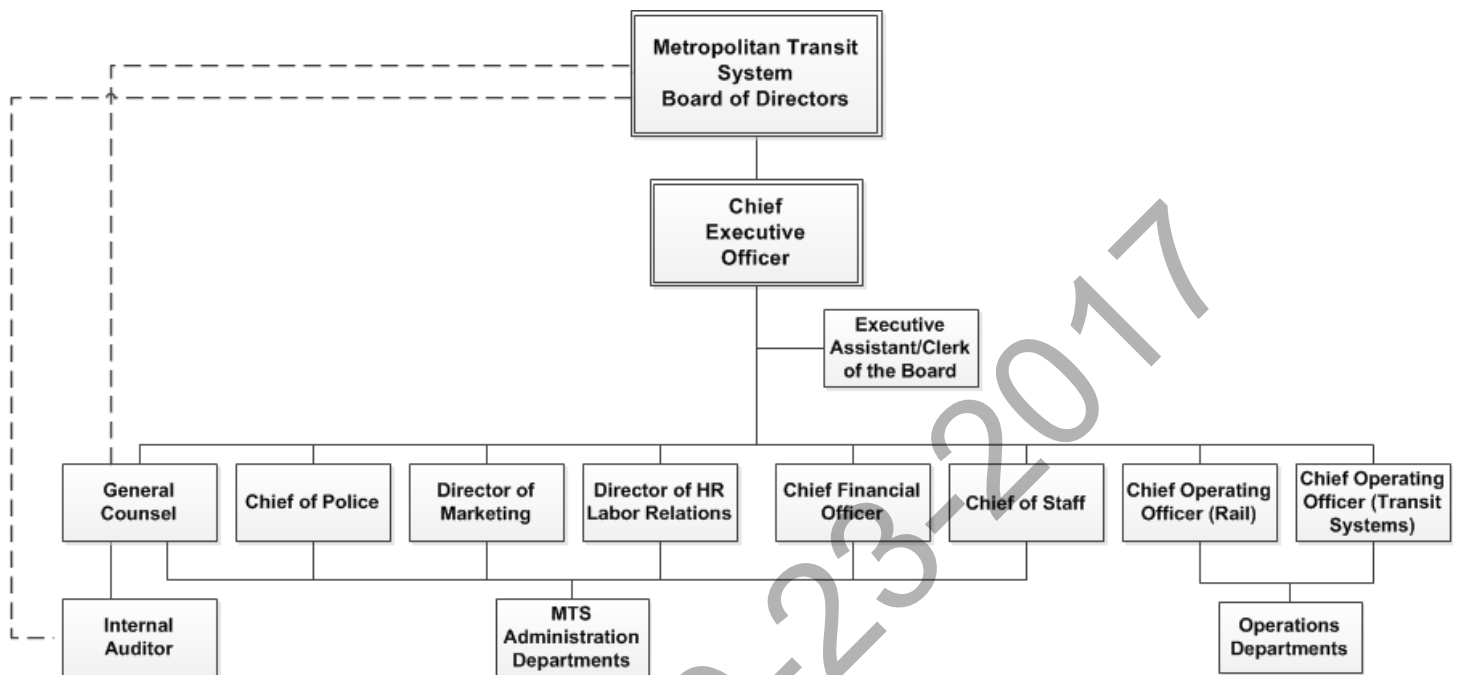
MTS MANAGEMENT

Staff	Position
Paul Jablonski	Chief Executive Officer
Sharon Cooney	Chief of Staff
Karen Landers	General Counsel
Larry Marinesi	Chief Financial Officer
William Spraul	Chief Operating Officer, Transit Systems
E. Wayne Terry	Chief Operating Officer, Rail
Robert Schupp	Director, Marketing and Communications
Jeff Stumbo	Director, Human Resources and Labor Relations
Manuel Guaderrama	Chief of Police

DRAFT 10-23-2017

San Diego Metropolitan Transit System

Executive Level Organization Chart



San Diego Metropolitan Transit System

Certificate of Achievement for Excellence in Financial Reporting - GFOA



Government Finance Officers Association

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

Presented to

**San Diego Metropolitan
Transit System, California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

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

Executive Director/CEO

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DRAFT 10-23-2017

FINANCIAL SECTION

DRAFT 10-23-2017

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DRAFT 10-23-2017

INDEPENDENT AUDITORS' 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, 2017 and 2016 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, 2017 and 2016, 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.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedules of Proportionate Share of the Net Pension Liability, Schedules of Changes in Net Pension Liability and Related Ratios, Schedules of Contributions, and Schedule of Funding Progress of the Other Postemployment 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of MTS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MTS's internal control over financial reporting and compliance.

San Diego Metropolitan Transit System Management's Discussion and Analysis June 30, 2017 and 2016

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, 2017 and 2016. This information should be used in conjunction with the Letter of Transmittal, which can be found on pages i through v of this report.

Financial Highlights

- Net position, as reported in the statement of net position, totaled \$1,724 million as of June 30, 2017, \$1,738 million as of June 30, 2016, and \$1,673 million as of June 30, 2015. Of this amount, \$(20) million was the unrestricted deficit as of June 30, 2017, \$(32) million was the unrestricted deficit as of June 30, 2016, and \$(32) million was the unrestricted deficit as of June 30, 2015. Total net position decreased by \$13 million in the current year and increased by \$65 million in the prior year. The current year decrease is attributable to an increase in operating expenses and a decrease in federal funding and contributed capital, partially offset by increases in Transportation Development Act (TDA) and other state revenue funding.
- For the year ended June 30, 2017, 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 36.14% compared to 38.99% for the year ended June 30, 2016 and 40.52% for June 30, 2015. The current year decrease is due primarily to an increase in personnel costs and decrease 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).

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.

**San Diego Metropolitan Transit System
Management's Discussion and Analysis (Continued)
June 30, 2017 and 2016**

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 \$1,724 million at the close of the most recent fiscal year and \$1,738 million at the end of FY2016.

The largest portion of MTS's net position reflects the investment in capital assets, net of accumulated depreciation, reduced by any outstanding bonds or other borrowings and deferred inflows and outflows of resources (Net Investment in Capital Asset). Most of the investment in capital assets is comprised of trolley system assets, buses, and in construction-in-progress totaling \$36 million, of which the largest projects are the Enterprise Resource Planning (ERP) and Transit Asset Management System (TAM) and the procurement of new Siemens SD8 Light Rail Vehicles (LRVs), at \$9.5 and \$9.2 million respectively. The ERP/TAM project continues to streamline the way we do business and improves management of the assets in our system. The LRV procurement with Siemens is for 45 LRVs. Of the 45 LRVs, nine are being funded by MTS with California Cap-and-Trade funding and the remaining 36 being are being funded by the SANDAG Mid-Coast project. Of the nine funded by MTS, the first LRV is expected to be delivered by November 2018 and the ninth is expected to be delivered in early 2019. Prior year construction-in-progress totaled \$41 million, of which the largest project under construction included the Regional Transportation Management System, \$11.5 million. The capital assets that are represented by construction-in-progress will be used to provide services to citizens; consequently, these assets are not available for future spending. In FY2017, MTS transferred completed projects worth \$59 million to SDTC, SDTI and Other Contracted Services compared to \$47 million in FY2016.

The balance in the unrestricted component of net position increased by \$12 million during the current year and increased \$232 thousand in the prior year. Total assets decreased by \$13 million primarily due to capital assets decreasing by \$22 million, partially offset by an increase in cash and cash equivalents of \$13 million. In FY2016, total assets increased by \$52 million. In the current fiscal year, total liabilities increased by \$38 million primarily due to the increase in net pension liability of \$49 million, partially offset by the reduction in subsidy revenue due to SANDAG of \$5 million. In the previous year, total liabilities increased by \$5 million.

	June 30, 2017	June 30, 2016	Change	June 30, 2015	Change
Current and other assets	\$ 212,694,682	\$ 203,698,269	\$ 8,996,413	\$ 194,475,830	\$ 9,222,439
Capital assets	1,741,107,404	1,762,821,219	(21,713,815)	1,720,337,305	42,483,914
Total assets	1,953,802,086	1,966,519,488	(12,717,402)	1,914,813,135	51,706,353
Deferred outflows of resources	70,889,473	35,443,795	35,445,678	17,417,561	18,026,234
Current and other liabilities	58,940,833	67,960,531	(9,019,698)	81,837,558	(13,877,027)
Long-term liabilities outstanding	228,646,665	181,892,332	46,754,333	163,147,079	18,745,253
Total liabilities	287,587,498	249,852,863	37,734,635	244,984,637	4,868,226
Deferred inflows of resources	12,919,118	14,601,102	(1,681,984)	14,614,264	(13,162)
Net position:					
Net investment in capital assets	1,739,359,691	1,760,427,432	(21,067,741)	1,699,222,253	61,205,179
Restricted	4,440,262	8,750,133	(4,309,871)	5,309,440	3,440,693
Unrestricted (deficit)	(19,615,010)	(31,668,247)	12,053,237	(31,899,898)	231,651
Total net position	\$1,724,184,943	\$1,737,509,318	\$ (13,324,375)	\$1,672,631,795	\$ 64,877,523

**San Diego Metropolitan Transit System
Management's Discussion and Analysis (Continued)
June 30, 2017 and 2016**

Decreases in operating revenue are attributable to a decrease in passenger revenue of \$5 million, partially offset by an increase in Compressed Natural Gas (CNG) credits totaling \$3 million. Variances between FY2017 and FY2016 nonoperating revenues are attributable to significant decreases in Federal and other local subsidies, partially offset by an increase 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, personnel costs, outside services and materials and supplies.

	June 30, 2017	June 30, 2016	Change	June 30, 2015	Change
Revenues:					
Operating revenues:					
Passenger revenue	\$ 93,279,455	\$ 97,913,890	\$ (4,634,435)	\$ 97,620,664	\$ 293,226
Other operating revenue	20,241,852	16,749,300	3,492,552	10,165,340	6,583,960
Nonoperating revenues:					
Federal revenue	72,404,730	81,901,246	(9,496,516)	60,474,595	21,426,651
Transportation Development Act	94,915,733	90,869,756	4,045,977	87,358,869	3,510,887
State Transit Assistance	12,918,834	14,720,378	(1,801,544)	18,787,817	(4,067,439)
State revenue - other	14,183,196	5,724,586	8,458,610	42,953,271	(37,228,685)
TransNet funds	37,270,235	35,898,669	1,371,566	21,625,551	14,273,118
Other nonoperating revenue	2,114,713	9,373,662	(7,258,949)	7,687,264	1,686,398
Total revenues	<u>347,328,748</u>	<u>353,151,487</u>	<u>(5,822,739)</u>	<u>346,673,371</u>	<u>6,478,116</u>
Expenses:					
Operating expenses	407,991,373	380,821,790	27,169,583	358,901,485	21,920,305
Nonoperating expenses	962,775	1,070,914	(108,139)	6,882,602	(5,811,688)
Total expenses	<u>408,954,148</u>	<u>381,892,704</u>	<u>27,061,444</u>	<u>365,784,087</u>	<u>16,108,617</u>
Increase (decrease) in net position before capital contributions	(61,625,400)	(28,741,217)	(32,884,183)	(19,110,716)	(9,630,501)
Capital contributions	48,301,025	93,618,740	(45,317,715)	245,716,854	(152,098,114)
Changes in net position	(13,324,375)	64,877,523	(78,201,898)	226,606,138	(161,728,615)
Net Position:					
Beginning of year, as originally reported	1,737,509,318	1,672,631,795	64,877,523	1,583,061,953	89,569,842
Restatements due to implementation of GASB 68	-	-	-	(137,036,296)	137,036,296
Beginning of year, as restated	<u>1,737,509,318</u>	<u>1,672,631,795</u>	<u>64,877,523</u>	<u>1,446,025,657</u>	<u>226,606,138</u>
End of year	<u>\$1,724,184,943</u>	<u>\$1,737,509,318</u>	<u>\$ (13,324,375)</u>	<u>\$1,672,631,795</u>	<u>\$ 64,877,523</u>

**San Diego Metropolitan Transit System
Management's Discussion and Analysis (Continued)
June 30, 2017 and 2016**

Capital Asset and Debt Administration

Capital assets. MTS's investment in capital assets net of accumulated depreciation as of June 30, 2017 and 2016 amounted to \$1,741 million and \$1,763 million respectively. 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 FY2017, 115 buses were placed into service for a total cost of \$29 million, compared to FY2016, 63 buses were placed into service for a total cost of \$37 million.
- MTS expanded its communication system to the contracted bus operations in FY2017 at a total cost of \$12 million.
- Completed capital projects totaling \$48 million were transferred from SANDAG to MTS and its component units during FY2017, compared to \$94 million contributed in FY2016.

CAPITAL ASSETS
(Net of Accumulated Depreciation)

	2017	2016	2015
Land	\$ 256,922,883	\$ 256,922,883	\$ 256,922,883
Buildings	968,444,183	975,356,436	945,992,877
Vehicles	426,479,686	441,587,804	447,072,544
Equipment & other	53,087,922	47,681,919	50,102,873
Construction-in-progress	36,172,730	41,272,177	20,246,128
Total	<u>\$ 1,741,107,404</u>	<u>\$ 1,762,821,219</u>	<u>\$ 1,720,337,305</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 \$1.7 million. In addition, MTS has one finance obligation outstanding relating to Pension Obligation Bonds issued in fiscal year 2005 for a total obligation of \$17.7 million.

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-" with a stable outlook in 2016, the outlook was previously positive in 2015. Additional information on MTS's long-term debt can be found in Note 8 to the financial statements.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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San Diego Metropolitan Transit System
Statements of Net Position
June 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 90,342,822	\$ 77,394,644
Cash and cash equivalents restricted for capital support	6,743,868	13,508,715
Accounts and other receivables	9,852,134	7,935,944
Due from other governments	83,032,780	82,789,378
Inventory	19,935,276	19,596,426
Prepaid items and other current assets	2,787,802	2,463,241
Total current assets	212,694,682	203,688,348
Noncurrent assets:		
Capital assets, net of accumulated depreciation	1,741,107,404	1,762,821,219
Aggregate net pension asset	-	9,921
Total noncurrent assets	1,741,107,404	1,762,831,140
Total assets	1,953,802,086	1,966,519,488
DEFERRED OUTFLOWS OF RESOURCES		
Contributions made after the measurement date	17,802,710	15,496,003
Actuarial pension calculations:		
Differences between projected and actual earnings on pension plan investments	32,303,322	18,194,912
Differences between expected and actual experience	638,684	1,610,468
Adjustments due to differences in proportions	91,415	142,412
Changes in assumption	20,053,342	-
Total deferred outflows of resources	70,889,473	35,443,795

San Diego Metropolitan Transit System
Statements of Net Position (Continued)
June 30, 2017 and 2016

	2017	2016
LIABILITIES		
Current liabilities:		
Accounts payable	20,296,850	20,357,013
Due to other governments	12,571,811	19,543,938
Unearned revenue	6,336,420	6,588,988
Accrued expenses	3,020,613	2,425,171
Retentions payable	352,438	90,042
Retentions payable from restricted assets	2,303,606	4,758,582
Due within one year:		
Compensated absences payable	6,086,017	6,968,657
Accrued damage, injury, and employee claims	4,981,633	4,377,066
Long-term debt	2,991,445	2,851,074
Total current liabilities	58,940,833	67,960,531
Noncurrent liabilities:		
Due in more than one year:		
Compensated absences payable	4,903,862	4,215,464
Accrued damage, injury, and employee claims	10,653,209	11,218,084
Aggregate net pension liability	178,105,281	129,535,809
Net other postemployment benefits obligation	18,573,045	17,520,262
Long-term debt	16,411,268	19,402,713
Total noncurrent liabilities	228,646,665	181,892,332
Total liabilities	287,587,498	249,852,863
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refunding	221,938	313,775
Actuarial pension calculations:		
Differences between projected and actual earnings on pension plan investments	6,884,556	10,326,835
Adjustments due to differences in proportions	1,417,393	421,843
Differences between actual and proportionate shares of employer contributions	440,180	323,386
Differences between expected and actual experience	1,914,686	415,807
Changes in assumptions	2,040,365	2,799,456
Total deferred inflows of resources	12,919,118	14,601,102
NET POSITION		
Net investment in capital assets	1,739,359,691	1,760,427,432
Restricted for capital projects	4,440,262	8,750,133
Unrestricted (Deficit)	(19,615,010)	(31,668,247)
Total net position	\$ 1,724,184,943	\$ 1,737,509,318

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San Diego Metropolitan Transit System
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues:		
Passenger revenue	\$ 93,279,455	\$ 97,913,890
Advertising	1,378,618	968,078
Miscellaneous	18,863,234	15,781,222
Total operating revenues	<u>113,521,307</u>	<u>114,663,190</u>
Operating expenses:		
Personnel costs	137,020,625	121,921,667
Outside services	97,800,332	94,801,673
Transit operations funding	463,345	490,882
Materials and supplies	13,065,035	9,714,608
Energy costs	25,552,178	24,530,708
Risk management	4,275,569	4,864,496
Miscellaneous	5,934,284	4,978,102
Depreciation	123,880,005	119,519,654
Total operating expenses	<u>407,991,373</u>	<u>380,821,790</u>
Operating (loss)	(294,470,066)	(266,158,600)
Public support and nonoperating revenues (expenses):		
Federal revenue	72,404,730	81,901,246
Transportation Development Act (TDA) funds	94,915,733	90,869,756
State Transit Assistance (STA) funds	12,918,834	14,720,378
State revenue - other	14,183,196	5,724,586
TransNet funds	37,270,235	35,898,669
Other local subsidies	1,082,697	6,648,825
Investment earnings	636,068	291,659
Interest expense	(962,775)	(1,070,914)
Gain on disposal of assets	395,948	2,433,178
Total public support and nonoperating revenues (expenses)	<u>232,844,666</u>	<u>237,417,383</u>
(Loss) before contributed capital	(61,625,400)	(28,741,217)
Contributed capital, net	<u>48,301,025</u>	<u>93,618,740</u>
Changes in net position	(13,324,375)	64,877,523
Net Position:		
Beginning of year	1,737,509,318	1,672,631,795
End of year	<u>\$ 1,724,184,943</u>	<u>\$ 1,737,509,318</u>

