

San Diego Metropolitan Transit System

San Diego, California



Comprehensive Annual Financial Report
for the Fiscal Years ended
June 30, 2011 and 2010



San Diego Metropolitan Transit System

San Diego, California

*Comprehensive Annual Financial Report and
Independent Auditors' Report*

For the years ended June 30, 2011 and 2010

PREPARED BY SAN DIEGO METROPOLITAN TRANSIT SYSTEM
FINANCE DEPARTMENT

San Diego Metropolitan Transit System

Table of Contents

| | Page | |
|--|----------|-----------|
| Introductory Section (Unaudited): | | |
| Letter of Transmittal | i | |
| Listing of Board of Directors and Management | v | |
| Executive Level Organization Chart..... | vii | |
| Certificate of Achievement for Excellence in Financial Reporting – GFOA..... | viii | |
| Financial Section: | | |
| Independent Auditors' Report..... | 1 | |
| Management's Discussion and Analysis | | |
| (Required Supplementary Information) (Unaudited) | 3 | |
| Basic Financial Statements: | | |
| Statements of Net Assets | 8 | |
| Statements of Revenues, Expenses and Changes in Net Assets | 10 | |
| Statements of Cash Flows..... | 11 | |
| Notes to Basic Financial Statements..... | 13 | |
| Required Supplementary Information (Unaudited): | | |
| Schedule of Funding Progress of Defined Pension Plans..... | 44 | |
| Schedule of Funding Progress of Other Postemployment Benefits Plans | 45 | |
| Supplementary Information: | | |
| Combining Schedule of Net Assets | 48 | |
| Combining Schedule of Revenues, Expenses, and Changes in Net Assets | 50 | |
| Combining Schedule of Cash Flows..... | 52 | |
| Schedules of Revenues, Expenses and Changes in Net Assets - Budget and Actual: | | |
| Combined Operations | 54 | |
| General Operations: | | |
| General Fund..... | 56 | |
| Taxicab Administration | 58 | |
| San Diego & Arizona Eastern Railway | 59 | |
| Contract Services | 60 | |
| San Diego Transit Corporation | 62 | |
| San Diego Trolley, Inc..... | 64 | |
| | | |
| Independent Auditors' Report on Compliance and on Internal Control | | |
| Over Financial Reporting Based On An Audit of Financial Statements | | |
| Performed In Accordance With <i>Government Auditing Standards</i> | | 67 |

San Diego Metropolitan Transit System

Table of Contents

| | Page |
|--|-------------|
| Statistical Section (Unaudited): | |
| Financial Trends: | |
| Net Assets by Component | 73 |
| Changes in Net Assets | 74 |
| Revenue Capacity: | |
| Operating Revenue by Source | 76 |
| Fare Structure | 77 |
| Farebox Recovery Percentages | 78 |
| Debt Capacity: | |
| Ratio of Outstanding Debt by Type | 80 |
| Demographic and Economic Statistics: | |
| Regional Population and Personal Income Statistics | 82 |
| Full-time and Part-time Employees by Function | 83 |
| Ten Largest Employers | 84 |
| Operating Information: | |
| Operating Indicators by Function | 86 |
| Service Performance Data | 87 |
| Capital Asset Statistics by Function | 88 |
| Ridership | 89 |
| Operating Subsidy | 90 |

INTRODUCTORY SECTION

Board of Directors and Transit Riders
San Diego Metropolitan Transit System

The comprehensive annual financial report of the San Diego Metropolitan Transit System (MTS) for the fiscal years ended June 30, 2011 and 2010 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, Inc. (A Subsidiary of Marcum LLP) Certified Public Accountants has been retained to meet this requirement. The goal of the independent audit was to provide reasonable assurance that the financial statements of MTS for the fiscal years ended June 30, 2011 and 2010 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, 2011 and 2010 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 2.3 million people residing in a 570 square mile area of San Diego County, including the cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, Santee, and San Diego and the unincorporated area of the County of San Diego. 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.

California law establishes the San Diego Association of Governments (SANDAG) as the planning agency for San Diego County. The responsibility and decision-making for all transportation-related planning, programming and development activities occurs within SANDAG's nine-member Transportation Committee. Approved transportation plans and programs are subsequently executed by SANDAG staff. Within this structure MTS and the North County Transit District (NCTD) focus primarily on operating activities.

MTS is effectively an umbrella agency. MTS owns the assets of San Diego Trolley, Inc. (SDTI) and San Diego Transit Corporation (SDTC), the area's two largest transit operators. These two transit units were formed under California law as not-for-profit public corporations and function as operating subsidiaries of MTS. SDTI and SDTC are considered component units and are blended component units for financial reporting purposes. SDTI operates three Light Rail Transit (LRT) routes: the Blue Line from the 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 25 routes with an active fleet of 236 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.

MTS MILESTONES

In October 2009, MTS was honored as Outstanding Transit Agency of the Year at the American Public Transportation Association (APTA) annual conference. 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 ridership, safety, operating revenue and costs, performance, and customer service to determine the winner of the award.

During 2011, MTS celebrated two important anniversaries: SDTC marked 125 years of continuous bus service and SDTI recognized 30 years of trolley service.

ECONOMIC CONDITION AND OUTLOOK

San Diego has shown continued but limited recovery from the economic downturn that has affected all parts of nation since 2008, fueled by increased military spending and moderate improvements in tourism and biotech industries. It is expected that future cuts in government spending and employment will slow the recovery during the coming year. San Diego's gross regional product (GRP), the total value of the region's economy, has been forecast to reach \$174 billion in 2010 and \$181 billion in 2011, increasing from the \$169 billion estimated for 2009. It is expected that gains in employment, consumer spending and related sales tax revenues will lag behind other indicators. MTS ridership in 2011 increased by 2.7% largely due to increases in gasoline prices.

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 FY2004, 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.

Long-term financial planning

The long-term goal of MTS is to fund operations solely with recurring revenues. The economy has made some improvements over the past year but has yet to recover from the economic downturn. Accordingly, sales tax receipts throughout California have not yet rebounded to pre-crisis levels, which has had a predictable continuing negative effect on the subsidy revenue available to MTS from both TDA and *TransNet* funds. MTS continues to monitor its costs and initiate additional revenue programs. These activities include service and fare adjustments, reductions in management personnel and benefits, increased advertising and real property revenues, and agency-wide efforts at traditional cost-saving measures.

Major Initiatives

In addition to the challenge of aligning operating costs with recurring revenues, MTS is also challenged with rebuilding the capital program in order to replace aging infrastructure. During 2011, MTS continued its ongoing programs to upgrade its bus fleet and the Blue Line Trolley. In early July 2011, MTS accepted delivery of the first of 57 new trolley cars currently under construction. Finally, plans to extend trolley service up the I-5 corridor from Old Town to La Jolla are proceeding and funding sources are being identified. It is expected that the 4-year project will begin by the end of 2013.

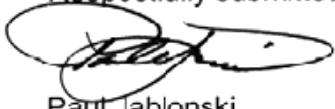
AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MTS for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010. This is the fifth consecutive year and the fifteenth year overall that MTS has been the recipient of this award. MTS submitted a CAFR that was deemed to be easily readable, well-organized, and compliant with generally accepted accounting principles and applicable legal requirements. MTS strives to accomplish this level of proficiency with the preparation of each year's CAFR.

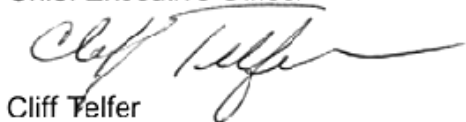
Acknowledgments

The staff of the finance and administration department is to be commended for their efficient and dedicated service to the production of this report. In addition, we express our appreciation for the assistance and cooperation provided by management and staff in all departments throughout the organization.

Respectfully submitted,



Paul Jablonski
Chief Executive Officer



Cliff Telfer
Chief Financial Officer

November 30, 2011

San Diego Metropolitan Transit System

Listing of Board of Directors and Management

BOARD OF DIRECTORS

| Members | Board position (elected position) |
|-------------------|--|
| Harry Mathis | Chairman, since 1/06 |
| Ron Roberts | Vice Chairman, since 12/89 (Supervisor, County Board of Supervisors) |
| Steve Castaneda | Board Member, since 1/11 (Councilmember, City of Chula Vista) |
| Jim Cunningham | Board Member, since 12/09 (Councilmember, City of Poway) |
| Marti Emerald | Board Member, since 1/10 (Councilmember, City of San Diego) |
| Mary England | Board Member, since 12/10 (Mayor Pro Tem, City of Lemon Grove) |
| Ernest Ewin | Board Member, since 3/05 (Councilmember, City of La Mesa) |
| Todd Gloria | Board Member, since 1/09 (Councilmember, City of San Diego) |
| Jim Janney | Board Member, since 5/09 (Mayor, City of Imperial Beach) |
| Sherri Lightner | Board Member, since 1/09 (Councilmember, City of San Diego) |
| Bob McClellan | Board Member, since 4/08 (Councilmember, City of El Cajon) |
| John Minto | Board Member, since 1/11 (Councilmember, City of Santee) |
| Al Ovrom, Jr. | Board Member, since 12/08, (Councilmember, City of Coronado) |
| Jess Van Deventer | Board Member, since 9/09 (Councilmember, National City) |
| Tony Young | Board Member, since 1/05 (Councilmember, City of San Diego) |

Board Committee Membership

| Executive Committee | Accessible Services Advisory Committee | Ad Hoc Airport Regional Policy Committee | Ad Hoc Public Security Committee |
|--|--|---|---|
| Harry Mathis, Chair John Minto Al Ovrom Ron Roberts Tony Young | Thomas Clabby, Chair (Former Board Member) | Harry Mathis | Jim Cunningham Ernie Ewin Todd Gloria Jim Janney Harry Mathis |
| Audit Oversight Committee | Budget Development Committee | Joint Committee on Regional Transit | Los Angeles-San Diego Rail Corridor Agency |
| Ernie Ewin, Chair Harry Mathis John Minto Al Ovrom Ron Roberts Tony Young | Jim Cunningham Harry Mathis Bob McClellan Ron Roberts Tony Young | Jim Cunningham Ernie Ewin Harry Mathis | Jerry Rindone (Former Board Member) |
| SANDAG Board | SANDAG Regional Planning Committee | SANDAG Transportation Committee | Taxicab Committee |
| Harry Mathis | Al Ovrom | Harry Mathis | Marti Emerald, Chair |

San Diego Metropolitan Transit System

Listing of Board of Directors and Management, Continued

MTS MANAGEMENT

Staff

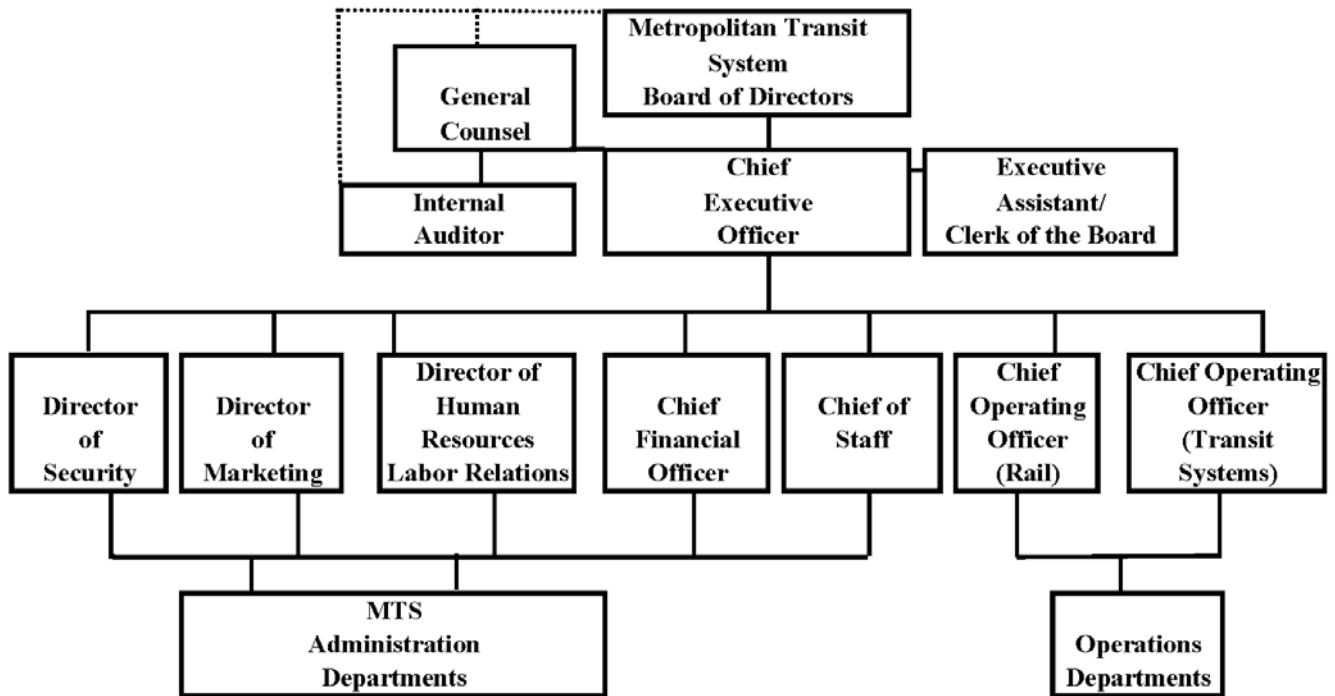
Paul Jablonski
Sharon Cooney
Karen Landers
Cliff Telfer
Claire Spielberg
E. Wayne Terry
Robert Schupp
Jeff Stumbo
Bill Burke

Position

Chief Executive Officer
Chief of Staff
General Counsel
Chief Financial Officer
Chief Operating Officer, Transit Systems
Chief Operating Officer, Rail
Director, Marketing and Communications
Director, Human Resources and Labor Relations
Director, Security

San Diego Metropolitan Transit System

Executive Level Organization Chart



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, 2010

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.



Linda C. Davison

President

Jeffrey R. Emer

Executive Director

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the San Diego Metropolitan Transit System (MTS), as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These basic financial statements are the responsibility of MTS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MTS' internal control over financial reporting. Accordingly, we expressed no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of MTS as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011, on our consideration of the MTS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Funding Progress of Defined Benefit Pension Plans, and Schedule of Funding Progress of Other Postemployment Benefits Plans be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in

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

accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinion on the MTS' basic financial statements. The introductory section, combining and individual fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Diego, California
November 30, 2011

San Diego Metropolitan Transit System

Management's Discussion and Analysis

June 30, 2011 and 2010

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, 2011 and 2010. This information should be used in conjunction with the Letter of Transmittal, which can be found on pages i through iv of this report.

Financial Highlights

- Net assets, as reported in the statement of net assets, totaled \$1,254 million as of June 30, 2011, \$1,258 million as of June 30, 2010 and \$1,250 million as of June 30, 2009. Of this amount, \$173 million was unrestricted as of June 30, 2011, \$177 million was unrestricted as of June 30, 2010, and \$172 million was unrestricted as of June 30, 2009. Total net assets decreased by \$4 million in the current year and increased by \$8 million in the prior year. The current year decrease is largely attributable to a decrease in Federal revenue and *TransNet* funding for capital projects, partially offset by increased State Transit Assistance and Proposition 1B funds.
- For the year ended June 30, 2011, the combined farebox recovery ratio (the measure of the ability to recover operating costs through fare revenue) for San Diego Trolley, Inc., San Diego Transit Corporation, and MTS Contracted Services was 41.68% compared to 39.70% for the year ended June 30, 2010 and 42.71% for the year ended June 30, 2009. The current year increase is due primarily to a decrease in the amortization cost associated with the net pension asset.

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 2011, MTS presents comparative statements for FY2011 and FY2010.

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).

The *statement of cash flows* presents information showing the sources and uses of cash related to operating activities, noncapital financing activities, capital and related financing activities and investing activities. In addition, the statement provides information about significant non-cash investing, capital and financing activities.

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

San Diego Metropolitan Transit System

Management's Discussion and Analysis, Continued

June 30, 2011 and 2010

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

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

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of MTS, assets exceeded liabilities by \$1,254 million at the close of the most recent fiscal year and \$1,258 million at the end of FY2010.

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 \$98 million, of which the largest projects under construction include the procurement of 57 light rail vehicles, \$68 million; land acquisitions and expansions, \$19 million; and CNG station improvements totaling \$5 million. Prior year construction-in-progress totaled \$86 million, of which the largest projects under construction included the procurement of 57 light rail vehicles, \$49 million; residual costs for the Mission Valley East Trolley project, \$10 million; the Bus Rapid Transit Project, \$11 million; and land acquisitions and expansions totaling \$11 million. The capital assets that are represented by construction-in-progress will be used to provide services to citizens; consequently, these assets are not available for future spending. In FY2011, MTS transferred completed projects worth \$39 million to SDTC, SDTI, Other Contracted Services and other governments. In FY2010, MTS transferred completed projects worth \$43.6 million to SDTC, SDTI, Other Contracted Services and other governments.

