



**SAN DIEGO METROPOLITAN TRANSIT SYSTEM  
SAN DIEGO, CALIFORNIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**





# San Diego Metropolitan Transit System

San Diego, California

*Comprehensive Annual Financial Report and  
Independent Auditors' Report*

*For the year ended June 30, 2007*

PREPARED BY SAN DIEGO METROPOLITAN TRANSIT SYSTEM  
FINANCE DEPARTMENT

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# San Diego Metropolitan Transit System

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## **INTRODUCTORY SECTION**

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Board of Directors and Transit Riders  
San Diego Metropolitan Transit System:

The comprehensive annual financial report of the San Diego Metropolitan Transit System (MTS) for the fiscal year ended June 30, 2007 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. 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 the preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

State statutes require an annual audit by independent certified public accountants. The firm of Caporicci & Larson, CPAs, has been retained to meet this requirement. The goal of the independent audit was to provide reasonable assurance that the financial statements of MTS for the fiscal year ended June 30, 2007 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that MTS' financial statements for the fiscal year ended June 30, 2007 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 require 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.

MTS maintains budgetary controls, the objective of which is to ensure compliance with the provisions embodied in the annual appropriated budget approved by the board of directors. Activities of the General Fund, which includes Capital Projects and Debt Service activities, are included in the annual appropriated budgets. Comprehensive multi-year financial plans, adopted when major projects are approved for the final design and construction phase, provide project-length budgetary



control for Capital Projects. The portion of costs expected to be incurred on each project during the fiscal year is included in the annual operating budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by line item within an individual fund, that is the level of detail presented in the statement of revenues, expenses and changes in net assets. The Chief Executive Officer has the authority to transfer up to \$25,000 between line items. MTS also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year-end. However, encumbrances are evaluated and may be reappropriated as part of the following year's budget.

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

### **REPORTING ENTITY**

The San Diego Metropolitan Transit System was created effective January 26, 1976 to provide the policy setting and overall management coordination of the public transportation system in the San Diego metropolitan service area. This service area encompasses approximately 2.19 million people residing in a 570 square mile area of San Diego County, including the cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, Santee, and San Diego and the unincorporated area of the County of San Diego. A number of fixed-route operating entities provide the service and have banded together to form a federation of transit service providers called the Metropolitan Transit System (MTS). The purpose of the MTS is to provide coordinated routes, fares, and transfers among the different operating entities.

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

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

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

member on the nine-member Transportation Committee within SANDAG. The Transportation Committee assumed the responsibility and decision-making for all transportation-related planning, programming, and development activities. In accordance with the legislation, the planning and programming functions were transferred to SANDAG on July 1, 2003, and the project development and construction activities were transferred to SANDAG on October 13, 2003.

MTS is effectively an umbrella agency. MTS owns the assets of San Diego Trolley, Inc. (SDTI) and San Diego Transit Corporation (SDTC), the area's two largest transit operators. These two transit units were formed under California law as not-for-profit public corporations and function as operating subsidiaries of MTS. SDTI and SDTC are considered component units and are blended component units for financial reporting purposes. SDTI operates three Light Rail Transit (LRT) routes, the Blue Line from the Mission San Diego Station to San Ysidro at the International Border, the Orange Line from the Imperial and 12th Bayside Platform through Centre City and then east to Santee, and the Mission Valley Extension, known as the Green Line, which began service in July 2005. SDTI operates on a total of 54.3 miles of track. SDTC operates 27 routes with an active fleet of 267 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.

Starting in July of 2004 and continuing forward, MTS has begun to centralize and consolidate many functions within SDTI and SDTC. These include Planning, Human Resources, Finance, and Purchasing. This is a gradual process that has been on-going and will continue for some time.

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

In 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 Enterprise 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 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.

## **ECONOMIC CONDITION AND OUTLOOK**

### **Operations**

Historically, the San Diego region has enjoyed strong economic expansion, outpacing both the state and national economies. San Diego's gross regional product (GRP), the estimated total value of the regions' economy was estimated at \$161.1 billion for FY 2006 (most recent estimate available). More recently, San Diego has begun to feel the effects of the downturn in the housing market. MTS-area fixed-route ridership increased during FY 2007.

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

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

### **Major initiatives**

With the changes brought about by SB 1703, the MTS focus is now clearly on operations rather than development. Specifically, this is providing quality, efficient, and reliable service to customers using resources to maximum effect. Two major challenges are to align operating costs with recurring revenues and rebuild the capital program in order to be able to replace aging infrastructure.

MTS has just completed a Comprehensive Operational Analysis (COA), the first in MTS history. The purpose of the COA is to assess its ridership and route structure on a comprehensive basis. This assessment is allowing MTS to better align its operations in all areas. The benefits are at least two

fold. First it better matches riders with where they want to go offering opportunities for increased ridership and better service to customers and the larger community. Second, it acts as a priority guide for providing service. In doing so, various service levels can be effectively evaluated to coincide with available recurring revenues. Matching the proper service level to available recurring revenues eliminates structural deficits that have produced challenges for MTS for the last few years. Service changes were implemented beginning in January 2007, and will be monitored and evaluated on an ongoing basis to ensure that the relationship between service levels and ridership remains consistent and reasonable.

## **FINANCIAL MANAGEMENT**

### **Pension Funds**

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

### **Debt Administration**

**Capital Leases** – MTS has two capitalized lease obligations with current year debt service of \$505 thousand. One lease obligation is the result of a joint venture arrangement whereby the joint venture issued certificates of participation (COPs) for the construction of the MTS Tower, and MTS services the debt through lease payments. The other is a lease purchase agreement for the acquisition of telecommunications equipment.

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

**Finance Obligations** – MTS has four finance obligations. Total debt service for FY 07 was \$21 million. Two finance obligations are the result of Light Rail Vehicle (LRV) sale/leaseback and lease/leaseback transactions. Proceeds from these transactions were placed into various investments that mature at values sufficient to cover all remaining obligations as well as amounts necessary to exercise the repurchase options where applicable. In addition, MTS issued Certificates of Participation to fund the automated fare collection project in 2003 and the regional transit management project in 2002.

**Pension Obligation Bonds** – MTS issued Taxable Pension Obligation Bonds in 2004 to reduce the unfunded liability in the SDTC retirement plan. Total debt service for FY 2007 was \$1.46 million. This obligation is reported by SDTC.

### **Cash Management**

To facilitate optimum management of MTS' resources, balances in all cash accounts within the organization, including MTS, SDTC and SDTI, are swept nightly to one concentration account. MTS cash in excess of funds required for short term needs form a pool of cash for short-term investment, except for restricted funds, which are generally held by outside custodians on behalf of capital projects and debt service requirements. MTS' funds are invested in accordance with its written

policy which is consistent with the California Government Code 53600. MTS is currently evaluating contracts for the services of an outside investment management firm to handle the daily investment activities. Further details of MTS' cash and investments at June 30, 2007 are set forth in Note 2 to the financial statements.

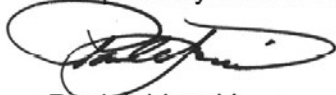
### **Risk Management**

MTS (including Taxicab Administration, SD&AE, and Other Contracted Services), SDTI, and SDTC are protected against the adverse consequences of material or financial loss through a balanced program of risk retention and the purchase of commercial insurance. MTS, SDTI, and SDTC are insured for liability, property, and workers' compensation claims under a combined insurance program. Claims in excess of the various deductibles and self-insured retention amounts which range from \$50,000 to \$2,000,000 are insured with commercial carriers up to \$75,000,000 for liability and up to \$600,000,000 for property damage.

### **Acknowledgments**

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

Respectfully submitted,



Paul Jablonski  
Chief Executive Officer



Cliff Telfer  
Chief Financial Officer

November 30, 2007

# San Diego Metropolitan Transit System

## Listing of Board of Directors and Management

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### BOARD OF DIRECTORS

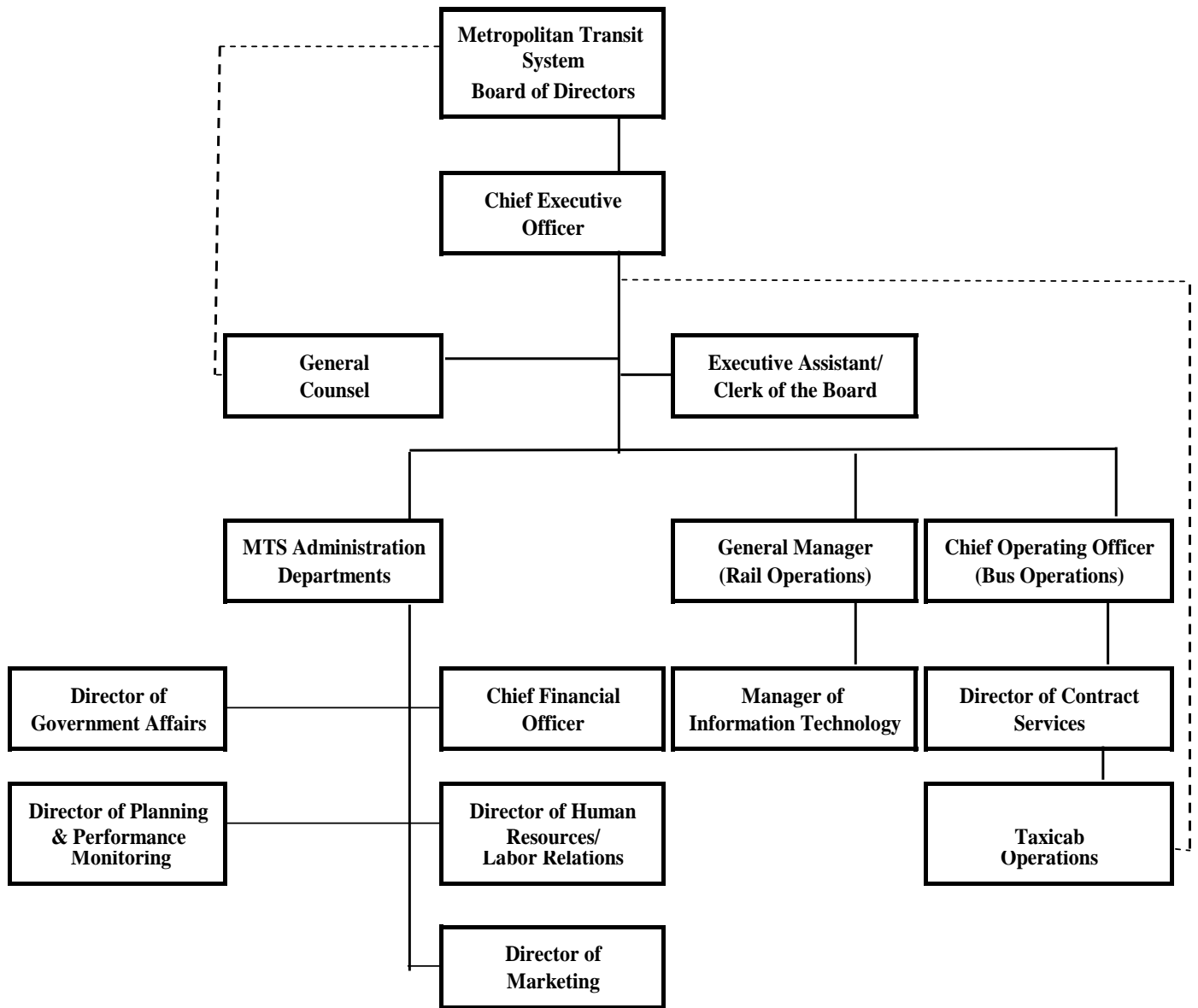
<b>Members</b>	<b>Board position (elected position)</b>
Harry Mathis	Chairman, since 1/06
Jerry Rindone	Vice Chairman, since 7/91 (Councilmember, City of Chula Vista)
Toni Atkins	Board Member, since 12/02 (Deputy Mayor, City of San Diego)
Thomas E. Clabby	Board Member, since 6/96 (Councilmember, City of Lemon Grove)
Robert Emery	Chair, Pro Tem, since 7/85 (Councilmember, City of Poway)
Ernest Ewin	Board Member, since 03/05 (Councilmember, City of La Mesa)
Kevin Faulconer	Board Member, since 1/06 (Councilmember, City of San Diego)
Jillian Hanson-Cox	Board Member, since 01/06 (Councilmember, City of El Cajon)
Brian Maienschein	Board Member, since 12/00 (Councilmember, City of San Diego)
Fred McLean	Board Member, since 1/06, (Councilmember, City of Imperial Beach)
Phil Monroe	Board Member, since 4/02 (Councilmember, City of Coronado)
Ron Roberts	Board Member, since 12/89 (County Board of Supervisors)
Hal Ryan	Board Member, since 1/04 (Councilmember, City of Santee)
Tony Young	Board Member, since 1/05 (Councilmember, City of San Diego)
Vacant	Board Member, since 01/07 (Councilmember, National City)

### MTS MANAGEMENT

<b>Staff</b>	<b>Position</b>
Paul Jablonski	Chief Executive Officer
Tiffany Lorenzen	General Counsel
Cliff Telfer	Chief Financial Officer
Claire Spielberg	Chief Operations Officer, Bus (SDTC)
Peter Tereschuck	President-General Manager, Rail (SDTI)
Conan Chung	Director, Planning and Performance Monitoring
Sharon Cooney	Director, Government Affairs and Community Relations
Susan Hafner	Director, Multimodal Operations City of San Diego
Robert Schupp	Director, Marketing and Communications
Jeff Stumbo	Director, Human Resources and Labor Relations

# 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, 2006

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



President

Executive Director

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## **FINANCIAL SECTION**

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## 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 year ended June 30, 2007, 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 audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 audit provides a reasonable basis for our opinions.

