

COMPREHENSIVE
ANNUAL FINANCIAL REPORT



FOR THE FISCAL YEAR ENDED JUNE 30, 2005
SAN DIEGO METROPOLITAN TRANSIT SYSTEM
SAN DIEGO, CALIFORNIA



SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Comprehensive Annual Financial Report

June 30, 2005

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SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Comprehensive Annual Financial Report

June 30, 2005

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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, 2005 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 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, 2005 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, 2005 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, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund 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 in the Capital Projects Fund. 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. 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 1.96 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 Development Board (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. With this addition of 5.8 miles of track, SDTI now operates on a total of 54.3 miles of track. SDTC operates 29 routes with an active fleet of 275 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. Taxicab Administration is accounted for in an Enterprise Fund for financial reporting purposes.

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 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 \$151.1 billion for FY 2005. This was a growth of 6.6% percent, better than the state and national averages. MTS-area fixed-route ridership increased during FY 2005. The opening of Petco Park in April 2004 has brought additional riders in the system and the opening of the Mission Valley East line will add another large component of daily ridership.

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.

One of the tools MTS is currently using is 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.

The Mission Valley East (MVE) LRT Line opened in July 2005. It extends 5.8 miles from Interstate 15 in Mission Valley to Baltimore Drive in La Mesa primarily along the I-8 corridor. It has added four stations and the first tunnel for MTS. In opening Mission Valley East, a new green line service was initiated, which consists of previous blue line stations from Old Town to Mission San Diego and the four new stations.

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 \$1.4 million. Both the lease obligations are a result of a joint venture arrangement whereby the joint venture issued certificates of participation (COPs), and MTS services the debt through lease payments.

The 1990 \$41,020,000 COP issue, which related to the acquisition of 130 replacement buses, was refinanced with the California Transit Finance Corporation in February 2002 at which time it received an underlying rating of A1 from Moody's Investors Service based solely on the strength of MTS. On the COP issue which related to the construction of the MTS Tower, 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 05 was \$4.4 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.

Cash Management

To facilitate optimum management of MTS' resources, cash in all the individual funds is combined to 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 enterprise funds. MTS' funds are invested in accordance with its written policy which is consistent with the California Government Code 53600. MTS uses the services of an outside investment management firm to handle the daily investment activities. Further details of MTS' cash and investments at June 30, 2005 are set forth in note 4 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 \$400,000,000 for property damage. At June 30, 2005, MTS was holding investments of \$2,000,000 which have been designated by the MTS board of directors for purposes of funding future claims liabilities of MTS, SDTI, and SDTC.

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
Interim Chief Financial Officer

BOARD OF DIRECTORS

Members	Board position (elected position)
Leon Williams	Chairman, since 1/76 to 1/83; 1/85 to present
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 Erwin	Board Member, since 03/05 (Councilmember, City of La Mesa)
Shirley Kaltenborn	Ex Officio, 12/94 to 12/00, 10/03 to present
Mark Lewis	Board Member, since 12/98 to 4/00, 12/02 (Mayor, City of El Cajon)
Brian Maienschein	Board Member, since 12/00 (Councilmember, City of San Diego)
Harry Mathis	Ex Officio, 12/94 to 12/00, 10/03 to present
Phil Monroe	Board Member, since 4/02 (Councilmember, City of Coronado)
Ron Morrison	Board Member, since 6/04 (Councilmember, National City)
Ron Roberts	Board Member, since 12/89 (County Board of Supervisors)
Diane Rose	Board Member, since 1/03 (Mayor, City of Imperial Beach)
Hal Ryan	Board Member, since 1/04 (Councilmember, City of Santee)
Tony Young	Board Member, since 1/05 (Councilmember, City of San Diego)
Michael Zucchet	Board Member, since 09/03 (Councilmember, City of San Diego)

MTS MANAGEMENT

Staff	Position
Paul Jablonski	Chief Executive Officer, as of January 2005
Tiffany Lorenzen	General Counsel
Claire Spielberg	Chief Operations Officer, Bus (SDTC)
Cliff Telfer	Interim Chief Financial Officer
Peter Tereschuck	President-General Manager, Rail (SDTI)
Dan Bossert	Director, Information Technology
Conan Chung	Director, Planning
Susan Hafner	Director, Multimodal Operations
Judith Leitner	Interim Director, Marketing and Community Relations
Jeff Stumbo	Director, Human Resources

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the San Diego Metropolitan Transit System (MTS), as of and for the year ended June 30, 2005, which collectively comprise MTS' basic financial statements as listed in the table of contents. These 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of MTS as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, MTS adopted the Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)* and Statement No. 42, *Accounting and Financial Reporting of Impairment of Capital Assets and Insurance Recoveries*.

As described in Note 12 to the basic financial statements, MTS issued \$77,490,000 in Taxable Pension Obligation Bonds. The purpose of the bonds is to remit MTS' unamortized, unfunded actuarial accrued liability with the San Diego Transit Corporation Employee Retirement Plan.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis, Budgetary Information and Schedule of Funding Progress, as listed in the table of contents 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 it.

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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 financial statements that collectively comprise 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 them.

Capricci & Carson

San Diego, California
June 29, 2006

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Management's Discussion and Analysis

June 30, 2005

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, 2005. 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 \$1,292,462,884 as of June 30, 2005. Of this amount, \$176,309,211 is unrestricted. Total net assets increased by \$62,071,780.
- As of June 30, 2005, MTS' governmental funds reported combined ending fund balances of \$215,252,028, an increase of \$9,566,431 in comparison with an increase of \$23,043,444 the prior year. Of this amount, \$31,988,797 is available for spending at MTS' discretion (unreserved fund balance).
- For the year ended June 30, 2005, 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 35.5%, compared to 37.7% for the previous year. A number of factors have brought about this decrease, principally increased operational costs.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MTS' financial statements. MTS' financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of MTS' finances, in a manner similar to a private-sector business.

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 activities presents information showing how the government's 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).

Both of the government-wide financial statements distinguish functions of MTS that are principally supported by grant revenue and subsidies (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of MTS include general government, transit support activities and transit operations funding. The business-type activities of MTS include transit services that are operated on a contracted basis with third parties and the taxicab regulatory function. In addition, the government-wide 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 Trolley, Inc. (SDTI), San Diego Transit Corporation (SDTC), and San Diego and Arizona Eastern Railway Company (SD&AE).

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MTS uses fund accounting to ensure and demonstrate

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Management's Discussion and Analysis

June 30, 2005

compliance with finance-related legal requirements. All of the funds of MTS can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows* of spendable resources, as well as on *balances of spendable resources available* at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

MTS maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Subsidy Pass-Through Special Revenue Fund, the TransNet Special Revenue Fund, the Capital Projects Fund, and the Debt Service Fund, all of which are considered to be major funds.

MTS adopts an annual appropriated budget for the General Fund, the Special Revenue Funds, and the Capital Projects Fund. A budgetary comparison statement has been provided for the General Fund and major Special Revenue Funds to demonstrate compliance with the budget.

Proprietary funds. *Enterprise funds* (a proprietary fund type) are used to report the same functions presented as *business-type activities* in the government-wide financial statements. MTS uses enterprise funds to account for its Taxicab Administration and Other Contracted Services, as well as SDTI, SDTC, and SD&AE

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for SDTI, SDTC, and Other Contracted Services, a major fund of MTS. Taxicab Administration and SD&AE are reported together as nonmajor proprietary funds of MTS. In addition, MTS prepares individual financial statements for SDTI and SDTC.

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

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of MTS, assets exceeded liabilities by \$1,292 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 \$583 million, of which the largest project currently under construction is the Mission Valley East light rail extension (currently \$476 million). The capital assets that are represented by the construction-in-progress will be used to provide

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Management's Discussion and Analysis

June 30, 2005

services to citizens; consequently, these assets are *not* available for future spending. The remaining balance of unrestricted net assets, \$176.3 million (13.6 %), may be used to meet the government's ongoing obligations to citizens and creditors, with the exception of \$2 million which represents resources that are designated by the MTS Board for insurance.

MTS has recorded a prior period adjustment totaling \$85,648,144 to increase construction in progress for the cost of construction projects transferred to SANDAG's management (see note 14). In FY 2004 the value of these projects was removed from MTS' balance sheet, but management has determined that because the costs represent future benefit to the organization this asset should remain. All comparative schedules will be presented as restated by the prior period adjustment.

	Governmental Activities June 30, 2005	Governmental Activities (as restated) June 30, 2004	Change
Current and other assets	\$ 257,977,676	\$ 291,422,800	\$ (33,445,124)
Capital assets	615,618,669	561,190,619	54,428,050
Total assets	<u>873,596,345</u>	<u>852,613,419</u>	<u>20,982,926</u>
Long-term liabilities outstanding	183,443,956	195,220,525	(11,776,569)
Other liabilities	56,908,130	93,343,856	(36,435,726)
Total liabilities	<u>240,352,086</u>	<u>288,564,381</u>	<u>(48,212,295)</u>
Net assets (deficit):			
Invested in capital assets, net of related debt*	420,667,651	360,331,383	60,336,268
Unrestricted*	<u>212,576,608</u>	<u>118,069,511</u>	<u>94,507,097</u>
Total net assets	<u>\$ 633,244,259</u>	<u>\$ 478,400,894</u>	<u>\$ 154,843,365</u>

* In order to achieve comparability between FY 2005 and FY 2004 we have restated the 2004 net assets invested in capital assets by including offsets for all debt of the organization

	Business-Type Activities June 30, 2005	Business-Type Activities June 30, 2004	Change
Current and other assets	\$ 94,064,838	\$ 22,624,145	\$ 71,440,693
Capital assets	695,486,022	692,096,401	3,389,621
Total assets	<u>789,550,860</u>	<u>714,720,546</u>	<u>74,830,314</u>
Long-term liabilities outstanding	98,532,409	18,188,986	80,343,423
Other liabilities	31,799,826	30,189,495	1,610,331
Total liabilities	<u>130,332,235</u>	<u>48,378,481</u>	<u>81,953,754</u>
Net assets (deficit):			
Invested in capital assets, net of related debt	695,486,022	692,096,401	3,389,621
Unrestricted	<u>(36,267,397)</u>	<u>(25,754,336)</u>	<u>(10,513,061)</u>
Total net assets	<u>\$ 659,218,625</u>	<u>\$ 666,342,065</u>	<u>\$ (7,123,440)</u>

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Management's Discussion and Analysis

June 30, 2005

Governmental Activities. Governmental activities increased MTS' net assets by \$69 million. Key elements of this increase are as follows:

	2005	2004	
	Governmental Activities	Governmental Activities	Change
Revenues:			
Program revenues:			
Operating grants and contributions	\$ 86,270,079	\$ 78,201,891	\$ 8,068,188
Capital grants and contributions	83,084,460	144,901,439	(61,816,979)
General revenues:			
Interest income	11,638,987	6,288,711	5,350,276
Indirect cost recovery	2,827,481	2,456,925	370,556
Total revenues	<u>183,821,007</u>	<u>231,848,966</u>	<u>(48,027,959)</u>
Expenses:			
General government	9,512,289	6,340,093	3,172,196
Transit support activities	898,786	771,256	127,530
Transit operations funding	73,006,798	76,521,882	(3,515,084)
Transit planning	916,815	225,020	691,795
Transit capital funding	261,775	16,764,717	(16,502,942)
Interest on long-term debt	8,669,729	8,151,473	518,256
Total expenses	<u>93,266,192</u>	<u>108,774,441</u>	<u>(15,508,249)</u>
Increase (decrease) in net assets before capital contributions and transfers	90,554,815	123,074,525	(32,519,710)
Capital contributions - SANDAG	946,278	128,356	817,922
Capital contributions - MTS	(21,679,153)	-	(21,679,153)
Transfers	(626,720)	(525,560)	(101,160)
Extraordinary event	-	(61,308,971)	61,308,971
Increase in net assets	<u>69,195,220</u>	<u>61,368,350</u>	<u>7,826,870</u>
Net assets - July 1, 2004	478,400,895	417,032,544	61,368,351
Prior period adjustment - see note 14	85,648,144	-	85,648,144
Net assets, as restated	<u>564,049,039</u>	<u>417,032,544</u>	<u>147,016,495</u>
Net assets - June 30, 2005	<u>\$ 633,244,259</u>	<u>\$ 478,400,894</u>	<u>\$ 154,843,365</u>

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 2005 and FY 2004 governmental activities are attributable to capital funding decreases and reclassification of some project costs to capital expenses.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Management's Discussion and Analysis

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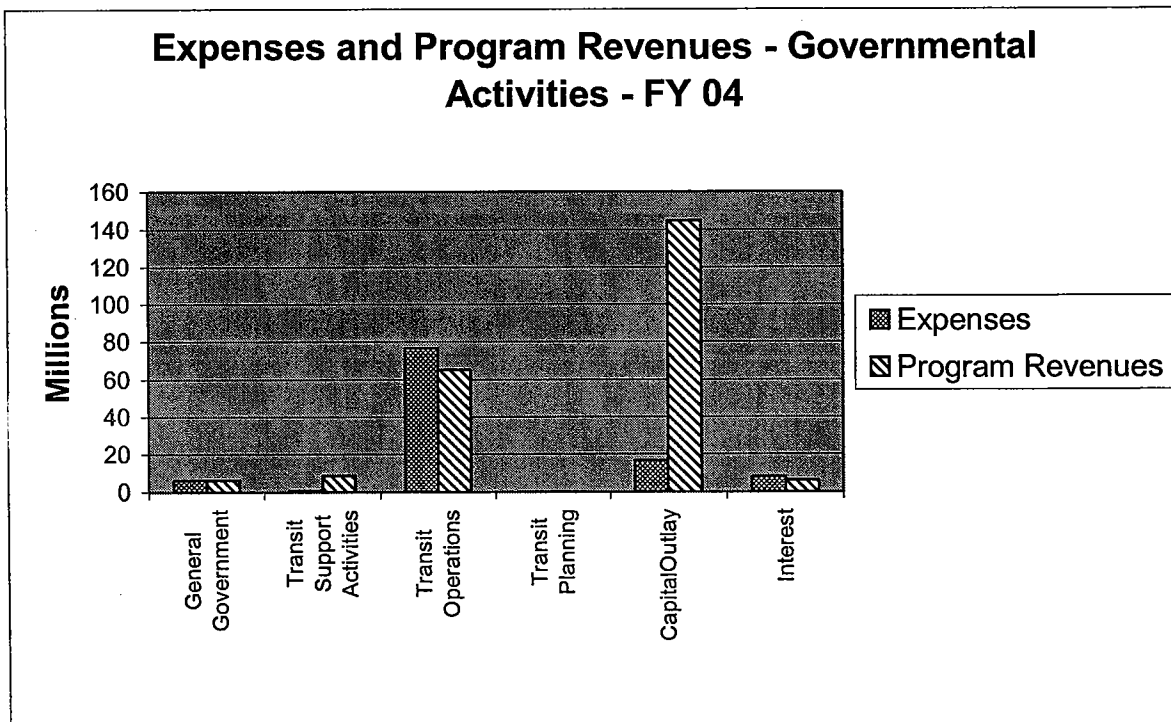
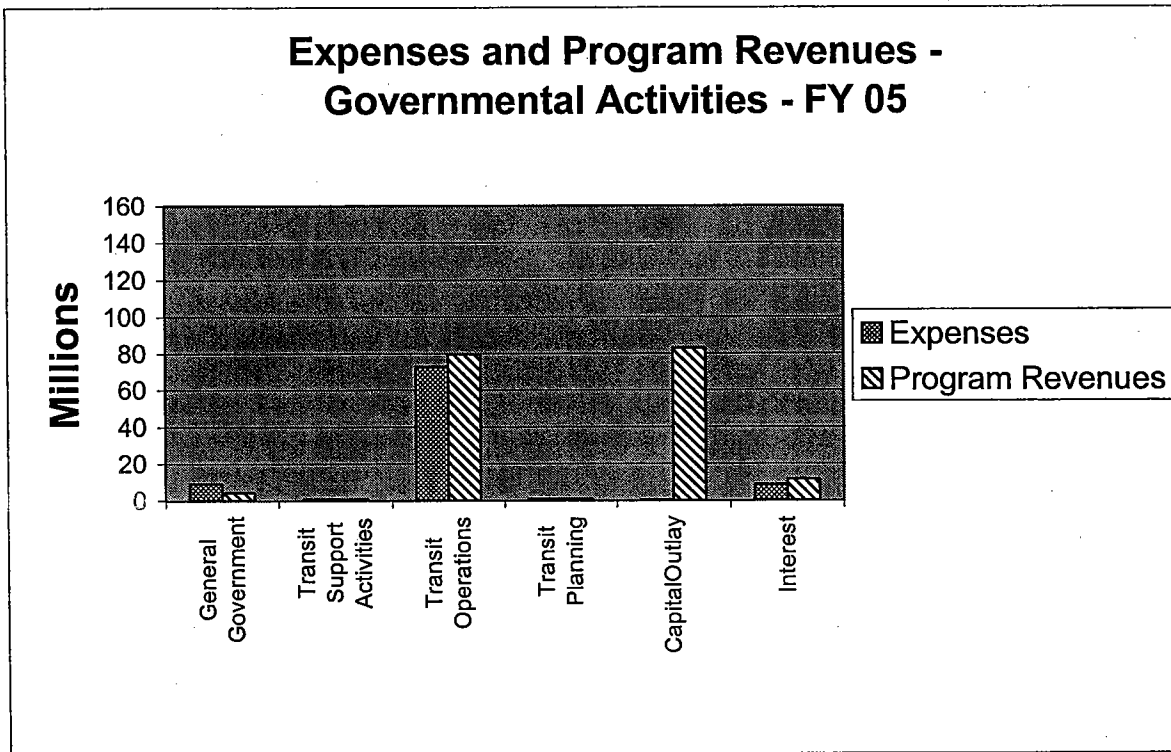
Variations between FY 2005 and 2004 business-type activities are due primarily to contributed capital totaling \$50.7 million.