The balance in unrestricted assets decreased by \$4 million during the current year and increased \$5 million in the prior year.

| | <u>June 30, 2011</u> | <u>June 30, 2010</u> | <u>Change</u> | <u>June 30, 2009</u> | <u>Change</u> |
|--|-------------------------|-------------------------|-----------------------|-------------------------|---------------------|
| Assets: | | | | | |
| Current and other assets | \$ 299,353,436 | \$ 300,276,165 | \$ (922,729) | \$ 321,192,470 | \$ (20,916,305) |
| Capital assets | 1,198,153,827 | 1,204,818,407 | (6,664,580) | 1,203,656,117 | 1,162,290 |
| Total assets | <u>1,497,507,263</u> | <u>1,505,094,572</u> | <u>(7,587,309)</u> | <u>1,524,848,587</u> | <u>(19,754,015)</u> |
| Liabilities: | | | | | |
| Long-term liabilities outstanding | 197,238,134 | 213,421,810 | (16,183,676) | 230,400,972 | (16,979,162) |
| Other liabilities | 46,571,745 | 33,788,351 | 12,783,394 | 44,298,723 | (10,510,372) |
| Total liabilities | <u>243,809,879</u> | <u>247,210,161</u> | <u>(3,400,282)</u> | <u>274,699,695</u> | <u>(27,489,534)</u> |
| Net assets: | | | | | |
| Invested in capital assets net of related debt | 1,073,561,720 | 1,078,178,383 | (4,616,663) | 1,075,104,676 | 3,073,707 |
| Restricted assets for capital projects | 7,007,293 | 2,548,338 | 4,458,955 | 2,699,649 | (151,311) |
| Unrestricted | 173,128,371 | 177,157,690 | (4,029,319) | 172,344,567 | 4,813,123 |
| Total net assets | <u>\$ 1,253,697,384</u> | <u>\$ 1,257,884,411</u> | <u>\$ (4,187,027)</u> | <u>\$ 1,250,148,892</u> | <u>\$ 7,735,519</u> |

San Diego Metropolitan Transit System

Management's Discussion and Analysis, Continued

June 30, 2011 and 2010

Increases in operating revenue are attributable to the effects of increasing gasoline prices on ridership. 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 FY2011 and FY2010 are attributable to a decrease in *TransNet* and FTA funding for capital projects, which is partially offset by the restoration of State Transit Assistance (STA) funding in the current year and an increase in Proposition 1B funding. A decrease in operating expense is attributable to a decrease in the amortization cost associated with the net pension asset.

| | June 30, 2011 | June 30, 2010 | Change | June 30, 2009 | Change |
|---|-------------------------|-------------------------|-----------------------|-------------------------|---------------------|
| Revenues: | | | | | |
| Operating revenues: | | | | | |
| Charges for services | \$ 85,514,160 | \$ 85,078,266 | \$ 435,894 | \$ 86,185,653 | \$ (1,107,387) |
| Other operating revenue | 4,687,850 | 4,264,061 | 423,789 | 4,874,700 | (610,639) |
| Nonoperating revenues: | | | | | |
| Federal revenue | 48,814,276 | 67,575,804 | (18,761,528) | 68,171,984 | (596,180) |
| Transportation Development Act | 61,509,431 | 64,977,093 | (3,467,662) | 75,517,474 | (10,540,381) |
| State Transit Assistance | 15,044,930 | - | 15,044,930 | 9,121,443 | (9,121,443) |
| State revenue - other | 18,520,399 | 6,230,977 | 12,289,422 | 4,092,420 | 2,138,557 |
| <i>TransNet</i> funds | 19,117,834 | 84,460,840 | (65,343,006) | 19,039,223 | 65,421,617 |
| Other nonoperating revenue | 16,250,239 | 10,900,482 | 5,349,757 | 11,914,503 | (1,014,021) |
| Total revenues | 269,459,119 | 323,487,523 | (54,028,404) | 278,917,400 | 44,570,123 |
| Expenses: | | | | | |
| Operating expenses | 291,893,326 | 313,084,786 | (21,191,460) | 284,154,997 | 28,929,789 |
| Nonoperating expenses | 8,559,112 | 13,777,062 | (5,217,950) | 11,858,487 | 1,918,575 |
| Total expenses | 300,452,438 | 326,861,848 | (26,409,410) | 296,013,484 | 30,848,364 |
| Increase (decrease) in net assets before capital contributions | (30,993,319) | (3,374,325) | (27,618,994) | (17,096,084) | 13,721,759 |
| Capital contributions | 26,806,292 | 11,109,844 | 15,696,448 | 1,668,471 | 9,441,373 |
| Increase/(decrease) in net assets | (4,187,027) | 7,735,519 | (11,922,546) | (15,427,613) | 23,163,132 |
| Net assets-beginning of year | 1,257,884,411 | 1,250,148,892 | 7,735,519 | 1,265,576,505 | (15,427,613) |
| Net assets-end of year | \$ 1,253,697,384 | \$ 1,257,884,411 | \$ (4,187,027) | \$ 1,250,148,892 | \$ 7,735,519 |

San Diego Metropolitan Transit System
Management's Discussion and Analysis, Continued
June 30, 2011 and 2010

Capital Asset and Debt Administration

Capital assets. MTS' investment in capital assets net of depreciation as of June 30, 2011 and 2010 amounted to \$1,198 million and \$1,205 million. This investment in capital assets includes land, buildings, vehicles, equipment, and construction-in-progress. Major capital asset events during the current fiscal year included the following:

- MTS has continued its multi-year program to acquire 57 light rail vehicles for a total cost of \$68 million through the end of FY2011.
- Improvements to bus and trolley stations completed this year amounted to \$54 million
- Completed capital projects totaling \$33 million were transferred from SANDAG and other governments to MTS and its component units during FY2011.

| | CAPITAL ASSETS (Net of depreciation) | | |
|--------------------------|--|-------------------------|-------------------------|
| | 2011 | 2010 | 2009 |
| Land | \$ 224,793,077 | \$ 221,853,921 | \$ 221,853,921 |
| Buildings | 654,759,920 | 648,756,302 | 684,533,624 |
| Vehicles | 179,108,727 | 203,196,464 | 205,194,291 |
| Equipment & other | 42,137,343 | 45,174,474 | 49,710,233 |
| Construction-in-progress | 98,005,155 | 85,837,246 | 42,364,049 |
| Total | <u>\$ 1,198,804,222</u> | <u>\$ 1,204,818,407</u> | <u>\$ 1,203,656,118</u> |

Additional information on MTS' capital assets can be found in Note 5 to the financial statements.

Long-term debt. At the end of the current fiscal year, MTS has one capital lease obligation outstanding in the amount of \$5.3 million. In addition, MTS has two finance obligations outstanding relating to a lease/leaseback transaction entered into in 1995 and Pension Obligation Bonds issued in fiscal year 2005 and fiscal year 2010, for a total obligation of \$165.8 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 2010, MTS retired 14% and refunded 41%, or \$30 million, of the bonds outstanding. Additional information about MTS' long-term debt can be found in Note 10 to the financial statements.

Bond Ratings

Standard & Poor's Ratings Services provided an underlying rating for the Pension Obligation Bonds at A in 2009. Additional information on MTS' long-term debt can be found in Note 10 to the financial statements.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

San Diego Metropolitan Transit System

Statements of Net Assets

June 30, 2011 and 2010

| Assets | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 25,661,196 | \$ 44,246,852 |
| Investments restricted for debt service payable within one year | 1,558,561 | 1,447,266 |
| Accounts and other receivables | 7,918,271 | 7,765,988 |
| Due from other governments | 74,544,075 | 57,225,348 |
| Materials and supplies inventory | 10,977,710 | 10,443,264 |
| Prepaid expenses and other current assets | 2,166,775 | 2,076,453 |
| Total current assets | <u>122,826,588</u> | <u>123,205,171</u> |
| Noncurrent assets: | | |
| Cash and certificates of deposit restricted for capital support | 8,079,635 | 4,805,538 |
| Investments restricted for debt service and capital projects | 117,867,198 | 118,050,149 |
| Contracts receivable | 977,171 | 977,171 |
| Unamortized bond issuance cost | 392,206 | 527,498 |
| Capital assets (net of accumulated depreciation) | 1,198,153,827 | 1,204,818,407 |
| Net pension assets | 49,210,638 | 52,710,638 |
| Total noncurrent assets | <u>1,374,680,675</u> | <u>1,381,889,401</u> |
| Total assets | <u>1,497,507,263</u> | <u>1,505,094,572</u> |

See Accompanying Notes to Basic Financial Statements.

San Diego Metropolitan Transit System

Statements of Net Assets, Continued

June 30, 2011 and 2010

| Liabilities | 2011 | 2010 |
|---|-------------------------|-------------------------|
| Current liabilities: | | |
| Accounts payable | 14,874,163 | 8,784,564 |
| Due to other governments | 7,243,634 | 2,402,740 |
| Unearned revenue | 2,476,354 | 2,394,449 |
| Accrued expenses | 8,020,334 | 7,224,191 |
| Retentions payable | 48,287 | 27,115 |
| Due within one year: | | |
| Bond premium | - | 25,148 |
| Compensated absences payable | 6,583,610 | 6,635,173 |
| Accrued damage, injury, and employee claims | 3,460,982 | 2,577,359 |
| Long-term debt | 2,305,820 | 2,270,346 |
| Long-term debt payable from restricted assets | 1,558,561 | 1,447,266 |
| Total current liabilities | 46,571,745 | 33,788,351 |
| Noncurrent liabilities: | | |
| Retentions payable from restricted assets | 1,996,640 | 2,257,200 |
| Long-term debt payable from restricted assets | 116,942,900 | 118,050,149 |
| Due in more than one year: | | |
| Bond premium | - | 211,661 |
| Compensated absences payable | 5,823,470 | 5,703,396 |
| Accrued damage, injury, and employee claims | 10,967,018 | 12,065,641 |
| Accrued other post employment benefits | 10,458,280 | 9,111,500 |
| Long-term debt, due in more than one year | 51,049,826 | 66,022,263 |
| Total noncurrent liabilities | 197,238,134 | 213,421,810 |
| Total liabilities | 243,809,879 | 247,210,161 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 1,073,561,720 | 1,078,178,383 |
| Restricted for capital projects | 7,007,293 | 2,548,338 |
| Unrestricted | 173,128,371 | 177,157,690 |
| Total net assets | \$ 1,253,697,384 | \$ 1,257,884,411 |

See Accompanying Notes to Basic Financial Statements.

San Diego Metropolitan Transit System
Statements of Revenues, Expenses, and Changes in Net Assets
For the years ended June 30, 2011 and 2010

| | 2011 | 2010 |
|--|-------------------------|-------------------------|
| Operating revenues: | | |
| Passenger revenue | \$ 84,764,142 | \$ 84,167,615 |
| Advertising | 620,774 | 782,986 |
| Charter | 129,244 | 127,665 |
| Miscellaneous | 4,687,850 | 4,264,061 |
| Total operating revenues | 90,202,010 | 89,342,327 |
| Operating expenses: | | |
| Personnel costs | 104,328,659 | 109,511,444 |
| Outside services | 64,037,168 | 63,573,977 |
| Transit operations funding | 4,053,368 | 3,758,340 |
| Materials and supplies | 7,677,528 | 6,680,355 |
| Energy costs | 21,931,847 | 22,892,291 |
| Risk management | 3,923,954 | 4,858,835 |
| Miscellaneous | 4,899,334 | 3,571,062 |
| Depreciation | 81,041,468 | 98,238,482 |
| Total operating expenses | 291,893,326 | 313,084,786 |
| Operating (loss) | (201,691,316) | (223,742,459) |
| Public support and nonoperating revenues (expenses): | | |
| Federal revenue | 48,814,276 | 67,575,804 |
| Transportation Development Act (TDA) funds | 61,509,431 | 64,977,093 |
| State Transit Assistance (STA) funds | 15,044,930 | - |
| State revenue - other | 18,520,399 | 6,230,977 |
| <i>TransNet</i> funds | 19,117,834 | 84,460,840 |
| Other local subsidies | 7,842,623 | 1,261,520 |
| Investment earnings | 7,695,139 | 9,708,051 |
| Interest expense | (8,419,739) | (12,702,198) |
| Gain (loss) on disposal of assets | 712,477 | (69,089) |
| Other expenses | (4,081) | (289,006) |
| Amortization of bond issuance costs | (135,292) | (785,858) |
| Total public support and nonoperating revenues (expenses) | 170,697,997 | 220,368,134 |
| Income (loss) before contributed capital | (30,993,319) | (3,374,325) |
| Capital contributions | 26,806,292 | 11,109,844 |
| Change in net assets | (4,187,027) | 7,735,519 |
| Net assets, beginning of year | 1,257,884,411 | 1,250,148,892 |
| Net assets, end of year | \$ 1,253,697,384 | \$ 1,257,884,411 |

See Accompanying Notes to Basic Financial Statements.

San Diego Metropolitan Transit System

Statements of Cash Flows

For the years ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Receipts from customers and users | \$ 91,363,633 | \$ 91,129,342 |
| Payments to suppliers | (104,677,121) | (124,472,708) |
| Payments to employees | (99,487,577) | (98,438,088) |
| Payments for damage and injury | (196,506) | (753,488) |
| Net cash provided (used) by operating activities | <u>(112,997,571)</u> | <u>(132,534,942)</u> |
| Cash flows from noncapital financing activities: | | |
| Public support funds received | 158,222,593 | 222,661,836 |
| Net cash provided (used) by noncapital financing activities | <u>158,222,593</u> | <u>222,661,836</u> |
| Cash flows from capital and related financing activities: | | |
| Debt service costs | (17,013,090) | (17,758,341) |
| Property acquisition | (46,371,156) | (88,668,849) |
| Proceeds from disposal of assets | 2,607,891 | 281,507 |
| Net cash provided (used) by capital and related financing activities | <u>(60,776,355)</u> | <u>(106,145,683)</u> |
| Cash flows from investing activities: | | |
| Interest received on investments | 239,774 | 479,533 |
| Investments liquidated | - | 35,630,000 |
| Net cash provided (used) by investing activities | <u>239,774</u> | <u>36,109,533</u> |
| Net increase (decrease) in cash and cash equivalents | (15,311,559) | 20,090,744 |
| Cash and cash equivalents, beginning of year | 49,052,390 | 28,961,646 |
| Cash and cash equivalents, end of year | <u>\$ 33,740,831</u> | <u>\$ 49,052,390</u> |
| Cash and Cash Equivalents | | |
| Cash and cash equivalents | \$ 25,661,196 | \$ 44,246,852 |
| Cash and certificates of deposit restricted for capital support | 8,079,635 | 4,805,538 |
| Total cash and cash equivalents | <u>\$ 33,740,831</u> | <u>\$ 49,052,390</u> |

See Accompanying Notes to Basic Financial Statements.

San Diego Metropolitan Transit System

Statements of Cash Flows, Continued

For the years ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|-------------------------|-------------------------|
| Reconciliation of Operating Income (Loss) to | | |
| Net Cash Provided (Used) by Operating Activities: | | |
| Operating income (loss) | \$ (201,691,316) | \$ (223,742,459) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 81,041,468 | 98,238,482 |
| Amortization of Net Pension Assets | 3,500,000 | 10,415,000 |
| (Increase) decrease in: | | |
| Accounts and other receivables | 816,298 | 385,322 |
| Materials and supplies inventory | (534,446) | (1,807,622) |
| Prepaid and other current assets | (90,322) | (56,834) |
| Increase (decrease) in: | | |
| Accounts payable | 2,077,408 | (10,981,249) |
| Accrued expenses | 591,143 | (7,481,779) |
| Unearned revenue | 81,905 | 451,349 |
| Accrued OPEB liability | 1,346,780 | 1,064,694 |
| Compensated absences payable | 68,511 | 264,154 |
| Accrued damage, injury and employee claims | (205,000) | 716,000 |
| Total adjustments | <u>88,693,745</u> | <u>91,207,517</u> |
| Net cash provided (used) by operating activities | <u>\$ (112,997,571)</u> | <u>\$ (132,534,942)</u> |
| Noncash investing, capital, and financing activities: | | |
| Contributions of capital assets from SANDAG | \$ 32,864,379 | \$ 8,889,863 |
| Contributions/adjustments of capital assets from other governments | 7,596 | 2,219,986 |
| Contributions of capital assets to other governments | <u>(6,065,683)</u> | <u>-</u> |
| Total contributions of capital assets | <u>\$ 26,806,292</u> | <u>\$ 11,109,849</u> |
| Increase in fair value of investments | <u>\$ 1,436,364</u> | <u>\$ 3,058,937</u> |

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, 2011 and 2010

Table of Contents

| | | |
|-----------------|--|-----------|
| Note 1. | Summary of Significant Accounting Policies | 15 |
| | a. Reporting Entity | 15 |
| | b. Financial Statements | 16 |
| | c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation..... | 16 |
| | d. Use of Restricted/Unrestricted Net Assets | 18 |
| | e. Cash, Cash Equivalents, and Investments | 18 |
| | f. Materials and Supplies Inventory..... | 19 |
| | g. Prepaid Items and Other Assets | 19 |
| | h. Capital Assets..... | 19 |
| | i. Construction-in-Progress..... | 20 |
| | j. Net Pension Asset | 20 |
| | k. Compensated Absences..... | 20 |
| | l. Long-Term Obligations..... | 20 |
| | m. Refunding of Debt..... | 20 |
| | n. Use of Estimates..... | 20 |
| | o. Implementation of New GASB Pronouncements | 21 |
| Note 2. | Cash, Cash Equivalents, and Investments | 21 |
| Note 3. | Accounts Receivable..... | 25 |
| | a. Accounts and other receivables..... | 25 |
| | b. Due from other governments | 25 |
| Note 4. | Inventory | 25 |
| Note 5. | Capital Assets..... | 26 |
| Note 6. | Net Pension Asset..... | 27 |
| Note 7. | Due to other governments..... | 27 |
| Note 8. | Unearned revenue..... | 28 |
| Note 9. | Commodity Swap | 28 |
| Note 10 | Long-Term Debt..... | 29 |
| | a. Summary | 29 |
| | b. Capital Leases | 30 |
| | c. Finance Obligations | 31 |
| | 1995 LRV Lease/Leaseback..... | 31 |
| | Pension Obligation Bonds | 32 |
| Note 11. | Risk Management..... | 33 |
| Note 12. | Contingencies | 34 |
| Note 13. | Post-Employment Health Care Benefits..... | 35 |
| Note 14. | Employee Retirement Systems | 38 |
| | a. MTS and SDTI | 38 |
| | b. SDTC..... | 40 |
| Note 15. | Other Required Individual Fund Disclosures..... | 41 |
| Note 16. | Subsequent Events..... | 41 |

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

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

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

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

Included within the reporting entity as blended component units:

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

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. MTS also has the option of following subsequent private-sector guidance subject to this same limitation. MTS has elected not to follow subsequent private-sector guidance.