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, 2007, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 (o) to the basic financial statements, MTS has changed its accounting and financial reporting to the proprietary fund reporting including its measurement focus to economic resources and to accrual basis of accounting. The accompanying basic financial statements present such changes.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2007, 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.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis and Schedule of Funding Progress of Defined Benefit Pension Plans, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on the Required Supplementary Information.

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

Our audit was conducted for the purpose of forming opinions on the MTS' basic financial statements. The accompanying Supplementary Information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion on the Introductory and Statistical Sections.

*Capricci & Carlson*

San Diego, California  
November 30, 2007

# San Diego Metropolitan Transit System

## Management's Discussion and Analysis

June 30, 2007

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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 year ended June 30, 2007. This information should be used in conjunction with the Letter of Transmittal, which can be found on pages 1 through 6 of this report.

### Financial Highlights

- Net assets, as reported in the statement of net assets, totaled \$1,261 million as of June 30, 2007. Of this amount, \$163.2 million is unrestricted. Total net assets increased by \$12.6 million.
- For the year ended June 30, 2007, 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 37.1%, compared to 37.0% for the previous year. A number of factors have brought about this increase, principally increased fare receipts and lower operating costs at San Diego Transit Corporation and Other Contracted Services operations within MTS.

### 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 2007 MTS elected to change the presentation of its financial statements. In prior years MTS presented financial statements in two different formats, one for business type activities and one for governmental activities. The presentation also included a schedule to reconcile the differences between the two statements. MTS has determined that the usefulness of the statements for readers of the financial statements would be enhanced by reporting all results as business activities in a format similar to a private-sector business. MTS maintains a separate fund for Other Contracted Services but has combined all governmental funds and two proprietary funds, the Taxi Administration and SD&AE, into the general fund. The current year financial statements present combined results for both funds in MTS and its two component units, SDTC and SDTI. Additional information about the financial effect of this reporting change can be found in note *1(o)* to the financial statements.

*The statement of net assets* presents information on all of MTS' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of MTS is improving or deteriorating.

*The statement of revenues, expenses and changes in net assets* presents information showing how the net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

# San Diego Metropolitan Transit System

## Management's Discussion and Analysis, Continued

June 30, 2007

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

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

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

### Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of MTS, assets exceeded liabilities by \$1,261 million at the close of the most recent fiscal year.

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 \$102 million, of which the largest projects currently under construction are the Automated Fare Collection System and the San Ysidro Intermodal Transit Center (currently \$38 million and \$28 million respectively). The capital assets that are represented by the construction-in-progress will be used to provide services to citizens; consequently, these assets are *not* available for future spending. In FY 2007 MTS transferred completed projects worth \$32.7 million to SDTC, SDTI and Other Contracted Services.

The balance in unrestricted assets has increased by \$161 million during the current year. Due to the accounting change implemented in FY 2007, all liabilities recorded in MTS' general fund related to assets owned by SDTC and SDTI have been included in the consolidated totals.

	June 30, 2007	June 30, 2006	Change
Current and other assets	\$ 326,690,827	\$ 285,334,929	\$ 41,355,898
Capital assets	1,256,454,253	1,288,533,168	(32,078,915)
Total assets	1,583,145,080	1,573,868,097	9,276,983
Long-term liabilities outstanding	242,450,091	269,442,610	(26,992,519)
Other liabilities	79,775,425	56,116,038	23,659,387
Total liabilities	322,225,515	325,558,648	(3,333,133)
Net assets (deficit):			
Invested in capital assets, net of related debt	1,097,675,395	1,246,202,145	(148,526,750)
Unrestricted	163,244,169	2,107,304	161,136,865
Total assets	\$ 1,260,919,565	\$ 1,248,309,449	\$ 12,610,116



# San Diego Metropolitan Transit System

## Management's Discussion and Analysis, Continued

June 30, 2007

Capital and operating grants and contributions continue to be a major portion of the revenue used to fund transit operations and capital projects. Variances between FY 2007 and FY 2006 are largely attributable to recognition of deferred revenue from prior years and an increase in the current year subsidy for capital projects.

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 73,384,332	\$ 70,183,914	\$ 3,200,418
Nonoperating revenues	196,421,308	162,712,345	33,708,963
Total revenues	<u>269,805,640</u>	<u>232,896,259</u>	<u>36,909,381</u>
Expenses:			
Operating expenses	270,338,715	261,619,551	8,719,164
Nonoperating expenses	14,585,341	11,686,502	2,898,839
Total expenses	<u>284,924,056</u>	<u>273,306,053</u>	<u>11,618,003</u>
Increase (decrease) in net assets before capital contributions	(15,118,416)	(40,409,794)	25,291,378
Capital contributions	<u>27,728,531</u>	<u>23,013,017</u>	<u>4,715,514</u>
Increase in net assets	12,610,116	(17,396,777)	30,006,893
Net assets - beginning of year	1,248,309,449	1,265,706,226	(17,396,777)
Net assets - end of year	<u>\$ 1,260,919,565</u>	<u>\$ 1,248,309,449</u>	<u>\$ 12,610,116</u>

### Budgetary Highlights

Differences between the original budget and the final amended budget were \$214,000 increase in appropriations, summarized as follows:

- \$2,125,000 increase in personnel costs
- \$1,358,000 increase in outside services
- \$848,000 increase in debt service costs
- \$181,000 increase in general administrative expense

Partially offset by:

- \$125,000 decrease in materials and supplies expense
- \$787,000 decrease in general and administrative expense
- \$1,126,000 decrease in transit support expense,
- \$1,432,000 decrease in energy expense.

# San Diego Metropolitan Transit System

## Management's Discussion and Analysis, Continued

June 30, 2007

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In addition, the final amended budget included the following revenue adjustments:

- \$1,510,000 increase in passenger fares
- \$477,000 increase in miscellaneous revenue
- \$1,190,000 increase in subsidy revenue

### Capital Asset and Debt Administration

**Capital assets.** MTS' investment in capital assets as of June 30, 2007 amounts to \$1,256 million (net of accumulated depreciation). 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 incurred additional costs totaling \$4.5 million related to acquisition of vehicles for Other Contracted Services
- Construction continued on the Automated Fare Collection System with \$7.2 million expended in the current fiscal year, bringing the total construction-in-progress for this project to \$37.9 million.
- Construction continued on the San Ysidro Intermodal Transportation Center with \$316 thousand expended in the current fiscal year, bringing the total construction-in-progress for this project to \$27.8 million.
- Completed capital projects totaling \$25 million were transferred from SANDAG to MTS and its component units during FY 2007. In addition, capital assets with a net value of \$2.8 million were transferred from National City to Other Contracted Services within MTS.

### CAPITAL ASSETS (Net of depreciation)

	<u>2007</u>	<u>2006</u>
Land	\$ 221,858,391	\$ 189,011,676
Buildings	703,841,608	798,272,004
Vehicles	203,308,050	174,397,242
Equipment & other	25,226,977	7,377,087
Construction-in-progress	102,219,226	119,475,157
Total	<u>\$ 1,256,454,253</u>	<u>\$ 1,288,533,165</u>

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

**Long-term debt.** At the end of the current fiscal year, MTS has two capital lease obligations outstanding in the amounts of \$8.1 million and \$255,000. In addition, MTS has five finance obligations outstanding relating to one sale/leaseback transaction entered into in 1990, one lease/leaseback transaction entered into in 1995, certificates of participation issued in fiscal years 2003 and 2004, and Pension Obligation Bonds issued in fiscal year 2005, for a total obligation of \$225.1 million. In connection with the lease/leaseback transactions, MTS placed funds on deposit, which, together with the interest earned on the deposits, will be

# **San Diego Metropolitan Transit System**

## **Management's Discussion and Analysis, Continued**

**June 30, 2007**

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sufficient to cover the amounts due under the finance obligations. The certificates of participation were issued in fiscal 2003 for \$17.8 million to finance a regional transit management system to provide intelligent transportation system and radio communication services; and in fiscal 2004 for \$32.9 million to finance the regional automated fare collection system project. 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.

### **Bond Ratings**

Moody's Investor's service provided an intrinsic rating for the Regional Transit Management System certificates of participation at Aaa in 2002, for the Automated Fare Collection certificates of participation at Aaa in 2003, and for the Pension Obligation Bonds at Aaa in 2004. Additional information on MTS' long-term debt can be found in Note 6 to the financial statements.

### **Requests for Information**

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

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## **BASIC FINANCIAL STATEMENTS**

# San Diego Metropolitan Transit System

## Statement of Net Assets

For the Year Ended June 30, 2007

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<b>Assets</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 46,201,913
Investments restricted for debt service payable within one year	4,877,796
Accounts and other receivables	14,970,464
Due from other governments	43,846,179
Materials and supplies inventory	6,570,863
Prepaid expenses and other current assets	<u>3,694,203</u>
Total current assets	<u>120,161,418</u>
<b>Noncurrent assets:</b>	
Cash and certificates of deposit restricted for capital support	5,582,755
Investments restricted for debt service and capital projects	133,302,151
Unamortized bond issuance cost	1,463,865
Capital assets (net of accumulated depreciation)	1,256,454,253
Net pension asset	<u>66,180,638</u>
Total noncurrent assets	<u>1,462,983,662</u>
Total assets	<u>\$ 1,583,145,080</u>

See Accompanying Notes to Basic Financial Statements

# San Diego Metropolitan Transit System

## Statement of Net Assets, Continued

For the Year Ended June 30, 2007

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<b>Liabilities</b>	
<b>Current liabilities:</b>	
Accounts payable	\$ 10,689,581
Due to other governments	20,164,812
Unearned revenue	11,384,126
Accrued expenses	9,745,217
Retentions payable	352,965
Due within one year:	
Bond premium	57,120
Compensated absences payable	6,975,897
Accrued damage, injury, and employee claims	3,082,778
Long-term debt	12,445,131
Long-term debt payable from restricted assets	4,877,796
Total current liabilities	<u>79,775,425</u>
<b>Noncurrent liabilities:</b>	
Retentions payable from restricted assets	5,582,755
Accrued damage, injury, and employee claims payable from restricted assets	1,225,201
Long-term debt payable from restricted assets	112,794,278
Bond Premium	287,105
Compensated absences payable, due in more than one year	4,775,563
Accrued damage, injury, and employee claims, due in more than one year	14,503,536
Long-term debt, due in more than one year	103,281,652
Total noncurrent liabilities	<u>242,450,091</u>
Total liabilities	<u>322,225,515</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	1,097,675,395
Unrestricted	163,244,169
Total net assets	<u><u>\$ 1,260,919,565</u></u>

See Accompanying Notes to Basic Financial Statements

**San Diego Metropolitan Transit System**  
**Schedule of Revenues, Expenses, and Changes in Net Assets**  
**For the Year Ended June 30, 2007**

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<b>Operating revenues:</b>	
Passenger revenue	\$ 68,634,694
Advertising	1,001,597
Charter	44,999
Miscellaneous operating revenues	<u>3,703,043</u>
Total operating revenues	<u>73,384,332</u>
<b>Operating expenses:</b>	
Personnel costs	89,750,761
Outside services	62,629,613
Transit operations funding	5,438,052
Materials and supplies	7,266,337
Energy costs	22,767,220
Risk management	5,614,889
Miscellaneous operating expenses	944,296
Amortization of net pension asset	1,455,000
Depreciation	<u>74,472,549</u>
Total operating expenses	<u>270,338,715</u>
<b>Operating income (loss)</b>	<u>(196,954,383)</u>
<b>Public support and nonoperating revenues:</b>	
Federal revenue	48,950,712
Transportation Development Act (TDA) funds	84,941,254
State Transit Assistance (STA) funds	21,458,830
State revenue - other	10,929,552
TransNet funds	16,223,926
Other local subsidies	1,828,068
Investment earnings	13,349,080
Interest expense	(14,229,812)
Loss on disposal of assets	(1,260,113)
Other expenses	<u>(355,528)</u>
Total public support and nonoperating revenues (expenses)	<u>181,835,968</u>
<b>Income (loss) before contributed capital</b>	(15,118,416)
Contributed capital	<u>27,728,531</u>
Change in net assets	12,610,116
<b>Net assets, beginning of year</b>	1,248,309,449
<b>Net assets, end of year</b>	<u><u>\$ 1,260,919,565</u></u>

See Accompanying Notes to Basic Financial Statements



# San Diego Metropolitan Transit System

## Statement of Cash Flows

For the Year Ended June 30, 2007

<b>Cash flows from operating activities:</b>	
Receipts from customers and users	\$ 64,612,107
Payments to suppliers	(102,703,644)
Payments to employees	(93,839,698)
Payments for damage and injury	(55,568)
Net cash provided (used) by operating activities	<u>(131,986,803)</u>
<b>Cash flows from noncapital financing activities:</b>	
Public support funds received	<u>206,909,446</u>
Net cash provided (used) by noncapital financing activities	<u>206,909,446</u>
<b>Cash flows from capital and related financing activities:</b>	
Debt service costs	<u>(26,597,225)</u>
Net cash provided (used) by capital financing activities	<u>(26,597,225)</u>
<b>Cash flows from investing activities:</b>	
Interest received on investments	737,649
Investments liquidated	17,756,235
Investments purchased	(9,325,000)
Property acquisition	(19,487,354)
Property disposal	12,004
Net cash provided (used) by investing activities	<u>(10,306,466)</u>
Net increase (decrease) in cash and cash equivalents	38,018,952
<b>Cash and cash equivalents, beginning of year</b>	<u>8,182,961</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 46,201,913</u>
Operating income (loss)	\$ (196,954,383)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	75,927,549
(Increase) decrease in:	
Accounts and other receivables	(8,344,087)
Materials and supplies inventory	259,378
Prepaid and other current assets	(1,095,971)
Increase (decrease) in:	
Accounts payable	(1,809,463)
Accrued expenses	4,253,534
Compensated absences payable	(255,360)
Accrued damage, injury and employee claims	(3,968,000)
Total adjustments	<u>64,967,580</u>
Net cash provided (used) by operating activities	<u>\$ (131,986,803)</u>
Supplemental noncash disclosures:	
During the year SANDAG contributed approximately \$25,000,000 in capital assets.	