	<u>2005</u>	<u>2004</u>	
	<u>Business-Type</u>	<u>Business-Type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 66,055,549	\$ 65,708,920	\$ 346,629
Operating grants and contributions	101,128,154	93,377,520	7,750,634
Total revenues	<u>167,183,703</u>	<u>159,086,440</u>	<u>8,097,263</u>
Expenses:			
Transportation	<u>225,674,077</u>	<u>213,767,994</u>	<u>11,906,083</u>
Total expenses	<u>225,674,077</u>	<u>213,767,994</u>	<u>11,906,083</u>
Increase (decrease) in net assets before capital contributions and transfers	(58,490,374)	(54,681,554)	(3,808,820)
Capital contributions-SANDAG	29,061,061	-	29,061,061
Capital contributions-MTS	21,679,153	3,565,912	18,113,241
Transfers	626,720	525,560	101,160
Increase in net assets	<u>(7,123,440)</u>	<u>(50,590,082)</u>	<u>43,466,642</u>
Net assets-beginning of year	666,342,065	716,932,147	(50,590,082)
Net assets – June 30, 2004	<u>\$ 659,218,625</u>	<u>\$ 666,342,065</u>	<u>\$ (7,123,440)</u>

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Management's Discussion and Analysis

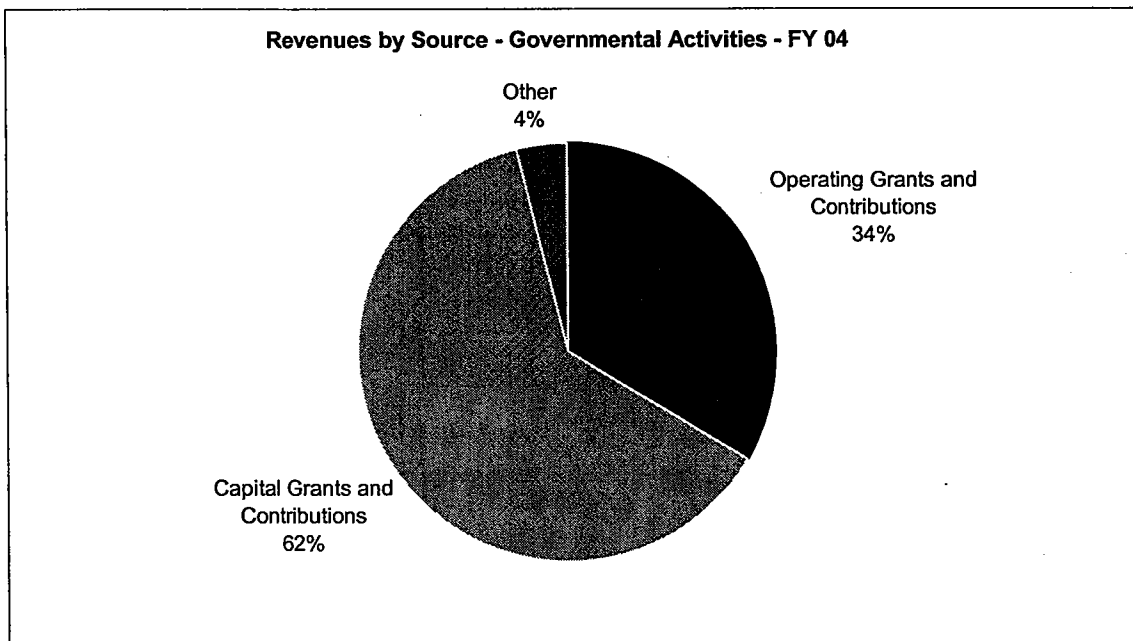
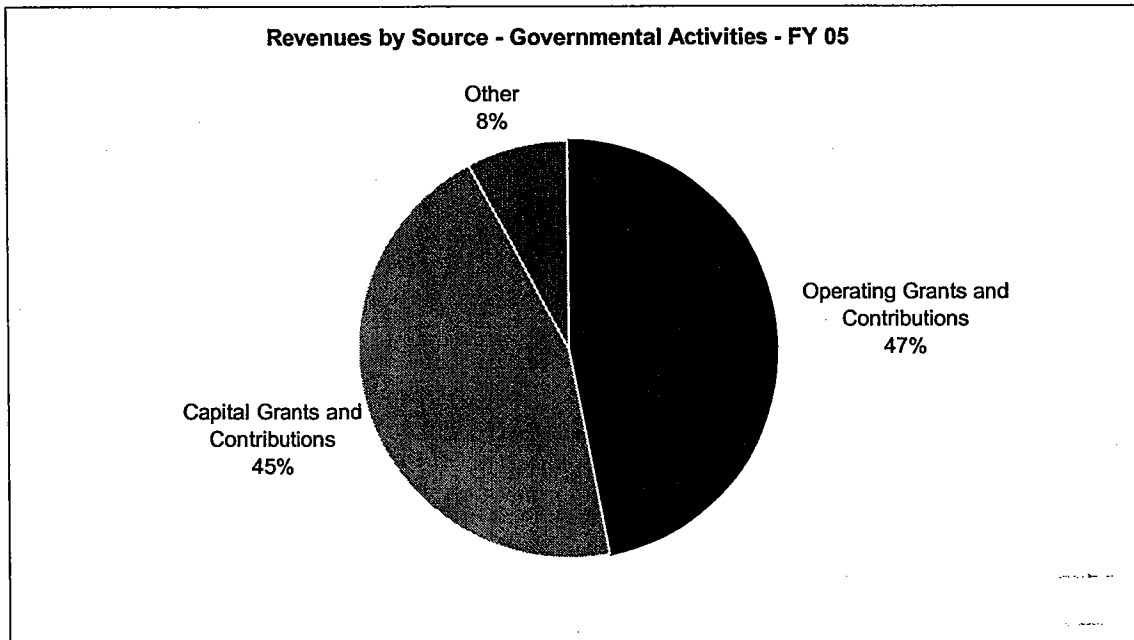
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Management's Discussion and Analysis

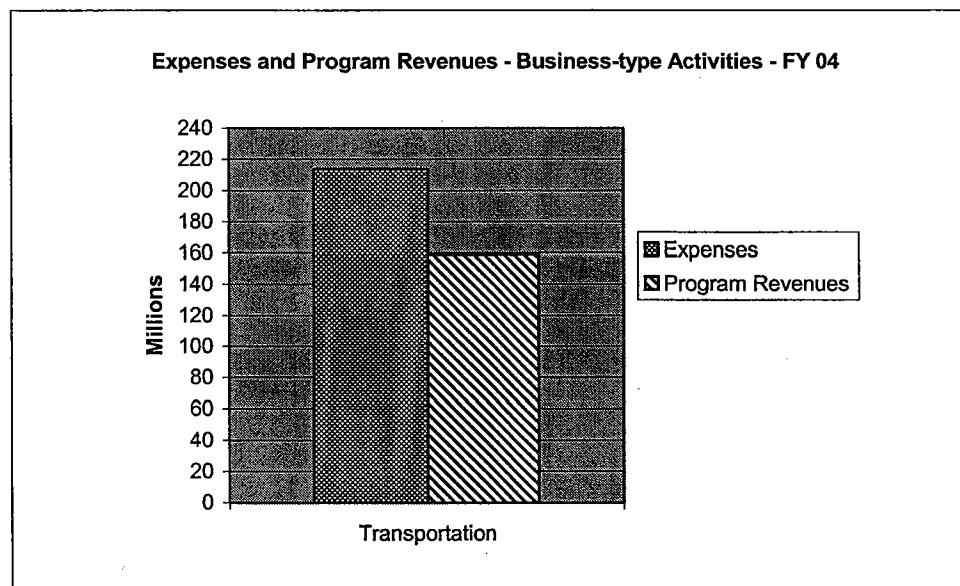
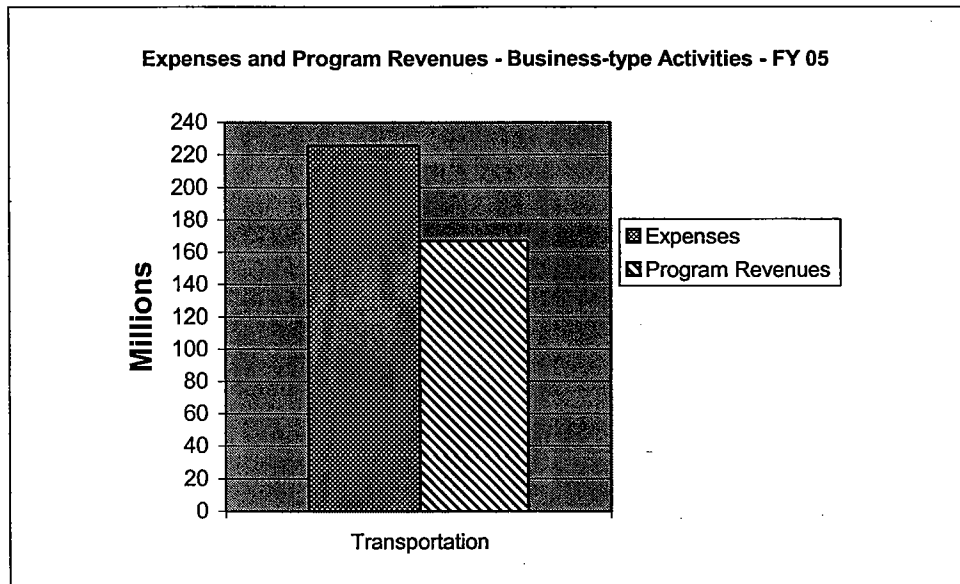
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SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Management's Discussion and Analysis

June 30, 2005

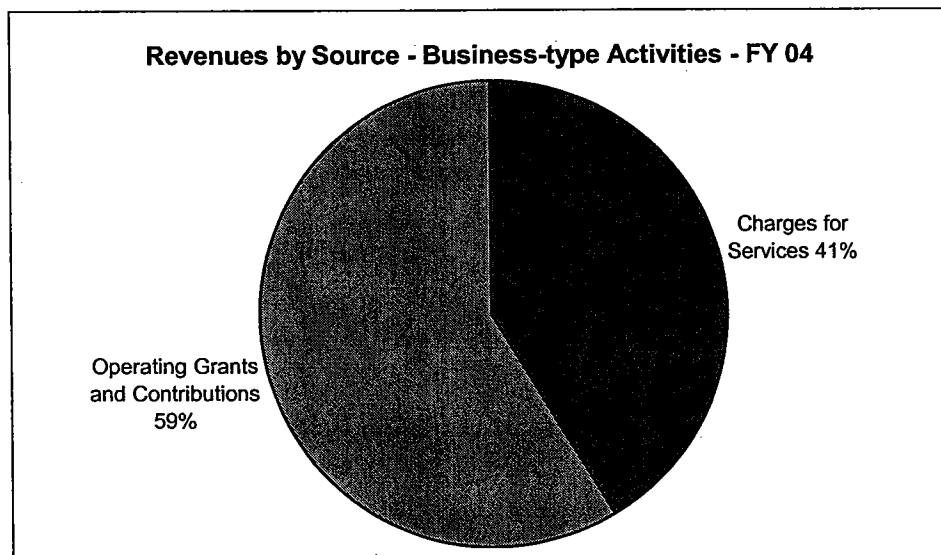
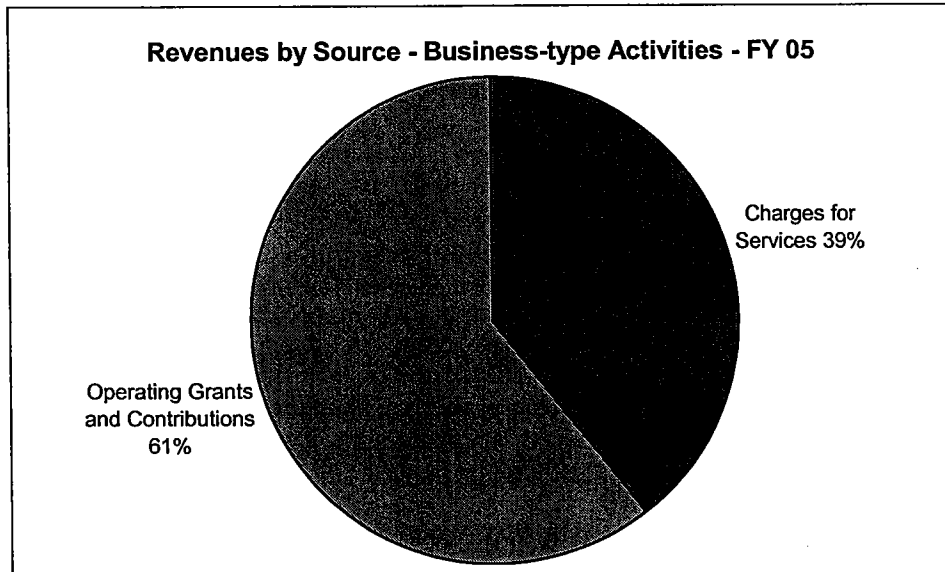


- Operating grants and contributions continue to fund the majority of the business-type activities, with fare revenues funding the balance.
- Net assets attributable to MTS' business-type activities decreased to \$659.2 million from \$666.3 million.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Management's Discussion and Analysis

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SAN DIEGO METROPOLITAN TRANSIT SYSTEM

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Financial Analysis of the Government's Funds

As noted earlier, MTS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of MTS' *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing MTS' financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, MTS' governmental funds reported combined ending fund balances of \$215,252,028 million, an increase of 4.5% in comparison with the prior year.

