



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

Agenda

JOINT MEETING OF THE AUDIT OVERSIGHT COMMITTEE

for the
Metropolitan Transit System
San Diego Transit Corporation, and
San Diego Trolley, Inc.

October 15, 2009

9:00 a.m.
Executive Conference Room

ACTION RECOMMENDED

- A. 1. ROLL CALL
- 2. APPROVAL OF THE MINUTES OF JULY 9, 2009 Approve
- B. COMMITTEE DISCUSSION ITEMS
 - 1. MTS: Draft Fiscal Year 2009 Comprehensive Annual Financial Report (Cliff Telfer) Receive
Action would receive the Draft Fiscal Year 2009 Comprehensive Annual Financial Report (CAFR).
- C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS
- D. PUBLIC COMMENTS
- E. NEXT MEETING DATE: November 5, 2009, at 9:00 a.m.
- F. ADJOURNMENT

Please turn off cell phones and pagers
during the meeting

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

Metropolitan Transit System (MTS) is a California public agency comprised of San Diego Transit Corp., San Diego Trolley, Inc., San Diego and Arizona Eastern Railway Company (nonprofit public benefit corporations), and San Diego Vintage Trolley, Inc., a 501(c)(3) nonprofit corporation, in cooperation with Chula Vista Transit. MTS is the taxicab administrator for seven cities. MTS member agencies include the cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, San Diego, Santee, and the County of San Diego.

DRAFT

AUDIT OVERSIGHT COMMITTEE MEETING FOR THE METROPOLITAN TRANSIT SYSTEM (MTS), SAN DIEGO TRANSIT CORPORATION (SDTC), AND SAN DIEGO TROLLEY, INC. (SDTI)

July 9, 2009

MTS
1255 Imperial Avenue, Suite 1000, San Diego

MINUTES

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

Ms. Lightner moved approval of the minutes of the June 4, 2009, Audit Oversight Committee meeting. Mr. Mathis seconded the motion, and the vote was 5 to 0 in favor.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. MTS: FY 2009 Audit Report (ADM 110.12)

Ms. Linda Musengo, Finance Manager, reported that MTS's external auditors have presented a letter to MTS detailing the procedures they followed during the interim phase of the audit (Attachment A of the agenda item). She added that they made one comment and recommendation. Mr. Ewin expressed his gratitude to Caporicci & Larson for reducing their fees for MTS.

Mr. Ken Pun, Caporicci & Larson, stated that the interim phase of the audit is conducted to determine the nature and extent of the year-end audit. He stated that they also reviewed internal controls for each major accounting system in accordance with Statement of Auditing Standards (SAS) requirements. Mr. Pun then reviewed the Exit Conference Memo discussing the auditor's internal-control evaluation, high-profile items reviewed, and open items, which consisted of preparation of confirmations, engagement letters, and the year-end Prepared-by-Client listing.

Ms. Roma Layosa, Caporicci & Larson, explained that the only observation to be reported consisted of minor inventory discrepancies of immaterial value in the San Diego Trolley storeroom. She then provided details on the discrepancies found and reviewed their recommendation and management's response. Mr. Pun reviewed an observation from last year and reviewed the status of management's efforts to address that observation. In response to a question from Mr. Ewin, Mr. Pun stated that their sample usually consists of items over \$50,000. Ms. Layosa reported that the auditors also conducted an asset inventory. Mr. Pun reported that MTS's internal control risk is low. Mr. Pun then reviewed new pronouncements to be implemented in 2009 and 2010, the year-end schedule, and reports that will be issued.

In response to a question from Mr. Rindone, Mr. Pun reported that the auditors will be reviewing the actuarial study for the San Diego Transit Corporation pension plan to ensure that the financial impact of the pension plan is fairly represented in MTS financial statements. He also advised Mr. Rindone that the Government Accounting Standards Board has no requirements regarding the level of funding for pension plans. Mr. Rindone stated that this is a very important issue to the Committee and that any recommendations regarding it should be reviewed and examined by the Committee. Mr. Ewin requested that Mr. Pun forward him a sample of an SAS 114 letter.

Action Taken

Mr. Selby moved to receive a report on (1) the exit interview (Attachment A of the agenda item) for the interim phase of the FY 2009 audit; and (2) the audit engagement letter (Attachment B of the agenda item) for the FY 2009 audit.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

There were no Committee communications.

D. PUBLIC COMMENTS

There were no public comments.

E. NEXT MEETING DATE:

Chairman Ewin reported that the next Audit Oversight Committee meeting will be held October 1, 2009.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 9:21 a.m,

Chairman

**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) 7/9/09

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

RECESS _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 9:21 a.m.

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWING (Chair) <input checked="" type="checkbox"/>		
LIGHTNER <input checked="" type="checkbox"/> (Young) <input type="checkbox"/>		
MATHIS <input checked="" type="checkbox"/>		
Rotated to Chula Vista		
RINDONE (VC) <input checked="" type="checkbox"/> (Young) (CPT) <input type="checkbox"/>		
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>	9:04 a.m. during Agenda Item B1	
SELBY <input checked="" type="checkbox"/> (Ryan) <input type="checkbox"/>		

SIGNED BY OFFICE OF THE CLERK OF THE BOARD

Gail Williams

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL:

Jeff Leuzen



1255 Imperial Avenue, Suite 1000
San Diego, CA 92101-7490
(619) 231-1466 • FAX (619) 234-3407

Agenda

Item No. B1

JOINT MEETING OF THE AUDIT OVERSIGHT COMMITTEE ADM 110.12 (PC 50101)
for the
Metropolitan Transit System,
San Diego Transit Corporation, and
San Diego Trolley, Inc.

October 15, 2009

SUBJECT:

MTS: DRAFT FISCAL YEAR 2009 COMPREHENSIVE ANNUAL FINANCIAL REPORT
(CLIFF TELFER)

RECOMMENDATION:

That the MTS Audit Oversight Committee receive the Draft Fiscal Year 2009
Comprehensive Annual Financial Report (CAFR).

Budget Impact

None at this time.

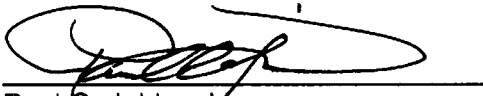
DISCUSSION:

Staff will present a progress report on the Draft Fiscal Year 2009 CAFR highlighting
significant changes from the prior year. As of October 9, 2009, the following items
remain open:

1. Statement of Cash Flows. Normally this is not completed until all entries have
been recorded (accordingly these schedules have been removed but will be
included in the final CAFR).
2. Estimated Liabilities. Staff is awaiting responses to attorney letters, which are
expected this week.
3. Statistical Section. The last section of the CAFR consists largely of unaudited
demographic and other nonfinancial data. A significant portion of this data is not

available until late in October. This section is normally completed after all entries have been recorded.

4. Formatting. Pagination, table of contents, justification of tables, rounding, and other formatting issues will be addressed by Caporicci & Larson in the final publication of the document.
5. Proofreading. The document has not been subjected to a final proofread for typos, misspellings, and other grammatical or syntax errors.
6. Medi-Cal. Revenue attributable to Medi-Cal has not been recorded for 2009. The State of California has audited Medi-Cal claims for FY 2006-2008. As a result of the audit, the method of determining eligible claims has undergone revision. We expect to have information this week that will allow a final Medi-Cal revenue determination for FY 09. Audit findings for the prior years are under review to determine the liability that will be recorded for amounts that may be refundable to the state.



Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Cliff Telfer, 619.557.4532, cliff.telfer@sdmts.com

OCT15-09.B1.DRAFT CAFR.LMUSENGO.doc

Attachment: A. Comprehensive Annual Financial Report (**Audit Oversight Committee Only Due to Volume**)



SAN DIEGO METROPOLITAN TRANSIT SYSTEM SAN DIEGO, CALIFORNIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008



San Diego Metropolitan Transit System

San Diego, California

DRAFT

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

For the years ended June 30, 2009 and 2008

PREPARED BY SAN DIEGO METROPOLITAN TRANSIT SYSTEM
FINANCE DEPARTMENT

Page

Introductory Section (Unaudited):

- Letter of Transmittal
- Listing of Board of Directors and Management
- Executive Level Organization Chart
- Certificate of Achievement for Excellence in Financial Reporting - GFOA

Financial Section:**Independent Auditors' Report****Management's Discussion and Analysis****(Required Supplementary Information) (Unaudited)****Basic Financial Statements:**

- Statements of Net Assets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Basic Financial Statements

Required Supplementary Information (Unaudited):

- Schedule of Funding Progress of Defined Pension Plans
- Schedule of Funding Progress of Other Postemployment Benefits Plans

Supplementary Information:

- Combining Schedule of Net Assets
- Combining Schedule of Revenues, Expenses, and Changes in Net Assets
- Combining Schedule of Cash Flows
- Schedules of Revenues, Expenses and Changes in Net Assets - Budget and Actual:
 - Combined Operations
 - General Operations:
 - General Fund
 - Taxicab Administration
 - San Diego & Arizona Eastern Railway
 - Contract Services
 - San Diego Transit Corporation
 - San Diego Trolley, Inc.

Statistical Section (Unaudited):

- Financial Trends:
 - Net Assets by Component
 - Changes in Net Assets
- Revenue Capacity:

Operating Revenue by Source

Fare Structure

Farebox Recovery Percentages

Debt Capacity:

Ratio of Outstanding Debt by Type

Demographic and Economic Statistics:

Regional Population and Personal Income Statistics

Full-time and Part-time Employees by Function

Ten Largest Employers

Operating Information:

Operating Indicators by Function

Service Performance Data

Capital Asset Statistics by Function

Ridership

Operating Subsidy

INTRODUCTORY SECTION

DRAFT

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, 2009 and 2008 is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. The MTS Board of Directors has established an Audit Oversight Committee to provide an additional level of scrutiny to the preparation of the annual financial report. Management of MTS is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of MTS are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

State statutes require an annual audit by independent certified public accountants. The firm of Caporicci & Larson, CPAs, 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, 2009 and 2008 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that MTS' financial statements for the fiscal years ended June 30, 2009 and 2008 are fairly presented, in all material respects, in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit also was designed to meet the requirements of a broader, federally mandated "Single Audit" to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements required the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The reports related specifically to the Single Audit are issued under separate cover.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

REPORTING ENTITY

The San Diego Metropolitan Transit System was created effective January 26, 1976 to provide the policy setting and overall management coordination of the public transportation system in the San Diego

metropolitan service area. This service area encompasses approximately **2.19** 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. A number of fixed-route operating entities provide the service and have banded together to form a federation of transit service providers called the Metropolitan Transit System (MTS). The purpose of the MTS is to provide coordinated routes, fares, and transfers among the different operating entities.

MTS' mission statement, adopted by the board of directors, is to enhance the personal mobility of San Diego metropolitan area residents and visitors by:

- Obtaining maximum benefit for every dollar spent.
- Being the community's major public transportation advocate.
- Increasing public transportation usage per capita.
- Taking a customer-oriented approach.
- Offering high-quality public transportation services.
- Responding to the community's socioeconomic interests.

Effective January 1, 2003, Senate Bill 1703 (SB 1703) took effect which consolidated the planning, programming, project development, and construction activities of the San Diego Association of Governments (SANDAG), MTS, and North San Diego County Transit District (NCTD) within SANDAG. The legislation called for an initial transfer of the planning and programming functions from MTS to SANDAG by July 1, 2003 and a subsequent transfer of the project development and construction functions by January 30, 2004. Now that the consolidation is complete, MTS' focus has shifted to transit service operations, as SANDAG, in its newly configured role, is responsible for all other facets of transportation planning, programming, and development. MTS has one voting member on the nine-member Transportation Committee within SANDAG. The Transportation Committee assumed the responsibility and decision-making for all transportation-related planning, programming, and development activities. In accordance with the legislation, the planning and programming functions were transferred to SANDAG on July 1, 2003, and the project development and construction activities were transferred to SANDAG on October 13, 2003.

MTS is effectively an umbrella agency. MTS owns the assets of San Diego Trolley, Inc. (SDTI) and San Diego Transit Corporation (SDTC), the area's two largest transit operators. These two transit units were formed under California law as not-for-profit public corporations and function as operating subsidiaries of MTS. SDTI and SDTC are considered component units and are blended component units for financial reporting purposes. SDTI operates three Light Rail Transit (LRT) routes, the Blue Line from the Mission San Diego Station to San Ysidro at the International Border, the Orange Line from the Imperial and 12th Bayside Platform through Centre City and then east to Santee, and the Mission Valley Extension, known as the Green Line. SDTI operates on a total of 54.3 miles of track. SDTC operates 24 routes with an active fleet of 260 buses.

The relationship between MTS and the transit operating subsidiaries, SDTI and SDTC, is formally established through operating agreements and MTS-adopted corporate policies. These agreements and corporate policies specify the roles and responsibilities of each of the organizations and outline the

procedures in numerous functional areas including auditing and budgeting, fare setting, marketing and public information, revenue-producing advertising, service contracts, and programming of federal, state and local subsidies. The MTS Board of Directors has the policy-setting responsibility for the operation and development of MTS' transit operating subsidiaries as well as for the planning and approval of capital expenditures by or on behalf of these entities. The day-to-day operating functions, labor matters and maintenance of facilities are managed by the individual transit operators. MTS has centralized and consolidated Planning, Human Resources, Finance, and Purchasing for MTS and all subsidiaries.

In addition to the bus routes operated by SDTC, MTS is financially accountable for the operation of certain other bus routes. MTS contracts with an outside party for the operation of these bus routes. The contracts require full operation and maintenance of the bus services. These contract services are accounted for in the Other Contracted Services Fund for financial reporting purposes. Effective July 1, 2002, the responsibility for operating the County Transit System (CTS) was transferred from the County of San Diego to MTS. CTS operating services are combined with the Other Contracted Services Enterprise Fund for financial reporting purposes.

MTS owns the San Diego and Arizona Eastern Railway Company (SD&AE), a not-for-profit railroad holding company entrusted with assets which include 108 miles of rail line and over 2,000 acres of property. MTS has a contract with the San Diego and Imperial Valley Railway Co. (SDIV) for the operation of freight rail services over the SD&AE rail line. MTS provides no subsidy to SDIV, but does receive a portion of its gross revenue. SD&AE is considered a component unit and a blended component unit for financial reporting purposes.

MTS also is financially accountable for the operation of Taxicab Administration services, which includes regulating the issuance of taxi and jitney service permits in the Cities of San Diego, El Cajon, Imperial Beach, Lemon Grove, National City, Poway, and Santee.

The MTS Board of Directors is comprised of 15 members with four appointed from the San Diego City Council, one appointed from the San Diego County Board of Supervisors, one appointed from each city council of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, and Santee, and one member of the public elected by other Board members to serve as Chairman.

NATIONAL RECOGNITION

In July 2009, MTS received notification that the agency had been selected as the Outstanding Transit Agency of the Year by the American Public Transportation Association (APTA). This is the highest honor bestowed on transit agencies by the industry association. Competing in the same category with MTS were the largest transit systems in North America, including New York, Los Angeles, Chicago, and Washington, D.C. APTA looked at three-year trends in numerous categories such as rideship, safety, operating revenue and costs, performance, and customer service to determine the winner of the award. MTS was honored at an official award ceremony during the APTA Annual Conference in October.

ECONOMIC CONDITION AND OUTLOOK

Operations

San Diego has felt the effects of the current economic downturn as reflected in higher unemployment and a general reduction in economic activity in the area, but to a lesser degree than state and national economies. Current estimates of San Diego's gross regional product (GRP), total value of the regions' economy, are not available. The events of the past year have had a negative effect on all economic indicators, but recent trends indicate that the extent of the downturn has begun to ease as Fiscal Year 2009 comes to a close. MTS ridership for FY2009 showed expected sensitivity to variations in gasoline prices and unemployment, with an overall slight decrease from the previous year.