See Accompanying Notes to Basic Financial Statements

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## **NOTES TO BASIC FINANCIAL STATEMENTS**

# San Diego Metropolitan Transit System

## Notes to Basic Financial Statements

For the Year Ended June 30, 2007

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### (1) Summary of Significant Accounting Policies

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

#### (a) Reporting Entity

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

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

As required by GAAP, these basic financial statements present MTS and its legally separate component units, entities for which MTS is considered to be financially accountable. GASB Statement No. 14, *The Financial Reporting Entity*, discusses the criteria used to determine the reporting status of the primary government's component units. Because MTS appoints a majority of the component units' boards of directors, the boards are substantively the same, and MTS is able to impose its will on the component units, MTS presents blended component units. 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. MTS approved the agreement extension in December, 2006. SDTC continues to provide local service to a number of adjoining cities under pre-existing contracts. Purchases or construction of bus capital items are made by MTS with whom title remains, and are contributed to SDTC upon completion of a project or when individually purchased by

# San Diego Metropolitan Transit System

## Notes to Basic Financial Statements, Continued

For the Year Ended June 30, 2007

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

**San Diego Trolley, Inc.:** San Diego Trolley, Inc. (SDTI) was organized by MTS in August 1980. SDTI was created to operate and maintain the Light Rail Transit (LRT) system pursuant to an operating agreement with MTS. MTS approved the agreement extension in December, 2006. 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. All other revenue items are considered to be measurable and available only when cash is received by MTS.

MTS receives funding primarily from the following revenue sources:

#### **Passenger Revenue**

Passenger fares make up approximately 31 percent of the system's \$240 million operating budget.

#### **Other Operating Revenues**

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

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements, Continued**  
**For the Year Ended June 30, 2007**

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**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, and Congestion Management and Air Quality (CMAQ) funds intended to subsidize the first three years' operations of trolley line extensions.

**Transportation Development Act (TDA)**

TDA provides funding for public transit operators. This state fund is one quarter of a percent of the 7 ¾ percent sales tax assessed in the region. SANDAG is responsible for apportionment of these funds within the San Diego region.

**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.

**Other State Revenue**

CalTrans provides mitigation related funding for the Sorrento Valley and Poway areas.

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 ordinance, which was scheduled to expire in 2008, has been extended to 2048. 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.

SANDAG provides funding from Fastrak tolls to operate the I-15 Inland Breeze services.

The Air Pollution Control District (APCD) provides support for the Sorrento Valley Coaster Connection.

# San Diego Metropolitan Transit System

## Notes to Basic Financial Statements, Continued

For the Year Ended June 30, 2007

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

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

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

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

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

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

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

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

- Interest Rate Risk
- Credit Risk
  - 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 June 30, 2007 are recorded as prepaid items.

# San Diego Metropolitan Transit System

## Notes to Basic Financial Statements, Continued

For the Year Ended June 30, 2007

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**(h) Capital Assets**

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

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

Under the operating agreements between MTS and SDTC and SDTI, SDTC and SDTI are required to pay a license fee to MTS for the use of certain capital assets. Due to SDTC's and SDTI's continued shortage of operating funds sufficient to cover recurring expenditures, the payment of these fees is considered remote, and therefore, these amounts were not recorded in the accompanying basic financial statements.

Buildings, vehicles, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	20 to 40
Vehicles and buses	5 to 30
Equipment and other capital assets	3 to 20
Capital leases	3 to 40

**(i) Construction-in-Progress**

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

**(j) Net Pension Asset**

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

**(k) Compensated Absences**

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



# San Diego Metropolitan Transit System

## Notes to Basic Financial Statements, Continued

For the Year Ended June 30, 2007

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(l) ***Long-Term Obligations***

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

(m) ***Refunding of Debt***

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

(n) ***Use of Estimates***

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

(o) ***Change in Accounting Presentation***

In fiscal year 2007 MTS reviewed its accounting and financial reporting including its measurement focus and basis of accounting. MTS' management research included reviewing the transportation industry, Governmental Accounting Standards Board statement No. 34, *Basic Financial Statement – and Managements. Discussion and Analysis – for State and Local Governments (GASB No. 34)*, and other related accounting and financial reporting government pronouncements.

MTS management has determined that MTS should present its financial statements using the economic resources measurement focus and the accrual basis of accounting. In particular, MTS meets the criteria of GASB No. 34 which states (edited for emphasis):

66. Proprietary fund reporting focuses on the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. The proprietary fund category includes enterprise funds
67. *Enterprise funds* may be used to report any activity for which a fee is charged to external users for goods or services. Activities are *required* to be reported as enterprise funds if any one of the following criteria is met:
  - a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.
  - b. Laws of regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
  - c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such and depreciation or debt service).

In summary, MTS' management has determined that the proprietary fund reporting, the economic resources measurement focus and the accrual basis of accounting results in improved financial reporting for MTS.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements, Continued**  
**For the Year Ended June 30, 2007**

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Accordingly, MTS has changes its accounting and financial reporting to proprietary fund reporting (enterprise funds) using the *economic resources* measurement focus and the *accrual basis* of accounting. This change resulted in the following impact as of July 1, 2006, on MTS beginning balances as follows:

<b>Government-Wide financial Statements</b>	<u>As Previously Reported</u>	<u>As Restated</u>
Net Assets	<u>\$ 1,248,309,449</u>	<u>\$ 1,248,309,449</u>
<b>Fund Financial Statements</b>		
General operations fund balance as of July 1, 2006		\$ 990,547
Fund balances for governmental funds added to general		
Subsidy pass through fund		21,084,584
TransNet fund		19,686,855
Capital projects fund		(37,667,773)
Debt service fund		<u>178,405,950</u>
Total governmental funds ending fund balance as of June		182,500,163
GASB 34 adjustments FY 2006		
Capital assets net of depreciation		154,290,529
Long term debt and bond premium		(180,714,657)
Claims		(8,276,503)
Compensated absences		(637,200)
Prepaid interest		99,690
Unamortized bond issuance cost		<u>565,932</u>
Total GASB 34 adjustments		<u>(34,672,209)</u>
Total governmental activities net assets per FY 2006 government wide financial statements		147,827,954
Proprietary funds added to general fund:		
Taxi Administration		562,700
SD&AE		<u>341,361</u>
General operations fund balance as of July 1, 2006, as restated		<u>\$ 148,732,015</u>

Prior year information at summary level included for comparative purposes is derived from the government-wide financial statements as presented in FY 2006.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements, Continued**  
**For the Year Ended June 30, 2007**

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

A summary of cash and investments at June 30, 2007, was as follows:

Cash and cash equivalents	\$ 46,201,913
Cash and certificates of deposit restricted for capital support	5,582,755
Investments restricted for debt service and capital projects	138,179,947
Total cash and investments	<u>\$ 189,964,615</u>

Cash, cash equivalents, and investments consisted as follows on June 30, 2007:

<u>Investment type</u>	<u>Fair value</u>
Cash and equivalents:	
Demand deposits	\$ 16,272,307
Retention Trust Account	5,582,755
State of California - Local Agency Investment Fund	<u>29,929,606</u>
Total cash and cash equivalents	<u>51,784,668</u>
Investments:	
Money Market	11,182,873
U.S. Treasuries	26,502,756
U.S. Agencies	13,043,959
Bank Investment Contract	<u>87,450,359</u>
Total investments	<u>138,179,947</u>
Total cash, cash equivalents, and investments	<u>\$ 189,964,615</u>

At year end the carrying amount of demand deposits was \$16,272,307 and the bank balance was \$3,030,586, of which the total amount was collateralized or insured with securities held by the pledging financial institutions in MTS' name as discussed below. The variance between bank balance and carrying amount is attributable to the overnight investment described below.

All cash accounts in MTS, including SDTC and SDTI, are pooled and swept nightly to a concentration account. Amounts in excess of \$3,000,000 are in turn swept to overnight investment products managed under the terms of MTS banking services contract. 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

# San Diego Metropolitan Transit System

## Notes to Basic Financial Statements, Continued

For the Year Ended June 30, 2007

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- Bankers' acceptances
- Commercial paper rated A or higher by Standard and Poor's Corporation or Moody's Investor Services, Inc.
- Medium-term corporate notes rated A or higher by Standard and Poor's Corporation or Moody's Investor Services, Inc.
- Negotiable certificates of deposit
- Local Agency Investment Fund (LAIF) established by the State Treasurer
- San Diego County Pooled Money Fund
- Passbook savings or money market demand deposits with an FDIC, SIPC, or SAIF insured financial institution

### Local Agency Investment Funds

MTS' investments with Local Agency Investment Fund (LAIF) at June 30, 2007, 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, 2007, MTS had \$29,929,606 invested in LAIF which had invested 3.466% of the pool investment funds in Structured Notes and Asset-Backed Securities.

### Interest Rate Risk

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

### Credit Risk

MTS' investment policy limits investments in commercial paper and negotiable certificates of deposit to instruments rated A or better by Standard and Poor's or Moody's Investor Services, Inc. MTS' investments are rated by the nationally recognized statistical rating organizations as follows:

# San Diego Metropolitan Transit System

## Notes to Basic Financial Statements, Continued

For the Year Ended June 30, 2007

	<u>Moody's</u>	<u>Standard and Poor's</u>
<b>Investment Pool</b>		
State of California Local Agency Investment Fund	Not rated	Not rated
<b>Money Market Account</b>		
Highmark Money Market Account	AAA	AAA
Bank of New York	Not rated	Not rated
<b>Government Obligations</b>		
FHLMC	AAA	AAA
FNMA	AAA	AAA
<b>US Government Securities</b>		
U.S. Treasury Notes	AAA	AAA
U.S. Treasury Bonds	AAA	AAA
Resolution Funding Corporation Bonds	Not Rated	Not Rated
<b>Investment Contract</b>		
Rabobank Investment Contract	Not Rated	Not Rated

### 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 \$100,000 by the Federal Deposit Insurance Corporation. MTS, however, has not waived the collateralization requirements.

### Summary of Investments to Maturity

Investments held by MTS grouped by maturity date at June 30, 2007, are shown below:

<u>Maturity</u>	
Current to one year	\$ 62,967,541
One to two years	13,043,959
Five to ten years	26,502,756
Ten to twenty years	87,450,359
Total	<u>\$ 189,964,615</u>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements, Continued**  
**For the Year Ended June 30, 2007**

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**(3) Accounts Receivable**

**(a) Accounts and other receivables**

As of June 30, 2007, accounts and other receivables consisted of the following:

Pass sales/farebox revenue receivables	\$	7,735,094
Interest receivable		3,702,664
Pension plan receivable		2,652,092
Advertising receivable		472,535
Miscellaneous trade receivables		408,079
		<u>408,079</u>
Total accounts and other receivables	\$	<u>14,970,464</u>

**(b) Due from other governments**

As of June 30, 2007, amounts due from other governments consisted of the following:

FTA grant funds	\$	30,862,509
STA funds		7,417,404
County of San Diego		2,373,233
US Treasury Dept.- CNG tax rebate		870,965
City of Chula Vista		671,353
State of California		468,568
SANDAG		410,596
TDA funds		386,580
City of San Diego		292,862
National City		75,735
North County Transit District		16,374
		<u>16,374</u>
	\$	<u>43,846,179</u>

**(4) Inventory**

At June 30, 2007, inventory consists of the following repair and maintenance parts for revenue vehicles:

San Diego Transit Corp.	\$	1,988,928
San Diego Trolley, Inc.		4,581,935
		<u>4,581,935</u>
	\$	<u>6,570,863</u>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements, Continued**  
**For the Year Ended June 30, 2007**

**(5) Capital Assets**

MTS converted \$32.7 million in capital assets from CIP to assets in service. Capital asset additions totaling \$25 million were contributed by SANDAG, including \$152 thousand to MTS, \$107 thousand to Other Contracted Services, \$7.5 million to SDTC, and \$17 million to SDTI. In addition, assets with a book value of \$2.8 million were transferred from National City to Other Contracted Services. Finally, in 2007 MTS contracted with a third party to provide an analysis and cost segmentation study of the assets included in the Mission Valley East Project that was capitalized at the end of FY 2006. In connection with the results of that analysis and study, significant reclassifications of assets were recorded in SDTI.