The General Fund is the chief operating fund of MTS. At the end of each fiscal year, MTS transfers any excess funds in the General Fund to the Subsidy Pass-Through Special Revenue Fund where it is deposited in the MTS Contingency Reserve (part of unreserved fund balance of the Subsidy Pass-Through Special Revenue Fund). Therefore, at the end of the current year, there was no undesignated unreserved fund balance in the General Fund.

The fund balance of MTS' General Fund decreased by \$301 thousand.

The Subsidy Pass-Through Fund is a special revenue fund used to account for the subsidy funds collected on behalf of and passed through to the component units. It is also used to account for the fund balance reserves maintained for capital replacement and other purposes. The Subsidy Pass-Through Fund has a total fund balance of \$17.2 million of which \$10 thousand is considered reserved because of third-party legal restrictions. The remainder \$17.2 million is unreserved, of which \$4.8 million is designated by the MTS Board for specific uses. The net decrease in the fund balance during the current year was \$1.8 million. The funds were used during the current year for operating purposes and for the local match to federal capital grants.

The TransNet Fund is a special revenue fund used to account for the funds received pursuant to the one-half cent local sales tax increase resulting from the passage of Proposition A by area voters in 1987. The TransNet Fund has a total fund balance of \$24.0 million, all of which is considered unreserved, designated. The net increase in the fund balance during the current year was \$171 thousand.

The Capital Projects Fund is used to account for all the capital projects undertaken by MTS. The Capital Projects Fund has a total negative fund balance of \$9.5 million. The negative fund balance is attributed the timing of expenditures and grant receipts.

The Debt Service Fund is used to account for all the debt service incurred by MTS. The ending fund balance was \$183.3 million, all of which is restricted for debt service purposes and is therefore considered reserved. The net increase in the fund balance during the current year was \$3.3 million as a result of interest income earned on invested funds.

Proprietary funds. MTS' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The net assets balance of the Other Contracted Services Fund is \$37.4 million, most of which is invested in fixed assets. The remainder \$118,777 is unrestricted. The total increase in net assets for Other Contracted Services is approximately \$600 thousand attributable to receipt of \$5.2 million in contributed capital assets largely offset by depreciation expense totaling \$4.6 million for the current year.

The net assets balance in SDTI is \$573.7 million, \$580 million of which is invested in fixed assets and the remaining \$(6.3) million deficit is unrestricted. The total reduction in net assets for 2005 is approximately \$7.4 million,

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Management's Discussion and Analysis

June 30, 2005

attributable to receipt of \$27.1 million in contributed capital assets offset by depreciation expense totaling \$34.3 million in the current year. The net assets balance in SDTC is \$47.2 million, \$77.7 million of which is invested in fixed assets and the remaining \$(30.5) million deficit is unrestricted. The total reduction in net assets for 2005 is approximately \$400 thousand due to receipt of \$18.3 million in contributed capital assets offset by \$18.7 million in operating losses.

The net assets balance in non-major funds is \$901 thousand, \$529 thousand of which is invested in fixed assets and the remaining \$373 thousand is unrestricted. The total increase in net assets for 2005 is \$85 thousand due to \$82 thousand in contributed capital assets.

General Fund Budgetary Highlights

Differences between the General Fund original budget and the final amended budget were \$645,020 increase in appropriations and can be summarized as follows

- \$462,000 increase in transit planning.
- \$183,020 increase in personnel expenditures in general government activities, offset by
- \$183,020 increase in TDA funding

Capital Asset and Debt Administration

Capital assets. MTS' investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounts to \$1,311 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, equipment, and construction-in-progress. MTS' total investment in capital assets for the current fiscal year increased by 16.8% for governmental activities.

Major capital asset events during the current fiscal year included the following:

- Construction continued on the Mission Valley East light rail extension with \$64.4 million expended in the current fiscal year, bringing the total construction-in-progress for this project to \$476 million.
- Construction continued on the 12th and Market Station Retrofit with \$939 thousand expended in the current fiscal year, bringing the total construction-in-progress for this project to \$8.8 million.
- Construction continued on the San Ysidro Intermodal Transportation Center with \$1.6 million expended in the current fiscal year, bringing the total construction-in-progress for this project to \$24.8 million.
- Completed capital projects totaling \$55.5 million were transferred from SANDAG to MTS and its component units during FY 2005.
- MTS recorded a prior period adjustment to restore \$85.6 million in construction project costs related to projects that were transferred to SANDAG in FY 2004 and recorded as an extraordinary event, and project costs expended in the current year that were not capitalized (see note 14)

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Management's Discussion and Analysis

June 30, 2005

CAPITAL ASSETS
(Net of depreciation)

	2005		
	Governmental Activities	Business-Type Activities	Total
Land	\$ 21,957,196	\$ 167,054,480	\$ 189,011,676
Buildings	7,023,910	332,264,054	339,287,964
Vehicles	44,028	190,952,732	190,996,760
Equipment	3,247,684	5,214,756	8,462,440
Construction-in-progress	583,345,851	-	583,345,851
Total	<u>\$ 615,618,669</u>	<u>\$ 695,486,022</u>	<u>\$ 1,311,104,691</u>

	2004 (as restated)		
	Governmental Activities	Business-Type Activities	Total
Land	\$ 21,957,196	\$ 167,054,480	\$ 189,011,676
Buildings	7,334,221	338,899,110	346,233,331
Vehicles	62,464	181,363,974	181,426,438
Equipment	219,202	4,778,837	4,998,039
Construction-in-progress	531,617,536	-	531,617,536
Total	<u>\$ 561,190,619</u>	<u>\$ 692,096,401</u>	<u>\$ 1,253,287,020</u>

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

Long-term debt. At the end of the current fiscal year, MTS has one capital lease obligation outstanding in the amount of \$8.9 million. 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 2002 and 2004, and Pension Obligation Bonds issued in 2004, for a total obligation of \$263.5 million. In connection with the lease/leaseback transactions, MTS placed funds on deposit, which, together with the interest earned on the deposits, will be sufficient to cover the amounts due under the finance obligations. The certificates of participation were issued in 2002 for \$17.8 million to finance a regional transit management system to provide intelligent transportation system and radio communication services and in 2003 for \$32.9 million to finance the regional automated fare collection system project. The pension obligation bonds were issued in 2004 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 7 to the financial statements.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Management's Discussion and Analysis

June 30, 2005

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 Chief Financial Officer, MTS, 1255 Imperial Avenue, Suite 1000, San Diego, CA 92101.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Statement of Net Assets

June 30, 2005

Assets	Primary Government		
	Governmental Activities	Business - Type Activities	Total
Current assets:			
Cash and cash equivalents	\$ 30,819,413	\$ 3,815,503	\$ 34,634,916
Investments	622,178	-	622,178
Accounts and other receivables	402,410	9,399,478	9,801,888
Accounts receivable from other governments	55,339,323	4,038,994	59,378,317
Internal balances	688,105	(688,105)	-
Materials and supplies inventory	-	7,176,316	7,176,316
Prepaid items and other assets	2,120,266	99,643	2,219,909
Cash and cash equivalents designated for self-insurance programs	2,000,000	-	2,000,000
Total current assets	91,991,695	23,841,829	115,833,524
Restricted assets:			
Cash and certificates of deposit restricted for capital support	10,005,859	-	10,005,859
Investments restricted for debt service	155,244,482	-	155,244,482
Total restricted assets	165,250,341	-	165,250,341
Noncurrent assets:			
Deferred bond issuance costs, net of amortization	735,640	-	735,640
Capital assets, net of accumulated depreciation	615,618,669	695,486,022	1,311,104,691
Net pension asset	-	69,050,638	69,050,638
Intangible asset	-	1,172,371	1,172,371
Total noncurrent assets	616,354,309	765,709,031	1,382,063,340
Total assets	873,596,345	789,550,860	1,663,147,205

(Continued)

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
Statement of Net Assets (Continued)
June 30, 2005

Liabilities	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Current liabilities:			
Accounts payable	15,484,843	10,926,191	26,411,034
Accrued expenses	242,528	5,657,877	5,900,405
Compensated absences payable, current portion	253,423	5,678,413	5,931,836
Retentions payable	1,441,757	10,000	1,451,757
Revenue anticipation notes payable	13,161,676	-	13,161,676
Long-term debt, current portion	14,466,987	1,415,000	15,881,987
Outstanding fare tokens and tickets	-	605,941	605,941
Accrued damage, injury, and employee claims, current portion	239,000	4,518,856	4,757,856
Deferred revenue	1,612,057	2,987,548	4,599,605
Total current liabilities	46,902,271	31,799,826	78,702,097
Liabilities payable from restricted assets:			
Retentions payable	10,005,859	-	10,005,859
Long-term debt	155,244,482	-	155,244,482
Total liabilities payable from restricted assets	165,250,341	-	165,250,341
Noncurrent liabilities:			
Compensated absences payable, net of current portion	285,775	6,618,265	6,904,040
Accrued damage, injury, and employee claims, net of current portion	2,674,150	15,839,144	18,513,294
Long-term debt, net of current portion	25,239,549	76,075,000	101,314,549
Total noncurrent liabilities	28,199,474	98,532,409	126,731,883
Total liabilities	240,352,086	130,332,235	370,684,321
Net Assets			
Invested in capital assets, net of related debt	420,667,651	695,486,022	1,116,153,673
Unrestricted	212,576,608	(36,267,397)	176,309,211
Total net assets	\$ 633,244,259	\$ 659,218,625	\$1,292,462,884

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
Statement of Activities
Year Ended June 30, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 9,512,289	\$ -	\$ 4,625,169	\$ -	\$ (4,887,120)	\$ -	\$ (4,887,120)
Transit support activities	898,786	-	898,786	-	-	-	-
Transit operations funding	73,006,798	-	79,829,309	-	6,822,511	-	6,822,511
Transit planning	916,815	-	916,815	-	-	-	-
Transit capital funding	261,775	-	-	83,084,460	82,822,685	-	82,822,685
Interest on long-term debt	8,669,729	-	-	-	(8,669,729)	-	(8,669,729)
Total governmental activities	93,266,192	-	86,270,079	83,084,460	76,088,347	-	76,088,347
Business-type activities:							
Other Contracted Services	56,444,048	16,564,407	34,729,186	-	-	(5,150,455)	(5,150,455)
San Diego Transit	86,301,787	22,233,000	45,387,174	-	-	(18,681,613)	(18,681,613)
San Diego Trolley	81,963,639	26,394,650	21,011,735	-	-	(34,557,254)	(34,557,254)
Non-major funds	964,603	863,492	59	-	-	(101,052)	(101,052)
Total business-type activities	225,674,077	66,055,549	101,128,154	-	-	(58,490,374)	(58,490,374)
Total primary government	\$ 318,940,269	\$ 66,055,549	\$ 187,398,233	\$ 83,084,460	76,088,347	(58,490,374)	17,597,973

General revenues:

Interest income	11,638,987	-	-	-	11,638,987
Indirect cost recovery	2,827,481	-	-	-	2,827,481
Capital contributions - SANDAG	946,278	29,061,061	-	-	30,007,339
Capital contributions - MTS	(21,679,153)	21,679,153	-	-	-
Transfers	(626,720)	626,720	-	-	-
Total general revenues, capital contributions, and transfers	(6,893,127)	51,366,934	-	-	44,473,807
Change in net assets	69,195,220	(7,123,440)	-	-	62,071,780
Net assets, beginning of year	478,400,895	85,648,144	-	-	1,144,742,960
Prior period adjustment - see note 14	85,648,144	-	-	-	85,648,144
Net assets, beginning of year as restated	564,049,039	666,342,065	-	-	1,230,391,104
Net assets, end of year	\$ 633,244,259	\$ 659,218,625	-	-	\$ 1,292,462,884

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Balance Sheet

Governmental Funds

June 30, 2005

	General Fund	Subsidy Pass- Through Fund	TransNet Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 2,557,741	\$ 28,261,672	\$ -	\$ -	\$ -	\$ 30,819,413
Investments	153,277	-	468,901	-	-	622,178
Cash and certificates of deposit restricted for capital support	-	-	-	10,005,859	-	10,005,859
Accounts and other receivables	170,617	143,496	-	-	88,296	402,409
Accounts receivable from other governments	314,079	24,556,376	-	30,468,868	-	55,339,323
Due from other funds	13,919,204	6,383,834	23,545,029	-	28,047,731	71,895,798
Prepaid items and other assets	2,078,978	-	-	-	-	2,078,978
Investments restricted for debt service	-	-	-	-	155,244,482	155,244,482
Cash and cash equivalents						
designated for self-insurance programs	320,856	1,679,144	-	-	-	2,000,000
Total assets	<u>\$ 19,514,752</u>	<u>\$ 61,024,522</u>	<u>\$ 24,013,930</u>	<u>\$ 40,474,727</u>	<u>\$ 183,380,509</u>	<u>\$ 328,408,440</u>

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Balance Sheet (Continued)

Governmental Funds

June 30, 2005

Liabilities and fund balances	General Fund	Subsidy Pass-Through Fund	TransNet Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
Liabilities						
Accounts payable	\$ 2,050,718	\$ 324,918	\$ -	\$ 12,981,431	\$ 127,776	\$ 15,484,843
Accrued liabilities	242,527	-	-	-	-	242,527
Retentions payable	-	-	-	11,447,616	-	11,447,616
Due to other funds	3,702,331	41,915,520	-	25,589,842	-	71,207,693
Notes payable	13,161,676	-	-	-	-	13,161,676
Deferred revenue	36,644	1,575,413	-	-	-	1,612,057
Total liabilities	<u>19,193,896</u>	<u>43,815,851</u>	<u>-</u>	<u>50,018,889</u>	<u>127,776</u>	<u>113,156,412</u>
Fund balances:						
Reserved for:						
Debt service	-	-	-	-	183,252,733	183,252,733
Taxicab Administration	-	10,498	-	-	-	10,498
Unreserved:						
Designated in General Fund	320,856	-	-	-	-	320,856
Designated in Special Revenue Funds	-	4,825,781	24,013,930	-	-	28,839,711
Undesignated in Special Revenue Funds	-	12,372,392	-	(9,544,162)	-	2,828,230
Total fund balances	<u>320,856</u>	<u>17,208,671</u>	<u>24,013,930</u>	<u>(9,544,162)</u>	<u>183,252,733</u>	<u>215,252,028</u>
Total liabilities and fund balances	<u>\$ 19,514,752</u>	<u>\$ 61,024,522</u>	<u>\$ 24,013,930</u>	<u>\$ 40,474,727</u>	<u>\$ 183,380,509</u>	<u>\$ 328,408,440</u>
Fund balances - total governmental funds						\$ 215,252,028

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Long-term liabilities, including debt payable, are not due and payable in the current period and therefore are not reported in the funds