MTS receives funding primarily from the following revenue sources:

Passenger Revenue

Passenger fares comprised approximately 37 percent and 36 percent of MTS' \$231.4 million and \$230.9 million operating budget for FY2011 and 2010, respectively.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

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. Finally, in the prior year MTS received funds from the American Recovery and Reinvestment Act of 2009 (ARRA); residual receipts from this program are expected in FY2012. MTS has not received notification that this program will be available in future years.

Transit Security Grant Program (TSGP)

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

Compressed Natural Gas Rebate

Refunds on nontaxable uses of fuel are issued by the IRS. Authorization to continue the refund program was extended retroactively through December 2011, and is awaiting congressional action to continue in future years.

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. SANDAG is responsible for apportionment of these funds within the San Diego region. Due to the continuing economic downturn, the collection of sales tax has decreased from last FY2010, 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.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

The California state budget has been negatively impacted as a result of the current economic crisis. STA funds were not available in fiscal year 2010, but the State of California released STA funds in fiscal year 2011 in accordance with a State Supreme Court ruling. STA funds are included in the California state budget for fiscal year 2012, subject to budget adjustments that may occur in response to continuing fiscal uncertainties.

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 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.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

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. During 2010, MTS began its participation in the San Diego County Investment Pool, which is a local government investment pool managed by the County Treasurer's Office on behalf of the Investment Pool participants.

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

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

(f) *Materials and Supplies Inventory*

Inventories are valued at the weighted average unit cost.

(g) *Prepaid Items and Other Assets*

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

(h) *Capital Assets*

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

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

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

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

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

(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 was created when MTS paid into the SDTC retirement plan an amount in excess of its annual required contribution (ARC). The ARC is an actuarially calculated amount that is sufficient to fund future costs and extinguish any existing unfunded actuarial accrued liability (UAAL). In October 2004, MTS made a payment of \$76,282,336 to SDTC Retirement Plan from the proceeds of the issuance of pension obligation bonds, of which \$69,050,638 was to reduce SDTC's UAAL as calculated at that time.

(k) Compensated Absences

It is MTS' policy to permit employees to accumulate earned but unused personal leave time up to a maximum of 400 hours, which includes both vacation and sick pay benefits. All personal leave time is accrued when incurred.

(l) Long-Term Obligations

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

(n) Use of Estimates

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

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

(o) Implementation of New GASB Pronouncements

In fiscal year 2011, MTS adopted the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
- GASB Statement No. 59, *Investment Instruments Omnibus*

GASB Statement No. 54 establishes criteria for classifying fund balances into specifically defined classifications to provide a clear hierarchy of fund balance classifications and improved reporting. Because this statement is applicable to governmental funds only, it will not be applied to MTS financial statements.

GASB Statement No. 59 updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. Because this statement does not apply to local government investment pools, it is not applicable to MTS activity in the current year.

(2) Cash, Cash Equivalents, and Investments

A summary of cash, cash equivalents, and investments at June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|---|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 25,661,196 | \$ 44,246,852 |
| Cash and certificates of deposit restricted for capital support | 8,079,635 | 4,805,538 |
| Investments restricted for debt service payable within one year | 1,558,561 | 1,447,266 |
| Investments restricted for debt service and capital projects | <u>117,867,198</u> | <u>118,050,149</u> |
| Total cash and investments | <u>\$ 153,166,590</u> | <u>\$ 168,549,805</u> |

Cash, cash equivalents, and investments consisted as follows on June 30, 2011 and 2010:

| <u>Type</u> | <u>Fair Value</u> | |
|--|-----------------------|-----------------------|
| | <u>2011</u> | <u>2010</u> |
| Cash and cash equivalents: | | |
| Demand deposits | \$ 11,548,693 | \$ 17,689,497 |
| Retention Trust Account | 1,996,640 | 2,257,200 |
| San Diego County Investment Pool | 10,671,869 | 18,515,759 |
| State of California - Local Agency Investment Fund | <u>9,523,629</u> | <u>10,589,934</u> |
| Total cash and cash equivalents | <u>33,740,831</u> | <u>49,052,390</u> |
| Investments: | | |
| U.S. Treasuries | 37,372,123 | 35,941,175 |
| Bank Investment Contract | <u>82,053,636</u> | <u>83,556,240</u> |
| Total investments | <u>119,425,759</u> | <u>119,497,415</u> |
| Total cash, cash equivalents, and investments | <u>\$ 153,166,590</u> | <u>\$ 168,549,805</u> |

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

At year end the carrying amount of demand deposits was \$11,548,693 and the bank balance was \$13,276,931 compared to \$17,689,498 and \$18,230,525 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.

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

Investments

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

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

San Diego County Investment Pool

The San Diego County Investment Pool is a local government investment pool managed by the County Treasurer's Office on behalf of Investment Pool participants. Depositors in the Investment Pool include both mandatory participants, those agencies required by law to deposit their funds with the County Treasurer's Office, and voluntary participants, agencies that place their funds in the Investment Pool as an investment option. Voluntary participants, including cities, fire districts, and various special districts accounted for approximately 8.1% of the Investment Pool as of June 30, 2011.

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

To mitigate credit risk, the Investment Pool's Investment Policy, which is more restrictive than the Government Code, places a minimum standard on the ratings of investments held in the Investment Pool. Investments in securities other than those guaranteed by the U.S. Treasury or Government Sponsored Enterprises must have a credit rating of no less than "A" for long-term or A1 for short-term. Non-rated securities include sweep accounts, collateralized certificates of deposit and repurchase agreements. Sweep accounts and collateralized certificates of deposit must be FDIC insured and collateralized with securities held

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

by a named agent of the depository. Repurchase agreements are collateralized by securities, authorized by the California Government Code Section 53601, having fair market value of 102% or greater than the amount of the repurchase agreement. The investment pool does not hold any investments in structured notes or asset-backed securities.

As of June 30, 2011, MTS had \$10,671,869 invested in the San Diego County Investment Pool, compared to \$18,515,759 at June 30, 2010.

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.

As of June 30, 2011, MTS had \$9,523,629 invested in LAIF, which had invested 5.01% of the pool investment funds in Structured Notes and Asset-Backed Securities compared to \$10,589,934 and 5.42% at June 30, 2010.

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. During fiscal year 2010, the MTS investment in pension obligation bonds was liquidated when the variable rate bonds were refunded. Interest in the amount of \$0 and \$364,000 earned by MTS from the bond investment was included in interest income recorded in the Statement of Revenues, Expenses and Changes in Net Assets for FY2011 and FY2010. Interest expense in the amount of \$0 and \$351,000 paid by SDTC related to the variable rate bonds was included in interest expense recorded in the Statement of Revenues, Expenses and Changes in Net Assets for FY2011 and FY2010.

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.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

Credit Risk

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

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

The market value of pledged securities must equal at least 110% of the MTS' cash deposits. California law also allows institutions to secure MTS deposits by pledging first trust deed mortgage notes having a value of 150% of the MTS' total cash deposits. MTS may waive collateral requirements for cash deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. MTS, however, has not waived the collateralization requirements.

Summary of Investments to Maturity

Investments held by MTS grouped by maturity date at June 30, 2011 and 2010, are shown below:

| <u>Maturity</u> | <u>2011</u> | <u>2010</u> |
|---------------------|-----------------------|-----------------------|
| Current to one year | \$ 33,740,831 | \$ 49,052,391 |
| One to five years | 37,372,123 | 19,648,875 |
| Five to ten years | - | 16,292,299 |
| Ten to twenty years | 82,053,636 | 83,556,240 |
| Total | \$ 153,166,590 | \$ 168,549,805 |

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

(3) Accounts Receivable

(a) *Accounts and other receivables*

As of June 30, 2011 and 2010, the net realizable accounts and other receivables consisted of the following:

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| Pension plan receivable | \$ 3,404,093 | \$ 3,425,086 |
| Interest receivable | 3,034,670 | 3,126,008 |
| Miscellaneous trade receivables | 1,122,283 | 885,694 |
| Advertising receivable | 357,225 | 329,200 |
| Total accounts and other receivables | <u>\$ 7,918,271</u> | <u>\$ 7,765,988</u> |

(b) *Due from other governments*

As of June 30, 2011 and 2010, amounts due from other governments consisted of the following:

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| FTA Grant Funds | \$ 61,758,562 | \$ 36,794,127 |
| SANDAG - Pass Sales | 4,561,279 | 5,256,681 |
| U.S. Treasury Department | 2,408,901 | 11,018 |
| SANDAG - project/route Reimbursements | 2,123,653 | 661,609 |
| County of San Diego - MediCal | 1,463,661 | 3,356,441 |
| SANDAG - <i>TransNet</i> | 613,827 | 10,100,000 |
| Department of Homeland Security | 593,129 | 11,871 |
| North County Transit District | 384,436 | 121,016 |
| City of Chula Vista | 285,663 | 833,163 |
| State of California | 230,658 | - |
| City of San Diego | 69,500 | 79,422 |
| County of San Diego | 50,806 | - |
| Total due from other governments | <u>\$ 74,544,075</u> | <u>\$ 57,225,348</u> |

(4) Inventory

At June 30, 2011 and 2010, inventory consists of the following repair and maintenance parts for revenue vehicles:

| | <u>2011</u> | <u>2010</u> |
|-------------------------|----------------------|----------------------|
| San Diego Transit Corp. | \$ 2,148,917 | \$ 2,069,707 |
| San Diego Trolley, Inc. | 8,828,793 | 8,373,557 |
| Total inventory | <u>\$ 10,977,710</u> | <u>\$ 10,443,264</u> |

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

(5) Capital Assets

MTS converted \$39 million in capital assets from CIP to assets in service compared to \$45 million in FY2010. Capital asset additions totaling \$33.0 million were contributed by SANDAG and other governments, including \$44 thousand to MTS General Operations, \$134 thousand to Other Contracted Services, \$30.3 million to SDTC, and \$2.6 million to SDTI. In FY2010, the contributions from SANDAG and other governments totaled \$11.1 million. In addition, MTS sold trolley cars with a net book value of \$1.5 million to the City of Mendoza, Argentina.

A summary of changes in capital assets is as follows:

| | Balance July 1, 2010 | Additions | Deletions | Reclassifications and Transfers | Balance June 30, 2011 |
|---|-------------------------|----------------------|------------------------|------------------------------------|--------------------------|
| Capital assets, not depreciated | | | | | |
| Land and right-of-way | \$ 221,853,921 | \$ 3,073,330 | \$ (134,174) | \$ - | \$ 224,793,077 |
| Construction-in-progress | 85,837,247 | 50,986,876 | (39,469,364) | - | 97,354,759 |
| Total capital assets, not depreciated | 307,691,168 | 54,060,206 | (39,603,538) | - | 322,147,836 |
| Capital assets, depreciated: | | | | | |
| Buildings and structures | 1,189,723,913 | 54,273,407 | - | - | 1,243,997,320 |
| Buses and Vehicles | 431,463,317 | 2,679,941 | (8,061,325) | - | 426,081,933 |
| Equipment and other | 78,846,167 | 4,425,839 | - | 345,858 | 83,617,864 |
| Capital lease property | 12,437,839 | - | - | (345,858) | 12,091,981 |
| Total capital assets, depreciated | 1,712,471,236 | 61,379,187 | (8,061,325) | - | 1,765,789,098 |
| Less accumulated depreciation for: | | | | | |
| Buildings and structures | (544,935,292) | (47,891,913) | - | - | (592,827,205) |
| Buses and vehicles | (228,266,853) | (25,308,711) | 6,602,359 | - | (246,973,205) |
| Equipment and other | (33,694,751) | (7,439,912) | - | (345,858) | (41,480,521) |
| Capital lease property | (8,447,101) | (400,932) | - | 345,858 | (8,502,175) |
| Total accumulated depreciation | (815,343,997) | (81,041,468) | 6,602,359 | - | (889,783,106) |
| Total capital assets, depreciated, net | 897,127,239 | (19,662,281) | (1,458,966) | - | 876,005,992 |
| Total capital assets | \$ 1,204,818,407 | \$ 34,397,925 | \$ (41,062,504) | \$ - | \$ 1,198,153,828 |

Depreciation expense for capital assets for the years ended June 30, 2011 and 2010 was comprised of the following:

| | 2011 | 2010 |
|-------------------------------|----------------------|----------------------|
| General operations | \$ 1,252,350 | \$ 1,264,931 |
| Other contracted services | 10,489,238 | 10,304,987 |
| San Diego Transit Corporation | 13,670,867 | 13,803,216 |
| San Diego Trolley, Inc. | 55,629,013 | 72,865,348 |
| Total | \$ 81,041,468 | \$ 98,238,482 |

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

(6) Net Pension Asset

In August 2004, MTS issued the 2004 Taxable Pension Obligation Bonds to fund 85% of the SDTC's unfunded accrued actuarial liability (UAAL) and the normal cost reimbursement for the fiscal year 2005. As a result, the Pension Obligation Bonds of \$77,490,000 were sold and \$76,282,336 was deposited into the pension plan in October 2004. Of this amount \$7,231,698 was funded for the FY2005 contribution and \$69,050,638 was funded for prior year unfunded accrued actuarial liability. As of June 30, 2011, the Net Pension Asset amounted to \$49,210,638, compared to \$52,710,638 for FY10.

(7) Due to other governments

At June 30, 2011 and 2010, amounts due to other governments consisted of the following:

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| SANDAG - STA funds for construction projects in process | \$ 4,305,040 | \$ 450,040 |
| SANDAG - CIP Reimbursement | 1,958,650 | 75,123 |
| SANDAG - Pass Sales | 424,912 | 500,508 |
| City of El Cajon - TDA Funds | 140,336 | - |
| FTA | - | 17,077 |
| City of Lemon Grove - TDA Funds | 121,170 | 121,170 |
| City of San Diego - Shared Revenue | 109,047 | 94,704 |
| SANDAG - Compass Card Program | 94,906 | - |
| City of La Mesa - TDA Funds | 51,500 | - |
| City of Coronado - TDA Funds | 20,600 | 20,600 |
| North County Transit District | 17,473 | 2,608 |
| County of San Diego - MediCal | - | 1,120,910 |
| Total due to other governments | <u>\$ 7,243,634</u> | <u>\$ 2,402,740</u> |

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

(8) Unearned revenue

At June 30, 2011 and 2010, unearned revenue consisted of the following:

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|---------------------|
| Fare media payments received in advance | \$ 1,015,042 | \$ 1,074,483 |
| Lease payments received in advance | 608,681 | 221,389 |
| Advertising revenue received in advance | 406,800 | 610,200 |
| County funds - 4S Ranch development | 347,083 | 476,977 |
| City of San Diego funds - Aldine Drive development | 91,018 | - |
| Local Grant Funds - Balboa Park development | 7,730 | 11,400 |
| Total | <u>\$ 2,476,354</u> | <u>\$ 2,394,449</u> |

(9) Commodity Swap

On March 29, 2010, MTS entered into a commodity swap agreement with Deutsche Bank AG in an effort to better manage costs and remove market volatility related to the acquisition of natural gas for fueling its bus fleet. Under the terms of the agreement, MTS purchased natural gas at market prices from British Petroleum and Deutsche Bank guaranteed that the total price paid by MTS would be equal to \$5.07 MMBTU as fixed in the contract.

| <u>Type</u> | <u>Objective</u> | <u>Notional Quantity</u> | <u>Effective Date</u> | <u>Matures</u> | <u>Terms</u> |
|---------------|---|------------------------------|-----------------------|----------------|---------------------|
| | | | | | Pay fixed price |
| Fuel contract | Hedge natural gas market price changes | 730,000 MMBTU | 7/1/2010 | 6/30/2011 | \$5.07 per MMBTU |

During the period of the agreement MTS paid \$3,021,580 to British Petroleum for natural gas purchases and paid an additional \$746,060 to Deutsche Bank under the terms of the pricing guarantee.

| <u>Instrument</u> | <u>Amount Paid at June 30, 2011</u> | <u>Classification</u> | <u>Fair Value at June 30, 2011</u> | <u>Notional Quantity</u> |
|-------------------|---|--------------------------|--|------------------------------|
| Commodity forward | \$ 3,767,640 | Derivative Instrument | \$ 3,021,580 | 730,000 MMBTU |

While the commodity swap did not provide a reduction in the total cost of natural gas, it did shield MTS from seasonal price variances. MTS entered into a new contract with Deutsche Bank effective July 1, 2011.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