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

On a local level, area voters approved a one-half cent transportation sales tax in 1987, called TransNet. One-third of the sales tax proceeds is allocated for transit purposes which is further divided between MTS and North County Transit District (MTS' counterpart in North San Diego County) based on the proportion of the population within the area of each jurisdiction. Prior to FY 2004, 80% of the transit TransNet funds had to be used for expansion of the light rail system. The remaining 20% could be used for operations after funding a reduced price pass program for seniors, disabled, and youth, which is capped at \$5.5 million. As a result of operating budget pressures, the ratio was changed in June 2003 so that up to 40% of the TransNet program can be used for operations (increased from 20%). The original TransNet sales tax expired in 2008, and a reauthorization measure was approved by voters in November 2004 extending the TransNet sales tax for 40 additional years.

As the economy has contracted, sales tax receipts throughout California have declined, which has had a predictable negative effect on the subsidy revenue available to MTS from both TDA and TransNet funds. MTS has responded to the decline in expected subsidy revenue by making judicious adjustments in service, fare structure and administrative costs.

Major Initiatives

With the changes brought about by SB 1703, the MTS focus is now clearly on operations rather than development. Specifically, this is providing quality, efficient, and reliable service to customers using resources to maximum effect. Two major challenges are to align operating costs with recurring revenues and rebuild the capital program in order to be able to replace aging infrastructure. MTS has completed the first year of a 5-year bus procurement program that will replace 350 vehicles and add 20 new buses to its fleet to accommodate planned expanded service, notably the SuperLoop routes that were opened in June in the northern section of the district. The operating costs of these new routes will be largely underwritten by TransNet funds specifically allocated to this purpose. In addition, a program to upgrade and rehab the Blue Line Trolley will begin within the next 12 months.

FINANCIAL MANAGEMENT

Pension Funds

MTS and SDTI contract with the California Public Employees Retirement System (PERS) to provide retirement plans for their employees. The employees of SDTC participate in the San Diego Transit Corporation Employee Retirement Plan, a single-employer public employee retirement plan.

Debt Administration

Capital Leases – MTS has two capitalized lease obligations with current year debt service of \$546 thousand. One lease obligation is the result of a joint venture arrangement whereby the joint venture issued certificates of participation (COPs) for the construction of the MTS Tower, and MTS services the debt through lease payments. The other is a lease purchase agreement for the acquisition of telecommunications equipment.

On the COP issue, the rating, which was based on the strength of the joint venture and the primary lessor (the County of San Diego), was Aaa by Moody's Investors Service and AAA by Standard & Poor's Corporation.

Finance Obligations – MTS has one finance obligation resulting from a Light Rail Vehicle (LRV) lease/leaseback transaction. Proceeds from this transaction have been placed into investments that mature at values sufficient to cover all remaining obligations as well as amounts necessary to exercise the repurchase option. Total debt service for FY 09 was \$1.2 million.

Pension Obligation Bonds – MTS issued Taxable Pension Obligation Bonds (POBs) in 2004 to reduce the unfunded liability in the SDTC retirement plan. Total debt service was \$1.55 million for FY 2009 and \$1.5 million for FY 2008. This obligation is reported by SDTC. As a result of the crisis in the credit markets, the rating of the agency insuring some of these bonds was downgraded to a point that required MTS to repurchase over 40% of the bonds outstanding. MTS reports this transaction as a long-term investment.

Cash Management

To facilitate optimum management of MTS' resources, balances in all cash accounts within the organization, including MTS, SDTC and SDTI, are swept nightly to one concentration account. MTS cash in excess of funds required for short term needs form a pool of cash for short-term investment, except for restricted funds, which are generally held by outside custodians on behalf of capital projects and debt service requirements. MTS' funds are invested in accordance with its written policy which is consistent with the California Government Code 53600. Further details of MTS' cash and investments at June 30, 2009 and 2008 are set forth in Note 2 to the financial statements.

Risk Management

MTS (including Taxicab Administration and SD&AE), SDTI, and SDTC are protected against the adverse consequences of material or financial loss through a balanced program of risk retention and the purchase of commercial insurance. MTS, SDTI, and SDTC are insured for liability, property, crime, and workers' compensation claims under a combined insurance program. Claims in excess of the various deductibles and self-insured retention amounts which range from \$10,000 to \$2,000,000 are insured with commercial carriers up to \$75,000,000 for liability and up to \$600,000,000 for property damage.

Acknowledgments

The preparation of this report was accomplished with the cooperation of MTS' management and staff. We express our appreciation to the staff members who contributed to the preparation of this report.

November 30, 2009

BOARD OF DIRECTORS**Members**

Harry Mathis
 Jerry Rindone
 Merrilee Boyack
 Ernest Ewin
 Kevin Faulconer
 Todd Gloria
 Sherri Lightner
 Bob McClellan
 Fred McLean
 Al Ovrom
 Ron Roberts
 Hal Ryan
 Jerry Selby
 Tony Young
 Rosalie Zarate

Board position (elected position)

Chairman, since 1/06
 Vice Chairman, since 7/91 (Deputy Mayor, City of Chula Vista)
 Board Member, since 12/08 (Councilmember, City of Poway)
 Board Member, since 3/05 (Councilmember, City of La Mesa)
 Board Member, since 1/06 (Councilmember, City of San Diego)
 Board Member, since 1/09 (Councilmember, City of San Diego)
 Board Member, since 1/09 (Councilmember, City of San Diego)
 Board Member, since 4/08 (Councilmember, City of El Cajon)
 Board Member, since 1/06 (Councilmember, City of Imperial Beach)
 Board Member, since 12/08, (Councilmember, City of Coronado)
 Board Member, since 12/89 (County Board of Supervisors)
 Board Member, since 1/04 (Vice Mayor, City of Santee)
 Board Member, since 1/09 (Councilmember, City of Lemon Grove)
 Board Member, since 1/05 (Councilmember, City of San Diego)
 Board Member, since 1/07 (Councilmember, National City)

MTS MANAGEMENT**Staff**

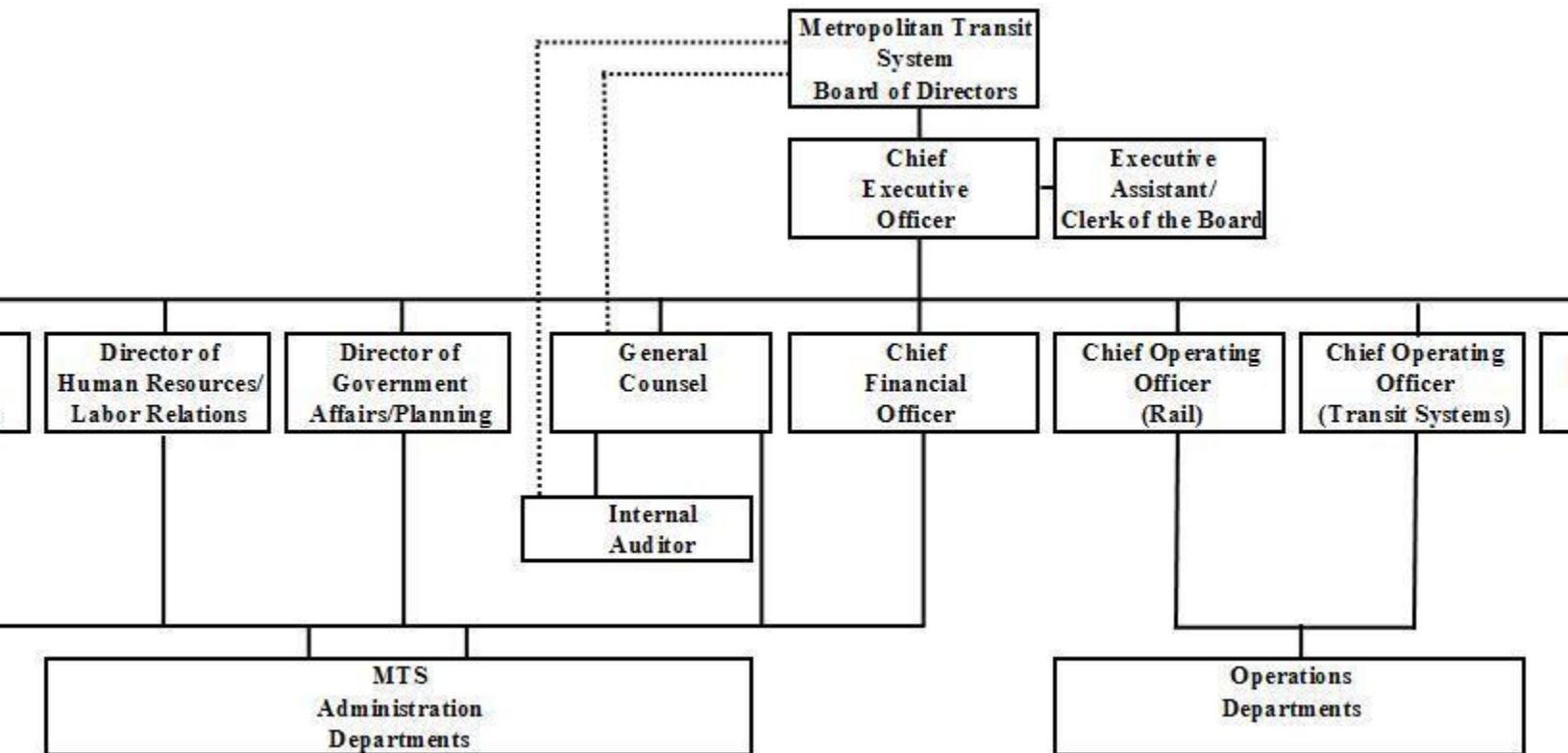
Paul Jablonski
 Tiffany Lorenzen
 Cliff Telfer
 Claire Spielberg
 E. Wayne Terry
 Sharon Cooney
 Robert Schupp
 Jeff Stumbo

Position

Chief Executive Officer
 General Counsel
 Chief Financial Officer
 Chief Operating Officer, Transit Systems (SDTC, Contracted Services)
 Chief Operating Officer, Rail (SDTI)
 Director, Planning/Government Affairs and Community Relations
 Director, Marketing and Communications
 Director, Human Resources and Labor Relations

San Diego Metropolitan Transit System Executive Level Organization Chart

DRAFT



**San Diego Metropolitan Transit System
Certificate of Achievement for Excellence in Financial Reporting - GFOA**

**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, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2009 and 2008

The following discussion and analysis of the financial performance of the San Diego Metropolitan Transit System (MTS) is intended to provide an overview of MTS' financial activities for the fiscal years ended June 30, 2009 and 2008. This information should be used in conjunction with the Letter of Transmittal, which can be found on pages 1 through 6 of this report.

Financial Highlights

- Net assets, as reported in the statement of net assets, totaled \$1,249 million as of June 30, 2009, \$1,265 million as of June 30, 2008 and \$1,261 million as of June 30, 2007. Of this amount, \$174 million was unrestricted as of June 30, 2009, \$186 million was unrestricted as of June 30, 2008, and \$163 million was unrestricted as of June 30, 2007. Total net assets decreased by \$16 million in the current year and increased by \$5 million in the prior year. The current year decrease is largely attributable to a reduction in state funding in the current year.

For the year ended June 30, 2009, 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 42.4% compared to 38.2% for the year ended June 30, 2008 and 37.1% for the year ended June 30, 2007. A number of factors have brought about this increase, principally revisions in the fare structure and agency-wide focus on cost savings in every expense category.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MTS' financial statements. MTS' financial statements comprise two components: 1) financial statements and, 2) notes to financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

Financial statements. The financial statements are designed to provide readers with a broad overview of MTS' finances, in a manner similar to a private-sector business. In fiscal year 2009, MTS presents comparative statements for FY 2009 and FY 2008.

The *statement of net assets* presents information on all of MTS' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets* presents information showing how the net assets changed during the most recent fiscal year. All changes in net assets 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).

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2009 and 2008

Since MTS' primary function is to provide transportation services to the region's citizens and recover costs through user fees and charges, the financial statements include business-type activities. In addition, the financial statements include not only MTS itself (*known as the primary government*), but also two legally separate transit operators and one legally separate freight railway, for which MTS is financially accountable: San Diego and Arizona Eastern Railway Company (SD&AE).

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other information. In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning MTS' progress in funding its obligation to provide pension benefits to its employees.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of MTS, assets exceeded liabilities by \$ 1,249 million at the close of the most recent fiscal year and \$1,266 million at the end of FY 2008.

The largest portion of MTS' net assets reflects the investment in capital assets, net of related debt. Most of the investment in capital assets is comprised of trolley system assets, buses, and construction-in-progress totaling \$42 million, of which the largest projects under construction include residual costs for the Mission Valley East Trolley project and the San Ysidro Transit Center project, \$14 million; the Bus Rapid Transit project, \$11 million; trolley refurbishing projects, \$3.8 million; and the bus purchase program, \$2 million. Prior year construction-in-progress totaled \$71.1 million, of which the largest projects were the Automated Fare Collection System and the Bus Rapid Transit Project (\$40 million and \$11 million, respectively). 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 FY 2009 MTS transferred completed projects worth \$97 million to SDTC, SDTI, Other Contracted Services and other governments. In FY 2008, MTS transferred completed projects worth \$52.4 million to SDTC, SDTI and Other Contracted Services.

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2009 and 2008

The balance in unrestricted assets decreased by \$ 11 million during the current year and increased \$22 million in the prior year.

	June 30, 2009	June 30, 2008	Change	June 30, 2007	Change
Current and other assets	\$ 319,310,472	\$ 344,003,642	(24,693,170)	326,690,827	17,312,815
Capital assets	1,203,656,117	1,210,312,975	(6,656,858)	1,256,454,253	(46,141,278)
Total assets	1,522,966,589	1,554,316,617	(31,350,028)	1,583,145,080	(28,828,463)
Long-term liabilities outstanding	230,400,972	234,980,747	(4,579,775)	242,450,090	(7,469,343)
Other liabilities	43,177,814	53,759,365	(10,581,551)	79,775,425	(26,016,060)
Total liabilities	273,578,786	288,740,112	(15,161,326)	322,225,515	(33,485,403)
Net assets (deficit):					
Invested in capital assets net of related debt	1,075,104,675	1,079,967,043	(4,862,368)	1,097,675,395	(17,708,352)
Unrestricted	174,283,113	185,609,462	(11,326,349)	163,244,169	22,365,293
Total net assets	\$ 1,249,387,788	\$ 1,265,576,505	(16,188,717)	1,260,919,564	4,656,941

Increases in operating revenue are attributable to fare adjustments implemented in the current year. Capital and operating grants and contributions continue to be a major portion of the revenue used to fund transit operations and capital projects. Variances between FY 2009 and FY 2008 are largely attributable to receipt of Proposition 1B funding in FY 2008 designated for the purchase of additional buses.

	June 30, 2009	June 30, 2008	Change	June 30, 2007	Change
Revenues:					
Operating revenues	\$ 91,060,353	\$ 80,792,307	10,268,046	73,384,332	7,407,975
Nonoperating revenues	187,095,958	214,361,251	(27,265,293)	196,421,308	17,939,943
Total revenues	278,156,311	295,153,558	(16,997,247)	269,805,640	25,347,918
Expenses:					
Operating expenses	284,155,013	297,857,331	(13,702,318)	270,338,715	27,518,616
Nonoperating expenses	11,858,487	11,131,184	727,303	14,585,341	(3,454,157)
Total expenses	296,013,500	308,988,515	(12,975,015)	284,924,056	24,064,459
Increase (decrease) in net assets before capital contributions	(17,857,189)	(13,834,957)	(4,022,232)	(15,118,416)	1,283,459
Capital contributions	1,668,471	18,491,897	(16,823,426)	27,728,531	(9,236,634)
Increase/(decrease) in net assets	(16,188,718)	4,656,940	(20,845,658)	12,610,115	(7,953,175)
Net assets-beginning of year	1,265,576,505	1,260,919,565	4,656,940	1,248,309,449	12,610,116
Net assets-end of year	\$ 1,249,387,787	1,265,576,505	\$(16,188,718)	1,260,919,564	4,656,941

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2009 and 2008

Capital Asset and Debt Administration

Capital assets. MTS' investment in capital assets net of depreciation as of June 30, 2009 and 2008 amounted to \$1,204 million and \$1,210 million. This investment in capital assets includes land, buildings, vehicles, equipment, and construction-in-progress. Major capital asset events during the current fiscal year included the following:

- MTS has begun a multi-year bus acquisition program, and has expended \$41.6 million in the current year for vehicles delivered to SDTC and Other Contracted Services.
- Construction on the Automated Fare Collection System was completed this year for a total cost of \$47 million.
- Completed capital projects totaling \$15 million were transferred from SANDAG to MTS and its component units during FY 2009.