Net assets of governmental activities

	615,618,669
	776,928
	<u>(198,403,366)</u>
	<u>\$ 633,244,259</u>

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005

	<u>General Fund</u>	<u>Subsidy Pass- Through Fund</u>	<u>TransNet Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenues:						
Federal funds	\$ 419,286	\$ 26,846,613	\$ -	\$ 81,965,293	\$ -	\$ 109,231,192
State funds	-	-	-	974,738	-	974,738
Local TDA funds	4,779,803	32,010,279	-	-	-	36,790,082
TransNet funds	-	-	16,043,175	-	-	16,043,175
City of San Diego	-	278,000	-	-	-	278,000
STA funds	-	4,542,952	-	-	-	4,542,952
Other funds	1,241,681	108,290	-	144,429	-	1,494,400
Interest income	69,101	210,029	149,741	-	11,210,116	11,638,987
Indirect cost recovery	2,827,481	-	-	-	-	2,827,481
Total revenues	<u>9,337,352</u>	<u>63,996,163</u>	<u>16,192,916</u>	<u>83,084,460</u>	<u>11,210,116</u>	<u>183,821,007</u>
Expenditures:						
Current:						
General government	6,904,959	-	-	-	57,614	6,962,573
Transit support activities	820,842	77,944	-	-	-	898,786
Transit operations funding	-	73,006,798	-	-	-	73,006,798
Transit planning	916,815	-	-	-	-	916,815
Debt service:						
Principal	-	-	-	-	5,819,127	5,819,127
Interest	77,821	-	-	-	8,369,259	8,447,080
Debt issuance costs	76,000	-	-	-	3,622	79,622
Capital outlay:						
LRT extensions	-	-	-	64,405,069	-	64,405,069
Major LRT capital improvements	-	-	-	12,796,695	-	12,796,695
Major Bus capital improvements	-	-	-	70,079	-	70,079
Operations capital	-	-	-	225,212	-	225,212
Total expenditures	<u>8,796,437</u>	<u>73,084,742</u>	<u>-</u>	<u>77,497,055</u>	<u>14,249,622</u>	<u>173,627,856</u>
Excess (deficiency) of revenues over (under) expenditures	<u>540,915</u>	<u>(9,088,579)</u>	<u>16,192,916</u>	<u>5,587,405</u>	<u>(3,039,506)</u>	<u>10,193,151</u>
Other financing sources (uses):						
Transfers in	29,097	13,200,000	-	2,582,726	6,360,344	22,172,167
Transfers out	(870,624)	(5,906,410)	(16,021,853)	-	-	(22,798,887)
Total other financing sources (uses)	<u>(841,527)</u>	<u>7,293,590</u>	<u>(16,021,853)</u>	<u>2,582,726</u>	<u>6,360,344</u>	<u>(626,720)</u>
Net change in fund balances	<u>(300,612)</u>	<u>(1,794,989)</u>	<u>171,063</u>	<u>8,170,131</u>	<u>3,320,838</u>	<u>9,566,431</u>
Fund balances, beginning of year	621,468	19,003,660	23,842,867	(17,714,293)	179,931,895	205,685,597
Fund balances, end of year	<u>\$ 320,856</u>	<u>\$ 17,208,671</u>	<u>\$ 24,013,930</u>	<u>\$ (9,544,162)</u>	<u>\$ 183,252,733</u>	<u>\$ 215,252,028</u>

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances-total governmental funds	\$ 9,566,431
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	54,428,050
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	5,596,477
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(395,738)</u>
Change in net assets of governmental activities	<u><u>\$ 69,195,220</u></u>

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PROPRIETARY FUND FINANCIAL STATEMENTS

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SAN DIEGO METROPOLITAN TRANSIT SYSTEM
Proprietary Funds
Statement of Net Assets
June 30, 2005

Assets	Business-Type Activities-Enterprise Funds				Totals
	Other	Major		Non-major	
	Contracted Services	San Diego Transit Corporation	San Diego Trolley Incorporated		
Current assets:					
Cash and cash equivalents	\$ -	\$ 2,873,952	\$ 916,576	\$ 24,975	\$ 3,815,503
MTS public support funds receivable	-	141,277	-	-	141,277
Accounts and other receivables	-	6,569,228	2,669,873	19,100	9,258,201
Accounts receivable from other governments	4,038,994	-	-	-	4,038,994
Due from other funds	4,924,078	3,844,277	3,137,843	305,137	12,211,335
Materials and supplies inventory	-	2,174,696	5,001,620	-	7,176,316
Prepaid expenses	-	41,220	-	58,423	99,643
Total current assets	8,963,072	15,644,650	11,725,912	407,635	36,741,269
Noncurrent assets:					
Capital assets (net of accumulated depreciation)	37,302,628	77,706,519	579,948,045	528,830	695,486,022
Net pension asset	-	69,050,638	-	-	69,050,638
Intangible asset	-	1,172,371	-	-	1,172,371
Total noncurrent assets	37,302,628	147,929,528	579,948,045	528,830	765,709,031
Total assets	46,265,700	163,574,178	591,673,957	936,465	802,450,300
Liabilities					
Current liabilities:					
Accounts payable	5,840,254	1,087,582	3,977,771	20,584	10,926,191
Accrued expenses	-	2,698,349	2,959,528	-	5,657,877
Retentions payable	10,000	-	-	-	10,000
Due to other funds	6,493	7,984,552	4,893,845	14,550	12,899,440
Long-term debt, current portion	-	1,415,000	-	-	1,415,000
Compensated absences payable	-	3,964,349	1,714,064	-	5,678,413
Outstanding fare tokens and tickets	-	605,941	-	-	605,941
Accrued damage, injury, and employee claims	-	3,655,148	863,708	-	4,518,856
Deferred revenue	2,987,548	-	-	-	2,987,548
Total current liabilities	8,844,295	21,410,921	14,408,916	35,134	44,699,266
Noncurrent liabilities:					
Compensated absences payable	-	6,010,605	607,660	-	6,618,265
Accrued damage, injury, and employee claims	-	12,841,852	2,997,292	-	15,839,144
Long-term debt	-	76,075,000	-	-	76,075,000
Total noncurrent liabilities	-	94,927,457	3,604,952	-	98,532,409
Total liabilities	8,844,295	116,338,378	18,013,868	35,134	143,231,675
Net Assets					
Invested in capital assets, net of related debt	37,302,628	77,706,519	579,948,045	528,830	695,486,022
Unrestricted	118,777	(30,470,719)	(6,287,956)	372,501	(36,267,397)
Total net assets	\$ 37,421,405	\$ 47,235,800	\$ 573,660,089	\$ 901,331	\$ 659,218,625

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
Statement of Revenues, Expenditures, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2005

	Business-Type Activities-Enterprise Funds				Totals	
	Other Contracted Services	Major San Diego Transit Corporation		San Diego Trolley Incorporated		Non-major
Operating revenues:						
Passenger revenue	\$ 16,564,407	\$ 21,383,099	\$ 25,855,241	\$ -	\$ 63,802,747	
Misc operating revenue	-	91,835	539,409	708,226	1,339,470	
Advertising	-	739,826	-	155,266	895,092	
Charter	-	18,240	-	-	18,240	
Total operating revenues	16,564,407	22,233,000	26,394,650	863,492	66,055,549	
Operating expenses:						
Operators' wages and other transportation expenses	-	59,941,396	26,674,906	-	86,616,302	
Contracted services	51,226,934	2,923,991	8,382,018	-	62,532,943	
Materials And Supplies	-	4,556,730	4,116,402	-	8,673,132	
Energy	-	7,191,970	6,948,337	-	14,140,307	
Risk Management	-	3,191,063	1,393,154	-	4,584,217	
General & Administrative	588,511	411,181	146,890	916,311	2,062,893	
Depreciation	4,628,603	8,085,456	34,301,932	48,292	47,064,283	
Total operating expenses	56,444,048	86,301,787	81,963,639	964,603	225,674,077	
Operating income (loss)	(39,879,641)	(64,068,787)	(55,568,989)	(101,111)	(159,618,528)	
Public support and nonoperating revenues:						
Local transportation fund	31,335,856	21,898,960	1,243,378	-	54,478,194	
Federal funds	710,725	14,199,994	10,651,095	-	25,561,814	
Other local support	2,315,734	7,277,997	8,278,719	-	17,872,450	
State funds	366,871	3,963,403	497,517	-	4,827,791	
Investment income	-	67,521	-	59	67,580	
Interest Expense	-	(1,865,577)	-	-	(1,865,577)	
Debt Service Costs	-	(105,145)	-	-	(105,145)	
Gain/(loss) on disposal of assets	-	(49,979)	341,026	-	291,047	
Total public support and nonoperating revenues	34,729,186	45,387,174	21,011,735	59	101,128,154	
Net income (loss) before transfers and capital contributions	(5,150,455)	(18,681,613)	(34,557,254)	(101,052)	(58,490,374)	
Capital contributions	5,235,276	18,289,643	27,133,667	81,628	50,740,214	
Transfers in	521,853	-	-	104,867	626,720	
Change in net assets	606,674	(391,970)	(7,423,587)	85,443	(7,123,440)	
Net assets, beginning of year	36,814,731	47,627,770	581,083,676	815,888	666,342,065	
Net assets, end of year	\$ 37,421,405	\$ 47,235,800	\$ 573,660,089	\$ 901,331	\$ 659,218,625	

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2005

	Business-Type Activities-Enterprise Funds				Totals
	Other Contracted Services	Major San Diego Transit Corporation	San Diego Trolley Incorporated	Non-major	
Cash flows from operating activities:					
Receipts from customers and users	\$ 18,067,518	\$ 15,546,012	\$ 20,884,627	\$ 857,597	\$ 55,355,754
Payments to suppliers	(53,318,557)	(8,796,812)	(14,894,427)	(932,590)	(77,942,386)
Payments to employees	-	(52,894,542)	(24,443,134)	-	(77,337,676)
Payments for damage, injury, and employee claims	-	(4,545,369)	(2,606,796)	-	(7,152,165)
Net cash used by operating activities	(35,251,039)	(50,690,711)	(21,059,730)	(74,993)	(107,076,473)
Cash flows from noncapital financing activities:					
Transfers in	521,853	-	-	104,867	626,720
Public support funds received	34,729,186	52,636,622	21,255,370	-	108,621,178
Net cash provided by noncapital financing activities	35,251,039	52,636,622	21,255,370	104,867	109,247,898
Cash flows from capital and related financing activities:					
Payments made through capital support fund	-	8,924	580,628	(20,831)	568,721
Net cash provided (used) by capital and related financing activities	-	8,924	580,628	(20,831)	568,721
Cash flows from investing activities:					
Interest received on investments	-	67,521	-	59	67,580
Net increase in cash and cash equivalents	-	2,022,356	776,268	9,102	2,807,726
Cash and cash equivalents, beginning of year	-	851,596	140,308	15,873	1,007,777
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 2,873,952</u>	<u>\$ 916,576</u>	<u>\$ 24,975</u>	<u>\$ 3,815,503</u>
Operating loss	\$ (39,879,641)	\$ (64,068,787)	\$ (55,568,989)	\$ (101,111)	\$ (159,618,528)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	4,628,603	8,085,456	34,301,932	48,292	47,064,283
(Increase) decrease in:					
Accounts and other receivables		(6,660,492)	(5,510,023)	720	(12,169,795)
Accounts receivable from other governmental entities	899,380	-	-	-	899,380
Due from other funds	-	-	-	(6,615)	(6,615)
Materials and supplies inventory	-	(112,399)	208,991	-	96,592
Prepaid expenses	-	718,248	628,068	14,945	1,361,261
Increase (decrease) in:					
Accounts payable	(1,503,112)	7,910,777	4,295,137	(31,224)	10,671,578
Accrued expenses	-	280,053	424,786	-	704,839
Compensated absences payable	-	564,836	443,368	-	1,008,204
Outstanding fare tokens and tickets	-	(26,495)	-	-	(26,495)
Accrued damage, injury, and employee claims	-	2,618,092	(283,000)	-	2,335,092
Allowance for uncollectible accounts receivable	(684,692)	-	-	-	(684,692)
Deferred revenue	1,288,423	-	-	-	1,288,423
Total adjustments	4,628,602	13,378,076	34,509,259	26,118	52,542,055
Net cash provided (used) by operating activities	\$ (35,251,039)	\$ (50,690,711)	\$ (21,059,730)	\$ (74,993)	\$ (107,076,473)

Supplemental noncash disclosures:

During the year \$27,133,667, \$18,402,419, and \$5,235,276 in capital assets were contributed by MTS and SANDAG to SDTI, SDTC and Other Contracted Services, respectively. In addition, \$81,628 in capital assets were contributed to non-major funds by MTS and SANDAG

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NOTES TO BASIC FINANCIAL STATEMENTS

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The 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 principles. 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, Senate Bill 1703 (SB 1703) became effective. SB 1703 required the consolidation of the planning and programming functions of the MTS and the North San Diego County Transit Development Board (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 the public transit system in the metropolitan area. In addition to the consolidation required by SB 1703, MTS dissolved the board of directors of San Diego Transit Corporation (SDTC) and board of directors of San Diego Trolley, Inc. (SDTI). MTS now acts in that capacity 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 financial statements present MTS and its component units, entities for which MTS is considered to be financially accountable. MTS presents blended component units. Blended component units, although legally separate entities, are, in substance, part of MTS' operations.

Included within the reporting entity as blended component units:

San Diego Transit Corporation: On July 1, 1985, MTS purchased the assets used by and acquired sole ownership of San Diego Transit Corporation (SDTC) from the City of San Diego for \$1. SDTC has entered into an operating agreement with MTS to operate a public transportation bus system in the City of San Diego and certain regional routes within MTS' jurisdictions. The agreement extends through June 30, 2005. MTS has the option to extend this agreement if exercised prior to the termination date. SDTC continues to provide local service to a number of adjoining cities under pre-existing contracts. Purchases or construction of bus capital items are made by MTS with whom title remains, and are contributed to SDTC upon completion of a project or when individually purchased by MTS. SDTC's assets, liabilities, net assets, revenues, and expenses are included in MTS' financial statements as a blended component unit.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

This agency has the same governing board as MTS and provides services directly to the public. Individual financial statements can be obtained from SDTC's administrative offices at 100 Sixteenth Street, P.O. Box 122511, San Diego, CA 92101-2511.

San Diego Trolley, Inc.: San Diego Trolley, Inc. (SDTI) was organized by MTS in August 1980. SDTI was created to operate and maintain the Light Rail Transit (LRT) system pursuant to an operating agreement with MTS. The agreement extends through June 30, 2005. MTS has the option to extend this agreement if exercised prior to the termination date. 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. Individual financial statements can be obtained from SDTI's administrative offices at 1255 Imperial Avenue, Suite 900, San Diego, CA 92101.

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 a private operator provides 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 statements are not available.

(b) *Government-Wide and Fund Financial Statements*

The Government-Wide Financial Statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component units. Interfund activity, except for transfers and interfund receivables and payables, has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support.

The statement of activities 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. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and individual proprietary funds are reported as separate columns in the fund financial statements.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

(c) ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The Government-Wide Financial Statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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.

Governmental Fund Financial Statements are reported using the “*current financial resources*” measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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:

Federal Transit Administration (FTA) revenues are funded by a federal gas tax and revenues of the federal general fund. MTS receives Section 5309 and 5307 grants which are earmarked for capital assistance and preventive maintenance.