(10) Long-Term Debt

(a) Summary

The following is a summary of changes in long-term obligations for the year ended June 30, 2011:

| | Balance July 1, 2010 | Addition | Reductions | Balance June 30, 2011 | Amount due within one year | Amount due in more than one year |
|---|-------------------------|----------------------|------------------------|--------------------------|-------------------------------|--|
| MTS: | | | | | | |
| Capital lease obligations | \$ 6,691,299 | \$ 5,317,686 | \$ (6,691,299) | \$ 5,317,686 | 550,820 | \$ 4,766,866 |
| Finance obligation | 119,948,726 | - | (1,447,265) | 118,501,461 | 1,558,561 | 116,942,900 |
| Deferred gain on refunding | - | 788,266 | (15,306) | 772,960 | - | 772,960 |
| Deferred amounts for issuance premium | 236,809 | - | (236,809) | - | - | - |
| Compensated absences payable | 812,153 | 850,839 | (784,548) | 878,444 | 412,869 | 465,575 |
| Accrued damage, injury, and employee claims | 328,000 | 95,039 | (52,039) | 371,000 | 371,000 | - |
| Accrued other post employment benefits | 2,173,800 | 442,840 | (64,903) | 2,551,737 | - | 2,551,737 |
| Total MTS | <u>130,190,787</u> | <u>7,494,670</u> | <u>(9,292,169)</u> | <u>128,393,288</u> | <u>2,893,250</u> | <u>125,500,038</u> |
| San Diego Transit Corporation | | | | | | |
| Pension Obligation Bonds | 61,150,000 | - | (13,885,000) | 47,265,000 | 1,755,000 | 45,510,000 |
| Compensated absences payable | 8,778,265 | 3,570,036 | (3,603,044) | 8,745,257 | 3,603,044 | 5,142,213 |
| Accrued damage, injury, and employee claims | 10,289,000 | 2,465,388 | (2,466,388) | 10,288,000 | 2,466,388 | 7,821,612 |
| Accrued other post employment benefits | 2,211,800 | 1,304,840 | (756,794) | 2,759,846 | - | 2,759,846 |
| Total San Diego Transit Corporation | <u>82,429,065</u> | <u>7,340,264</u> | <u>(20,711,226)</u> | <u>69,058,103</u> | <u>7,824,432</u> | <u>61,233,671</u> |
| San Diego Trolley, Inc. | | | | | | |
| Compensated absences payable | 2,748,150 | 2,708,708 | (2,673,479) | 2,783,379 | 2,567,697 | 215,682 |
| Accrued damage, injury, and employee claims | 4,026,000 | 248,536 | (505,536) | 3,769,000 | 623,594 | 3,145,406 |
| Accrued other post employment benefits | 4,725,900 | 529,220 | (108,423) | 5,146,697 | - | 5,146,697 |
| Total San Diego Trolley, Inc. | <u>11,500,050</u> | <u>3,486,464</u> | <u>(3,287,438)</u> | <u>11,699,076</u> | <u>3,191,291</u> | <u>8,507,785</u> |
| Total | <u>\$224,119,902</u> | <u>\$ 18,321,398</u> | <u>\$ (33,290,833)</u> | <u>\$209,150,467</u> | <u>\$ 13,908,973</u> | <u>\$195,241,494</u> |

Reconciliation to Statement of Net Assets:

Due within one year:

| | |
|---|----------------------|
| Compensated absences payable | \$ 6,583,610 |
| Accrued damage, injury, and employee claims | 3,460,982 |
| Long-term debt | 2,305,820 |
| Long-term debt payable from restricted assets | 1,558,561 |
| | <u>\$ 13,908,973</u> |

Noncurrent liabilities:

| | |
|---|----------------------|
| Long-term debt payable from restricted assets | \$116,942,900 |
| Compensated absences payable | 5,823,470 |
| Accrued damage, injury, and employee claims | 10,967,018 |
| Accrued other post employment benefits | 10,458,280 |
| Long-term debt | 51,049,826 |
| | <u>\$195,241,494</u> |

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

(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 May 2011, San Diego County refunded the underlying debt obligation in order to secure a more favorable interest rate, which will result in a \$1.3 million reduction in future principal and interest payments under the terms of the lease agreement. A \$772,960 net economic gain from the refunding, which is the difference between the present value of the minimum payments on the refunded debt and the present value of the minimum payment payments on the refunding debt, has been deferred. The deferred gain will be amortized as a component of interest expense over the life of the refunding debt, which is the same life as the refunded debt.

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

The assets acquired through capital leases are as follows:

| | <u>2011</u> | <u>2010</u> |
|--------------------------------------|---------------------|---------------------|
| Building - MTS Tower | \$ 12,091,981 | \$ 12,091,981 |
| Toshiba telecommunications equipment | - | 345,858 |
| Less accumulated depreciation | (8,502,174) | (8,447,100) |
| Total | <u>\$ 3,589,807</u> | <u>\$ 3,990,739</u> |

The following is a summary of future minimum payments under capital leases as of June 30, 2011:

| | <u>Tower Lease Payment</u> |
|---|--------------------------------|
| Year ending June 30: | |
| 2012 | \$ 730,885 |
| 2013 | 749,612 |
| 2014 | 736,704 |
| 2015 | 750,550 |
| 2016 | 731,665 |
| 2017-2020 | <u>2,599,357</u> |
| Total minimum lease payment | 6,298,773 |
| Less amount representing interest | <u>(981,087)</u> |
| Present value of minimum lease payments | <u>\$ 5,317,686</u> |

At June 30, 2011, the future minimum payments were \$5,317,686

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

(c) Finance Obligations

The following is a summary of changes in finance obligations for the year ended June 30, 2011:

| | <u>Balance</u> <u>July 1, 2010</u> | <u>Addition</u> | <u>Reductions</u> | <u>Balance</u> <u>June 30, 2011</u> | <u>Amount due</u> <u>within one year</u> | <u>Amount due in</u> <u>more than</u> <u>one year</u> |
|----------------------------------|---------------------------------------|-----------------|------------------------|--|---|---|
| 1995 LRV Lease/Leaseback | \$119,948,726 | \$ - | \$ (1,447,265) | \$118,501,461 | \$ 1,558,561 | \$116,942,900 |
| Pension Obligation Bonds | 61,150,000 | - | (13,885,000) | 47,265,000 | 1,755,000 | 45,510,000 |
| Total finance obligations | <u>\$181,098,726</u> | <u>\$ -</u> | <u>\$ (15,332,265)</u> | <u>\$165,766,461</u> | <u>\$ 3,313,561</u> | <u>\$162,452,900</u> |

1995 LRV Lease/Leaseback

In fiscal year 1996, MTS entered into a master lease to lease 52 light rail vehicles to an investor and then simultaneously entered into a sublease agreement to lease them back. MTS received prepayments of the master lease from the investor of approximately \$102.7 million, of which it used approximately \$90.7 million to place two investments that will be used to make the interest and principal payments on the finance obligation. MTS placed \$78.8 million in a fixed rate deposit and invested \$11.9 million in government zero-coupon bonds. The interest earned on the deposit, together with the principal amount of the deposit and the maturities of the zero-coupon bonds are sufficient to cover the amounts due under the finance obligation. As of June 30, 2011, the remaining future obligations total \$118,501,461.

| Year ending June 30: | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|----------------------|----------------------|----------------------|
| 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 | 21,361,390 | 5,689,623 | 27,051,013 |
| 2016 | 21,495,358 | 5,560,115 | 27,055,473 |
| 2017-2021 | 28,117,251 | 22,278,934 | 50,396,185 |
| 2022-2026 | 42,483,003 | 7,153,620 | 49,636,623 |
| Total | <u>\$118,501,461</u> | <u>\$ 58,353,258</u> | <u>\$176,854,719</u> |

For the above lease transaction, MTS is obligated to insure and maintain the equipment. The lease agreement also provide for MTS' right to continued use and control of the equipment. The LRVs acquired under the various finance obligations have been transferred to and are recorded by SDTI. For the 1995 LRV lease/leaseback, as well as the 1990 sale/leaseback that was retired in 2008, MTS has also agreed to indemnify the lessors for any taxes imposed by United States taxing authorities.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

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 each year on December 1.

The Taxable Pension Obligation Refunding Bonds 2009 Series A of \$30,000,000 are variable rate bonds that mature December 23, 2015. Interest is adjusted on a weekly basis indexed to LIBOR and payable on a monthly basis. The refunding bonds were issued in 2009 to retire the Series B Bonds of \$38,800,000 issued in 2004, which were variable rate bonds that matured in annual installments between 2024 and 2034.

At June 30, 2011, the outstanding balance of the Pension Obligation Bonds is \$47,265,000.

| Year ending June 30: | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|----------------------|----------------------|----------------------|
| 2012 | \$ 1,755,000 | \$ 2,112,620 | \$ 3,867,620 |
| 2013 | 1,830,000 | 2,034,800 | 3,864,800 |
| 2014 | 1,915,000 | 1,950,882 | 3,865,882 |
| 2015 | 2,005,000 | 1,861,100 | 3,866,100 |
| 2016 | 19,900,000 | 1,408,065 | 21,308,065 |
| 2017-2021 | 12,195,000 | 3,573,144 | 15,768,144 |
| 2022-2024 | 7,665,000 | 541,136 | 8,206,136 |
| Total | <u>\$ 47,265,000</u> | <u>\$ 13,481,747</u> | <u>\$ 60,746,747</u> |

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

(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 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.

| | <u>Beginning of fiscal year</u> | <u>Current year claims and changes in estimates</u> | <u>Claims payments</u> | <u>End of fiscal year liability</u> |
|-------------|-------------------------------------|---|----------------------------|---|
| MTS: | | | | |
| 2008-2009 | \$ 23,278,853 | \$ 5,242,373 | \$ (8,015,736) | \$ 20,505,490 |
| 2009-2010 | 20,505,490 | 2,965,360 | (8,827,850) | 14,643,000 |
| 2010-2011 | 14,643,000 | 2,808,963 | (3,023,963) | 14,428,000 |

Following is summary of accrued damage injury, and employee claims for fiscal years 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| Accrued damage, injury and employee claims | | |
| Current portion | \$ 3,460,982 | \$ 2,577,359 |
| Non-current portion | 10,967,018 | 12,065,641 |
| Total | <u>\$ 14,428,000</u> | <u>\$ 14,643,000</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 \$14,428,000 at June 30, 2011 and \$14,643,000 at June 30, 2010.

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

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

(12) Contingencies

Pending legal actions. MTS, SDTC, and SDTI have been named in certain legal actions pending at June 30, 2011. 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.

Audit of Grant Funds. 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 FY2009, the State of California audited MediCal claims for FY2006, 2007 and 2008, and disallowed the method that had been used for identifying eligible claims. MTS proposed an alternate method which has been deemed allowable for 2009 and 2010 claims and all prior and subsequent years. As a result of the audit and revised claim procedure MTS has refunded \$1.48 million in MediCal receipts to the state against an estimated reserve of \$1.1 million that was recorded in FY2010.

Pledged Revenue. SDTC has pledged future revenues pursuant to the provisions of the Pension Obligation Bonds issued by SDTC in FY2004 and FY2010.

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

Contingent Tax Liability Related to Component Unit. MTS learned in FY2007 that the freight operator who has managed SD&AE operations in the past filed federal and state corporate tax returns through calendar year 2005, which 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, because the federal and state statutes provide exemption from income tax for not for profit corporations, and because the fiscal tax year 2007 is now closed management does not anticipate future examinations of these returns or any future tax liability.

CNG Rebate Program. During FY2011, Congress reauthorized the Compressed Natural Gas rebate program retroactively from December 2009 through December 2011. It is not known if the program will be extended for future years. In connection with an audit of the CNG rebate program for the tax quarter ending June 30, 2008, the Internal Revenue Service has issued a preliminary ruling disallowing MTS CNG rebates totaling \$729,598 plus \$93,252 interest through August 18, 2011. MTS has secured legal counsel to vigorously defend its position that the rebates were correctly granted to MTS. The appeal process is ongoing. The legal dispute centers around the fact that a former MTS contractor also claimed the rebate during the applicable time periods. This resulted in a duplicate rebate being granted for the same CNG transaction. In the event MTS' appeal is unsuccessful, there is a potential that the IRS will seek to disallow additional rebates granted during the 2008 and 2009 tax years. The potential exposure to loss during this time period is approximately \$8 million. The likelihood and amount of possible loss are not estimable at this time.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

(13) Post-Employment Health Care Benefits

Plan Description: During FY2010, MTS made significant changes to its health care plans for both active and retired employees. Prior to January 1, 2010, MTS participated in three different plans for three distinct groups of employees within its reporting entities: MTS and SDTI retirees participated in a plan provided by CalPERS; SDTC management retirees participated in a self-funded plan provided by SDTC; and SDTC provided payments to operator and maintenance employee unions for provision of post-employment benefits as determined by each union. As of January 1, 2010, all employees at MTS and all management employees at SDTI and SDTC participated in HMO and PPO plans offered by Kaiser and Anthem. As of January 1, 2011 the same change was effective for SDTI union retirees. During FY2011, there have been no changes to the plan provided to SDTC employees' unions. Total MTS payments for the year ended June 30, 2011 were \$64,903 for 11 retirees currently receiving post-employment health care benefits. Total SDTI payments for the year ended June 30, 2011 were \$108,423 for 27 retirees currently receiving benefits. Total SDTC payments for the year ended June 30, 2011 were \$447,173 for 41 management retirees plus \$372,100 for 155 union retirees currently receiving benefits. Because the three plans are funded as expenses are incurred, there are no accumulated plan assets and no separate benefit plan reports are available at this time.

The Plan's **Net OPEB Obligation (NOO)** is the cumulative excess of prior Annual Required Contribution (ARC) over benefit payments and contributions, with annual adjustments for interest and amortization. The reconciliation of NOO over fiscal year 2011 is as follows:

Net OPEB Obligation (NOO)

| | <u>MTS</u> | <u>SDTI</u> | <u>SDTC</u> | <u>Total</u> |
|--|---------------------|---------------------|---------------------|----------------------|
| NOO at June 30, 2010 | \$ 2,173,800 | \$ 4,725,900 | \$ 2,211,800 | \$ 9,111,500 |
| Benefit payments paid outside of a trust | (64,903) | (108,423) | (756,794) | (930,120) |
| Estimated contributions to a trust | - | - | - | - |
| Annual Required Contribution | 438,140 | 519,020 | 1,300,140 | 2,257,300 |
| Accrued interest on June 30, 2010 NOO | 97,800 | 212,700 | 99,500 | 410,000 |
| Amortization of June 30, 2010 NOO | (93,100) | (202,500) | (94,800) | (390,400) |
| NOO at June 30, 2011 | <u>\$ 2,551,737</u> | <u>\$ 5,146,697</u> | <u>\$ 2,759,846</u> | <u>\$ 10,458,280</u> |

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

| <u>Participants as of June 30, 2009 (most current available)</u> | <u>Total</u> |
|--|---------------------|
| Current retirees and surviving spouses | 233 |
| Other participants fully eligible for benefits | 290 |
| Other participants not yet fully eligible for benefits | <u>1,021</u> |
| Total | <u><u>1,544</u></u> |

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

Funding policy. The contribution requirements of plan members and MTS are established by management and may be amended. The contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2011 MTS contributions to the plan were \$930,120 (or 47.9% of total gross health costs), while retirees contributed \$1,011,571 (or 52.10% of total gross health costs).

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

| | |
|---|---------------|
| | All Groups |
| Normal Cost | \$ 937,900 |
| Amortization of Unfunded AAL | 1,319,400 |
| Annual Required Contribution | 2,257,300 |
| Interest on beginning of year NOO | 410,000 |
| Amortization of beginning of year NOO | (390,400) |
| Annual OPEB cost | 2,276,900 |
| Contributions or Benefit Payments | (685,320) |
| Implicit subsidy payments | (244,800) |
| Increase in net OPEB obligation | 1,346,780 |
| Net OPEB obligation - beginning of year | 9,111,500 |
| Net OPEB obligation - end of year | \$ 10,458,280 |

MTS' Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan and the Net OPEB Obligation for fiscal years 2009, 2010 and 2011 were as follows:

| Fiscal year ended | Annual OPEB Cost | % of Annual OPEB cost Contributed | Net OPEB Obligation |
|----------------------|---------------------|---|------------------------|
| June 30, 2009 | \$ 4,760,282 | 13.11% | \$ 8,046,806 |
| June 30, 2010 | \$ 2,283,894 | 53.38% | \$ 9,111,500 |
| June 30, 2011 | \$ 2,276,900 | 40.85% | \$ 10,458,280 |

Funded Status and Funding Progress. As of June 30, 2009, the most recent actuarial valuation date, the Plan was not funded. The Actuarial Accrued Liability (AAL) for benefits was \$31,643,500 and the actuarial value of assets was \$0 compared to \$60,162,800 and \$0 as of June 30, 2007. The covered payroll (annual payroll of active employees covered by the plan) as of June 30, 2009 was \$72,531,100 and the ratio of Unfunded AAL to covered payroll was 44% percent compared to \$63,257,100 and 79% as of June 30, 2007. The significant decrease in the Unfunded AAL is largely attributable to the health plans changes including withdrawal from the CalPERS health system.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The most recent funding progress schedules available for MTS, SDTI and SDTC are presented below:

MTS (in 000s)

| Validation Date | Actuarial Value of Assets | Entry Age Normal AAL | Unfunded AAL | Funded Status | Annual Covered Payroll | UAAL as a % of Payroll |
|-----------------|---------------------------|----------------------|--------------|---------------|------------------------|------------------------|
| 6/30/2009 | \$ - | \$ 2,701 | \$ 2,701 | 0.00% | \$ 8,281 | 32.62% |

SDTI (in 000s)

| Validation Date | Actuarial Value of Assets | Entry Age Normal AAL | Unfunded AAL | Funded Status | Annual Covered Payroll | UAAL as a % of Payroll |
|-----------------|---------------------------|----------------------|--------------|---------------|------------------------|------------------------|
| 6/30/2009 | \$ - | \$ 7,565 | \$ 7,565 | 0.00% | \$ 26,788 | 28.24% |

SDTC (in 000s)

| Validation Date | Actuarial Value of Assets | Entry Age Normal AAL | Unfunded AAL | Funded Status | Annual Covered Payroll | UAAL as a % of Payroll |
|-----------------|---------------------------|----------------------|--------------|---------------|------------------------|------------------------|
| 6/30/2009 | \$ - | \$ 21,378 | \$ 21,378 | 0.00% | \$ 37,463 | 57.06% |

Actuarial review and analysis of OPEB liability and funding status is required every two years, or annually if there are significant changes in the plan. The June 2009 study, which was completed during FY10, considered the plan changes that are described above. The next study, which we will based on activity through June 2011, will be completed during the coming year.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in Actuarial Accrued Liabilities consistent with the long-term perspective of the calculations.

In the June 30, 2009, actuarial valuation the Entry Age Normal actuarial cost method was used. The actuary assumed 4.5% investment rate of return (net of administrative expenses) which is the expected long-term investment returns on the employer's own investments and an annual healthcare cost trend rate which varies depending on the plan and type of health care service involved. Beginning in fiscal year 2009/2010, medical/drug trends generally grade down from 9% and 8% to an ultimate of 5% by 2024/2025, while dental/vision/expense trends are generally a flat 5% per year. The UAAL is being amortized as a level percentage of projected payroll over a rolling 30 years.