	CAPITAL ASSETS (Net of depreciation)		
	2009	2008	2007
Land	221,853,921	221,853,921	221,858,391
Buildings	684,418,244	720,488,894	703,841,608
Vehicles	205,194,291	172,200,068	203,308,050
Equipment & other	49,825,608	24,659,028	25,226,977
Construction-in-progress	42,364,049	71,111,063	102,219,226
Total	<u>1,203,656,113</u>	<u>1,210,312,974</u>	<u>1,256,454,252</u>

Additional information on MTS' capital assets can be found in Note 3 to the financial statements.

Long-term debt. At the end of the current fiscal year, MTS has two capital lease obligations outstanding in the amounts of \$7.1 million and \$117,000. In addition, MTS has two finance obligations outstanding relating to a lease/leaseback transaction entered into in 1995 and Pension Obligation Bonds issued in fiscal year 2005, for a total obligation of \$192.9 million. In connection with the lease/leaseback transaction, MTS placed funds on deposit, which, together with the interest earned on the deposits, will be sufficient to cover the amounts due under the finance obligation. The pension obligation bonds were issued in fiscal 2005 for \$77.5 million to make a contribution to the SDTC retirement plan and reduce its unfunded liability. During the current year, MTS repurchased 46% of the bonds outstanding due to a degradation of the insurer's credit rating.

San Diego Metropolitan Transit System**Management's Discussion and Analysis****June 30, 2009 and 2008**

Bond Ratings

Moody's Investor's service provided an intrinsic rating for the Pension Obligation Bonds at Aaa in 2004. Additional information on MTS' long-term debt can be found in Note 6 to the financial statements. [to be updated]

Requests for Information

This financial report is designed to provide a general overview of MTS' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, MTS, 1255 Imperial Avenue, Suite 1000, San Diego, CA 92101.

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

DRAFT

DRAFT
San Diego Metropolitan Transit System
Statement of Net Assets
For the Years Ended June 30, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 20,658,670	\$ 83,713,551
Investments restricted for debt service payable within one year	1,343,918	1,247,951
Accounts and other receivables	6,943,252	9,137,277
Due from other governments	55,061,696	53,529,439
Materials and supplies inventory	8,635,642	8,114,496
Prepaid expenses and other current assets	2,019,619	1,566,377
Total current assets	<u>94,662,797</u>	<u>157,309,091</u>
Noncurrent assets:		
Cash and certificates of deposit restricted for capital support	8,302,976	5,595,161
Investment in bonds	35,630,000	-
Investments restricted for debt service and capital projects	116,511,426	115,277,738
Unamortized bond issuance cost	1,077,635	1,141,014
Capital assets (net of accumulated depreciation)	1,203,656,117	1,210,312,975
Net pension assets	63,125,638	64,680,638
Total noncurrent assets	<u>1,428,303,792</u>	<u>1,397,007,526</u>
Total assets	<u>\$ 1,522,966,589</u>	<u>1,554,316,617</u>

See Accompanying Notes to Basic Financial Statements

DRAFT
San Diego Metropolitan Transit System
Statement of Net Assets, Continued
For the Years Ended June 30, 2009 and 2008

	2009	2008
Liabilities		
Current liabilities:		
Accounts payable	7,670,701	15,502,799
Due to other governments	4,752,263	13,312,768
Unearned revenue	1,943,100	459,585
Accrued expenses	12,544,342	10,044,594
Retentions payable	59,944	132,999
Due within one year:		
Bond premium	25,148	25,148
Compensated absences payable	6,669,442	6,795,489
Accrued damage, injury, and employee claims	5,986,457	4,136,494
Long-term debt	2,182,499	2,101,539
Long-term debt payable from restricted assets	1,343,918	1,247,950
Total current liabilities	43,177,814	53,759,365
Noncurrent liabilities:		
Retentions payable from restricted assets	5,603,327	5,595,161
Long-term debt payable from restricted assets	116,511,426	115,277,738
Bond Premium	236,809	261,957
Compensated absences payable, due in more than one year	5,404,973	5,954,108
Accrued damage, injury, and employee claims, due in more than one year	14,519,033	19,142,359
Accrued other post employment benefits	8,046,806	3,910,722
Long-term debt, due in more than one year	80,078,598	84,838,702
Total noncurrent liabilities	230,400,972	234,980,747
Total liabilities	273,578,786	288,740,112
Net Assets		
Invested in capital assets, net of related debt	1,075,104,675	1,079,967,043
Unrestricted	174,283,113	185,609,462
Total net assets	\$ 1,249,387,788	1,265,576,505

See Accompanying Notes to Basic Financial Statements

DRAFT
San Diego Metropolitan Transit System
Schedule of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2009 and 2008

	2009	2008
Operating revenues:		
Passenger revenue	\$ 85,192,330	\$ 75,938,626
Advertising	924,522	1,118,697
Charter	68,801	63,435
Miscellaneous operating revenues	4,874,700	3,671,549
Total operating revenues	91,060,353	80,792,307
Operating expenses:		
Personnel costs	100,357,799	101,347,479
Outside services	65,139,831	64,940,409
Transit operations funding	3,003,698	3,852,449
Materials and supplies	7,190,088	7,590,216
Energy costs	25,283,357	27,210,670
Risk management	4,074,104	3,898,094
Miscellaneous operating expenses	2,052,156	1,974,588
Amortization of net pension asset	1,555,000	1,500,000
Depreciation	75,498,980	85,543,426
Total operating expenses	284,155,013	297,857,331
Operating income (loss)	(193,094,660)	(217,065,024)
Public support and nonoperating revenues:		
Federal revenue	68,171,984	47,889,694
Transportation Development Act (TDA) funds	75,517,474	79,271,656
State Transit Assistance (STA) funds	9,121,443	14,622,782
State revenue - other	3,331,331	41,158,739
TransNet funds	19,039,223	16,968,565
Other local subsidies	1,036,246	967,638
Investment earnings	10,584,251	13,394,279
Interest expense	(11,153,556)	(10,666,621)
Gain (loss) on disposal of assets	294,006	87,898
Other expenses	(641,552)	(141,711)
Amortization of bond issuance costs	(63,379)	(322,852)
Total public support and nonoperating revenues (expenses)	175,237,471	203,230,067
Income (loss) before contributed capital	(17,857,189)	(13,834,957)
Contributed capital	1,668,471	18,491,897
Change in net assets	(16,188,718)	4,656,940
Net assets, beginning of year	1,265,576,505	1,260,919,565
Net assets, end of year	\$ 1,249,387,787	\$ 1,265,576,505

See Accompanying Notes to Basic Financial Statements

NOTES TO BASIC FINANCIAL STATEMENTS

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT**

Table of Contents**Note 1. Summary of Significant Accounting Policies**

- a. Reporting Entity
- b. Financial Statements
- c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
- d. Use of Restricted/Unrestricted Net Assets
- e. Cash, Cash Equivalents, and Investments
- f. Materials and Supplies Inventory
- g. Prepaid Items and Other Assets
- h. Capital Assets
- i. Construction-in-Progress
- j. Net Pension Asset
- k. Compensated Absences
- l. Long-Term Obligations
- m. Refunding of Debt
- n. Use of Estimates

Note 2. Cash, Cash Equivalents, and Investments**Note 3. Accounts Receivable**

- a. Accounts and other receivables
- b. Due from other governments

Note 4. Inventory**Note 5. Capital Assets****Note 6. Construction Commitments****Note 7. Net Pension Asset****Note 8. Due to other governments****Note 9. Unearned revenue****Note 10. Long-Term Debt**

- a. Summary
- b. Capital Leases
- c. Finance Obligations
- d. Pension Obligation Bonds
- e. 1995 LRV Lease/Leaseback

Note 11. Risk Management**Note 12. Contingencies****Note 13. Post-Employment Health Care Benefits****Note 14. Employee Retirement Systems**

- a. MTS and SDTI
- b. SDTC

Note 15. Other Required Individual Fund Disclosures**Note 16. Subsequent Events**

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

(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 (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting standards. The more significant of MTS' accounting policies are described below.

(a) *Reporting Entity*

MTS (formerly 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 from each City Council of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, and Santee, and one appointee from the San Diego County Board of Supervisors and a chairman elected by the other 14 members.

On January 1, 2003, California Senate Bill 1703 (SB 1703) became effective. SB 1703 required the consolidation of the planning and programming functions of MTS and the North San Diego County Transit District (NCTD) into the San Diego Association of Governments (SANDAG) in an initial transfer to take place prior to July 1, 2003. SB 1703 also required the consolidation of the project development and construction functions of MTS and NCTD into SANDAG in a subsequent transfer to take place prior to January 30, 2004. The initial transfer occurred on July 1, 2003, and the subsequent transfer occurred on October 13, 2003. With these actions, employees were transferred from MTS and NCTD to SANDAG, and certain planning, development, and construction functions were also transferred. As a result, MTS' activities in the future will be 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 FY 2004, SDTC and SDTI are presented as blended component units.

As required by GAAP, these basic financial statements present MTS and its legally separate component units, entities for which MTS is considered to be financially accountable. GASB Statement No. 14, *The Financial Reporting Entity*, discusses the criteria used to determine the reporting status of the primary government's component units. 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.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

Blended component units, although legally separate entities, are, in substance, part of MTS' operations.

Included within the reporting entity as blended component units:

San Diego Transit Corporation: On July 1, 1985, MTS purchased the assets used by and acquired sole ownership of San Diego Transit Corporation (SDTC) from the City of San Diego for \$1. SDTC has entered into an operating agreement with MTS to operate a public transportation bus system in the City of San Diego and certain regional routes within MTS' jurisdictions. The current agreement, which was approved in December, 2006, will expire June 30, 2010. SDTC continues to provide local service to a number of adjoining cities under pre-existing contracts. Purchases or construction of bus capital items are made by MTS with whom title remains, and are contributed to SDTC upon completion of a project or when individually purchased by MTS. SDTC's assets, liabilities, net assets, revenues, and expenses are included in MTS' financial statements as a blended component unit. This agency has the same governing board as MTS and provides services directly to the public.

San Diego 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, will expire June 30, 2010. Purchases or construction of LRT capital items are made by MTS with whom title remains, and are contributed to SDTI upon completion of a project or when individually purchased by MTS. SDTI's assets, liabilities, net assets, revenues, and expenses are included in MTS' financial statements as a blended component unit. This agency has the same governing board as MTS and provides services directly to the public.

San Diego and Arizona Eastern Railway Company: MTS purchased the San Diego and Arizona Eastern Railway Company (SD&AE) in 1979. SDTI operates on a portion of the line and private operators provide freight service on a portion of the line. Purchases of capital items are made by MTS with whom title remains, and are contributed to SD&AE when purchased by MTS. SD&AE's assets, liabilities, net assets, revenues, and expenses are included in MTS' financial statements as a blended component unit. This agency has a separate governing board, which is appointed by MTS. Separate financial reports are not available.

(b) Financial Statements

The Financial Statements (i.e., the statement of net assets, the statement of revenues, expenses and changes in net assets, and statement of cash flows) report information on all of the activities of the primary government and its component units. Interfund activity has been eliminated from these statements. The statement of revenues, expenses, and changes in net assets demonstrates the degree to which the direct expenses of a given function or segment are offset by program

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT**

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. All other revenue items are considered to be measurable and available only when cash is received by MTS.

MTS receives funding primarily from the following revenue sources:

Passenger Revenue

Passenger fares make up approximately **38** percent of MTS' **\$224** million operating budget.

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. MTS receives Section 5307 and Section 5309 grants which are earmarked for capital assistance and preventive maintenance. In addition, MTS also receives Section 5311, Section 5311F, and Job Access Reverse Commute (JARC) grants which are used for operations.

Transit Security Grant Program (TSGP)

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

The Transit Security Grant Program (TSGP) is administered by the Department of Homeland Security (DHS). The program provides funds to owners and operators of transit systems to protect critical surface transportation infrastructure and the traveling public from acts of terrorism, major disasters, and other emergencies.

Compressed Natural Gas Rebate

Refunds on nontaxable uses of fuel are issued by the IRS.

Transportation Development Act (TDA)

TDA provides funding for public transit operators. This state fund is one quarter of a percent of the 8.75 percent sales tax assessed in the region. In April, 2009, the sales tax rate in San Diego was increased from 7.75% to 8.75%. SANDAG is responsible for apportionment of these funds within the San Diego region. Due to the current economic climate, the collection of sales tax has decreased, and as a result the TDA funds available for disbursement have decreased 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. The California state budget has been severely impacted as a result of the current economic crisis. As a result STA funding has been discontinued for fiscal year 2010 and subsequent years through fiscal year 2012.

Proposition 1B Revenue (Prop 1B)

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

Other State Revenue

MediCal provides further funding support specifically tied to several ADA Paratransit routes to aid patients in their transportation to medical appointments.

TransNet

TransNet funds are derived from the Proposition A one-half cent local transportation sales tax which was approved by area voters in November 1987. The original ordinance expired in

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

2008, but has been extended to 2048 by subsequent voter approval. The ordinance allocated one-third of the sales tax proceeds for transit purposes, which are further divided between MTS and North County Transit District (NCTD) based on the proportion of the population with the area of each jurisdiction. TransNet funds are also apportioned by SANDAG.

Other Local Subsidies

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

(d) *Use of Restricted/Unrestricted Net Assets*

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

(e) *Cash, Cash Equivalents, and Investments*

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

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.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value.

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

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), certain disclosure requirements, if applicable for deposit and investment risk, are specified for the following areas:

- Interest Rate Risk
- Credit Risk

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

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

(f) *Materials and Supplies Inventory*

Inventories are valued at the weighted average unit cost.

(g) *Prepaid Items and Other Assets*

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

(h) *Capital Assets*

Capital assets include land and right-of-way, buildings and infrastructure assets, vehicles, and equipment. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements are recorded as assets. Legal title of all SDTC property and equipment was transferred from the City of San Diego to MTS effective with MTS' purchase of SDTC on July 1, 1985. SDTC has recorded these assets at net book value in order to reflect SDTC's custodial accountability for the assets. Legal title of all County Transit System (CTS) property and equipment was transferred from the County of San Diego to MTS effective with MTS' acquisition of CTS on July 1, 2002. MTS has recorded these assets at net book value.

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 30

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

Equipment and other capital assets	3 to 10
Capital leases	3 to 40

(i) Construction-in-Progress

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

(j) Net Pension Asset

A pension asset is created when an employer pays into a retirement plan amounts in excess of its annual required contribution (ARC). The ARC is an actuarially calculated amount that is sufficient to fund future costs and extinguish any existing unfunded actuarial accrued liability (UAAL). In October 2004, MTS made a payment of \$76,282,336 to SDTC Retirement Plan from the proceeds of the issuance of pension obligation bonds, of which \$69,050,638 was to reduce SDTC's UAAL as calculated at that time. The prepaid Net Pension Asset will be amortized over the life of the bonds on a straight line basis.

(k) Compensated Absences

It is MTS' policy to permit employees to accumulate earned but unused personal leave time, which includes both **vacation and sick pay benefits**. All personal leave time is accrued when incurred.

(l) Long-Term Obligations

Long-term obligations are reported as liabilities. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the straight-line method. Long-term debt is reported net of the applicable bond premium or discount. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

(m) Refunding of Debt

Gains or losses occurring from advance refunding of debt of the governmental funds have been deferred and are being amortized into expense using the straight-line method over the original remaining life of the old debt or the life of the new debt, whichever is less.