A summary of changes in capital assets is as follows:

	Balance, July 1, 2006	Additions	Deletions	Reclassifications and Transfers	Balance, June 30, 2007
Capital assets, not depreciated					
Land and right-of-way	\$ 189,011,676	\$ 502,300	\$ -	\$ 32,344,415	\$ 221,858,391
Construction-in-progress	119,475,157	15,465,781	(32,721,711)		102,219,226
<b>Total capital assets, not depreciated</b>	<b>308,486,832</b>	<b>15,968,081</b>	<b>(32,721,711)</b>	<b>32,344,415</b>	<b>324,077,617</b>
Capital assets, depreciated:					
Buildings and structures	1,157,198,689	35,321,635	-	(85,105,428)	1,107,414,896
Vehicles	334,844,370	9,549,513	(3,876,511)	47,325,217	387,842,589
Equipment and other	22,660,214	17,394,555	(1,601,358)	5,089,938	43,543,348
Capital lease property	12,091,981	-	-	345,858	12,437,839
<b>Total capital assets, depreciated</b>	<b>1,526,795,254</b>	<b>62,265,702</b>	<b>(5,477,869)</b>	<b>(32,344,415)</b>	<b>1,551,238,672</b>
Less accumulated depreciation for:					
Buildings and structures	(364,405,865)	(44,522,358)	-		(408,928,223)
Vehicles and buses	(160,447,128)	(25,016,693)	929,283		(184,534,539)
Equipment and other	(15,283,127)	(4,486,452)	1,430,150	23,057	(18,316,371)
Capital lease property	(6,612,801)	(447,046)	-	(23,057)	(7,082,904)
<b>Total accumulated depreciation</b>	<b>(546,748,921)</b>	<b>(74,472,549)</b>	<b>2,359,433</b>	<b>-</b>	<b>(618,862,037)</b>
<b>Total capital assets, depreciated, net</b>	<b>980,046,333</b>	<b>(12,206,846)</b>	<b>(3,118,436)</b>	<b>(32,344,415)</b>	<b>932,376,636</b>
<b>Total capital assets</b>	<b>\$ 1,288,533,165</b>	<b>\$ 3,761,235</b>	<b>\$ (35,840,147)</b>	<b>\$ -</b>	<b>\$ 1,256,454,253</b>

Depreciation expense for capital assets for the year ended June 30, 2007 is comprised of the following:

General operations	\$ 1,902,698
Other contracted services	5,349,729
San Diego Transit Corporation	9,526,805
San Diego Trolley, Inc.	57,693,317
<b>Total</b>	<b>\$ 74,472,549</b>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements, Continued**  
**For the Year Ended June 30, 2007**

**(6) Construction Commitments**

Construction-in-progress is comprised of the following at June 30, 2007:

	<b>Expended through June 30, 2007</b>	<b>Contractually Committed</b>
SYITC	\$ 27,810,035	\$ 1,829,914
12th & Market Station Retrofit	8,842,395	694,928
LRV Body Rehab	998,102	2,504
Orange-Blue Line Connection	850,824	-
12th Avenue Corridor Impr	706,982	282,907
Other projects	282,750	11,380,866
Total MTS managed projects	<u>39,491,088</u>	<u>14,191,120</u>
Automated Fare Collection	37,890,069	-
I-15 Bus Rapid Transit	11,315,478	-
SBMF Expansion	3,553,137	-
IAD Land Expansion	3,465,985	-
East County Bus Maint Facility	3,267,411	-
Nobel Dr Coaster Station Impr	1,078,709	-
Gaslamp Station Impr	537,775	-
Other projects	1,619,573	-
Total SANDAG managed projects	<u>62,728,138</u>	<u>-</u>
Total construction-in-progress	<u>\$ 102,219,226</u>	<u>\$ 14,191,120</u>

**(7) Net Pension Asset**

In August 2004, MTS issued the 2004 Taxable Pension Obligation Bonds to fund 85% of the SDTC's unfunded accrued actuarial liability (UAAL) and the normal cost reimbursement for the fiscal year 2007. 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 current year contribution and \$69,050,638 was funded for prior year unfunded accrued actuarial liability.

As of June 30, 2007, the Net Pension Asset amounted to \$66,180,638. Current year amortization was \$1,455,000.

**(8) Due to other governments**

At June 30, 2007, amounts due to other governments consist of the following:

SANDAG - TransNet funds	\$ 1,087,000
SANDAG - STA funds	
for construction projects in process	10,523,040
SANDAG - in repayment of	
advance for construction projects	<u>8,554,772</u>
	<u>\$ 20,164,812</u>



**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements, Continued**  
**For the Year Ended June 30, 2007**

**(9) Unearned revenue**

At June 30, 2007, unearned revenue consists of the following:

Land management deposits	\$ 123,078
Lease payments received in advance	94,159
STIP funds for retirement of project bonds	<u>11,166,889</u>
	<u>\$ 11,384,126</u>

**(10) Long-Term Debt**

**(a) Summary**

The following is a summary of changes in long-term obligations for the year ended June 30, 2007:

	<u>Balance at July 1, 2006</u>	<u>Additions and net increases</u>	<u>Reductions and net decreases</u>	<u>Balance at June 30, 2007</u>	<u>Amounts due within one year</u>	<u>Amounts due in more than one year</u>
MTS:						
Capital lease obligations	\$ 8,836,023	\$ -	\$ (504,986)	\$ 8,331,038	\$ 525,705	\$ 7,805,333
Finance obligation	171,445,316	-	(20,997,496)	150,447,820	15,297,224	135,150,596
Deferred amounts for issuance premium	433,318	-	(89,093)	344,225	57,120	287,105
Compensated absences payable	637,200	240,945	(145,917)	732,228	344,147	388,081
Accrued damage, injury, and employee claims	<u>8,276,503</u>	<u>140,000</u>	<u>(4,448,988)</u>	<u>3,967,515</u>	<u>272,000</u>	<u>3,695,515</u>
Total MTS	<u>189,628,360</u>	<u>380,945</u>	<u>(26,186,479)</u>	<u>163,822,826</u>	<u>16,496,196</u>	<u>147,326,629</u>
San Diego Transit Corporation:						
Pension Obligation Bonds	76,075,000	-	(1,455,000)	74,620,000	1,500,000	73,120,000
Compensated absences payable	9,007,823	3,687,882	(4,240,790)	8,454,915	4,067,431	4,387,484
Accrued damage, injury, and employee claims	<u>14,907,000</u>	<u>164,259</u>	<u>(4,202,259)</u>	<u>10,869,000</u>	<u>2,066,108</u>	<u>8,802,892</u>
Total SDTC	<u>99,989,823</u>	<u>3,852,141</u>	<u>(9,898,049)</u>	<u>93,943,915</u>	<u>7,633,539</u>	<u>86,310,376</u>
San Diego Trolley, Inc.:						
Compensated absences payable	2,361,798	3,039,022	(2,836,502)	2,564,318	2,564,318	-
Accrued damage, injury, and employee claims	<u>3,957,000</u>	<u>908,641</u>	<u>(890,641)</u>	<u>3,975,000</u>	<u>744,670</u>	<u>3,230,330</u>
Total SDTI	<u>6,318,798</u>	<u>3,947,663</u>	<u>(3,727,143)</u>	<u>6,539,318</u>	<u>3,308,988</u>	<u>3,230,330</u>
Total	<u>\$ 295,936,981</u>	<u>\$ 8,180,749</u>	<u>\$ (39,811,671)</u>	<u>\$ 264,306,059</u>	<u>\$ 27,438,722</u>	<u>\$ 236,867,335</u>

**Reconciliation to Statement of Net Assets:**

Due within one year		
Bond premium	\$ 57,120	
Compensated absences payable	6,975,897	
Accrued damage, injury, and employee claims	3,082,778	
Long-term debt	12,445,131	
Long-term debt payable from restricted assets	<u>4,877,796</u>	
	<u>\$ 27,438,722</u>	
Noncurrent liabilities:		
Accrued damage, injury and employee claims payable from restricted assets		\$ 1,225,201
Long-term debt payable from restricted assets		112,794,278
Bond premium		287,105
Compensated absences payable		4,775,563
Accrued damage, injury and employee claims		14,503,536
Long-term debt		<u>103,281,652</u>
		<u>\$ 236,867,335</u>

# San Diego Metropolitan Transit System

## Notes to Basic Financial Statements, Continued

For the Year Ended June 30, 2007

### (b) 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 are consisted of the following:

Series A Bonds of \$38,690,000 are fixed rate bonds that mature in annual installments between 2006 and 2014 and bear an interest rate from 2.58% to 5.15% increasing progressively over the maturities. Interest is due and payable semi-annually on June 1 and December 1. Principal is due and payable on December 1.

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

At June 30, 2007, the outstanding balance of the Pension Obligation Bonds is \$74,620,000.

Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,500,000	\$ 3,366,020	\$ 4,866,020
2009	1,555,000	3,313,432	4,868,432
2010	1,615,000	3,254,351	4,869,351
2011	1,685,000	3,188,891	4,873,891
2012	1,755,000		
2013-2017	10,055,000	14,632,537	24,687,537
2018-2022	12,825,000	12,004,384	24,829,384
2023-2027	16,430,000	8,542,122	24,972,122
2028-2032	20,800,000	4,608,933	25,408,933
2033-2034	6,400,000	584,536	6,984,536
	<u>\$ 74,620,000</u>	<u>\$ 53,495,206</u>	<u>\$ 126,360,206</u>

### (c) Capital Leases

The County of San Diego (the County) has a master lease agreement with the MTS Joint Powers Agency (Agency) for the lease of the MTS Tower building. MTS entered into a sublease agreement with the County for a portion (27.61%) of the MTS Tower building. The sublease is classified as a capital lease because 27.61% of the title transfers to MTS at the end of the County's master lease. The master lease terminates on November 1, 2086; however, the County has the option to terminate the agreement on November 1, 2041 and each tenth anniversary thereafter

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

The assets acquired through capital leases are as follows:

Building – MTS Tower	\$	12,091,981
Toshiba telecommunications equipment		345,858
Less accumulated depreciation		(7,082,904)
Total	<u>\$</u>	<u>5,354,935</u>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements, Continued**  
**For the Year Ended June 30, 2007**

The following is a summary of future minimum payments under capital leases as of June 30, 2007:

	<u>Tower lease payments</u>	<u>Toshiba equipment lease payments</u>	<u>Total lease payments</u>
Year ending June 30:			
2008	\$ 847,750	\$ 76,820	\$ 924,570
2009	847,004	76,820	923,824
2010	843,070	76,820	919,890
2011	864,123	44,812	908,934
2012	833,027	-	833,027
2013-2017	4,218,983	-	4,218,983
2018-2020	2,537,619	-	2,537,619
Total minimum lease payments	<u>10,991,576</u>	<u>275,271</u>	<u>11,266,847</u>
Less amount representing interest	<u>(2,915,652)</u>	<u>(20,157)</u>	<u>(2,935,809)</u>
Present value of minimum lease payments	<u>\$ 8,075,924</u>	<u>\$ 255,114</u>	<u>\$ 8,331,038</u>

**(d) Finance Obligations**

The following is a summary of changes in finance obligations for the year ended June 30, 2007:

	<u>Balance at July 1, 2006</u>	<u>Additions and net increases</u>	<u>Reductions and net decreases</u>	<u>Balance at June 30, 2007</u>	<u>Amounts due within one year</u>	<u>Amounts due in more than one year</u>
1990 LRV Sale/Leaseback	\$ 13,174,798	\$ -	\$ (9,351,410)	\$ 3,823,388	\$ 3,823,388	\$ -
1995 LRV Lease/Leaseback	124,775,518	-	(1,076,086)	123,699,432	1,158,836	122,540,596
2002 San Diego Regional Transit Management System Project	7,430,000	-	(3,660,000)	3,770,000	3,770,000	-
2003 Regional Fare Collection Project	26,065,000	-	(6,910,000)	19,155,000	6,545,000	12,610,000
Pension Obligation Bonds	76,075,000	-	(1,455,000)	74,620,000	1,500,000	73,120,000
Total Finance Obligations	<u>\$ 247,520,316</u>	<u>\$ -</u>	<u>\$ (22,452,496)</u>	<u>\$ 225,067,820</u>	<u>\$ 16,797,224</u>	<u>\$ 208,270,596</u>

**1990 LRV Sale/Leaseback** – In fiscal year 1990, MTS entered into an agreement to sell 41 light rail vehicles (LRVs) and simultaneously entered into a lease agreement with the purchaser to lease them back. MTS received proceeds of approximately \$52.3 million, of which it used approximately \$46.4 million to prepay future lease payments. This prepayment amount covered lease payments into 2006. MTS invested \$3,680,449 of the proceeds into government zero-coupon bonds. These bonds mature at values sufficient to cover all remaining lease payments due under the lease agreement as well as amounts necessary to exercise the repurchase options. On June 30, 1990, MTS exercised its option to repurchase the vehicles. As of June 30, 2007, the remaining future obligations total \$3,823,388.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2008	\$ 3,823,388	\$ -	\$ 3,823,388
	<u>\$ 3,823,388</u>	<u>\$ -</u>	<u>\$ 3,823,388</u>

# San Diego Metropolitan Transit System

## Notes to Basic Financial Statements, Continued

For the Year Ended June 30, 2007

**1995LRV Lease/Leaseback** – In fiscal year 1996, MTS entered into a master lease to lease 52 light rail vehicles to an investor and then simultaneously entered into a sublease agreement to lease them back. MTS received prepayments of the master lease from the investor of approximately \$102.7 million, of which it used approximately \$90.7 million to place two investments which will be used to make the interest and principal payments on the finance obligation. MTS placed \$78.8 million in a fixed rate deposit and invested \$11.9 million in government zero-coupon bonds. The interest earned on the deposit, together with the principal amount of the deposit and the maturities of the zero-coupon bonds are sufficient to cover the amounts due under the finance obligation. As of June 30, 2007, the remaining future obligations total \$123,699,431.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2008	\$ 1,158,836	\$ 6,432,956	\$ 7,591,792
2009	1,247,951	6,340,434	7,588,385
2010	1,343,918	6,240,797	7,584,715
2011	1,447,266	6,133,498	7,580,764
2012	1,558,561	6,017,948	7,576,509
2013-2017	51,265,970	28,143,664	79,409,634
2018-2022	32,001,464	19,968,199	51,969,663
2023-2026	33,675,465	4,223,446	37,898,911
	<u>\$ 123,699,431</u>	<u>\$ 83,500,942</u>	<u>\$ 207,200,373</u>

For the above lease transactions, MTS is obligated to insure and maintain the equipment. The lease agreements also provide for MTS' right to continued use and control of the equipment. For the 1990 LRV sale/leaseback and the 1995 LRV lease/leaseback, MTS also has agreed to indemnify the lessor from any taxes imposed by United States taxing authorities.