San Diego Metropolitan Transit System
Statements of Cash Flows
For the Year Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from customers and users	\$ 109,807,915	\$ 113,469,672
Payments to suppliers	(147,213,142)	(137,265,125)
Payments to employees	(129,130,950)	(120,413,427)
Payments for damage and injury	(641,845)	(2,659,753)
Net cash (used in) operating activities	<u>(167,178,022)</u>	<u>(146,868,633)</u>
Cash flows from noncapital financing activities:		
Public support funds received	228,297,414	225,891,605
Net cash provided by noncapital financing activities	<u>228,297,414</u>	<u>225,891,605</u>
Cash flows from capital and related financing activities:		
Debt service costs	(3,812,143)	(3,756,970)
Property acquisition	(52,397,228)	(63,541,905)
Proceeds from disposal of assets	643,461	2,733,363
Net cash (used in) capital and related financing activities	<u>(55,565,910)</u>	<u>(64,565,512)</u>
Cash flows from investing activities:		
Interest received on investments	629,849	264,773
Net cash provided by investing activities	<u>629,849</u>	<u>264,773</u>
Net increase in cash and cash equivalents	6,183,331	14,722,233
Cash and cash equivalents:		
Beginning of year	90,903,359	76,181,126
End of year	<u>\$ 97,086,690</u>	<u>\$ 90,903,359</u>
Cash and cash equivalents:		
Cash and cash equivalents	\$ 90,342,822	\$ 77,394,644
Cash and cash equivalents restricted for capital support	6,743,868	13,508,715
Total cash and cash equivalents	<u>\$ 97,086,690</u>	<u>\$ 90,903,359</u>

San Diego Metropolitan Transit System
Statements of Cash Flows (Continued)
For the Year Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of Operating (Loss) to net cash (used in) operating activities		
Operating (loss)	\$ (294,470,066)	\$ (266,158,600)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:		
Depreciation	123,880,005	119,519,654
(Increase) decrease in:		
Accounts and other receivables	(1,867,463)	(3,016,854)
Due from other governments	(1,850,442)	(1,652,285)
Inventory	(338,850)	(1,219,678)
Prepaid items and other current assets	(324,561)	(44,975)
Increase (decrease) in:		
Accounts payable	(2,252,743)	7,187,345
Due to other governments	(352,486)	657,841
Accrued expenses	595,442	(5,044,356)
Unearned revenue	(252,568)	3,475,621
Aggregate net pension liability	9,236,861	(16,644)
Net other postemployment benefits obligation	1,052,783	1,105,292
Compensated absences payable	(194,242)	(274,594)
Accrued damage, injury and employee claims	(39,692)	(1,386,400)
Total adjustments	127,292,044	119,289,967
Net cash (used in) operating activities	<u>\$ (167,178,022)</u>	<u>\$ (146,868,633)</u>
Interest paid	<u>\$ 1,041,427</u>	<u>\$ 1,170,788</u>
Noncash investing, capital, and financing activities:		
Contributions of capital assets from SANDAG	\$ 48,301,025	\$ 94,038,740
Contributions/adjustments of capital assets from outside parties	-	(420,000)
Total contributions of capital assets	<u>\$ 48,301,025</u>	<u>\$ 93,618,740</u>
Increase (decrease) in fair value of investments	<u>\$ (75,253)</u>	<u>\$ 35,127</u>

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NOTES TO BASIC FINANCIAL STATEMENTS

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San Diego Metropolitan Transit System
Notes to Basic Financial Statements
For the Years Ended June 30, 2017 and 2016

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San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies

The accompanying basic financial statements of the San Diego Metropolitan Transit System (MTS) have been prepared in conformity with generally accepted accounting principles in the United States (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting standards. The more significant of MTS's accounting policies are described below.

A. Reporting Entity

MTS (also known as San Diego Metropolitan Transit Development Board) was formed on January 26, 1976 by passage of California Senate Bill 101 to plan, construct, and operate (or let contracts to operate) exclusive public mass transit guideways in the urbanized south coastal area of San Diego County. MTS has certain responsibilities for near-term transportation planning and administration of federal and state transportation funds within the area under its jurisdiction. The Board of Directors of MTS consists of 15 members composed of four appointees from the San Diego City Council; one appointee each from the cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, and Santee; one appointee from the San Diego County Board of Supervisors; and a chairman elected by the other 14 members.

On January 1, 2003, California Senate Bill 1703 (SB 1703) became effective. SB 1703 required the consolidation of the planning and programming functions of MTS and the North County Transit District (NCTD) into the San Diego Association of Governments (SANDAG) in an initial transfer to take place prior to July 1, 2003. SB 1703 also required the consolidation of certain project development and construction functions of MTS and NCTD into SANDAG in a subsequent transfer to take place prior to January 30, 2004. The initial transfer occurred on July 1, 2003, and the subsequent transfer occurred on October 13, 2003. With these actions, employees were transferred from MTS and NCTD to SANDAG, and certain planning, development, and construction functions were also transferred. As a result, MTS's activities since the consolidation have been focused on operating public transit systems in the urbanized area identified above. In addition to the consolidation required by SB 1703, MTS dissolved the independent Board of Directors of San Diego Transit Corporation (SDTC) and Board of Directors of San Diego Trolley, Inc. (SDTI). MTS now acts as the Board of Directors for all three agencies: MTS, SDTC, and SDTI. Beginning in FY2004, SDTC and SDTI are presented as blended component units.

These basic financial statements present MTS and its legally separate component units, entities for which MTS is considered to be financially accountable. Because MTS appoints a majority of the component units' boards of directors, the boards are substantively the same, and MTS is able to impose its will on the component units, MTS presents blended component units. Blended component units, although legally separate entities, are, in substance, part of MTS's operations.

Included within the reporting entity as blended component units:

San Diego Transit Corporation: On July 1, 1985, MTS purchased the assets used by and acquired sole ownership of San Diego Transit Corporation (SDTC) from the City of San Diego for \$1. SDTC has entered into an operating agreement with MTS to operate a public transportation bus system in the City of San Diego and certain regional routes within MTS's jurisdictions. The current agreement, which was approved in December 2006, was renewed on June 23, 2011, as an open-ended agreement terminable upon six months' notice by either party. SDTC continues to provide local service to a number of adjoining cities under pre-existing contracts. Purchases or construction of bus capital items are made by MTS, with whom title remains, and are contributed to SDTC upon completion of a project or when individually purchased by MTS. SDTC's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses are included in MTS's financial statements as a blended component unit. This agency has the same governing board as MTS and provides services directly to the public.

**San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016**

Note 1 – Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

San Diego Trolley, Inc.: San Diego Trolley, Inc. (SDTI) was organized by MTS in August 1980. SDTI was created to operate and maintain the Light Rail Transit (LRT) system pursuant to an operating agreement with MTS. The current agreement, which was approved in December 2006, was renewed on June 23, 2011, as an open-ended agreement terminable upon six months' notice by either party. Purchases or construction of LRT capital items are made by MTS, with whom title remains, and are contributed to SDTI upon completion of a project or when individually purchased by MTS. SDTI's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses are included in MTS'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, 2017 and 2016**

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 35 percent and 37 percent of MTS's \$269.8 million and \$265.0 million operating budget for FY2017 and FY2016, 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.

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.

Transit and Intercity Rail Capital Program (TIRCP)

The TIRCP is a discretionary program that was created by Senate Bill (SB) 862 (Chapter 36, Statutes of 2014) and modified by Senate Bill 9 (Chapter 710, Statutes of 2015) to provide grants from the Greenhouse Gas Reduction Fund to fund transformative capital improvements that will modernize California's intercity, commuter, and urban rail systems, and bus and ferry transit systems to reduce emissions of greenhouse gases by reducing congestion and vehicle miles travelled throughout California. MTS was awarded \$31.9 million in 2015 for the construction of a new trolley station at the courthouse complex and the procurement of 9 LRVs for more frequent service on the Blue and Orange Lines. Both projects are currently underway.

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 2017.

**San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016**

Note 1 – Summary of Significant Accounting Policies (Continued)

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

Transportation Development Act (TDA)

TDA provides funding for public transit operators. This state fund is one quarter of a percent of the 7.75 percent sales tax assessed in the region. SANDAG is responsible for apportionment of these funds within the San Diego region. As economic conditions improve, sales tax receipts have increased over the prior year, and as a result the TDA funds available for disbursement have increased as well.

State Transit Assistance (STA)

STA funding comes from the Public Transportation Act (PTA) which derives its revenue from the state sales tax on gasoline. These funds are designated as discretionary or formula. The former is appropriated by the legislature. The latter is a formula based upon population and fares generated.

Proposition 1B Revenue (Prop 1B)

The California Public Transportation Modernization, Improvement and Service Enhancement Act of 2006, approved by the voters as Proposition 1B (Prop 1B) in November 2006, authorizes the issuance of \$19.9 billion in general obligation bonds for the purpose of improving highway safety, traffic reduction, air quality, and port security.

Low Carbon Transit Operations Program (LCTOP):

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

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

The City of San Diego provides Maintenance of Effort funds to aid ADA efforts. In addition, SANDAG provides funds for the operation of certain express bus routes and NCTD provides partial subsidy for the Sorrento Valley Coaster Connection.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Use of Restricted/Unrestricted Assets

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

E. Cash, Cash Equivalents, and Investments

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

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

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

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

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

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 judgement 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.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

F. Inventory

Inventories are valued at the weighted average unit cost.

G. Prepaid Items and Other Assets

Payments made to vendors for services that will benefit periods beyond the fiscal year ended are recorded as prepaid items.

H. Capital Assets

Capital assets include land and right-of-way, buildings and infrastructure assets, vehicles, and equipment. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital asset improvements are recorded as assets. SDTC has recorded assets received from the City of San Diego and the County Transit System at net book value in order to reflect SDTC's custodial accountability for the assets.

Under the operating agreements between MTS and SDTC and SDTI, SDTC and SDTI are required to pay a license fee to MTS for the use of certain capital assets. Due to SDTC's and SDTI's continued shortage of operating funds sufficient to cover recurring expenditures, the payment of these fees is considered remote, and therefore, these amounts were not recorded in the accompanying basic financial statements. Buildings, vehicles, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Building and structures	20 to 30
Vehicles and buses	5 to 25
Equipment and other capital assets	3 to 10
Capital leases	3 to 40

I. Construction-in-Progress

Costs incurred for construction associated with the bus and trolley systems are capitalized as construction-in-progress until such time as they are complete and operational. Upon completion, they are contributed to SDTC and SDTI to reflect their custodial accountability for the assets. Depreciation commences at the time of contribution. Assets acquired through capital leases are capitalized.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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 are reported as deferred inflows or outflows of resources 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 lesser.

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 Plans' 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 and deferred inflows and outflows of resources that are attributable to the acquisition, construction, or improvement of those assets.

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

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

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, 2017 and 2016**

Note 1 – Summary of Significant Accounting Policies (Continued)

P. Implementation of New GASB Pronouncements for the Year Ended June 30, 2017

During fiscal year ended June 30, 2017, MTS has implemented the following new GASB Pronouncements:

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. 77 – In August 2015, 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 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 to both 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 employees that provide pension 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 characteristics described above. Application of this statement is effective for MTS's fiscal year ending June 30, 2017.

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 participating withdrawals. 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 provision 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.

**San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016**

Note 1 – Summary of Significant Accounting Policies (Continued)

Q. Upcoming Government Accounting Standards for the Year Ending June 30, 2018

For the fiscal year ending June 30, 2018, MTS will implement the following new GASB Pronouncements:

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. 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, the 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 interest. 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.

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 of 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.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This statement addresses practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of areas including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). Application of this statement is effective for MTS's fiscal year ending June 30, 2018.

GASB Statement No. 86 - In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. 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, 2017 and 2016

Note 2 – Cash, Cash Equivalents, and Investments

Cash and investments are reported in the accompanying statements of net position as follows on June 30, 2017 and 2016:

	2017	2016
Cash and cash equivalents	\$ 90,342,822	\$ 77,394,644
Cash and cash equivalents restricted for capital support	6,743,868	13,508,715
Total cash and investments	\$ 97,086,690	\$ 90,903,359

Cash, cash equivalents, and investments consisted as follows on June 30, 2017 and 2016:

Investment Type	Measurement Input	Fair Value	
		2017	2016
Cash and cash equivalents:			
Demand Deposits	N/A	\$ 19,379,529	\$ 20,815,206
Retention Trust Account	N/A	2,303,606	4,758,582
San Diego County Investment Pool	Level 2	4,440,261	8,750,133
State of California - Local Agency Investment Fund	N/A	70,963,294	56,579,438
Total cash and cash equivalents		\$ 97,086,690	\$ 90,903,359

Demand Deposits

As of June 30, 2017, the carrying amount of demand deposits was \$19,379,529 and the bank balance was \$22,684,976 compared to \$20,815,206 and \$29,643,147 at June 30, 2016, of which the total amount was collateralized or insured with securities held by the pledging financial institutions in MTS's name as discussed below.

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

Investments

Under the provisions of MTS's investment policy and in accordance with California Government Code, MTS is authorized to invest or deposit in the following:

- Securities of the U.S. Government, its agencies and instrumentalities
- Obligations of the State of California or any local agency within the state rated "A" or higher by Standard and Poor's Corporation or Moody's Investor Services, Inc.
- Repurchase agreements
- Bankers' acceptances
- Commercial paper rated "A" or higher by Standard and Poor's Corporation or Moody's Investor Services, Inc.
- Medium-term corporate notes rated "A" or higher by Standard and Poor's Corporation or Moody's Investor Services, Inc.
- Negotiable certificates of deposit
- Local Agency Investment Fund (LAIF) established by the State Treasurer
- San Diego County Pooled Money Fund
- Passbook savings or money market demand deposits with an FDIC, SIPC, or SAIF insured financial institution

**San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016**

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

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, 2017, MTS had \$70,963,294 invested in LAIF, which had invested 2.89% of the pool investment funds in structured notes and asset-backed securities compared to \$56,579,438 and 2.81% at June 30, 2016.

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 5.16% and 4.72% of the Investment Pool as of June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, the fair value of our position in the pool is 99.57% and 99.99%, respectively, of the value of the pool shares.

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

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

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, 2017, MTS had \$4,440,261 invested with the San Diego County Investment Pool, which had invested 2.03% of the pool investment funds in asset-backed securities compared to \$8,750,133 and 0.55% at June 30, 2016.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

Disclosures Relating to Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, MTS's investment policy limits investments to a maximum of five years unless otherwise approved by the Board.

Disclosures Relating to Credit Risk

MTS's investment policy limits investments in commercial paper and negotiable certificates of deposit to instruments rated "A" or better by Standard and Poor's or Moody's Investor Services, Inc. In the current year, MTS does not hold investments in commercial papers or certificates of deposit. Other investment instruments, including deposits in LAIF; San Diego County Investment Pool; and U.S. Government taxable bonds, are not rated and do not require ratings.

Disclosures Relating to Concentration of Credit Risk

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

Disclosures Relating to Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the broker or dealer to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The California Government Code requires California banks and savings and loan associations to secure 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 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 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, 2017 and 2016, are shown below:

Maturity	2017	2016
Current to one year	\$ 97,086,690	\$ 90,903,359
Total	<u>\$ 97,086,690</u>	<u>\$ 90,903,359</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 3 – Accounts Receivable

A. Accounts and Other Receivables

At June 30, 2017 and 2016, the net realizable accounts and other receivables consisted of the following:

	2017	2016
Passenger revenue - General Public	\$ 4,563,590	\$ 4,243,919
Other trade receivables	3,772,708	2,224,916
Pension plan receivable	1,515,836	1,467,109
Total accounts and other receivables	<u>\$ 9,852,134</u>	<u>\$ 7,935,944</u>

B. Due From Other Governments

At June 30, 2017 and 2016, amounts due from other governments consisted of the following:

	2017	2016
FTA Grant Funds	\$ 56,838,528	\$ 60,138,136
State of California	5,614,601	1,549,949
County of San Diego	5,525,895	2,937,874
U.S. Treasury - CNG Rebate	4,062,830	-
STA Funds	3,672,431	8,144,367
SANDAG - <i>TransNet</i>	3,099,453	4,445,843
Passenger Revenue - Other Governments	1,850,442	1,652,285
North County Transit District - shared costs	1,288,631	2,514,319
SANDAG - Project/Route reimbursement	551,069	687,063
Department of Homeland Security	288,225	476,283
City of San Diego	195,379	196,836
Other Local Governments	45,296	46,423
Total due from other governments	<u>\$ 83,032,780</u>	<u>\$ 82,789,378</u>

Note 4 – Inventory

At June 30, 2017 and 2016, inventory consists of the following repair and maintenance parts and administrative supplies:

	2017	2016
San Diego Transit Corp.	\$ 2,998,622	\$ 2,431,515
San Diego Trolley, Inc.	16,936,654	17,164,911
Total inventory	<u>\$ 19,935,276</u>	<u>\$ 19,596,426</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 5 – Capital Assets

A summary of changes in capital assets for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets, not depreciated				
Land and right-of-way	\$ 256,922,883	\$ -	\$ -	\$ 256,922,883
Construction-in-progress	41,272,177	53,996,296	(59,095,743)	36,172,730
Total capital assets, not depreciated	298,195,060	53,996,296	(59,095,743)	293,095,613
Capital assets, depreciated:				
Buildings and structures	1,843,040,385	60,128,811	-	1,903,169,196
Buses and vehicles	778,103,145	29,389,846	(18,934,815)	788,558,176
Equipment and other	123,866,812	17,878,111	(210,404)	141,534,519
Capital lease property	12,091,981	-	-	12,091,981
Total capital assets, depreciated	2,757,102,323	107,396,768	(19,145,219)	2,845,353,872
Less accumulated depreciation for:				
Buildings and structures	(867,683,949)	(67,041,064)	-	(934,725,013)
Buses and vehicles	(336,515,341)	(44,373,373)	18,810,224	(362,078,490)
Equipment and other	(77,885,327)	(12,087,694)	203,864	(89,769,157)
Capital lease property	(10,391,547)	(377,874)	-	(10,769,421)
Total accumulated depreciation	(1,292,476,164)	(123,880,005)	19,014,088	(1,397,342,081)
Total capital assets, depreciated, net	1,464,626,159	(16,483,237)	(131,131)	1,448,011,791
Total capital assets, net	\$ 1,762,821,219	\$ 37,513,059	\$ (59,226,874)	\$ 1,741,107,404