(n) Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT**

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.

(2) Cash, Cash Equivalents, and Investments

A summary of cash and investments at June 30, 2009 and 2008:

	2009	2008
Cash and equivalents	\$ 20,658,670	\$ 83,713,551
Cash and certificates of deposit restricted for capital support	8,302,976	5,595,161
Investments restricted for debt service and capital projects - Current	1,343,918	1,247,951
Investments restricted for debt service and capital projects - Noncurrent	116,511,426	115,277,738
Investment in SDTC Pension Obligation Bonds	35,630,000	
Total cash and investments	<u>\$ 182,446,990</u>	<u>\$ 205,834,401</u>

Cash, cash equivalents, and investments consisted as follows on June 30, 2009 and 2008:

Investment type	Fair value 2009	Fair value 2008
Cash and equivalents:		
Demand Deposits	\$ 12,651,905	\$ 19,929,934
Retention Trust Account	5,603,327	5,595,161
State of California - Local Agency Investment Fund	10,706,413	63,783,617
Total cash and cash equivalents	<u>28,961,645</u>	<u>89,308,712</u>
Investments:		
U.S. Treasuries	32,903,799	30,278,476
SDTC Pension Obligation Bonds	35,630,000	-
Bank Investment Contract	84,951,545	86,247,213
Total investments	<u>153,485,344</u>	<u>116,525,689</u>
Total cash, cash equivalents, and investments	<u>182,446,989</u>	<u>205,834,401</u>

At year end the carrying amount of demand deposits was \$12,651,905 and the bank balance was \$13,251,711 compared to \$19,929,934 and \$29,300 in the previous year, of which the total amount was collateralized or insured with securities held by the pledging financial institutions in MTS' name as discussed below.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

All cash accounts in MTS, including SDTC and SDTI, are pooled and swept nightly to a concentration account. Until March of 2009, funds in the concentration account were swept to overnight investment products managed under the terms of the MTS banking services contract. MTS discontinued this investment practice in FY09 due to the significant decrease in interest earnings and the increase in related bank fees. Funds required to be held by fiscal agents under the provisions of bond indentures are not included in the pooled cash account.

Investments

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

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

Local Agency Investment Funds

MTS' investments with Local Agency Investment Fund (LAIF) include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

- Structured Notes - debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
- Asset-Backed Securities - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

As of June 30, 2009, MTS had \$10,706,413 invested in LAIF which had invested 13.23% of the pool investment funds in Structured Notes and Asset-Backed Securities compared to \$63,783,617 and 14.72% at June 30, 2008.

Investment in SDTC Pension Obligation Bonds

During fiscal year 2009, MTS purchased 92% of the outstanding variable rate pension obligation bonds (POBs) issued by San Diego Transit Corp. for \$35,630,000. This action was necessary because the credit rating of the company insuring the bonds was degraded to a point that required MTS to repurchase the bonds. The current interest rate provided by the bonds is 2.25%. Interest in the amount of \$1,385,457 earned by MTS from the bond investment is included in interest income recorded in the Statement of Revenues, Expenses and Changes in Net Assets. Interest expense in the amount of \$1,632,454 paid by SDTC related to the variable rate bonds is included in interest expense recorded in the Statement of Revenues, Expenses and Changes in Net Assets.

Continuing efforts to either sell the bonds or restructure the debt are underway. The bond obligation is presented in the liabilities section of the Statement of Net Assets. See note 10d for detailed information about the bond issuance.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, MTS' investment policy limits investments to a maximum of five years unless otherwise approved by the Board. The investment instruments with maturities beyond five years are held for scheduled repayment of long-term debt. Maturities are scheduled to permit MTS to meet all projected obligations.

Credit Risk

MTS' investment policy limits investments in commercial paper and negotiable certificates of deposit to instruments rated A or better by Standard and Poor's or Moody's Investor Services, Inc. In the current year, MTS does not hold investments in commercial papers or certificates of deposit. Other investment instruments, including deposits in LAIF; US Government taxable bonds; Pension Obligation Bonds issued by SDTC, a component unit of MTS; and a bank investment contract, are not susceptible to ratings.

Concentration of Credit Risk

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

Custodial Credit Risk

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

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

The market value of pledged securities must equal at least 110% of the MTS' cash deposits. California law also allows institutions to secure MTS deposits by pledging first trust deed mortgage notes having a value of 150% of the MTS' total cash deposits. MTS may waive collateral requirements for cash deposits which are fully insured up to \$100,000 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, 2009 and 2008, are shown below:

Maturity	2009	2008
Current to one year	28,961,646	89,308,712
Five to ten years	32,903,799	30,278,476
Ten to twenty years	84,951,545	86,247,213
Twenty to thirty years	35,630,000	0
Total	182,446,990	205,834,401

(3) Accounts Receivable

(a) *Accounts and other receivables*

As of June 30, 2009 and 2008, accounts and other receivables consisted of the following:

	2009	2008
Pension plan receivable	\$ 2,040,674	\$ 3,863,127
Interest receivable	3,165,353	3,720,355
Miscellaneous trade receivables	1,477,215	1,093,820
Advertising receivable	260,010	459,975
Total accounts and other receivables	\$ 6,943,252	\$ 9,137,277

(b) *Due from other governments*

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

As of June 30, 2009 and 2008, amounts due from other governments consisted of the following:

	2009	2008
FTA grant funds	38,784,808	31,358,187
SANDAG pass sales	6,950,879	9,380,022
US Treasury Dept - CNG tax rebate	3,100,680	2,098,290
STA funds	1,992,148	4,874,261
SANDAG	1,239,297	500,917
City of Chula Vista	1,213,874	2,797,471
Department of Homeland Security	932,460	0
County of San Diego	652,625	2,036,508
City of San Diego	109,188	220,417
North County Transit District	85,737	16,865
State of California	0	246,500
Total due from other governments	<u>\$ 55,061,696</u>	<u>\$ 53,529,439</u>

(4) Inventory

At June 30, 2009 and 2008, inventory consists of the following repair and maintenance parts for revenue vehicles:

	2009	2008
San Diego Transit Corp.	\$ 1,936,983	\$ 2,061,482
San Diego Trolley, Inc.	6,698,659	6,053,014
	<u>\$ 8,635,642</u>	<u>\$ 8,114,496</u>

(5) Capital Assets

MTS converted \$97 million in capital assets from CIP to assets in service compared to \$52.9 million in FY 2008. Capital asset additions totaling \$14.9 million were contributed by SANDAG, including \$3.9 million to MTS General Operations, \$625 thousand to Other Contracted Services, \$9.4 million to SDTC, and \$906 thousand to SDTI. In FY 2008, the contributions from SANDAG and other governments totaled \$18.7 million.

A summary of changes in capital assets is as follows:

	Balance, July 1, 2008	Additions	Deletions	Reclassifications and Transfers	Balance, June 30, 2009
Capital assets, not depreciated					
Land and right-of-way	221,853,921	0	0	0	221,853,921
Construction-in-progress	71,111,063	68,690,683	(97,437,697)	0	42,364,049
Total capital assets, not depreciated	<u>292,964,984</u>	<u>68,690,683</u>	<u>(97,437,697)</u>	<u>0</u>	<u>264,217,970</u>
Capital assets, depreciated:					
Buildings and structures	1,169,112,601	11,627,067	(15,441)	34,802	1,180,759,029

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

Buses and Vehicles	389,246,063	56,078,733	(23,985,245)	0	421,339,551
Equipment and other	46,481,670	31,343,405	(353,533)	(34,802)	77,436,740
Capital lease property	12,437,839	0	0	0	12,437,839
Total capital assets, depreciated	1,617,278,173	99,049,205	(24,354,219)	0	1,691,973,159
Less accumulated depreciation for:					
Buildings and structures	(453,347,049)	(47,322,192)	6,207	(161)	(500,663,195)
Buses and vehicles	(215,928,637)	(22,758,956)	22,542,333	0	(216,145,260)
Equipment and other	(23,124,547)	(4,970,787)	345,608	23,220	(27,726,506)
Capital lease property	(7,529,950)	(447,046)	0	(23,059)	(8,000,055)
Total accumulated depreciation	(699,930,183)	(75,498,980)	22,894,148	0	(752,535,016)
Total capital assets, depreciated, net	917,347,990	23,550,225	(1,460,071)	0	939,438,143
Total capital assets	1,210,312,974	92,240,908	(98,897,768)	0	1,203,656,113

Depreciation expense for capital assets for the years ended June 30, 2009 and 2008 was comprised of the following:

	2009	2008
General operations	\$ 1,082,167	\$ 2,114,203
Other contracted services	6,931,670	13,718,776
San Diego Transit Corporation	11,739,095	14,495,763
San Diego Trolley, Inc.	55,746,048	55,214,684
Total	\$ 75,498,980	\$ 85,543,426

(6) Construction Commitments

Construction-in-progress was comprised of the following at June 30, 2009 and 2008:

	2009		2008	
	Expended	Contractually Committed	Expended	Contractually Committed
MTS Managed Projects:				
Mission Valley East	11,468,494	7,088,155	0	0
SYITC	3,025,594	279,976	0	0
LRV Body Rehab	2,132,084	31,923	1,624,913	26,005
MCS 40-ft CNG Buses	2,034,684	13,923,543	0	0
Rehab traction motors	1,679,132	564,379	1,194,957	1,048,497
SDTC Site Hardening & Security	752,392	147,927	0	0
Security Cameras	545,486	173,537	0	0
IAD/KMD vac	450,730	30,608	420,716	46,798
Blue Line TTE	116,958	0	468,075	7,232
Mills Building Procurement	111,839	142,844	648,900	264,500
LRV Tires	96,296	29,552	1,032,818	123,260
SDTC yard fence/security	63,228	0	634,771	188,413
Other projects	2,419,633	1,951,804	6,695,233	12,841,152

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

Total MTS managed projects	24,896,550	24,364,248	12,720,383	14,545,857
SANDAG Managed Projects				
I-15 Bus Rapid Transit	11,315,478	0	11,315,478	56,487
IAD Land Expansion	3,465,985	0	3,465,985	0
Nobel Dr Coaster Station Impr	1,078,709	0	1,078,709	0
Gaslamp Station Impr	537,775	0	537,775	0
Other Projects	1,069,552	52,706	1,068,769	178,038
Fiber Optic Communications	0	0	474,829	15,000
Automated Fare Collection	0	0	40,449,135	24,017,455
Total SANDAG managed projects	17,467,499	52,706	58,390,680	24,266,980
Total construction-in-progress	42,364,049	24,416,954	71,111,063	38,812,837

(7) Net Pension Asset

In August 2004, MTS issued the 2004 Taxable Pension Obligation Bonds to fund 85% of the SDTC's unfunded accrued actuarial liability (UAAL) and the normal cost reimbursement for the fiscal year 2008.

As a result, the Pension Obligation Bonds of \$77,490,000 were sold and \$76,282,336 was deposited into the pension plan in October 2004. Of this amount \$7,231,698 was funded for the FY 2005 contribution and \$69,050,638 was funded for prior year unfunded accrued actuarial liability.

As of June 30, 2009, the Net Pension Asset amounted to \$63,125,638, and current year amortization was \$1,555,000 compared to \$64,680,638 and \$1,500,000 in FY08.

(8) Due to other governments

At June 30, 2009 and 2008, amounts due to other governments consisted of the following:

	2009	2008
SANDAG - STA funds for construction projects in process	2,256,240	7,506,240
SANDAG - Pass Sales	1,214,872	4,132,302
State Board of Equalization	493,902	0
City of San Diego - Shared Revenue	254,161	57,283
SANDAG - CIP Reimbursement	132,328	152,470
City of Lemon Grove - TDA Funds	121,170	121,170
SANDAG - Subsidy Revenue	117,054	1,252,519
City of El Cajon - TDA Funds	90,883	90,783
North County Transit District	26,357	0
SANDAG - RTMS Site Lease	24,696	0
City of Coronado - TDA Funds	20,600	0
Total due to other governments	\$ 4,752,263	\$ 13,312,768

(9) Unearned revenue

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

At June 30, 2009 and 2008 unearned revenue consisted of the following:

	2009	2008
Advertising revenue received in advance	813,600	-
County funds for 4S Ranch	666,804	-
Lease payments received in advance	426,017	414,717
Land management deposits	21,632	44,868
Fare media payments received in advance	15,048	-
	<u>\$ 1,943,100</u>	<u>\$ 459,585</u>

(10) Long-Term Debt

a) Summary

The following is a summary of changes in long-term obligations for the year ended June 30, 2009:

	Balance at July 1, 2008	Additions and net increases	Reductions and net decreases	Balance at June 30, 2009	Amounts due within one year	Amounts due in more than one year
MTS:						
Capital lease obligations	7,805,335	0	(546,539)	7,258,796	567,499	6,691,297
Finance obligation	122,540,595	0	(1,247,951)	121,292,644	1,343,918	119,948,726
Deferred amounts for issuance premium	287,105	0	-25,148	261,957	25,148	236,809
Compensated absences payable	766,122	552,739	(556,128)	762,733	358,485	404,248
Accrued damage, injury, and employee claims	9,173,853	3,608,176	(5,939,539)	6,842,490	3,872,176	2,970,314
Accrued other post employment benefits	893,104	957,740	(66,781)	1,784,063	0	1,784,063
Total MTS	<u>141,466,114</u>	<u>5,118,655</u>	<u>(8,382,086)</u>	<u>138,202,683</u>	<u>6,167,226</u>	<u>132,035,457</u>
San Diego Transit Corporation:						
Pension Obligation Bonds	73,120,000	0	-1,555,000	71,565,000	1,615,000	69,950,000
Compensated absences payable	9,239,138	3,144,026	(3,811,797)	8,571,367	3,811,798	4,759,569
Accrued damage, injury, and employee claims	10,377,000	1,025,384	(1,507,384)	9,895,000	1,527,027	8,367,973
Accrued other post employment benefits	926,926	1,567,511	(499,378)	1,995,059	0	1,995,059
Total SDTC	<u>93,663,064</u>	<u>5,736,921</u>	<u>(7,373,559)</u>	<u>92,026,426</u>	<u>6,953,825</u>	<u>85,072,601</u>
San Diego Trolley, Inc.:						
Compensated absences payable	2,744,337	3,163,887	(3,167,909)	2,740,315	2,499,159	241,156
Accrued damage, injury, and employee claims	3,728,000	583,169	(543,169)	3,768,000	587,254	3,180,746
Accrued other post employment benefits	2,090,692	2,235,031	(58,039)	4,267,684		4,267,684
Total SDTI	<u>8,563,029</u>	<u>5,982,087</u>	<u>(3,769,117)</u>	<u>10,775,999</u>	<u>3,086,413</u>	<u>7,689,586</u>
Total	<u>243,692,207</u>	<u>16,837,663</u>	<u>(19,524,762)</u>	<u>241,005,108</u>	<u>16,207,464</u>	<u>224,797,644</u>

Reconciliation to Statement of Net Assets:

Due within one year

Bond premium

25,148

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

Compensated absences payable	6,669,442	
Accrued damage, injury, and employee claims	5,986,457	
Long-term debt	2,182,499	
Long-term debt payable from restricted assets	1,343,918	
	<u>16,207,464</u>	
Noncurrent liabilities:		
Long-term debt payable from restricted assets		116,511,426
Bond premium		236,809
Compensated absences payable		5,404,973
Accrued damage, injury and employee claims		14,519,033
Accrued other post employment benefits		8,046,806
Long-term debt		80,078,598
		<u>224,797,645</u>

(b) Capital Leases

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 February 2006, MTS entered into a lease agreement with Toshiba America Information Systems for the acquisition of telecommunications equipment. The lease is classified as a capital lease because title to the equipment will transfer to MTS when the lease terminates in January 2011.