The LRVs acquired under the various finance obligations have been transferred to and are recorded by SDTI.

**2002 San Diego Regional Transit Management System Project** – In fiscal year 2003, MTS issued \$17,485,000 of Certificates of Participation (COP) for governmental activities through the California Transit Finance Corporation for the purpose of financing a regional transit radio communications project. The COPs pay interest at rates ranging from 2 to 3 % and mature on December 1, 2007. As of June 30, 2007, the outstanding balance is \$3,770,000.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2008	\$ 3,770,000	\$ 56,550	\$ 3,826,550
	<u>\$ 3,770,000</u>	<u>\$ 56,550</u>	<u>\$ 3,826,550</u>

**2003 Regional Fare Collection Project** - In fiscal year 2004, MTS issued \$32,850,000 of Certificates of Participation (COP) for governmental activities through the California Transit Finance Corporation for the purpose of financing a regional fare collection project. The COPs pay interest at rates ranging from 2 to 3.3 % and mature on November 1, 2009. As of June 30, 2007, the outstanding balance is \$19,155,000.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2008	\$ 6,545,000	\$ 477,813	\$ 7,022,813
2009	6,710,000	295,350	7,005,350
2010	5,900,000	97,350	5,997,350
	<u>\$ 19,155,000</u>	<u>\$ 870,513</u>	<u>\$ 20,025,513</u>

# San Diego Metropolitan Transit System

## Notes to Basic Financial Statements, Continued

For the Year Ended June 30, 2007

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### (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:				
2004 – 2005	\$ 20,739,111	\$ 7,090,185	\$ (4,558,146)	\$ 23,271,150
2005 – 2006	23,271,150	6,692,772	(2,823,419)	27,140,503
2006 – 2007	27,140,503	(5,154,197)	(3,174,791)	18,811,515

Following is summary of accrued damage injury, and employee claims for fiscal year 2006-2007:

<u>Accrued damage, injury and and employee claims</u>	<u>Total</u>
Current portion	\$ 3,082,777
Non-current portion	15,728,737
Total	<u>\$ 18,811,515</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 \$27,140,503 at June 30, 2007.

At June 30, 2007, The Board 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 Year Ended June 30, 2007

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### (12) Contingencies

MTS, SDTC, and SDTI have been named in certain legal actions pending at June 30, 2007. While the outcome of these lawsuits is not presently determinable, in the opinion of management of MTS, SDTC, and SDTI, based in part on the advice of counsel, the resolution of these matters is not expected to have a material adverse effect on the financial position or results of operations of MTS, SDTC, or SDTI or is adequately covered by insurance. In addition, MTS has been named in a number of claims related to various construction projects. While the outcome of these claims is not presently determinable, MTS has recorded an estimated liability to reserve for a potential loss of \$4,000,000. MTS has deposited \$1,225,201 in an escrow account held by the San Diego County Superior Court as a deposit for probable compensation related to a portion of the total liability.

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. The management of MTS believes that such disallowances, if any, will not be significant.

Federal arbitrage regulations require analysis of bonds more than five years old. In the current year, there are no bonds in excess of five years. Management has determined that MTS' liability related to arbitrage, if any, is not material and has not recorded a liability in the current year.

During 1990 and 1995, MTS entered into sale/leaseback and lease/leaseback arrangements related to the acquisition of 52 trolley cars. This agreement 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. The amount of repayment is essentially the portion of the proceeds relating to the tax benefits lost by the purchaser/lessor. Subsequent changes in Internal Revenue Code may cause an amount to be repaid to the purchaser/lessor. No repayment has been requested to date, and the amount of any future request is not estimable at this time.

### (13) Post-Employment Health Care Benefits

In 1992, pursuant to requirements of the state retirement system in which MTS participates, MTS adopted a policy to provide post-retirement health care benefits to all retired employees through the California Public Employees Retirement System. Contributions range from \$130 to \$250 monthly per employee, depending upon the number of dependents insured, and increase at an annual rate of 5% of the monthly contribution for active employees. The expenditure is recorded when paid. Total payments for the year ended June 30, 2007 were \$22,824. There are eight retirees currently receiving post-employment health care benefits. SDTC provides post-retirement health care benefits to all retired employees through a self-insured program. Total payments for the year ended June 30, 2007 were \$380,098 for 48 retirees. SDTI, through a separate agreement with California Public Employees Retirement System, provides post-retirement health care benefits to all retired employees. Total payments for the year ended June 30, 2007 were \$39,949 for 17 retirees.

In fiscal year 2008 MTS, SDTC and SDTI will implement the provisions of GASB statement 45, which provides for disclosure of the liability associated with post-employment benefits as determined by independent actuarial valuation.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements, Continued**  
**For the Year Ended June 30, 2007**

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**(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 2007, 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.

**Annual Pension Cost**

For fiscal year 2007, MTS' and SDTI's annual required employer contributions were \$1,546,438 and \$2,230,813, respectively. The required contribution for fiscal year 2007 was determined as part of the June 30, 2005, 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

# San Diego Metropolitan Transit System

## Notes to Basic Financial Statements, Continued

For the Year Ended June 30, 2007

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over variable periods depending on the events precipitating the gain or loss. The average remaining amortization period at June 30, 2006, the most recent valuation date, was 17 years for MTS and 26 years for SDTI.

### Trend information for MTS (in 000s):

	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:			
2005	\$ 653	\$ 653	100%
2006	1,267	1,267	100%
2007	1,546	1,546	100%

### Trend information for SDTI (in 000s):

	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:			
2005	\$ 2,015	\$ 2,015	100%
2006	2,314	2,314	100%
2007	2,231	2,231	100%

## (b) SDTC

### Plan Description

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

### Funding Status and Progress

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

According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from date of eligibility until retirement. The significant actuarial assumptions used to compute the actuarially determined contribution requirements included (a) 8.00% investment rate of return, (b) projected salary increase of 3.5% to 11% depending on age, service, and type of employment; (d) 3.5% inflation adjustment; and (e) cost of living adjustments up to 2% annually for certain



# San Diego Metropolitan Transit System

## Notes to Basic Financial Statements, Continued

For the Year Ended June 30, 2007

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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 January 1, 2006, the most recent valuation date, was 30 years.

### Annual Pension Cost

For fiscal year ended June 30, 2007, the annual pension cost of \$4,415,845 for the pension plan was equal to SDTC's required and actual contributions. The required contribution was determined as part of the January 1, 2005 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	Actual Contribution	Percentage of APC Contributed
	(ARC)		
2005	\$ 7,232	\$ 76,282	100%
2006	3,826	3,826	100%
2007	4,416	4,416	100%

### (15) Other Required Individual Fund Disclosures

SDTC and SDTI had unrestricted net deficits of \$(23,419,342) and \$(6,876,265) respectively, at June 30, 2007. 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

In October, 2007, San Diego experienced a series of wildfires that destroyed more than 300,000 acres in the Eastern and Northern portions of the county. Some property owned by MTS and its operating entities sustained moderate damage during this event, the estimated loss from which is estimated at less than \$100,000.

Until FY 2007, operations of the San Diego and Eastern Arizona Railroad have been managed by freight operators pursuant to contract agreements with them. Recently, upon its assumption of additional responsibility related to SD&AE operations, MTS became aware that some corporate income tax returns with incomplete information have been filed with federal and state taxing authorities. Management is currently consulting with tax advisors to determine the appropriate method for establishing its exemption from filing or payment responsibilities under federal and state tax law. Management believes that there will be no liability imposed on SD&AE or MTS related to the tax status or prior returns filed on behalf of SD&AE.

In August, 2007 MTS learned that FY 2008 subsidy payments funded by state sales tax receipts will be lower than budgeted. In response to the expected revenue shortfall, MTS management has evaluated its operations and will institute a program of small graduated fare increases, selected service reductions in some routes and expenditure reductions.

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

# San Diego Metropolitan Transit System

## Schedule of Funding Progress of Defined Benefit Pension Plan

For the Year Ended June 30, 2007

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### 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)

<b>Valuation date</b>	<b>Actuarial value of assets</b>	<b>Entry age normal accrued liability</b>	<b>Unfunded liability</b>	<b>Funded status</b>	<b>Annual covered payroll</b>	<b>UAAL as a % of payroll</b>
06/30/04	\$ 35,905	\$ 41,695	\$ (5,790)	86.1%	\$ 17,749	32.6%
06/30/05	41,415	48,698	(7,283)	85.0%	19,917	36.6%
06/30/06	47,412	53,490	(6,078)	88.6%	21,024	28.9%

#### SDTC (in 000s)

<b>Valuation date</b>	<b>Actuarial value of assets</b>	<b>Entry age normal accrued liability</b>	<b>Unfunded liability</b>	<b>Funded status</b>	<b>Annual covered payroll</b>	<b>UAAL as a % of payroll</b>
01/01/04	\$ 78,667	\$ 132,307	\$ (53,640)	59.5%	\$ 36,237	148.0%
01/01/05	152,877	162,879	(10,002)	93.9%	34,859	28.7%
01/01/06	153,083	168,877	(15,794)	90.6%	34,959	45.2%

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.

## **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 Operations:

        General Fund

        Taxicab Administration

        San Diego & Arizona Eastern Railway

    Contract Services

    San Diego Transit Corporation

    San Diego Trolley, Inc.

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# San Diego Metropolitan Transit System

## Supplementary Information

Year Ended June 30, 2007

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### Description of Funds:

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

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

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

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

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

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

### Budgetary Information:

Annual appropriated budgets are adopted for all fund types. All annual appropriations lapse at year-end. Budgets are prepared on the modified accrual basis of accounting consistent with GAAP. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances lapse at year-end and may be re-appropriated in the following year.

**San Diego Metropolitan Transit System  
Combining Schedule of Net Assets  
For the Year Ended June 30, 2007**

	Assets					Total
	General Operations	Contracted Services	SDTC	SDTI		
Current assets:	\$ 47,022,894	\$ -	\$ (649,899)	(171,082)	\$ 46,201,913	
Cash and cash equivalents	4,877,796	-	-	-	4,877,796	
Investments restricted for debt service payable within one year	3,938,278	2,204,172	6,518,785	2,309,229	14,970,464	
Accounts and other receivables	42,777,046	1,069,133	-	-	43,846,179	
Due from other governments	923,256.98	2,193,918	637,757.84	(3,754,932.43)	-	
Internal balances	-	-	1,988,928	4,581,935	6,570,863	
Materials and supplies inventory	3,636,611	-	45,964	11,627	3,694,203	
Prepaid expenses and other current assets	-	-	-	-	-	
Total current assets	103,175,882	5,467,223	8,541,536	2,976,777	120,161,418	
Noncurrent assets:						
Cash and certificates of deposit restricted for capital support	5,582,755	-	-	-	5,582,755	
Investments restricted for debt service and capital projects	133,302,151	-	-	-	133,302,151	
Unamortized bond issuance cost	396,224	-	1,067,641	-	1,463,865	
Capital assets (net of accumulated depreciation)	136,304,252	35,210,305	81,804,323	1,003,135,373	1,256,454,253	
Net pension asset	-	-	66,180,638	-	66,180,638	
Total noncurrent assets	275,585,383	35,210,305	149,052,602	1,003,135,373	1,462,983,662	
Total assets	378,761,264	40,677,528	157,594,138	1,006,112,150	1,583,145,080	



**San Diego Metropolitan Transit System  
Combining Schedule of Net Assets, Continued  
For the Year Ended June 30, 2007**