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	(964,395)	1,843,040,385
Buses and vehicles	781,227,339	37,340,001	(40,464,195)	778,103,145
Equipment and other	116,366,380	9,337,450	(1,837,018)	123,866,812
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)	(65,147,988)	917,898	(867,683,949)
Buses and vehicles	(334,154,795)	(42,802,028)	40,441,482	(336,515,341)
Equipment and other	(68,341,817)	(11,191,762)	1,648,252	(77,885,327)
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

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 5 – Capital Assets (Continued)

Contributed Capital

MTS converted \$59 million in capital assets from CIP to assets in service in FY2017 compared to \$47 million in FY2016. A summary of capital asset additions contributed by MTS is as follows:

	2017	2016
General operations	\$ 3,384,790	\$ 3,411,258
Other contracted services	43,463,478	15,267,146
San Diego Transit Corporation	4,221,190	25,425,706
San Diego Trolley, Inc.	8,026,285	3,092,645
Total	<u>\$ 59,095,743</u>	<u>\$ 47,196,755</u>

Capital asset additions totaling \$48 million were contributed by SANDAG in FY2017 compared to \$94 million in FY2016. A summary of capital asset additions contributed by SANDAG is as follows:

	2017	2016
Other contracted services	\$ 32,712,054	\$ 136,228
San Diego Transit Corporation	10,940,508	7,041,137
San Diego Trolley, Inc.	4,648,463	86,861,375
Total	<u>\$ 48,301,025</u>	<u>\$ 94,038,740</u>

MTS did not contribute any capital assets to other cities in FY2017 compared to \$420,000 to the City of La Mesa in FY2016. A summary of contributed capital is as follows:

	2017	2016
Contributed capital:		
From SANDAG to MTS	\$ 48,301,025	\$ 94,038,740
From MTS to City of La Mesa	-	(420,000)
Total	<u>\$ 48,301,025</u>	<u>\$ 93,618,740</u>

Depreciation

Depreciation expense for capital assets for the years ended June 30, 2017 and 2016 were comprised of the following:

	2017	2016
General operations	\$ 2,547,636	\$ 2,454,052
Other contracted services	19,079,087	16,001,781
San Diego Transit Corporation	25,188,350	24,278,346
San Diego Trolley, Inc.	77,064,932	76,785,475
Total	<u>\$ 123,880,005</u>	<u>\$ 119,519,654</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 6 – Due To Other Governments

At June 30, 2017 and 2016, amounts due to other governments consisted of the following:

	2017	2016
SANDAG - Subsidy revenue for construction projects in process	\$ 10,161,049	\$ 15,576,914
State of California	763,104	545,515
North County Transit District	649,151	505,130
SANDAG - Project/Route reimbursements	595,170	1,740,255
City of Lemon Grove - TDA Funds	123,593	121,170
City of El Cajon - TDA Funds	92,701	90,883
County of San Diego	61,354	92,223
City of San Diego	60,360	745,245
City of Coronado - TDA Funds	28,840	36,434
Miscellaneous Other Governments	23,799	38,669
City of La Mesa - TDA Funds	12,690	51,500
Total due to other governments	<u>\$ 12,571,811</u>	<u>\$ 19,543,938</u>

Note 7 – Unearned Revenue

At June 30, 2017 and 2016, unearned revenue consisted of the following:

	2017	2016
Fare media payments received in advance	\$ 2,514,412	\$ 2,359,820
Caltrans LCTOP Payment for Trolley LRVs	1,696,280	3,663,014
Lease payments received in advance	1,439,824	566,154
UCSD Naming Rights payment received in advance	675,000	-
Other reimbursements received in advance	10,904	-
Total unearned revenue	<u>\$ 6,336,420</u>	<u>\$ 6,588,988</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 8 – Long-Term Debt**A. Summary**

A summary of changes in long-term obligations for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amounts due within one year	Amounts due in more than one year
MTS:						
Capital lease obligations	\$ 2,393,787	\$ -	\$ (646,074)	\$ 1,747,713	\$ 676,445	\$ 1,071,268
Compensated absences payable	1,053,614	858,019	(829,706)	1,081,927	829,706	252,221
Accrued damage, injury, and employee claims	460,057	287,535	(216,000)	531,592	230,036	301,556
Aggregate net pension liability	9,717,218	6,436,169	(4,673,068)	11,480,319	-	11,480,319
Net other postemployment benefits	4,711,641	380,667	-	5,092,308	-	5,092,308
Total MTS	18,336,317	7,962,390	(6,364,848)	19,933,859	1,736,187	18,197,672
San Diego Transit Corporation:						
Pension Obligation Bonds	19,860,000	-	(2,205,000)	17,655,000	2,315,000	15,340,000
Compensated absences payable	7,639,071	2,843,445	(3,237,943)	7,244,573	3,237,943	4,006,630
Accrued damage, injury, and employee claims	12,065,162	2,424,732	(2,300,000)	12,189,894	3,656,195	8,533,699
Aggregate net pension liability	98,098,137	52,865,440	(14,640,626)	136,322,951	-	136,322,951
Net other postemployment benefits	5,251,448	262,208	-	5,513,656	-	5,513,656
Total San Diego Transit Corporation	142,913,818	58,395,825	(22,383,569)	178,926,074	9,209,138	169,716,936
San Diego Trolley, Inc.:						
Compensated absences payable	2,491,436	2,190,311	(2,018,368)	2,663,379	2,018,368	645,011
Accrued damage, injury, and employee claims	3,069,931	887,425	(1,044,000)	2,913,356	1,095,402	1,817,954
Aggregate net pension liability	21,720,454	14,362,417	(5,780,860)	30,302,011	-	30,302,011
Net other postemployment benefits	7,557,173	409,908	-	7,967,081	-	7,967,081
Total San Diego Trolley, Inc.	34,838,994	17,850,061	(8,843,228)	43,845,827	3,113,770	40,732,057
Total	\$ 196,089,129	\$ 84,208,276	\$ (37,591,645)	\$ 242,705,760	\$ 14,059,095	\$ 228,646,665

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 8 – Long-Term Debt (Continued)

A. Summary (Continued)

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
MTS:						
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
Aggregate net pension liability	8,261,547	7,367,797	(5,912,126)	9,717,218	-	9,717,218
Net other postemployment benefits	4,335,345	376,296	-	4,711,641	-	4,711,641
Total MTS	35,198,917	8,993,167	(25,855,767)	18,336,317	1,802,145	16,534,172
San Diego Transit Corporation:						
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
Aggregate 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
San Diego Trolley, Inc.:						
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
Total	\$ 195,767,708	\$ 62,368,985	\$ (62,047,564)	\$ 196,089,129	\$ 14,196,797	\$ 181,892,332

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

	2017		2016	
	Due Within One Year	Noncurrent Liabilities	Due Within One Year	Noncurrent Liabilities
Long-Term Liabilities:				
Compensated absences payable	\$ 6,086,017	\$ 4,903,862	\$ 6,968,657	\$ 4,215,464
Accrued damage, injury, and employee claims	4,981,633	10,653,209	4,377,066	11,218,084
Long-term debt	2,991,445	16,411,268	2,851,074	19,402,713
Aggregate net pension liability	-	178,105,281	-	129,535,809
Net other postemployment benefits	-	18,573,045	-	17,520,262
Total long-term liabilities:	\$ 14,059,095	\$ 228,646,665	\$ 14,196,797	\$ 181,892,332

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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 results 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:

	2017	2016
Building – MTS Tower	\$ 12,091,981	\$ 12,091,981
Less accumulated depreciation	(10,769,421)	(10,391,547)
Total	<u>\$ 1,322,560</u>	<u>\$ 1,700,434</u>

The following is a summary of future minimum payments under the capital lease as of June 30, 2017:

Year ending June 30:	Tower Lease Payments
2018	\$ 743,537
2019	744,055
2020	372,148
Total minimum lease payments	1,859,740
Less amount representing interest	(112,027)
Present value of minimum lease payments	<u>\$ 1,747,713</u>

At June 30, 2017 and 2016, the future minimum payments were \$1,747,213 and 2,393,787, respectively.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 8 – Long-Term Debt (Continued)

C. 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.

At June 30, 2017 and 2016, the outstanding balance of the Pension Obligation Bonds is \$17,655,000 and \$19,860,000, respectively.

The maturity of the Pension Obligation Bonds including interest payments are as follows:

Year ending June 30	Principal	Interest	Total
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	2,835,000	321,746	3,156,746
2023-2024	4,830,000	219,390	5,049,390
Total	<u>\$ 17,655,000</u>	<u>\$ 3,166,396</u>	<u>\$ 20,821,396</u>

Note 9 – Risk Management

MTS (including SDTI, SDTC, and Other Contracted Services) is self-insured for third party 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 per occurrence. No stop loss or cap coverage is purchased above the \$75,000,000 limits. 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 type of property and 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 \$3,000,000 subject to a \$100,000 deductible. These policies protect against theft, loss or unauthorized disclosure of personally identifiable information.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 9 – Risk Management (Continued)

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
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
2017	15,595,150	3,599,692	(3,560,000)	15,634,842

Following is a summary of accrued damage injury, and employee claims for fiscal years 2017 and 2016:

	2017	2016
Current portion	\$ 4,981,633	\$ 4,377,066
Non-current portion	10,653,209	11,218,084
Total	<u>\$ 15,634,842</u>	<u>\$ 15,595,150</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 \$15,634,842 at June 30, 2017 and \$15,595,150 at June 30, 2016.

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

Note 10 – Contingencies

Pending legal actions. MTS, SDTC and SDTI have been named in certain legal actions pending at June 30, 2017. While the outcome of these lawsuits is not presently determinable, in the opinion of management of MTS, SDTC and SDTI, based in part on the advice of counsel, the resolution of these matters is not expected to have a material adverse effect on the financial position or results of operations of MTS, SDTC, or SDTI, or is adequately covered by insurance.

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

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 11 – Other Postemployment Health Care Benefits

Plan Description. 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 benefit 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. 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, 2017, total MTS payments were \$91,161 for 19 retirees, total SDTI payments were \$167,910 for 39 retirees, and total SDTC payments were \$264,136 for 50 management retirees plus \$277,760 for 168 union retirees currently receiving postemployment health care benefits.

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.

Because the three plans are funded as expenses are incurred, there are no accumulated plan assets and no separate benefit plan reports available at this time.

The Plan's Net OPEB Obligation (NOO) is the cumulative excess of prior Annual Required Contribution (ARC) over benefit payments and contributions, with annual adjustments for interest and amortization. The changes in NOO for fiscal years 2017 and 2016 are as follows:

Net OPEB Obligation (NOO):	MTS	SDTI	SDTC	Total
NOO at June 30, 2015	\$ 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)
NOO at June 30, 2016	4,711,641	7,557,173	5,251,448	17,520,262
Benefit payments paid outside of a trust	(138,368)	(220,451)	(1,103,153)	(1,461,972)
Estimated contributions to a trust	-	-	-	-
Annual required contribution	497,341	603,193	1,346,458	2,446,992
Accrued interest on June 30, 2016 NOO	212,024	340,073	236,315	788,412
Amortization of June 30, 2016 NOO	(190,330)	(312,907)	(217,412)	(720,649)
NOO at June 30, 2017	<u>\$ 5,092,308</u>	<u>\$ 7,967,081</u>	<u>\$ 5,513,656</u>	<u>\$ 18,573,045</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>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 11 – Other Postemployment Health Care Benefits (Continued)

Funding Policy. The contribution requirements of plan members and MTS are established by management and may be amended. The contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2017, MTS contributions to the plan were \$1,461,972 (or 67.50% of total gross health costs), while retirees contributed \$703,991 (or 32.50% of total gross health costs), as compared to fiscal year 2016, MTS contributions to the plan were \$1,309,444 (or 56.32% of total gross health costs), while retirees contributed \$1,015,633 (or 43.68% 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. The following table shows the components of MTS's ARC and Annual OPEB Cost for the years ended June 30, 2017 and 2016, the amount actually contributed to the plans, and the changes in MTS' Net OPEB Obligation to the Plan:

	All Groups	
	2017	2016
Normal Cost	\$ 970,634	\$ 942,363
Amortization of Unfunded AAL	1,476,358	1,433,358
Annual Required Contribution	2,446,992	2,375,721
Interest on beginning of year NOO	788,412	738,674
Amortization of beginning of year NOO	(720,649)	(699,659)
Annual OPEB cost	2,514,755	2,414,736
Contributions or Benefit Payments	(1,099,627)	(983,684)
Implicit subsidy payments	(362,345)	(325,760)
Increase in net OPEB obligation	1,052,783	1,105,292
Net OPEB obligation:		
Beginning of year	17,520,262	16,414,970
End of year	\$ 18,573,045	\$ 17,520,262

MTS's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan and the Net OPEB Obligation for fiscal years 2015, 2016 and 2017 were as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	\$ 2,511,400	46.03%	\$ 16,414,970
June 30, 2016	2,414,736	54.23%	17,520,262
June 30, 2017	2,514,755	58.14%	18,573,045

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 11 – Other Postemployment Health Care Benefits (Continued)

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

(Amounts in '000)							
	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 FY2018 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 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, 2017 and 2016

Note 12 – Employee Retirement Systems

A. Summary

Aggregate Net Pension Asset

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

	2017	2016
MTS Miscellaneous Second Tier Plan - 30134	\$ -	\$ (2,599)
MTS Miscellaneous PEPR Plan - 26789	-	(7,322)
	<u>\$ -</u>	<u>\$ (9,921)</u>

Aggregate Net Pension Liability

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

	2017	2016
MTS Miscellaneous Plan - 1223	\$ 11,438,216	\$ 9,717,218
MTS Miscellaneous Second Tier Plan - 30134	7,942	-
MTS Miscellaneous PEPR Plan - 26789	34,161	-
SDTI Miscellaneous Plan - 1406	27,706,592	19,555,041
SDTI PARS Plan	2,595,419	2,165,413
SDTC Retirement Plan	136,322,951	98,098,137
Total	<u>\$ 178,105,281</u>	<u>\$ 129,535,809</u>

Deferred Outflows of Resources

Deferred Outflows of Resources at June 30, 2017 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	Changes in Assumptions	Total
MTS Miscellaneous Plan - 1223	\$ 1,370,412	\$ 56,388	\$ 91,107	\$ 3,973,645	\$ -	\$ 5,491,552
MTS Miscellaneous Second Tier Plan - 30134	70,867	1,870	308	142,334	-	215,379
MTS Miscellaneous PEPR Plan - 26789	290,432	6,018	-	584,584	-	881,034
SDTI Miscellaneous Plan - 1406	2,835,680	303,448	-	8,810,447	-	11,949,575
SDTI PARS Plan	586,218	-	-	462,382	253,427	1,302,027
SDTC Retirement Plan	12,649,101	270,960	-	18,329,930	19,799,915	51,049,906
Total	<u>\$ 17,802,710</u>	<u>\$ 638,684</u>	<u>\$ 91,415</u>	<u>\$ 32,303,322</u>	<u>\$ 20,053,342</u>	<u>\$ 70,889,473</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 12 – Employee Retirement Systems (Continued)

A. Summary (Continued)

Deferred Outflows of Resources (Continued)

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 Miscellaneous Second Tier Plan - 30134	49,020	2,908	691	70,501	123,120
MTS Miscellaneous PEPRA Plan - 26789	227,181	9,362	-	227,042	463,585
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>

Deferred Inflows of Resources

Deferred Inflows of Resources at June 30, 2017 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	\$ 374,067	\$ 10,682	\$ 533,487	\$ 925,259	\$ 958,753	\$ 2,802,248
MTS Miscellaneous Second Tier Plan - 30134	13,255	402	17,682	91,236	11	122,586
MTS Miscellaneous PEPRA Plan - 26789	52,858	1,861	56,943	400,898	339	512,899
SDTI Miscellaneous Plan - 1406	-	321,305	1,432,253	-	3,292,879	5,046,437
SDTI PARS Plan	-	130,786	-	-	-	130,786
SDTC Retirement Plan	-	1,449,650	-	-	2,632,574	4,082,224
Total	<u>\$ 440,180</u>	<u>\$ 1,914,686</u>	<u>\$ 2,040,365</u>	<u>\$ 1,417,393</u>	<u>\$ 6,884,556</u>	<u>\$ 12,697,180</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 12 – Employee Retirement Systems (Continued)

A. Summary (Continued)

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 Miscellaneous Second Tier Plan - 30134	9,403	-	27,505	32,877	17	69,802
MTS Miscellaneous PEPRA Plan - 26789	30,281	-	88,578	111,875	509	231,243
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>

Pension Expense

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

	2017	2016
MTS Miscellaneous Plan - 1223	\$ 1,234,428	\$ 950,048
MTS Miscellaneous Second Tier Plan - 30134	41,984	39,438
MTS Miscellaneous PEPRA Plan - 26789	196,197	122,389
SDTI Miscellaneous Plan - 1406	3,762,002	1,850,776
SDTI PARS Plan	557,087	468,660
SDTC Retirement Plan	23,558,135	11,487,861
Total	<u>\$ 29,349,833</u>	<u>\$ 14,919,172</u>

**San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016**

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

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

The Plan's provisions and benefits in effect as of June 30, 2017 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	8.00%
Required employer contribution rates	20.35%
Pre-Retirement Death Benefit	Optional Settlement 2W
Post-Retirement Death Benefit	\$500 Lump Sum
Non-Industrial Standard Disability	1.8% of final compensation X multiplied by service
COLA	2.00%

**San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016**

Note 12 – Employee Retirement Systems (Continued)

B. MTS (Continued)

General Information about the Pension Plans (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	7.61%
Pre-Retirement Death Benefit	Optional Settlement 2W
Post-Retirement Death Benefit	\$500 Lump Sum
Non-Industrial Standard Disability	1.8% of final compensation X multiplied by service
COLA	2.00%

MTS Miscellaneous PEPRA 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	6.56%
Pre-Retirement Death Benefit	Optional Settlement 2W
Post-Retirement Death Benefit	\$500 Lump Sum
Non-Industrial Standard Disability	1.8% of final compensation X multiplied by service
COLA	2.00%

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 12 – Employee Retirement Systems (Continued)

B. MTS (Continued)

Employees Covered – At June 30, 2017, the following employees were covered by the benefit terms for each Plan:

	MTS Miscellaneous Plan - 1223	MTS Miscellaneous Second Tier Plan - 30134	MTS Miscellaneous PEPRA Plan - 26789
Inactive employees or beneficiaries currently receiving benefits	117	4	0
Inactive employees entitled to but not yet receiving benefits	50	0	0
Active employees	69	12	75

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 Miscellaneous PEPRA Plan - 26789
Inactive employees or beneficiaries currently receiving benefits	105	4	0
Inactive employees entitled to but not yet receiving benefits	59	0	0
Active employees	72	11	70

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, 2016 and 2015 (the measurement dates), the active employee contribution rates and average employer contribution rates were as follows:

	Measurement Date			
	2016		2015	
	Employee Contribution	Employer Contribution	Employee Contribution	Employer Contribution
MTS - Miscellaneous Plan-1223	8.00%	20.35%	7.00%	17.71%
MTS Miscellaneous Second Tier Plan - 30134	7.00%	7.61%	7.00%	7.16%
MTS PEPRA Miscellaneous Plan - 26789	6.25%	6.56%	6.25%	6.24%

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 12 – Employee Retirement Systems (Continued)

B. MTS (Continued)

For the year ended June 30, 2016 (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 Miscellaneous PEPRA Plan - 26789
Contributions - employer	\$ 1,564,713	\$ 58,855	\$ 272,574
Contributions - employee	618,282	23,256	107,705

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 Miscellaneous PEPRA Plan - 26789
Contributions - employer	\$ 1,753,602	\$ 58,121	\$ 187,174
Contributions - employee	717,034	23,765	76,534

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions
– As of June 30, 2017 and 2016, 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 (Asset)	
	2017	2016
MTS - Miscellaneous Plan-1223	\$ 11,438,216	\$ 9,717,218
MTS Miscellaneous Second Tier Plan - 30134	7,942	(2,599)
MTS Miscellaneous PEPRA Plan - 26789	34,161	(7,322)
Aggregate Net Pension Liability (Asset)	\$ 11,480,319	\$ 9,707,297

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, 2016, 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, 2015 rolled forward to June 30, 2016 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, 2017 and 2016

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, 2015). 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, 2016). 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, 2016 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (FY2016).
- (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 June 30, 2016, 2015 and 2014 (measurement dates) were as follows:

	MTS Miscellaneous Plan - 1223	MTS Miscellaneous Second Tier Plan - 30134	MTS Miscellaneous PEPRA Plan - 26789
Proportion June 30, 2014	0.13274%	0.00000%	0.00003%
Proportion June 30, 2015	0.14157%	-0.00004%	-0.00011%
Change - Increase (Decrease)	0.00883%	-0.00004%	-0.00014%
Proportion June 30, 2016	0.13219%	0.00009%	0.00039%
Change - Increase (Decrease)	-0.00938%	0.00013%	0.00050%

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 12 – Employee Retirement Systems (Continued)

B. MTS (Continued)

For the years ended June 30, 2017 and 2016, MTS recognized pension expense of \$1,472,609 and \$1,111,875, respectively. At June 30, 2017 and 2016, MTS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

MTS - Miscellaneous Plan - 1223

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after the measurement date	\$ 1,370,412	\$ -	\$ 1,306,126	\$ -
Differences between expected and actual experience	56,388	(10,682)	87,715	-
Changes in assumptions	-	(533,487)	-	(829,869)
Adjustments due to difference in proportions	91,107	(925,259)	141,721	(277,091)
Differences between actual and proportionate share of employer contributions	-	(374,067)	-	(283,702)
Net differences between projected and actual earnings on pension plan investments	3,973,645	(958,753)	2,127,113	(1,438,130)
Total	<u>\$ 5,491,552</u>	<u>\$ (2,802,248)</u>	<u>\$ 3,662,675</u>	<u>\$ (2,828,792)</u>

MTS - Miscellaneous Second Tier Plan - 30134

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after the measurement date	\$ 70,867	\$ -	\$ 49,020	\$ -
Differences between expected and actual experience	1,870	(402)	2,908	-
Changes in assumptions	-	(17,682)	-	(27,505)
Adjustments due to difference in proportions	308	(91,236)	691	(32,877)
Differences between actual and proportionate share of employer contributions	-	(13,255)	-	(9,403)
Net differences between projected and actual earnings on pension plan investments	142,334	(11)	70,501	(17)
Total	<u>\$ 215,379</u>	<u>\$ (122,586)</u>	<u>\$ 123,120</u>	<u>\$ (69,802)</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 12 – Employee Retirement Systems (Continued)

B. MTS (Continued)

	MTS - Miscellaneous PEPRA Plan - 26789			
	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after the measurement date	\$ 290,432	\$ -	\$ 227,181	\$ -
Differences between expected and actual experience	6,018	(1,861)	9,362	-
Changes in assumptions	-	(56,943)	-	(88,578)
Adjustments due to difference in proportions	-	(400,898)	-	(111,875)
Differences between actual and proportionate share of employer contributions	-	(52,858)	-	(30,281)
Net differences between projected and actual earnings on pension plan investments	584,584	(339)	227,042	(509)
Total	<u>\$ 881,034</u>	<u>\$ (512,899)</u>	<u>\$ 463,585</u>	<u>\$ (231,243)</u>

The combined \$1,731,711 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, 2018 compared to the combined \$1,582,327 reported in the previous year.

As of the measurement date June 30, 2016, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	MTS Miscellaneous Plan - 1223	MTS Miscellaneous Second Tier Plan - 30134	MTS Miscellaneous PEPRA Plan - 26789
2018	\$ (150,817)	\$ (11,354)	\$ (49,867)
2019	35,486	(6,884)	(32,016)
2020	839,646	17,797	56,011
2021	594,577	22,367	103,575
2022	-	-	-
Total	<u>\$ 1,318,892</u>	<u>\$ 21,926</u>	<u>\$ 77,703</u>

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 12 – Employee Retirement Systems (Continued)

B. MTS (Continued)

As of the measurement date June 30, 2015, 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	MTS Miscellaneous Plan - 1223	MTS Miscellaneous Second Tier Plan - 30134	MTS Miscellaneous PEPRA Plan - 26789
2017	\$ (417,298)	\$ (5,883)	\$ (23,557)
2018	(386,514)	(5,958)	(22,948)
2019	(200,208)	(1,488)	(5,097)
2020	531,777	17,627	56,763
2021	-	-	-
Total	<u>\$ (472,243)</u>	<u>\$ 4,298</u>	<u>\$ 5,161</u>

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	MTS Miscellaneous Plan - 1223	MTS Miscellaneous Second Tier Plan - 30134	MTS Miscellaneous PEPRA Plan - 26789
Valuation Date	June 30, 2015	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016	June 30, 2016
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 in Assumptions – 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. In the current year, the actuarial report did not have a change of assumption. In the prior year the discount rate changed from 7.50 percent 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, 2015 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.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 12 – Employee Retirement Systems (Continued)

B. MTS (Continued)

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.

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.

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	20.00%	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	1.00%	-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, 2017 and 2016

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, 2017, 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 Miscellaneous Plan - 1223	MTS Miscellaneous Second Tier Plan - 30134	MTS Miscellaneous PEPRA Plan - 26789	Aggregate
1% Decrease	6.65%	6.65%	6.65%	6.65%
Net Pension Liability	\$ 17,820,440	\$ 12,375	\$ 53,222	\$ 17,886,037
Current Discount Rate	7.65%	7.65%	7.65%	7.65%
Net Pension Liability	\$ 11,438,216	\$ 7,942	\$ 34,161	\$ 11,480,319
1% Increase	8.65%	8.65%	8.65%	8.65%
Net Pension Liability	\$ 6,163,624	\$ 4,280	\$ 18,408	\$ 6,186,312

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 Miscellaneous Plan - 1223	MTS Miscellaneous Second Tier Plan - 30134	MTS Miscellaneous PEPRA 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

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, 2017, MTS reported a payable of \$61,714 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017 compared to \$47,800 for the year ended June 30, 2016.

**San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016**

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, 2017 are summarized as follows:

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

	Management Employees	Union Employees
Hire date	Prior to January 1, 2013	Prior to January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 55
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Final Average Compensation Period	12 months	12 months
Retirement age	50-63	50-63
Monthly benefits, as a % of eligible compensation	1.426-2.418%	1.426-2.418%
Required employee contribution rates	8.00%	7.00%
Required employer contribution rates	9.85%	10.85%
Pre-Retirement Death Benefit	1959 Survivor Benefit Level 2	1959 Survivor Benefit Level 2
Post-Retirement Death Benefit	\$500 Lump Sum	\$500 Lump Sum
Non-Industrial Standard Disability	1.8% of final compensation X multiplied by service	1.8% of final compensation X multiplied by service
COLA	2.00%	2.00%

**San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016**

Note 12 – Employee Retirement Systems (Continued)

C. SDTI (Continued)

1. CalPERS Plan (Continued)

San Diego Trolley Miscellaneous PEPR 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	5.75%
Required employer contribution rates	10.85%
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%

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 is 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

**San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016**

Note 12 – Employee Retirement Systems (Continued)

C. SDTI (Continued)

2. PARS Plan (Continued)

The Plan's provisions and benefits in effect as of June 30, 2017 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	9.96%
Pre-Retirement Death Benefit	None
Post-Retirement Death Benefit	Joint-and-100% Survivor Option
Disability Retirement Benefit	None
COLA	2.00%

Employees Covered

At June 30, 2017, 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	226	41
Inactive employees entitled to but not yet receiving benefits	232	0
Active employees	531	59

*SDTI PEPPRA Plan included in SDTI Miscellaneous Plan June 30, 2015 valuation report.

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	218	39
Inactive employees entitled to but not yet receiving benefits	224	0
Active employees	517	61

*SDTI PEPPRA Plan included in SDTI Miscellaneous Plan June 30, 2014 valuation report.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 12 – Employee Retirement Systems (Continued)

C. SDTI (Continued)

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, 2016 and 2015 (the measurement dates), the active employee contribution rates and average employer contribution rates were as follows:

	Measurement Date			
	2016		2015	
	Employee Contribution	Employer Contribution	Employee Contribution	Employer Contribution
SDTI Miscellaneous Plan 1406 - Management EE	8.00%	9.85%	7.00%	10.34%
SDTI Miscellaneous Plan 1406 - Union EE	7.00%	10.85%	7.00%	10.34%
SDTI Miscellaneous PEPPA Plan 26965	5.75%	10.85%	6.25%	10.34%

For the years June 30, 2016 and 2015 (measurement date), the contributions were as follow:

	CalPERS Plans	
	2016	2015
Contributions - employer	\$ 2,659,911	\$ 2,553,900
Contributions - employee	1,778,990	1,839,206

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, 2016 (the measurement date), the average employer's contribution rate is 9.96%.

For the years June 30, 2016 and 2015 (the measurement dates), the contributions recognized as part of pension expense were:

	PARS Plan	
	2016	2015
Contributions - employer	\$ 547,473	\$ 590,203

**San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016**

Note 12 – Employee Retirement Systems (Continued)

C. SDTI (Continued)

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, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
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.

Changes in Assumptions – 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. In the current year, the actuarial report did not have a change of assumption. In the prior year the discount rate changed from 7.50 percent 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, 2015 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.

**San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016**

Note 12 – Employee Retirement Systems (Continued)

C. SDTI (Continued)

Net Pension Liability (Continued)

1. CalPERS Plan (Continued)

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.

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	20.00%	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	1.00%	-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, 2017 and 2016**

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, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuation were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.75%
Salary Increases Including Inflation	Graded rates based on years of services, 3.50% after 30 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.

Change in Assumptions – In the current report, the salary scale, retirement and pre-retirement mortality assumptions were updated to be consistent with those recommended for CalPERS actuarial valuations of public agency pension plans. These new demographic assumptions are described in the January 2014 experience study of the California Public Employees Retirement System. The study used data from the 1997 to 2011. The post-retirement mortality was updated to the CalPERS 1997-2011 Healthy Retiree Mortality Tables (sex-distinct) with an assumed base year of 2008 and full generational projections using Scale AA. The inflation rate was lowered from 3.0% to 2.75% to be consistent with CalPERS economic assumptions. For the prior year, there were no changes in assumptions, benefit terms or other inputs that affected the June 30, 2015 measurement of the net pension liability. There were no changes between the measurement date of the net pension liability and the reporting date.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 12 – Employee Retirement Systems (Continued)

C. SDTI (Continued)

Net Pension Liability (Continued)

2. PARS Plan (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.00 percent.

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+
U.S. Cash	4.34%	0.42%	0.41%
U.S. Core Fixed Income	37.90%	2.12%	1.99%
U.S. Equity Market	44.31%	5.12%	3.81%
Foreign Developed Equity	10.06%	5.85%	4.20%
Emerging Market Equities	3.39%	8.07%	4.79%

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

The following presents SDTI’s net pension liability at June 30, 2017 and 2016, 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	
	2017	2016	2017	2016
1% Decrease	6.65%	6.65%	6.00%	6.00%
Net Pension Liability	\$ 46,496,681	\$ 37,308,074	\$ 3,585,443	\$ 3,039,616
Current Discount Rate	7.65%	7.65%	7.00%	7.00%
Net Pension Liability	\$ 27,706,592	\$ 19,555,041	\$ 2,595,419	\$ 2,165,413
1% Increase	8.65%	8.65%	8.00%	8.00%
Net Pension Liability	\$ 12,231,587	\$ 4,941,415	\$ 1,769,630	\$ 1,429,988

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 12 – Employee Retirement Systems (Continued)

C. SDTI (Continued)

Changes in the Net Pension Liability

1. CalPERS Plan

At June 30, 2017, 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, 2016	\$ 120,286,668	\$ 100,731,627	\$ 19,555,041
Changes in the year:			
Service cost	3,580,302	-	3,580,302
Interest on the total pension liability	9,201,415	-	9,201,415
Changes of assumptions	-	-	-
Differences between expected and actual experience	375,697	-	375,697
Benefit payments, including refunds of member contributions	(4,345,171)	(4,345,171)	-
Contributions - employer	-	2,659,911	(2,659,911)
Contributions - employee	-	1,778,990	(1,778,990)
Net investment income	-	628,353	(628,353)
Administrative expense	-	(61,391)	61,391
Net Changes	8,812,243	660,692	8,151,551
Balance at June 30, 2017	\$ 129,098,911	\$ 101,392,319	\$ 27,706,592

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

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, 2017 and 2016

Note 12 – Employee Retirement Systems (Continued)

C. SDTI (Continued)

Changes in the Net Pension Liability (Continued)

2. PARS Plan

At June 30, 2017, 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, 2016	\$ 7,232,872	\$ 5,067,459	\$ 2,165,413
Changes in the year:			
Service cost	223,588	-	223,588
Interest on the total pension liability	523,457	-	523,457
Changes of assumptions	321,921	-	321,921
Differences between expected and actual experience	(166,133)	-	(166,133)
Benefit payments, including refunds of member contributions	(273,201)	(273,201)	-
Contributions - employer	-	547,473	(547,473)
Contributions - employee	-	-	-
Net investment income	-	(59,981)	59,981
Administrative expense	-	(14,665)	14,665
Net Changes	629,632	199,626	430,006
Balance at June 30, 2017	\$ 7,862,504	\$ 5,267,085	\$ 2,595,419

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
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, 2017 and 2016

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, 2017 and 2016, SDTI recognized pension expense of \$4,319,089 and \$2,319,436, respectively. At June 30, 2017 and 2016, SDTI reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

SDTI Miscellaneous Plan - 1406				
	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after measurement date	\$ 2,835,680	\$ -	\$ 2,659,911	\$ -
Differences between expected and actual experience	303,448	(321,305)	-	(415,807)
Changes in assumptions	-	(1,432,253)	-	(1,853,504)
Net differences between projected and actual earnings on pension plan investments	8,810,447	(3,292,879)	4,226,627	(4,939,318)
Total	<u>\$ 11,949,575</u>	<u>\$ (5,046,437)</u>	<u>\$ 6,886,538</u>	<u>\$ (7,208,629)</u>

SDTI PARS Plan				
	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after measurement date	\$ 586,218	\$ -	\$ 542,483	\$ -
Differences between expected and actual experience	-	(130,786)	-	-
Changes in assumptions	253,427	-	-	-
Net differences between projected and actual earnings on pension plan investments	462,382	-	164,631	-
Total	<u>\$ 1,302,027</u>	<u>\$ (130,786)</u>	<u>\$ 707,114</u>	<u>\$ -</u>

The combined \$3,421,898 reported as deferred outflows of resources related to contributions subsequent to the measurement date for the two plans will be recognized as a reduction of the net pension liability in the year ended June 30, 2018 compared to \$3,202,394 for the previous year.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 12 – Employee Retirement Systems (Continued)

C. SDTI (Continued)

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

As of the measurement date, June 30, 2016, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	SDTI Miscellaneous Plan - 1406	SDTI PARS Plan
2018	\$ 376,833	\$ 159,032
2019	376,832	159,032
2020	2,023,271	159,031
2021	1,276,070	107,928
2022	14,452	-
Total	<u>\$ 4,067,458</u>	<u>\$ 585,023</u>

As of the measurement date, June 30, 2015, 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	SDTI Miscellaneous Plan - 1406	SDTI PARS Plan
2017	\$ (1,105,535)	\$ 41,158
2018	(1,105,535)	41,158
2019	(1,105,536)	41,158
2020	540,903	41,157
2021	(206,299)	-
Total	<u>\$ (2,982,002)</u>	<u>\$ 164,631</u>

Payable to the Pension Plan

At June 30, 2017, SDTI reported a payable of \$319,162 to CalPERS and \$67,701 to PARS for the outstanding amount of contributions to the pension plans required for the fiscal year compared to \$286,513 payable to CalPERS and \$36,893 payable to PARS for the year ended June 30, 2016.

**San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016**

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, 2017 and 2016 are summarized as follows:

San Diego Transit Pension Plan - Non-Contract Employees		
	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	8.00%	6.25%
Required employer contribution rates	43.08%	44.83%
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, 2017 and 2016

Note 12 – Employee Retirement Systems (Continued)

D. SDTC (Continued)

General Information about the Pension Plans (Continued)

	SDTC Contract Employees	
	ATU - Closed Plan	IBEW - Closed Plan
Hire date	Prior to November 25, 2012	Prior to January 1, 2013
Benefit formula	2% @ 55	2% @ 55
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Final Average Compensation Period	36 months	36 months
Retirement age	53-63	55-65
Monthly benefits, as a % of eligible compensation	1.742%-2.418%	2.0%-2.418%
Required employee contribution rates	7.00%	8.00%
Required employer contribution rates	44.08%	43.08%
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, 2017 and 2016, the following employees were covered by the benefit terms for each Plan:

	2017	2016
Inactive employees or beneficiaries currently receiving benefits	962	932
Inactive employees entitled to but not yet receiving benefits	208	219
Active employees	517	563

Contributions – Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the period ended June 30, 2016 (the measurement date), the active employee contribution rate is 6.25-8.00% of annual pay, and the average employer's contribution rate is 43.77% of annual payroll compared to 6.0-6.25% and 33.62% for the previous year.