State funding is received primarily from the Traffic Congestion Relief Program (TCRP), State Transit Assistance (STA) revenues, and the Transportation Enhancement Activities Program (TEAP). STA funds come from the Public Transportation Account, which derives its revenues from the state sales tax on gasoline. TCRP and TEAP funds are derived from the federal general fund.

Transportation Development Act (TDA) revenues provide funding support for public transit operators and for nonmotorized transportation projects. The revenue comes from one-quarter of a percent of the total 7.75% sales tax assessed in the region. San Diego Association of Governments (SANDAG) is the agency responsible for apportionment of these funds within the San Diego region.

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 resulting ordinance allocated one-third of the sales tax proceeds for transit purposes, which are further divided between MTS and North County Transit District based on the proportion of the population within the area of each jurisdiction. TransNet funds are also apportioned by SANDAG.

MTS reports the following major governmental 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

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

functions of the general government, transit planning, and transit support activities including marketing.

The special revenue Subsidy Pass-Through Fund accounts for the activities and the subsidy resources collected on behalf of and passed through to the component units. This fund also accounts for the fund balance reserves maintained for capital replacement and other purposes. Revenues are primarily derived from FTA, STA, and local TDA funds. Expenditures are primarily these federal, state, and local funds being passed through to component units and other transit operators.

The special revenue TransNet Fund accounts for the activities and resources received pursuant to the one-half cent local sales tax. These revenues are transferred to other funds, which are expended for rail capital, reduced-price monthly transit passes for seniors, the disabled, and youth, and subsidizing any reduction in federal and state operating funds. Remaining monies can be expended for service expansion and extensions.

The Capital Projects Fund accounts for the resources and the activities of MTS to provide for Light Rail Transit (LRT) extensions, major LRT/Bus capital improvements, and operations capital/replacement. Revenues are primarily derived from FTA and state capital grants and other local income for transit capital funding. Expenditures are expended for capital outlay including LRT extensions, major LRT capital improvements, major bus capital improvements, and operations capital.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on the long-term general obligation debt of MTS. Revenues are derived from interest earned on the restricted cash, cash equivalents, and investments accumulated for the payment of the debt service. Expenditures are payments for the debt service.

MTS reports the following major proprietary funds:

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 Business-type activities section of the Statement of Net Assets and the Statement of Activities.

MTS reports the Taxicab Administration fund and SD&AE combined as nonmajor proprietary funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund 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.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are lending/borrowing of pooled cash between the proprietary funds and various other functions of the government. Elimination of this lending/borrowing would distort the assets for governmental activities and business-type activities in the statement of net assets.

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 Contract Services Enterprise Fund are charges to customers for public transportation services. The principal operating revenues of the Taxicab Administration Enterprise Fund, a non-major enterprise fund, are charges for the issuance of taxi and jitney service permits. The principal operating revenues for SD&AE, also reported as a non-major enterprise fund, are lease income and right of entry permit fees. 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.

(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) Budgets

Annual appropriated budgets are adopted for all governmental 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.

(f) 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. Interest income earned as a result of investing is distributed to the appropriate funds using a formula based on the average investment balance of each fund. 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.

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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 asset-backed securities are subject to market risk and to change in interest rates. The reported value of the pool is the same as the fair value of the pool shares.

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

(g) *Interfund Transactions*

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-Wide Financial Statements as "internal balances."

(h) *Materials and Supplies Inventory*

Component unit inventories are valued at the weighted average unit cost. The costs of governmental fund type inventories are recorded as expenditures when purchased.

(i) *Prepaid Items and Other Assets*

Payments made to vendors for services that will benefit periods beyond June 30, 2005 are recorded as prepaid items in both government-wide and fund financial statements.

(j) *Capital Assets*

Capital assets, which include land and right-of-way, buildings and infrastructure assets, vehicles, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and proprietary fund financial statements. 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.

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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 expenditures of the governmental funds and as assets in the government-wide financial statements. Legal title of all SDTC property and equipment was transferred from the City of San Diego to MTS effective with MTS' purchase of SDTC on July 1, 1985. SDTC has recorded these assets at net book value in order to reflect SDTC's custodial accountability for the assets. Legal title of all County Transit System (CTS) property and equipment was transferred from the County of San Diego to MTS effective with MTS' acquisition of CTS on July 1, 2002. MTS has recorded these assets at net book value.

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

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

Assets	Years
Buildings	32
Vehicles	5 to 30
Equipment	3 to 20

(k) Construction-in-Progress

Costs incurred for construction associated with the LRT system are expended in the governmental fund types of MTS and capitalized as construction-in-progress in the government-wide financial statements until such time as they are complete and operational. Upon completion, they are contributed to SDTI to reflect SDTI's custodial accountability for the assets. Depreciation commences at the time of contribution. Assets acquired through capital leases are capitalized in the government-wide financial statements.

(l) Net Pension Assets

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). On October 2005, 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 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.

(m) Compensated Absences

It is MTS' policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since MTS does not have a policy to pay any amounts when employees separate from service with MTS. All vacation pay is accrued when incurred in the government-wide and proprietary fund type financial statements. A liability for these amounts is reported in governmental funds only if they have matured.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

(n) Long-Term Obligations

In the Government-Wide Financial Statements and in the Proprietary Fund Type Financial Statements, long-term obligations are reported as liabilities in the applicable statement of net assets. 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.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(o) Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative plans for future use of financial resources.

(p) 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.

(q) Use of Estimates

The preparation of 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.

(r) Implementation of New GASB Pronouncements

MTS adopted new accounting standards in order to conform to Governmental Accounting Standards Board Statements: Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No.3)* and GASB Statement No. 42, *Accounting and Financial Reporting of Impairment of Capital Assets and Insurance Recoveries*.

GASB Statement No. 40 addresses selected issues and amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments, including Repurchase Agreements, and Reverse Repurchase Agreements*. The Statement addresses common deposit and investment risk related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The Statement requires certain disclosures of investments that have fair value that are highly sensitive to changes in interest rate.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. This statement also clarifies and establishes accounting requirements for insurance recoveries.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

(2) Reconciliation of Government-Wide and Fund Financial Statements

(a) Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.” The details of this \$776,928 difference are as follows:

Prepaid interest	\$ 41,288
Deferred issuance costs	735,640
	735,640
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	\$ 776,928

Another element of that reconciliation explains that “long-term liabilities, including debt payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$(198,403,366) difference are as follows:

Compensated absences payable	\$ (539,198)
Accrued damage, injury, and employee claims	(2,913,150)
Long-term debt	(194,428,607)
Premium of debt payable	(522,411)
	(522,411)
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets - governmental activities	\$ (198,403,366)

(b) Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that, “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$54,428,050 difference are as follows:

Contributed capital - SANDAG	\$ 946,278
Contributed capital - MTS	(21,679,153)
Transit capital funding expense	77,235,280
Depreciation expense	(2,074,355)
	(2,074,355)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets – governmental activities	\$ 54,428,050

There is a non cash transaction of \$4,774,090 of addition to capital assets in the current year.

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Notes to Basic Financial Statements

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Another element of that reconciliation states that, "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$5,596,477 difference are as follows:

Interest expense	\$ (52,941)
Principal repayment	5,819,127
Amortization expense – deferred issuance costs	<u>(169,709)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets – governmental activities	<u>\$ 5,596,477</u>

Another element of that reconciliation states that, "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this \$(395,738) difference are as follows:

Compensated absences	\$ (198,791)
Damage, injury, and employee claims	<u>(196,947)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets – governmental activities	<u>\$ (395,738)</u>

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

(3) Cash, Cash Equivalents, and Investments

A summary of cash and investments at June 30, 2005, was as follows:

	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 30,819,413	\$ 3,815,503	\$ 34,634,916
Investments	622,178	-	622,178
Cash and cash equivalents designated for self-insurance program	2,000,000	-	2,000,000
Cash and certificates of deposit restricted for capital support	10,005,859	-	10,005,859
Investments restricted for debt service	155,244,482	-	155,244,482
Total cash and investments	\$ 198,691,932	\$ 3,815,503	\$ 202,507,435

Cash, cash equivalents, and investments consisted as follows on June 30, 2005:

<u>Investment type</u>	<u>Fair value</u>
Cash and equivalents:	
Demand deposits	\$ 4,818,821
Retention Trust Account	10,005,859
State of California - Local Agency Investment Fund	31,815,895
 Total cash and cash equivalents	 <u>\$ 46,640,575</u>
 Investments:	
Money Market	18,504,217
U.S. Treasuries	26,845,389
U.S. Agencies	20,912,213
Bank Investment Contract	89,605,041
 Total investments	 <u>\$ 155,866,860</u>
 Total cash, cash equivalents, and investments	 <u>\$ 202,507,435</u>

At year end the carrying amount of demand deposits was \$14,824,680 and the bank balance was \$16,380,529, of which \$100,000 in each account balance was covered by federal depository insurance

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

Investments

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

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

Local Agency Investment Funds

MTS' investments with Local Agency Investment Fund (LAIF) at June 30, 2005, 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, 2005, MTS had \$31,815,895 invested in LAIF which had invested 2.406% 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

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Notes to Basic Financial Statements

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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:

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

Summary of investments to Maturity

Investments held by MTS grouped by maturity date at June 30, 2005, are shown below:

	<u>Maturity</u>
Current to one year	\$ 30,176,871
One to two years	7,218,594
Two to five years	2,520,280
Five to ten years	26,346,074
Ten to twenty-one years	<u>89,605,041</u>
Total	<u>\$ 155,866,860</u>

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Notes to Basic Financial Statements

June 30, 2005

(4) Interfund Transactions

Due to and from other funds

MTS receives operating and capital assistance from federal, state, and local sources for the benefit of SDTI, SDTC, and Other Contracted Services. These funds are recorded as revenue in a special revenue fund and then reported as an expenditure when transferred to these entities. Interfund receivable and payable balances, including amounts due from and to component units, at June 30, 2005 were as follows:

	Due from								Total
	General Fund	Subsidy Pass-Through Fund	Capital Projects Fund	Other Contracted Services	SDTC	SDTI	SD&AE	Taxicab Administration	
General Fund	\$ -	\$ 9,222,557	\$ -	\$ -	\$ 96,266	\$ 4,600,381	\$ -	\$ -	\$ 13,919,204
Subsidy Pass-Through Fund	-	-	-	-	6,090,624	293,210	-	-	6,383,834
TransNet	-	-	23,545,029	-	-	-	-	-	23,545,029
Contract Services	-	4,917,211	-	-	6,613	254	-	-	4,924,078
Taxicab Administration	-	305,137	-	-	-	-	-	-	305,137
Debt Service	-	24,215,231	2,027,098	-	1,791,049	-	14,353	-	28,047,731
SDTC	3,701,967	141,277	80	756	-	-	-	197	3,844,277
SDTI	364	3,114,107	17,635	5,737	-	-	-	-	3,137,843
Total	\$ 3,702,331	\$ 41,915,520	\$ 25,589,842	\$ 6,493	\$ 7,984,552	\$ 4,893,845	\$ 14,353	\$ 197	\$ 84,107,133

Transfers In and Out

MTS made certain transfers between funds for the fiscal year ended June 30, 2005. Following is the detail:

	Transfers out			
	General Fund	Subsidiary Pass-Through Fund	TransNet Fund	Total
General Fund	\$ -	\$ 29,097	\$ -	\$ 29,097
Subsidy Pass-Through Fund	-	-	13,200,000	13,200,000
Capital projects Fund	-	282,726	2,300,000	2,582,726
Debt Service Fund	870,624	5,489,720	-	6,360,344
Total primary government	870,624	5,801,543	15,500,000	22,172,167
Contracted Services Fund	-	-	521,853	521,853
SD&AE	-	104,867	-	104,867
Total business-type activities	-	104,867	521,853	626,720
Net transfers	\$ 870,624	\$ 5,906,410	\$ 16,021,853	\$ 22,798,887

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Notes to Basic Financial Statements

June 30, 2005

(5) Capital Assets

A. Governmental Activities

A summary of changes in capital assets for governmental activities is as follows:

	Balance, July 1, 2004	Prior Period Adjustments (Note 14)	Additions	Deletions	Balance, June 30, 2005
Capital assets, not depreciated:					
Land and right-of-way	\$ 21,957,196	\$ -	\$ -	\$ -	\$ 21,957,196
Construction-in-progress	445,969,392	85,648,144	77,235,280	(25,506,965)	583,345,851
Total capital assets, not depreciated	467,926,588	85,648,144	77,235,280	(25,506,965)	605,303,047
Capital assets, depreciated:					
Buildings and structures	13,387,570	-	144,841	-	13,532,411
Vehicles	229,003	-	17,425	-	246,428
Office equipment and furniture	1,304,876	-	4,611,824	-	5,916,700
Total capital assets, depreciated	14,921,449	-	4,774,090	-	19,695,539
Less accumulated depreciation for:					
Buildings and structures	(6,053,349)	-	(455,152)	-	(6,508,501)
Vehicles	(166,539)	-	(35,861)	-	(202,400)
Office equipment and furniture	(1,085,674)	-	(1,583,342)	-	(2,669,016)
Total accumulated depreciation	(7,305,562)	-	(2,074,355)	-	(9,379,917)
Total capital assets, depreciated, net	7,615,887	-	2,699,735	-	10,315,622
Governmental activities capital assets, net	\$ 475,542,475	\$ 85,648,144	\$ 79,935,015	\$ (25,506,965)	\$ 615,618,669

Depreciation expense in governmental activities for capital assets for the year ended June 30, 2005 was \$2,074,355. MTS allocated the entire depreciation expense to general government.

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Notes to Basic Financial Statements

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B. Business-Type Activities

A summary of changes in capital assets for Business-Type Activities is as follows:

	Balance, July 1, 2004	Additions	Deletions	Balance, June 30, 2005
Capital assets, not depreciated				
Land and right-of-way	\$ 167,054,480	\$ -	\$ -	\$ 167,054,480
Capital assets, depreciated:				
Buildings and structures	632,534,695	20,918,655	(435,635)	653,017,715
Vehicles and buses	313,789,334	28,614,856	(87,169)	342,317,021
Equipment and other	23,242,759	1,597,502	(3,488,097)	21,352,164
Total capital assets, depreciated	<u>969,566,788</u>	<u>51,131,013</u>	<u>(4,010,901)</u>	<u>1,016,686,900</u>
Less accumulated depreciation for:				
Buildings and structures	(292,678,351)	(28,271,346)	196,036	(320,753,661)
Vehicles and buses	(133,386,480)	(18,067,815)	90,006	(151,364,289)
Equipment and other	(18,460,036)	(725,122)	3,047,750	(16,137,408)
Total accumulated depreciation	<u>(444,524,867)</u>	<u>(47,064,283)</u>	<u>3,333,792</u>	<u>(488,255,358)</u>
Total capital assets, depreciated, net	<u>525,041,921</u>	<u>4,066,730</u>	<u>(677,109)</u>	<u>528,431,542</u>
Business-Type Activities – capital assets, net	<u>\$ 692,096,401</u>	<u>\$ 4,066,730</u>	<u>\$ (677,109)</u>	<u>\$ 695,486,022</u>

Depreciation expense in Business-Type Activities for capital assets for the year ended June 30, 2005 is composed of the following:

Other Contracted Services	\$ 4,628,603
Taxicab Administration	28,792
San Diego Transit Corporation	8,085,456
San Diego Trolley Inc.	34,301,932
SD&AE	19,500
Total	<u>\$ 47,064,283</u>

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Notes to Basic Financial Statements

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C. Construction Commitments

Construction-in-progress is comprised of the following at June 30, 2005:

	Expended through June 30, 2005	Contractually Committed
Mission Valley East	\$ 478,347,032	\$ 60,115,427
San Ysidro Intermodal Transit Center	24,767,094	1,791,655
Orange Line-Blue Line Connection	849,466	54,655
12th & Market Station Retrofit	8,830,963	1,103,725
12th Avenue Corridor Improvements	<u>152,732</u>	<u>-</u>
Total MTS managed projects	512,947,288	63,065,462
Automated Fare Collection	30,593,769	-
I15 Bus Rapid Transit	11,315,478	-
SDTC Radio System Replacement	8,681,568	-
Other projects	4,958,693	-
SBMF Expansion	3,553,037	-
Sorrento Valley Coaster Station	3,485,104	-
IAD Land Expansion	3,465,985	-
East County Bus Maintenance Facility	3,268,019	-
Nobel Drive Coaster Station Improvements	<u>1,076,910</u>	<u>-</u>
Total SANDAG managed projects	<u>70,398,563</u>	<u>-</u>
Total construction-in-progress	<u>\$ 583,345,851</u>	<u>\$ 63,065,462</u>

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Notes to Basic Financial Statements

June 30, 2005

(6) Revenue Anticipation Notes

In January 2004, MTS issued \$20,000,000 in Revenue Anticipation Notes for operating cash flow needs. The notes were repaid in December 2004. In January 2005, MTS issued additional notes totaling \$13,161,676. The notes are general obligations of MTS and are payable from taxes, cash receipts, and other moneys of MTS. The notes pay interest at 2.0 % and are due January 1, 2006. Short-term activity for the year ended June 30, 2005 is summarized below.