The assets acquired through capital leases are as follows:

	2009	2008
Building – MTS Tower	12,091,981	12,091,981
Toshiba telecommunications equipment	345,858	345,858
Less accumulated depreciation	(8,000,054)	(7,529,950)
Total	<u>4,437,785</u>	<u>4,907,889</u>

The following is a summary of future minimum payments under capital leases as of June 30, 2009:

	Tower lease payments	Toshiba equipment lease payments	Total lease payments
Year ending June 30:			
2010	843,070	76,820	919,890
2011	864,123	44,812	908,935
2012	833,028		833,028
2013	851,210		851,210
2014	839,372		839,372

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

2015-2019	4,221,643		4,221,643
2020	844,376	-	844,376
Total minimum lease payments	9,296,822	121,632	9,418,454
Less amount representing interest	(2,155,496)	(4,161)	(2,159,657)
Present value of minimum lease payments	7,141,326	117,471	7,258,797

At June 30, 2009, the future minimum payments were \$7,258,797.

(c) Finance Obligations

The following is a summary of changes in finance obligations for the year ended June 30, 2009:

	Balance at July 1, 2008	Additions and net increases	Reductions and net decreases	Balance at June 30, 2009	Amounts due within one year	Amounts due in more than one year
1995 LRV Lease/Leaseback	122,540,595	-	(1,247,951)	121,292,644	1,343,918	119,948,726
Pension Obligation Bonds	73,120,000	-	(1,555,000)	71,565,000	1,615,000	69,950,000
Total Finance Obligations	195,660,595	-	(2,802,951)	192,857,644	2,958,918	189,898,726

(d) Pension Obligation Bonds

In October 2004, MTS issued \$77,490,000 of Taxable Pension Obligation Bonds (POBs) for the benefit of SDTC. The purpose of the bonds was to make contributions to the San Diego Transit Corporation Retirement Plan and reduce its unfunded liability. This is in essence a hedge versus the assumed investment rate of 8% used by the actuary to determine the Actuarial Accrued Liability. The proceeds less fees were invested into the retirement plan. The bonds consist of the following:

Series A Bonds of \$38,690,000 are fixed rate bonds that mature in annual installments between 2006 and 2014 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 on December 1.

Series B Bonds of \$38,800,000 are variable rate bonds that mature in annual installments between 2024 to 2034. Interest is adjusted on a weekly basis indexed to London Interbank Borrowing Rate (Libor) and payable on a monthly basis. In August 2005, MTS entered into a seven year agreement with UBS investment bank to fix the interest at 4.424%. Under this agreement SDTC pays the variable Libor rate and UBS pays or bills for the difference from the fixed 4.424% rate.

At June 30, 2009, the outstanding balance of the Pension Obligation Bonds is \$71,565,000

Year ending June 30:	Principal	Interest	Total
2010	1,615,000	3,254,351	4,869,351
2011	1,685,000	3,188,891	4,873,891
2012	1,755,000	3,117,132	4,872,132

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

2013	1,830,000	3,016,614	4,846,614
2014	1,915,000	2,925,130	4,840,130
2015-2019	11,055,000	13,142,460	24,197,460
2020-2024	14,210,000	10,007,216	24,217,216
2025-2029	18,100,000	6,260,413	24,360,413
2030-2034	19,400,000	1,903,548	21,303,548

71,565,000	46,815,755	118,380,755
------------	------------	-------------

(e) 1995LRV Lease/Leaseback – In fiscal year 1996, MTS entered into a master lease to lease 52 light rail vehicles to an investor and then simultaneously entered into a sublease agreement to lease them back. MTS received prepayments of the master lease from the investor of approximately \$102.7 million, of which it used approximately \$90.7 million to place two investments which will be used to make the interest and principal payments on the finance obligation. MTS placed \$78.8 million in a fixed rate deposit and invested \$11.9 million in government zero-coupon bonds. The interest earned on the deposit, together with the principal amount of the deposit and the maturities of the zero-coupon bonds are sufficient to cover the amounts due under the finance obligation. As of June 30, 2009, the remaining future obligations total \$121,292,645.

	Principal	Interest	Total
Year ending June 30:			
2010	1,343,918	6,240,797	7,584,715
2011	1,447,266	6,133,498	7,580,764
2012	1,558,561	6,017,948	7,576,509
2013	1,678,414	5,893,512	7,571,926
2014	1,807,484	5,759,506	7,566,990
2015-2019	57,412,147	25,866,428	83,278,575
2020-2024	43,105,910	14,211,017	57,316,927
2025-2026	12,938,945	604,846	13,543,791
	121,292,645	70,727,552	192,020,197

For the above lease transaction, MTS is obligated to insure and maintain the equipment. The lease agreement also provide for MTS' right to continued use and control of the equipment. The LRVs acquired under the various finance obligations have been transferred to and are recorded by SDTI.

For the 1995 LRV lease/leaseback, as well as the 1990 sale/leaseback that was retired in 2008, MTS has also agreed to indemnify the lessors for any taxes imposed by United States taxing authorities.

(11) Risk Management

MTS (including SDTI, SDTC, and Other Contracted Services) are self-insured for liability claims under a combined insurance program to a maximum of \$2,000,000 per occurrence. Amounts in excess of the self-insurance retention limits for public liability are covered by excess insurance by MTS through commercial insurance carriers up to \$75,000,000. MTS, SDTI, and SDTC purchase all-risk (excluding

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

earthquake) insurance coverage for property damage up to \$600,000,000 per occurrence with deductibles ranging from \$25,000 to \$100,000, depending on the peril involved. In addition, MTS, SDTC, and SDTI are self-insured for costs arising from employee workers' compensation act benefit claims including employer's liability to a retained limit of \$1,000,000 per occurrence. Amounts in excess of \$1,000,000 are insured up to \$2,000,000 per occurrence. SDTC and MTS are self-insured for unemployment claims. SDTC and SDTI have policies for crime coverage through commercial insurance.

Claims expenditures and liabilities in connection with these self-insurance programs are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported based upon past experience, modified for current trends and information. Claim payments up to \$2,000,000 per incident were recorded as general and administrative expenses in the statements of revenues, expenses, and changes in net assets. 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 liability
MTS:				
2006-2007	27,140,503	(4,766,193)	(3,562,795)	18,811,515
2007-2008	18,811,515	6,739,625	(2,272,287)	23,278,853
2008-2009	23,278,853	5,242,373	(8,015,736)	20,505,490

Following is summary of accrued damage injury, and employee claims for fiscal years 2009 and 2008:

Accrued damage, injury and employee claims	2,009	2,008
Current portion	\$ 5,986,457	\$ 4,136,494
Non-current portion	14,519,033	19,142,359
Total	<u>\$ 20,505,490</u>	<u>\$ 23,278,853</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 \$20,505,490 at June 30, 2009 and \$23,278,853 at June 30, 2008.

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

(12) Contingencies

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

MTS, SDTC, and SDTI have been named in certain legal actions pending at June 30, 2009. 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. In addition, MTS has been named in a number of claims related to various construction projects. While the outcome of these claims is not presently determinable, MTS has recorded an estimated liability to reserve for a potential loss of **\$3,000,000**.

Grant funds received by MTS are subject to audit and adjustment by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under the terms of the grant. During the current year, the State of California audited MediCal claims for FY 2006, 2007 and 2008, and determined that a portion of those funds may be refundable to the State. The analysis of MediCal activity is on going, and the final results of the audit are not determinable at this time.

SDTC has pledged future farebox revenues pursuant to the provisions of the Pension Obligation Bonds issued by SDTC in FY 2004.

During 1990 and 1995, MTS entered into sale/leaseback and lease/leaseback arrangements related to the acquisition of trolley cars. These agreements provided tax benefits for the purchaser/lessor. Certain terms of the agreements call for repayment to the purchaser/lessor if the tax consequences of the agreement are lost or changed due to changes in the Internal Revenue Code. Subsequent changes in the Internal Revenue Code may cause an amount to be repaid to the purchaser/lessor, which is essentially the portion of the proceeds relating to the tax benefits lost by the purchaser/lessor. No repayment has been requested to date, and the amount of any future request is not estimable at this time.

MTS learned in FY 2007 that the freight operator who has managed SD&AE operations in the past filed federal and state corporate tax returns through calendar year 2005, which were not required for this not for profit corporation. Under the direction of tax consultants, MTS directed that the freight operator prepare a final return for calendar year 2007. Because SD&AE has never reported taxable income, and because the federal and state statutes provide exemption from income tax for not for profit corporations management does not anticipate any future tax liability in the event the Internal Revenue selects these or previous returns for examination.

(13) Post-Employment Health Care Benefits

Pursuant to new reporting requirements established in Statement 45 issued by Government Accounting Standards Board (GASB) effective in fiscal year 2008, MTS provides information below about its Other Post-Employment Benefits (OPEB), which consist primarily of health care benefits.

Plan Description: MTS participates in three different plans for three distinct groups of employees within its reporting entities: MTS and SDTI retirees participate in a plan provided by CalPers; SDTC management retirees participate in a self-funded plan provided by SDTC; and SDTC provides payments to operator and maintenance employee unions for provision of post-employment benefits as determined

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

by each union. Total MTS payments for the year ended June 30, 2009 were \$66,781 for 11 retirees currently receiving post-employment health care benefits. Total SDTI payments for the year ended June 30, 2009 were \$58,039 for 23 retirees currently receiving benefits. Total SDTC payments for the year ended June 30, 2009 were \$195,578 for 47 management retirees currently receiving benefits. In the current year **140** union retirees received benefit payments of estimated at \$303,800.

As of June 30, 2009, the net liability consists of the following:

Net OPEB Obligation (NOO)

	MTS	SDTI	SDTC	Total
NOO at June 30, 2008	893,104	2,090,692	926,926	3,910,722
Benefit payments paid outside of a trust	(66,781)	(58,039)	(499,378)	(624,198)
Estimated contributions to a trust	0	0	0	0
Annual OPEB cost	917,550	2,140,950	1,525,800	4,584,300
Accrued interest	40,190	94,081	41,711	175,982
NOO at June 30, 2009	1,784,063	4,267,684	1,995,059	8,046,806

Data for SDTI and MTS, which is not presented separately in the actuarial study described below, has been allocated to each entity based on participation rates within each entity.

Eligibility. All employees are eligible after the fifth year of service and attaining age 50 for MTS and Trolley, 53 for SDTC management employees and 55 for SDTC union employees.

Participants as of June 30, 2009	Total
Current retirees and surviving spouses	218
Other participants fully eligible for benefits	291
Other participants not yet fully eligible for benefits	1,010
Total	1,519

Funding policy. The contribution requirements of plan members and MTS are established by management and may be amended. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2009 MTS contributed \$624,198 to the plan. Plan members in MTS, SDTI and SDTC management plans receiving benefits contributed \$227,641 or approximately 41 percent of the total premiums. Information about the amounts contributed by SDTC union members is not currently available.

Annual OPEB Cost and Net OPEB Obligation. MTS' annual OPEB cost (expense) is calculated based on the Annual Required Contribution of the Employer (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 liabilities (or funding excesses) over a period not to exceed thirty years. The following table show the components of MTS' annual OPEB cost for the year, the amount actually contributed to the

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

plans, and the changes in MTS' net OPEB Obligation to the Plan:

	Total
Annual required contribution	2,560,100
Adjustment to annual required contribution	2,024,200
Annual OPEB cost (expense)	4,584,300
Contributions made	(624,198)
Interest on net OPEB obligation	175,982
Increase in net OPEB obligation	4,136,084
Net OPEB obligation - beginning of year	3,910,722
Net OPEB obligation - end of year	8,046,806

MTS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 and 2009 were as follows:

Fiscal year ended	Annual OPEB Cost	% of Annual OPEB cost Contributed	Net OPEB Obligation
June 30, 2008	4,584,300	14.69%	3,910,722
June 30, 2009	4,760,282	13.11%	8,046,806

Information for the the year ending June 30, 2007 is not available because GASB Statement 45 was first implemented in 2008.

Funded Status and Funding Progress. As of June 30, 2007, the most recent actuarial valuation date, the plan was not funded in its initial year of implementation.. The actuarial accrued liability for benefits was \$60,162,800, and the actuarial value of assets was \$0. The covered payroll (annual payroll of active employees covered by the plan) as of June 30, 2007, was \$63,257,100, and the ratio of UALL to covered payroll was 79 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

In the June 30, 2007, actuarial valuation the entry age actuarial cost method was used. The actuary assumed 4.5% investment rate of return (net of administrative expenses) which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate which varies depending on the plan and type of health care service involved. Beginning in plan year 2009/2010, medical/drug trends generally grade down from between 7% and 10% to an ultimate of 5% by 2018/2019, while dental/vision/expense trends are generally a flat 5% per year. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2007, was 30 years.

(14) Employee Retirement Systems

(a) MTS and SDTI

Plan Description and Provisions

MTS' and SDTI's defined benefit pension plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plans are part of the Public Agency portion of the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. MTS and SDTI select optional benefit provisions from the benefit menu by contract with PERS and adopt those benefits through local ordinance. Copies of the PERS annual financial report may be obtained from the PERS Executive Office – 400 P Street, Sacramento, CA 95814.

Funding Policy

All employees working the equivalent of 1,000 hours per year are eligible to participate as members of PERS. MTS and SDTI employees are eligible to retire at age 50 with at least five years of service. Annual retirement benefits are determined based on age at retirement, the length of membership service, and the amount of earnings based on the highest 12 consecutive months average. PERS also provides death and disability benefits. PERS issues a separate comprehensive annual financial report.

The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS. MTS and SDTI employees are required to make contributions equal to 7% of gross pay for employees who are not covered by Social Security and 7% of gross pay after the first \$133.33 per month for employees who pay Social Security tax. MTS and SDTI are required to contribute the actuarially determined remaining amounts necessary to fund the

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. In 2009, MTS paid the entire employee contribution for all employees, and SDTI paid the entire employee contribution for management and supervisory employees who were hired before June 30, 1988. For management and supervisory employees hired after June 30, 1988, SDTI paid half the employee contribution until their third anniversary, after which SDTI pays their full contribution. Prior to January 1, 1992, SDTI paid half the employee contribution for non-managerial employees. As of January 1, 1992, the non-managerial employees pay the entire contribution.

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

Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
6/30/2007	54,017	59,846	(5,829)	90.30%	21,679	26.90%

Because MTS is a member of the CalPers risk pool for groups under 100, individual funding progress is not available.

Annual Pension Cost

For fiscal year 2009, MTS' and SDTI's annual required employer contributions were \$1,699,397 and \$2,341,361, respectively. The required contribution for fiscal year 2009 was determined as part of the June 30, 2006, actuarial valuation using the Entry Age Actuarial Cost Method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases from 3.25% to 14.45% depending on age, service, and type of employment; (c) 3.25% payroll growth adjustment; (d) 3.0% inflation adjustment; and (e) a merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.0% and an annual production growth of 0.25%. The actuarial value of the assets of both plans was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a fifteen-year period depending on the size of investment gains and/or losses. MTS' and SDTI's initial unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis depending on the plan's date of entry. Subsequent gains and losses are amortized over variable periods depending on the events precipitating the gain or loss. The average remaining amortization period at June 30, 2007, the most recent valuation date, was 17 years for MTS and 25 years for SDTI.

Trend information for MTS (in 000s):

		Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:				
	2007	1,546	1,546	100%
	2008	1,792	1,792	100%

San Diego Metropolitan Transit System

Notes to Basic Financial Statements

For the Years Ended June 30, 2009 and 2008 - DRAFT

2009	1,699	1,699	100%
------	-------	-------	------

Trend information for SDTI(in 000s):

	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:			
2007	\$ 2,231	\$ 2,231	100%
2008	2,350	2,350	100%
2009	2,341	2,341	100%

(b) SDTC

Plan Description

The SDTC defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All of SDTC's full-time employees and certain part-time noncontract employees who have completed one year of service in which they have worked at least 1,000 hours of service, and certain part-time contract employees participate in the San Diego Transit Corporation Employee Retirement Plan (the Plan), a single-employer public employee retirement plan. SDTC issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The financial report may be obtained by writing to San Diego Transit Corporation, 1255 Imperial Avenue, Suite 1000, San Diego, CA 92101

Funding Status and Progress

SDTC makes annual contributions equal to an actuarially computed amount that includes normal cost and an amount for the amortization of unfunded accrued liabilities. Participants of the Plan are not allowed to contribute to the Plan. The valuation method used to calculate the contribution for the Plan is the Entry Age Normal Actuarial Cost Method which is a projected benefit cost method.