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

(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 benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. In 2011, 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:

SDTI (in 000s)

| Validation Date | Actuarial Value of Assets | Entry Age Normal AAL | Unfunded AAL | Funded Status | Annual Covered Payroll | UAAL as a % of Payroll |
|-----------------|---------------------------|----------------------|--------------|---------------|------------------------|------------------------|
| 6/30/2009 | \$ 65,117 | \$ 74,005 | \$ 8,888 | 87.99% | \$ 23,501 | 37.82% |

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

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

Annual Pension Cost

For fiscal year 2011, MTS' and SDTI's annual required employer contributions were \$1,850,282 and \$2,105,351, respectively. The required contribution for fiscal year 2011 was determined as part of the June 30, 2008, 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, 2009, the most recent valuation date, was 17 years for MTS and 24 years for SDTI.

Trend Information for MTS (in 000s)

| Fiscal Year Ended June 30: | Annual Required Contribution (ARC) | Actual Contribution | Percentage of APC Contributed |
|---|---|--------------------------------|--|
| 2009 | \$ 1,699 | \$ 1,699 | 100% |
| 2010 | \$ 1,851 | \$ 1,851 | 100% |
| 2011 | \$ 1,850 | \$ 1,850 | 100% |

Trend Information for SDTI (in 000s)

| Fiscal Year Ended June 30: | Annual Required Contribution (ARC) | Actual Contribution | Percentage of APC Contributed |
|---|---|--------------------------------|--|
| 2009 | \$ 2,341 | \$ 2,341 | 100% |
| 2010 | \$ 2,102 | \$ 2,102 | 100% |
| 2011 | \$ 2,105 | \$ 2,105 | 100% |

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

(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 will be members of a defined contribution 401K plan.

During the current year SDTC enacted significant changes to the SDTC defined benefit plan that became effective in April 2011. Under the new terms of the plan all employees in the IBEW bargaining unit hired after ratification will participate in a defined contribution 401(a) plan with a 3% employer contribution and an additional 2% matching. In addition, workers who remain in the defined benefit plan will begin contributing toward their pension plan at the rate of 1% at ratification, 2% in April 2012 and 3% in April 2013. The actuarial study completed in July 2011 considered these changes

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) 7.50% investment rate of return, (b) projected salary increase of 3.5% to 14% depending on age, service, and type of employment; (c) 3% inflation adjustment; and (d) cost of living adjustments up to 2% annually for certain Non-Contract members only. The actuarial value of the assets of the plan was determined using a 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, 2010, the most recent valuation date, was 30 years.

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

SDTC (in 000s)

| Validation Date | Actuarial Value of Assets | Entry Age Normal AAL | Unfunded AAL | Funded Status | Annual Covered Payroll | UAAL as a % of Payroll |
|-----------------|---------------------------|----------------------|--------------|---------------|------------------------|------------------------|
| 7/1/2010 | \$ 152,896 | \$ 226,821 | \$ 73,925 | 67.41% | \$ 31,889 | 231.82% |

San Diego Metropolitan Transit System

Notes to Basic Financial Statements, Continued

For the years ended June 30, 2011 and 2010

Annual Pension Cost

For fiscal year ended June 30, 2011, the annual pension cost of \$7,753,347 for the pension plan was equal to SDTC's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the entry age normal cost method. Following is the most recent data available.

Trend Information for SDTC (in 000s)

| Fiscal Year Ended June 30: | Annual Required Contribution (ARC) | Actual Contribution | Percentage of APC Contributed |
|---|---|--------------------------------|--|
| 2009 | \$ 5,275 | \$ 5,275 | 100% |
| 2010 | \$ 5,670 | \$ 5,670 | 100% |
| 2011 | \$ 7,753 | \$ 7,753 | 100% |

(15) Other Required Individual Fund Disclosures

SDTC had unrestricted net deficits of \$16,837,903 at June 30, 2011 compared to \$26,691,517 at June 30, 2010. SDTI had unrestricted net deficits of \$3,260,643 as of June 30, 2010. 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

Management, having evaluated subsequent events, has determined that no events or transactions occurring through November 30, 2011, the date the consolidated financial statements were issued, required adjustment to, or disclosure in the consolidated financial statements.

This page intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

San Diego Metropolitan Transit System

Required Supplementary Information

For the year ended June 30, 2011

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)

| Validation Date | Actuarial Value of Assets | Entry Age Normal AAL | Unfunded AAL | Funded Status | Annual Covered Payroll | UAAL as a % of Payroll |
|----------------------------|--|---------------------------------|-------------------------|--------------------------|---------------------------------------|---------------------------------------|
| 6/30/2007 | \$ 54,017 | \$ 59,846 | \$ 5,829 | 90.26% | \$ 21,679 | 26.89% |
| 6/30/2008 | \$ 59,712 | \$ 65,261 | \$ 5,549 | 91.50% | \$ 22,479 | 24.69% |
| 6/30/2009 | \$ 65,117 | \$ 74,005 | \$ 8,888 | 87.99% | \$ 23,501 | 37.82% |

SDTC (in 000s)

| Validation Date | Actuarial Value of Assets | Entry Age Normal AAL | Unfunded AAL | Funded Status | Annual Covered Payroll | UAAL as a % of Payroll |
|----------------------------|--|---------------------------------|-------------------------|--------------------------|---------------------------------------|---------------------------------------|
| 7/1/2008 | \$ 164,760 | \$ 195,624 | \$ 30,864 | 84.22% | \$ 33,251 | 92.82% |
| 7/1/2009 | \$ 144,196 | \$ 202,089 | \$ 57,893 | 71.35% | \$ 33,894 | 170.81% |
| 7/1/2010 | \$ 152,896 | \$ 226,821 | \$ 73,925 | 67.41% | \$ 31,889 | 231.82% |

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.

San Diego Metropolitan Transit System

Required Supplementary Information

For the year ended June 30, 2011

POST EMPLOYMENT 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)

| Validation Date | Actuarial Value of Assets | Entry Age Normal AAL | Unfunded AAL | Funded Status | Annual Covered Payroll | UAAL as a % of Payroll |
|------------------------|----------------------------------|-----------------------------|---------------------|----------------------|-------------------------------|-------------------------------|
| 6/30/2007 | \$ - | \$ 8,292 | \$ 8,292 | 0.00% | \$ 9,573 | 86.62% |
| 6/30/2009 | \$ - | \$ 2,701 | \$ 2,701 | 0.00% | \$ 8,281 | 32.62% |

SDTC (in 000s)

| Validation Date | Actuarial Value of Assets | Entry Age Normal AAL | Unfunded AAL | Funded Status | Annual Covered Payroll | UAAL as a % of Payroll |
|------------------------|----------------------------------|-----------------------------|---------------------|----------------------|-------------------------------|-------------------------------|
| 6/30/2007 | \$ - | \$ 26,473 | \$ 26,473 | 0.00% | \$ 35,935 | 73.67% |
| 6/30/2009 | \$ - | \$ 21,378 | \$ 21,378 | 0.00% | \$ 37,463 | 57.06% |

SDTI (in 000s)

| Validation Date | Actuarial Value of Assets | Entry Age Normal AAL | Unfunded AAL | Funded Status | Annual Covered Payroll | UAAL as a % of Payroll |
|------------------------|----------------------------------|-----------------------------|---------------------|----------------------|-------------------------------|-------------------------------|
| 6/30/2007 | \$ - | \$ 15,399 | \$ 15,399 | 0.00% | \$ 17,749 | 86.76% |
| 6/30/2009 | \$ - | \$ 7,565 | \$ 7,565 | 0.00% | \$ 26,788 | 28.24% |

Funding progress is presented for the two years that actuarial studies have been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of OPEB liability and funding status is performed every two years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of OPEB liability and funding status will be performed in FY2012 based on the year ending June 30, 2011.

This page intentionally left blank.

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.

San Diego Metropolitan Transit System
Combining Schedule of Net Assets
June 30, 2011

| | General Operations | Contracted Services | SDTC | SDTI | Total |
|---|-----------------------|------------------------|-------------|--------------|---------------|
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 25,983,341 | \$ - | \$ (13,550) | \$ (308,595) | \$ 25,661,196 |
| Investments restricted for debt service payable within one year | 1,558,561 | - | - | - | 1,558,561 |
| Accounts and other receivables | 4,249,631 | 19,222 | 3,517,554 | 131,864 | 7,918,271 |
| Due from other governments | 69,569,756 | 1,633,792 | 1,731,814 | 1,608,713 | 74,544,075 |
| Internal balances | (9,180,350) | 4,808,233 | 398,568 | 3,973,549 | - |
| Materials and supplies inventory | - | - | 2,148,917 | 8,828,793 | 10,977,710 |
| Prepaid expenses and other current assets | 1,886,559 | 145,137 | 15,079 | 120,000 | 2,166,775 |
| Total current assets | 94,067,498 | 6,606,384 | 7,798,382 | 14,354,324 | 122,826,588 |
| Noncurrent assets: | | | | | |
| Cash and certificates of deposit restricted for capital support | 8,079,635 | - | - | - | 8,079,635 |
| Investments restricted for debt service and capital projects | 117,867,198 | - | - | - | 117,867,198 |
| Contracts receivable | - | - | - | 977,171 | 977,171 |
| Unamortized bond issuance cost | - | - | 392,206 | - | 392,206 |
| Capital assets (net of accumulated depreciation) | 154,906,141 | 71,346,123 | 131,979,010 | 839,922,553 | 1,198,153,827 |
| Net pension assets | - | - | 49,210,638 | - | 49,210,638 |
| Total noncurrent assets | 280,852,974 | 71,346,123 | 181,581,854 | 840,899,724 | 1,374,680,675 |
| Total assets | 374,920,472 | 77,952,507 | 189,380,236 | 855,254,048 | 1,497,507,263 |

San Diego Metropolitan Transit System
Combining Schedule of Net Assets, Continued
June 30, 2011

| | General Operations | Contracted Services | SDTC | SDTI | Total |
|---|--------------------|---------------------|----------------|----------------|------------------|
| Liabilities | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 6,414,082 | 5,797,402 | 2,480,320 | 182,359 | 14,874,163 |
| Due to other governments | 7,243,634 | - | - | - | 7,243,634 |
| Unearned revenue | 1,370,294 | 273,227 | 239,797 | 593,036 | 2,476,354 |
| Accrued expenses | 3,344,117 | - | 2,460,909 | 2,215,308 | 8,020,334 |
| Retentions payable | 48,287 | - | - | - | 48,287 |
| Due within one year: | | | | | |
| Compensated absences payable | 412,869 | - | 3,603,044 | 2,567,697 | 6,583,610 |
| Accrued damage, injury, and employee claims | 371,000 | - | 2,466,388 | 623,594 | 3,460,982 |
| Long-term debt | 550,820 | - | 1,755,000 | - | 2,305,820 |
| Long-term debt payable from restricted assets | 1,558,561 | - | - | - | 1,558,561 |
| Total current liabilities | 21,313,664 | 6,070,629 | 13,005,458 | 6,181,994 | 46,571,745 |
| Noncurrent liabilities: | | | | | |
| Retentions payable from restricted assets | 1,996,640 | - | - | - | 1,996,640 |
| Long-term debt payable from restricted assets | 116,942,900 | - | - | - | 116,942,900 |
| Due in more than one year: | | | | | |
| Compensated absences payable | 465,575 | - | 5,142,213 | 215,682 | 5,823,470 |
| Accrued damage, injury, and employee claims | - | - | 7,821,612 | 3,145,406 | 10,967,018 |
| Accrued other post employment benefits | 2,551,737 | - | 2,759,846 | 5,146,697 | 10,458,280 |
| Long-term debt, due in more than one year | 5,539,826 | - | 45,510,000 | - | 51,049,826 |
| Total noncurrent liabilities | 127,496,678 | - | 61,233,671 | 8,507,785 | 197,238,134 |
| Total liabilities | 148,810,342 | 6,070,629 | 74,239,129 | 14,689,779 | 243,809,879 |
| Net Assets | | | | | |
| Invested in capital assets, net of related debt | 30,314,034 | 71,346,123 | 131,979,010 | 839,922,553 | 1,073,561,720 |
| Restricted for capital projects | 7,007,293 | - | - | - | 7,007,293 |
| Unrestricted | 188,788,803 | 535,755 | (16,837,903) | 641,716 | 173,128,371 |
| Total net assets | \$ 226,110,130 | \$ 71,881,878 | \$ 115,141,107 | \$ 840,564,269 | \$ 1,253,697,384 |

San Diego Metropolitan Transit System
Combining Schedule of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2011

| | General Operations | Contracted Services | SDTC | SDTI | Eliminations | Total |
|----------------------------|-----------------------|------------------------|---------------|---------------|--------------|---------------|
| Operating revenues: | | | | | | |
| Passenger revenue | \$ - | \$ 24,036,027 | \$ 26,055,594 | \$ 34,672,521 | \$ - | \$ 84,764,142 |
| Advertising | 620,774 | - | - | - | - | 620,774 |
| Charter | - | - | 129,244 | - | - | 129,244 |
| Miscellaneous | 4,137,944 | - | 22,336 | 527,570 | - | 4,687,850 |
| Total operating revenues | 4,758,718 | 24,036,027 | 26,207,174 | 35,200,091 | - | 90,202,010 |
| Operating expenses: | | | | | | |
| Personnel costs | 14,930,966 | 413,419 | 59,370,442 | 29,613,832 | - | 104,328,659 |
| Outside services | 8,910,906 | 49,797,656 | 1,977,649 | 3,350,957 | - | 64,037,168 |
| Transit operations funding | 100,738,556 | - | - | - | (96,685,188) | 4,053,368 |
| Materials and supplies | 17,337 | - | 4,408,793 | 3,251,398 | - | 7,677,528 |
| Energy costs | 203,506 | 7,718,720 | 5,630,468 | 8,379,153 | - | 21,931,847 |
| Risk management | 612,372 | 7,650 | 1,915,022 | 1,388,910 | - | 3,923,954 |
| Miscellaneous | (19,982,030) | 1,598,229 | 8,451,547 | 14,831,588 | - | 4,899,334 |
| Depreciation | 1,252,350 | 10,489,238 | 13,670,867 | 55,629,013 | - | 81,041,468 |
| Total operating expenses | 106,683,963 | 70,024,912 | 95,424,788 | 116,444,851 | (96,685,188) | 291,893,326 |
| Operating income (loss) | (101,925,245) | (45,988,885) | (69,217,614) | (81,244,760) | 96,685,188 | (201,691,316) |

San Diego Metropolitan Transit System

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

For the Year Ended June 30, 2011

| | General Operations | Contracted Services | SDTC | SDTI | Eliminations | Total |
|--|--------------------|---------------------|----------------|----------------|---------------|------------------|
| Public support and nonoperating revenues: | | | | | | |
| Federal revenue | 48,814,276 | 4,641,054 | 19,894,239 | 14,912,278 | (39,447,571) | 48,814,276 |
| Transportation Development Act (TDA) funds | 61,509,430 | 27,860,105 | 16,696,983 | 5,496,617 | (50,053,704) | 61,509,431 |
| State Transit Assistance (STA) funds | 15,044,930 | - | 12,737,970 | - | (12,737,970) | 15,044,930 |
| State revenue - other | 18,520,399 | 996,868 | - | - | (996,868) | 18,520,399 |
| <i>TransNet</i> funds | 24,617,834 | 691,549 | 14,746,643 | 5,000,000 | (25,938,192) | 19,117,834 |
| Other local subsidies | 7,842,623 | 1,310,071 | 3,560,458 | - | (4,870,529) | 7,842,623 |
| Investment earnings | 7,695,139 | - | - | - | - | 7,695,139 |
| Interest expense | (6,204,663) | - | (2,215,076) | - | - | (8,419,739) |
| Gain (loss) on disposal of assets | 4,749 | - | 14,800 | 692,928 | - | 712,477 |
| Other expenses | - | - | (4,081) | - | - | (4,081) |
| Amortization of bond issuance costs | (103,711) | - | (31,581) | - | - | (135,292) |
| Total public support and nonoperating revenues | 177,741,006 | 35,499,647 | 65,400,355 | 26,101,823 | (134,044,834) | 170,697,997 |
| Income (loss) before transfers and contributed capital | 75,815,761 | (10,489,238) | (3,817,259) | (55,142,937) | (37,359,646) | (30,993,319) |
| Transfers | (37,359,646) | - | - | - | 37,359,646 | - |
| Capital contributions | (36,138,339) | 2,189,156 | 43,479,198 | 17,276,277 | - | 26,806,292 |
| Total transfers and capital contributions | (73,497,985) | 2,189,156 | 43,479,198 | 17,276,277 | 37,359,646 | 26,806,292 |
| Changes in net assets | 2,317,776 | (8,300,082) | 39,661,939 | (37,866,660) | - | (4,187,027) |
| Net assets, beginning of year | 223,792,354 | 80,181,960 | 75,479,168 | 878,430,929 | - | 1,257,884,411 |
| Net assets, end of year | \$ 226,110,130 | \$ 71,881,878 | \$ 115,141,107 | \$ 840,564,269 | \$ - | \$ 1,253,697,384 |