		<b>Liabilities</b>				
		General Operations	Contract Services	SDTC	SDTI	Total
<b>Current liabilities:</b>						
Accounts payable		3,166,748	5,071,864	1,703,457	747,513	10,689,581
Due to other governments		20,164,812	-	-	-	20,164,812
Unearned revenue		11,384,126	-	-	-	11,384,126
Accrued expenses		3,617,221	-	3,561,785	2,566,211	9,745,217
Retentions payable		352,965	-	-	-	352,965
Due within one year:		-	-	-	-	-
Bond premium		57,120	-	-	-	57,120
Compensated absences payable		344,148	-	4,067,431	2,564,318	6,975,897
Accrued damage, injury, and employee claims		272,000	-	2,066,108	744,670	3,082,778
Long-term debt, due within one year		10,945,131	-	1,500,000	-	12,445,131
Long-term debt payable from restricted assets		4,877,796	-	-	-	4,877,796
Total current liabilities		<u>55,182,068</u>	<u>5,071,864</u>	<u>12,898,781</u>	<u>6,622,712</u>	<u>79,775,425</u>
<b>Noncurrent liabilities:</b>						
Retentions payable from restricted assets		5,582,755	-	-	-	5,582,755
Accrued damage, injury, and employee claims payable from restricted assets		1,225,201	-	-	-	1,225,201
Long-term debt payable from restricted assets		112,794,278	-	-	-	112,794,278
Bond Premium		287,105	-	-	-	287,105
Compensated absences payable, due in more than one year		388,080	-	4,387,483	-	4,775,563
Accrued damage, injury, and employee claims, due in more than one year		-	-	-	-	-
Long-term debt, due in more than one year		2,470,314	-	8,802,892	3,230,330	14,503,536
Total noncurrent liabilities		<u>30,161,652</u>	<u>-</u>	<u>73,120,000</u>	<u>-</u>	<u>103,281,652</u>
Total liabilities		<u>152,909,385</u>	<u>-</u>	<u>86,310,375</u>	<u>3,230,330</u>	<u>242,450,091</u>
Total liabilities		<u>208,091,453</u>	<u>5,071,864</u>	<u>99,209,157</u>	<u>9,853,042</u>	<u>322,225,515</u>
<b>Net Assets</b>						
Invested in capital assets, net of related debt		(22,474,606)	35,210,305	81,804,323	1,003,135,373	1,097,675,395
Unrestricted		193,144,417	395,359	(23,419,342)	(6,876,265)	163,244,169
Total net assets		<u>\$ 170,669,811</u>	<u>\$ 35,605,664</u>	<u>\$ 58,384,981</u>	<u>\$ 996,259,108</u>	<u>\$ 1,260,919,565</u>

(1) General fund net assets invested in capital assets net of related debt includes the \$127.5 million liability for the sale/lease/leaseback of LRV assets. This liability is recorded in the MTS general fund while the related assets are recorded in SDTI capital assets.

**San Diego Metropolitan Transit System**  
**Combining Schedule of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2007**

	General Operations	Contract Services	SDTC	SDTI	Eliminations	Total
Operating revenues:						
Passenger revenue	\$ -	\$ 18,935,332	\$ 22,297,629	\$ 27,401,733	\$ -	\$ 68,634,694
Advertising	10,652	-	990,945	-	-	1,001,597
Charter	910	-	44,089	-	-	44,999
Misc operating revenue	2,867,561	65,583	117,526	652,373	-	3,703,043
Total operating revenues	2,879,123	19,000,914	23,450,189	28,054,106	-	73,384,332
Operating expenses:						
Personnel costs	10,548,115	631,233	48,823,332	29,748,081	-	89,750,761
Outside services	2,842,392	49,065,940	2,151,965	8,569,316	-	62,629,613
Transit operations support	87,303,781	-	-	-	(81,865,729)	5,438,052
Overhead allocation	-	-	-	-	-	-
Materials and supplies	5,535	-	4,420,613	2,840,188	-	7,266,337
Energy costs	318,508	6,711,182	6,552,455	9,185,075	-	22,767,220
Risk management	635,928	-	2,510,118	2,468,842	-	5,614,889
Miscellaneous operating expenses	(6,869,616)	878,377	3,795,477	3,140,058	-	944,296
Amortization of net pension asset	-	-	1,455,000	-	-	1,455,000
Depreciation	1,902,698	5,349,729	9,526,805	57,693,317	-	74,472,549
Total operating expenses	96,687,340	62,636,462	79,235,765	113,644,877	(81,865,729)	270,338,715
Operating income (loss)	(93,808,217)	(43,635,547)	(55,785,576)	(85,590,771)	81,865,729	(196,954,383)

**San Diego Metropolitan Transit System**  
**Combining Schedule of Revenues, Expenses and Changes in Net Assets, Continued**  
**For the Year Ended June 30, 2007**

	General Operations	Contract Services	SDTC	SDTI	Eliminations	Total
Public support and nonoperating revenues:						
Federal revenue	48,950,712	200,000	15,000,000	15,325,430	(30,525,430)	48,950,712
Transportation Development Act (TDA) funds	85,625,948	33,104,003	18,334,123	6,278,884	(58,401,704)	84,941,254
State Transit Assistance (STA) funds	21,458,830	-	11,026,097	-	(11,026,097)	21,458,830
State revenue - other	9,926,694	3,196,284	-	-	(2,193,426)	10,929,552
TransNet funds	16,223,926	614,723	9,623,193	6,000,000	(16,237,916)	16,223,926
Other local subsidies	1,729,258	1,163,308	278,000	-	(1,342,498)	1,828,068
Investment earnings	13,286,485	-	62,595	-	-	13,349,080
Interest expense	(10,867,600)	-	(3,362,212)	-	-	(14,229,812)
Loss on disposal of assets	-	(1,039,530)	(37,089)	(183,494)	-	(1,260,113)
Other expenses	(169,708)	-	(185,820)	-	-	(355,528)
Total public support and nonoperating revenues	186,164,546	37,238,788	50,738,886	27,420,820	(119,727,072)	181,835,968
Income (loss) before contributed capital	92,356,328	(6,396,759)	(5,046,691)	(58,169,952)	(37,861,342)	(15,118,416)
Transfers	(37,861,342)	-	-	-	37,861,342	-
Contributions	(32,557,190)	7,386,740	22,780,779	30,118,202	-	27,728,531
Change in net assets	21,937,796	989,981	17,734,088	(28,051,750)	-	12,610,116
Net assets, beginning of year	148,732,015	34,615,683	40,650,893	1,024,310,858	-	1,248,309,449
Net assets, end of year	\$ 170,669,811	\$ 35,605,664	\$ 58,384,981	\$ 996,259,108	\$ -	\$ 1,260,919,565

**San Diego Metropolitan Transit System**  
**Combining Statement of Cash Flows**  
**For the Year Ended June 30, 2007**

	<b>MTS</b>	<b>Other Contracted Services</b>	<b>SDTC</b>	<b>SDTI</b>	<b>Totals</b>
<b>Cash flows from operating activities:</b>					
Receipts from customers and users	2,641,945	18,348,848	17,865,399	25,755,915	64,612,107
Payments to suppliers	(1,086,455)	(56,323,697)	(19,003,986)	(26,289,506)	(102,703,644)
Payments to employees	(10,377,801)	(631,233)	(53,285,103)	(29,545,561)	(93,839,698)
Payments for damage and injury	(901)	-	(25,433)	(29,234)	(55,568)
Net cash provided (used) by operating activities	(8,823,212)	(38,606,082)	(54,449,123)	(30,108,386)	(131,986,803)
<b>Cash flows from noncapital financing activities:</b>					
Public support funds received	86,452,164	38,596,375	54,261,413	27,599,494	206,909,446
Net cash provided (used) by noncapital financing activities	86,452,164	38,596,375	54,261,413	27,599,494	206,909,446
<b>Cash flows from capital and related financing activities:</b>					
Debt service costs	(21,646,558)	-	(4,950,667)	-	(26,597,225)
Net cash provided (used) by capital financing activities	(21,646,558)	-	(4,950,667)	-	(26,597,225)
<b>Cash flows from investing activities:</b>					
Interest received on investments	675,054	-	62,595	-	737,649
Investments liquidated	17,756,235	-	-	-	17,756,235
Investments purchased	(9,325,000)	-	-	-	(9,325,000)
Property acquisition	(19,348,784)	-	-	(138,570)	(19,487,354)
Property disposal	-	9,707	-	2,297	12,004
Net cash provided (used) by investing activities	(10,242,495)	9,707	62,595	(136,273)	(10,306,466)
Net increase (decrease) in cash and cash equivalents	45,739,899	-	(5,075,782)	(2,645,165)	38,018,952
<b>Cash and cash equivalents, beginning of year</b>	1,282,995	-	4,425,883	2,474,083	8,182,961
<b>Cash and cash equivalents, end of year</b>	47,022,894	-	(649,899)	(171,082)	46,201,913

**San Diego Metropolitan Transit System**  
**Combining Statement of Cash Flows, Continued**  
**For the Year Ended June 30, 2007**

	<u>MTS</u>	<u>Other Contracted Services</u>	<u>SDTC</u>	<u>SDTI</u>	<u>Totals</u>
	\$ (11,942,488)	\$ (43,635,548)	\$ (55,785,576)	\$ (85,590,771)	\$ (196,954,383)
<b>Operating income (loss)</b>	\$ 1,902,698	5,349,729	10,981,805	57,693,317	75,927,549
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization					
(Increase) decrease in:					
Accounts and other receivables	(237,178)	(652,065)	(5,156,653)	(2,298,191)	(8,344,087)
Materials and supplies inventory	-	-	163,702	95,676	259,378
Prepaid and other current assets	(1,090,651)	-	3,650	(8,970)	(1,095,971)
Increase (decrease) in:					
Accounts payable	(934,835)	331,802	(1,026,445)	(179,985)	(1,809,463)
Accrued expenses	3,314,214	-	961,302	(21,982)	4,253,534
Compensated absences payable	95,028	-	(552,908)	202,520	(255,360)
Accrued damage, injury and employee claims	70,000	-	(4,038,000)	-	(3,968,000)
Total adjustments	3,119,276	5,029,466	1,336,453	55,482,385	64,967,580
Net cash provided (used) by operating activities	\$ (8,823,212)	\$ (38,606,082)	\$ (54,449,123)	\$ (30,108,386)	\$ (131,986,803)

Supplemental noncash disclosures:  
During the year SANDAG contributed approximately \$25,000,000 in capital assets.  
In addition, National City contributed assets with a net book value of \$2,900,000

**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, 2007**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget – Positive (Negative)
	Original	Final	Actuals per Statement			
			Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Passenger revenue	\$ 67,059,200	\$ 68,565,969	\$ 68,634,694	\$ -	\$ 68,634,694	\$ 68,725
Advertising	850,000	900,000	1,001,597	-	1,001,597	101,597
Charter	30,000	30,000	44,999	-	44,999	14,999
Misc operating revenue	2,407,008	2,883,842	3,703,043	-	3,703,043	819,201
Total operating revenues	70,346,208	72,379,811	73,384,332	-	73,384,332	1,004,521
Operating expenses:						
Personnel costs	93,313,114	95,438,322	89,750,761	6,060,336	95,811,097	(372,775)
Outside services	62,010,564	63,368,838	62,629,613	-	62,629,613	739,225
Transit operations support	7,487,101	6,360,896	5,438,052	-	5,438,052	922,844
Materials and supplies	7,755,917	7,630,417	7,266,337	(74,938)	7,191,399	439,018
Energy	26,514,849	25,083,106	22,767,220	-	22,767,220	2,315,886
Risk management	5,256,225	5,437,431	5,614,889	(419,000)	5,195,889	241,542
Miscellaneous operating expenses	2,034,219	1,266,901	944,296	-	944,296	322,605
Amortization of net pension asset	-	-	1,455,000	(1,455,000)	-	-
Depreciation	-	-	74,472,549	(74,472,549)	-	-
Total operating expenses	204,371,989	204,585,911	270,338,715	(70,361,150)	199,977,565	4,608,346
Operating income (loss)	(134,025,781)	(132,206,100)	(196,954,383)	70,361,150	(126,593,233)	5,612,867

**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, 2007**

	Budgeted Amounts		Actuals per Statement of Revenues, Expenditures, and Changes in Net		Actual Amounts		Variance with Final Budget – Positive (Negative)
	Original	Final	Changes in Net	Budget Basis Adjustments	Actuals on a Budget Basis		
Public support and nonoperating revenues:							
Federal revenue	30,849,205	31,049,205	48,950,712	(13,426,529)	35,524,183	4,474,978	
Transportation Development Act (TDA) funds	79,708,903	79,709,201	84,941,254	(5,386,895)	79,554,360	(154,841)	
State Transit Assistance (STA) funds	11,026,100	11,026,100	21,458,830	(10,399,396)	11,059,434	33,334	
State revenue - other	8,160,071	9,720,218	10,929,552	(656,564)	10,272,988	552,770	
TransNet funds	17,349,649	17,349,649	16,223,926	13,990	16,237,916	(1,111,733)	
Other local subsidiaries	1,975,918	1,405,918	1,828,068	(67,828)	1,760,241	354,323	
Other non-operating income	16,945,908	16,945,908	-	16,948,497	16,948,497	2,589	
Investment earnings	-	-	13,349,080	(13,286,485)	62,595	62,595	
Interest expense	-	-	(14,229,812)	14,229,812	-	-	
Loss on disposal of assets	-	-	(1,260,113)	1,267,613	7,500	7,500	
Other expenses	(32,094,614)	(32,942,392)	(355,528)	(32,530,389)	(32,885,917)	56,475	
Total public support and nonoperating revenues	133,921,140	134,263,807	181,835,968	(43,294,173)	138,541,795	4,277,988	
Income (loss) before contributed capital	(104,641)	2,057,707	(15,118,416)	27,066,978	11,948,563	9,890,856	
Reserve revenue	104,641	136,480	-	-	-	(136,480)	
Contribution of capital assets	-	-	27,728,531	(27,728,531)	-	-	
Change in net assets	\$ -	\$ 2,194,187	12,610,116	\$ (661,553)	\$ 11,948,563	\$ 9,754,376	
Net assets, beginning of year			1,248,309,449				
Net assets, end of year			\$ 1,260,919,565				