According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of eligibility until retirement. The significant actuarial assumptions used to compute the actuarially determined contribution requirements included (a) 8.00% investment rate of return, (b) projected salary increase of 4% to 11% depending on age, service, and type of employment; (c) 3.5% inflation adjustment; and (d) cost of living adjustments up to 2% annually for certain Non-Contract members only. The actuarial value of the assets of the plan was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a five-year period depending on the size of investment gains and/or losses. SDTC's initial unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. Subsequent gains and losses are amortized over variable periods depending on the events precipitating the gain or loss. The average remaining amortization period at July 1, 2008, the most recent valuation date, was 30 years.

San Diego Metropolitan Transit System**Notes to Basic Financial Statements****For the Years Ended June 30, 2009 and 2008 - DRAFT**

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

Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
7/1/2008	164,760	195,624	(30,864)	84.20%	33,251	92.80%

Annual Pension Cost

For fiscal year ended June 30, 2009, the annual pension cost of \$5,275,088 for the pension plan was equal to SDTC's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the entry age normal cost method. Following is the most recent data available.

	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:			
2007	\$ 4,576	\$ 4,576	100%
2008	4,656	4,656	100%
2009	5,275	5,275	100%

(15) Other Required Individual Fund Disclosures

SDTC and SDTI had unrestricted net deficits of \$(31,328,693) and \$(9,582,917) respectively, at June 30, 2009 compared to \$(33,232,452) and \$(8,121,366) at June 30, 2008. The deficits are primarily a result of the timing difference between recognition of expenses on an accrual basis and when those expenses are funded by subsidy transfers. MTS expects that these deficits will be funded with future subsidies.

(16) Subsequent Events

The national, state and local economies continue to suffer the effects of the financial credit crisis, which has spread to all sectors of the global economy. In spite of marginal improvements in some economic indicators, sales tax receipts in California, which form the base for Transit Development Act funding, continue to decline. In addition, increases in local unemployment have continued to have an adverse affect on ridership. Management has responded to these uncertainties with several projects designed to minimize fluctuations in cash balances over the next several years.

1. In July 2009 MTS entered into a financial agreement to stabilize CNG fuel prices for the next year.
2. MTS has entered into a loan agreement to fund the retirement the Pension Obligation Bonds, which will terminate the interest swap agreement and all associated costs, and restore a large portion of the cash reserves that had been used to purchase the POBs.
3. In October, the State Supreme Court upheld a lower court ruling that the State of California illegally diverted funds designated for mass transportation purposes to the general fund. Given the uncertainties in the California economy and the State budget, the likelihood that the State will restore any funds to MTS in the coming year is not determinable at this time.
3. MTS will continue to evaluate fare and route structures to obtain the greatest possible benefit in an uncertain economic climate.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

DRAFT**DEFINED PENSION PLAN SCHEDULE OF FUNDING PROGRESS**

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

MTS

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

SDTI (in 000s)

Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
6/30/2005	\$ 41,415	\$ 48,698	\$ (7,283)	85.00%	\$ 19,917	36.60%
6/30/2006	47,412	53,490	(6,078)	88.60%	21,024	28.90%
6/30/2007	54,017	59,846	(5,829)	90.30%	21,679	26.90%

SDTC (in 000s)

Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
1/1/2006	153,083	168,877	(15,794)	90.60%	34,959	45.20%
7/1/2007	160,697	186,612	(25,915)	86.10%	33,027	78.50%
7/1/2008	164,760	195,624	(30,864)	84.22%	33,251	92.82%

In the valuation as of July 1, 1999, the entire Actuarial Accrued Liability had been funded. A new Unfunded Actuarial Accrued Liability was created as of April 1, 2000, primarily as a result of improvements in Plan benefits. Therefore, beginning with the April 1, 2000 actuarial valuation, all sources of the Unfunded Actuarial Accrued Liability are combined and amortized as a level dollar payment over a rolling 30-year period.

POSTEMPLOYMENT HEALTHCARE PLAN SCHEDULE OF FUNDING PROGRESS

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)

Actuarial Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
06/30/07	\$ -	\$ 8,292	\$ (8,292)	0.0%	\$ 9,573	86.6%

SDTC (in 000s)

Actuarial Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
06/30/07	\$ -	\$ 26,473	\$ (26,473)	0.0%	\$ 35,935	73.7%

SDTI (in 000s)

Actuarial Valuation date	Actuarial value of assets	Entry age normal accrued liability	Unfunded liability	Funded status	Annual covered payroll	UAAL as a % of payroll
06/30/07	\$ -	\$ 15,399	\$ (15,399)	0.0%	\$ 17,749	86.8%

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. Because there have been no plan changes since the initial actuarial study was performed the next scheduled actuarial study for MTS plans will be completed during the coming year. As a result, funding progress is available for only one year.

SUPPLEMENTARY INFORMATION

Combining Schedule of Net Assets

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

Combining Statement of Cash Flows

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

Combined Operations

General Fund

Taxicab Administration

San Diego & Arizona Eastern Railway

Contract Services

San Diego Transit Corporation

San Diego Trolley, Inc.

DRAFT**Description of Funds:**

The General Fund is MTS' primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from FTA and local TDA funds. Expenditures are primarily expended for functions of the general government, transit planning, transit support activities including marketing, as well as acquisition of capital assets and debt service transactions. Activities related to SD&AE and the Taxicab administration are included within the General Fund. Principal operating revenues for SD&AE are lease income and right of way entry permit fees. Operating revenues for the Taxicab administration are charges for the issuance of taxi and jitney service permits.

The Other Contracted Services Fund is an enterprise fund used to account for the operation of certain bus routes that have been competitively bid and are operated by MTS through contracts with outside parties. Revenues are primarily derived from passenger fare revenue and federal, state, and local operating grants. Expenses are primarily payments to contracted bus operators for the operation of certain bus routes. Effective July 1, 2002, the responsibility for operating the County Transit System (CTS) was transferred from the County of San Diego to MTS.

SDTI and SDTC are not-for-profit corporations that provide bus and LRT services. These agencies share governing boards with MTS and are, therefore, presented as blended component units in the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds are accounted for on the flow of "economic resources" measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include enterprise funds, which are used to account for those operations that are financed and operated in a manner similar to private business or where MTS has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of SDTI, SDTC and Other Contracted Services Enterprise Fund are charges to customers for public transportation services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgetary Information:

Annual appropriated budgets are adopted for all fund types. All annual appropriations lapse at year-end. Budgets are prepared on the modified accrual basis of accounting consistent with GAAP. Encumbrances

represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances lapse at year-end and may be re-appropriated in the following year.

San Diego Metropolitan Transit System
Combining Schedule of Net Assets
For the Years Ended June 30, 2009

	<u>General Operations</u>	<u>Contracted Services</u>	<u>SDTC</u>	<u>SDTI</u>	<u>Total</u>
Assets					
Current assets:					
Cash and cash equivalents	\$ 21,949,837	\$ -	\$ (748,373)	\$ (542,794)	\$ 20,658,670
Investments restricted for debt service payable within one year	1,343,918	-	-	-	1,343,918
Accounts and other receivables	3,680,776	5,949	2,139,167	1,117,360	6,943,252
Due from other governments	48,299,263	2,148,288	2,330,549	2,283,596	55,061,696
Internal balances	6,231,947	3,672,598	(4,549,246)	(5,355,299)	-
Materials and supplies inventory	-	-	1,936,983	6,698,659	8,635,642
Prepaid expenses and other current assets	2,008,524	11,095	-	-	2,019,619
Total current assets	<u>83,514,265</u>	<u>5,837,930</u>	<u>1,109,080</u>	<u>4,201,522</u>	<u>94,662,797</u>
Noncurrent assets:					
Cash and certificates of deposit restricted for capital support	8,302,976	-	-	-	8,302,976
Investment in bonds	35,630,000	-	-	-	35,630,000
Investments restricted for debt service and capital projects	116,511,426	-	-	-	116,511,426
Unamortized bond issuance cost	114,725	-	962,910	-	1,077,635
Capital assets (net of accumulated depreciation)	97,687,370	51,660,141	116,277,280	938,031,326	1,203,656,117
Net pension assets	-	-	63,125,638	-	63,125,638
Total noncurrent assets	<u>258,246,497</u>	<u>51,660,141</u>	<u>180,365,828</u>	<u>938,031,326</u>	<u>1,428,303,792</u>
Total assets	<u>341,760,762</u>	<u>57,498,071</u>	<u>181,474,908</u>	<u>942,232,848</u>	<u>1,522,966,589</u>

San Diego Metropolitan Transit System
Combining Schedule of Net Assets, Continued
For the Years Ended June 30, 2009

	General Operations	Contracted Services	SDTC	SDTI	Total
Liabilities					
Current liabilities:					
Accounts payable	1,859,818	4,701,796	1,015,994	93,093	7,670,701
Due to other governments	4,723,086	4,481	24,696	-	4,752,263
Unearned revenue	1,231,370	689,721	22,009	-	1,943,100
Accrued expenses	6,191,806	-	3,437,190	2,915,346	12,544,342
Retentions payable	59,944	-	-	-	59,944
Due within one year:					
Bond premium	25,148	-	-	-	25,148
Compensated absences payable	358,485	-	3,811,798	2,499,159	6,669,442
Accrued damage, injury, and employee claims	3,872,176	-	1,527,027	587,254	5,986,457
Long-term debt, due within one year	567,499	-	1,615,000	-	2,182,499
Long-term debt payable from restricted assets	1,343,918	-	-	-	1,343,918
Total current liabilities	20,233,250	5,395,998	11,453,714	6,094,852	43,177,814
Noncurrent liabilities:					
Retentions payable from restricted assets	5,603,327	-	-	-	5,603,327
Long-term debt payable from restricted assets	116,511,426	-	-	-	116,511,426
Bond Premium	236,809	-	-	-	236,809
Compensated absences payable, due in more than one year	404,249	-	4,759,569	241,155	5,404,973
Accrued damage, injury, and employee claims, due in more than one year	2,970,314	-	8,367,973	3,180,746	14,519,033
Accrued other post employment benefits	1,784,063	-	1,995,059	4,267,684	8,046,806
Long-term debt, due in more than one year	10,128,598	-	69,950,000	-	80,078,598
Total noncurrent liabilities	137,638,786	-	85,072,601	7,689,585	230,400,972
Total liabilities	157,872,036	5,395,998	96,526,315	13,784,437	273,578,786
Net Assets					
Invested in capital assets, net of related debt	(30,864,071)	51,660,141	116,277,279	938,031,326	1,075,104,675
Unrestricted	214,752,793	441,930	(31,328,693)	(9,582,917)	174,283,113
Total net assets	\$ 183,888,722	\$ 52,102,071	\$ 84,948,586	\$ 928,448,409	\$ 1,249,387,788

San Diego Metropolitan Transit System**Combining Schedule of Revenues, Expenses and Changes in Net Assets****For the Years Ended June 30, 2009**

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
Operating revenues:						
Passenger revenue	\$ -	\$ 23,857,156	\$ 27,881,541	\$ 33,453,633	\$ -	\$ 85,192,330
Advertising	924,522	-	-	-	-	924,522
Charter	-	-	68,801	-	-	68,801
Miscellaneous operating revenues	3,725,984	64,201	72,487	1,012,028	-	4,874,700
Total operating revenues	4,650,506	23,921,357	28,022,829	34,465,661	-	91,060,353
Operating expenses:						
Personnel costs	11,608,883	557,072	54,479,820	33,712,024	-	100,357,799
Outside services	3,924,835	49,886,008	2,077,073	9,251,915	-	65,139,831
Transit operations funding	83,538,355	-	-	-	(80,534,657)	3,003,698
Materials and supplies	5,006	897	4,423,565	2,760,620	-	7,190,088
Energy costs	67,004	8,254,126	8,143,399	8,818,828	-	25,283,357
Risk management	426,562	-	1,502,049	2,145,493	-	4,074,104
Miscellaneous operating expenses	(8,076,238)	940,920	5,162,593	4,024,881	-	2,052,156
Amortization of net pension asset	-	-	1,555,000	-	-	1,555,000
Depreciation	1,082,167	6,931,670	11,739,095	55,746,048	-	75,498,980
Total operating expenses	92,576,574	66,570,693	89,082,594	116,459,809	(80,534,657)	284,155,013
Operating income (loss)	(87,926,068)	(42,649,336)	(61,059,765)	(81,994,148)	80,534,657	(193,094,660)

San Diego Metropolitan Transit System

Combining Schedule of Revenues, Expenses and Changes in Net Assets, Continued

For the Years Ended June 30, 2009

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
Public support and nonoperating revenues:						
Federal revenue	68,171,984	4,681,101	17,177,124	16,615,904	(38,474,129)	68,171,984
Transportation Development Act (TDA) funds	75,517,474	29,302,039	17,197,220	717,855	(47,217,114)	75,517,474
State Transit Assistance (STA) funds	9,121,443	-	7,298,614	68,685	(7,367,299)	9,121,443
State revenue - other	3,331,331	278,833	-	-	(278,833)	3,331,331
TransNet funds	19,039,223	697,445	14,138,130	7,043,125	(21,878,700)	19,039,223
Other local subsidies	1,036,246	758,246	278,000	-	(1,036,246)	1,036,246
Investment earnings	10,584,467	-	(216)	-	-	10,584,251
Interest expense	(6,851,447)	-	(4,302,109)	-	-	(11,153,556)
Gain (loss) on disposal of assets	179,074	-	130,080	(15,148)	-	294,006
Other expenses	-	-	(641,552)	-	-	(641,552)
Amortization of bond issuance costs	(11,014)	-	(52,365)	-	-	(63,379)
Total public support and nonoperating revenues	180,118,781	35,717,664	51,222,926	24,430,421	(116,252,321)	175,237,471
Income (loss) before contributed capital	92,192,713	(6,931,672)	(9,836,839)	(57,563,727)	(35,717,664)	(17,857,189)
Transfers	(35,717,664)	-	-	-	35,717,664	-
Reserve revenue	-	-	-	-	-	-
Contributions	(90,533,415)	18,257,408	56,395,730	17,548,748	-	1,668,471
Change in net assets	(34,058,366)	11,325,736	46,558,891	(40,014,979)	-	(16,188,718)
Net assets, beginning of year	217,947,084	40,776,336	38,389,694	968,463,391	-	1,265,576,505
Net assets, end of year	\$ 183,888,718	\$ 52,102,072	\$ 84,948,585	\$ 928,448,412	\$ -	\$ 1,249,387,787

San Diego Metropolitan Transit System

Combined Operations

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

For the fiscal year ended June 30, 2009

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenditures, and Changes in Net Assets Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	Variance with Final Budget Positive (Negative)
Operating revenues:						
Passenger revenue	\$ 76,975,010	\$ 83,404,939	\$ 85,192,330	\$ -	\$ 85,192,330	\$ 1,787,391
Advertising	3,210,000	2,411,280	924,522	-	924,522	(1,486,758)
Charter	28,000	28,000	68,801	-	68,801	40,801
Miscellaneous operating revenues	3,197,656	3,510,338	4,874,700	(459,308)	4,415,392	905,054
Total operating revenues	83,410,666	89,354,557	91,060,353	(459,308)	90,601,045	1,246,488
Operating expenses:						
Personnel costs	101,167,099	97,910,753	100,357,799	(1,854,863)	98,502,936	(592,183)
Outside services	66,393,039	64,524,916	65,139,831	(534,522)	64,605,309	(80,393)
Transit operations funding	5,320,296	3,945,653	3,003,698	-	3,003,698	941,955
Materials and supplies	7,499,851	7,440,609	7,190,088	(56,148)	7,133,940	306,669
Energy costs	29,030,807	27,161,141	25,283,357	-	25,283,357	1,877,784
Risk management	3,593,790	3,955,796	4,074,104	388,000	4,462,104	(506,308)
Miscellaneous operating expenses	1,956,636	2,536,054	2,052,156	-	2,052,156	483,898
Amortization of net pension asset	-	-	1,555,000	(1,555,000)	-	-
Depreciation	-	-	75,498,980	(75,498,980)	-	-
Total operating expenses	214,961,518	207,474,922	284,155,013	(79,111,513)	205,043,500	2,431,422
Operating income (loss)	(131,550,852)	(118,120,365)	(193,094,660)	78,652,205	(114,442,455)	3,677,910