For the years ended June 30, 2016 and 2015 (the measurement dates), the contributions recognized as part of pension expense for the Plan were as follows:

	2016	2015
Contributions - employer	\$ 10,711,282	\$ 11,352,628
Contributions - employee	1,754,869	1,363,092

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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, 2016, using an annual actuarial valuation as of July 1, 2016.

Actuarial Assumptions – The total pension liabilities in the July 1, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	July 1, 2016
Measurement Date	July 1, 2016
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.75%
Payroll Growth	3.25%-8.75% for Drivers
	3.00%-10.25% for Mechanics
	3.00%-6.25% for Non-Contract members
	3.50%-12.75% for Clerical members
Projected Salary Increase	2.75%
Investment Rate of Return (1)	7.00%
Mortality	RP-2000 Tables using male rates for both male and female members with generational improvements using Scale MP-2015
COLA Increase - Non-Contract Members	2.00%

(1) Net of pension plan investment expenses.

Changes in Assumptions – Changes in Actuarial Methods and Assumptions since the prior valuation were based on an experience study report dated April 2016. The assumptions were revised for investment rate of return, inflation, and merit pay increases, as well as decrements, mortality, disability, service retirement, and termination. There were no changes in assumption during the previous fiscal year.

Discount Rate – The discount rate used to measure the Total Pension Liability was 7.00%.

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 (21 years remaining as of the July 1, 2016 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, 2017 and 2016**

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 7.00% investment return assumption used in the Total Pension Liability is net of investment expenses only.

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

Asset Class	Strategic Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (a)
United States Equity	20.00%	4.55%	4.55%
Global Equity	20.00%	6.35%	6.35%
Fixed Income	25.00%	1.00%	1.00%
Absolute Return	15.00%	3.75%	3.75%
Real Return	20.00%	3.75%	3.75%

(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, 2017 and 2016, 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:

	2017	2016
1% Decrease	6.00%	6.50%
Net Pension Liability	\$ 167,803,770	\$ 123,319,640
Current Discount Rate	7.00%	7.50%
Net Pension Liability	\$ 136,322,951	\$ 98,098,137
1% Increase	8.00%	8.50%
Net Pension Liability	\$ 109,629,048	\$ 76,368,870

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 12 – Employee Retirement Systems (Continued)

D. SDTC (Continued)

Changes in Net Pension Liability

At June 30, 2017, 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, 2016	\$ 256,745,469	\$ 158,647,332	\$ 98,098,137
Changes in the year:			
Service cost	3,469,595	-	3,469,595
Interest on the total pension liability	18,865,499	-	18,865,499
Changes of assumptions	29,699,872	-	29,699,872
Differences between expected and actual experience	(2,174,475)	-	(2,174,475)
Benefit payments, including refunds of member contributions	(17,350,158)	(17,350,158)	-
Contributions - employer	-	10,711,282	(10,711,282)
Contributions - employee	-	1,754,869	(1,754,869)
Net investment income	-	(540,093)	540,093
Administrative expense	-	(290,381)	290,381
Net Changes	32,510,333	(5,714,481)	38,224,814
Balance at June 30, 2017	\$ 289,255,802	\$ 152,932,851	\$ 136,322,951

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 contributions	(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

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 12 – Employee Retirement Systems (Continued)

D. SDTC (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, 2017 and 2016, SDTC recognized pension expense of \$23,558,135 and \$11,487,861, respectively. At June 30, 2017 and 2016, SDTC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after the measurement date	\$ 12,649,101	\$ -	\$ 10,711,282	\$ -
Changes in assumptions	19,799,915	-	-	-
Differences between expected and actual experience	270,960	(1,449,650)	1,510,483	-
Differences between projected and actual earnings on pension plan investments	18,329,930	(2,632,574)	11,378,998	(3,948,861)
Total	<u>\$ 51,049,906</u>	<u>\$ (4,082,224)</u>	<u>\$ 23,600,763</u>	<u>\$ (3,948,861)</u>

The \$12,649,101 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, 2018 compared to \$10,711,282 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
2018	\$ 13,423,476
2019	13,152,517
2020	5,293,669
2021	2,448,919
2022	-
Total	<u>\$ 34,318,581</u>

**San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016**

Note 12 – Employee Retirement Systems (Continued)

D. SDTC (Continued)

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

In the previous year, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions were:

Year Ended June 30	Amounts
2017	\$ 2,767,986
2018	1,799,423
2019	1,528,463
2020	2,844,748
2021	-
Total	<u>\$ 8,940,620</u>

Payable to the Pension Plan

At June 30, 2017, SDTC reported a payable of \$1,068,786 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017 compared to \$852,440 for the year ended June 30, 2016.

Note 13 – Other Required Individual Fund Disclosures

SDTC and SDTI had unrestricted (deficits) of \$106,753,243 and \$7,080,336 respectively as of June 30, 2017 compared to \$93,851,767 and 5,572,877 at June 30, 2016. These deficits are primarily a result of the implementation of GASB 68, *Accounting and Financial Reporting for Pensions*, 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.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

DRAFT 10-23-2017

San Diego Metropolitan Transit System
Required Supplementary Information
For the Years Ended June 30, 2017 and 2016

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

	2017	2016	2015
Miscellaneous Plan			
Proportion of the net pension liability	0.13219%	0.14157%	0.13274%
Proportionate share of the net pension liability	\$ 11,438,216	\$ 9,717,218	\$ 8,259,452
Covered Payroll	\$ 6,363,275	\$ 7,016,370	\$ 8,422,933
Proportionate Share of the Net Pension Liability as percentage of covered payroll	179.75%	138.49%	98.06%
Plan's fiduciary net position as percentage of the total pension liability	72.68%	74.90%	77.17%
Proportionate share of aggregate employer contributions	\$ 1,564,713	\$ 1,753,602	\$ 754,893
Miscellaneous Plan - Second Tier			
Proportion of the net pension liability	0.00009%	-0.00004%	0.00000%
Proportionate share of the net pension liability (asset)	\$ 7,942	\$ (2,599)	\$ 76
Covered Payroll	\$ 932,531	\$ 539,177	\$ 169,396
Proportionate Share of the Net Pension Liability as percentage of covered payroll	0.85%	-0.48%	0.04%
Plan's fiduciary net position as percentage of the total pension liability	94.57%	104.82%	82.96%
Proportionate share of aggregate employer contributions	\$ 58,855	\$ 58,121	\$ 10
Miscellaneous PEPRA Plan			
Proportion of the net pension liability	0.00039%	-0.00011%	0.00003%
Proportionate share of the net pension liability (asset)	\$ 34,161	\$ (7,322)	\$ 2,019
Covered Payroll	\$ 4,513,704	\$ 2,399,171	\$ 685,453
Proportionate Share of the Net Pension Liability as percentage of covered payroll	0.76%	-0.31%	0.29%
Plan's fiduciary net position as percentage of the total pension liability	92.21%	104.24%	83.03%
Proportionate share of aggregate employer contributions	\$ 272,574	\$ 187,174	\$ 267

*GASB 68 was implemented in fiscal year 2015, therefore only three years of data is presented.

San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Years Ended June 30, 2017 and 2016

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

	2017	2016	2015
Total Pension Liability			
Service Cost	\$ 3,580,302	\$ 3,615,793	\$ 3,721,950
Interest on total pension liability	9,201,415	8,554,525	7,982,614
Differences between expected and actual experience	375,697	(510,309)	-
Changes in assumptions	-	(2,274,755)	-
Changes in benefit terms	-	-	-
Benefit payments, including refunds of employee contributions	(4,345,171)	(3,799,240)	(3,155,596)
Net change in total pension liability	8,812,243	5,586,014	8,548,968
Total pension liability - beginning	120,286,668	114,700,654	106,151,686
Total pension liability - ending (a)	\$ 129,098,911	\$ 120,286,668	\$ 114,700,654
Plan fiduciary net position			
Contributions - employer	\$ 2,659,911	\$ 2,553,900	\$ 2,498,345
Contributions - employee	1,778,990	1,839,206	2,179,194
Net investment income	628,353	2,204,904	14,416,106
Benefit payments, including refunds of employee contributions	(4,345,171)	(3,799,240)	(3,155,596)
Administrative expense	(61,391)	(113,387)	-
Net change in plan fiduciary net position	660,692	2,685,383	15,938,049
Plan fiduciary net position - beginning	100,731,627	98,046,244	82,108,195
Plan fiduciary net position - ending (b)	\$ 101,392,319	\$ 100,731,627	\$ 98,046,244
Net pension liability - ending (a) - (b)	\$ 27,706,592	\$ 19,555,041	\$ 16,654,410
Plan fiduciary net position as a percentage of the total pension liability	78.54%	83.74%	85.48%
Covered payroll	\$ 27,247,357	\$ 26,965,416	\$ 26,268,261
Plan net pension liability/(asset) as a percentage of covered payroll	101.69%	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, 2015 valuation date.

Changes of assumption. There were no changes in assumptions in the June 30, 2016 (measurement date) report.

*GASB 68 was implemented in fiscal year 2015, therefore only three years of data is presented.

San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Years Ended June 30, 2017 and 2016

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

	2017	2016
Total Pension Liability		
Service Cost	\$ 223,588	\$ 267,889
Interest on total pension liability	523,457	480,808
Differences between expected and actual experience	(166,133)	-
Changes in assumptions	321,921	-
Changes in benefit terms	-	-
Benefit payments, including refunds of employee contributions	(273,201)	(229,364)
Net change in total pension liability	629,632	519,333
Total pension liability - beginning	7,232,872	6,713,539
Total pension liability - ending (a)	\$ 7,862,504	\$ 7,232,872
Plan fiduciary net position		
Contributions - employer	\$ 547,473	\$ 590,203
Contributions - employee	-	-
Net investment income	(59,981)	127,592
Benefit payments, including refunds of employee contributions	(273,201)	(229,364)
Administrative expense	(14,665)	(12,186)
Net change in plan fiduciary net position	199,626	476,245
Plan fiduciary net position - beginning	5,067,459	4,591,214
Plan fiduciary net position - ending (b)	\$ 5,267,085	\$ 5,067,459
Net pension liability - ending (a) - (b)	\$ 2,595,419	\$ 2,165,413
Plan fiduciary net position as a percentage of the total pension liability	66.99%	70.06%
Covered payroll	\$ 5,020,011	\$ 4,943,557
Plan net pension liability/(asset) as a percentage of covered payroll	51.70%	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, 2015 valuation date.

Changes in Assumption: In the June 30, 2015 valuation date report, the salary scale, retirement and pre-retirement mortality assumptions were updated. The inflation rate was lowered from 3.0% to 2.75%.

*GASB 68 for PARS was implemented in fiscal year 2016, therefore only two year of data is presented.

San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Years Ended June 30, 2017 and 2016

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

	2017	2016	2015
Total Pension Liability			
Service Cost	\$ 3,469,595	\$ 3,590,766	\$ 3,908,376
Interest on total pension liability	18,865,499	18,434,275	17,812,979
Differences between expected and actual experience	(2,174,475)	812,878	2,905,692
Changes in assumptions	29,699,872	-	-
Changes in benefit terms	-	-	-
Benefit payments, including refunds of employee contributions	(17,350,158)	(16,584,043)	(15,466,924)
Net change in total pension liability	32,510,333	6,253,876	9,160,123
Total pension liability - beginning	256,745,469	250,491,593	241,331,470
Total pension liability - ending (a)	\$ 289,255,802	\$ 256,745,469	\$ 250,491,593
Plan fiduciary net position			
Contributions - employer	\$ 10,711,282	\$ 11,352,628	\$ 12,628,190
Contributions - employee	1,754,869	1,363,092	899,791
Net investment income	(540,093)	(2,018,866)	18,417,439
Benefit payments, including refunds of employee contributions	(17,350,158)	(16,584,043)	(15,466,924)
Administrative expense	(290,381)	(262,808)	(258,142)
Net change in plan fiduciary net position	(5,714,481)	(6,149,997)	16,220,354
Plan fiduciary net position - beginning	158,647,332	164,797,329	148,576,975
Plan fiduciary net position - ending (b)	\$ 152,932,851	\$ 158,647,332	\$ 164,797,329
Net pension liability - ending (a) - (b)	\$ 136,322,951	\$ 98,098,137	\$ 85,694,264
Plan fiduciary net position as a percentage of the total pension liability	52.87%	61.79%	65.79%
Covered payroll	\$ 31,048,663	\$ 32,658,827	\$ 32,313,553
Plan net pension liability/(asset) as a percentage of covered payroll	439.06%	300.37%	265.20%

Notes to Schedule:

Changes of assumption. In the current year, the investment rate of return decreased from 7.5% to 7.0%, inflation decreased from 3.0% to 2.75% and revisions were made to merit pay increases, mortality, disability, service retirement and terminations.

*GASB 68 was implemented in fiscal year 2015, therefore only three years of data is presented.

San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Years Ended June 30, 2017 and 2016

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

	2017	2016	2015	2014
	Miscellaneous Plan			
Actuarially determined contribution	\$ 1,370,412	\$ 1,306,296	\$ 1,368,359	\$ 1,424,726
Contributions in relation to the actuarially determined contribution	(1,370,412)	(1,306,296)	(1,368,359)	(1,424,726)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 6,363,275	\$ 6,680,093	\$ 7,016,370	\$ 8,422,933
Contributions as a percentage of covered payroll	21.54%	19.56%	19.50%	16.91%
	Miscellaneous Plan - Second Tier			
Actuarially determined contribution	\$ 70,867	\$ 49,020	\$ 45,480	\$ 32,575
Contributions in relation to the actuarially determined contribution	(70,867)	(49,020)	(45,480)	(32,575)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 932,531	\$ 685,044	\$ 539,177	\$ 169,396
Contributions as a percentage of covered payroll	7.60%	7.16%	8.44%	19.23%
	Miscellaneous PEPRA Plan			
Actuarially determined contribution	\$ 290,432	\$ 227,181	\$ 146,007	\$ 79,778
Contributions in relation to the actuarially determined contribution	(290,432)	(227,181)	(146,007)	(79,778)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 4,513,704	\$ 3,713,332	\$ 2,399,171	\$ 685,453
Contributions as a percentage of covered payroll	6.43%	6.12%	6.09%	11.64%

**San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Years Ended June 30, 2017 and 2016**

**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, 2015 as they have minimal cost impact.

Changes of assumption: In current year, there were no changes in assumptions.

Methods and assumptions used to determine contribution rates:

The actuarial methods and assumption used to set the actuarially determined contributions for Fiscal Year 2015-2016 was derived from the June 30, 2013 funding valuation report.

Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2013 Funding Valuation
Asset valuation method	Actuarial value of assets. For details, see June 30, 2013 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 four years data are presented.

**San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Years Ended June 30, 2017 and 2016**

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

	2017	2016	2015	2014
Actuarially determined contribution	\$ 2,835,680	\$ 2,659,911	\$ 2,553,900	\$ 2,498,345
Contributions in relation to the actuarially determined contribution	(2,835,680)	(2,659,911)	(2,553,900)	(2,498,345)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 26,132,724	\$ 27,247,357	\$ 26,965,416	\$ 26,268,261
Contributions as a percentage of covered payroll	10.85%	9.76%	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, 2015 as they have minimal cost impact.

Changes of assumption: There were no changes in assumptions in the current year.

Methods and assumptions used to determine contribution rates:

The actuarial methods and assumption used to set the actuarially determined contributions for Fiscal Year 2015-2016 was derived from the June 30, 2013 funding valuation report.

Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2013 Funding Valuation
Asset valuation method	Actuarial value of assets. For details, see June 30, 2013 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 four years data are presented.

**San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Years Ended June 30, 2017 and 2016**

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

	2017	2016	2015	2014
Actuarially determined contribution	\$ 499,993	\$ 445,465	\$ 546,873	\$ 463,079
Contributions in relation to the actuarially determined contribution	(605,864)	(547,473)	(590,203)	(453,934)
Contribution deficiency (excess)	\$ (105,871)	\$ (102,008)	\$ (43,330)	\$ 9,145
Covered payroll	\$ 5,170,611	\$ 5,020,011	\$ 4,943,557	\$ 5,984,089
Contributions as a percentage of covered payroll	11.72%	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 July 1, 2013 as they have minimal cost impact.

Changes in Assumption: In the June 30, 2015 valuation date report, the salary scale, retirement and pre-retirement mortality assumptions were updated. The inflation rate was lowered from 3.0% to 2.75%.

Methods and assumptions used to determine contribution rates:

Valuation date	July 1, 2016
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	2.75%
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 four years data are presented.

**San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Years Ended June 30, 2017 and 2016**

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

	2017	2016	2015	2014
Actuarially determined contribution	\$ 12,649,101	\$ 10,711,282	\$ 11,352,628	\$ 12,628,190
Contributions in relation to the actuarially determined contribution	(12,649,101)	(10,711,282)	(11,352,628)	(12,628,190)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 31,579,634	\$ 31,048,663	\$ 32,658,827	\$ 32,313,553
Contributions as a percentage of covered payroll	40.05%	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, 2016 as they have minimal cost impact.

Changes in Assumptions: In the current year, assumptions were revised for investment rate of return, inflation, and merit pay increases, as well as decrements, mortality, disability, service retirement and termination

Methods and assumptions used to determine contribution rates:

Valuation date	July 1, 2016
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	3.25%-8.75% for drivers 3.25%-10.25% for mechanics 3.00%-6.25% for non-contract members 3.00%-12.75% for clerical members
Payroll growth	2.75%
Investment rate of return	7.00% net of pension plan investment expenses.
Mortality	RP-2000 tables using male rates for both male and female members with generational improvements using Scale MP-2015

* GASB 68 was implemented in fiscal year 2015, therefore only four years data are presented.