**San Diego Metropolitan Transit System  
General Fund**

**Schedule of Revenues, Expenses, and Changes in Net Assets – Budget to Actual  
For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget – Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Passenger revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Advertising	-	-	10,652	-	10,652	10,652
Charter	-	-	910	-	910	910
Misc operating revenue	1,180,008	1,321,897	2,079,744	-	2,079,744	757,847
Total operating revenues	1,180,008	1,321,897	2,091,307	-	2,091,307	769,410
Operating expenses:						
Personnel costs	8,924,159	9,580,636	10,039,546	(95,028)	9,944,518	(363,882)
Outside services	2,850,527	2,878,127	2,644,135	-	2,644,135	233,992
Transit operations funding	7,487,101	6,360,896	87,303,781	(81,865,729)	5,438,052	922,844
Materials and supplies	4,500	4,500	3,098	-	3,098	1,402
Energy	225,960	229,760	308,926	-	308,926	(79,166)
Risk management	676,274	676,274	566,737	(70,000)	496,737	179,537
Miscellaneous operating expenses	(5,450,504)	(6,844,271)	(7,030,760)	-	(7,030,760)	186,489
Depreciation	-	-	1,859,858	(1,859,858)	-	-
Total operating expenses	14,718,017	12,885,922	95,695,321	(83,890,615)	11,804,706	1,081,216
Operating income (loss)	(13,538,009)	(11,564,025)	(93,604,014)	83,890,615	(9,713,399)	1,850,626



**San Diego Metropolitan Transit System  
General Fund**

**Schedule of Revenues, Expenses, and Changes in Net Assets – Budget to Actual, Continued  
For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget – Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Public support and nonoperating revenues:						
Federal revenue	3,079,900	3,079,900	48,950,712	(43,951,959)	4,998,753	1,918,853
Transportation Development Act (TDA) funds	14,536,109	15,604,092	85,625,948	(63,788,597)	21,837,352	6,233,260
State Transit Assistance (STA) funds	-	-	21,458,830	(21,425,493)	33,337	33,337
State revenue - other	7,542,179	7,542,179	9,926,694	(2,849,990)	7,076,704	(465,475)
TransNet funds	-	-	16,223,926	(16,223,926)	-	-
Other local subsidies	-	-	1,729,258	(1,410,326)	318,932	318,932
Other income	16,945,908	16,945,908	-	16,948,497	16,948,497	2,589
Investment earnings	-	-	13,286,485	(13,286,485)	-	-
Interest expense	-	-	(10,867,600)	10,867,600	-	-
Other expenses	(28,566,087)	(29,413,865)	(169,708)	(29,220,542)	(29,390,250)	23,615
<b>Total public support and nonoperating revenues</b>	<b>13,538,009</b>	<b>13,758,214</b>	<b>186,164,546</b>	<b>(164,341,221)</b>	<b>21,823,325</b>	<b>8,065,111</b>
Income (loss) before contributed capital	-	2,194,189	92,560,531	(80,450,606)	12,109,926	9,915,737
Contribution of capital assets	-	-	(32,557,190)	32,557,190	-	-
Transfers in (out)	-	-	(37,861,342)	37,861,342	-	-
Change in net assets	-	\$ 2,194,189	22,141,999	\$ (10,032,074)	\$ 12,109,926	\$ 9,915,737
Net assets, beginning of year			147,827,954			
Net assets, end of year			\$ 169,969,953			

**San Diego Metropolitan Transit System  
Taxicab Administration**

**Schedule of Revenues, Expenses, and Changes in Net Assets – Budget to Actual  
For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget – Positive (Negative)
	Original	Final	Actual Amounts	Budget		
				Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Misc operating revenue	\$ 685,000	\$ 685,000	\$ 709,963	\$ -	\$ 709,963	\$ 24,963
Total operating revenues	685,000	685,000	709,963	-	709,963	24,963
Operating expenses:						
Personnel costs	447,090	446,484	464,243	-	464,243	(17,759)
Outside services	87,975	87,975	137,721	-	137,721	(49,746)
Materials and supplies	37,150	37,150	2,437	-	2,437	34,713
Energy	12,250	12,250	9,582	-	9,582	2,668
Miscellaneous operating expenses	95,125	127,570	133,894	-	133,894	(6,324)
Depreciation	-	-	23,341	(23,341)	-	-
Total operating expenses	679,590	711,429	771,217	(23,341)	747,876	(36,447)
Operating income (loss)	5,410	(26,429)	(61,253)	23,341	(37,913)	(11,484)
Reserve revenue	(5,410)	26,429	-	-	-	(26,429)
Change in net assets	\$ -	\$ -	(61,253)	\$ 23,341	\$ (37,913)	(37,913)
Net assets, beginning of year as restated			562,701			
Net assets, end of year			\$ 501,447			

**San Diego Metropolitan Transit System**  
**San Diego Arizona and Eastern Railway**  
**Schedule of Revenues, Expenses, and Changes in Net Assets – Budget to Actual**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget – Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Misc operating revenue	100,000	100,000	77,853	-	77,853	(22,147)
Total operating revenues	100,000	100,000	77,853	-	77,853	(22,147)
Operating expenses:						
Personnel costs	64,102	64,102	44,326	-	44,326	19,776
Outside services	53,000	53,000	60,536	-	60,536	(7,536)
Risk management	92,949	92,949	69,191	-	69,191	23,758
Miscellaneous operating expenses	-	-	27,251	-	27,251	(27,251)
Depreciation	-	-	19,499	(19,499)	-	-
Total operating expenses	210,051	210,051	220,803	(19,499)	201,304	8,747
Operating income (loss)	(110,051)	(110,051)	(142,950)	19,499	(123,451)	(13,400)
Reserve revenue	110,051	110,051	-	-	-	(110,051)
Change in net assets	\$ -	\$ -	(142,950)	\$ 19,499	\$ (123,451)	\$ (123,451)
Net assets, beginning of year as restated			341,360			
Net assets, end of year			\$ 198,410			

# San Diego Metropolitan Transit System

## Contract Services

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

For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts			Variance with Final Budget – Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Passenger revenue	\$ 16,406,999	\$ 18,438,472	\$ 18,935,332	\$ -	\$ 18,935,332	\$ 496,860
Misc operating revenue	-	70,945	65,583	-	65,583	(5,362)
Total operating revenues	16,406,999	18,509,417	19,000,914	-	19,000,914	491,497
Operating expenses:						
Personnel costs	631,678	593,311	631,233	-	631,233	(37,922)
Outside services	48,300,717	49,901,841	49,065,940	-	49,065,940	835,901
Energy	8,244,559	7,566,439	6,711,182	-	6,711,182	855,257
Miscellaneous operating expenses	897,146	958,502	878,377	-	878,377	80,125
Depreciation	-	-	5,349,729	(5,349,729)	-	-
Total operating expenses	58,074,100	59,020,093	62,636,462	(5,349,729)	57,286,732	1,733,361
Operating income (loss)	(41,667,101)	(40,510,676)	(43,635,547)	5,349,729	(38,285,818)	2,224,858

# San Diego Metropolitan Transit System

## Contract Services

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

For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts			Variance with Final Budget – Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Public support and nonoperating revenues:						
Federal revenue	-	200,000	200,000	-	200,000	-
Transportation Development Act (TDA) funds	38,736,568	36,389,994	33,104,003	-	33,104,003	(3,285,991)
State revenue - other	617,892	2,178,039	3,196,284	-	3,196,284	1,018,245
TransNet funds	614,723	614,723	614,723	-	614,723	-
Other local subsidies	1,697,918	1,127,918	1,163,308	-	1,163,308	35,390
Loss on disposal of assets	-	-	(1,039,530)	1,047,030	7,500	7,500
Total public support and nonoperating revenues	41,667,101	40,510,674	37,238,788	1,047,030	38,285,818	(2,224,856)
Income (loss) before contributed capital	-	(2)	(6,396,759)	6,396,759	-	2
Contribution of capital assets	-	-	7,386,740	(7,386,740)	-	-
Change in net assets	\$ -	\$ (2)	989,981	\$ (989,981)	\$ -	\$ 2
Net assets, beginning of year			34,615,683			
Net assets, end of year			<u>\$35,605,664</u>			

**San Diego Metropolitan Transit System**  
**San Diego Transit Corporation**  
**Schedule of Revenues, Expenses, and Changes in Net Assets – Budget to Actual**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget – Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Passenger revenue	\$ 22,074,862	\$ 22,264,336	\$ 22,297,629	\$ -	\$ 22,297,629	\$ 33,293
Advertising	850,000	900,000	990,945	-	990,945	90,945
Charter	30,000	30,000	44,089	-	44,089	14,089
Misc operating revenue	160,000	84,000	117,526	-	117,526	33,526
Total operating revenues	23,114,862	23,278,336	23,450,189	-	23,450,189	171,853
Operating expenses:						
Personnel costs	53,862,649	55,397,352	48,823,332	6,344,908	55,168,240	229,112
Outside services	2,272,915	2,041,965	2,151,965	-	2,151,965	(110,000)
Materials and supplies	4,425,507	4,424,507	4,420,613	(21,341)	4,399,273	25,234
Energy	9,380,256	8,186,552	6,552,455	-	6,552,455	1,634,097
Risk management	2,064,416	2,145,622	2,510,118	(299,000)	2,211,118	(65,496)
Miscellaneous operating expenses	3,499,302	3,806,699	3,795,477	-	3,795,477	11,222
Amortization of net pension asset	-	-	1,455,000	(1,455,000)	-	-
Depreciation	-	-	9,526,805	(9,526,805)	-	-
Total operating expenses	75,505,045	76,002,697	79,235,765	(4,957,237)	74,278,528	1,724,169
Operating income (loss)	(52,390,183)	(52,724,361)	(55,785,576)	4,957,237	(50,828,339)	1,896,022

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

**Schedule of Revenues, Expenses, and Changes in Net Assets – Budget to Actual, Continued  
For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget – Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Public support and nonoperating revenues:						
Federal revenue	15,000,000	15,000,000	15,000,000	-	15,000,000	-
Transportation Development Act (TDA) funds	18,879,684	19,213,862	18,334,123	-	18,334,123	(879,739)
State Transit Assistance (STA) funds	11,026,100	11,026,100	11,026,097	-	11,026,097	(3)
TransNet funds	10,734,926	10,734,926	9,623,193	-	9,623,193	(1,111,733)
Other local subsidies	278,000	278,000	278,000	-	278,000	-
Investment earnings	-	-	62,595	-	62,595	62,595
Interest expense	-	-	(3,362,212)	3,362,212	-	-
Loss on disposal of assets	-	-	(37,089)	37,089	-	-
Other expenses	(3,528,527)	(3,528,527)	(133,455)	(3,362,213)	(3,495,668)	32,859
Amortization of bond issuance costs	-	-	(52,365)	52,365	-	-
<b>Total public support and nonoperating revenues</b>	<b>52,390,183</b>	<b>52,724,361</b>	<b>50,738,886</b>	<b>89,453</b>	<b>50,828,339</b>	<b>(1,896,022)</b>
Income (loss) before contributed capital	-	-	(5,046,691)	5,046,691	-	-
Contribution of capital assets	-	-	22,780,779	(22,780,779)	-	-
Change in net assets	-	\$ -	17,734,088	\$(17,734,088)	\$ -	\$ -
Net assets, beginning of year			40,650,893			
Net assets, end of year			<u>\$ 58,384,981</u>			

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

**Schedule of Revenues, Expenses, and Changes in Net Assets – Budget to Actual, Continued  
For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget – Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Operating revenues:						
Passenger revenue	\$ 28,577,339	\$ 27,863,161	27,401,733	\$ -	\$ 27,401,733	\$ (461,428)
Misc operating revenue	282,000	622,000	652,373	-	652,373	30,373
Total operating revenues	28,859,339	28,485,161	28,054,106	-	28,054,106	(431,055)
Operating expenses:						
Personnel costs	29,383,436	29,356,437	29,748,081	(189,544)	29,558,537	(202,100)
Outside services	8,445,430	8,405,930	8,569,316	-	8,569,316	(163,386)
Materials and supplies	3,288,760	3,164,260	2,840,188	(53,597)	2,786,591	377,669
Energy	8,651,824	9,088,105	9,185,075	-	9,185,075	(96,970)
Risk management	2,422,586	2,522,586	2,468,842	(50,000)	2,418,842	103,744
Miscellaneous operating expenses	2,993,150	3,218,401	3,140,058	-	3,140,058	78,343
Depreciation	-	-	57,693,317	(57,693,317)	-	-
Total operating expenses	55,185,186	55,755,719	113,644,877	(57,986,458)	55,658,420	97,299
Operating income (loss)	(26,325,847)	(27,270,558)	(85,590,771)	57,986,458	(27,604,314)	(333,756)