San Diego Metropolitan Transit System

Combined Operations

Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued

For the fiscal year ended June 30, 2009

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actuals per Statement of Revenues, Expenditures, and Changes in Net Assets Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	Variance with Final Budget Positive (Negative)
Public support and nonoperating revenues:						
Federal revenue	25,102,497	34,935,546	68,171,984	(29,589,268)	38,582,716	3,647,170
Transportation Development Act	70,668,908	56,773,548	75,517,474	(24,077,392)	51,440,082	(5,333,466)
State Transit Assistance	12,992,663	7,618,343	9,121,443	(1,613,183)	7,508,260	(110,083)
State revenue - other	2,000,000	2,000,000	3,331,331	(2,700,000)	631,331	(1,368,669)
TransNet funds	21,479,466	20,229,452	19,039,223	1,805,030	20,844,253	614,801
Other local subsidies	928,918	976,727	1,036,246	-	1,036,246	59,519
Investment earnings	2,285,258	1,805,000	10,584,251	(8,763,019)	1,821,232	16,232
Other non-operating income	7,588,385	7,588,385	-	7,588,385	7,588,385	-
Interest expense	-	-	(11,153,556)	11,042,390	(111,166)	(111,166)
Gain (loss) on disposal of assets	-	56,235	294,006	(237,771)	56,235	-
Other expenses	(11,989,438)	(12,173,358)	(641,552)	(12,862,035)	(13,503,587)	(1,330,229)
Amortization of bond issuance costs	-	-	(63,379)	63,379	-	-
Total public support and nonoperating revenues	131,056,657	119,809,878	175,237,471	(59,343,484)	115,893,987	(3,915,891)
Income (loss) before contributed capital	(494,195)	1,689,513	(17,857,189)	19,308,721	1,451,532	(237,981)
Reserve revenue	160,126	60,243	-	60,243	60,243	-
Contribution of capital assets	-	-	1,668,471	(1,668,471)	-	-
Change in net assets	\$ (334,069)	\$ 1,749,756	(16,188,718)	\$ 17,700,493	\$ 1,511,775	\$ (237,981)
Net assets, beginning of year			1,265,576,505			
Net assets, end of year			1,249,387,787			

San Diego Metropolitan Transit System

General Fund

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

For the fiscal year ended June 30, 2009

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Advertising	\$ 3,210,000	\$ 2,411,280	\$ 924,522	\$ -	\$ 924,522	\$ (1,486,758)
Miscellaneous operating revenues	1,718,556	1,907,937	2,692,886	-	2,692,886	784,949
Total operating revenues	4,928,556	4,319,217	3,617,408	-	3,617,408	(701,809)
Operating expenses:						
Personnel costs	11,009,861	9,546,863	10,976,898	(890,959)	10,085,939	(539,076)
Outside services	3,338,863	3,071,274	3,801,842	(534,522)	3,267,320	(196,046)
Transit operations funding	5,320,296	3,945,653	83,538,355	(80,534,657)	3,003,698	941,955
Materials and supplies	5,000	5,000	6,380	-	6,380	(1,380)
Energy costs	44,160	56,650	59,365	-	59,365	(2,715)
Risk management	388,003	387,375	391,207	-	391,207	(3,832)
Miscellaneous operating expenses	(8,428,906)	(7,743,545)	(8,230,045)	-	(8,230,045)	486,500
Depreciation	-	-	1,044,790	(1,044,790)	-	-
Total operating expenses	11,677,277	9,269,270	91,588,792	(83,004,928)	8,583,864	685,406
Operating income (loss)	(6,748,721)	(4,950,053)	(87,971,384)	83,004,928	(4,966,456)	(16,403)

San Diego Metropolitan Transit System

General Fund

Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued

For the fiscal year ended June 30, 2009

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Public support and nonoperating revenues:						
Federal revenue	114,705	114,705	68,171,984	(68,063,397)	108,587	(6,118)
Transportation Development Act (TDA) funds	5,320,296	3,945,653	75,517,474	(71,294,506)	4,222,968	277,315
State Transit Assistance (STA) funds	-	-	9,121,443	(8,980,482)	140,961	140,961
State revenue - other	-	-	3,331,331	(3,331,331)	-	-
TransNet funds	-	-	19,039,223	(20,073,670)	(1,034,447)	(1,034,447)
Other local subsidies	-	-	1,036,246	(1,036,246)	-	-
Investment earnings	2,285,258	1,805,000	10,584,467	(8,763,019)	1,821,448	16,448
Other non-operating income	7,588,385	7,588,385	-	7,588,385	7,588,385	-
Interest expense	-	-	(6,851,447)	6,740,281	(111,166)	(111,166)
Gain (loss) on disposal of assets	-	56,235	179,074	(122,839)	56,235	-
Other expenses	(8,559,926)	(8,559,926)	-	(8,559,926)	(8,559,926)	-
Amortization of bond issuance costs	-	-	(11,014)	11,014	-	-
Total public support and nonoperating revenues	6,748,718	4,950,052	180,118,781	(175,885,736)	4,233,045	(717,007)
Income (loss) before contributed capital	(3)	(1)	92,147,397	(92,880,808)	(733,411)	(733,410)
Transfers	-	-	(35,717,664)	35,695,428	(22,236)	(22,236)
Contribution of capital assets	-	-	(90,533,415)	90,533,415	-	-
Change in net assets	\$ (3)	\$ (1)	(34,103,682)	\$ 33,348,035	\$ (755,647)	\$ (755,646)
Net assets, beginning of year			198,975,671			
Net assets, end of year			\$ 164,871,989			

San Diego Metropolitan Transit System**Taxicab Administration****Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual****For the fiscal year ended June 30, 2009**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Miscellaneous operating revenues	\$ 754,400	\$ 754,400	\$ 862,751	\$ -	\$ 862,751	\$ 108,351
Total operating revenues	754,400	754,400	862,751	-	862,751	108,351
Operating expenses:						
Personnel costs	572,624	522,624	534,819	-	534,819	(12,195)
Outside services	126,245	100,961	78,312	-	78,312	22,649
Materials and supplies	5,000	8,500	(1,374)	-	(1,374)	9,874
Energy costs	15,350	12,996	7,539	-	7,539	5,457
Miscellaneous operating expenses	153,091	148,645	139,880	-	139,880	8,765
Depreciation	-	-	17,878	(17,878)	-	-
Total operating expenses	872,310	793,726	777,054	(17,878)	759,176	34,550
Operating income (loss)	(117,910)	(39,326)	85,697	17,878	103,575	142,901
Reserve revenue	117,909	39,326	-	39,326	39,326	-
Change in net assets	\$ (1)	\$ -	85,697	\$ 57,204	\$ 142,901	\$ 142,901
Net assets, beginning of year			526,610			
Net assets, end of year			\$ 612,307			

San Diego Metropolitan Transit System**San Diego Arizona and Eastern Railway****Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual****For the fiscal year ended June 30, 2009**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Miscellaneous operating revenues	\$ 102,700	\$ 154,000	\$ 170,347	\$ -	\$ 170,347	\$ 16,347
Total operating revenues	102,700	154,000	170,347	-	170,347	16,347
Operating expenses:						
Personnel costs	73,477	73,477	97,166	-	97,166	(23,689)
Outside services	35,000	55,000	44,681	-	44,681	10,319
Energy costs	-	-	100	-	100	(100)
Risk management	34,440	34,440	35,355	-	35,355	(915)
Miscellaneous operating expenses	2,000	12,000	13,927	-	13,927	(1,927)
Depreciation	-	-	19,499	(19,499)	-	-
Total operating expenses	144,917	174,917	210,728	(19,499)	191,229	(16,312)
Operating income (loss)	(42,217)	(20,917)	(40,381)	19,499	(20,882)	35
Reserve revenue	42,217	20,917	-	20,917	20,917	-
Change in net assets	\$ -	\$ -	(40,381)	\$ 40,416	\$ 35	\$ 35
Net assets, beginning of year			18,444,803			
Net assets, end of year			\$ 18,404,422			

San Diego Metropolitan Transit System

Contract Services

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

For the fiscal year ended June 30, 2009

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Passenger revenue	\$ 20,708,700	\$ 23,556,960	\$ 23,857,156	\$ -	\$ 23,857,156	\$ 300,196
Miscellaneous operating revenues	-	-	64,201	-	64,201	64,201
Total operating revenues	20,708,700	23,556,960	23,921,357	-	23,921,357	364,397
Operating expenses:						
Personnel costs	540,263	604,735	557,072	-	557,072	47,663
Outside services	51,793,412	50,905,131	49,886,008	-	49,886,008	1,019,123
Materials and supplies	-	32,884	897	-	897	31,987
Energy costs	10,729,030	9,775,451	8,254,126	-	8,254,126	1,521,325
Miscellaneous operating expenses	981,513	929,456	940,920	-	940,920	(11,464)
Depreciation	-	-	6,931,670	(6,931,670)	-	-
Total operating expenses	64,044,218	62,247,657	66,570,693	(6,931,670)	59,639,023	2,608,634
Operating income (loss)	(43,335,518)	(38,690,697)	(42,649,336)	6,931,670	(35,717,666)	2,973,031

San Diego Metropolitan Transit System**Contract Services****Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued****For the fiscal year ended June 30, 2009**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Public support and nonoperating revenues:						
Federal revenue	1,252,018	1,085,067	4,681,101	-	4,681,101	3,596,034
Transportation Development Act (TDA) funds	38,735,439	34,242,061	29,302,039	-	29,302,039	(4,940,022)
State revenue - other	2,000,000	2,000,000	278,833	-	278,833	(1,721,167)
TransNet funds	697,144	664,844	697,445	-	697,445	32,601
Other local subsidies	650,918	698,727	758,246	-	758,246	59,519
Total public support and nonoperating revenues	43,335,519	38,690,699	35,717,664	-	35,717,664	(2,973,035)
Income (loss) before contributed capital	1	2	(6,931,672)	6,931,670	(2)	(4)
Contribution of capital assets	-	-	18,257,408	(18,257,408)	-	-
Change in net assets	\$ 1	\$ 2	11,325,736	\$ (11,325,738)	\$ (2)	\$ (4)
Net assets, beginning of year			40,776,336			
Net assets, end of year			\$ 52,102,072			

San Diego Metropolitan Transit System**San Diego Transit Corporation****Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual****For the fiscal year ended June 30, 2009**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Passenger revenue	\$ 24,555,295	\$ 26,587,229	\$ 27,881,541	\$ -	\$ 27,881,541	\$ 1,294,312
Charter	28,000	28,000	68,801	-	68,801	40,801
Miscellaneous operating revenues	10,000	10,001	72,487	-	72,487	62,486
Total operating revenues	24,593,295	26,625,230	28,022,829	-	28,022,829	1,397,599
Operating expenses:						
Personnel costs	57,533,351	55,794,918	54,479,820	1,242,638	55,722,458	72,460
Outside services	2,045,138	1,944,481	2,077,073	-	2,077,073	(132,592)
Materials and supplies	4,552,121	4,405,121	4,423,565	(6,851)	4,416,714	(11,593)
Energy costs	9,231,694	8,652,711	8,143,399	-	8,143,399	509,312
Risk management	1,442,098	1,744,255	1,502,049	394,000	1,896,049	(151,794)
Miscellaneous operating expenses	5,119,607	5,178,726	5,162,593	-	5,162,593	16,133
Amortization of net pension asset	-	-	1,555,000	(1,555,000)	-	-
Depreciation	-	-	11,739,095	(11,739,095)	-	-
Total operating expenses	79,924,009	77,720,212	89,082,594	(11,664,308)	77,418,286	301,926
Operating income (loss)	(55,330,714)	(51,094,982)	(61,059,765)	11,664,308	(49,395,457)	1,699,525

San Diego Metropolitan Transit System**San Diego Transit Corporation****Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued****For the fiscal year ended June 30, 2009**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Public support and nonoperating revenues:						
Federal revenue	15,535,774	17,119,830	17,177,124	-	17,177,124	57,294
Transportation Development Act (TDA) funds	14,837,401	17,877,387	17,197,220	-	17,197,220	(680,167)
State Transit Assistance (STA) funds	12,992,663	7,618,343	7,298,614	-	7,298,614	(319,729)
TransNet funds	14,782,322	13,564,608	14,138,130	-	14,138,130	573,522
Other local subsidies	278,000	278,000	278,000	-	278,000	-
Investment earnings	-	-	(216)	-	(216)	(216)
Interest expense	-	-	(4,302,109)	4,302,109	-	-
Gain (loss) on disposal of assets	-	-	130,080	(130,080)	-	-
Other expenses	(3,429,512)	(3,613,432)	(641,552)	(4,302,109)	(4,943,661)	(1,330,229)
Amortization of bond issuance costs	-	-	(52,365)	52,365	-	-
Total public support and nonoperating revenues	54,996,648	52,844,736	51,222,926	(77,715)	51,145,211	(1,699,525)
Income (loss) before contributed capital	(334,066)	1,749,754	(9,836,839)	11,586,593	1,749,754	-
Contribution of capital assets	-	-	56,395,730	(56,395,730)	-	-
Change in net assets	\$ (334,066)	\$ 1,749,754	46,558,891	\$ (44,809,137)	\$ 1,749,754	\$ -
Net assets, beginning of year			38,389,694			
Net assets, end of year			\$ 84,948,585			

San Diego Metropolitan Transit System**San Diego Trolley Incorporated****Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual****For the fiscal year ended June 30, 2009**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Passenger revenue	\$ 31,711,015	\$ 33,260,750	\$ 33,453,633	\$ -	\$ 33,453,633	\$ 192,883
Miscellaneous operating revenues	612,000	684,000	1,012,028	(459,308)	552,720	(131,280)
Total operating revenues	32,323,015	33,944,750	34,465,661	(459,308)	34,006,353	61,603
Operating expenses:						
Personnel costs	31,437,523	31,368,136	33,712,024	(2,206,542)	31,505,482	(137,346)
Outside services	9,054,381	8,448,069	9,251,915	-	9,251,915	(803,846)
Materials and supplies	2,937,730	2,989,104	2,760,620	(49,297)	2,711,323	277,781
Energy costs	9,010,573	8,663,333	8,818,828	-	8,818,828	(155,495)
Risk management	1,729,249	1,789,726	2,145,493	(6,000)	2,139,493	(349,767)
Miscellaneous operating expenses	4,129,331	4,010,772	4,024,881	-	4,024,881	(14,109)
Depreciation	-	-	55,746,048	(55,746,048)	-	-
Total operating expenses	58,298,787	57,269,140	116,459,809	(58,007,887)	58,451,922	(1,182,782)
Operating income (loss)	(25,975,772)	(23,324,390)	(81,994,148)	57,548,579	(24,445,569)	(1,121,179)

San Diego Metropolitan Transit System**San Diego Trolley Incorporated****Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued****For the fiscal year ended June 30, 2009**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Public support and nonoperating revenues:						
Federal revenue	8,200,000	16,615,944	16,615,904	-	16,615,904	(40)
Transportation Development Act (TDA) funds	11,775,772	708,447	717,855	-	717,855	9,408
State Transit Assistance (STA) funds	-	-	68,685	-	68,685	68,685
TransNet funds	6,000,000	6,000,000	7,043,125	-	7,043,125	1,043,125
Gain (loss) on disposal of assets	-	-	(15,148)	15,148	-	-
Total public support and nonoperating revenues	25,975,772	23,324,391	24,430,421	15,148	24,445,569	1,121,178
Income (loss) before contributed capital	-	1	(57,563,727)	57,563,727	-	(1)
Contribution of capital assets	-	-	17,548,748	(17,548,748)	-	-
Change in net assets	\$ -	\$ 1	(40,014,979)	\$ 40,014,979	\$ -	\$ (1)
Net assets, beginning of year			968,463,391			
Net assets, end of year			\$ 928,448,412			

DRAFT**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*

This schedule contains trend information to help the reader understand how MTS's financial position has changed over time.