San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Years Ended June 30, 2017 and 2016

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

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

MTS (in 000s):

Valuation Date	Actuarial Value of Assets	Entry Age Normal AAL	Unfunded AAL	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2011	\$ -	\$ 3,276	\$ 3,276	0.00%	\$ 8,023	40.83%
6/30/2013	-	3,855	3,855	0.00%	8,698	44.32%
6/30/2015	-	3,863	3,863	0.00%	10,416	37.09%

SDTI (in 000s):

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

SDTC (in 000s):

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

Actuarial review and analysis of OPEB liability and funding status is performed every two years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of OPEB liability and funding status will be performed in FY2018 based on the year ending June 30, 2017.

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SUPPLEMENTARY INFORMATION

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 Operations

Taxicab Administration

San Diego & Arizona Eastern Railway

Contracted Services

San Diego Transit Corporation (SDTC)

San Diego Trolley, Inc. (SDTI)

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San Diego Metropolitan Transit System
Combining Schedule of Net Position
June 30, 2017

	General Operations	Contracted Services	SDTC	SDTI	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 90,710,350	\$ 54,582	\$ (100,592)	\$ (321,518)	\$ 90,342,822
Cash and cash equivalents restricted for capital support	6,743,868	-	-	-	6,743,868
Accounts and other receivables	8,197,749	487	1,542,059	111,839	9,852,134
Due from other governments	82,849,092	62,972	9,603	111,113	83,032,780
Internal balances	(47,399,665)	8,939,557	24,072,694	14,387,414	-
Inventory	-	-	2,998,622	16,936,654	19,935,276
Prepaid items and other current assets	949,047	309,330	667,444	861,981	2,787,802
Total current assets	142,050,441	9,366,928	29,189,830	32,087,483	212,694,682
Noncurrent assets:					
Capital assets (net of accumulated depreciation)	95,488,721	202,196,970	242,416,707	1,201,005,006	1,741,107,404
Total noncurrent assets	95,488,721	202,196,970	242,416,707	1,201,005,006	1,741,107,404
Total assets	237,539,162	211,563,898	271,606,537	1,233,092,489	1,953,802,086
DEFERRED OUTFLOWS OF RESOURCES					
Contributions made after the measurement date	1,731,711	-	12,649,101	3,421,898	17,802,710
Actuarial pension calculations:					
Differences between projected and actual earnings on pension plan investments	4,700,563	-	18,329,930	9,272,829	32,303,322
Differences between expected and actual experience	64,276	-	270,960	303,448	638,684
Adjustments due to differences in proportions	91,415	-	-	-	91,415
Change in assumption	-	-	19,799,915	253,427	20,053,342
Total deferred outflows of resources	6,587,965	-	51,049,906	13,251,602	70,889,473

San Diego Metropolitan Transit System
Combining Schedule of Net Position (Continued)
June 30, 2017

	General Operations	Contracted Services	SDTC	SDTI	Total
LIABILITIES					
Current liabilities:					
Accounts payable	7,879,710	7,882,837	2,779,335	1,754,968	20,296,850
Due to other governments	11,954,875	15,299	104,329	497,308	12,571,811
Unearned revenue	6,297,644	-	-	38,776	6,336,420
Accrued expenses	802,061	12,216	1,101,017	1,105,319	3,020,613
Retentions payable	351,037	1,401	-	-	352,438
Retentions payable from restricted assets	2,303,606	-	-	-	2,303,606
Due within one year:					
Compensated absences payable	829,706	-	3,237,943	2,018,368	6,086,017
Accrued damage, injury, and employee claims	230,036	-	3,656,195	1,095,402	4,981,633
Long-term debt	676,445	-	2,315,000	-	2,991,445
Total current liabilities	31,325,120	7,911,753	13,193,819	6,510,141	58,940,833
Noncurrent liabilities:					
Due in more than one year:					
Compensated absences payable	252,221	-	4,006,630	645,011	4,903,862
Accrued damage, injury, and employee claims	301,556	-	8,533,699	1,817,954	10,653,209
Aggregate net pension liability	11,480,319	-	136,322,951	30,302,011	178,105,281
Net other postemployment benefits obligation	5,092,308	-	5,513,656	7,967,081	18,573,045
Long-term debt	1,071,268	-	15,340,000	-	16,411,268
Total noncurrent liabilities	18,197,672	-	169,716,936	40,732,057	228,646,665
Total liabilities	49,522,792	7,911,753	182,910,755	47,242,198	287,587,498

San Diego Metropolitan Transit System
Combining Schedule of Net Position (Continued)
June 30, 2017

DEFERRED INFLOWS OF RESOURCES

Deferred gain on refunding
 Actuarial pension calculations:
 Differences between projected and actual earnings on pension plan investments
 Adjustments due to differences in proportions
 Differences between actual and proportionate shares of employer contributions
 Differences between expected and actual experience
 Changes in assumptions

Total deferred inflows of resources

	General Operations	Contracted Services	SDTC	SDTI	Total
	221,938	-	-	-	221,938
	959,103	-	2,632,574	3,292,879	6,884,556
	1,417,393	-	-	-	1,417,393
	440,180	-	-	-	440,180
	12,945	-	1,449,650	452,091	1,914,686
	608,112	-	-	1,432,253	2,040,365
	<u>3,659,671</u>	<u>-</u>	<u>4,082,224</u>	<u>5,177,223</u>	<u>12,919,118</u>

NET POSITION

Net investment in capital assets
 Restricted for:
 Capital projects
 Unrestricted (deficit)

Total net position

	93,741,008	202,196,970	242,416,707	1,201,005,006	1,739,359,691
	4,440,262	-	-	-	4,440,262
	<u>92,763,394</u>	<u>1,455,175</u>	<u>(106,753,243)</u>	<u>(7,080,336)</u>	<u>(19,615,010)</u>
	<u>\$ 190,944,664</u>	<u>\$ 203,652,145</u>	<u>\$ 135,663,464</u>	<u>\$ 1,193,924,670</u>	<u>\$ 1,724,184,943</u>

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San Diego Metropolitan Transit System
Combining Schedule of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
Operating revenues:						
Passenger revenue	\$ -	\$ 29,447,304	\$ 24,863,742	\$ 38,968,409	\$ -	\$ 93,279,455
Advertising	1,378,618	-	-	-	-	1,378,618
Miscellaneous operating revenues	18,146,869	1,927	10,192	704,246	-	18,863,234
Total operating revenues	19,525,487	29,449,231	24,873,934	39,672,655	-	113,521,307
Operating expenses:						
Personnel costs	19,752,442	572,972	80,157,201	36,538,010	-	137,020,625
Outside services	16,582,215	70,869,312	3,311,004	7,037,801	-	97,800,332
Transit operations funding	114,163,794	-	-	-	(113,700,449)	463,345
Materials and supplies	27,686	14,489	4,541,138	8,481,722	-	13,065,035
Energy costs	193,675	7,984,352	5,738,303	11,635,848	-	25,552,178
Risk management	420,812	15,300	2,157,063	1,682,394	-	4,275,569
Miscellaneous operating expenses	(22,978,148)	2,287,867	9,196,796	17,427,769	-	5,934,284
Depreciation	2,547,636	19,079,087	25,188,350	77,064,932	-	123,880,005
Total operating expenses	130,710,112	100,823,379	130,289,855	159,868,476	(113,700,449)	407,991,373
Operating income (loss)	(111,184,625)	(71,374,148)	(105,415,921)	(120,195,821)	113,700,449	(294,470,066)

San Diego Metropolitan Transit System
Combining Schedule of Revenues, Expenses, and Changes in Net Position (Continued)
For the Year Ended June 30, 2017

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
Public support and nonoperating revenues (expenses):						
Federal revenue	72,404,730	13,837,667	20,000,000	23,149,033	(56,986,700)	72,404,730
Transportation Development Act (TDA) funds	94,915,733	32,484,980	13,365,536	10,303,635	(56,154,151)	94,915,733
State Transit Assistance (STA) funds	12,918,834	-	3,600,956	2,700,147	(6,301,103)	12,918,834
State revenue - other	14,183,196	3,676,560	171,729	605,608	(4,453,897)	14,183,196
TransNet funds	42,770,235	1,547,431	30,722,805	5,000,000	(42,770,236)	37,270,235
Other local subsidies	1,082,697	748,423	315,000	-	(1,063,423)	1,082,697
Investment earnings	631,555	-	-	4,513	-	636,068
Interest expense	(1,706)	-	(961,069)	-	-	(962,775)
Gain (loss) on disposal of assets	237,944	-	109,724	48,280	-	395,948
Total public support and nonoperating revenues (expenses):	239,143,218	52,295,061	67,324,681	41,811,216	(167,729,510)	232,844,666
Income (loss) before transfers and contributed capital	127,958,593	(19,079,087)	(38,091,240)	(78,384,605)	(54,029,061)	(61,625,400)
Transfers	(54,029,061)	-	-	-	54,029,061	-
Contributed capital, net	(55,897,246)	76,175,533	15,161,698	12,861,040	-	48,301,025
Changes in net position	18,032,286	57,096,446	(22,929,542)	(65,523,565)	-	(13,324,375)
Net Position:						
Beginning of year	172,912,378	146,555,699	158,593,006	1,259,448,235	-	1,737,509,318
End of year	\$ 190,944,664	\$ 203,652,145	\$ 135,663,464	\$ 1,193,924,670	\$ -	\$ 1,724,184,943

San Diego Metropolitan Transit System
Combining Schedule of Cash Flows
For the Year Ended June 30, 2017

	General Operations	Contracted Services	SDTC	SDTI	Total
Cash flows from operating activities:					
Receipts from customers and users	\$ 15,607,525	\$ 29,526,141	\$ 24,859,346	\$ 39,814,903	\$ 109,807,915
Payments to suppliers	2,559,785	(80,167,101)	(25,184,800)	(44,421,026)	(147,213,142)
Payments to employees	(20,828,122)	(585,188)	(70,986,258)	(36,731,382)	(129,130,950)
Payments for damage and injury	1,776	-	(303,986)	(339,635)	(641,845)
Net cash (used in) operating activities	(2,659,036)	(51,226,148)	(71,615,698)	(41,677,140)	(167,178,022)
Cash flows from noncapital financing activities:					
Public support funds received	57,269,162	52,242,044	77,348,777	41,437,431	228,297,414
Net cash provided by noncapital financing activities	57,269,162	52,242,044	77,348,777	41,437,431	228,297,414
Cash flows from capital and related financing activities:					
Debt service costs	(646,074)	-	(3,166,069)	-	(3,812,143)
Property acquisition	(52,247,945)	-	-	(149,283)	(52,397,228)
Proceeds from disposal of assets	481,848	-	111,139	50,474	643,461
Net cash (used in) capital and related financing activities	(52,412,171)	-	(3,054,930)	(98,809)	(55,565,910)
Cash flows from investing activities:					
Interest received on investments	629,849	-	-	-	629,849
Net cash provided by investing activities	629,849	-	-	-	629,849
Net increase (decrease) in cash and cash equivalents	2,827,804	1,015,896	2,678,149	(338,518)	6,183,331
Cash and cash equivalents:					
Beginning of year	94,626,414	(961,314)	(2,778,741)	17,000	90,903,359
End of year	\$ 97,454,218	\$ 54,582	\$ (100,592)	\$ (321,518)	\$ 97,086,690
Cash and cash equivalents:					
Cash and cash equivalents	\$ 90,710,350	\$ 54,582	\$ (100,592)	\$ (321,518)	\$ 90,342,822
Cash and cash equivalents restricted for capital support	6,743,868	-	-	-	6,743,868
Total cash and cash equivalents	\$ 97,454,218	\$ 54,582	\$ (100,592)	\$ (321,518)	\$ 97,086,690

San Diego Metropolitan Transit System
Combining Schedule of Cash Flows (Continued)
For the Year Ended June 30, 2017

Reconciliation of Operating Income (Loss) to Net Cash (Used In) Operating Activities

Operating (loss):

Adjustments to reconcile operating income (loss) to net cash (used in)

operating activities

Depreciation and amortization

(Increase) decrease in:

Accounts and other receivables

Due from other governments

Inventory

Prepaid expenses and other current assets

Increase (decrease) in:

Accounts payable

Due to other governments

Accrued expenses

Unearned revenue

Aggregate net pension liability

Net other postemployment benefits obligation

Compensated absences payable

Accrued damage, injury and employee claims

Total adjustments

Net cash (used in) operating activities

General Operations	Contracted Services	SDTC	SDTI	Total
\$ 2,515,824	\$ (71,374,148)	\$ (105,415,921)	\$ (120,195,821)	\$ (294,470,066)
2,547,636	19,079,087	25,188,350	77,064,932	123,880,005
(2,067,520)	76,910	(14,588)	137,735	(1,867,463)
(1,850,442)	-	-	-	(1,850,442)
-	-	(567,107)	228,257	(338,850)
115,409	673	(50,604)	(390,039)	(324,561)
(3,359,029)	977,582	176,528	(47,824)	(2,252,743)
(385,708)	1,657	32,466	(901)	(352,486)
171,827	12,091	320,985	90,539	595,442
(277,427)	-	-	24,859	(252,568)
(407,051)	-	8,971,215	672,697	9,236,861
380,667	-	262,208	409,908	1,052,783
28,313	-	(394,498)	171,943	(194,242)
(71,535)	-	(124,732)	156,575	(39,692)
(5,174,860)	20,148,000	33,800,223	78,518,681	127,292,044
\$ (2,659,036)	\$ (51,226,148)	\$ (71,615,698)	\$ (41,677,140)	\$ (167,178,022)

Supplemental noncash disclosures:

During the year SANDAG contributed \$48,301,025 in capital assets

During the year the fair value of investments decreased by \$75,253

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, 2017

	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		
Operating revenues:							
Passenger revenue	\$ 100,808,623	\$ 94,873,838	\$ 93,279,455	\$ -	\$ 93,279,455	\$	(1,594,383)
Advertising	750,000	1,150,000	1,378,618	-	1,378,618		228,618
Miscellaneous operating revenues	13,409,419	12,760,000	18,863,234	(6,172,440)	12,690,794		(69,206)
Total operating revenues	114,968,042	108,783,838	113,521,307	(6,172,440)	107,348,867		(1,434,971)
Operating expenses:							
Personnel costs	129,141,505	125,718,174	137,020,625	(12,088,346)	124,932,279		785,895
Outside services	96,058,528	96,253,904	97,800,332	-	97,800,332		(1,546,428)
Transit operations funding	551,008	557,892	463,345	-	463,345		94,547
Materials and supplies	11,353,408	10,994,566	13,065,035	-	13,065,035		(2,070,469)
Energy costs	27,684,950	26,413,361	25,552,178	-	25,552,178		861,183
Risk management	4,039,713	4,113,591	4,275,569	(353,456)	3,922,113		191,478
Miscellaneous operating expenses	5,632,261	5,719,832	5,934,284	(186,291)	5,747,993		(28,161)
Depreciation	-	-	123,880,005	(123,880,005)	-		-
Total operating expenses	274,461,373	269,771,320	407,991,373	(136,508,098)	271,483,275		(1,711,955)
Operating income (loss)	(159,493,331)	(160,987,482)	(294,470,066)	130,335,658	(164,134,408)		(3,146,926)

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, 2017

	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	
Public support and nonoperating revenues (expenses):						
Federal revenue	56,870,600	57,063,600	72,404,730	(15,435,891)	56,968,839	(94,761)
Transportation Development Act (TDA) funds	60,030,082	60,030,082	94,915,733	(33,270,680)	61,645,053	1,614,971
State Transit Assistance (STA) funds	3,600,000	3,600,000	12,918,834	(6,617,731)	6,301,103	2,701,103
State revenue - other	1,400,000	1,400,000	14,183,196	(10,168,320)	4,014,876	2,614,876
<i>TransNet</i> funds	37,481,038	36,335,000	37,270,235	-	37,270,235	935,235
Other local subsidies	1,674,102	1,034,102	1,082,697	(19,274)	1,063,423	29,321
Investment earnings	100,000	350,000	636,068	(52,846)	583,222	233,222
Interest expense	(1,687,501)	(1,704,407)	(962,775)	(737,911)	(1,700,686)	3,721
Gain (loss) on disposal of assets	-	200,000	395,948	247,513	643,461	443,461
Total public support and nonoperating revenues (expenses):	159,468,321	158,308,377	232,844,666	(66,055,140)	166,789,526	8,481,149
Income (loss) before contributed capital	(25,010)	(2,679,105)	(61,625,400)	64,280,518	2,655,118	5,334,223
Reserve revenue						
Contributed capital, net	25,010	2,679,105	-	2,596,121	2,596,121	(82,984)
	-	-	48,301,025	(48,301,025)	-	-
Changes in net position	-	-	(13,324,375)	\$ 18,575,614	\$ 5,251,239	\$ 5,251,239
Net Position:						
Beginning of year			1,737,509,318			
End of year			<u>\$ 1,724,184,943</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, 2017

	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		
Operating revenues:							
Advertising	\$ 750,000	\$ 1,150,000	\$ 1,378,618	\$ -	\$ 1,378,618	\$	228,618
Miscellaneous operating revenues	11,179,419	11,054,000	16,238,849	(5,172,440)	11,066,409		12,409
Total operating revenues	11,929,419	12,204,000	17,617,467	(5,172,440)	12,445,027		241,027
Operating expenses:							
Personnel costs	19,242,569	18,478,126	18,832,869	(151,313)	18,681,556		(203,430)
Outside services	16,006,056	16,239,567	16,373,792	-	16,373,792		(134,225)
Transit operations funding	551,008	557,892	114,163,794	(113,700,448)	463,346		94,546
Materials and supplies	24,000	(128,200)	25,072	-	25,072		(153,272)
Energy costs	227,700	183,500	188,778	-	188,778		(5,278)
Risk management	450,656	394,389	399,982	(71,535)	328,447		65,942
Miscellaneous operating expenses	(24,521,179)	(23,012,909)	(23,325,952)	-	(23,325,952)		313,043
Depreciation	-	-	2,525,774	(2,525,774)	-		-
Total operating expenses	11,980,810	12,712,365	129,184,109	(116,449,070)	12,735,039		(22,674)
Operating income (loss)	(51,391)	(508,365)	(111,566,642)	111,276,630	(290,012)		218,353