	<u>Balance at July 1, 2004</u>	<u>Proceeds</u>	<u>Repayment</u>	<u>Balance at June 30, 2005</u>
Revenue Anticipation Notes	<u>\$ 20,000,000</u>	<u>\$ 13,161,676</u>	<u>\$ (20,000,000)</u>	<u>\$ 13,161,676</u>

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

(7) Long-Term Debt

A. Governmental Activities

The following is a summary of changes in long-term obligations for governmental activities for the year ended June 30, 2005:

	<u>Balance at July 1, 2004</u>	<u>Additions and net increases</u>	<u>Reductions and net decreases</u>	<u>Balance at June 30, 2005</u>	<u>Amounts due within one year</u>	<u>Amounts due in more than one year</u>
Governmental Activities:						
Long-term Debt						
Capitalized lease obligations	\$ 10,346,356	\$ -	\$ (1,406,238)	\$ 8,940,118	\$ 423,814	\$ 8,516,304
Finance obligation	189,901,378	-	(4,412,889)	185,488,489	14,043,173	171,445,316
Deferred amounts for issuance premium	611,502	-	(89,091)	522,411	-	522,411
Total Long-term debt	<u>200,859,236</u>	<u>-</u>	<u>(5,908,218)</u>	<u>194,951,018</u>	<u>14,466,987</u>	<u>180,484,031</u>
Compensated absences payable	340,407	198,791	-	539,198	253,423	285,775
Accrued damage, injury, and employee claims	<u>2,716,203</u>	<u>196,947</u>	<u>-</u>	<u>2,913,150</u>	<u>239,000</u>	<u>2,674,150</u>
Governmental Activities long-term debt	<u>\$ 203,915,846</u>	<u>\$ 395,738</u>	<u>\$ (5,908,218)</u>	<u>\$ 198,403,366</u>	<u>\$ 14,959,410</u>	<u>\$ 183,443,956</u>

For the governmental activities, compensated absences are liquidated by the General Fund.

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 December 1990, MTS entered into a lease agreement with the Agency for 130 replacement buses. The lease was refinanced in February 2000 with the California Transit Finance Corporation (CTFC), a nonprofit, public benefit corporation created by the California Transit Association to provide assistance to transit entities in financing capital improvements. The lease is classified as a capital lease because title transferred to MTS when the lease terminated in December 2004. The buses are recorded by SDTC.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Building – MTS Tower	\$ 12,091,981
Less accumulated depreciation	<u>(6,234,927)</u>
Total	<u>\$ 5,857,054</u>

The following is a summary of future minimum payments under capital leases as of June 30, 2005

	<u>Debt Service Payments</u>
Year ending June 30:	
2006	\$ 846,165
2007	847,778
2008	847,750
2009	847,005
2010	843,070
2011-2015	4,239,794
2016-2020	<u>4,213,958</u>
Total minimum lease payments	12,685,519
Less amount representing interest	<u>(3,745,401)</u>
Present value of minimum lease payments	<u>\$ 8,940,118</u>

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

Finance Obligations

The following is a summary of changes in finance obligations for the year ended June 30, 2005:

	<u>Balance at July 1, 2004</u>	<u>Additions and net increases</u>	<u>Reductions and net decreases</u>	<u>Balance at June 30, 2005</u>	<u>Amounts due within one year</u>	<u>Amounts due in more than one year</u>
1990 LRV Sale/Leaseback	\$ 15,878,727	\$ -	\$ -	\$ 15,878,727	\$ 2,703,929	\$ 13,174,798
1995 LRV Lease/Leaseback	126,702,651	-	(927,889)	125,774,762	999,244	124,775,518
2002 San Diego Regional Transit Management System Project	14,470,000	-	(3,485,000)	10,985,000	3,555,000	7,430,000
2003 Regional Fare Collection Project	32,850,000	-	-	32,850,000	6,785,000	26,065,000
Total finance obligations	<u>\$ 189,901,378</u>	<u>\$ -</u>	<u>\$ (4,412,889)</u>	<u>\$ 185,488,489</u>	<u>\$ 14,043,173</u>	<u>\$ 171,445,316</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 covers lease payments into 2005. 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, 2005, the remaining future obligations total \$15,878,727.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,703,929	\$ -	\$ 2,703,929
2007	9,351,404	-	9,351,404
2008	3,823,394	-	3,823,394
	<u>\$ 15,878,727</u>	<u>\$ -</u>	<u>\$ 15,878,727</u>

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

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1995 LRV Lease/Leaseback – In fiscal year 1996, MTS entered into a master lease to lease 52 light rail vehicles to an investor and then simultaneously entered into a sublease agreement to lease them back. MTS received prepayments of the master lease from the investor of approximately \$102.7 million, of which it used approximately \$90.7 million to place two investments 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, 2005, the remaining future obligations total \$125,774,762.

Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 999,244	\$ 6,598,651	\$ 7,597,895
2007	1,076,086	6,518,871	7,594,957
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
2011-2015	27,853,115	29,494,086	57,347,201
2016-2020	41,758,165	24,268,424	66,026,589
2021-2025	48,977,502	10,671,664	59,649,166
2026	1,359,944	52,580	1,412,525
	<u>\$ 125,774,762</u>	<u>\$ 96,618,462</u>	<u>\$ 222,393,224</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, 2005, the outstanding balance is \$10,985,000.

Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 3,555,000	\$ 276,225	\$ 3,831,225
2007	3,660,000	168,000	3,828,000
2008	3,770,000	56,550	3,826,550
	<u>\$ 10,985,000</u>	<u>\$ 500,775</u>	<u>\$ 11,485,775</u>

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

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, 2005, the outstanding balance is \$32,850,000

Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 6,785,000	\$ 772,585	\$ 7,557,585
2007	6,910,000	632,180	7,542,180
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>\$ 32,850,000</u>	<u>\$ 2,275,278</u>	<u>\$ 35,125,278</u>

B. Business-Type Activities

The following is summary of long-term debt for the Business-Type Activities for the year ended June 30, 2005:

	<u>Balance at July 1, 2004</u>	<u>Additions and net increases</u>	<u>Reductions and net decreases</u>	<u>Balance at June 30, 2005</u>	<u>Amounts due within one year</u>	<u>Amounts due in more than one year</u>
Business-Type Activities:						
San Diego Transit Corporation						
Pension Obligation Bonds	\$ -	\$ 77,490,000	\$ -	\$ 77,490,000	\$ 1,415,000	\$ 76,075,000
Compensated absences payable	9,410,119	564,835	-	9,974,954	3,964,349	6,010,605
Accrued damage, injury, and employee claims	13,878,908	6,273,241	(3,655,149)	16,497,000	3,655,148	12,841,852
San Diego Transit Corporation long-term debt	<u>\$ 23,289,027</u>	<u>\$ 84,328,076</u>	<u>\$ (3,655,149)</u>	<u>\$ 103,961,954</u>	<u>\$ 9,034,497</u>	<u>\$ 94,927,457</u>
San Diego Trolley, Inc.:						
Compensated absences payable	\$ 1,878,356	\$ 443,368	\$ -	\$ 2,321,724	\$ 1,714,064	\$ 607,660
Accrued damage, injury, and employee claims	4,144,000	619,997	(902,997)	3,861,000	863,708	2,997,292
San Diego Trolley, Inc. long-term debt	<u>\$ 6,022,356</u>	<u>\$ 1,063,365</u>	<u>\$ (902,997)</u>	<u>\$ 6,182,724</u>	<u>\$ 2,577,772</u>	<u>\$ 3,604,952</u>
Total	<u>\$ 29,311,383</u>	<u>\$ 85,391,441</u>	<u>\$ (4,558,146)</u>	<u>\$ 110,144,678</u>	<u>\$ 11,612,269</u>	<u>\$ 98,532,409</u>
Reconciliation to Statement of Net Assets						
Bonds payable	\$ -	\$ 77,490,000	\$ -	\$ 77,490,000	\$ 1,415,000	\$ 76,075,000
Compensated absences	11,288,475	1,008,203	-	12,296,678	5,678,413	6,618,265
Accrued damage, injury, and employee claims	18,022,908	6,893,238	(4,558,146)	20,358,000	4,518,856	15,839,144
Business-Type Activities long-term debt	<u>\$ 29,311,383</u>	<u>\$ 85,391,441</u>	<u>\$ (4,558,146)</u>	<u>\$ 110,144,678</u>	<u>\$ 11,612,269</u>	<u>\$ 98,532,409</u>

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

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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 an 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 followings:

Series A Bonds of \$38,690,000 are fixed rate bonds that mature in annual installments between 2005 and 2014 and bears an interest rate from 2.58% to 5.15% increasing progressively over the maturities. Interests are 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 installment 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, 2005, the outstanding balance of the Pension Obligation Bonds is \$77,490,000.

	Principal	Interest	Total
Year ending June 30:			
2006	\$ 1,415,000	\$ 3,446,063	\$ 4,861,063
2007	1,455,000	3,412,447	4,867,447
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
2011-2015	9,190,000	15,083,115	24,273,115
2016-2020	11,605,000	12,592,434	24,197,434
2021-2025	14,955,000	9,279,935	24,234,935
2026-2030	19,000,000	5,454,230	24,454,230
2031-2034	15,200,000	1,151,690	16,351,690
	\$ 77,490,000	\$ 60,353,717	\$ 137,843,717

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

(8) Risk Management

MTS (including SDTI, SDTC, SD&AE, Taxicab Administration 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 quake) insurance coverage for property damage up to \$400,000,000 per occurrence with deductibles ranging from \$25,000 to \$50,000, depending on the peril involved. In addition, MTS, SDTC, and SDTI are self-insured for costs arising from employee workers' compensation claims, employee practices liability, and public official errors and omissions liability to a maximum of \$1,000,000 per occurrence. Amounts in excess of \$1,000,000 are covered by insurance companies up to \$75,000,000. 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 did not exceed insurance coverage in any of the past three years.

<u>Fiscal year</u>	<u>Beginning of fiscal year</u>	<u>Current year claims and changes in estimates</u>	<u>Claim payments</u>	<u>End of fiscal year liability</u>
MTS:				
2002 – 2003	\$ 17,226,338	\$ 3,456,054	\$ (6,797,187)	\$ 13,885,205
2003 – 2004	13,885,205	11,724,554	(4,870,648)	20,739,111
2004 – 2005	20,739,111	7,090,185	(4,558,146)	23,271,150

Following is summary of accrued damage injury, and employee claims for Governmental Activities and Business-Type Activities for fiscal year 2004-2005:

<u>Accrued damage, injury, and employee claims</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current portion	\$ 239,000	\$ 4,518,856	\$ 4,757,856
Non-current portion	2,674,150	15,839,144	18,513,294
Total	<u>\$ 2,913,150</u>	<u>\$ 20,358,000</u>	<u>\$ 23,271,150</u>

At June 30, 2005, The Board designated \$2,000,000 for the purposes of funding the future claims liabilities of MTS, SDTI, and SDTC. As a result, \$320,856 of the General Fund balance and \$1,679,144 of the Subsidy-Pass Through Fund are designated for payment of future claims liabilities

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

(9) Contingencies

MTS, SDTC, and SDTI have been named in certain legal actions pending at June 30, 2005. Although 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.

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.

During 1986, MTS entered into an agreement with another company to sell the tax benefits related to six trolley cars. Simultaneously, MTS entered into a lease agreement with the purchaser to lease the six trolley cars. Certain terms of the agreement 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. The Tax Reform Act of 1986 may cause an amount to be repaid to the purchaser/lessor. Such amount may range from zero to approximately \$1,294,000 and cannot be determined until MTS is notified of any repayment due. No repayment has been requested to date.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

(10) Reserves

The reservations of fund balances of MTS' governmental funds at June 30, 2005 consist of:

	<u>Reserved</u>	<u>Designated</u>	<u>Undesignated</u>
Major Governmental Funds:			
General Fund			
Insurance	\$ -	\$ 320,856	\$ -
Subsidy Pass-Through Special Revenue Fund:			
Billboard – San Diego	-	270,024	-
Billboard – Chula Vista	-	476,230	-
CCDC	-	888,710	-
Contingency	-	-	11,984,448
Insurance	-	1,679,144	-
Land management	-	-	387,944
MTS Building	-	475,795	-
SD&AE	-	1,035,878	-
Taxicab Administration capital replacement	10,498	-	-
TransNet Fund	-	24,013,930	-
Capital Projects Fund	-	-	(9,544,162)
Debt Service Fund	183,252,733	-	-
	<u>\$ 183,263,231</u>	<u>\$ 29,160,567</u>	<u>\$ 2,828,230</u>

Board policy requires a minimum funding level of \$2,000,000 in the contingency reserve and \$2,000,000 in the insurance reserve. When these reserves fall below the minimum funding level, Board policy requires replenishment in the following budget cycle.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

(11) 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 \$123 to \$230 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, 2005 were \$18,322. There are eight retirees currently receiving post-employment health care benefits.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

(12) 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 2003, 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 2005, the MTS' and SDTI's annual required employer contributions were \$653,000 and \$2,015,000, respectively. The required contribution for fiscal year 2005 was determined as part of the June 30, 2004 actuarial valuation, the most recent available, 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

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

being amortized as a level percentage of projected payroll on a closed basis depending on the plan's date of entry. Subsequent gains and losses are amortized over variable periods depending on the events precipitating the gain or loss. The average remaining amortization period at June 30, 2004, the most recent valuation date, was 14 years for MTS and 27 years for SDTI.

Trend information for MTS (in 000s):

	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:			
2003	\$ -	\$ -	100%
2004	-	-	100%
2005	653	653	100%

Trend information for SDTI (in 000s):

	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:			
2003	\$ 398	\$ 398	100%
2004	727	727	100%
2005	2,015	2,015	100%

B. SDTC

Plan Description

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, P.O. Box 122511, San Diego, CA 92112-2511.