San Diego Metropolitan Transit System
Combining Schedule of Cash Flows
For the Year Ended June 30, 2011

| | General Operations | Contracted Services | SDTC | SDTI | Total |
|--|-----------------------|------------------------|---------------|---------------|---------------|
| Cash flows from operating activities: | | | | | |
| Receipts from customers and users | \$ 4,820,004 | \$ 24,345,591 | \$ 26,544,599 | \$ 35,653,439 | \$ 91,363,633 |
| Payments to suppliers | (14,043,338) | (58,097,704) | (14,139,373) | (18,396,706) | (104,677,121) |
| Payments to employees | (14,732,375) | (407,920) | (55,127,332) | (29,219,950) | (99,487,577) |
| Payments for damage and injury | (1,091) | (7,650) | (305,822) | 118,057 | (196,506) |
| Net cash provided (used) by operating activities | (23,956,800) | (34,167,683) | (43,027,928) | (11,845,160) | (112,997,571) |
| Cash flows from noncapital financing activities: | | | | | |
| Public support funds received | 54,803,469 | 34,167,683 | 59,279,959 | 9,971,482 | 158,222,593 |
| Net cash provided (used) by noncapital financing activities | 54,803,469 | 34,167,683 | 59,279,959 | 9,971,482 | 158,222,593 |
| Cash flows from capital and related financing activities: | | | | | |
| Debt service costs | (908,934) | - | (16,104,156) | - | (17,013,090) |
| Property acquisition | (46,371,156) | - | - | - | (46,371,156) |
| Proceeds from disposal of assets | 4,749 | - | 14,800 | 2,588,342 | 2,607,891 |
| Net cash provided (used) by capital and related financing activities | (47,275,341) | - | (16,089,356) | 2,588,342 | (60,776,355) |
| Cash flows from investing activities: | | | | | |
| Interest received on investments | 239,774 | - | - | - | 239,774 |
| Net cash provided (used) by investing activities | 239,774 | - | - | - | 239,774 |
| Net increase (decrease) in cash and cash equivalents | (16,188,898) | - | 162,675 | 714,664 | (15,311,559) |
| Cash and cash equivalents, beginning of year | 50,251,874 | - | (176,225) | (1,023,259) | 49,052,390 |
| Cash and cash equivalents, end of year | \$ 34,062,976 | \$ - | \$ (13,550) | \$ (308,595) | \$ 33,740,831 |

San Diego Metropolitan Transit System
Combining Schedule of Cash Flows, Continued
For the Year Ended June 30, 2011

| | General Operations | Contracted Services | SDTC | SDTI | Total |
|---|-----------------------|------------------------|-----------------|-----------------|------------------|
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | | |
| Operating income (loss) | \$ (25,715,591) | \$ (45,988,885) | \$ (61,222,955) | \$ (68,763,885) | \$ (201,691,316) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | | | | |
| Depreciation and amortization | 1,252,350 | 10,489,238 | 13,670,867 | 55,629,013 | 81,041,468 |
| Amortization of Net Pension Assets (Increase) decrease in: | - | - | 3,500,000 | - | 3,500,000 |
| Accounts and other receivables | 438,096 | 1,982 | 362,626 | 13,594 | 816,298 |
| Materials and supplies inventory | - | - | (79,210) | (455,236) | (534,446) |
| Prepaid and other current assets | 102,035 | (134,042) | 3,378 | (61,693) | (90,322) |
| Increase (decrease) in: | | | | | |
| Accounts payable | (116,337) | 1,447,254 | 302,908 | 443,583 | 2,077,408 |
| Accrued expenses | (454,910) | - | 175,415 | 870,638 | 591,143 |
| Unearned revenue | 50,329 | 16,770 | (119,994) | 134,800 | 81,905 |
| Accrued OPEB liability | 377,937 | - | 548,046 | 420,797 | 1,346,780 |
| Compensated absences payable | 66,291 | - | (33,009) | 35,229 | 68,511 |
| Accrued damage, injury and employee claims | 43,000 | - | (136,000) | (112,000) | (205,000) |
| Total adjustments | 1,758,791 | 11,821,202 | 18,195,027 | 56,918,725 | 88,693,745 |
| Net cash provided (used) by operating activities | \$ (23,956,800) | \$ (34,167,683) | \$ (43,027,928) | \$ (11,845,160) | \$ (112,997,571) |

Supplemental noncash disclosures:

During the year other governments contributed \$32,871,975 in capital assets and MTS contributed \$6,065,683 to other governments.
During the year the fair value of investments increased by \$1,436,364.

**San Diego Metropolitan Transit System
Combined Operations**

**Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual
For the Year Ended June 30, 2011**

| | Budgeted Amounts | | Actual Amounts | | | | Variance with Final Budget Positive (Negative) |
|----------------------------|------------------|---------------|---|-----------------------------|------------------------------|----|---|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Assets Amounts | Budget Basis Adjustments | Actuals on a Budget Basis | | |
| Operating revenues: | | | | | | | |
| Passenger revenue | \$ 85,488,627 | \$ 83,954,414 | \$ 84,764,142 | \$ - | \$ 84,764,142 | \$ | 809,728 |
| Advertising | 1,359,800 | 1,293,800 | 620,774 | - | 620,774 | | (673,026) |
| Charter | 30,000 | - | 129,244 | - | 129,244 | | 129,244 |
| Miscellaneous | 3,969,247 | 3,933,617 | 4,687,850 | (75,000) | 4,612,850 | | 679,233 |
| Total operating revenues | 90,847,674 | 89,181,831 | 90,202,010 | (75,000) | 90,127,010 | | 945,179 |
| Operating expenses: | | | | | | | |
| Personnel costs | 103,935,787 | 114,027,415 | 104,328,659 | 8,922,587 | 113,251,246 | | 776,169 |
| Outside services | 63,171,511 | 64,774,802 | 64,037,168 | - | 64,037,168 | | 737,634 |
| Transit operations funding | 3,636,745 | 3,732,329 | 4,053,368 | - | 4,053,368 | | (321,039) |
| Materials and supplies | 6,996,741 | 7,001,791 | 7,677,528 | 48,722 | 7,726,250 | | (724,459) |
| Energy costs | 20,424,798 | 21,100,200 | 21,931,847 | - | 21,931,847 | | (831,647) |
| Risk management | 4,132,419 | 4,052,922 | 3,923,954 | 205,000 | 4,128,954 | | (76,032) |
| Miscellaneous | 2,603,526 | 3,093,119 | 4,899,334 | (1,844,144) | 3,055,190 | | 37,929 |
| Depreciation | - | - | 81,041,468 | (81,041,468) | - | | - |
| Total operating expenses | 204,901,527 | 217,782,578 | 291,893,326 | (73,709,303) | 218,184,023 | | (401,445) |
| Operating income (loss) | (114,053,853) | (128,600,747) | (201,691,316) | 73,634,303 | (128,057,013) | | 543,734 |

**San Diego Metropolitan Transit System
Combined Operations**

**Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued
For the Year Ended June 30, 2011**

| | Budgeted Amounts | | Actual Amounts | | | | Variance with Final Budget Positive (Negative) |
|--|------------------|--------------|---|-----------------------------|------------------------------|--------------|---|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Assets Amounts | Budget Basis Adjustments | Actuals on a Budget Basis | | |
| | | | | | | | |
| Public support and nonoperating revenues: | | | | | | | |
| Federal revenue | 38,624,305 | 38,487,618 | 48,814,276 | (10,700,269) | 38,114,007 | (373,611) | |
| Transportation Development Act (TDA) funds | 53,551,401 | 53,551,399 | 61,509,431 | (7,904,480) | 53,604,951 | 53,552 | |
| State Transit Assistance (STA) funds | - | 12,737,970 | 15,044,930 | (2,306,960) | 12,737,970 | - | |
| State revenue - other | 1,600,000 | 1,600,000 | 18,520,399 | (17,492,214) | 1,028,185 | (571,815) | |
| <i>TransNet</i> funds | 19,014,315 | 20,060,688 | 19,117,834 | 1,320,593 | 20,438,427 | 377,739 | |
| Other local subsidies | 4,452,306 | 5,105,161 | 7,842,623 | (2,963,673) | 4,878,950 | (226,211) | |
| Investment earnings | 7,880,764 | 7,805,764 | 7,695,139 | 18,200 | 7,713,339 | (92,425) | |
| Interest expense | (11,161,455) | (10,826,688) | (8,419,739) | (2,225,231) | (10,644,970) | 181,718 | |
| Gain (loss) on disposal of assets | - | - | 712,477 | (712,477) | - | - | |
| Other expenses | - | - | (4,081) | - | (4,081) | (4,081) | |
| Amortization of bond issuance costs | - | - | (135,292) | 135,292 | - | - | |
| Total public support and nonoperating revenues | 113,961,636 | 128,521,912 | 170,697,997 | (42,831,219) | 127,866,778 | (655,134) | |
| Income (loss) before contributed capital | (92,217) | (78,835) | (30,993,319) | 30,803,084 | (190,235) | (111,400) | |
| Reserve revenue | 92,217 | 78,835 | - | 14,169 | 14,169 | (64,666) | |
| Capital contributions | - | - | 26,806,292 | (26,806,292) | - | - | |
| Changes in net assets | \$ - | \$ - | (4,187,027) | \$ 4,010,961 | \$ (176,066) | \$ (176,066) | |
| Net assets, beginning of year | | | 1,257,884,411 | | | | |
| Net assets, end of year | | | \$ 1,253,697,384 | | | | |

**San Diego Metropolitan Transit System
General Operations**

**Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual
For the Year Ended June 30, 2011**

| | Budgeted Amounts | | Actual Amounts | | | | Variance with Final Budget Positive (Negative) |
|----------------------------|------------------|--------------|---|-----------------------------|------------------------------|--------------|---|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Assets Amounts | Budget Basis Adjustments | Actuals on a Budget Basis | | |
| Operating revenues: | | | | | | | |
| Advertising | \$ 1,359,800 | \$ 1,293,800 | \$ 620,774 | \$ - | \$ 620,774 | \$ (673,026) | |
| Miscellaneous | 2,209,285 | 2,264,917 | 3,108,835 | (75,000) | 3,033,835 | 768,918 | |
| Total operating revenues | 3,569,085 | 3,558,717 | 3,729,609 | (75,000) | 3,654,609 | 95,892 | |
| Operating expenses: | | | | | | | |
| Personnel costs | 12,990,032 | 13,647,820 | 14,292,430 | (444,228) | 13,848,202 | (200,382) | |
| Outside services | 9,249,745 | 8,834,498 | 8,731,640 | - | 8,731,640 | 102,858 | |
| Transit operations funding | 3,636,745 | 3,732,329 | 100,738,556 | (96,685,189) | 4,053,367 | (321,038) | |
| Materials and supplies | 18,250 | 20,050 | 16,437 | - | 16,437 | 3,613 | |
| Energy costs | 146,687 | 168,594 | 196,354 | - | 196,354 | (27,760) | |
| Risk management | 322,917 | 495,311 | 582,081 | (43,000) | 539,081 | (43,770) | |
| Miscellaneous | (19,749,358) | (20,159,801) | (20,169,163) | - | (20,169,163) | 9,362 | |
| Depreciation | - | - | 1,229,721 | (1,229,721) | - | - | |
| Total operating expenses | 6,615,018 | 6,738,801 | 105,618,056 | (98,402,138) | 7,215,918 | (477,117) | |
| Operating income (loss) | (3,045,933) | (3,180,084) | (101,888,447) | 98,327,138 | (3,561,309) | (381,225) | |

**San Diego Metropolitan Transit System
General Operations**

**Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Combined
For the Year Ended June 30, 2011**

| | Original | Final | Actuals per Statement of Revenues, Expenses, 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 | 17,500 | 87,500 | 48,814,276 | (48,672,525) | 141,751 | 54,251 |
| Transportation Development Act (TDA) funds | 3,636,745 | 3,732,329 | 61,509,430 | (57,589,356) | 3,920,074 | 187,745 |
| State Transit Assistance (STA) funds | - | - | 15,044,930 | (15,044,930) | - | - |
| State revenue - other | - | - | 18,520,399 | (18,489,082) | 31,317 | 31,317 |
| <i>TransNet</i> funds | - | - | 24,617,834 | (24,617,599) | 235 | 235 |
| Other local subsidies | - | - | 7,842,623 | (7,834,202) | 8,421 | 8,421 |
| Investment earnings | 7,880,764 | 7,805,764 | 7,695,139 | 18,200 | 7,713,339 | (92,425) |
| Interest expense | (8,489,076) | (8,445,509) | (6,204,663) | (2,225,231) | (8,429,894) | 15,615 |
| Gain (loss) on disposal of assets | - | - | 4,749 | (4,749) | - | - |
| Amortization of bond issuance costs | - | - | (103,711) | 103,711 | - | - |
| Total public support and nonoperating revenues | 3,045,933 | 3,180,084 | 177,741,006 | (174,355,763) | 3,385,243 | 205,159 |
| Income (loss) before contributed capital | - | - | 75,852,559 | (76,028,625) | (176,066) | (176,066) |
| Transfers | - | - | (37,359,646) | 37,359,646 | - | - |
| Capital contributions | - | - | (36,138,339) | 36,138,339 | - | - |
| Changes in net assets | \$ - | \$ - | 2,354,574 | \$ (2,530,640) | \$ (176,066) | \$ (176,066) |
| Net assets, beginning of year | | | 204,869,048 | | | |
| Net assets, end of year | | | \$ 207,223,622 | | | |

**San Diego Metropolitan Transit System
Taxicab Administration**

**Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual
For the Year Ended June 30, 2011**

| | Budgeted Amounts | | Actual Amounts | | | | Variance with Final Budget Positive (Negative) |
|-------------------------------|------------------|------------|---|-----------------------------|------------------------------|-----------|---|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Assets Amounts | Budget Basis Adjustments | Actuals on a Budget Basis | | |
| Operating revenues: | | | | | | | |
| Miscellaneous | \$ 819,900 | \$ 819,900 | \$ 849,975 | \$ - | \$ 849,975 | \$ 30,075 | |
| Total operating revenues | 819,900 | 819,900 | 849,975 | - | 849,975 | 30,075 | |
| Operating expenses: | | | | | | | |
| Personnel costs | 568,713 | 553,864 | 554,387 | - | 554,387 | (523) | |
| Outside services | 152,700 | 152,700 | 154,577 | - | 154,577 | (1,877) | |
| Materials and supplies | 2,500 | 2,500 | 900 | - | 900 | 1,600 | |
| Energy costs | 10,600 | 10,600 | 7,152 | - | 7,152 | 3,448 | |
| Miscellaneous | 185,250 | 185,811 | 186,566 | - | 186,566 | (755) | |
| Depreciation | - | - | 5,549 | (5,549) | - | - | |
| Total operating expenses | 919,763 | 905,475 | 909,131 | (5,549) | 903,582 | 1,893 | |
| Operating income (loss) | (99,863) | (85,575) | (59,156) | 5,549 | (53,607) | 31,968 | |
| Reserve revenue | 99,863 | 85,575 | - | 53,607 | 53,607 | (31,968) | |
| Changes in net assets | \$ - | \$ - | (59,156) | \$ 59,156 | \$ - | \$ - | |
| Net assets, beginning of year | | | 508,731 | | | | |
| Net assets, end of year | | | \$ 449,575 | | | | |

**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 Year Ended June 30, 2011**

| | Budgeted Amounts | | Actual Amounts | | | Variance with Final Budget Positive (Negative) |
|-------------------------------|------------------|------------|---|-----------------------------|------------------------------|---|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Assets Amounts | Budget Basis Adjustments | Actuals on a Budget Basis | |
| Operating revenues: | | | | | | |
| Miscellaneous | \$ 155,106 | \$ 160,000 | \$ 179,134 | \$ - | \$ 179,134 | \$ 19,134 |
| Total operating revenues | 155,106 | 160,000 | 179,134 | - | 179,134 | 19,134 |
| Operating expenses: | | | | | | |
| Personnel costs | 77,160 | 87,160 | 84,149 | - | 84,149 | 3,011 |
| Outside services | 35,000 | 30,000 | 24,689 | - | 24,689 | 5,311 |
| Risk management | 33,300 | 34,100 | 30,291 | - | 30,291 | 3,809 |
| Miscellaneous | 2,000 | 2,000 | 567 | - | 567 | 1,433 |
| Depreciation | - | - | 17,080 | (17,080) | - | - |
| Total operating expenses | 147,460 | 153,260 | 156,776 | (17,080) | 139,696 | 13,564 |
| Operating income (loss) | 7,646 | 6,740 | 22,358 | 17,080 | 39,438 | 32,698 |
| Reserve revenue | (7,646) | (6,740) | - | (39,438) | (39,438) | (32,698) |
| Changes in net assets | \$ - | \$ - | 22,358 | \$ (22,358) | \$ - | \$ - |
| Net assets, beginning of year | | | 18,414,575 | | | |
| Net assets, end of year | | | \$ 18,436,933 | | | |

**San Diego Metropolitan Transit System
Contract Services**

**Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual
For the Year Ended June 30, 2011**

| | Budgeted Amounts | | Actual Amounts | | | | Variance with Final Budget Positive (Negative) |
|--------------------------|------------------|---------------|---|-----------------------------|------------------------------|------------|---|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Assets Amounts | Budget Basis Adjustments | Actuals on a Budget Basis | | |
| Operating revenues: | | | | | | | |
| Passenger revenue | \$ 24,703,594 | \$ 23,045,547 | \$ 24,036,027 | \$ - | \$ 24,036,027 | \$ 990,480 | |
| Total operating revenues | 24,703,594 | 23,045,547 | 24,036,027 | - | 24,036,027 | 990,480 | |
| Operating expenses: | | | | | | | |
| Personnel costs | 501,104 | 519,763 | 413,419 | - | 413,419 | 106,344 | |
| Outside services | 48,563,714 | 50,269,624 | 49,797,656 | - | 49,797,656 | 471,968 | |
| Materials and supplies | 15,090 | - | - | - | - | - | |
| Energy costs | 6,765,416 | 7,111,756 | 7,718,720 | - | 7,718,720 | (606,964) | |
| Risk management | - | - | 7,650 | - | 7,650 | (7,650) | |
| Miscellaneous | 1,434,284 | 1,662,086 | 1,598,229 | - | 1,598,229 | 63,857 | |
| Depreciation | - | - | 10,489,238 | (10,489,238) | - | - | |
| Total operating expenses | 57,279,608 | 59,563,229 | 70,024,912 | (10,489,238) | 59,535,674 | 27,555 | |
| Operating income (loss) | (32,576,014) | (36,517,682) | (45,988,885) | 10,489,238 | (35,499,647) | 1,018,035 | |