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, 2017

	Budgeted Amounts		Actual Amounts				
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget Positive (Negative)	
Public support and nonoperating revenues (expenses):							
Federal revenue	-	140,000	72,404,730	(72,273,558)	131,172	(8,828)	
Transportation Development Act (TDA) funds	551,008	557,892	94,915,733	(89,387,573)	5,528,160	4,970,268	
State Transit Assistance (STA) funds	-	-	12,918,834	(12,918,834)	-	-	
State revenue - other	-	-	14,183,196	(14,622,216)	(439,020)	(439,020)	
<i>TransNet</i> funds	-	-	42,770,235	(42,770,235)	-	-	
Other local subsidies	140,000	-	1,082,697	(1,082,697)	-	-	
Investment earnings	100,000	350,000	631,555	(52,846)	578,709	228,709	
Interest expense	(739,617)	(739,527)	(1,706)	(737,911)	(739,617)	(90)	
Gain (loss) on disposal of assets	-	200,000	237,944	243,904	481,848	281,848	
Total public support and nonoperating revenues (expenses):	51,391	508,365	239,143,218	(233,601,966)	5,541,252	5,032,887	
Income (loss) before transfers and contributed capital							
	-	-	127,576,576	(122,325,336)	5,251,240	5,251,240	
Transfers	-	-	(54,029,061)	54,029,061	-	-	
Contributed capital, net	-	-	(54,897,246)	54,897,246	-	-	
Changes in net position	\$ -	\$ -	18,650,269	\$ (13,399,029)	\$ 5,251,240	\$ 5,251,240	
Net Position:							
Beginning of year			152,884,529				
End of year			<u>\$ 171,534,798</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, 2017

	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		
Operating revenues:							
Miscellaneous operating revenues	\$ 1,390,000	\$ 850,000	\$ 700,525	\$ -	\$ 700,525	\$	(149,475)
Total operating revenues	1,390,000	850,000	700,525	-	700,525		(149,475)
Operating expenses:							
Personnel costs	976,875	932,950	878,659	-	878,659		54,291
Outside services	101,110	83,110	53,672	-	53,672		29,438
Materials and supplies	7,000	7,000	2,614	-	2,614		4,386
Energy costs	15,000	11,000	4,897	-	4,897		6,103
Risk management	-	30,000	5,064	-	5,064		24,936
Miscellaneous operating expenses	286,614	274,045	275,457	-	275,457		(1,412)
Depreciation	-	-	4,774	(4,774)	-		-
Total operating expenses	1,386,599	1,338,105	1,225,137	(4,774)	1,220,363		117,742
Operating income (loss)	3,401	(488,105)	(524,612)	4,774	(519,838)		(31,733)
Reserve revenue	(3,401)	488,105	-	519,838	519,838		31,733
Changes in net position	-	-	(524,612)	\$ 524,612	\$ -		\$ -
Net Position:							
Beginning of year			1,024,472				
End of year			\$ 499,860				

San Diego Metropolitan Transit System
San Diego & Arizona Eastern Railway
Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual
For the Year Ended June 30, 2017

	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		
Operating revenues:							
Miscellaneous operating revenues	\$ 135,000	\$ 130,000	\$ 1,207,495	\$ (1,000,000)	\$ 207,495	\$	\$ 77,495
Total operating revenues	135,000	130,000	1,207,495	(1,000,000)	207,495		77,495
Operating expenses:							
Personnel costs	101,911	51,000	40,914	-	40,914		10,086
Outside services	45,000	250,000	154,751	-	154,751		95,249
Risk management	16,000	15,500	15,766	-	15,766		(266)
Miscellaneous operating expenses	500	4,500	72,347	-	72,347		(67,847)
Depreciation	-	-	17,088	(17,088)	-		-
Total operating expenses	163,411	321,000	300,866	(17,088)	283,778		37,222
Operating income (loss)	(28,411)	(191,000)	906,629	(982,912)	(76,283)		114,717
Reserve revenue	28,411	191,000	-	76,283	76,283		(114,717)
Contributed capital, net	-	-	(1,000,000)	1,000,000	-		-
Changes in net position	\$ -	\$ -	(93,371)	\$ 93,371	\$ -		\$ -
Net Position:							
Beginning of year			19,003,377				
End of year			<u>\$ 18,910,006</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, 2017

	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		
Operating revenues:							
Passenger revenue	\$ 31,994,509	\$ 30,155,000	\$ 29,447,304	\$ -	\$ 29,447,304	\$	(707,696)
Miscellaneous operating revenues	-	1,000	1,927	-	1,927		927
Total operating revenues	31,994,509	30,156,000	29,449,231	-	29,449,231		(706,769)
Operating expenses:							
Personnel costs	701,559	497,185	572,972	-	572,972		(75,787)
Outside services	72,330,190	72,213,322	70,869,312	-	70,869,312		1,344,010
Materials and supplies	49,200	30,500	14,489	-	14,489		16,011
Energy costs	8,269,946	8,043,861	7,984,352	-	7,984,352		59,509
Risk management	15,300	15,300	15,300	-	15,300		-
Miscellaneous operating expenses	2,581,325	2,157,501	2,287,867	-	2,287,867		(130,366)
Depreciation	-	-	19,079,087	(19,079,087)	-		-
Total operating expenses	83,947,520	82,957,669	100,823,379	(19,079,087)	81,744,292		1,213,377
Operating income (loss)	(51,953,011)	(52,801,669)	(71,374,148)	19,079,087	(52,295,061)		506,608

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, 2017

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts	Budget Basis Adjustments	Actuals on Budget Basis	Variance with Final Budget Positive (Negative)
Public support and nonoperating revenues (expenses):						
Federal revenue	13,870,600	13,923,600	13,837,667	-	13,837,667	(85,933)
Transportation Development Act (TDA) funds	33,955,442	35,191,967	32,484,980	-	32,484,980	(2,706,987)
State revenue - other	1,400,000	1,400,000	3,676,560	-	3,676,560	2,276,560
<i>TransNet</i> funds	2,007,867	1,567,000	1,547,431	-	1,547,431	(19,569)
Other local subsidies	719,102	719,102	748,423	-	748,423	29,321
Total public support and nonoperating revenues (expenses):	51,953,011	52,801,669	52,295,061	-	52,295,061	(506,608)
Income (loss) before contributed capital	-	-	(19,079,087)	19,079,087	-	-
Contributed capital, net	-	-	76,175,533	(76,175,533)	-	-
Changes in net position	-	-	57,096,446	\$ (57,096,446)	\$ -	\$ -
Net Position:						
Beginning of year			146,555,699			
End of year			<u>\$ 203,652,145</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, 2017

	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		
Operating revenues:							
Passenger revenue	\$ 26,742,066	\$ 24,052,400	\$ 24,863,742	\$ -	\$ 24,863,742	\$	811,342
Miscellaneous operating revenues	5,000	5,000	10,192	-	10,192		5,192
Total operating revenues	26,747,066	24,057,400	24,873,934	-	24,873,934		816,534
Operating expenses:							
Personnel costs	73,332,540	70,749,017	80,157,201	(10,696,402)	69,460,799		1,288,218
Outside services	1,701,450	2,467,929	3,311,004	-	3,311,004		(843,075)
Materials and supplies	4,362,107	4,459,318	4,541,138	-	4,541,138		(81,820)
Energy costs	6,190,404	5,957,000	5,738,303	-	5,738,303		218,697
Risk management	1,751,738	1,830,027	2,157,063	(205,073)	1,951,990		(121,963)
Miscellaneous operating expenses	10,540,042	9,251,721	9,196,796	-	9,196,796		54,925
Depreciation	-	-	25,188,350	(25,188,350)	-		-
Total operating expenses	97,878,281	94,715,012	130,289,855	(36,089,825)	94,200,030		514,982
Operating income (loss)	(71,131,215)	(70,657,612)	(105,415,921)	36,089,825	(69,326,096)		1,331,516

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, 2017

	Budgeted Amounts		Actuals per Statement of Revenues, Expenses, and Changes in Net Position	Actual Amounts		Variance with Final Budget Positive (Negative)
	Original	Final	Amounts	Budget Basis Adjustments	Actuals on Budget Basis	
Public support and nonoperating revenues (expenses):						
Federal revenue	20,000,000	20,000,000	20,000,000	-	20,000,000	-
Transportation Development Act (TDA) funds	17,190,928	15,939,492	13,365,536	-	13,365,536	(2,573,956)
State Transit Assistance (STA) funds	3,600,000	3,600,000	3,600,956	-	3,600,956	956
State revenue - other	-	-	171,729	-	171,729	171,729
<i>TransNet</i> funds	30,473,171	29,768,000	30,722,805	-	30,722,805	954,805
Other local subsidies	815,000	315,000	315,000	-	315,000	-
Interest expense	(947,884)	(964,880)	(961,069)	-	(961,069)	3,811
Gain (loss) on disposal of assets	-	-	109,724	1,415	111,139	111,139
Total public support and nonoperating revenues (expenses):	71,131,215	68,657,612	67,324,681	1,415	67,326,096	(1,331,516)
Income (loss) before contributed capital	-	(2,000,000)	(38,091,240)	36,091,240	(2,000,000)	-
Reserve revenue	-	2,000,000	-	2,000,000	2,000,000	-
Contributed capital, net	-	-	15,161,698	(15,161,698)	-	-
Changes in net position	-	-	(22,929,542)	\$ 22,929,542	\$ -	\$ -
Net Position:						
Beginning of year			158,593,006			
End of year			<u>\$ 135,663,464</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, 2017

	Budgeted Amounts		Actual Amounts				Variance with Final Budget Positive (Negative)
	Original	Final	Actuals per Statement of Revenues, Expenses, and Changes in Net Position	Budget Basis Adjustments	Actuals on Budget Basis		
Operating revenues:							
Passenger revenue	\$ 42,072,048	\$ 40,666,438	\$ 38,968,409	\$ -	\$ 38,968,409	\$	(1,698,029)
Miscellaneous operating revenues	700,000	720,000	704,246	-	704,246		(15,754)
Total operating revenues	42,772,048	41,386,438	39,672,655	-	39,672,655		(1,713,783)
Operating expenses:							
Personnel costs	34,786,051	35,009,896	36,538,010	(1,240,631)	35,297,379		(287,483)
Outside services	5,874,722	4,999,976	7,037,801	-	7,037,801		(2,037,825)
Materials and supplies	6,911,101	6,625,948	8,481,722	-	8,481,722		(1,855,774)
Energy costs	12,981,900	12,218,000	11,635,848	-	11,635,848		582,152
Risk management	1,806,019	1,828,375	1,682,394	(76,848)	1,605,546		222,829
Miscellaneous operating expenses	16,744,959	17,044,974	17,427,769	(186,291)	17,241,478		(196,504)
Depreciation	-	-	77,064,932	(77,064,932)	-		-
Total operating expenses	79,104,752	77,727,169	159,868,476	(78,568,702)	81,299,774		(3,572,605)
Operating income (loss)	(36,332,704)	(36,340,731)	(120,195,821)	78,568,702	(41,627,119)		(5,286,388)

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, 2017

	Budgeted Amounts		Actuals per Statement of Revenues, Expenses, and Changes in Net Position	Actual Amounts		Variance with Final Budget Positive (Negative)
	Original	Final		Budget Basis Adjustments	Actuals on Budget Basis	
Public support and nonoperating revenues (expenses):						
Federal revenue	23,000,000	23,000,000	23,149,033	(149,033)	23,000,000	-
Transportation Development Act (TDA) funds	8,332,704	8,340,731	10,303,635	(37,258)	10,266,377	1,925,646
State Transit Assistance (STA) funds	-	-	2,700,147	-	2,700,147	2,700,147
State revenue - other	-	-	605,608	-	605,608	605,608
<i>TransNet</i> funds	5,000,000	5,000,000	5,000,000	-	5,000,000	-
Investment earnings	-	-	4,513	-	4,513	4,513
Gain (loss) on disposal of assets	-	-	48,280	2,194	50,474	50,474
Total public support and nonoperating revenues (expenses):	36,332,704	36,340,731	41,811,216	(184,097)	41,627,119	5,286,388
Income (loss) before contributed capital	-	-	(78,384,605)	78,384,605	-	-
Contributed capital, net	-	-	12,861,040	(12,861,040)	-	-
Changes in net position	-	-	(65,523,565)	\$ 65,523,565	\$ -	\$ -
Net Position:						
Beginning of year			1,259,448,235			
End of year			<u>\$ 1,193,924,670</u>			

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STATISTICAL SECTION

(Unaudited)

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

Contents

Financial trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

FINANCIAL TRENDS

DRAFT 10-23-2017

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Business-type activities:										
Net investment in capital assets	\$ 1,739,360	\$ 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
Restricted	4,440	8,750	5,309	6,742	7,255	78,378	7,007	2,548	2,700	-
Unrestricted	(19,615)	(31,668)	(31,900)	181,114	189,837	157,609	173,128	177,158	172,344	185,610
Total business-type activities net position	\$ 1,724,185	\$ 1,737,509	\$ 1,672,631	\$ 1,583,062	\$ 1,493,309	\$ 1,408,803	\$ 1,253,697	\$ 1,257,884	\$ 1,250,149	\$ 1,265,577
Primary government:										
Net investment in capital assets	\$ 1,739,360	\$ 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
Restricted	4,440	8,750	5,309	6,742	7,255	78,378	7,007	2,548	2,700	-
Unrestricted	(19,615)	(31,668)	(31,900)	181,114	189,837	157,609	173,128	177,158	172,344	185,610
Total primary government net position	\$ 1,724,185	\$ 1,737,509	\$ 1,672,631	\$ 1,583,062	\$ 1,493,309	\$ 1,408,803	\$ 1,253,697	\$ 1,257,884	\$ 1,250,149	\$ 1,265,577

Source: Audited financial statements

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Operating revenues:										
Passenger revenue	\$ 93,279	\$ 97,914	\$ 97,615	\$ 93,995	\$ 90,652	\$ 88,094	\$ 84,764	\$ 84,167	\$ 85,192	\$ 75,939
Advertising	1,379	968	816	870	972	784	621	783	925	1,119
Charter	-	-	6	30	1	186	129	128	69	63
Miscellaneous	18,863	15,781	9,349	9,531	4,934	4,445	4,688	4,264	4,874	3,671
Total operating revenues	113,521	114,663	107,786	104,426	96,559	93,509	90,202	89,342	91,060	80,792
Operating expenses:										
Personnel costs	137,021	121,921	114,575	117,092	123,720	112,537	104,329	109,512	101,913	102,847
Outside services	97,800	94,802	84,302	73,859	67,414	66,050	64,037	63,574	65,140	64,940
Transit operations funding	463	491	2,692	4,243	3,571	3,721	4,053	3,758	3,004	3,853
Materials and supplies	13,065	9,715	10,307	9,276	8,469	7,977	7,678	6,680	7,190	7,590
Energy costs	25,552	24,531	28,003	26,044	22,572	22,689	21,932	22,892	25,283	27,211
Risk management	4,276	4,864	5,849	3,610	2,902	4,030	3,924	4,859	4,074	3,898
Miscellaneous	5,934	4,978	4,975	6,244	6,493	5,116	4,899	3,571	2,052	1,975
Depreciation	123,880	119,520	108,199	103,198	92,788	84,811	81,041	98,238	75,499	85,543
Total operating expenses	407,991	380,822	358,902	343,566	327,929	306,931	291,893	313,084	284,155	297,857
Operating income (loss)	(294,470)	(266,159)	(251,116)	(239,140)	(231,370)	(213,422)	(201,691)	(223,742)	(193,095)	(217,065)

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Public support and nonoperating revenues (expenses):										
Grants and contributions	232,775	235,763	235,755	211,517	183,945	325,658	170,850	224,506	176,979	200,879
Investment earnings	636	292	3,065	6,087	6,267	7,622	7,695	9,708	10,584	13,394
Interest expense	(963)	(1,071)	(6,883)	(6,982)	(7,520)	(8,014)	(8,420)	(12,702)	(11,153)	(10,666)
Gain (loss) on disposal of assets	396	2,433	67	(273)	804	(620)	712	(69)	294	88
Other expenses	-	-	-	(13)	(13)	(5)	(139)	(1,075)	(705)	(465)
Total public support and nonoperating revenues (expenses)	232,844	237,417	232,004	210,336	183,483	324,641	170,698	220,368	175,999	203,230
Income (loss) before contributed capital	(61,626)	(28,742)	(19,112)	(28,804)	(47,887)	111,219	(30,993)	(3,374)	(17,096)	(13,835)
Contributed capital, net	48,301	93,619	245,717	118,768	132,182	44,118	26,806	11,110	1,668	18,492
Changes in net position	\$ (13,325)	\$ 64,877	\$ 226,605	\$ 89,964	\$ 84,295	\$ 155,337	\$ (4,187)	\$ 7,736	\$ (15,428)	\$ 4,657

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REVENUE CAPACITY

DRAFT 10-23-2017

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	Other
San Diego Transit					
2008	\$ 23,680	\$ 13,934	\$ 21,863	\$ 10,507	\$ 1,154
2009	27,882	17,177	24,496	14,416	141
2010	26,708	18,267	16,249	21,456	182
2011	26,056	19,894	29,435	18,307	152
2012	27,498	20,709	20,497	17,549	196
2013	28,621	20,266	31,954	18,886	6
2014	27,781	19,336	16,489	20,897	34
2015	27,156	18,096	18,085	28,982	5
2016	26,169	18,000	15,993	35,558	2
2017	24,864	20,000	17,138	31,038	10
San Diego Trolley					
2008	\$ 31,120	\$ 13,881	\$ 4,479	\$ 6,000	\$ 604
2009	33,454	16,616	787	7,043	1,012
2010	33,050	16,449	5,637	5,000	462
2011	34,673	14,912	5,497	5,000	528
2012	35,216	14,989	7,208	5,492	552
2013	35,554	22,426	3,379	5,000	574
2014	40,188	22,913	1,501	5,000	1,256
2015	41,140	21,151	5,047	5,000	628
2016	41,113	21,148	6,040	5,000	698
2017	38,968	23,149	13,609	5,000	704
MTS - Contracted Services					
2008	\$ 21,138	\$ 921	\$ 38,020	\$ 1,285	\$ 67
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	79
2016	30,631	13,827	33,796	2,258	(2)
2017	29,447	13,838	36,162	2,296	2

Source: Audited Financial Statements.