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.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

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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) actuarial interest rate (per annum) of 8.5% and (b) projected salary increase of 3.5% per year.

Annual Pension Cost

For fiscal year ended June 30, 2005, the annual pension cost of \$7,231,698 for the pension plan was equal to SDTC's required and actual contributions. The required contribution was determined as part of the January 11, 2004 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8.5% investment rate of return and (b) projected salary increases of 3.5%. Following is the most recent data available.

Trend information for SDTC (in 000s):

	Annual Required Contribution (ARC)	Actual Contribution	Percentage of APC Contributed
Fiscal year ended June 30:			
2003	\$ 3,145	\$ 3,670	117%
2004	6,018	5,493	91%
2005	7,232	76,282	1055%

Pension Obligation Bonds

In August 2004, MTS issued the 2004 Taxable Pension Obligation Bonds to fund 85% of the SDTC's unfunded accrued actuarial liability (UAAL) and the normal cost reimbursement for the fiscal year 2005. As a result, the Pension Obligation Bonds of \$11,490,000 were sold and \$76,282,336 was deposited into the pension plan in November 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, 2005, the Net Pension Asset amounted to \$69,050,638 which will be amortized over the life of the bonds.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

(13) Other Required Individual Fund Disclosures

SDTC and SDTI had unrestricted net deficits of \$(30,470,719) and \$(6,287,956) respectively, at June 30, 2005. 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.

The Capital Projects Fund had a deficit fund balance of \$(9,544,162) which is the result of timing differences between capital project expenses and receipt of subsidy funding for those projects.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Notes to Basic Financial Statements

June 30, 2005

(14) Prior Period Adjustment

In FY 2004, pursuant to the provisions of SB1703, MTS transferred management of most of its construction projects to SANDAG. At that time, the value of the projects as of October 13, 2003, was removed from MTS' balance sheet and an extraordinary event was reported. In addition, current year expenditures related to ongoing projects were not capitalized. Subsequently, management has reevaluated these transactions and determined that, although SANDAG has assumed the management and risk of loss for these projects, MTS' expenditures for prior and current costs related to these projects remains an asset with future benefit. Therefore, in the current year MTS has recorded a prior period adjustment to restore the amounts included in the extraordinary event and the amounts recorded as expense in FY 2004. The components of this adjustment are detailed below:

Extraordinary event related to transfer of projects to SANDAG	\$ 68,883,427
Expenses recorded in 2004 related to capital projects transferred	<u>16,764,717</u>
Total adjustment	<u>\$ 85,648,144</u>

REQUIRED SUPPLEMENTARY INFORMATION

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Required Supplementary Information

For the year ended June 30, 2005

1. BUDGETARY INFORMATION

Legal Compliance – Budgets

The following are MTS' procedures in establishing the annual budget:

1. In June of each year, the Director of Finance and Administration submits to the board of directors a proposed operating and capital projects budget for the following fiscal year.
2. Public hearings are conducted to obtain comments.
3. The budget is legally enacted through passage of a resolution.

The General Manager is authorized to transfer budgeted amounts up to \$25,000 between line items without prior Board approval. However, all increases in the authorized budget and transfers of budgeted amounts greater than \$25,000 must be approved in advance by MTS' Board. Expenditures may not exceed budgeted appropriations at the line item level which are detailed by object (i.e., personnel, insurance, rent, etc.). MTS made supplemental budget appropriations during the year as follows:

General Fund	<u>\$ 645,020</u>
Subsidy Pass-Through Special Revenue Fund	<u>\$ 1,351,371</u>

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget – Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Federal funds	\$ -	-	419,286	419,286
Local TDA funds	4,779,803	4,962,823	4,779,803	(183,020)
Other funds	923,000	923,000	1,241,681	318,681
Interest income	-	-	69,101	69,101
Indirect cost recovery	1,330,000	1,330,000	2,827,481	1,497,481
Total revenues	<u>7,032,803</u>	<u>7,215,823</u>	<u>9,337,352</u>	<u>2,121,529</u>
Expenditures:				
Current:				
General government:				
Personnel	3,814,000	3,997,020	4,916,328	(919,308)
Board of Directors	141,000	141,000	102,868	38,132
Professional services	294,000	294,000	356,861	(62,861)
Insurance	800,000	800,000	628,120	171,880
Rent	1,115,000	1,115,000	174,059	940,941
Interest			77,821	(77,821)
Debt issuance cost			76,000	(76,000)
Other general office expenditures	488,000	488,000	462,542	25,458
Miscellaneous	42,000	42,000	264,181	(222,181)
Transit support activities	809,000	809,000	820,842	(11,842)
Transit planning	410,000	872,000	916,815	(44,815)
Total expenditures	<u>7,913,000</u>	<u>8,558,020</u>	<u>8,796,437</u>	<u>(238,417)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(880,197)</u>	<u>(1,342,197)</u> <u>(462,000)</u>	<u>540,915</u>	<u>1,883,112</u>
Other financing sources (uses):				
Transfers in	3,118,198	3,118,198	29,097	(3,089,101)
Transfers out	<u>(2,548,000)</u>	<u>(2,198,000)</u>	<u>(870,624)</u>	<u>1,327,376</u>
Total other financing sources and uses	<u>570,198</u>	<u>920,198</u>	<u>(841,527)</u>	<u>(1,761,725)</u>
Net change in fund balances	<u>\$ (309,999)</u>	<u>(421,999)</u>	<u>(300,612)</u>	<u>121,387</u>
Fund balances, beginning of year			<u>621,468</u>	
Fund balances, end of year			<u>\$ 320,856</u>	

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
Subsidy Pass-Through Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget – Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Federal funds	\$ 24,422,763	24,422,763	26,846,613	2,423,850
State funds	538,000	778,000		(778,000)
Local TDA funds	28,732,206	29,433,577	32,010,279	2,576,702
City of San Diego	428,918	428,918	278,000	(150,918)
STA funds	4,909,823	4,909,823	4,542,952	(366,871)
Other funds	2,126,457	2,126,457	108,290	(2,018,167)
Interest income	-	-	210,029	210,029
Total revenues	<u>61,158,167</u>	<u>62,099,538</u>	<u>63,996,163</u>	<u>1,896,625</u>
Expenditures:				
Current:				
Transit support activities	-	-	77,944	(77,944)
Transit operations funding	74,545,584	75,896,955	73,006,798	2,890,157
Total expenditures	<u>74,545,584</u>	<u>75,896,955</u>	<u>73,084,742</u>	<u>2,812,213</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(13,387,417)</u>	<u>(13,797,417)</u>	<u>(9,088,579)</u>	<u>4,708,838</u>
Other financing sources (uses):				
Transfers in	2,548,000	2,198,000	13,200,000	11,002,000
Transfers out	(4,742,235)	(4,742,235)	(5,906,410)	(1,164,175)
Total other financing sources and uses	<u>(2,194,235)</u>	<u>(2,544,235)</u>	<u>7,293,590</u>	<u>9,837,825</u>
Net change in fund balances	<u>\$ (15,581,652)</u>	<u>(16,341,652)</u>	<u>(1,794,989)</u>	<u>14,546,663</u>
Fund balances, beginning of year			<u>19,003,660</u>	
Fund balances, end of year			<u>\$ 17,208,671</u>	

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
TransNet Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget – Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
TransNet funds	\$ 13,721,853	13,721,853	16,043,175	2,321,322
Other financing sources (uses):				
Interest income			149,741	149,741
Transfers out	-	-	(16,021,853)	(16,021,853)
Net change in fund balances	<u>\$ 13,721,853</u>	<u>13,721,853</u>	171,063	<u>(13,550,790)</u>
Fund balances, beginning of year			<u>23,842,867</u>	
Fund balances, end of year			<u>\$ 24,013,930</u>	

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SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Required Supplementary Information

For the year ended June 30, 2005

2. 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

<u>Valuation date</u>	<u>Entry age normal accrued liability</u>	<u>Actuarial value of assets</u>	<u>Unfunded liability</u>	<u>Funded status</u>	<u>Annual covered payroll</u>	<u>UAAL as a % of payroll</u>
6/30/02	\$ 16,455	\$ 15,403	\$ (1,052)	93.6%	\$ 5,082	-20.7%
6/30/03 *	515,421	456,062	(59,359)	88.5%	120,692	-49.2%
6/30/04 *	681,517	580,961	(100,556)	85.2%	160,107	-62.8%

* Beginning 2004, 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 no longer available.

SDTI

<u>Valuation date</u>	<u>Entry age normal accrued liability</u>	<u>Actuarial value of assets</u>	<u>Unfunded liability</u>	<u>Funded status</u>	<u>Annual covered payroll</u>	<u>UAAL as a % of payroll</u>
6/30/02	\$ 31,006	\$ 30,711	\$ (295)	99.0%	16,532	-1.8%
6/30/03	37,235	32,694	(4,541)	87.8%	16,827	-27.0%
6/30/04	41,695	35,905	(5,790)	86.1%	17,749	-32.6%

SDTC

<u>Valuation date</u>	<u>Entry age normal accrued liability</u>	<u>Actuarial value of assets</u>	<u>Unfunded liability</u>	<u>Funded status</u>	<u>Annual covered payroll</u>	<u>UAAL as a % of payroll</u>
1/1/2003	\$ 125,584	\$ 56,331	\$ (69,253)	44.9%	34,995	-197.9%
1/1/2004	132,307	78,667	(53,640)	59.5%	36,237	-148.0%
1/1/2005	162,879	152,877	(10,002)	93.9%	36,706	-27.2%

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SUPPLEMENTARY INFORMATION

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Non-major Proprietary Funds
Combining Statement of Net Assets
June 30, 2005

Assets	Taxi Administration	San Diego & Arizona Eastern Railway	Totals
Current assets:			
Cash and cash equivalents	\$ -	24,975	24,975
Accounts and other receivables	19,100	-	19,100
Due from other funds	305,137	-	305,137
Prepaid expenses	-	58,423	58,423
	<hr/>	<hr/>	<hr/>
Total current assets	324,237	83,398	407,635
Noncurrent assets:			
Capital assets (net of accumulated depreciation)	77,415	451,415	528,830
	<hr/>	<hr/>	<hr/>
Total noncurrent assets	77,415	451,415	528,830
	<hr/>	<hr/>	<hr/>
Total assets	401,652	534,813	936,465
Liabilities			
Current liabilities:			
Accounts payable	4,926	15,658	20,584
Due to other funds	197	14,353	14,550
	<hr/>	<hr/>	<hr/>
Total current liabilities	5,123	30,011	35,134
	<hr/>	<hr/>	<hr/>
Total liabilities	5,123	30,011	35,134
Net Assets			
Invested in capital assets, net of related debt	77,415	451,415	528,830
Unrestricted	319,114	53,387	372,501
	<hr/>	<hr/>	<hr/>
Total net assets	\$ 396,529	504,802	901,331
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
 Non-major Proprietary Funds
 Combining Statement of Revenues, Expenses, and Changes in Net Assets
 Year Ended June 30, 2005

	<u>Taxi Administration</u>	<u>San Diego & Arizona Eastern Railway</u>	<u>Totals</u>
Operating revenues:			
Misc operating revenue	\$ 700,673	7,553	708,226
Advertising	-	155,266	155,266
Total operating revenues	<u>700,673</u>	<u>162,819</u>	<u>863,492</u>
Operating expenses:			
General & Administrative	663,775	252,536	916,311
Depreciation	<u>28,792</u>	<u>19,500</u>	<u>48,292</u>
Total operating expenses	<u>692,567</u>	<u>272,036</u>	<u>964,603</u>
Operating income (loss)	<u>8,106</u>	<u>(109,217)</u>	<u>(101,111)</u>
Public support and nonoperating revenues:			
Investment income	-	59	59
Total public support and nonoperating revenues	<u>-</u>	<u>59</u>	<u>59</u>
Net income (loss) before transfers and capital contributions	<u>8,106</u>	<u>(109,158)</u>	<u>(101,052)</u>
Capital contributions	81,628	-	81,628
Transfers in	-	104,867	104,867
Change in net assets	89,734	(4,291)	85,443
Net assets, beginning of year	<u>306,795</u>	<u>509,093</u>	<u>815,888</u>
Net assets, end of year	<u>\$ 396,529</u>	<u>504,802</u>	<u>901,331</u>

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Non-major Proprietary Funds
Combining Statement of Cash Flows
Year Ended June 30, 2005

	<u>Taxi Administration</u>	<u>San Diego & Arizona Eastern Railway</u>	<u>Totals</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 686,063	171,534	857,597
Payments to suppliers	<u>(665,232)</u>	<u>(267,358)</u>	<u>(932,590)</u>
Net cash provided (used) by operating activities	<u>20,831</u>	<u>(95,824)</u>	<u>(74,993)</u>
Cash flows from noncapital financing activities:			
Transfers in	<u>-</u>	<u>104,867</u>	<u>104,867</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>104,867</u>	<u>104,867</u>
Cash flows from capital and related financing activities:			
Payments made through capital support fund	<u>(20,831)</u>	<u>-</u>	<u>(20,831)</u>
Net cash provided used by capital and related financing activities	<u>(20,831)</u>	<u>-</u>	<u>(20,831)</u>
Cash flows from investing activities:			
Interest received on investments	<u>-</u>	<u>59</u>	<u>59</u>
Net increase in cash and cash equivalents	<u>-</u>	<u>9,102</u>	<u>9,102</u>
Cash and cash equivalents, beginning of year	<u>-</u>	<u>15,873</u>	<u>15,873</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>24,975</u>	<u>24,975</u>
Operating income (loss)	<u>\$ 8,106</u>	<u>(109,217)</u>	<u>(101,111)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	28,792	19,500	48,292
(Increase) decrease in:			
Accounts and other receivables	(14,610)	8,715	(5,895)
Prepaid expenses	250	14,695	14,945
Increase (decrease) in:			
Accounts payable	<u>(1,707)</u>	<u>(29,517)</u>	<u>(31,224)</u>
Total adjustments	<u>12,725</u>	<u>13,393</u>	<u>26,118</u>
Net cash provided (used) by operating activities	<u>\$ 20,831</u>	<u>(95,824)</u>	<u>(74,993)</u>

Supplemental noncash disclosures:

Durng the year \$81,628 in capital assets were contributed by MTS and SANDAG to the Taxi Administration

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedules by Source
June 30, 2005 and 2004

	2005	2004 (as restated)
Governmental funds capital assets:		
Land and right-of-way	\$ 21,957,196	21,957,196
Construction-in-progress	583,345,851	531,617,536
Buildings and structures	13,532,411	13,387,570
Vehicles	246,428	229,003
Office equipment and furniture	5,916,700	1,304,876
	624,998,586	568,496,181
Less accumulated depreciation	(9,379,917)	(7,305,562)
Total governmental funds capital assets	\$ 615,618,669	\$ 561,190,619
 Investments in governmental funds capital assets by source:		
General Fund	\$ 257,395	257,395
Capital Projects Fund	624,741,191	568,238,786
	624,998,586	568,496,181
Less accumulated depreciation	(9,379,917)	(7,305,562)
Total governmental funds capital assets	\$ 615,618,669	561,190,619

This schedule presents only the capital asset balances related to governmental funds.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity
June 30, 2005

	<u>Administration</u>	<u>Transportation facilities</u>	<u>Construction - in - progress</u>	<u>Total</u>
General government:				
Land and right-of-way	\$ -	21,957,196	-	21,957,196
Construction-in-progress	-	-	583,345,851	583,345,851
Buildings and structures	12,091,981	1,440,430	-	13,532,411
Vehicles	246,428	-	-	246,428
Office equipment and furniture	5,916,700	-	-	5,916,700
	<u>18,255,109</u>	<u>23,397,626</u>	<u>583,345,851</u>	<u>624,998,586</u>
Less accumulated depreciation	<u>(9,106,343)</u>	<u>(273,574)</u>	<u>-</u>	<u>(9,379,917)</u>
Total governmental funds capital assets	<u>\$ 9,148,766</u>	<u>23,124,052</u>	<u>583,345,851</u>	<u>615,618,669</u>

This schedule presents only the capital asset balances related to governmental funds.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity
Year ended June 30, 2005

Function	Governmental funds capital assets July 1, 2004	Additions	Deletions and transfers	Governmental funds capital assets June 30, 2005
General government:				
Administration	\$ 13,625,860	4,629,249	-	18,255,109
Transportation facilities	23,252,785	144,841	-	23,397,626
Construction-in-progress	531,617,536	77,235,280	(25,506,965)	583,345,851
	<u>568,496,181</u>	<u>82,009,370</u>	<u>(25,506,965)</u>	<u>624,998,586</u>
Less accumulated depreciation	<u>(7,305,562)</u>	<u>(2,074,355)</u>	-	<u>(9,379,917)</u>
Total governmental funds capital assets	<u>\$ 561,190,619</u>	<u>\$ 79,935,015</u>	<u>\$ (25,506,965)</u>	<u>\$ 615,618,669</u>

This schedule presents only the capital asset balances related to governmental funds.