**San Diego Metropolitan Transit System
Contract Services**

**Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued
For the Year Ended June 30, 2011**

| | Budgeted Amounts | | Actual Amounts | | | Variance with Final Budget Positive (Negative) |
|--|------------------|------------|---|-----------------------------|------------------------------|---|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Assets Amounts | Budget Basis Adjustments | Actuals on a Budget Basis | |
| Public support and nonoperating revenues: | | | | | | |
| Federal revenue | 5,024,197 | 4,817,510 | 4,641,054 | - | 4,641,054 | (176,456) |
| Transportation Development Act (TDA) funds | 24,370,863 | 28,096,825 | 27,860,105 | - | 27,860,105 | (236,720) |
| State revenue - other | 1,600,000 | 1,600,000 | 996,868 | - | 996,868 | (603,132) |
| <i>TransNet</i> funds | 576,464 | 613,000 | 691,549 | - | 691,549 | 78,549 |
| Other local subsidies | 1,004,490 | 1,390,347 | 1,310,071 | - | 1,310,071 | (80,276) |
| Total public support and nonoperating revenues | 32,576,014 | 36,517,682 | 35,499,647 | - | 35,499,647 | (1,018,035) |
| Income (loss) before contributed capital | - | - | (10,489,238) | 10,489,238 | - | - |
| Capital contributions | - | - | 2,189,156 | (2,189,156) | - | - |
| Changes in net assets | \$ - | \$ - | (8,300,082) | \$ 8,300,082 | \$ - | \$ - |
| Net assets, beginning of year | | | 80,181,960 | | | |
| Net assets, end of year | | | \$ 71,881,878 | | | |

**San Diego Metropolitan Transit System
San Diego Transit Corporation**

**Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual
For the Year Ended June 30, 2011**

| | Budgeted Amounts | | Actual Amounts | | | | Variance with Final Budget Positive (Negative) |
|--------------------------|------------------|---------------|---|-----------------------------|------------------------------|----|---|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Assets Amounts | Budget Basis Adjustments | Actuals on a Budget Basis | | |
| Operating revenues: | | | | | | | |
| Passenger revenue | \$ 27,208,351 | \$ 25,851,504 | \$ 26,055,594 | \$ - | \$ 26,055,594 | \$ | 204,090 |
| Charter | 30,000 | - | 129,244 | - | 129,244 | | 129,244 |
| Miscellaneous | 60,000 | 60,000 | 22,336 | - | 22,336 | | (37,664) |
| Total operating revenues | 27,298,351 | 25,911,504 | 26,207,174 | - | 26,207,174 | | 295,670 |
| Operating expenses: | | | | | | | |
| Personnel costs | 59,628,870 | 69,297,251 | 59,370,442 | 9,734,964 | 69,105,406 | | 191,845 |
| Outside services | 1,867,760 | 1,889,164 | 1,977,649 | - | 1,977,649 | | (88,485) |
| Materials and supplies | 4,140,874 | 4,031,033 | 4,408,793 | (575) | 4,408,218 | | (377,185) |
| Energy costs | 5,348,285 | 5,524,187 | 5,630,468 | - | 5,630,468 | | (106,281) |
| Risk management | 1,716,285 | 1,669,552 | 1,915,022 | 136,000 | 2,051,022 | | (381,470) |
| Miscellaneous | 7,828,774 | 8,458,822 | 8,451,547 | - | 8,451,547 | | 7,275 |
| Depreciation | - | - | 13,670,867 | (13,670,867) | - | | - |
| Total operating expenses | 80,530,848 | 90,870,009 | 95,424,788 | (3,800,478) | 91,624,310 | | (754,301) |
| Operating income (loss) | (53,232,497) | (64,958,505) | (69,217,614) | 3,800,478 | (65,417,136) | | (458,631) |

**San Diego Metropolitan Transit System
San Diego Transit Corporation**

**Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued
For the Year Ended June 30, 2011**

| | Budgeted Amounts | | Actual Amounts | | | Variance with Final Budget Positive (Negative) |
|--|------------------|-------------|---|-----------------------------|------------------------------|---|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Assets Amounts | Budget Basis Adjustments | Actuals on a Budget Basis | |
| Public support and nonoperating revenues: | | | | | | |
| Federal revenue | 16,782,608 | 16,782,608 | 19,894,239 | - | 19,894,239 | 3,111,631 |
| Transportation Development Act (TDA) funds | 22,236,601 | 19,656,604 | 16,696,983 | - | 16,696,983 | (2,959,621) |
| State Transit Assistance (STA) funds | - | 12,737,970 | 12,737,970 | - | 12,737,970 | - |
| <i>TransNet</i> funds | 13,437,851 | 14,447,688 | 14,746,643 | - | 14,746,643 | 298,955 |
| Other local subsidies | 3,447,816 | 3,714,814 | 3,560,458 | - | 3,560,458 | (154,356) |
| Interest expense | (2,672,379) | (2,381,179) | (2,215,076) | - | (2,215,076) | 166,103 |
| Gain (loss) on disposal of assets | - | - | 14,800 | (14,800) | - | - |
| Other expenses | - | - | (4,081) | - | (4,081) | (4,081) |
| Amortization of bond issuance costs | - | - | (31,581) | 31,581 | - | - |
| Total public support and nonoperating revenues | 53,232,497 | 64,958,505 | 65,400,355 | 16,781 | 65,417,136 | 458,631 |
| Income (loss) before contributed capital | - | - | (3,817,259) | 3,817,259 | - | - |
| Capital contributions | - | - | 43,479,198 | (43,479,198) | - | - |
| Changes in net assets | \$ - | \$ - | \$ 39,661,939 | \$ (39,661,939) | \$ - | \$ - |
| Net assets, beginning of year | | | 75,479,168 | | | |
| Net assets, end of year | | | \$ 115,141,107 | | | |

**San Diego Metropolitan Transit System
San Diego Trolley Incorporated**

**Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual
For the Year Ended June 30, 2011**

| | Budgeted Amounts | | Actual Amounts | | | Variance with Final Budget Positive (Negative) |
|--------------------------|------------------|---------------|---|-----------------------------|------------------------------|---|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Assets Amounts | Budget Basis Adjustments | Actuals on a Budget Basis | |
| Operating revenues: | | | | | | |
| Passenger revenue | \$ 33,576,682 | \$ 35,057,363 | \$ 34,672,521 | \$ - | \$ 34,672,521 | \$ (384,842) |
| Miscellaneous | 724,956 | 628,800 | 527,570 | - | 527,570 | (101,230) |
| Total operating revenues | 34,301,638 | 35,686,163 | 35,200,091 | - | 35,200,091 | (486,072) |
| Operating expenses: | | | | | | |
| Personnel costs | 30,169,908 | 29,921,557 | 29,613,832 | (368,149) | 29,245,683 | 675,874 |
| Outside services | 3,302,592 | 3,598,816 | 3,350,957 | - | 3,350,957 | 247,859 |
| Materials and supplies | 2,820,027 | 2,948,208 | 3,251,398 | 49,297 | 3,300,695 | (352,487) |
| Energy costs | 8,153,810 | 8,285,063 | 8,379,153 | - | 8,379,153 | (94,090) |
| Risk management | 2,059,917 | 1,853,959 | 1,388,910 | 112,000 | 1,500,910 | 353,049 |
| Miscellaneous | 12,902,576 | 12,944,201 | 14,831,588 | (1,844,144) | 12,987,444 | (43,243) |
| Depreciation | - | - | 55,629,013 | (55,629,013) | - | - |
| Total operating expenses | 59,408,830 | 59,551,804 | 116,444,851 | (57,680,009) | 58,764,842 | 786,962 |
| Operating income (loss) | (25,107,192) | (23,865,641) | (81,244,760) | 57,680,009 | (23,564,751) | 300,890 |

**San Diego Metropolitan Transit System
San Diego Trolley Incorporated**

**Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual, Continued
For the Year Ended June 30, 2011**

| | Budgeted Amounts | | Actuals per Statement of Revenues, Expenses, and Changes in Net Assets Amounts | Actual Amounts | | Variance with Final Budget Positive (Negative) |
|--|------------------|------------|---|-----------------------------|------------------------------|---|
| | Original | Final | | Budget Basis Adjustments | Actuals on a Budget Basis | |
| Public support and nonoperating revenues: | | | | | | |
| Federal revenue | 16,800,000 | 16,800,000 | 14,912,278 | (1,475,315) | 13,436,963 | (3,363,037) |
| Transportation Development Act (TDA) funds | 3,307,192 | 2,065,641 | 5,496,617 | (368,829) | 5,127,788 | 3,062,147 |
| <i>TransNet</i> funds | 5,000,000 | 5,000,000 | 5,000,000 | - | 5,000,000 | - |
| Gain (loss) on disposal of assets | - | - | 692,928 | (692,928) | - | - |
| Total public support and nonoperating revenues | 25,107,192 | 23,865,641 | 26,101,823 | (2,537,072) | 23,564,751 | (300,890) |
| Income (loss) before contributed capital | - | - | (55,142,937) | 55,142,937 | - | - |
| Capital contributions | - | - | 17,276,277 | (17,276,277) | - | - |
| Changes in net assets | \$ - | \$ - | (37,866,660) | \$ 37,866,660 | \$ - | \$ - |
| Net assets, beginning of year | | | 878,430,929 | | | |
| Net assets, end of year | | | \$ 840,564,269 | | | |

This page intentionally left blank.



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the accompanying basic financial statements of the San Diego Metropolitan Transit System ("MTS"), as of and for the year ended June 30, 2011, as listed in the table of contents, and have issued our report thereon dated November 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MTS' basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MTS' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of MTS' basic financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Diego, California
November 30, 2011

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.

This page intentionally left blank.

FINANCIAL TRENDS

This page intentionally left blank.

San Diego Metropolitan Transit System
Net Assets by Component
Last Seven Fiscal Years

| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Governmental activities | | | | | | | |
| Invested in capital assets, net of related debt | - | - | - | - | - | 111,959,506 | 420,667,651 |
| Unrestricted | - | - | - | - | - | 35,868,448 | 185,115,587 |
| Total governmental activities net assets | - | - | - | - | - | 147,827,954 | 605,783,238 |
| Business-type activities | | | | | | | |
| Invested in capital assets, net of related debt | 1,073,561,720 | 1,078,178,383 | 1,075,104,676 | 1,079,967,043 | 1,097,675,395 | 1,134,242,639 | 695,486,022 |
| Restricted for capital projects | 7,007,293 | 2,548,338 | 2,699,649 | - | - | - | - |
| Unrestricted | 173,128,371 | 177,157,690 | 172,344,567 | 185,609,462 | 163,244,170 | (33,761,144) | (35,563,034) |
| Total business-type activities net assets | 1,253,697,384 | 1,257,884,411 | 1,250,148,892 | 1,265,576,505 | 1,260,919,565 | 1,100,481,495 | 659,922,988 |
| Primary government | | | | | | | |
| Invested in capital assets, net of related debt | 1,073,561,720 | 1,078,178,383 | 1,075,104,676 | 1,079,967,043 | 1,097,675,395 | 1,246,202,145 | 1,116,153,673 |
| Restricted for capital projects | 7,007,293 | 2,548,338 | 2,699,649 | - | - | - | - |
| Unrestricted | 173,128,371 | 177,157,690 | 172,344,567 | 185,609,462 | 163,244,170 | 2,107,304 | 149,552,553 |
| Total primary government net assets | 1,253,697,384 | 1,257,884,411 | 1,250,148,892 | 1,265,576,505 | 1,260,919,565 | 1,248,309,449 | 1,265,706,226 |

Source: Audited financial statements

In FY 2011 MTS elected to present additional information regarding restricted net assets and accordingly provides this information.

In FY 2007 MTS determined that all of its activities were truly business-type activities and presented all funds as Enterprise funds in 2007 and all subsequent years.

In FY 2006 MTS elected to present statistical data prospectively from 2005 forward, and will present one additional year of activity to a maximum of ten years as of 2014.

San Diego Metropolitan Transit System

Changes in Net Assets

Last Seven Fiscal Years

| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|--|-----------------------|---------------------|------------------------|---------------------|----------------------|------------------------|----------------------|
| Operating revenues | | | | | | | |
| Passenger revenue | \$ 84,764,142 | \$ 84,167,615 | \$ 85,192,330 | \$ 75,938,626 | \$ 68,634,694 | \$ 67,579,729 | \$ 63,802,747 |
| Advertising | 620,774 | 782,986 | 924,522 | 1,118,697 | 1,001,597 | 838,663 | 1,339,470 |
| Charter | 129,244 | 127,665 | 68,801 | 63,435 | 44,999 | 30,940 | 895,092 |
| Miscellaneous | 4,687,850 | 4,264,061 | 4,874,700 | 3,671,549 | 3,703,043 | 1,734,582 | 18,240 |
| Total operating revenues | <u>90,202,010</u> | <u>89,342,327</u> | <u>91,060,353</u> | <u>80,792,307</u> | <u>73,384,333</u> | <u>70,183,914</u> | <u>66,055,549</u> |
| Operating expenses: | | | | | | | |
| Personnel costs | 104,328,659 | 109,511,444 | 101,912,799 | 102,847,479 | 91,205,761 | 90,490,021 | 91,485,718 |
| Outside services | 64,037,168 | 63,573,977 | 65,139,831 | 64,940,409 | 62,629,613 | 57,709,213 | 70,259,897 |
| Transit operations funding | 4,053,368 | 3,758,340 | 3,003,698 | 3,852,449 | 5,438,052 | 6,758,525 | 6,244,510 |
| Materials and supplies | 7,677,528 | 6,680,355 | 7,190,088 | 7,590,216 | 7,266,337 | 8,157,794 | 8,756,096 |
| Energy costs | 21,931,847 | 22,892,291 | 25,283,357 | 27,210,670 | 22,767,220 | 24,304,787 | 14,140,307 |
| Risk management | 3,923,954 | 4,858,835 | 4,074,104 | 3,898,094 | 5,614,889 | 5,078,068 | 5,212,337 |
| Miscellaneous | 4,899,334 | 3,571,062 | 2,052,140 | 1,974,588 | 944,296 | 2,335,990 | 2,563,968 |
| Depreciation | 81,041,468 | 98,238,482 | 75,498,980 | 85,543,426 | 74,472,549 | 66,798,819 | 49,138,639 |
| Total operating expenses | <u>291,893,326</u> | <u>313,084,786</u> | <u>284,154,997</u> | <u>297,857,331</u> | <u>270,338,717</u> | <u>261,633,217</u> | <u>247,801,472</u> |
| Operating income (loss) | (201,691,316) | (223,742,459) | (193,094,644) | (217,065,024) | (196,954,384) | (191,449,303) | (181,745,923) |
| Public support and nonoperating revenues: | | | | | | | |
| Grants and contributions | 170,849,493 | 224,506,234 | 176,978,790 | 200,879,074 | 184,332,341 | 155,746,015 | 209,482,693 |
| Investment earnings | 7,695,139 | 9,708,051 | 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 | (8,419,739) | (12,702,198) | (11,153,556) | (10,666,621) | (14,229,812) | (11,499,050) | (10,312,657) |
| Gain (loss) on disposal of assets | 712,477 | (69,089) | 294,006 | 87,898 | (1,260,113) | (1,800,414) | 291,047 |
| Other expenses | (4,081) | (289,006) | (641,552) | (141,711) | (355,528) | (187,452) | (184,767) |
| Amortization of bond issuance costs | (135,292) | (785,858) | (63,379) | (322,852) | - | - | - |
| Total public support and nonoperating revenues | <u>170,697,997</u> | <u>220,368,134</u> | <u>175,998,560</u> | <u>203,230,067</u> | <u>181,835,968</u> | <u>151,039,509</u> | <u>213,810,364</u> |
| Income (loss) before contributed capital | (30,993,319) | (3,374,325) | (17,096,084) | (13,834,957) | (15,118,416) | (40,409,794) | 32,064,441 |
| Capital contribution | 26,806,292 | 11,109,844 | 1,668,471 | 18,491,897 | 27,728,531 | 23,013,017 | 30,007,339 |
| Changes in net assets | <u>\$ (4,187,027)</u> | <u>\$ 7,735,519</u> | <u>\$ (15,427,613)</u> | <u>\$ 4,656,940</u> | <u>\$ 12,610,115</u> | <u>\$ (17,396,777)</u> | <u>\$ 62,071,780</u> |

Source: Audited financial statements

In FY 2007 MTS determined that all of its activities were truly business-type activities and presented all funds as Enterprise funds in 2007 and all subsequent years.

In FY 2006 MTS elected to present statistical data prospectively from 2005 forward, and will present one additional year of activity to a maximum of ten years as of 2014.