San Diego Metropolitan Transit System

Fare Structure

Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Bus Cash Fares										
One-way fare, local routes	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.00
Senior/disabled, local routes	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	0.75
Urban	-	-	-	-	-	-	-	-	-	2.25
Rapid/Express	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Senior/disabled Rapid/Express	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	0.75
Rapid Express/Premium	5.00	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	2.50	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	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	2.50-5.00	-
Sorrento Valley Coaster Connection	-	-	-	-	-	-	-	-	1.00	-
Senior/disabled Coaster Connection	-	-	-	-	-	-	-	-	0.50	-
Shuttles	-	-	-	-	-	-	-	-	-	1.00
Trolley Cash Fares										
One-way fare, all stations	2.50	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	1.25	1.00
Downtown	-	-	-	-	-	-	-	-	1.25	1.25
Senior/disabled Downtown	-	-	-	-	-	-	-	-	0.60	-
1 station-20+ stations	-	-	-	-	-	-	-	-	-	1.50-3.00
Bus and Trolley Day Passes										
Regional day pass	5.00	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	12.00	14.00	14.00	-	-
Bus and Trolley Monthly Passes										
Regional monthly pass	72.00	72.00	72.00	72.00	72.00	72.00	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	18.00	17.00	16.00
Youth Regional	36.00	36.00	36.00	36.00	36.00	36.00	36.00	36.00	34.00	32.00
14-Day/Half-month	43.00	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	100.00	90.00	-
Senior/disabled Rapid Express/Premium	25.00	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	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	60.00	54.00	-

SOURCE: SANDAG Comprehensive Fare Ordinance, amendments effective July 2014.

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

Fiscal Year Ended	San Diego Transit	San Diego Trolley	MTS-Contracted Services
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
2017	26.21	47.81	36.02

Source: Audited financial statements; calculated as passenger revenue divided by operating expenses (less depreciation, GASB 68 related pension expense and OPEB), interest expense, and miscellaneous expenses.

DEBT CAPACITY

DRAFT 10-23-2017

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

Year ended June 30	Capital Lease - Tower	Capital Lease- Equipment	1995 LRV Lease/ Leaseback	Pension Obligation Bonds	Total	Percentage of Personal Income	Debt per Capita
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	200,116,442	0.15%	65
2010	6,647,108	44,190	119,948,726	61,150,000	187,790,024	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
2017	1,747,713	-	-	17,655,000	19,402,713	0.01%	6

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

- 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

DEMOGRAPHIC AND ECONOMIC STATISTICS

DRAFT 10-23-2017

**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)
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	138,300,000	48,286	10.50%
2011	3,137,283	148,000,000	49,745	10.40%
2012	3,174,808	156,000,000	50,779	9.30%
2013	3,209,225	160,800,000	51,250	7.40%
2014	3,247,522	167,900,000	52,180	6.10%
2015	3,275,546	177,700,000	54,249	5.00%
2016	3,305,481	187,900,000	55,801	5.10%
2017	3,337,300	199,700,000	57,037	4.30%

Source:

(1) California Department of Transportation - Actuals 2007-2015, Forecast 2016-2017

(2) California Employment Development Department, June 2017

**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>
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
2017	165	825	578	1,568

Source: MTS payroll records

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

Company Name	Number of Employees (1)	Percent of 1,563,000 County Total (2)
* Federal Government	35,213	2.25%
University of California, San Diego	32,524	2.08%
Sharp Healthcare	17,962	1.15%
Scripps Health	15,238	0.97%
Qualcomm Inc.	12,600	0.81%
City of San Diego	11,544	0.74%
State of California	9,168	0.59%
Kaiser Permanente	8,965	0.57%
UC San Diego Health System	8,923	0.57%
San Diego Community College District	6,817	0.44%

Source:

- (1) San Diego Business Journal - 2017 Book of Lists. *U.S. Office of Personnel Management data reported for Executive Branch
- (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 10-23-2017

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Operating Cost (in 000's)										
San Diego Transit	\$ 94,878	\$ 95,526	\$ 92,059	\$ 91,568	\$ 98,666	\$ 90,153	\$ 83,457	\$ 93,831	\$ 81,271	\$ 80,031
San Diego Trolley	81,501	75,086	72,637	71,098	65,859	63,309	60,395	60,913	58,537	55,949
MTS-Contract Services	81,744	80,511	76,190	65,959	62,573	61,154	59,536	58,037	59,639	61,451
Farebox Revenue (in 000's)										
San Diego Transit	\$ 24,864	\$ 26,169	\$ 27,156	\$ 27,781	\$ 28,621	\$ 27,498	\$ 26,056	\$ 26,708	\$ 27,882	\$ 23,680
San Diego Trolley	38,968	41,113	41,140	40,188	35,554	35,216	34,673	33,050	33,454	31,120
MTS-Contract Services	29,447	30,631	29,318	26,025	26,476	25,380	24,036	24,410	23,857	21,138
Total Passengers (in 000's)										
San Diego Transit	\$ 24,315	\$ 25,628	\$ 27,264	\$ 28,541	\$ 28,927	\$ 28,802	\$ 27,252	\$ 26,921	\$ 29,762	\$ 28,094
San Diego Trolley	37,639	39,614	40,082	39,695	29,699	32,655	31,613	30,469	36,928	37,621
MTS-Contract Services	26,241	27,194	27,574	23,761	23,479	23,780	22,664	21,988	21,645	21,460
Revenue Miles (in 000's)										
San Diego Transit	\$ 9,626	\$ 9,702	\$ 9,561	\$ 8,695	\$ 8,557	\$ 8,221	\$ 8,178	\$ 8,624	\$ 9,221	\$ 9,522
San Diego Trolley	8,728	8,424	8,596	8,516	7,758	7,544	7,519	7,743	7,895	8,003
MTS-Contract Services	15,144	14,969	13,328	12,139	11,607	11,214	11,196	11,450	12,179	12,501
Subsidy / Total Passenger										
San Diego Transit	\$ 2.88	\$ 2.71	\$ 2.38	\$ 2.24	\$ 2.42	\$ 2.18	\$ 2.11	\$ 2.50	\$ 1.79	\$ 2.01
San Diego Trolley	1.13	0.86	0.79	0.78	1.02	0.86	0.81	0.92	0.68	0.66
MTS-Contract Services	1.99	1.83	1.70	1.68	1.54	1.50	1.57	1.53	1.66	1.88

Source: NTD Report, and audited financial statements.

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

Service Provided	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
San Diego Transit										
Vehicle Revenue Miles (in 000's)	9,626	9,702	9,561	8,695	8,557	8,221	8,178	8,624	9,221	9,522
Vehicle Revenue Hours (in 000's)	822	825	806	795	787	757	754	789	843	870
Passengers (in 000's)	24,315	25,628	27,264	28,541	28,927	28,802	27,252	26,921	29,762	28,094
Passenger Miles (in 000's)	109,727	111,639	117,585	110,009	108,222	106,804	100,500	98,163	107,408	100,256
Number of Vehicles	278	279	272	310	260	236	236	238	247	267
San Diego Trolley										
Vehicle Revenue Miles (in 000's)	8,728	8,424	8,596	8,516	7,758	7,544	7,519	7,743	7,895	8,003
Vehicle Revenue Hours (in 000's)	490	493	496	504	472	428	423	442	410	439
Passenger Car Hours (in 000's)	504	507	509	512	476	433	429	448	416	445
Passengers (in 000's)	37,639	39,614	40,082	39,695	29,699	32,655	31,613	30,469	36,928	37,621
Passenger Miles (in 000's)	210,971	223,185	224,422	228,531	173,151	194,822	193,063	186,509	220,639	206,924
Number of Vehicles	177	177	177	179	178	151	128	134	133	134
MTS-Contracted Services										
Vehicle Revenue Miles (in 000's)	15,144	14,969	13,328	12,139	11,607	11,214	11,196	11,450	12,179	12,501
Vehicle Revenue Hours (in 000's)	1,269	1,252	1,112	998	961	933	927	946	986	1,019
Passengers (in 000's)	26,241	27,194	27,573	23,761	23,479	23,780	22,664	21,988	21,645	21,460
Passenger Miles (in 000's)	95,940	97,479	94,504	85,269	84,021	79,789	82,125	79,237	80,104	77,173
Number of Vehicles	526	520	520	449	427	404	407	369	388	358
Total										
Passengers (in 000's)	88,195	92,436	94,919	91,997	82,105	85,237	81,529	79,378	88,335	87,175
Passenger Miles (in 000's)	416,638	432,303	436,511	423,809	365,394	381,415	375,688	363,909	408,151	384,353

Source: NTD Report and MTS internal capital asset system

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General Operations										
Buildings and structures	1	1	1	1	1	1	1	1	1	1
Nonrevenue vehicles	-	1	3	3	3	5	5	5	7	7
San Diego Transit										
Land (parcels)	2	2	2	2	2	2	2	2	2	2
Buildings and structures	2	2	2	2	2	2	2	2	2	2
Buses	278	279	272	310	260	236	236	238	247	267
Nonrevenue vehicles	12	12	12	12	14	19	22	32	39	53
San Diego Trolley										
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)	177	177	177	179	178	151	128	134	133	134
Nonrevenue vehicles	12	12	16	16	15	31	43	51	68	72
MTS - Contracted Services										
Land (parcel)	2	2	2	2	2	2	1	1	1	1
Buildings and structures	4	4	4	4	4	4	3	3	3	3
Buses	526	520	520	449	427	404	407	369	388	358
Nonrevenue vehicles	9	9	10	8	8	8	10	7	7	9
Taxicab Administration										
Buildings and structures	1	1	1	1	1	1	1	1	1	1
Nonrevenue vehicles	1	1	2	2	2	4	3	3	3	3

Source: MTS ERP System

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Ridership (in 000's)										
San Diego Transit	24,315	25,628	27,264	28,541	28,927	28,802	27,252	26,921	29,762	28,094
% Change	-5.12%	-6.00%	-4.48%	-1.33%	0.43%	5.69%	1.23%	-9.55%	5.94%	7.74%
San Diego Trolley	37,639	39,614	40,082	39,695	29,699	32,655	31,613	30,469	36,928	37,621
% Change	-4.99%	-1.17%	0.98%	33.65%	-9.05%	3.30%	3.75%	-17.49%	-1.84%	7.14%
MTS - Contracted Services	26,241	27,194	27,574	23,761	23,479	23,780	22,664	21,988	21,645	21,460
% Change	-3.51%	-1.38%	16.05%	1.20%	-1.27%	4.92%	3.07%	1.58%	0.86%	1.50%

Source: NTD Report

San Diego Metropolitan Transit System
Operating Subsidy
Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Average Fare per Rider										
San Diego Transit	1.02	1.02	1.00	0.97	0.99	0.95	0.96	0.99	0.94	0.84
San Diego Trolley	1.04	1.04	1.03	1.01	1.20	1.08	1.10	1.08	0.91	0.83
MTS - Contract Services	1.12	1.13	1.06	1.10	1.13	1.07	1.06	1.11	1.10	0.98
Operating Expense per Rider										
San Diego Transit	3.90	3.73	3.38	3.21	3.41	3.13	3.06	3.49	2.73	2.85
San Diego Trolley	2.17	1.90	1.81	1.79	2.22	1.94	1.91	2.00	1.59	1.49
MTS - Contract Services	3.12	2.96	2.76	2.78	2.67	2.57	2.63	2.64	2.76	2.86
Subsidy per Rider										
San Diego Transit	2.88	2.71	2.38	2.24	2.42	2.18	2.11	2.50	1.79	2.01
San Diego Trolley	1.13	0.86	0.79	0.78	1.02	0.86	0.81	0.92	0.68	0.66
MTS - Contract Services	1.99	1.83	1.70	1.68	1.54	1.50	1.57	1.53	1.66	1.88

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, 2017 and 2016, 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 [REPORT DATE].

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.

San Diego, California
[REPORT DATE]

DRAFT 10-23-2017



SAN DIEGO METROPOLITAN TRANSIT SYSTEM

**Presentation to the Audit Oversight Committee
For the Fiscal Year Ended June 30, 2017**

November 2, 2017

Contents

- Management and Auditors' Responsibilities
- Approach to the Audit
- Overview of the Financial Statements
- Financial Indicators and Key Pension Information
- Audit Results





Management and Auditors' Responsibilities

Management Responsibilities

- Responsible for the Financial Statements
- Present the Financial Statements in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP)
- 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 the fair presentation of the financial statements
- Render an opinion on the Financial Statements
- Issue recommendations to Management, if any



Approach to the Audit

The Pun Group's Audit Approach for MTS

- Phase I – Detailed Planning
- Phase II – Risk Based Review of Internal Controls Over Systems and Compliance including:
 - Financial Reporting
 - Revenues and Expenses
 - Payroll and Related Liabilities
 - IT Controls
- Phase III – Validation of Account Balances
- Phase IV – Review Financial Statements and Issue Audit Report Opinion





Overview of the Financial Statements

San Diego Metropolitan Transit System

Summary Statements of Net Position

June 30, 2017 and 2016

	2017	2016
Assets	<u>\$ 1,953,802,000</u>	<u>\$ 1,966,519,000</u>
Deferred Outflows of Resources	<u>70,889,000</u>	<u>35,444,000</u>
Liabilities	<u>287,587,000</u>	<u>249,853,000</u>
Deferred Inflows of Resources	<u>12,919,000</u>	<u>14,601,000</u>
Net Position:		
Net investments in capital assets	1,739,360,000	1,760,427,000
Restricted	4,440,000	8,750,000
Unrestricted <Deficit>	<u>(19,615,000)</u>	<u>(31,668,000)</u>
Total Net Position	<u><u>\$ 1,724,185,000</u></u>	<u><u>\$ 1,737,509,000</u></u>

San Diego Metropolitan Transit System

Summary Statements of Revenues, Expenses and Changes in Net Position For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues		
Operating revenues	\$ 113,521,000	\$ 114,663,000
Nonoperating revenues	233,808,000	238,488,000
Total revenues	<u>347,329,000</u>	<u>353,151,000</u>
Expenses		
Operating expenses	407,991,000	380,822,000
Nonoperating expenses	963,000	1,071,000
Total expenses	<u>408,954,000</u>	<u>381,893,000</u>
(Loss) before Capital Contributions	(61,625,000)	(28,742,000)
Capital Contributions	48,301,000	93,619,000
Changes in Net Position	<u>\$ (13,324,000)</u>	<u>\$ 64,877,000</u>

San Diego Metropolitan Transit System

Summary Statements of Cash Flows

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operations	\$ (167,178,000)	\$ (146,869,000)
Cash Flows from Noncapital Financing Activities	228,297,000	225,892,000
Cash Flows from Capital and Related Financing Activities	(55,566,000)	(64,566,000)
Cash Flows from Investing Activities	<u>630,000</u>	<u>265,000</u>
Changes in cash and cash equivalents	<u>\$ 6,183,000</u>	<u>\$ 14,722,000</u>



Key Pension and OPEB Information

San Diego Metropolitan Transit System

Net Pension Liability June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
MTS Miscellaneous Plan - 1223	\$ 11,438,216	\$ 9,717,218
MTS Miscellaneous 2nd Tier Plan - 30134	7,942	(2,599)
MTS Miscellaneous PEPRA Plan - 26789	34,161	(7,322)
SDTI Miscellaneous Plan - 1406	27,706,592	19,555,041
SDTI PARS Plan	2,595,419	2,165,413
SDTC Retirement Plan	<u>136,322,951</u>	<u>98,098,137</u>
Aggregate Net Pension Liability	<u>\$ 178,105,281</u>	<u>\$ 129,525,888</u>

San Diego Metropolitan Transit System

Pension Expenses

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
MTS Miscellaneous Plan - 1223	\$ 1,234,428	\$ 950,048
MTS Miscellaneous 2nd Tier Plan - 30134	41,984	39,438
MTS Miscellaneous PEPRA Plan - 26789	196,197	122,389
SDTI Miscellaneous Plan - 1406	3,762,002	1,850,776
SDTI PARS Plan	557,087	468,660
SDTC Retirement Plan	<u>23,558,135</u>	<u>11,487,861</u>
 Aggregate Net Pension Liability	 <u><u>\$ 29,349,833</u></u>	 <u><u>\$ 14,919,172</u></u>

San Diego Metropolitan Transit System
Other Postemployment Benefits Plan
Schedule of Funding Progress
For the Year Ended June 30, 2017

	<u>MTS</u>	<u>SDTC</u>	<u>SDTI</u>
Actuarial Value of Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
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



Audit Results

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

For more information, contact:

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Agenda Item No. B2

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 2, 2017

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.

/s/ Paul C. Jablonski

Paul C. Jablonski
Chief Executive Officer

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



Internal Audit Presentation

for the
Audit Oversight Committee
November 2, 2017



Agenda

1. Internal Auditor Roles and Responsibilities
2. Core audit process
3. Changing work emphasis
4. Current work

Internal Auditor Role and Responsibilities at MTS

1. Audits
2. Advisory services
 - Formal, informal, and management memos
3. Fraud prevention and investigation



Audit Selection

What to audit?

- Start with a Risk Assessment
 - Systematic approach to audit selection
- Consider factors such as:
 - Size of a department or function
 - Amount of money budgeted or spent
 - Recent changes in regulation, staffing, processes, or technology



Audit Selection

Evaluate the impact of controls on risk

- Strong controls mitigate inherent risks

Develop Internal Audit Plan

- Listing of planned audits, with a budget



Changing Emphasis

- Fraud - less concerned
- Audits - decrease
- Advisory services - increase
- Management issues - less involvement

Factors Informing Audit Work

- Past job experiences
- Professional standards and guidance
- Discussions with colleagues

Factors Informing Audit Work

- Relationships and communication with MTS management and staff
 - Employees are candid with me and identify problem areas
- Tenure and increased knowledge of MTS and transit industry
 - Improves risk assessment and audit selection



Audit Performance Measures

- Outcome vs. Output
- Litmus test: Am I delivering value?
 1. Helping catalyze change
 2. Bringing important issues to the attention of management
 3. Assurance and assistance

Advisory and Consultation

1. Information Technology - IT Security
2. Procurement - Compliance
3. Procurement - Customer Service Survey
4. Trolley Revenue - Review of Policies and Procedures
5. Business Continuity - Reviewing Draft Plan

Audits, Fraud, and Administrative

Fraud Hotline: No reportable activity; spike in complaints for unknown reasons

Audits: Procurement

Administrative: Risk assessment and internal audit plan for calendar year 2018



Questions?