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

**Schedule of Revenues, Expenses, and Changes in Net Assets – Budget to Actual, Continued  
For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget – Positive (Negative)
	Original	Final	Actual Amounts	Budget Basis Adjustments	Actuals on a Budget Basis	
Public support and nonoperating revenues:						
Federal revenue	12,769,305	12,769,305	15,325,430	-	15,325,430	2,556,125
Transportation Development Act (TDA) funds	7,556,542	8,501,253	6,278,884	-	6,278,884	(2,222,369)
TransNet funds	6,000,000	6,000,000	6,000,000	-	6,000,000	-
Loss on disposal of assets	-	-	(183,494)	183,494	-	-
Total public support and nonoperating revenues	26,325,847	27,270,558	27,420,820	183,494	27,604,314	333,756
Income (loss) before contributed capital	-	-	(58,169,952)	58,169,952	-	-
Contribution of capital assets	-	-	30,118,202	(30,118,202)	-	-
Transfers in (out)	-	-	-	-	-	-
Change in net assets	-	\$ -	(28,051,750)	\$ 28,051,750	\$ -	\$ -
Net assets, beginning of year			1,024,310,858			
Net assets, end of year			<u>\$ 996,259,108</u>			

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**STATISTICAL SECTION**

**(Unaudited)**

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## Statistical Section

(Unaudited)

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

<b>Contents</b>	<b><u>Pages</u></b>
<i>Financial trends</i> This schedule contains trend information to help the reader understand how MTS's financial position has changed over time.	<b>75</b>
<i>Revenue Capacity</i> These schedules contain detailed information about the fare structures and revenue generated from transit operations provided by MTS.	<b>77</b>
<i>Debt Capacity</i> This schedule presents information to help the reader assess the affordability of MTS's current levels of outstanding debt and the MTS's ability to issue debt in the future.	<b>81</b>
<i>Demographic and Economic Information</i> These schedules offer demographic and economic indicators to help the reader understand the environment within which MTS provides its services.	<b>83</b>
<i>Operating Information</i> 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.	<b>87</b>

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## **FINANCIAL TRENDS**

# San Diego Metropolitan Transit System

## Changes in Net Assets

### Last Three Fiscal Years

	(accrual basis of accounting)		
	Fiscal Year		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Expenses:			
General fund	\$ 9,383,559	\$ 19,291,383	\$ 20,063,436
Transit operations funding	5,438,052	12,002,488	12,905,584
Transit capital funding	-	-	261,775
Other Contracted Services	62,636,462	60,542,066	56,444,048
San Diego Transit	79,235,765	78,085,401	86,301,787
San Diego Trolley	113,644,877	105,069,741	81,963,639
Total activities expenses	<u>270,338,715</u>	<u>274,991,079</u>	<u>257,940,269</u>
Program revenues:			
Operating grants and contributions	155,133,512	124,018,111	126,398,233
Capital grants and contributions	29,198,830	31,727,904	83,084,460
Charges for services	73,384,332	70,183,914	66,055,549
Total program revenues	<u>257,716,674</u>	<u>225,929,929</u>	<u>275,538,242</u>
Total net revenues (expenses)	<u>(12,622,042)</u>	<u>(49,061,150)</u>	<u>17,597,973</u>
General revenues and other changes in net assets:			
Investment earnings	13,349,080	6,966,330	11,638,987
Indirect cost recovery	-	1,685,026	2,827,481
Interest expense	(14,229,812)	-	-
Loss on disposal of assets	(1,260,113)	-	-
Other expenses	(355,528)	-	-
Capital contributions - other	27,728,531	23,013,017	30,007,339
Total general revenue and other changes in net assets	<u>25,232,157</u>	<u>31,664,373</u>	<u>44,473,807</u>
Changes in net assets:	<u>\$ 12,610,116</u>	<u>\$ (17,396,777)</u>	<u>\$ 62,071,780</u>



## **REVENUE CAPACITY**

# San Diego Metropolitan Transit System

## Operating Revenue by Source

### Last Three Fiscal Years

---

<u>Fiscal Year Ended</u>	<u>Passenger Fares</u>	<u>Federal Operating Funds</u>	<u>State Operating Funds</u>	<u>Local Operating Funds</u>	<u>Interest</u>	<u>Other</u>
San Diego Transit Corporation						
2005	21,383	14,200	25,862	7,278	68	850
2006	22,264	15,000	23,415	13,105	129	1,532
2007	22,298	15,000	29,360	9,901	63	1,153
San Diego Trolley, Inc.						
2005	25,855	10,651	498	9,522	-	539
2006	27,934	12,788	7,415	6,000	-	742
2007	27,402	15,325	6,279	6,000	-	652
General Services						
2005	-	-	-	-	312	863
2006	-	-	-	-	678	979
2007	-	-	-	-	646	1,680
MTS - Contract Services						
2005	16,564	711	367	33,651	-	-
2006	17,382	-	137	455	-	(344)
2007	18,935	200	36,300	1,778	-	66

Source: Audited financial statements

# San Diego Metropolitan Transit System

## Fare Structure

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Bus Cash Fares		
Local	\$	1.75
Urban		2.25
Express		2.50 - 4.00
Senior/Disabled		1.00
Airport Shuttle		2.25
Shuttles		1.00
Trolley Cash Fares		
Downtown		1.25
1 Station		1.50
2 Stations		1.75
3 Stations		2.00
4-10 Stations		2.25
11-19 Stations		2.50
20+ Stations		3.00
Senior/Disabled		1.00
Bus and Trolley Monthly Passes		
Local/Urban Bus/Express/Trolley		58.00
Express Bus (multi-zones)		64.00 - 84.00
Senior/Disabled Bus and Trolley		14.50
Youth Bus and Trolley		29.00

**SOURCE:**

Codified Ordinance No. 4, an ordinance establishing a Metropolitan Transit System fare pricing schedule, last amended January 15, 2004

# San Diego Metropolitan Transit System

## Farebox Recovery Percentages

### Last Three Fiscal Years

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<u>Fiscal Year Ended</u>	<u>San Diego Transit Corporation</u>	<u>San Diego Trolley Inc.</u>	<u>MTS Contract Services</u>
2005	27.34	54.25	31.97
2006	30.40	50.78	31.96
2007	31.08	48.97	33.05

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

## **DEBT CAPACITY**

## San Diego Metropolitan Transit System

### Ratio of Outstanding Debt by Type

Last Three Fiscal Years

Year ended June 30	Capital Lease - Tower	Capital Lease - Equipment	1990 LRV Sale/Leaseback	1995 LRV Lease/Leaseback	Certificates of Participation 2002	Certificates of Participation 2003	Pension Obligation Bonds	Total	Percentage of Personal Income	Debt per Capita
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

Details regarding MTS' outstanding debt can be found in the notes to the financial statements.  
 MTS issued pension obligation bonds in FY 2005 to fund 85% of SDTC's unfunded pension liability

## **DEMOGRAPHIC AND ECONOMIC STATISTICS**

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

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	<u>MTS Service Area Population</u> (1)	<u>MTS Personal Income (thousands)</u> (2)	<u>Per Capita Personal Income</u>	<u>San Diego County Average Unemployment Rate</u> (3)
2005	2,154,170	\$ 50,408,033	\$ 23,400	4.7%
2006	2,188,817	49,149,338	22,455	4.1%
2007	2,224,021	47,922,072	21,547	4.8%

- (1) SOURCE: Current year data is not yet available.  
 Estimated increase, 1.6%, based on increase in prior year
- (2) SOURCE: Current year data is not yet available.  
 Estimated decrease, 2.5%, based on decrease in prior year
- (3) SOURCE: California Employment Development Department,  
 local area profile August 2007



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

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<u>Function</u>	<u>Full-time and Part-time Employees at June 30</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
General Government-MTS	121	90	73
San Diego Transit Corporation	866	880	927
San Diego Trolley, Inc	<u>527</u>	<u>539</u>	<u>528</u>
Total	<u><u>1,514</u></u>	<u><u>1,509</u></u>	<u><u>1,528</u></u>

# San Diego Metropolitan Transit System

## Ten Largest Employers in San Diego County

### Last Three Fiscal Years

---

Company Name	Number of Employees (1)	Percent of 1,470,100 million County Total (2)
United States Navy	42,000	2.857%
United States Government	39,100	2.660%
State of California	37,100	2.524%
University of California San Diego	24,790	1.686%
Scripps Mercy Hospital/Scripps Health	21,313	1.450%
San Diego Unified School District	21,073	1.433%
City of San Diego	20,700	1.408%
County of San Diego	18,900	1.286%
Sharp Health Care	13,872	0.944%
United States Postal Service	11,611	0.790%

Source:

(1) *San Diego Source, The Daily Transcript*

(2) Employment Development Department, State of California

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

## **OPERATING INFORMATION**

# San Diego Metropolitan Transit System

## Operating Indicators by Function

### Last Three Fiscal Years

---

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Operating Cost:</b>			
San Diego Transit	\$ 68,253,960	\$ 68,296,800	\$ 78,216,331
San Diego Trolley	55,951,561	55,014,599	47,661,707
MTS Contract Services	57,286,732	54,387,095	51,815,445
<b>Farebox Revenue:</b>			
San Diego Transit	\$ 22,341,718	\$ 22,294,679	\$ 21,401,339
San Diego Trolley	27,401,733	27,933,766	25,855,241
MTS Contract Services	18,935,332	17,382,224	16,564,407
<b>Total Passengers:</b>			
San Diego Transit	26,075,859	24,889,685	24,426,571
San Diego Trolley	35,114,385	33,829,833	29,334,362
MTS Contract Services	20,283,498	18,907,112	18,448,621
<b>Revenue Miles:</b>			
San Diego Transit	9,622,029	9,958,013	10,087,350
San Diego Trolley	7,940,011	8,180,189	7,060,498
MTS Contract Services	12,226,099	12,241,939	12,701,361
<b>Subsidy / Total Pass</b>			
San Diego Transit	\$ 1.76	\$ 1.85	\$ 2.33
San Diego Trolley	0.81	0.80	0.74
MTS Contract Services	1.89	1.96	1.91

Source: MTS Short Range Transit Plan FY 2003-2007, and audited financial statements

# San Diego Metropolitan Transit System

## Service Performance Data

### Last Three Fiscal Years

---

<u>Service Provided</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Bus</b>			
Revenue Vehicle Miles	9,622,029	9,958,013	10,087,350
Revenue Vehicle Hours	853,044	840,408	825,102
Passengers	26,075,859	24,889,685	24,426,571
Passenger Miles	21,683,073	20,797,797	20,047,077
Number of Vehicles	267	274	280
<b>Rail</b>			
Revenue Vehicle Miles	8,018,841	8,180,189	7,060,498
Revenue Vehicle Hours	432,440	468,829	368,184
Train Hours	438,555	480,396	379,050
Passengers	35,114,185	33,829,833	29,334,362
Passenger Miles	8,018,841	8,180,189	7,060,498
Number of Vehicles (available for maximum service)	96	102	95
<b>MTS-Contract Services</b>			
Revenue Vehicle Miles	12,226,099	12,241,939	12,701,361
Revenue Vehicle Hours	975,095	927,652	946,314
Passengers	20,283,498	18,907,112	18,448,621
Passenger Miles	4,111,852	3,936,710	3,649,567
Number of Vehicles	348	337	357
<b>Total</b>			
Passengers	81,473,542	77,626,630	72,209,554
Passenger Miles	33,813,766	32,914,696	30,757,142

Source: B-10 MTS Schedule of Base Statistics

# San Diego Metropolitan Transit System

## Capital Asset Statistics by Function

### Last Three Fiscal Years

---

	Fiscal Year		
	2007	2006	2005
General Operations			
Buildings and structures	1	1	1
Nonrevenue vehicles	10	10	12
San Diego Transit Corporation			
Land (parcels)	2	2	2
Buildings and structures	2	2	2
Buses	267	274	280
Nonrevenue vehicles	47	45	49
San Diego Trolley, Inc.			
Trolley stations	54	54	50
Track miles	54.3	54.3	48.5
Light rail vehicles (total inventory)	134	134	123
Nonrevenue vehicles	69	58	78
Other Contracted Services			
Land (parcel)	1	1	1
Buildings and structures	1	1	1
Buses	348	337	357
Nonrevenue vehicles	4	2	2
Taxicab Administration			
Buildings and structures	1	1	1
Nonrevenue vehicles	2	1	1

Source:

# San Diego Metropolitan Transit System

## Ridership

### Last Three Fiscal Years

---

Ridership (in 000's)	2007	2006	2005
Bus	26,076	24,890	24,427
% Change	4.77%	1.90%	
Trolley	35,114	33,830	29,334
% Change	3.80%	15.32%	
MTS Contract Services	20,283	18,907	18,449
% Change	7.28%	2.49%	

Source: Annual Operations Statistical Report

# San Diego Metropolitan Transit System

## Operating Subsidy

### Last Three Fiscal Years

---

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Average Fare per Rider			
San Diego Transit	0.86	0.90	0.88
San Diego Trolley	0.78	0.83	0.88
MTS Contract Services	0.93	0.92	0.90
Operating Expense per Rider			
San Diego Transit	2.62	2.74	3.20
San Diego Trolley	1.59	1.63	1.62
MTS Contract Services	2.82	2.88	2.81
Subsidy per Rider			
San Diego Transit	1.76	1.85	2.33
San Diego Trolley	0.81	0.80	0.74
MTS Contract Services	1.89	1.96	1.91

Source: Audited financial statements and Annual Operations  
Statistical Report