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STATISTICAL SECTION

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SAN DIEGO METROPOLITAN TRANSIT SYSTEM
General Government Expenditures by Function
Last Ten Fiscal Years

Fiscal Year Ended	General & Administrative	Transit Support Activities	Planning	Capital Projects	Debt Service	Total
1996	7,183,463	6,336,820	1,732,561	148,418,023	7,763,882	171,434,749
1997	5,444,053	5,284,020	2,695,639	63,200,422	9,582,130	86,206,264
1998	5,568,831	5,156,373	3,396,431	52,073,523	14,898,963	81,094,121
1999	6,187,137	5,568,831	1,654,283	1,654,283	33,239,807	48,304,341
2000	6,423,991	5,713,078	1,963,378	44,636,884	11,356,393	70,093,724
2001	7,272,154	6,777,620	1,864,302	83,182,973	10,647,115	109,744,164
2002	7,872,787	6,492,277	2,903,922	139,374,693	10,457,783	167,101,462
2003	11,618,318	6,639,390	2,827,540	221,691,805	10,534,616	253,311,669
2004	6,236,142	771,256	225,020	149,752,205	14,492,525	171,477,148
2005	6,962,573	898,786	916,815	77,497,055	14,345,829	100,621,058

Source: Financial statements; includes all governmental funds except the transit operations funding passed through to transit operators

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
General Government Revenues by Source
Last Ten Fiscal Years

Fiscal Year Ended	Federal Planning / Operating Funds	State / Local Operating / Planning Funds	Federal Capital Funds	State / Local Capital Funds	Interest	Other	Total
1996	1,450,194	4,116,051	32,498,475	87,836,039	9,077,851	7,287,723	142,266,333
1997	2,434,053	4,676,944	7,434,540	91,497,161	13,021,314	4,185,743	123,249,755
1998	1,159,962	5,445,084	18,404,811	22,070,106	16,840,316	556,931	64,477,210
1999	1,192,499	1,159,962	9,208,416	9,208,416	10,075,046	740,290	31,584,629
2000	1,398,973	5,764,734	15,548,765	30,647,194	11,558,859	485,894	65,404,419
2001	1,267,398	6,205,087	46,021,014	42,757,765	15,334,845	861,573	112,447,682
2002	1,879,208	6,738,751	112,218,354	47,253,728	13,759,032	2,269,994	184,119,067
2003	2,234,289	7,252,279	153,807,095	45,079,415	15,812,371	1,394,338	225,579,787
2004	177,885	5,475,771	69,654,463	82,354,560	6,288,711	2,558,878	166,510,268
2005	419,286	4,779,803	81,965,293	17,017,913	11,638,987	1,386,110	117,207,392

Source: Financial statements; does not include indirect cost reimbursement (\$2,827,481 for fiscal year ended June 30, 2005) or funds received on behalf of component units (\$63,951,134 for fiscal year ended June 30, 2005).

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Component Units and Proprietary Funds

Expenses by Function

Last Ten Fiscal Years (in thousands)

<u>Fiscal Year</u> <u>Ended</u>	<u>Transportation</u>	<u>Repairs and</u> <u>Maintenance</u>	<u>G & A</u>	<u>Pension</u>	<u>Depreciation</u>	<u>Personnel</u>	<u>Contracted</u> <u>Services</u>
San Diego Transit Corporation							
1996	4,824	2,937	3,262	1,486	5,621	41,455	2,232
1997	4,621	4,824	3,837	3,837	5,612	42,693	2,291
1998	5,188	4,632	2,836	171	5,812	43,626	2,489
1999	4,636	5,198	3,208	862	5,836	47,840	2,633
2000	5,988	4,883	3,774	306	5,719	47,122	2,507
2001	6,588	4,737	6,466	2,425	6,069	48,710	2,829
2002	5,024	4,815	3,656	3,076	7,960	55,330	3,283
2003	7,505	6,167	1,608	3,144	9,114	48,455	-
2004	-	12,825	7,730	15,671	6,018	41,012	-
2005	-	7,193	3,602	4,557	8,085	59,941	2,924
San Diego Trolley, Inc.							
1996	2,906	2,628	4,215	587	19,177	10,507	-
1997	3,552	2,870	4,020	(417)	22,114	13,125	-
1998	3,918	3,701	4,125	426	26,896	14,557	-
1999	4,234	4,339	7,089	210	31,196	16,253	-
2000	4,230	4,527	6,099	543	30,873	17,813	-
2001	7,605	5,247	5,592	452	33,153	18,589	-
2002	6,187	9,778	2,166	456	32,105	20,209	-
2003	6,563	9,496	3,312	398	31,831	20,632	-
2004	-	7,385	3,697	-	31,656	32,633	-
2005	-	6,948	1,540	4,116	34,303	26,675	8,382
Taxicab Administration							
1996	-	-	111	-	3	276	-
1997	-	-	123	-	7	298	-
1998	-	-	110	-	7	338	-
1999	-	-	120	-	7	323	-
2000	-	-	136	-	7	403	-
2001	-	-	145	-	6	437	-
2002	-	-	147	-	2	389	-
2003	-	-	185	-	2	459	-
2004	-	-	-	-	2	643	-
2005	-	-	-	-	48	916	-
MTDB - Contract Services							
1996	-	-	213	-	1,014	-	7,738
1997	-	-	260	-	1,499	-	10,103
1998	-	-	100	-	1,521	-	13,743
1999	-	-	276	-	1,481	-	15,456
2000	-	-	143	-	1,530	-	16,730
2001	-	-	145	-	2,066	-	22,096
2002	-	-	123	-	2,649	-	23,182
2003	-	-	530	-	4,130	-	45,790
2004	-	-	799	-	4,187	-	49,326
2005	-	-	588	-	4,629	-	51,227

SOURCE: Financial statements

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Component Units and Proprietary Funds

Revenues by Source

Last Ten Fiscal Years (in thousands)

Fiscal Year Ended	Passenger Fares	Federal Operating Funds	State Operating Funds	Local Operating Funds	Federal / Local Capital Funds	Interest	Other
San Diego Transit Corporation							
1995	\$ 24,891	\$ 4,792	\$ 542	\$ 24,824	\$ 1,422	\$ 24	\$ 3,802
1996	24,923	2,774	1,140	23,345	487	2	3,663
1997	24,015	24,923	3,126	3,126	548	2	4,211
1998	24,571	3,525	3,469	21,978	1,063	20	3,990
1999	24,692	3,526	3,951	24,142	162	45	5,043
2000	24,100	3,620	4,046	29,210	73	106	5,390
2001	24,572	6,407	4,095	28,552	-	74	5,482
2002	25,914	7,675	6,901	25,130	1,390	104	5,357
2003	23,758	9,653	3,848	33,112	-	24	1,532
2004	22,501	14,400	3,865	29,999	-	46	828
2005	21,383	14,200	3,963	29,177	-	(1,953)	850
San Diego Trolley, Inc.							
1995	\$ 12,897	\$ -	\$ 2,256	\$ 4,688	\$ -	\$ -	\$ 91
1996	14,119	668	2,134	1,111	-	-	2,818
1997	15,641	2,299	384	4,736	-	-	111
1998	18,589	3,714	484	4,851	-	-	175
1999	20,133	2,780	571	9,624	-	-	399
2000	20,941	1,980	530	7,338	-	-	327
2001	22,244	7,664	595	6,360	-	-	417
2002	22,158	2,810	872	10,833	-	-	1,038
2003	22,071	6,101	533	9,925	-	-	291
2004	24,197	8,800	501	8,545	-	-	257
2005	25,855	10,651	498	9,522	-	341	539
Taxicab Administration							
1995	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 452
1996	-	-	-	-	-	-	379
1997	-	-	-	-	-	-	415
1998	-	-	-	-	-	-	411
1999	-	-	-	-	-	-	478
2000	-	-	-	-	-	-	499
2001	-	-	-	-	-	-	490
2002	-	-	-	-	-	-	525
2003	-	-	-	-	-	-	650
2004	-	-	-	-	-	-	951
2005	-	-	-	-	-	-	863
MTDB - Contract Services							
1995	\$ 2,904	\$ 247	\$ 32	\$ 2,238	\$ 169	\$ -	\$ -
1996	3,556	523	68	3,911	306	-	-
1997	5,566	442	57	4,302	256	-	-
1998	6,626	376	197	6,538	519	-	-
1999	7,209	89	315	8,397	313	-	-
2000	7,392	170	45	8,848	301	-	-
2001	8,704	243	200	12,003	528	-	-
2002	10,346	331	433	11,731	-	-	-
2003	15,121	437	747	29,083	-	-	-
2004	17,172	584	339	31,534	-	-	-
2005	16,564	711	367	33,652	-	-	-

Source: Financial statements

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Fare Structure

For the Fiscal Year Ended June 30, 2005

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

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
Component Units and Major Proprietary Fund
Farebox Recovery Percentage
Last Ten Fiscal Years (in Percentages)

Fiscal Year Ended	San Diego Transit Corporation	San Diego Trolley Inc.	MTDB Contract Services
1996	46.39	67.74	44.38
1997	43.75	67.56	53.92
1998	43.77	43.75	47.07
1999	40.33	62.93	44.28
2000	39.45	63.39	45.13
2001	35.97	63.36	40.29
2002	36.24	57.64	44.39
2003	35.52	54.63	32.65
2004	29.13	55.35	34.26
2005	27.34	54.25	31.97

Source: Audited financial statements; calculated as passenger revenue (including monthly pass sales which are recorded as a transfer), divided by operating expenses.

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Demographic Statistics
Last Ten Fiscal Years

	MTS Service Area Population (000's)	State of California Population (000's)	United States Population (000's)	MTS Median Household Income	MTS Service Area Median Age	San Diego County Average Unemployment Rate
	(1)	(2)	(3)	(4)	(5)	(6)
1996	1,911	31,837	269,394	42,402	33	5.3%
1997	1,934	32,207	272,647	43,522	33	4.2%
1998	1,964	32,657	275,854	275,854	33	3.5%
1999	2,009	33,140	279,040	44,049	33	3.1%
2000	1,958	33,753	282,178	45,416	33	3.0%
2001	1,989	34,431	285,094	44,196	32	3.2%
2002	2,024	35,049	287,974	46,913	32	4.3%
2003	2,053	35,612	290,810	48,238	33	4.3%
2004	2,085	36,271	293,655	50,435	34	5.1%
2005	2,154	37,005	296,410	50,671	34	4.7%

(1) SOURCE: San Diego Association of Governments estimate Fall 2005

(2) SOURCE: California Department of Finance, provisional July 1, 2005

(3) SOURCE: US Census Bureau annual estimates of population April 1, 2000 to July 1, 2005

(4) SOURCE: San Diego Association of Governments estimate Fall 2005 (Median income is in 1999 dollars)

(5) SOURCE: San Diego Association of Governments estimate Fall 2005

(6) SOURCE: California Employment Development Department, unadjusted 2004 (San Diego County only)

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
Component Units and Major Proprietary Fund
Operating Statistics
Last Ten Fiscal Years

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Operating Cost:										
San Diego Transit	\$54,591,372	\$55,463,420	\$59,627,952	\$62,374,086	\$62,766,968	\$69,453,428	\$72,928,810	\$66,879,539	\$77,238,092	\$78,216,331
San Diego Trolley	20,842,211	23,150,851	26,480,208	31,990,492	33,033,489	35,114,080	38,444,185	40,400,891	43,715,146	47,661,707
MTDB Contract Services	8,012,598	10,363,031	13,843,539	15,732,089	16,873,674	22,238,571	23,305,460	46,320,130	50,125,075	51,815,445
	5,384,197									
Farebox Revenue:										
San Diego Transit	\$24,923,473	\$24,015,321	\$24,571,107	\$24,691,690	\$24,099,715	\$24,572,080	\$25,913,748	\$23,851,511	\$22,559,428	\$21,401,339
San Diego Trolley	14,119,409	15,641,407	18,589,024	20,132,617	20,940,890	22,244,487	22,157,906	22,071,207	24,196,943	25,855,241
MTDB Contract Services	3,555,998	5,566,311	6,626,819	7,209,561	7,407,862	8,704,329	10,345,867	15,121,333	17,171,945	16,564,407
Total Passengers:										
San Diego Transit	32,991,673	32,494,227	34,656,185	34,648,168	35,041,982	34,029,926	31,923,576	28,966,424	25,545,374	24,426,571
San Diego Trolley	16,770,356	18,286,616	22,969,209	24,567,479	28,743,326	28,885,554	25,432,952	25,174,788	26,538,239	29,334,362
MTDB Contract Services	4,797,692	7,549,747	9,041,806	10,213,176	10,887,008	11,533,145	12,221,143	16,383,415	18,469,667	18,448,621
Revenue Miles:										
San Diego Transit	10,699,631	10,777,370	11,482,788	11,506,097	11,761,369	11,585,666	11,285,546	10,867,305	10,348,010	10,087,350
San Diego Trolley	4,215,284	5,059,054	6,186,987	6,990,998	7,090,499	7,070,019	7,046,660	6,921,657	6,983,380	7,060,498
MTDB Contract Services	2,729,324	3,790,968	4,521,034	5,145,941	5,656,691	6,245,354	7,014,605	8,030,297	12,696,707	12,702,362
Subsidy / Total Pass										
San Diego Transit	\$ 0.90	\$ 0.97	\$ 1.01	\$ 1.09	\$ 1.10	\$ 1.32	\$ 1.47	\$ 1.49	\$ 2.14	\$ 2.33
San Diego Trolley	0.40	0.41	0.34	0.48	0.42	0.45	0.64	0.73	0.74	0.74
MTS Contract Services	0.93	0.64	0.80	0.83	0.87	1.17	1.06	1.90	1.78	1.91

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