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

FINANCIAL TRENDS

San Diego Metropolitan Transit System
Net Assets by Component

Last Five Fiscal Years - DRAFT

	2009	2008	2007	2006	2005
Enterprise funds					
Invested in capital assets, net of related debt	1,075,104,675	1,079,967,043	1,097,675,395	1,246,202,145	1,116,153,673
Unrestricted	174,283,113	185,609,462	163,244,170	2,107,304	176,309,211
Total enterprise funds net assets	1,249,387,788	1,265,576,505	1,260,919,565	1,248,309,449	1,292,462,884

Note: In 2007 MTS changed the presentation of its financial statements. MTS determined that all of its activities were truly business-type activities and presented all funds as Enterprise funds in 2007 and all subsequent years. To facilitate comparability among the years reported, we have presented amounts for 2006 and 2005 as combined totals for Governmental Funds and Business Type Activities.

San Diego Metropolitan Transit System

Changes in Net Assets

Last Five Fiscal Years - DRAFT

	(accrual basis of accounting)				
	2009	2008	2007	2006	2005
Operating revenues					
Passenger Revenue	85,192,330	75,938,626	68,634,694	67,579,729	63,802,747
Advertising	924,522	1,118,697	1,001,597	838,663	1,339,470
Charter	68,801	63,435	44,999	30,940	895,092
Miscellaneous operating revenue	4,874,700	3,671,549	3,703,043	1,734,582	18,240
Total operating revenue	91,060,353	80,792,307	73,384,333	70,183,914	66,055,549
Operating expenses:					
Personnel costs	100,357,799	101,347,479	89,750,761	89,075,021	91,485,718
Outside services	65,139,831	64,940,409	62,629,613	57,709,213	70,259,897
Transportation operations funding	3,003,698	3,852,449	5,438,052	6,758,525	6,244,510
Materials and supplies	7,190,088	7,590,216	7,266,337	8,157,794	8,756,096
Energy costs	25,283,357	27,210,670	22,767,220	24,304,787	14,140,307
Risk management	4,074,104	3,898,094	5,416,889	5,078,068	5,212,337
Miscellaneous operating expenses	2,052,156	1,974,588	944,296	2,335,990	2,563,968
Amortization of net pension asset	1,555,000	1,500,000	1,455,000	1,415,000	
Depreciation	75,498,980	85,543,426	74,472,549	66,798,819	49,138,639
Total operating expenses	284,155,013	297,857,331	270,140,717	261,633,217	247,801,472
Operating income (loss)	(193,094,660)	(217,065,024)	(196,756,384)	(191,449,303)	(181,745,923)
Public support and nonoperating revenue:					
Grants and contributions	176,217,701	200,879,074	184,332,341	155,746,015	209,482,693
Investment earnings	10,584,251	13,394,279	13,349,080	7,095,384	11,706,567
Indirect cost recovery		-	-	1,685,026	2,827,481
Interest expense	(11,153,556)	(10,666,621)	(14,229,812)	(11,499,050)	(10,312,657)
Gain(loss) on disposal of assets	294,006	87,898	(1,260,113)	(1,800,414)	291,047
Other expenses	(641,552)	(141,711)	(355,528)	(187,452)	(184,767)
Amortization of bond issuance cost	(63,379)	(322,852)			
Total public support and nonoperating revenue	175,300,850	203,230,067	181,835,968	151,039,509	213,810,364
Income (loss) before contributed capital	(17,793,810)	(13,834,957)	(14,920,416)	(40,409,794)	32,064,441
Capital contribution	1,668,471	18,491,897	27,728,531	23,013,017	30,007,339
Changes in net assets:	(16,125,339)	4,656,940	12,808,115	(17,396,777)	62,071,780

Source: Audited financial statements

REVENUE CAPACITY

San Diego Metropolitan Transit System

Operating Revenue by Source (in 000s)

Last Five Fiscal Years - DRAFT

<u>Fiscal Year Ended</u>	<u>Passenger Fares</u>	<u>Federal Operng Funds</u>	<u>State Operati ng Funds</u>	<u>Local Operati ng Funds</u>	<u>Interest</u>	<u>Other</u>
San Diego Transit Corporation						
2005	21,383	14,200	25,862	7,278	68	850
2006	22,264	15,000	23,415	13,105	129	1,532
2007	22,298	15,000	29,360	9,901	63	1,153
2008	23,680	13,934	21,863	10,507	-	1,154
2009	27,882	17,177	24,496	14,416	-	141
San Diego Trolley, Inc.						
2005	25,855	10,651	498	9,522	-	539
2006	27,934	12,788	7,415	6,000	-	742
2007	27,402	15,325	6,279	6,000	-	652
2008	31,120	13,881	4,479	6,000	-	604
2009	33,454	16,616	787	7,043	-	1,012
General Services						
2005	-	-	-	-	312	863
2006	-	-	-	-	678	979
2007	-	-	-	-	646	1,680
2008	-	-	-	-	2,602	1,895
2009	-	-	-	-	-	4,830
MTS - Contract Services						
2005	16,564	711	367	33,651	-	-
2006	17,382	-	137	455	-	(344)
2007	18,935	200	36,300	1,778	-	66
2008	21,138	921	38,020	1,285	-	75
2009	23,857	4,681	29,581	1,456	-	64
Source:	Audited Financial Statements					

San Diego Metropolitan Transit System

Fare Structure

Bus Cash Fares	<u>2,008</u>	<u>2,007</u>
Local	\$2.00	\$1.75
Urban	2	2
Express	3	2.50-4.00
Premium express	5	-
Rural bus	5.00-10.00	-
Senior/disabled	1	1
Airport shuttle	2	2
Shuttles	1	1
Trolley Cash Fares		
Downtown	1	1
1 station	2	2
2 stations	2	2
3 stations	2	2
4-10 stations	2	2
11-19 stations	3	3
20+ stations	3	3
Senior/disabled	1	1
Bus and Trolley Monthly Passes		
Regional monthly pass	64	-
Premium monthly pass	90	-
Senior/disabled bus and trolley	16	15
Youth bus and trolley	32	29
Local/Urban Bus/Express/Trolley	-	58
Express Bus (multi-zones)	-	64.00-84.00

SOURCE:

Codified Ordinance No. 4, an ordinance establishing a Metropolitan Transit System fare pricing schedule, last amended November, 2007. Additional changes to the fare structure were effective as of July 1, 2008.

San Diego Metropolitan Transit System

Farebox Recovery Percentages

Last Five Fiscal Years - DRAFT

<u>Fiscal Year Ended</u>	<u>San Diego Transit Corporation</u>	<u>San Diego Trolley, Inc.</u>	<u>MTS Contract Services</u>
2005	27	54	32
2006	30	51	32
2007	31	49	33
2008	30	54	34
2009	35	55	40

SOURCE: Audited financial statements; calculated as passenger revenue divided by operating expenses.

DEBT CAPACITY

San Diego Metropolitan Transit System

Ratio of Outstanding Debt by Type

Last Five Fiscal Years - DRAFT

Year ended June 30	Capital Lease- Tower	Capital Lease - Equipment	1990 LRV Sale/Leaseback	1995 LRV Lease/Leaseback	Certificates of Participation 2002	Certificates of Participation 2003	Pension Obligation Bonds	Total
2005	8,910,118	-	15,878,727	125,774,762	10,985,000	32,850,000	7,490,000	\$271,918
2006	8,516,304	319,719	13,174,798	124,775,518	7,430,000	26,065,000	76,075,000	256,356
2007	8,075,925	255,113	3,823,388	123,699,432	3,770,000	19,155,000	74,620,000	233,398
2008	7,617,599	187,737	-	122,540,596	-	-	73,120,000	203,465
2009	7,141,326	117,470	-	121,292,645	-	-	71,565,000	200,116

Details regarding MTS' outstanding debt can be found in the notes to the financial statements.
 MTS retired three financial obligations in FY 2008

San Diego Metropolitan Transit System

Regional Population and Personal Income Statistics

Last Five Fiscal Years - DRAFT

DRAFT

	MTS Service Area Population	MTS Service Area Personal Income (thousands)	Per Capital Personal Income	San Diego County Average Unemployment Rate
	(1)	(2)		(3)
2005	2,154,170	50,408,033	23,400	4.70%
2006	2,188,817	49,149,338	22,455	4.10%
2007	2,197,243	50,827,435	23,132	4.80%
2008	2,227,386	53,006,520	23,798	4.80%
2009				

(1) SOURCE: San Diego Association of Governments, January 2008 Estimate

(2) SOURCE: FY 2008 data is not currently available

Estimate based on the statewide increase of personal income of 4.287% between June 30, 2007 and June 30, 2008
Percentage was obtained through the U.S. Department of Commerce website

(3) SOURCE: California Employment Development Department, October 2008

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

Full-time and Part-time Employees at June 30

<u>Function</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
MTS	114	129	121	90	73
San Diego Transit Corporation	824	899	866	880	927
San Diego Trolley, Inc.	<u>530</u>	<u>619</u>	<u>527</u>	<u>539</u>	<u>528</u>
Total	1,468	<u>1,647</u>	<u>1,514</u>	<u>1,509</u>	<u>1,528</u>

Source: MTS payroll records

San Diego Metropolitan Transit System

Ten Largest Employers in San Diego County

Company Name	Number of Employees (1)	Percent of 1,473,200 million County Total (2)
United States Navy	42,000	2.851%
United States Government	39,100	2.654%
State of California	37,100	2.518%
University of California San Diego	24,790	1.683%
Scripps Mercy Hospital/Scripps Health	21,313	1.447%
San Diego Unified School District	21,073	1.430%
City of San Diego	20,700	1.405%
County of San Diego	18,900	1.283%
Sharp Health Care	13,872	0.942%
United States Postal Service	11,611	0.788%

Source:

(1) San Diego Source, The Daily Transcript

(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.

OPERATING INFORMATION

San Diego Metropolitan Transit System

Operating Indicators by Function

Last Five Fiscal Years - DRAFT

	2009	2008	2007	2006	2005
Operating Cost:					
San Diego Transit	75,788,499	75,711,447	68,253,960	68,296,800	78,216,331
San Diego Trolley	60,713,761	58,039,920	55,951,561	55,014,599	47,661,707
MTS Contract Services	59,639,023	61,450,734	57,286,732	54,387,095	51,815,445
Farebox Revenue:					
San Diego Transit	27,950,342	23,743,614	22,341,718	22,294,679	21,401,339
San Diego Trolley	33,453,633	31,120,169	27,401,733	27,933,766	25,855,241
MTS Contract Services	23,857,156	21,138,278	18,935,332	17,382,224	16,564,407
Total Passengers:					
San Diego Transit		28,094,257	26,075,859	24,889,685	24,426,571
San Diego Trolley		37,620,944	35,114,385	33,829,833	29,334,362
MTS Contract Services		21,460,283	20,283,498	18,907,112	18,448,621
Revenue Miles:					
San Diego Transit		9,522,460	9,622,029	9,958,013	10,087,350
San Diego Trolley		8,002,889	7,940,011	8,180,189	7,060,498
MTS Contract Services		12,513,495	12,453,692	12,241,939	12,701,361
Subsidy / Total Passenger					
San Diego Transit		2	2	\$1.85	\$2.33
San Diego Trolley		1	1	1	1
MTS Contract Services		2	2	2	2

Source: NTD Report, and audited financial statements

San Diego Metropolitan Transit System

Service Performance Data

Last Five Fiscal Years - DRAFT

Service Provided	2009	2008	2007	2006	2005
Bus					
Vehicle Revenue Miles		9,522,460	9,622,029	9,958,013	10,089,671
Vehicle Revenue Hours		870,432	853,044	840,408	829,742
Passengers		28,094,257	26,075,859	24,889,685	24,425,116
Passenger Miles		100,255,833	98,202,798	93,579,662	93,745,993
Number of Vehicles		267	267	274	280
Rail					
Vehicle Revenue Miles		8,002,889	7,940,011	8,180,189	7,060,498
Vehicle Revenue Hours		439,377	432,440	468,829	368,184
Train Hours		445,277	438,555	480,396	379,050
Passengers		37,620,944	35,114,185	33,829,833	29,334,362
Passenger Miles		206,923,846	207,726,689	208,875,499	187,987,995
Number of Vehicles		134	134	134	123
MTS-Contract Services					
Vehicle Revenue Miles		12,513,495	12,453,692	12,241,939	127,002,324
Vehicle Revenue Hours		1,018,879	995,636	927,652	946,314
Passengers		21,460,283	21,142,942	18,907,112	18,448,621
Passenger Miles		77,173,278	78,303,615	73,343,433	69,957,802
Number of Vehicles		358	348	337	357
Total					
Passengers	0	87,175,484	82,332,986	77,626,630	72,208,099
Passenger Miles	0	384,352,957	384,233,102	375,798,594	351,691,790

Source: NTD Report and MTS internal capital asset system

San Diego Metropolitan Transit System

Capital Assets Statistics by Function

Last Five Fiscal Years - DRAFT

	Fiscal Year				
	2009	2008	2007	2006	2005
General Operations					
Buildings and structures	1	1	1	1	1
Nonrevenue vehicles	7	7	10	10	12
San Diego Transit Corporation					
Land (parcels)	2	2	2	2	2
Buildings and structures	2	2	2	2	2
Buses	284	267	267	274	280
Nonrevenue vehicles	39	53	47	45	49
San Diego Trolley, Inc.					
Trolley stations	54	54	54	54	50
Track miles	54	54	54	54	49
Light rail vehicles (total inventory)	133	134	134	134	123
Nonrevenue vehicles	68	72	69	58	78
Other Contracted Services					
Land (parcel)	1	1	1	1	1
Buildings and structures	3	3	1	1	1
Buses	366	358	348	337	357
Nonrevenue vehicles	7	9	4	2	2
Taxicab Administration					
Buildings and structures	1	1	1	1	1
Nonrevenue vehicles	3	3	2	1	1

MTS internal capital asset system

San Diego Metropolitan Transit System

Ridership

Last Five Fiscal Years - DRAFT

	2009	2008	2007	2006	2005
Ridership (in 000's)					
Bus		28,094	26,076	24,890	24,427
% Change		7.74%	4.77%	1.90%	
Trolley		37,621	35,114	33,830	29,334
% Change		7.14%	3.80%	15.32%	
MTS Contract Services		21,460	21,142	18,907	18,449
% Change		1.50%	11.82%	2.49%	

Source: NTD Report

San Diego Metropolitan Transit System

Operating Subsidy

Last Five Fiscal Years - DRAFT

	2009	2008	2007	2006	2005
Average Fare per Rider					
San Diego Transit		0.85	0.86	0.90	0.88
San Diego Trolley		0.83	0.78	0.83	0.88
MTS Contract Services		0.98	0.93	0.92	0.90
Operating Expense per Rider					
San Diego Transit		2.69	2.62	2.74	3.20
San Diego Trolley		1.54	1.59	1.63	1.62
MTS Contract Services		2.86	2.82	2.88	2.81
Subsidy per Rider					
San Diego Transit		1.85	1.76	1.85	2.33
San Diego Trolley		0.72	0.81	0.80	0.74
MTS Contract Services		1.88	1.89	1.96	1.91

Source: NTS report and Audited financial statements