REVENUE CAPACITY

San Diego Metropolitan Transit System

Operating Revenue by Source (in 000s)

Last Seven Fiscal Years

| Fiscal Year Ended | Passenger Fares | Federal Operating Funds | State Operating Funds | Local Operating Funds | Interest | Other |
|--------------------------------|-----------------|-------------------------|-----------------------|-----------------------|----------|--------|
| San Diego Transit | | | | | | |
| 2005 | \$ 21,383 | \$ 14,200 | \$ 25,862 | \$ 7,278 | \$ 68 | \$ 800 |
| 2006 | 22,264 | 15,000 | 23,415 | 13,383 | 129 | (526) |
| 2007 | 22,298 | 15,000 | 29,360 | 9,901 | 63 | 1,115 |
| 2008 | 23,680 | 13,934 | 21,863 | 10,507 | - | 868 |
| 2009 | 27,882 | 17,177 | 24,496 | 14,416 | - | 271 |
| 2010 | 26,708 | 18,267 | 16,249 | 21,456 | - | 31 |
| 2011 | 26,056 | 19,894 | 29,435 | 18,307 | - | 166 |
| San Diego Trolley | | | | | | |
| 2005 | 25,855 | 10,651 | 1,741 | 8,279 | - | 880 |
| 2006 | 27,934 | 12,788 | 7,415 | 6,000 | - | 695 |
| 2007 | 27,402 | 15,325 | 6,279 | 6,000 | - | 469 |
| 2008 | 31,120 | 13,881 | 4,479 | 6,000 | - | 664 |
| 2009 | 33,454 | 16,616 | 787 | 7,043 | - | 997 |
| 2010 | 33,050 | 16,449 | 5,637 | 5,000 | - | 462 |
| 2011 | 34,673 | 14,912 | 5,497 | 5,000 | - | 1,220 |
| MTS - Contract Services | | | | | | |
| 2005 | 16,564 | 711 | 31,703 | 2,136 | - | - |
| 2006 | 17,382 | - | 137 | 455 | - | (345) |
| 2007 | 18,935 | 200 | 36,300 | 1,778 | - | (974) |
| 2008 | 21,138 | 921 | 38,020 | 1,285 | - | 75 |
| 2009 | 23,857 | 4,681 | 29,581 | 1,456 | - | 64 |
| 2010 | 24,410 | 10,420 | 21,524 | 1,636 | - | 47 |
| 2011 | 24,036 | 4,641 | 28,857 | 2,002 | - | - |

Source: Audited financial statements

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

San Diego Metropolitan Transit System

Fare Structure

Last Five Fiscal Years

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|------------|------------|------------|------------|-------------|
| Bus Cash Fares | | | | | |
| One-way fare, local routes | \$ 2.25 | \$ 2.25 | \$ 2.25 | \$ 2.00 | \$ 1.75 |
| Senior/disabled, local routes | 1.10 | 1.10 | 1.10 | - | - |
| Urban | - | - | - | 2.25 | 2.25 |
| Express | 2.50 | 2.50 | 2.50 | 2.50 | 2.50-4.00 |
| Senior/disabled Express | 1.25 | 1.25 | 1.25 | - | - |
| Premium | 5.00 | 5.00 | 5.00 | 5.00 | - |
| Senior/disabled Premium | 2.50 | 2.50 | 2.50 | - | - |
| Rural bus | 5.00-10.00 | 5.00-10.00 | 5.00-10.00 | 5.00-10.00 | - |
| Senior/disabled Rural bus | 2.50- 5.00 | 2.50- 5.00 | 2.50- 5.00 | - | - |
| Sorrento Valley Coaster Connection | - | - | 1.00 | - | - |
| Senior/disabled Coaster Connection | - | - | 0.50 | - | - |
| Shuttles | - | - | - | 1.00 | 1.00 |
| Senior Disabled | - | - | - | 1.00 | 1.00 |
| Trolley Cash Fares | | | | | |
| One-way fare, all stations | 2.50 | 2.50 | 2.50 | - | - |
| Senior/disabled one-way fare all stations | 1.25 | 1.25 | 1.25 | 1.00 | 1.00 |
| Downtown | - | - | 1.25 | 1.25 | 1.25 |
| Senior/disabled Downtown | - | - | 0.60 | - | - |
| 1 station-20+ stations | - | - | - | 1.50-3.00 | 1.50-3.00 |
| Bus and Trolley Day Passes | | | | | |
| Regional day pass | 5.00 | 5.00 | - | - | - |
| Region plus day pass | 14.00 | 14.00 | - | - | - |
| Bus and Trolley Monthly Passes | | | | | |
| Regional monthly pass | 72.00 | 72.00 | 68.00 | 64.00 | - |
| Senior/disabled Regional | 18.00 | 18.00 | 17.00 | 16.00 | 14.50 |
| Youth Regional | 36.00 | 36.00 | 34.00 | 32.00 | 29.00 |
| Half-month/14-Day | 43.00 | 43.00 | 41.00 | - | - |
| Premium monthly pass | 100.00 | 100.00 | 90.00 | - | - |
| Senior/disabled Premium | 25.00 | 25.00 | 22.50 | - | - |
| Youth Premium | 50.00 | 50.00 | 45.00 | - | - |
| Half-month/14-Day | 60.00 | 60.00 | 54.00 | - | - |
| Local/Urban Bus/Express/Trolley | - | - | - | - | 58.00 |
| Express Bus (multi-zones) | - | - | - | - | 64.00-84.00 |

SOURCE: SANDAG Comprehensive Fare Ordinance, amendments effective July 1, 2009.

In 2007 MTS elected to present fare structure statistical data prospectively from 2007 forward, and will present one additional year of activity to a maximum of ten years as of 2016. There were no changes to the fare structure for several years prior to 2008.

San Diego Metropolitan Transit System

Farebox Recovery Percentages

Last Seven Fiscal Years

| <u>Fiscal Year Ended</u> | <u>San Diego Transit</u> | <u>San Diego Trolley</u> | <u>MTS-Contract Services</u> |
|--------------------------|--------------------------|--------------------------|------------------------------|
| 2005 | 26.67 | 54.25 | 31.97 |
| 2006 | 30.38 | 50.78 | 31.96 |
| 2007 | 30.44 | 48.97 | 33.05 |
| 2008 | 29.59 | 55.62 | 34.40 |
| 2009 | 34.31 | 57.15 | 40.00 |
| 2010 | 28.46 | 54.26 | 42.06 |
| 2011 | 31.22 | 57.41 | 40.37 |

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

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

DEBT CAPACITY

San Diego Metropolitan Transit System

Ratio of Outstanding Debt by Type

Last Seven Fiscal Years

| Year ended June 30 | Capital Lease- Tower | Capital Lease - Equipment | 1990 LRV Sale/Lease- back | 1995 LRV Lease/Lease- back | Certificates of Participation | | Pension Obligation Bonds | Total | Percentage of Personal Income | Debt per Capita |
|-----------------------|----------------------------|---------------------------------|---------------------------------|----------------------------------|-------------------------------------|---------------|--------------------------------|----------------|-------------------------------------|--------------------|
| | | | | | 2002 | 2003 | | | | |
| 2005 | \$ 8,940,118 | \$ - | \$ 15,878,727 | \$ 125,774,762 | \$ 10,985,000 | \$ 32,850,000 | \$ 77,490,000 | \$ 271,918,607 | 0.54% | 126 |
| 2006 | 8,516,304 | 319,719 | 13,174,798 | 124,775,518 | 7,430,000 | 26,065,000 | 76,075,000 | 256,356,339 | 0.52% | 117 |
| 2007 | 8,075,925 | 255,113 | 3,823,388 | 123,699,432 | 3,770,000 | 19,155,000 | 74,620,000 | 233,398,858 | 0.47% | 105 |
| 2008 | 7,617,599 | 187,737 | - | 122,540,596 | - | - | 73,120,000 | 203,465,932 | 0.38% | 91 |
| 2009 | 7,141,326 | 117,471 | - | 121,292,644 | - | - | 71,565,000 | 200,116,441 | 0.41% | 89 |
| 2010 | 6,647,108 | 44,190 | - | 119,948,726 | - | - | 61,150,000 | 187,790,024 | 0.42% | 82 |
| 2011 | 5,317,686 | - | - | 118,501,460 | - | - | 47,265,000 | 171,084,146 | 0.39% | 75 |

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

MTS retired three financial obligations in FY 2008.

MTS made a \$8.8 million principal payment on the variable rate Pension Obligation Bonds and refunded the remaining \$30 million balance in FY 2010.

MTS made a \$12.2 million principal payment on the variable rate Pension Obligation Bonds in FY2011.

MTS retired the capital equipment lease and refunded the Tower capital lease in FY2011.

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

DEMOGRAPHIC AND ECONOMIC STATISTICS

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

| | 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 | 2,250,246 | 49,293,508 | 21,906 | 10.20% |
| 2010 | 2,287,701 | 44,339,315 | 19,382 | 10.50% |
| 2011 | 2,287,701 | 47,185,564 | 20,626 | 10.40% |

SOURCES:

- (1) San Diego Association of Governments, January 2010 Estimate. SANDAG has not released a 2011 estimate
- (2) FY 2011 data is not currently available
 Estimate based on the statewide increase of personal income of 6.42% between June 30, 2010 and June 30, 2011
 Percentage was obtained through the U.S. Department of Commerce website
- (3) California Employment Development Department, June 2011

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

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

Full-Time and Part-Time Employees at June 30

| | <u>MTS</u> | <u>San Diego Transit</u> | <u>San Diego Trolley</u> | <u>Total</u> |
|------|------------|------------------------------|------------------------------|--------------|
| 2005 | 73 | 927 | 528 | 1,528 |
| 2006 | 90 | 880 | 539 | 1,509 |
| 2007 | 121 | 866 | 527 | 1,514 |
| 2008 | 117 | 844 | 533 | 1,494 |
| 2009 | 114 | 824 | 530 | 1,468 |
| 2010 | 110 | 782 | 528 | 1,420 |
| 2011 | 116 | 758 | 543 | 1,417 |

Source: MTS payroll records

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

San Diego Metropolitan Transit System

Ten Largest Employers in San Diego County

| <u>Company Name</u> | <u>Number of Employees (1)</u> | <u>Percent of 1,402,900 million County Total (2)</u> |
|-------------------------------------|------------------------------------|--|
| Federal Government | 38,900 | 2.77% |
| State of California | 38,700 | 2.76% |
| University of California, San Diego | 26,654 | 1.90% |
| San Diego Unified School District | 21,073 | 1.50% |
| County of San Diego | 16,803 | 1.20% |
| Sharp Healthcare | 13,175 | 0.94% |
| City of San Diego | 12,384 | 0.88% |
| Scripps Health | 10,617 | 0.76% |
| Kaiser Permanente | 7,121 | 0.51% |
| U.S. Postal Service | 6,464 | 0.46% |

Source:

(1) San Diego Regional Chamber of Commerce

(2) Employment Development Department, State of California

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

MTS presents only current employment data for the county of San Diego

OPERATING INFORMATION

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

| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Operating Cost: | | | | | | | |
| San Diego Transit | \$ 83,456,613 | \$ 93,831,484 | \$ 81,271,392 | \$ 80,031,464 | \$ 73,256,992 | \$ 73,284,403 | \$ 80,187,053 |
| San Diego Trolley | 60,395,041 | 60,912,966 | 58,536,769 | 55,949,228 | 55,951,561 | 55,014,599 | 47,661,707 |
| MTS-Contract Services | 59,535,674 | 58,037,290 | 59,639,023 | 61,450,734 | 57,286,732 | 54,387,095 | 51,815,445 |
| Farebox Revenue: | | | | | | | |
| San Diego Transit | \$ 26,055,593 | \$ 26,708,013 | \$ 27,881,541 | \$ 23,680,179 | \$ 22,297,629 | \$ 22,263,739 | \$ 21,383,099 |
| San Diego Trolley | 34,672,528 | 33,049,793 | 33,453,633 | 31,120,169 | 27,401,733 | 27,933,766 | 25,855,241 |
| MTS-Contract Services | 24,036,025 | 24,409,802 | 23,857,156 | 21,138,278 | 18,935,332 | 17,382,224 | 16,564,407 |
| Total Passengers: | | | | | | | |
| San Diego Transit | 27,252,222 | 26,920,502 | 29,762,278 | 28,094,257 | 26,075,859 | 24,889,685 | 24,426,571 |
| San Diego Trolley | 31,612,877 | 30,468,981 | 36,928,284 | 37,620,944 | 35,114,385 | 33,829,833 | 29,334,362 |
| MTS-Contract Services | 22,664,343 | 21,988,343 | 21,645,421 | 21,460,283 | 21,142,942 | 18,907,112 | 18,448,621 |
| Revenue Miles: | | | | | | | |
| San Diego Transit | 8,177,701 | 8,623,561 | 9,221,197 | 9,522,460 | 9,622,029 | 9,958,013 | 10,087,350 |
| San Diego Trolley | 7,518,512 | 7,743,230 | 7,894,528 | 8,002,889 | 7,940,011 | 8,180,189 | 7,060,498 |
| MTS-Contract Services | 11,196,215 | 11,449,530 | 12,178,979 | 12,501,267 | 12,453,692 | 12,241,939 | 12,701,361 |
| Subsidy / Total Passenger | | | | | | | |
| San Diego Transit | \$ 2.11 | \$ 2.50 | \$ 1.79 | \$ 2.01 | \$ 1.95 | \$ 2.05 | \$ 2.41 |
| San Diego Trolley | 0.81 | 0.92 | 0.68 | 0.66 | 0.81 | 0.80 | 0.74 |
| MTS-Contract Services | 1.57 | 1.53 | 1.66 | 1.88 | 1.81 | 1.96 | 1.91 |

Source: NTD Report, and audited financial statements

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

San Diego Metropolitan Transit System

Service Performance Data

Last Seven Fiscal Years

| Service Provided | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| San Diego Transit | | | | | | | |
| Vehicle Revenue Miles | 8,177,701 | 8,623,561 | 9,221,197 | 9,522,460 | 9,622,029 | 9,958,013 | 10,089,671 |
| Vehicle Revenue Hours | 753,549 | 788,560 | 843,438 | 870,432 | 853,044 | 840,408 | 829,742 |
| Passengers | 27,252,222 | 26,920,502 | 29,762,278 | 28,094,257 | 26,075,859 | 24,889,685 | 24,425,116 |
| Passenger Miles | 100,500,080 | 98,162,772 | 107,408,405 | 100,255,833 | 98,202,798 | 93,579,662 | 93,745,993 |
| Number of Vehicles | 236 | 238 | 247 | 267 | 267 | 274 | 280 |
| San Diego Trolley | | | | | | | |
| Vehicle Revenue Miles | 7,518,512 | 7,743,230 | 7,894,528 | 8,002,889 | 7,940,011 | 8,180,189 | 7,060,498 |
| Vehicle Revenue Hours | 422,795 | 442,457 | 409,519 | 439,377 | 432,440 | 468,829 | 368,184 |
| Passenger Car Hours | 429,189 | 448,290 | 416,147 | 445,277 | 438,555 | 480,396 | 379,050 |
| Passengers | 31,612,877 | 30,468,981 | 36,928,284 | 37,620,944 | 35,114,385 | 33,829,833 | 29,334,362 |
| Passenger Miles | 193,062,561 | 186,509,312 | 220,638,983 | 206,923,846 | 207,726,689 | 208,875,499 | 187,987,995 |
| Number of Vehicles | 128 | 134 | 133 | 134 | 134 | 134 | 123 |
| MTS-Contract Services | | | | | | | |
| Vehicle Revenue Miles | 11,196,215 | 11,449,530 | 12,178,979 | 12,501,267 | 12,453,692 | 12,241,939 | 12,701,361 |
| Vehicle Revenue Hours | 926,887 | 945,717 | 985,709 | 1,018,879 | 995,636 | 927,652 | 946,314 |
| Passengers | 22,664,343 | 21,988,343 | 21,645,421 | 21,460,283 | 21,142,942 | 18,907,112 | 18,448,621 |
| Passenger Miles | 82,124,774 | 79,236,564 | 80,104,104 | 77,173,278 | 78,303,615 | 73,343,433 | 69,957,802 |
| Number of Vehicles | 407 | 369 | 388 | 358 | 348 | 337 | 357 |
| Total | | | | | | | |
| Passengers | 81,529,442 | 79,377,826 | 88,335,983 | 87,175,484 | 82,333,186 | 77,626,630 | 72,208,099 |
| Passenger Miles | 375,687,415 | 363,908,648 | 408,151,492 | 384,352,957 | 384,233,102 | 375,798,594 | 351,691,790 |

Source: NTD Report and MTS internal capital asset system

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

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

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

Source: MTS internal capital asset system

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

San Diego Metropolitan Transit System Ridership

Last Seven Fiscal Years

| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|-------------------------|--------|---------|--------|--------|--------|--------|--------|
| Ridership (in 000's) | | | | | | | |
| San Diego Transit | 27,252 | 26,921 | 29,762 | 28,094 | 26,076 | 24,890 | 24,427 |
| % Change | 1.23% | -9.55% | 5.94% | 7.74% | 4.77% | 1.90% | |
| San Diego Trolley | 31,613 | 30,469 | 36,928 | 37,621 | 35,114 | 33,830 | 29,334 |
| % Change | 3.75% | -17.49% | -1.84% | 7.14% | 3.80% | 15.32% | |
| MTS - Contract Services | 22,664 | 21,988 | 21,645 | 21,460 | 21,143 | 18,907 | 18,449 |
| % Change | 3.07% | 1.58% | 0.86% | 1.50% | 11.83% | 2.49% | |

Source: NTD Report

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

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

| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|------------------------------------|------|------|------|------|------|------|------|
| Average Fare per Rider | | | | | | | |
| San Diego Transit | 0.96 | 0.99 | 0.94 | 0.84 | 0.86 | 0.90 | 0.88 |
| San Diego Trolley | 1.10 | 1.08 | 0.91 | 0.83 | 0.78 | 0.83 | 0.88 |
| MTS - Contract Services | 1.06 | 1.11 | 1.10 | 0.98 | 0.90 | 0.92 | 0.90 |
| Operating Expense per Rider | | | | | | | |
| San Diego Transit | 3.06 | 3.49 | 2.73 | 2.85 | 2.81 | 2.74 | 3.20 |
| San Diego Trolley | 1.91 | 2.00 | 1.59 | 1.49 | 1.59 | 1.63 | 1.62 |
| MTS - Contract Services | 2.63 | 2.64 | 2.76 | 2.86 | 2.71 | 2.88 | 2.81 |
| Subsidy per Rider | | | | | | | |
| San Diego Transit | 2.11 | 2.50 | 1.79 | 2.01 | 1.95 | 2.05 | 2.41 |
| San Diego Trolley | 0.81 | 0.92 | 0.68 | 0.66 | 0.81 | 0.80 | 0.74 |
| MTS - Contract Services | 1.57 | 1.53 | 1.66 | 1.88 | 1.81 | 1.96 | 1.91 |

Source: NTD report and Audited financial statements

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